

The Bottom Line

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EASING OF TARIFF TENSIONS WITH THE EU

Summary

The Biden administration will ease tariffs on steel and aluminum imports from the European Union. In addition, the E.U. has agreed to eliminate retaliatory tariffs on U.S. products, including whiskey, orange juice, and motorcycles. This represents the final agreement in three disputes that have been simmering between the U.S. and E.U.

Background

Trade tensions between the United States and the European Union began with the Trump administration's imposition of duties on steel and aluminum in 2018, citing a risk to U.S. national security. The E.U. retaliated with tariffs of its own. More than \$3 billion worth of U.S. goods — from bourbon and corn to Harley-Davidson motorcycles — were subjected to a 25 percent tariff. Rhetoric ramped up in early 2019 when the U.S. threatened tariffs on European automobiles, citing a risk to national security.

In the immediate aftermath of the World Trade Organization's (WTO) April 2019 decision in the Airbus case, the United States published a list of products from the European Union to be subjected to additional tariffs — in response to the "damage" done to the U.S. economy. As a result, 10% duty on aircraft and 25% on consumer goods, including cheese and wine, went into effect on October 18, 2019. The administration accompanied the economic measures with name-calling, accusing Europe of trade practices "worse than China's" and publicly supporting the U.K. in its divorce from the Union.

In December of 2019, two actions by the E.U. provoked the U.S. even further. First, France announced the imposition of a "digital tax" of 3% on companies with at least 750 million euros in global revenue, of which 25 million is derived from digital sales in France. Most, but not all, of the companies affected are American. Second, the E.U. committed to becoming the world's first climate-neutral continent by 2050, which is expected to hit U.S. exports of coal, natural gas, steel, and many manufactured products through the imposition of a 'carbon border tax.' As part of this commitment, the commission may propose more stringent standards for combustion-engine vehicles and sustainable farming practices, which will make it even harder for U.S. automakers and farmers to export to Europe.

Current Status

This new agreement on steel and aluminum required months of intense negotiations among top trade officials and has been viewed on both sides of the Atlantic as a compromise that the trading partners made for the sake of a fresh start following four years of discord. The global arrangement reflects a joint commitment to using trade policy to confront the threats of climate change and global market distortions, putting their workers and communities at the center of the trade agenda. The international arrangement will be open to any interested country that shares our commitment to achieving the goals of restoring market orientation and reducing trade in carbon-intensive steel and aluminum products.

In June, The E.U. and U.S. announced the end of a 17-year dispute over aircraft subsidies that involved Boeing (B.A.) and Airbus (AIR.PA) in a deal that will see the suspension of "harmful tariffs" worth \$11.5bn (£8bn). The tariffs "that hurt companies and people on both sides of the Atlantic" will be suspended for five years in a deal that U.S. President Joe Biden described as "a major breakthrough."

At the beginning of October, nearly 140 countries reached an agreement on a 15 percent minimum tax under the auspices of the Organization for Economic Co-operation and Development (OECD) that aimed to end corporations sheltering profits low-tax haven countries. Under the joint agreement, those countries will end controversial taxes on Big Tech companies once a global minimum corporate tax deal takes effect, which is expected in 2023. In addition, the United States will remove the threat of punitive tariffs on products from Austria, France, Italy, Spain, and Britain after reaching this deal to end digital services taxes.

Impact

Fundamentally, the E.U. and U.S. have drifted apart on critical economic and geopolitical questions, from digital privacy to tackling climate change and China. Trump's trade wars highlighted a trend that was already well underway under his predecessors: The E.U. and U.S. have developed into two different systems, which will keep creating frictions. President Biden said he wanted to restore good ties with traditional allies, including the countries of the European Union after they came under strain with former President Donald Trump's 'America First' approach to trade and foreign policy. U.S. Trade Representative Katherine Tai said, "My confidence level is high with respect to this industry, this dispute, but also the larger issue of U.S.-EU collaboration and what democracies can accomplish when we work together in a spirit of pragmatism and effectiveness."

RESOURCES

- [Tariffs on EU Goods Could be Increased to 100 Percent](#) (Sandler, Travis & Rosenberg)
- [EU Could be Next Trade War Target](#) (Sandler, Travis & Rosenberg)
- [U.S., EU Resolve Dispute Over Trump's Steel and Aluminum Duties](#) (Politico)
- [Joint US-EU Statement on Trade in Steel and Aluminum](#) (The White House)
- [EU and US end 17-year Boeing-Airbus row, hit pause on 'harmful tariffs'](#) (Yahoo Finance)
- [US To Withdraw Punitive Tariffs After Agreement On EU Digital Taxes](#) (International Business Times)