Overview

This chapter will consider the public procurement aspects of negotiations towards a TTIP between the EU and the US. The term “public procurement” refers broadly to the process followed by public bodies when contracting with private sector firms for the acquisition of goods, works and services (Arrowsmith and Anderson, 2011). Recent high profile examples of this include the California High-Speed Rail Authority’s advertising and award of a $1.2 billion contract for the construction of a high-speed railway system in California in the United States– awarded, in 2014, to a US subsidiary of Spanish firm ACS (AFP, 2014)– and, in the UK, the advertising and award of a £500 million Department for Work and Pensions contract for services for the assessment of whether or not sick and elderly claimants qualify for “out of work” welfare payments – awarded, in 2014, to US firm Maximus (DWP, 2014).

The public procurement negotiations for the TTIP are controversial and politically sensitive, which make it an interesting area for further research. This is due to, amongst other reasons: the size of the market for public contracts, around 15-20% of GDP (Ueno, 2013); anxieties over the privatisation of core public services (e.g. the UK’s National Health Service (NHS)); and also recognition of public procurement as a policy tool, e.g. to pursue local, industrial, social or environmental policies (e.g. to foster the development of SMEs), something which does not always fit neatly alongside free trade objectives.

The chapter will begin in section two by providing an overview of the starting point for the negotiations. This section will provide an outline of the regulatory system for public procurement in both the EU and US, and will also consider the current trade relationship in public procurement, which is primarily based upon the WTO’s Agreement on Government Procurement (GPA). The next sections, section three and four, will look at the TTIP negotiating positions of the two sides, i.e. what the EU and US will hope to gain from the negotiations, areas in which they may be protective, and also topics on which agreement may be difficult. It will be seen that, because of current EU and US commitments under the GPA, the EU stands to have the most to gain from further public procurement liberalisation. Indeed,
according to European Commission estimates, 10% of the EU's potential economic gains from the TTIP could come from greater access to US procurement markets (Department for Business Innovation and Skills, 2013, p.59). However, there are many hurdles to overcome (mainly related to gaining the acceptance of sub-federal levels of government in the US) for any meaningful success. The final section, section five, will offer some concluding remarks.

Background

Introduction

The High Level Working Group on Jobs and Growth, which, prior to the initiation of TTIP discussions, was asked in 2011 to identify activities for expanding EU-US trade and investment, highlighted public procurement in its final report in February 2013:

“[T]he goal of negotiations should be to enhance business opportunities through substantially improved access to government procurement opportunities at all levels of government on the basis of national treatment” (HLWGJG, 2013).

The inclusion of market access rules on public procurement in the TTIP negotiations is not surprising: they are an increasingly common feature of bilateral trade agreements (Anderson et al, 2011). Of the 13 bilateral trade agreements concluded by the EU and third countries between 1970 and 2000, none had a separate chapter or article on public procurement, since 2000 13 of 24 (54%) such agreements have had a separate public procurement provision (Cernat and Kutila-Dimitrova, 2015, p.6).

In relation to trade agreements concluded with third countries not party to the WTO’s GPA (see section 2.4 below), one common approach is for the EU to seek to require GPA commitments, e.g. an agreement containing a reference to the GPA text (Anderson et al, 2011). With respect to the US and EU trading systems, however, both the US and EU have highly developed regulatory systems on public procurement (see sections 2.2 and 2.3 below), as was the case with respect to the US-Canada Agreement on Government Procurement (concluded on February 12th 2010) and the EU-Canada Comprehensive Economic and Trade Agreement (CETA) (concluded on September 26th 2014). In view of this, the EU, in particular because of dissatisfaction with US coverage commitments under the GPA (see section 4), especially given the role of infrastructure spending in the US recovery following the 2007/2008 financial crisis, has seized upon the opportunity presented by the TTIP. The EU has expressed ambitions to negotiate a “GPA plus” agreement with the US, i.e. an improved GPA, improved rules and improved coverage (European Commission, 2013).

The EU regulatory system

Corresponding with the internal market objectives of the EU, the EU’s regulatory system on public procurement has developed so as to limit the extent to which procurement in member states may operate as barriers to trade.
In exceptional cases a non-competitive procedure may be used (article 32). Thus, where a contract is of sufficient cross-border interest, it must be procured in line with the general rules and principles of the EU treaties (e.g. articles 28-38 TFEU on the free movement of goods and article 56-62 TFEU on the free movement of services). For financially important contracts, i.e. those contracts meeting specified financial thresholds, more detailed coordinating directives are in place (these cover approximately €425 billion, or 3.4% of EU GDP (2011 figures), of public procurement in the EU) (European Commission, 2014, p.7). Following recent reforms the current set of “procedural directives” includes the Public Procurement Directive 2014/24/EU, the Utilities Directive 2014/25/EU, the Concessions Directive 2014/23/EU, and the Defence and Security Directive 2009/81/EC. Member states have until April 2016 to ensure these updated rules are transposed into domestic law.

As an illustration of approach, the Public Procurement Directive 2014/24/EU, the most prominent of the above directives, sets out a selection of competitive procedures based on principles of equal treatment, non-discrimination, transparency and proportionality for public bodies to choose between for a particular procurement (a “tool box approach”): the open procedure (article 27) and the restricted procedure (article 28) (the directive’s standard procedures), competitive dialogue (article 30), innovation partnerships (article 31), and the competitive procedure with negotiation (article 29). In relation to the conduct of these procedures, the directive provides rules on, amongst other things, the EU-wide advertising of public contract opportunities, time limits for receipt of expressions of interest and bids, the drawing up of technical specifications and contracts, and the criteria that may be used to qualify suppliers, shortlist suppliers and award the contract. There are also rules on more modern procurement initiatives like electronic procurement, framework agreements and dynamic purchasing systems. These detailed and complex prescriptive rules are backed by directives which require effective review of procurement decisions and remedies for breach of procurement law: the Remedies Directive for the Public Sector 89/665/EEC; and the Remedies Directive for the Utilities Sector 92/13/EEC.

**The US regulatory system**

The Federal Acquisition Regulation (FAR) is the main legal authority governing federal procurement in the US and its rules apply to most “executive branch agencies” (48 C.F.R. §2.101(b)) (i.e. executive departments, military departments, and independent establishments as defined in 5 U.S.C. §§ 101, 102, and 104(1), as well as to wholly government-owned corporations, as defined in 31 U.S.C. § 9101). The regulation in the US serves a wider range of objectives, none of which concern free trade. For example, as a guiding principle, the FAR explains that “[t]he vision for the Federal Acquisition System is to deliver on a timely basis the best value product or service to the customer, while maintaining the public’s trust and fulfilling public policy objectives”. This is in marked contrast to the internal market rationales associated with the EU system (section 2.2 above). However, like the EU, the US system is shrouded in complexity: there are a number of exemptions from the FAR and also a number of implementing and supplementing regulations/statutes.

Below federal level, each of the 50 US states has responsibility for its own procurement rules. These rules therefore vary from state to state,
though many states have rules in place that correspond with the FAR (e.g. because of a common overarching WTO framework).

**The WTO’s Agreement on Government Procurement (GPA)**

Despite the different core texts governing public procurement in the EU and US, the different rationales behind the regulation, and the wildly dissimilar terminology used by the two systems, many commonalities can be found in the rules and procedures of the FAR and EU procurement directives. A large part of this can be put down to the present trade relationship between the two jurisdictions. The main agreement regulating market access in public procurement between the EU and US is the WTO’s GPA, but an exchange of letters also exists involving three US states (Illinois, North Dakota and West Virginia) and the EU.3

The GPA is a “plurilateral” agreement found in Annex 4(b) of the WTO Agreement. This means not all members of the WTO are parties to the GPA, just those that have chosen to sign up, currently 43 WTO members (including the 28 members of the EU). As a plurilateral agreement between predominantly developed nations, the GPA has not faced the same difficulties as the General Agreement on Tariffs and Trade (GATT), the General Agreement on Trade in Services (GATS) and Trade-Related Aspects of Intellectual Property Rights (TRIPS), and a newly agreed GPA text that entered into force for both the EU and US on April 6th 2014.

The EU and US, particularly the EU, have, since the outset, been at the forefront of the development of the GPA rules; thus, in view of this, along with similar market access objectives, the GPA is based on general principles like those found in the EU system: non-discrimination, transparency and fairness (article IV). Again, similar to the EU, but more skeletal, the GPA rules put in place framework coordination for some key aspects of public procurement. These include basic rules on contract notices/adverts (article VII), technical specifications (article X), rules of origin and offsets (article IV), supplier qualification and shortlisting (article VIII and IX), supplier lists (article IX), contract award (XV), negotiations with bidders (article XII), electronic procurement (article XIV) and procedures for challenging procurement decisions (article XVIII).

The annexes to the GPA are particularly important for the purposes of the discussion here: these specify, for each signatory state, the extent of the agreement’s coverage in relation to financial thresholds, central government entities, sub-central government entities, goods, services and construction.

**EU targets and concerns**

**New and improved rules**

The European Commission’s “GPA plus” aim is for the TTIP procurement chapter to build upon existing rules, setting “a higher standard that could inspire a future GPA revision”, establishing “new disciplines” that go beyond those contained in the GPA (European Commission,
This could potentially include, for example, harmonised terminology and important issues omitted from the GPA, such as green/environmental procurement, procurement via Public-Private Partnerships (PPP), and framework agreements (termed “Indefinite Delivery/Indefinite Quantity Contracts”, “Government-Wide Acquisition Contracts”, and also “Multiple Award Schedule Contracts in the US). The two parties could also seek to add detail to existing GPA provisions, e.g. in relation to technical specifications, qualification, shortlisting and award, as well as domestic challenge procedures. However, the extent to which this is necessary (given the problems related to coverage of the GPA agreement) is questionable and arguably negotiations of new and improved rules would distract from (what should be) the primary objective (of the EU, at least): improved coverage of market access commitments (Craven, 2014). Arguably, the desire to improve upon the market access rules found in the GPA is a misinterpretation of the recommendations of the HLWGJG, the report of which mainly stressed expanded coverage based on national treatment: “substantially improved access to government procurement opportunities at all levels of government on the basis of national treatment” (HLWGJG, 2013).

**Expanded coverage**

In addition to improved rules, a key priority for EU negotiators is (and should be, in accordance with the recommendations of the HLWGJG) to seek concessions from the US in terms of the coverage of the GPA market access rules to the public sector in the US. This is a real bone of contention for the EU. In contrast to the 15% GDP of public procurement the EU is prepared to open up under the GPA (i.e. essentially the size of the procurement market of contracts of “cross-border interest” caught by EU procurement directives), the US GPA commitments cover only 3.2% GDP (a total of €34 billion) of the US procurement market (European Commission, 2011). In view of this discrepancy, the EU recognises that approximately 10% of the EU’s potential economic gains from successful TTIP negotiations could come from greater access to US procurement markets (Department for Business Innovation and Skills, 2013), and, according to statements from the UK government, “if [the EU] failed to do a deal on government procurement in the TTIP, that would diminish [TTIP’s] significance quite considerably” (House of Lords, 2014, para. 128).

There are 89 entities listed in Annex 1 of the US GPA Appendix 1 (which lists central government entities). The EU wants the TTIP to apply to all central government/public entities, including subordinated entities of central government; this means the inclusion of notable exceptions like the Federal Aviation Administration.

More significant than the coverage of the procurement of federal-level entities is procurement at US sub-federal level: currently, only 37 of 50 US states have formally accepted the GPA (Annex 2). This means 13 states—Alabama, Alaska, Georgia, Indiana, Nevada, New Jersey, New Mexico, North Carolina, North Dakota, Ohio, South Carolina, Virginia and West Virginia— are all outside GPA rules. In addition, coverage of entities within some of the 37 states signed up to the GPA (e.g. local, regional and municipal levels) is, in comparison to the EU GPA offer-
ing, very limited. For example major cities are not covered, such as New York, Los Angeles, Houston, Philadelphia, Phoenix, San Diego, San Jose, Jacksonville, Austin, San Francisco, Columbus, Fort Worth, Charlotte, El Paso, Memphis, Seattle, Denver, Baltimore, Washington, Louisville, Milwaukee, Portland and Oklahoma City.

The greater inclusion of sub-federal procurement in the US, e.g. the upgrade of the 13 states outside the GPA to GPA standard access, is recognised as potentially a bridge too far for TTIP negotiations. This is mainly because of the lack of authority the US administration has to bind individual states to such agreements. It is noted that in the period since signing up to the GPA, which came into force in 1996, there has been a backlash amongst states: fewer and fewer are prepared to accept the procurement chapters of international trade liberalisation deals, e.g. it is more difficult to get the acceptance of some states because, rather than the decision simply resting with the state governor, state legislature approval is required (Woolcock and Heilman-Grier, 2015, p.20). Indeed, in recent trade agreements concluded by the US with Peru, Columbia and Panama only eight states signed up to the procurement chapter (Hansen-Kuhn, 2014, p.4).

Despite the above, because the immediate benefits of open public procurement markets are not obvious (e.g. without signing up to an agreement any sub-federal entity could still choose to enable a foreign company to bid on a case by case basis), some have contemplated ways of using the TTIP to introduce and condition states to such international liberalisation (Yukins and Priess, 2014). One way this might be done would be to ensure that the deployment of federal funds could not be used to subvert the GPA rules, i.e. when transferred to be spent by non-GPA state/public entities. This raises a particular EU concern: the proliferation of “Buy America/n” laws, policies and practices the US has seen in the wake of the 2007-2008 global financial crisis and recession (European Commission, 2015). Here, essentially, where US federal government funds a state or local project there will be domestic content requirements; for example, under the American Recovery and Reinvestment Act (ARRA) 2009, 100% of the iron, steel and manufactured goods used for construction projects funded by the $787 billion stimulus package need to be US-produced (these particular “Buy American” provisions expired in September 2011). According to the EU’s 2015 Trade and Investment Barriers Report, “significant progress in this area is an important pre-requisite for a successful conclusion of the TTIP negotiations. In particular, it will be crucial to secure better EU access to sub-federal procurement in the U.S.” (European Commission, 2015, p.8). “Buy American” provisions should be GPA-friendly, so, for example, where the GPA applies, iron and steel should be allowed to originate from non-US GPA signatories; however, because of the US’s limited GPA coverage commitments, many state and local government projects are regarded as outside the GPA, thus resulting in many EU suppliers facing apparent exclusion from major procurement activity in the US. In the US-Canada Agreement on Government Procurement 2010, Canada was able to obtain certain exemptions from the ARRA 2009, but, because of broad political commitment to “Buy American” legislation in the US, Canada had to reciprocate by offering US firms greater market access, e.g. provinces and municipalities not covered by the GPA (Woolcock and Heilman-Grier, 2015, p.21).
In addition, in view of the above difficulties surrounding the inclusion of US states, some had hoped for the TTIP negotiators to learn from the successful CETA (EU-Canada) negotiations. For the CETA negotiations, Canadian provinces were included in the negotiations (House of Lords, 2014, para.136). According to CETA negotiators for the EU, it was made clear to Canada from the outset of negotiations that they regarded some areas of provincial competence as “indispensable” and would not be interested in a deal if these areas were not on the negotiating table. Thus, provincial governments were involved in negotiations from the outset and consultation mechanisms were also put in place, and, as a result, the EU claims to have achieved access to approximately 70-80% of the Canadian procurement market between the federal government, the provinces and the large municipalities.

The EU is also keen to extend US commitments in relation to all entities governed by public law, state-owned companies and similar operating in the field of utilities (Annex 3 GPA). The US also has derogations for specified goods (Annex 4), services (Annex 5) and construction services (Annex 6), which the EU will also want on the negotiation table. Furthermore, a long standing bone of contention is the extensive use of procurement in the US to support small or minority-owned businesses (see Small Business Act 1953). A GPA exemption (Annex 7) means that each year contracts amounting to $billions are set aside for such businesses.

The United Kingdom’s National Health Service

In the UK, a prominent EU economy, campaign groups have mobilised to garner support against the TTIP due to anxieties over the way in which procurement liberalisation may impact on the UK National Health Service (a publicly-funded health care system in the UK), in particular, a campaign fearing irreversible privatisation of the NHS. On January 28th 2015, Commissioner Cecilia Malmström wrote to Lord Ian Livingston (a UK government minister for trade and investment (December 2013-May 2015)) to allay such concerns:

“[M]ember states do not have to open public health services to competition from private providers, nor do they have to outsource services to private providers; member states are free to change their policies and bring back outsourced services back into the public sector whenever they choose to do so, in a manner respecting property rights (which in any event are protected under UK law); it makes no difference whether a member state already allows some services to be outsourced to private providers, or not” (Department for Business, Innovation and Skills, 2015).

Malmström invites sceptics to look at the protections in the EU-Canada CETA deal as an example of the approach.

Despite the clear reassurances, the anti-TTIP campaign on this front is still strong; for example, there is a view that, regardless of legal protections, an Investor-State Dispute Settlement system may enable US firms to pressure/bully the UK government.
US targets and concerns

There is much less information regarding what the US might seek from TTIP procurement negotiations. It may, however, be assumed that the US attitude to procurement liberalisation is on the defensive, as it has much less to gain from the EU than vice versa. Nevertheless, although, legally speaking, the EU is in a strong negotiating position, the US, in its annual report on foreign trade barriers, regularly identifies numerous concerns regarding public procurement in practice in certain EU member states; for example, the 2015 report highlights issues relating to transparency, corruption and discrimination in Bulgaria, the Czech Republic, France, Greece, Hungary, Italy, Lithuania, Poland, Portugal, Romania, Slovakia and Slovenia (Office of the US Trade Representative, 2015, pp.144-146).

In addition, an EU proposal for a new regulation, “a regulation of the European Parliament and of the Council establishing rules on the access of third country goods and services to the European Union’s internal market in public procurement and procedures supporting negotiations on access of European Union goods and services to the public procurement markets of third countries” (European Commission, 2012a), is also raised in the 2015 US report. This legislative initiative was set in motion in March 2012 and continues to be debated in the European Parliament and Council.

The proposed regulation, which followed EU-wide consultation indicating broad support for action (though, not necessarily legislative action) reflects dissatisfaction with many third countries (the USA, Japan, Canada, Korea and China, for example) in not committing to opening their procurement markets up in a manner corresponding to EU commitments (see above). Also, the regulation is a response to certain trading partners maintaining or introducing restrictive/protectionist measures, impacting on EU businesses (such as US “Buy America” provisions). In addition, due to the above, member states were responding in divergent ways, so a coordinated EU approach was deemed important.

The proposed regulation is GPA compliant: third-country goods and services benefitting from EU market access commitments (e.g. those under the GPA) must be treated equally to EU goods and services (article 4). However, for other third-country goods and services, article 5 of the regulations allows for restrictive measures, provided these are in line with the specific safeguards (see article 6). In addition, the commission would be empowered to launch an external investigation into restrictive procurement measures by third countries (article 8), and there is a mechanism for consultation with third countries (article 9). If no resolution is arrived at following consultation, articles 10 and 11 provide scope for retaliation in the form of (i) the disqualification of certain tenders; and/or (ii) a mandatory price penalty on the third-country goods/services.

The proposed regulation would clearly send a message to third countries; however, whether or not the prospect of this legislation provides sufficient leverage to gain greater GPA plus coverage offer from the US remains doubtful (see section 3 above). Arguably it serves mainly an internal political function, appeasing the anxieties of the EU business community. From an external perspective, the proposed regulation places the EU, which generally sees itself as a strong advocate against
protectionism, in an awkward position. Thus, the EU is quick to point out how different the measure is from “Buy American” policies (e.g. a system of price preferences for providers from the EU), and, indeed, the EU appears to have flatly rejected any such legislation, not wanting to give implicit approval to something “to which it is adamantly opposed” (European Commission, 2012b).

**Concluding remarks**

In this chapter the deficiencies in the market access relationship between the EU and US concerning the field of public procurement have been highlighted. These deficiencies are not the result of deficiencies in the GPA. Rather, these are the result of poor coverage of international public procurement rules in US public bodies, mainly sub-federal US bodies. The challenge posed by the resistance of sub-federal levels of government in the US to international procurement liberalisation needed to be recognised and acted upon early on, as was the case in relation to EU negotiations with Canada over CETA. There has been little sign of any such activity and, thus, the likelihood of the TTIP meaningfully enhancing the procurement relationship between the EU and US is in serious doubt, which is a major blow for the EU and the TTIP in general.

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