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## Visegrád Cooperation in 2013: Opportunities and Challenges

**A**head of the upcoming October 2013 U.S.-Central Europe Strategy Forum, *Central Europe Digest (CED)* is featuring analytical contributions from CEPA institutional partners in the Czech Republic, Hungary, Poland and Slovakia. The analyses examine prospects and obstacles facing cooperation within the Visegrád Group (V4) framework and the strategic implications of achieving greater regional policy coordination for the European Union (EU), the United States and the region itself.

**Dr. Csaba Törő**, Senior Research Fellow at the Hungarian Institute of International Affairs, opens with a review of the priorities of Hungary's V4 Presidency and how they fit within the broader context of the Group's role and objectives at the EU level. **Tomáš Strážay**, Senior Researcher at the Slovak Foreign Policy Association, follows with an assessment of how the institutional design of the V4 has allowed it to sustain effective cooperation for several years, while warning that the Group could eventually face an existential crisis unless its members develop a clearer strategic vision for the organization.

**Maya Rostowska**, Analyst at the Polish Institute of International Affairs in Warsaw, then offers a detailed look at the health of the business environment in the countries of the Visegrád region. While acknowledging the particularities of each V4 country, Rostowska argues that all have sectors ripe for U.S. engagement and identifies the most profitable investment opportunities American companies should pursue.

Finally, Associate Fellow at the EUROPEUM Institute for European Policy in Prague, **Tomáš Weiss**, assesses the defense and security dimension of the U.S.-Visegrád relationship. Arguing that an EU with well integrated defense capabilities is in the U.S. strategic interest, Weiss urges Washington to support sub-regional security collaboration initiatives like the V4 as the only way toward deeper EU-level integration and thus a stronger transatlantic partnership.

Also in this edition, *CED* sits down with the Head of the EU Delegation to the United States, **Ambassador João Vale de Almeida**, for a candid

conversation about the prospects of the Transatlantic Trade and Investment Partnership (TTIP). Ambassador Almeida discusses the critical components of the agreement, its immediate and long-term value for both sides of the Atlantic, as well as how the most pressing challenges to the negotiation process faces can be overcome.

Gabriela Paskova

Editor in Chief

## The Currency and Continuity of Visegrád Cooperation within the EU

By Csaba Törő

**S**purred by a new rationale after the European Union (EU) accession in 2004, the Visegrád Group (V4) — the Czech Republic, Hungary, Poland and Slovakia — has by now evolved into an established enterprise with large proven reserves of potential for effective coordination and concerted promotion of shared aims and agreed priorities within and outside the EU. It has become apparent that advancing the common objectives of the four Visegrád countries jointly stands a much better chance of success in the face of political and economic pressure from the larger and more vocal EU members than attempting to do so individually.

### THE KEY BENEFIT OF THE VISEGRÁD GROUP IS ITS FLEXIBILITY.

After their entry into the EU, the Visegrád countries transformed from passive recipients of EU policies into potentially active participants in their formulation. Simultaneously, the V4 partners learned the benefits of concerted actions and joint positions within the institutional operation of the EU, from the probing discussions to the final decision making. It is important to note, however, that no formal obligation has ever been assumed within the V4 to discuss any policy or to undertake any particular course of joint action. Nevertheless, the V4 — as a regional platform of choice, not necessity — continues to operate with remarkable flexibility in terms of its objectives and the means

to represent and pursue them, primarily but not exclusively, on issues set by the EU legislative and policymaking agenda.

The key benefit of the Central European “mini multilateralism” in its V4 format is precisely its flexibility and availability as a pragmatic, well-practiced regional cooperation mechanism to identify, coordinate and promote shared interests, aims and initiatives with regard to particular issues, countries or policies. However, notwithstanding the proven utility of the V4 as a potentially effective platform for coordination of national views, recourse to its framework has never appeared to warrant the adoption of a united position on behalf of the “Central European quartet.” In spite of the permanent (or temporary) confluence of their interests in many issue areas, this does not automatically translate into agreement on any matter, unless the V4 makes a conscious effort to hammer out the common points of the respective national policies not only in the regional or European, but in the broader international context as well.

### The Hungarian V4 Presidency

The menu of subjects brought within the remit of Visegrád coordination is generally set by the incumbent chair country, but it is largely determined by consultation and cooperation within the V4 and is significantly influenced by the rhythm and content of the EU decision making schedule. Accordingly, the 2013-2014 Hungarian

V4 Presidency plans to carry on matters in the field of foreign and security policy coordination that were set on track earlier (for instance defense cooperation) and reflect the concerted position of the Visegrád countries on policy issues of strategic importance for their Group (such as the Eastern Partnership and EU enlargement to the Western Balkans).

#### *V4 Defense Cooperation*

The Hungarian government is set to focus on a pragmatic discussion of security and defense issues in accordance with the 2012 defense ministerial

joint declaration, which identified several areas with potential for intensified cooperation.

The priority areas for enhanced coordination in security and military matters during the Hungarian V4 Presidency include the advancement of joint operation of V4 air surveillance, the possible modalities of long-term collaboration in cyber security, continued preparatory moves toward the envisaged V4 EU Battlegroup by 2016 and the development of a common air force pilot training center.

#### *V4 and the Eastern Partnership*

At the helm of the V4, Hungary will work to sustain the relevance of the Eastern dimension within the broader context of the European Neighborhood Policy (ENP), despite the recurrent pressures from several EU members to devote greater attention and resources to the brewing crisis in the southern neighborhood. Accordingly, the Hungarian V4 Presidency will seek to advance

the shared Visegrád stance on the importance of consistently implementing the principle of “more for more” when defining the achievements of each partner state under the Eastern Partnership (EaP) framework. This implies that a differentiated approach and assessment should inform the development of EU policy initiatives and incentives reflecting each individual country’s progress on the strategic objectives of the ENP in its eastern dimension.

In addition, reaffirming the V4’s consistent endorsement of the EaP, the Hungarian government

announced its intention to support the Lithuanian EU Presidency as it prepares the biannual Eastern Partnership

Summit due in Vilnius in November 2013. Through successful mobilization of like-minded EU members, the Visegrád Presidency could provide added impetus to Lithuania’s effort to stage a fruitful EU-EaP conclave that conveys a sense of future direction and a rationale for closer engagement between the EU and its Eastern partners.

In the fashion of the 2003 Thessaloniki EU declaration on the “European perspective” of every state in the Balkans, the Hungarian government should sustain the shared Visegrád vision and argue for the endorsement of the aspirations and European destination of the EU’s Eastern neighbors through the adoption of a similar statement. A clear expression of continued interest from the EU heads of state and government could be particularly important in case the Vilnius Summit does not yield concrete outcomes that indicate the ways

**BY MOBILIZING LIKE-MINDED EU MEMBERS, THE HUNGARIAN V4 PRESIDENCY COULD PROVIDE ADDED IMPETUS TO LITHUANIA’S EFFORT TO STAGE A FRUITFUL EASTERN PARTNERSHIP SUMMIT.**

and means for further progress and confirm the prospects for the EaP countries' alignment with Europe.

#### *V4 and the Western Balkans*

The declared V4 support for the continued enlargement of the EU into the Western Balkans carries particular significance and will gain further currency in the face of willful negligence by the more skeptical and crisis-stricken EU members. As the next (Greek) EU Presidency deliberately omitted any reference to enlargement from its priorities agenda, Hungary — a country decidedly and consistently committed to the inclusion of all qualified candidates in the EU — could play the role of a staunch advocate for the V4 position of opening accession talks with all countries from the Balkans as soon as they meet the stipulated conditions.

#### *A Visegrád House in South East Asia*

Modeled on the example of the joint location of the V4 representations in South Africa established in 2010, the Hungarian Presidency is preparing for the inauguration of a new Visegrád House in Vietnam in pursuit of enhanced V4 visibility. Besides the practical advantages of combined outposts in remote countries, the operation of the V4 embassies as a distinct cluster of European states under the same roof indicates a promising move toward a more concerted projection of common interests well beyond the EU. While still under consideration, the Visegrád states could later adopt an even closer form of cooperation by setting up joint diplomatic missions in the mode of the well-established practice of the Nordic countries.

#### **Conclusion**

Even the above brief overview of Visegrád cooperation in the realm of foreign affairs and

defense matters illustrates its two principal features: its pragmatic nature and its close connection to the objectives and implementation of the respective policy frameworks at the EU level. The selected themes from the agenda of the Hungarian V4 Presidency show that close collaboration within the Visegrád quartet is partly driven by practical reasons (such as improved efficiency in military spending or common premises for their diplomatic presence), but is also stimulated by their shared pursuit of influence over the aims and impact of EU foreign policy in its neighborhood. The underlying rationale and motivation will continue to propel coordinated V4 endeavors during the current Hungarian Presidency and sustain the practice of joint positions and actions as long as and whenever the four partners are able to define their common ground as a distinct Central European subset of EU member states.

## The Visegrád Group: In Search of a Vision

By Tomáš Strážay

The history of Visegrád cooperation might disappoint both optimists and pessimists. The problem is that those with high expectations for the Visegrád Group (V4) are often disillusioned. And vice versa — those holding pessimistic attitudes are often confronted with the obvious achievements of the V4. Nevertheless, there are no doubts that cooperation among the Visegrád countries — the Czech Republic, Hungary, Poland and Slovakia — is one of the liveliest regional initiatives in the European Union (EU). The V4 has successfully overcome a decline in the 1990s, as well as the post-integration fatigue after 2004, and become a well-established brand in the EU and its broadly defined neighborhood. Cooperation within the Visegrád framework is progressing on both a political and a sectoral level. But recent developments in the EU caused by the economic and debt crises, as well as the ongoing process of institutional change, raise questions about the future of the Group.

The EU is going through an institutional reform process that will most probably bring it closer to a federal model with strengthened central institutions. The V4, on the other hand, is characterized by weak institutionalization. Taking this into account, the question that emerges is to what extent the EU and V4 models of institutional design are compatible. In addition, the V4 countries

find themselves within different “circles” of EU integration. While Slovakia, as a Euro-zone member, is the most integrated one, the Czech Republic remains voluntarily outside the deliberations on deeper integration, at least for the moment. Poland, despite its non-membership in the Euro “core,” wants to be present at any substantial discussion focusing on the future of the EU and is not hiding its ambitions to become one of the most influential member states. Finally, though Hungary in most cases follows the EU mainstream, its current political dynamics prevent it from taking a more active part in the debate on the Union’s future.

**ADEQUATE POLITICAL WILL TO  
COOPERATE WILL REMAIN  
ONE OF THE KEY PRECONDITIONS  
FOR THE SUCCESS OF THE  
VISEGRÁD GROUP.**

In light of the above, the weak institutionalization of the V4 does not only seem to be a preferred choice, but a necessity. The existence of just one single standing institution — the International Visegrad Fund — enables the V4 to respond to both internal and external challenges in a more flexible way. A higher level of institutionalization is often associated with more bureaucracy, but in fact, it also brings a certain level of rigidity in cooperation. The V4 is still based on a completely different principle — the voluntary decisions of the four countries to cooperate in pre-agreed areas of strategic importance. Adequate political will to cooperate and reach an agreement profitable for all four states will remain one of the key preconditions for the successful development of the



V4. However, the maintenance of a more flexible model of cooperation also means that the V4 countries will be allowed to keep different views on a number of issues and will not be obliged to reach a compromise. In other words, V4 cooperation will remain selective with regard to cooperation issues and areas.

The V4 does not seem to be concerned with its own expansion either. There is a consensus among the V4 countries not to enlarge the Group. Further enlargement of the V4 would not only bring more heterogeneity within the Group, but will also make coordination less efficient. This does not, however, prevent the V4 from creating *ad hoc* coalitions with non-V4 countries or regional groupings. On the contrary — the main idea of the “V4 plus” instrument is based on joint cooperation with non-V4 countries in selected areas of common interest. One of the widely used arguments proving the “power” of the V4 is the current distribution of votes in the European Council — the V4 countries have as many votes as France and Germany combined. However, due to the new institutional arrangements in the EU, this favorable situation is going to change soon, which means that the V4 will have to look for other allies, either on an *ad hoc* or a long-term basis.

After the accession to the EU and the North Atlantic Treaty Organization (NATO) — both were considered crucial foreign policy priorities of the Visegrád countries — the V4 set up several new strategic priorities. Among others, the development of cooperation in areas like energy security, defense or relations with neighbors in Eastern and Southeastern Europe are worth mentioning. In terms of energy security, the North-South Energy Corridor promoted intensively by the V4 found itself on the list of the most important energy policy priorities of the EU. The effort to establish the V4 EU Battlegroup by 2016 can be appreciated as an

important initiative in the area of hard security. Last but not least, stable political support for the EU and NATO open door policy and intensive backing of countries aspiring for membership is to be highlighted. Naturally, the Eastern Partnership and Western Balkan countries are the places where the Visegrád soft power is most visible. All in all, the maintenance of existing initiatives, as well as openness to new ideas, is a substantial precondition for the future existence of the V4. In this regard, the year-long presidency that enables each of the V4 countries to make its own imprint on the Visegrád agenda is particularly important.

### IN THE LONG RUN, WITHOUT A CLEAR VISION THE V4 WILL FACE AN EXISTENTIAL CHALLENGE.

However, in the longer run, without a clear vision the V4 will face an existential challenge instead of a continuous revival. The future of the V4 is closely connected to the EU and NATO. Only the joint effort of the V4 countries to shape policies at the EU level can further improve the reputation of the Group and boost its importance. It is difficult to find a new V4 vision that would be comparable to the historic “return to Europe,” and later the NATO and EU accession. But it is incumbent on V4 policymakers and think-tankers to develop and shape this vision. The sooner, the better — yet given the achievements that have already been accomplished under the V4 umbrella, there is no need to panic. The process is almost as important as the result.

## Investing in Visegrád: An Opportunity for the United States

By Maya Rostowska

Even before their accession to the European Union (EU) in May 2004, the Czech Republic, Hungary, Poland and Slovakia — the Visegrád Group (V4) — were attractive investment destinations for companies seeking low costs and high returns. EU membership, giving them access to the single European market and a political stamp of approval, then provided a significant additional boost to foreign direct investment (FDI) in the four countries.

Despite taking a slight hit in 2008 as a result of the international financial crisis, and another in 2011 due to the sharpening of the crisis in the Euro-zone, investment in the V4 countries has grown progressively since they joined the EU. This is because overall, they are rather attractive investment destinations. Strategically placed in the heart of Europe, they provide excellent export opportunities. They also benefit from the political certainty, regulatory cohesion and access to the single market that EU membership provides, while continuing to deliver much lower costs than members in Western Europe.

### A Mixed Bag for Business

Though the V4 is many things — a strategic partnership, a handy platform for discussion, or just a nice idea in principle, depending on who you talk to — it is certainly not an economically homogenous group. This was thrown into sharp

relief by the crisis. In the aftermath of the big hit in 2007-2008, Poland emerged as the star pupil, the green island in a sea of red recession-hit EU member states. Hungary, on the other hand, saw its economy contract by 6.8 percent in 2009. The Czech Republic experienced a more modest downturn. Slovakia recovered quickly from its short but sharp recession, thanks to strong exports and investment.

Forecasts for future growth are just as varied: the IMF predicts (admittedly conservative) growth rates of 1.1 percent for Poland and 0.6 percent for Slovakia, stagnation in Hungary and a 0.4

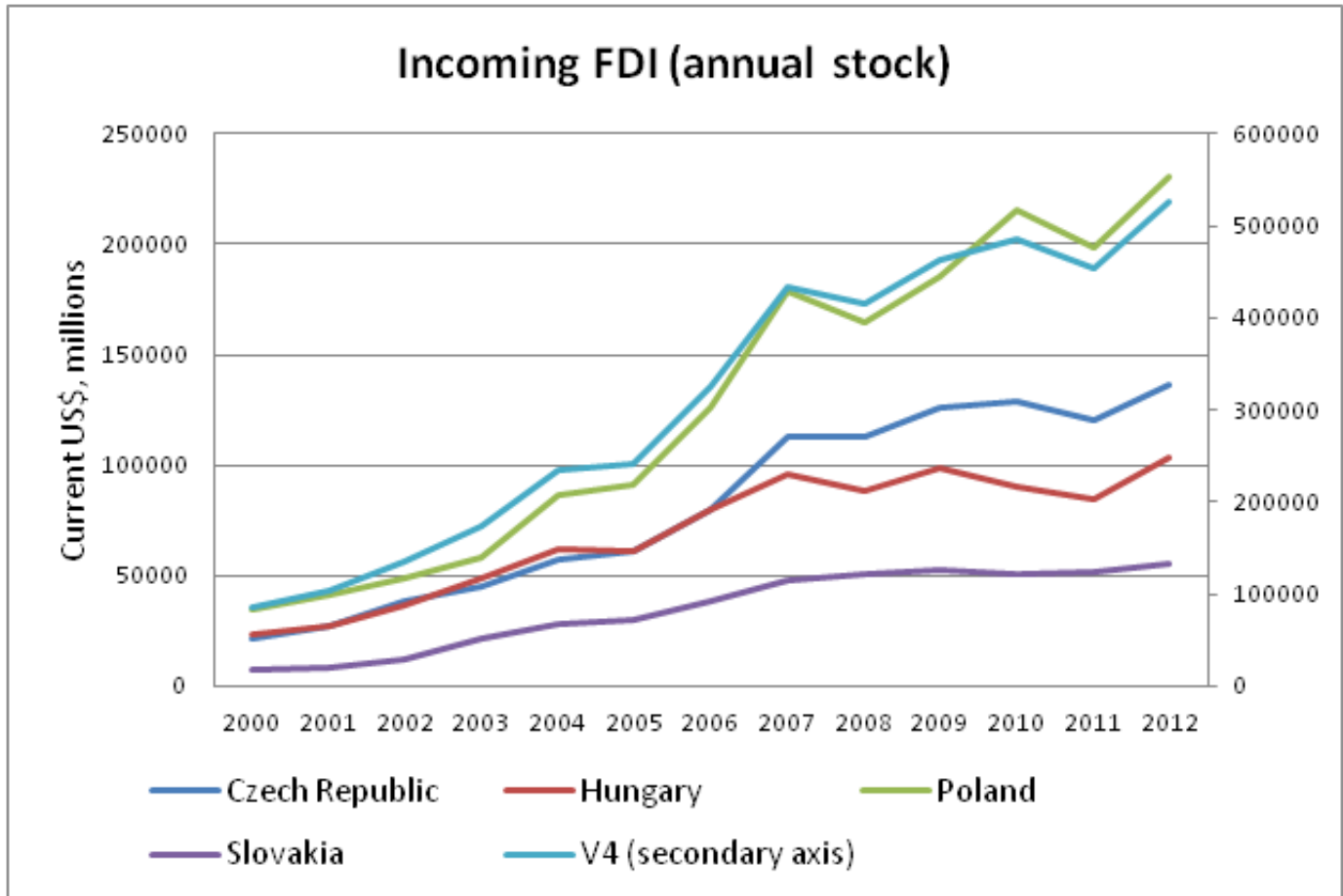
percent contraction in the Czech Republic in 2013. Nor are the business environments or the investment opportunities consistent across the Visegrád region.

### THE VISEGRÁD COUNTRIES ARE NOT AN ECONOMICALLY HOMOGENOUS GROUP.

Poland is in a strong position to attract foreign investment, and consistently leads the pack in terms of FDI inflows. In just one year, from 2012 to 2013, it shot up 19 places in the World Bank's "Doing Business" survey (from number 74 to 55). Its biggest improvements were in categories that matter to foreign investors, such as enforcement of contracts, and ease of registering a property and paying taxes. Pro-investment government policies have included the creation of special economic zones and offering grants to investors. In addition, as a result of good returns on investment, re-investment makes up an increasing share of FDI in Poland. Surveys show that 94 percent of foreign investors



Figure 1: Visegrád Group Incoming FDI



Source: UNCTAD, author's calculations.

re-invest in the country. More importantly, the type of investment coming into Poland has changed. Today, only half of the FDI is directed toward the country's manufacturing sector, compared to 78 percent in 2005 — investment flows have now shifted toward services. But there is still progress to be made, particularly in terms of increasing the flexibility of the labor market and cutting red tape. It still takes 301 days and 29 procedures to obtain a construction permit in Poland, which is simply not good enough. Other gaps, such as the need to develop transport infrastructure, could be seen

as potential opportunities for future investment and growth, but create costs and are a drag on productivity for current investors.

The Czech Republic receives the second-largest amount of FDI in the V4, and is first in terms of FDI per capita — even though it has arguably the worst business environment in the Visegrád region. This year, the World Bank ranked it 65<sup>th</sup> worldwide in terms of ease of doing business. The country is mainly held up by the difficulty of starting a business, but it fares better in areas that matter

more to foreign investors, such as registering a property and trading across borders. A new set of investment incentives was introduced by the Czech government in July last year, which could help improve its rank.

In terms of attracting investment, Slovakia fares a little worse than its erstwhile partner-in-state. This is despite the fact that, according to World Bank indicators, the country ranks highest out of the V4 states on ease of doing business (it came in at number 46 in 2012 and 2013). It benefits from good labor productivity and strong industry. Its long-standing pro-business policies and privatization program created a foreign investment boom that was not too badly dented by the crisis. But its small internal market and more glamorous neighbors tend to push Slovakia further down the list of most desirable Central European investment destinations.

Hungary's business environment, however, is rapidly deteriorating. While FDI inflows to Poland, Slovakia and the Czech Republic picked up after dipping in 2011, they continue to stagnate in Hungary. Besides disappointing macroeconomic indicators (it was downgraded from the status of a "high income country" by the World Bank in July), investors are being scared off by Prime Minister Viktor Orbán's erratic and increasingly authoritarian policies. A poor record of protecting investors, as well as a complicated tax system, does not help the situation either.

### **Opportunities for U.S. Companies**

U.S. companies have invested almost \$9 billion in the V4 states since they joined the EU. And

there are still some real opportunities for further investment by American firms in several of the Visegrád countries' more profitable sectors.

The V4 members are keen to innovate their economies and have been developing investor incentive programs to attract FDI into their research and development (R&D) industries. In Poland, upcoming public investments in infrastructure, renewable energy and IT (partly funded by EU structural and cohesion funds) will see the

launch of major public procurement tenders in the coming years.

In Hungary, green construction projects and service centers could offer high returns to U.S. investors.

American Information and Communications Technology (ICT) companies may be particularly interested in Slovakia, while those specializing in cyber security could find opportunities in the Czech Republic.

There is also room for improvement for American exporters, as the United States is running trade deficits with all four Visegrád countries — ranging from \$96.5 million for Slovakia to \$180 million for the Czech Republic. The appetite for U.S. products in the V4 countries — long-standing Atlanticists and keen consumers of all things American — is very strong. Though exporters should be aware that for consumers in the region, price is often the deciding factor, and so creative pricing strategies are advised. In particular, U.S. arms companies could benefit from an upcoming drive to modernize the Polish military. Slovakia has a sizable market for energy technologies and medical equipment. The Czech automotive sector is a big importer of advanced technologies. Entertainment electronics are a particularly profitable sector in Hungary.

## **THERE ARE CONSIDERABLE OPPORTUNITIES FOR U.S. INVESTMENT IN THE V4 COUNTRIES' MORE PROFITABLE SECTORS.**

Following the surge in investor confidence in Europe last month, a recovery in the EU (the V4's biggest export market) can be expected to prompt a return to form for growth rates in Poland, the Czech Republic, Slovakia and Hungary. U.S. investors and exporters stand to gain much from the region, and those who get in before the Transatlantic Trade and Investment Partnership (TTIP) — currently in the initial stages of negotiation between Washington and Brussels — is launched are likely to benefit from a head start. But one size does not fit all, and American investors interested in the region will have to make sure they know their Silesia from their Žilina.

## Visegrád, the United States and the Future of European Security Cooperation

By Tomáš Weiss

Central Europe is currently undergoing a transformation that will shape its security policy for years to come. In particular, the four Visegrád countries, with the notable exception of Poland, have been cutting their defense budgets significantly. This is a function of the economic downturn that most of the region has been experiencing, but more importantly of the declining interest in security specifically, and foreign policy more generally, among the region's politicians and populations. This trend notwithstanding, a number of regional initiatives aimed at preserving some defense capabilities have emerged. And Washington should support these efforts.

The United States has significant leverage over developments in Central European. Through the North Atlantic Treaty Organization (NATO), the United States is the ultimate guarantor of the security of the countries in the region. Washington assisted them in their democratic transition in the 1990s and supported their accession to both NATO and the European Union (EU). Moreover, for many in the region the United States has been a model of freedom and democracy. Sure enough, U.S. influence might have declined recently as a result of Washington's pivot to Asia, which was interpreted

by many as a shift away from Europe and has cast doubt on America's commitment to the region. The 2009 decision to cancel the third site of the missile defense system, and the not particularly diplomatic way in which it was announced, frustrated many American allies and has served as an indication of declining U.S. interest.

### THE VISEGRÁD COUNTRIES STILL LISTEN CAREFULLY TO WHAT WASHINGTON HAS TO SAY, ESPECIALLY ON SECURITY POLICY.

Nevertheless, the Visegrád countries still listen carefully to what the United States has to say, especially on security policy. They also often presume what Washington might think, even when nothing

has been said, and are usually careful to take into consideration U.S. interests, both political and economic. Many of the domestic debates in Central Europe have in fact revolved around the urge to be a loyal ally and to keep the United States engaged in the region — among others, during the interventions in Kosovo in 1999 and in Iraq in 2003, as well as in their cautious approach to European security integration.

Yet, the understanding of America's interest in Europe is often ill-conceived among both Central Europe's Atlanticists and some U.S. policymakers. The long-term interest of the United States is to retain capable allies in Europe that will be able to

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share the burden of and contribute to maintaining the security of the transatlantic space and beyond. All other potential American interests in the region are secondary to the goal of ensuring Europeans participate more in providing for their own security and for the security of the transatlantic space. Those who believe that the best way to strengthen the transatlantic link is by insisting that NATO remains the only game in town and that Europeans need to buy American equipment at all times are doing their cause a disservice.

**GONE ARE THE DAYS WHEN  
THE AMERICANS NEEDED JUST MORE  
CAPABLE EUROPEAN COUNTRIES.  
TODAY, WASHINGTON NEEDS A MORE  
CAPABLE EU.**

By now, it is common knowledge that the only way to preserve and increase Europe's security capabilities is through cooperation, joint procurement and common units — by spending together and eliminating duplications. Neither NATO's "smart defense" initiative nor the EU's parallel process of "pooling and sharing" have been immensely successful so far. More potential seems to be found in sub-regional — sometimes labeled mini-lateral — collaboration initiatives among just a few states at the time. The Nordic and the Benelux cooperation arrangements have been flourishing, and even the heavy weights France and the United Kingdom have engaged in collaboration on sensitive issues, such as nuclear research and testing. The Visegrád countries have launched a defense cooperation effort of their own as well. Last year, the four defense ministers announced the creation of a Visegrád Battlegroup, to be operational by

2016 with the view to make it a permanent unit. Negotiations are also underway on various other forms of defense cooperation, including logistics and training.

The mini-lateral cooperation is a good way to start, but in the longer run, all Europeans will have to come much closer together. Gone are the days when the Americans needed just more capable European countries. Today, Washington needs a more capable EU that will help the United States manage crises around the world. There is no other way Europeans can resurrect their standing in security matters than through the EU. Defense spending in individual member states is not going to increase sufficiently within the next few years, so the only alternative is to spend better. The EU is the most suitable forum for doing so — it is able to combine defense, internal security, development and administrative capabilities with its internal market standards, and it already has some centralized institutional capacity to organize the process.

Despite the worries of some in the United States, an EU that is more integrated in the security domain will never become a contender to American military power. The interdependence between the two sides of the Atlantic — only to be increased by the potential conclusion of a transatlantic trade deal in the near future — make that impossible. Nor will better integrated European defense make NATO obsolete. The Alliance will remain the forum for territorial defense, as it has successfully been for such a long time, as well as a key inclusive transatlantic policy forum. At the same time, a strong EU will be a true partner to the United States and be able to really share the burden, in ways even the most capable individual European countries cannot do — as was painfully evinced by the military operation in Libya.

The Visegrád countries are among the most pro-American EU members. Some of them have even staunchly opposed greater security integration in Europe, believing that they serve their and America's common cause. Washington should make it clear that a strong and integrated EU is in the best interest of the United States. It should support the expansion of mini-lateral security integration in the region in the short term, which will help deepen EU-level integration in the long term. A strong and integrated Visegrád, in a strong and integrated EU is perhaps the most efficient way toward stronger transatlantic security cooperation.



## Insider View: Head of the EU Delegation to the United States, Ambassador João Vale de Almeida, on TTIP

**C**entral Europe Digest (CED) sits down with the Head of the European Union (EU) Delegation to the United States, Ambassador João Vale de Almeida, for an exclusive interview, discussing the Transatlantic Trade and Investment Partnership (TTIP) - what benefits it can bring to both sides of the Atlantic and how to overcome the most critical challenges the negotiation process faces.

**CED:** Last month, the United States and the EU initiated negotiations on the TTIP. What will the TTIP encompass and what are the main objectives that the deal will seek to achieve?

**Amb. Vale de Almeida:** The TTIP will encompass virtually every facet of the transatlantic economic relationship. It is a trade agreement unlike any other before it precisely in that it will be comprehensive in scope.

The TTIP can be best understood by looking at the three pillars of work we are undertaking. The first pillar is the traditional trade agreement portion. This area comprises of negotiations between the United States and the EU seeking the full elimination of tariffs, with the exception of only the most sensitive products for the two parties. This part will also include a discussion on investment policy, as well as on what rights we afford to foreign investors and what protections they are entitled to.

The second pillar is the regulatory component. This is, by many accounts, the crown jewel of the negotiations and involves a substantive deliberation

between EU and U.S. regulators about “smart” regulations. It is very much about “regulatory coherence” and how we can regulate effectively in the public interest, while eliminating duplications in the system. We have all seen studies that cite regulatory barriers and conflicting standards as the major impediment to trade. The TTIP can thus be a vehicle for EU and U.S. regulators to foster closer cooperation, and develop policies that are compatible with and cognizant of what their counterparts are doing. This process will be driven by the regulators themselves, and I look forward to seeing their progress unfold.

The third pillar is the development of 21<sup>st</sup> Century global trade rules that take into account the complexity of modern supply chains, and the role of services and the internet economy, while also taking a good, hard look at the existing “gaps” within the World Trade Organization (WTO) rule book and the recent rise of state-based capitalism.

**CED:** The TTIP has been touted as a way to help both the United States and Europe overcome the ongoing economic crisis. If successful, what are the kinds of benefits that the TTIP will bring about and more importantly, for whom? What everyday benefits can U.S. and EU citizens expect? In the long run, how can this agreement strengthen the U.S. and EU economies and enhance their competitiveness at the global level?

**Amb. Vale de Almeida:** The TTIP has something for everyone. Our guiding light is the creation of jobs and growth, and in pursuing this we are looking

at what can actually encourage companies to export, firms to hire, entrepreneurs to invest and consumers to buy. Consumers will gain from lower prices and more international product options. Companies will gain from tariff eliminations that will make it less expensive to export. Investors will find peace of mind in that their investments will not be discriminated against and that they will enjoy due process just as domestic firms do. This holy trinity is the formula that will get our economies moving again, and most importantly — that will get firms hiring again.

**TTIP NEGOTIATORS ARE LOOKING  
AT WHAT CAN ENCOURAGE  
COMPANIES TO EXPORT, FIRMS TO  
HIRE, ENTREPRENEURS TO INVEST  
AND CONSUMERS TO BUY.**

We estimate that an ambitious TTIP can boost the EU's Gross Domestic Product (GDP) by half a percentage point. That may appear insignificant at first glance, but it amounts to over \$130 billion, or to put it in perspective, about \$800-900 per year for the average household.

In the long term, the TTIP can make EU and U.S. companies more competitive by providing them with a consistent regulatory framework and lower tariffs, and facilitating cross-border investment. This will allow companies to focus on their core business and on efficiently allocating capital. By coming together to craft rules for 21<sup>st</sup> Century issues we raise the bar and the global expectations about the direction that the United States and the EU are heading. Together we are the top FDI originators in the world, and we are home to global innovation

centers and leading education institutions. What we need today is to kick start the engine of growth and hopefully, the TTIP will provide the boost the global economy needs. More so, according to our impact assessment, the rest of the world too stands to gain considerably, as the TTIP will lead to higher global trade flows.

**CED:** A transatlantic trade deal has long been envisioned, but a lengthy list of contentious issues has precluded any real progress until now. What are the most significant obstacles to concluding the TTIP deal, and what is the likelihood of overcoming them during the negotiation process this time around?

**Amb. Vale de Almeida:** Given the size and scope of the U.S.-EU economic relationship, it should be no surprise that we occasionally encounter some difficult issues. But rather than dwelling on the obstacles, the TTIP offers a unique chance to tackle some of our historic challenges. The comprehensive nature of the discussions allows us to put the difficult issues in perspective and focus on the larger goal of a successful TTIP.

We have different cultures and different sensitivities, but at the end of the day, the TTIP is about enhancing trade and investment. Just eliminating tariffs and making regulations more cohesive would go a long way in achieving that. We may not come to agree on every single issue, but the amount of political will to deliver on the TTIP is unprecedented and the post-crisis era warrants an effective coordinated response from the world's two largest economies. The negotiators understand what is at stake, and everyone is working hard to ensure the successful conclusion of the negotiations.

**CED:** Some of the areas that the TTIP is looking to liberalize – among others the agricultural sector,

financial regulation, intellectual property rights, data protection and privacy – are particularly sensitive for Washington and Brussels. How reasonable is it to expect that the negotiators will be able to move past the existing emotional resistance? What are the issues we can realistically expect to reach a compromise on?

**Amb. Vale de Almeida:** The TTIP provides a platform to have these difficult discussions. The regulatory piece — I want to stress this in particular — will be driven by the regulators. They understand their respective mandates and the need to protect public safety, and they will work together to decide what might be achievable. Bringing them together to share their regulatory experiences and understand each others' processes is going to foster the trust and confidence they need to work together. The stakes are incredibly high, but the gains are so obvious if we can better coordinate how we regulate our economies.

The sectors we have flagged due to their exceptional importance for the transatlantic economy are the auto sector as well as the pharmaceutical and the chemicals sectors. Because the negotiations will be driven by regulators in different sectoral areas, the outcomes will be different. With agencies that have a long track record of transatlantic cooperation we might reach more advanced outcomes, as opposed to where the two sides' regulators have never worked together before. Overall, we feel good about the regulatory pillar going into the negotiations, and the ability of our regulators to find common ground.

**CED:** The TTIP has been subject to an inordinate level of attention over the last few months. How much is this a function of the lack of a broader agenda for the transatlantic relationship? In this context, to what extent is the political enthusiasm surrounding the TTIP a result of the breakdown in global trade talks?

**Amb. Vale de Almeida:** I am not sure that I would agree with the premise of the first question. The transatlantic relationship is quite robust. We are working ever closer together as our relationship evolves in line with the EU taking on more responsibilities and tasks. We are witnessing an unprecedented degree of cooperation and coordination between the EU and the United

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States with regard to foreign policy, security, counter-terrorism and non-proliferation. We find ourselves working in tandem as we share and promote our common values.

There is no question that the TTIP will be the key anchor project for the U.S.-EU relationship in the next two to three years. But there are a myriad of other ongoing activities between the two partners. We are coordinating on our sanctions against Iran's nuclear proliferation effort. Our financial regulators just concluded a deal on the regulation of cross-border derivatives transactions. We collaborate closely on our foreign development assistance, and on our political engagement in the MENA region. We also have extensive Information and Communications Technology (ICT) and Research and Innovation (R&D) dialogues, to name just a few. There is a lot of substance in the partnership,

but yes, the TTIP is receiving the lion's share of the attention at the moment. If you delve a little deeper, however, you will see that the TTIP is just one of many initiatives that make up the transatlantic relationship.

The second question is spot on. Yes, there is a sense that the TTIP is effectively two economic giants coming together to craft what we have tried to for over ten years at the multilateral level. But this is also a global trend — we are seeing a spike in bilateral and regional trade agreements over the past 10-15 years. Proponents of trade liberalization are looking for it, wherever they can find it. The global economy has changed, and the sense that the rule book has not kept up is out there. The TTIP and the Trans-Pacific Partnership (TPP) are the two big trade and investment agreements that the international community is following very closely for hints as to what might be possible in the multilateral arena.

Yet, I would never underestimate the capacity of the multilateral agenda to deliver. The advanced talks on trade facilitation going on right now are a case in point. We have a new WTO Director General who will provide a shot of adrenaline to the multilateral agenda. China is coming around to concluding a Bilateral Investment Treaty with the United States. Japan is joining the TPP. The levers for global trade liberalization all seem to be turning in unison. The TTIP is very much at the forefront of the attempt to show the world that the United States and the EU are serious about trade liberalization, that we are looking into our technical barriers to trade and crafting new rules for the shifting economic landscape.

**CED:** Given the range of controversial issues and the tight timeline of the negotiation process, the comprehensive TTIP envisioned might prove out of reach. How useful would a less ambitious, more

limited deal be? How would the TTIP's value and potential benefits be affected, should key sectors need to be taken off the table?

### THE INTERNATIONAL COMMUNITY IS FOLLOWING VERY CLOSELY FOR HINTS AS TO WHAT MIGHT BE POSSIBLE IN THE MULTILATERAL ARENA.

**Amb. Vale de Almeida:** We have run simulations which show that the highest gains would come from a comprehensive deal. The U.S. Trade Representative Michael Froman and EU Trade Commissioner Karel De Gucht received very broad mandates from their respective legislatures. Their ability to deliver on a comprehensive deal is a function of the difficult task of holding it all together. But the process is also self-reinforcing — the comprehensive nature of the discussions makes tackling the difficult issues more achievable.

You could, in theory, just cut tariffs, or you could adopt a piecemeal approach as some have suggested. But in doing so, you will run out of steam and lose the political will to keep going. And given that our tariff rates are already quite low, would this lead to a wave of trade activity and ultimately to more jobs and growth? I would wager to say “no.” The true gains of the TTIP will come from opening up all sectors, incorporating greater regulatory coherence in our systems, creating a more predictable and level playing field for businesses, and ensuring consumers have more options. These are the real catalysts for jobs and growth creation.

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