



Office of the United States Trade Representative
600 17th Street NW
Washington, DC 20508

May 10, 2013

**Comments Concerning the Proposed Transatlantic Trade and Investment Partnership;
Federal Register Docket USTR- USTR-2013-0019**

I. Introduction and Summary

The Sierra Club appreciates the opportunity to comment on the proposed Transatlantic Trade and Investment Partnership (TTIP). With 2.1 million members and supporters, the Sierra Club is the world's oldest and largest grassroots environmental organization.

Because tariffs in the U.S. and the EU are already very low, the TTIP will have little to do with traditional trade issues such as tariffs.¹ Instead, much of the negotiations will focus on removing so-called “non-tariff barriers”—or regulatory differences—such as differences in environmental, food safety, and chemical standards. Negotiators will also focus on increasing investment across the Atlantic.

While the Sierra Club believes that the TTIP *could* offer an opportunity to raise public interest regulations in the U.S. and the EU, the downward harmonization of regulations would pose a serious threat to the environment, working families, and communities. It is therefore imperative not only that regulations are harmonized upward, but also that any convergence of regulations serves as a regulatory floor that allows governments the flexibility to develop more ambitious environmental and public interest policies in the future.

Sierra Club is also concerned that the inclusion of the so-called “national treatment for trade in gas” in the TTIP would deprive the U.S. Department of Energy of its authority to review, condition, or deny exports of US liquid natural gas (LNG) to EU countries.² Automatic exports of U.S. LNG to the European Union, a significant importer of natural gas, would likely expand hydraulic fracturing, or fracking, across the United States and lead to higher domestic electricity prices, impacting consumers, U.S. manufacturing, and U.S. jobs.

Related to investment rules, the Sierra Club strongly opposes the inclusion of investor-state dispute settlement in the TTIP. Investor-state dispute settlement would allow foreign corporations to bypass domestic courts and sue governments in private tribunals over laws and policies that the corporations allege reduce their expected future profits. Investment provisions in existing free trade agreements, including the North American Free Trade Agreement (NAFTA), have facilitated a proliferation of cases challenging environmental and climate policy related to mining regulations, bans on toxic chemicals, energy regulations, and more.³ The Sierra Club is also concerned that the inclusion of very broad investor protections, such as a guarantee of “fair and equitable and treatment,” could open the door to investment cases when governments put in place new or amend existing laws and policies designed to protect the public interest.

The Sierra Club calls for an open and transparent process of negotiating the TTIP. We note that the ability of civil society and even policy makers to contribute to and ultimately impact the TTIP will depend on the level of openness in the negotiations. Recent trade and investment negotiations, such as negotiations for the Trans-Pacific Partnership (TPP) agreement, have lacked transparency and have, therefore, prevented meaningful public engagement and input. After years of TPP negotiations, not a single word of draft text or countries’ proposals has formally been made public. In order to help ensure a positive outcome for the TTIP, increased transparency and participation—including the release of draft texts and opportunities for regular public and Congressional engagement and consultation—will be absolutely critical.

II. Environment and Climate Change

Below are a number of ways in which the TTIP must support governments in their efforts to protect the environment and address the climate crisis.

Address Stress on the Environment and Natural Resources

As trade increases, so can stress on natural resources. It is therefore critical that the TTIP contain an environment chapter that includes obligations for countries to enforce and strengthen their domestic environmental laws and policies and their commitments under multilateral environmental agreements (MEAs). The TTIP should, at a minimum, include the set of MEAs that have been included in all recent U.S. free trade agreements.⁴ Other MEAs relevant to the U.S. and EU should also be included. The TPP environment chapter should be legally enforceable through dispute resolution.

The environment chapter must also address biodiversity and conservation challenges, including commitments to strengthen implementation and enforcement of measures to eliminate trade in illegally harvested wood and wood products, building on the model of the U.S. Lacey Act. Illegal logging and trade in illegally harvested timber and timber products harm the environment and exacerbate climate change. In addition, the illegal timber trade has serious economic impacts. According to World Bank estimates, the market value of global annual losses from illegal logging in public lands is over \$10 billion, with an approximate loss of \$1 billion annually to U.S. industry.⁵

Ensure Flexibility to Address Climate Change

The TTIP must allow governments the flexibility to put in place new and strengthen existing climate policies, such as feed-in tariffs, a carbon cap and/or tax, and renewable energy and energy efficiency standards without constraints and without fear of trade litigation.

Therefore, any chapter that may address issues related to climate change, including a chapter technical standards or technical barriers to trade, services, subsidies, or investment must explicitly provide governments the flexibility to put in place climate mitigation and adaptation strategies.

Additionally, any harmonization of regulations related to climate change must not only harmonize up to the highest standard, but be set as a regulatory floor instead of a regulatory ceiling.

Retain the Ability of the Department of Energy to Oversee Natural Gas Exports

Because of the new quantities of natural gas unleashed by hydraulic fracturing, or “fracking,” the United States has the ability to become a major natural gas exporter for the first time ever. Exporting U.S. liquid natural gas (LNG) comes with significant environmental and economic risks. For example, LNG exports would expand unconventional natural gas production in the United States, a practice with substantial negative environmental impacts, and would raise domestic energy prices.

While it is critical to examine these and other policy implications of new natural gas exports, the TTIP would likely require the United States government to automatically approve all exports of U.S. liquid natural gas to the EU without any review, conditions, modifications or delay as an unintended consequence of a provision in U.S. law. Europe is a major importer of natural gas,⁶ and would likely be quite eager to gain automatic access to U.S. natural gas. But because exports will have significant domestic impacts, it is critical for domestic policymakers to retain their discretion appropriately to condition or deny volumes of gas for export, as warranted.

This problem dates back to a provision of the U.S. Natural Gas Act, as amended in 1992.⁷ More than twenty years ago, in an effort to speed up Canadian gas *imports*, U.S. Congress mandated that the Department of Energy *automatically* approve all LNG shipments to or from countries with which the U.S. has a free trade agreement that calls for so-called “national treatment for trade in gas.” Although Congress was motivated by import-related concerns and never anticipated significant LNG exports, the Department of Energy now reads that same provision to remove its ability to even *evaluate* whether exports of natural gas to free trade agreement countries are in the interest of the American public.⁸

The environment and the U.S. economy would suffer from unfettered exports of U.S. natural gas. The LNG export process begins with extracting the gas—the vast majority of which would come from unconventional gas production (including the fracking process). An intrusive procedure, fracking involves pumping millions of gallons of water, sand, and chemicals underground to create pressure which forces out natural gas. Unconventional gas production can emit large amounts of hazardous, smog-forming, and climate-altering air pollutants into our air, and is a serious threat to our water supply. Unconventional gas production operations also disrupt forests, parks, and communities across the country.

The environmental impacts associated with natural gas exports extend beyond the production process, however. Once the gas is extracted, it needs to travel from production sites to coastal export terminals through hundreds of miles of pipelines. Whether exporters are expanding old pipelines or building new ones, these major construction projects can cut across private property and public land, further fragmenting landscapes and increasing pollution. There are also environmental impacts associated with the building of natural gas export terminals. New terminals will require the dredging of sensitive estuaries to make room for massive LNG tankers. Expanding facilities and ship traffic will also take their toll on coastal communities and the environment.

And, while some tout natural gas as a clean, safe way to provide energy, the energy needed to cool, liquefy, and store natural gas for overseas shipment makes LNG more energy and greenhouse gas intensive than ordinary pipeline gas and even than some fuel oils.⁹ Opening our natural gas reserves to EU exports will, therefore, increase the world's dependency on a fossil fuel with significant climate impacts.

The U.S. economic costs associated with expanding natural gas exports are also significant. U.S. exports of natural gas would raise demand for U.S. natural gas, causing an increase in domestic gas prices. According Synapse Energy Economics and to the Department of Energy's own economic contractor, higher domestic energy prices from LNG exports would disproportionately harm the middle class and U.S. manufacturing.¹⁰ Similarly, while the exact price increase of U.S. natural gas will depend on the amount of gas exported and the elasticity of supply, a recent report commissioned by Dow Chemical says that natural gas prices in the U.S. could triple by 2030 under a high-export scenario.¹¹ Moreover, these immediate price impacts constitute only a small fraction of the economic harm done by further focusing the U.S. economy on raw material export and minerals extraction rather than on value-added manufactured exports.

With such significant implications for our environment, economy, and climate, it is critical that the TTIP be drafted in such a way that it retains the ability of the US Department of Energy to assess whether exports of U.S. natural gas are in the interest of the public.

Reform Investment Rules and Reject Investor-State Dispute Settlement

With respect to increasing investment, it is important to note that numerous studies have found no significant correlation between a country's level of foreign direct investment and its decision to adopt treaties with broad investor protections including investor-state dispute resolution.¹² Moreover, there is significant evidence that broad investor protections threaten communities and the environment and, by offering greater privileges for foreign firms than domestic ones, incentivize the offshoring of jobs.¹³

Among the most harmful components of investment rules that must not be replicated in the TTIP are vaguely worded provisions that offer investors, for example, "minimum standard of treatment" and "fair and equitable treatment." These provisions have essentially been interpreted as a standstill on regulation, since nearly any new regulation can be deemed as violating an

investor's "predictable regulatory environment," or depriving them of "fair and equitable treatment."

Moreover, when a corporation feels that their rights have been violated or the monetary value of their investment has been reduced by the introduction of a new law or policy, the investor-state dispute settlement mechanism allows foreign firms to bypass the domestic court system and sue the government of the host country in private, international tribunals that lack transparency and public accountability.¹⁴ Consequently, foreign firms have used investor-state dispute settlement provisions to challenge environmental, land-use, energy and other socially-beneficial laws that have been passed by democratically elected governments.¹⁵

These cases are not hypothetical. By the end of 2012, corporations have launched more than 500 cases against 95 governments, many of which directly attack environmental and other public interest policies.¹⁶ Because investor-state dispute settlement tribunals are given substantial leeway in deciding damage awards, many of the financial compensations paid out to corporations by governments have reached massive proportions. Dispute-settlement compensations awarded to corporations in 2012 ranged from US \$2 million to US \$1.77 billion, with many pending claims totaling in the billions of U.S. dollars.¹⁷

Investment rules and the investor-state system have been justified on the grounds that they protect foreign investors from the discriminatory or capricious actions of the host government.¹⁸ Others have argued that investor-state dispute settlement tribunals are especially critical in states with poorly performing or inefficient domestic courts.¹⁹ However, given that strong, independent judicial systems are well-established in the both the U.S. and the EU, and that adequate legal pathways already exist for wronged foreign firms, there is no reasonable justification for including investor-state provisions in the TTIP.

Previous experience with the investor-state system demonstrates that the monetary, social-welfare, and environmental costs of including investor-state dispute settlement provisions in TTIP would be substantial. In fact, the EU is already facing a number of investor-state suits related to its transition to clean energy sources. For example, after Japan's Fukushima Daiichi nuclear disaster of 2011, Germany initiated a phase-out of nuclear power and began moving towards cleaner renewable energy sources. In response, in May 2012, Vattenfall, a Swedish energy firm with investments in German nuclear energy, filed its request for arbitration against Germany at the World Bank's International Centre for Settlement of Investment Disputes (ICSID).²⁰ Vattenfall used provisions in the Energy Charter Treaty – an EU trade and investment treaty for the energy sector – to bring its case against Germany, presumably for lost profits and the violation of its fair and equitable treatment.²¹ (Because key documents surrounding this case are not publically accessible, the exact claims used by Vattenfall are not available.) Articles indicate that Vattenfall may be seeking 3.5 billion euros in damages from Germany for its commitment to transition to clean sources of energy.²²

With significant investments in the fossil fuel industry in both the U.S. and the EU, cases like this one could dramatically increase if the TTIP includes investment provisions similar to ones from recent U.S. and EU trade and investment agreements. It is therefore critical that investor-state dispute settlement be excluded from TTIP; investment rules be drafted in way that retains

ability of governments to protect the environment and address climate change; and that the investment chapter of the TTIP include a strong exception for environmental and climate measures.

Eliminate Fossil-Fuel Subsidies, Ensure Policy Space for Clean Energy Subsidies

The U.S. and the EU should commit in the TTIP to eliminate subsidies for the oil, coal, and gas industries. The exact level of fossil fuel subsidies in the U.S. and EU is difficult to quantify because of lack of transparency in reporting. However, official estimates show that up to \$75 billion per year in Organization for Economic Cooperation and Development (OECD) countries goes to support oil, gas, and coal.²³ Even this figure may well be an underestimate.

Particularly in the context of the climate crisis, taxpayer-funded financial support for profitable, mature industries, and environmentally harmful industries must end. The U.S. and a number of EU countries have already committed to eliminate fossil fuel subsidies. In 2009, for example, G20 leaders committed to “phase out and rationalize over the medium term inefficient fossil fuel subsidies while providing targeted support for the poorest.”²⁴

The TTIP presents an opportunity to make this commitment a reality, including by agreeing to develop final plans to phase out fossil fuel subsidies and to increase the transparency of fossil fuel subsidies. At the same time, it is critical that governments have the policy space to put in place subsidies for environmentally beneficial clean energy programs without fear of trade litigation.

Support Climate Standards and Labeling

Both the United States and the European Union have put in place a number of standards designed to address climate change that could be impacted by the TTIP. For example, the U.S. and the EU have employed a variety of environmental labeling programs to promote the production of energy-efficient goods and to reduce greenhouse gas emissions.²⁵ Additionally, a number of European countries have begun experimenting with voluntary and mandatory carbon footprint labeling programs, and the European Commission itself is currently in the process of developing and proposing an EU carbon labeling system.²⁶ Energy efficiency standards are also important components of an emissions reductions strategy used in both the U.S. and the EU.

Transnational differences in product labeling, including energy efficiency labeling, can impact the export of goods and may fall under the scope of technical barriers to trade (TBT). If a chapter on TBT is included in the TTIP, it is absolutely critical that it includes a strong exception for environmental measures to ensure that green labeling and other green certification programs are not subject to trade litigation under the TTIP. Furthermore, the TTIP must not reduce the product coverage of current environmental labels nor derail new environmental and carbon labeling efforts such as the EU’s carbon labeling initiatives.

Preserve Climate Initiatives such as the EU Aviation Directive

In January of 2012, the EU adopted an Aviation Directive that extended its Emissions Trading Scheme to include greenhouse gases emitted by all airline flights originating from or landing in the European Union.²⁷

In November 2012, the EU temporarily suspended the Directive in the hopes that an international agreement on aviation emissions would be produced in the International Civil Aviation Organization's (ICAO) fall of 2013 meeting.²⁸ The EU has, however, made it clear that the ICAO's failure to deliver a strong international agreement on aviation emissions will result in the automatic reinstatement of the Aviation Directive.²⁹ If the Aviation Directive is not resolved through ICAO meeting, it may be addressed in the US-EU trade negotiations.

It is absolutely critical that the TTIP provides policy space for all countries involved to respond to the climate crisis. Efforts to address climate change, including the Aviation Directive, should not be compromised through the TTIP.

III. Labor

The TTIP offers an opportunity to strengthen the rights of workers and the economies of both the U.S. and the EU. The TTIP should include the basic commitment to adopt, enforce and maintain core labor rights as laid out in the ILO Declaration on Fundamental Principles and Rights at Work. In addition, the U.S. and EU should explore the adoption of specific mechanisms to provide for consultation and information disclosure between workers and transnational corporations, as well as stronger protections for workplace safety and health.³⁰

Moreover, expanded and more effective collective bargaining rights would lead to higher wages, more demand, more investment, more jobs and healthier workplaces.³¹ Thus, expanded and strengthened labor rights would form the basis for a broadly shared prosperity. Labor rights, jobs, and wages must be a core priority of the TTIP. Any downward harmonization of labor standards would be unacceptable.

IV. Food and Chemical Safety

Issues related to both food safety and chemical safety will likely come under negotiation in the TTIP. In both areas, European laws offer greater protection for the public. With respect to food safety, regulations on genetically-modified (GM) goods, hormone-treated beef, and chlorine-washed poultry products have been in place for years in order to protect EU consumers. The TTIP must not seek to deregulate or undermine the food safety standards on either sides of the Atlantic.

Similarly, TTIP negotiations offer the United States an opportunity to upgrade its antiquated chemical safety laws, which date back to the 1976 Toxic Substances Control Act (TSCA). Aligning U.S. chemical safety regulations with the EU's Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) program of 2006, which provides extensive regulatory oversight of the production, importation, sale, and use of industrial chemicals in the EU, would be a significant step towards modernizing the U.S. chemical regulatory apparatus and improving the safety of chemicals for the health and well being of the public.

V. Conclusions

The public, the environment, and the economies of Europe and the United States could benefit from a trade pact that raises public interest regulations across the Atlantic, includes minimum standards for regulations, retains the ability of government agencies to put in place policies that protect communities and the environment, and encourages trade and investment without sacrificing the health and safety of the public.

However, a transatlantic trade and investment agreement could also have devastating consequences for the environment, workers, and communities. Pursuing free trade at the expense of environmental protection and consumer safety may boost the bottom lines of multinational corporations, but it would also cause irreparable damage to American and European workers and families and the environment.

In sum, the Sierra Club believes that the TTIP must enhance the well-being of communities and protect the environment. To help achieve these goals, the TTIP must:

- Preserve and provide opportunities to strengthen environmental, climate, labor, health, safety, and other regulations and standards in the U.S. and EU;
- Preserve the ability of the US Department of Energy to review U.S. liquid natural gas exports to the EU and ensure that any exports are in the interest of the public; and
- Exclude investor state dispute settlement mechanisms and ensure that investment rules do not undermine the ability of governments to protect communities and the environment.

The first step in helping to ensure that trade policy protects communities and the environment is by involving the public in all stages of decision-making. Breaking from the precedent of recent trade negotiations, governments should make TTIP negotiating texts and country submissions publically available and ensure that members of the public and Congress are given opportunities to review and comment on draft texts. A new model of trade that benefits communities and the environment is possible, but it begins with transparency and meaningful public engagement.

The Sierra Club welcomes the opportunity to comment and would be happy to provide further information or clarifications as necessary.

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ENDNOTES

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