



# The Bottom Line

JULY 2020 | VOL. 48

## U.S. RAMPS UP TRADE TENSIONS WITH THE EU

### Summary

The United States and European Union have both made recent announcements regarding two disputes: the World Trade Organization judgment against the EU in the Airbus subsidies case, and the proposal by France and other EU nations to enact a digital services tax on total annual revenues generated by some companies providing digital interface services or internet advertising.

### Background

In October 2019, in response to the EU's failure to fully comply with a World Trade Organization (WTO) ruling against subsidies it provided to aircraft manufacturer Airbus, the U.S. levied additional tariffs of 25 percent on more than 150 products from EU countries. Affected products included cheese from the EU or the United Kingdom; single-malt Irish and Scotch whiskeys from the UK; and olives and wine from France, Germany, Spain, or the UK. The U.S. also imposed an additional 10 percent tariff on new civil aircraft from France, Germany, Spain, and the UK that was later increased to 15 percent.

The U.S. Trade Representative announced June 2, that their office is investigating Austria, Brazil, the Czech Republic, the European Union, India, Indonesia, Italy, Spain, Turkey and the United Kingdom for implementing or planning to put forward new taxes on digital services.

### Current Status

This June, the Office of the U.S. Trade Representative said it was considering modifying the list of EU goods subject to the Airbus ruling tariffs. One change under consideration is to expand the list to include products such as fish, coffee, chocolate, olives, olive oil, beer, vodka, sparkling wine, glassware, wall clocks, and lifting machinery. The USTR is also considering increasing the tariff on affected goods from 25 percent to 100 percent. However, last week, the Airbus Member States announced they had completed modifications to the terms of the Repayable Launch Investment,

putting them in full compliance with the WTO ruling which allowed for the U.S. to levy these tariffs in the first place. EU Commissioner for Trade Phil Hogan said: "Unjustified tariffs on European products are not acceptable and, arising from the compliance in the Airbus case, we insist that the United States lifts these unjustified tariffs immediately." As it regards the EU case against the United States' subsidies to Boeing, the Appellate Body in its ruling of 11 April 2019 confirmed that the U.S. has not taken appropriate action to comply with the WTO rules on subsidies. The decision of the WTO arbitrator on the value of possible EU retaliation is due in the coming weeks.

Under pressure, French President Macron agreed to delay the collection of the digital services tax until the end of 2020. The United States has responded this month by announcing a series of tariffs that would become effective in January 2021 on soap, cosmetics, and handbags. The announcement indicates the tariff to be set at 25%.

### Impact

Both of these disputes continue to create tension between the United States and the EU. The Trump Administration has rarely removed tariffs once applied, nor has it admitted any authority of the WTO. It would not be surprising for the EU to respond with retaliatory duties should the U.S. fail to respond to the EU's compliance with the terms of the Airbus judgement.

The U.S. seems to be getting its way in the digital trade services tax dispute, however. The continual threat of additional tariffs has delayed the implementation of the tax from April 2020 to January 2021, and the negotiations under way by the Organization for Economic Cooperation and Development appear to be unlikely to offer a global agreement that would render the tax unnecessary.

#### RESOURCES:

[EU and Airbus Ensure Compliance in WTO Aircraft Dispute](#) (EC)  
[EU Efforts to Tax Tech Giants Falter Under Pressure](#) (Politico)