EUROPEAN UNION FEARS BEING NEXT TRADE WAR TARGET

Summary

Following signed agreements with China, Canada, and Mexico last week, the European Union (EU) fears they will be the next target of the U.S. administration's trade wars.

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 risk to U.S. national security. The EU 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% tariff. Rhetoric ramped up in early 2019 with threatened tariffs on European automobiles, also citing a risk to U.S. national security.

In the immediate aftermath of the World Trade Organization's (WTO) April 2019 decision in the fifteen-year-long 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. Duties of 10% on aircraft and 25% on consumer goods, including cheese and wine, went into effect on October 18, 2019. The administration has accompanied the economic measures with name-calling, accusing Europe of trade practices "worse than China's" and publicly supporting the UK in its divorce from the Union.

This past December, two actions by the EU 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 EU 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 other 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 is expected to make it even more difficult for U.S. automakers and farmers to export to Europe.

Current Status

In remarks made in Washington on Thursday, January 16, Phil Hogan, the new European trade commissioner, gave a frank assessment of an important trading relationship that had grown troubled on many fronts. Mr. Hogan vowed to "robustly defend" European interests as he justified the European position on trade spats with the United States over airplane subsidies, digital taxes, and the World Trade Organization. He criticized American officials for inaccurately claiming that trade between the United States and European countries was unbalanced and said that the administration's aggressive use of tariffs against trading partners was "hardly a sensible approach."

An example of the Trump administration's 'weaponization' of tariffs was the revelation last week when the U.S. threatened the EU with 25% tariffs on automobiles unless they triggered a dispute resolution mechanism within the Joint Comprehensive Plan of Action (JPAC). Doing this would start the clock on 65 days of negotiations with Iran about returning to full compliance with the deal, designed to limit its nuclear program. Sources within the EU admitted that the threat made them more reluctant to censure Iran, as they didn't want to be perceived as submitting to the whim of the United States

Impact

While the U.S. goods trade deficit with the EU was $169 billion in 2018, the U.S. runs a trade surplus of $60 billion in services to the EU. The European Union has vowed to retaliate any measures imposed by the United States and any action would result in a tit-for-tat escalation of tensions. The cost for any additional punitive tariffs levied upon European goods would be paid, ultimately, by the U.S. consumer, already bearing the brunt of the trade war with China.

RESOURCES:
EU Could be Next Trade War Target (STR)
Tariffs on EU Goods Could be Increased to 100 Percent (STR)