

Has the EU lost its nerve on US retaliation?

Blog post by Senior Associate Guillaume Ferlet, 23 May 2018

The EU's temporary exemption from the Trump administration's Section 232 tariffs on steel and aluminium comes to an end on June 1st. When Washington first announced it was moving to impose blanket tariffs on steel and aluminium imports, back in March, Brussels was quick to react with warnings of retaliatory tariffs. There was no reason not to treat this as a credible warning, given how successfully it had worked against the Bush administration's emergency steel tariffs in 2003.

Yet the consensus in Brussels around retaliation has now crumbled. Several eastern and central European states are unwilling to risk anything that might upset their security relation with the US. Germany and Italy reportedly oppose retaliatory tariffs, for fear that they might economically backfire and further incite President Trump - the most unpredictable US president in memory and one who seems to hold the peculiar view that "the EU was created to beat the US at trade". As a result, France and the European Commission now cut rather lonely figures in their calls to resist making any concession under tariff threats. In contrast, the Trump administration's willingness to lift the exemption shows no sign of falling off.

There are two very unpalatable roads the EU could, in principle, take to head off the prospect of duties. The first is to acquiesce to a voluntary export restraint (VER) which would cap EU steel and aluminium exports to the US at their current levels, as Washington has proposed. This is not permitted under WTO rules, which is a big problem for the multilateralist EU.

The other road would be to accept Washington's call to reopen free trade negotiations. There has been some talk in Brussels of the possibility of a scaled-down version of TTIP, mainly centering around the elimination of tariffs on industrial goods (a key Trump request). This is a risky road for EU trade policy, as tariffs represent a big chunk of the bloc's leverage on key issues like opening public procurement markets and removing non-tariff barriers. Trading this leverage away now, simply to shield EU steel and aluminium exporters from the US's Section 232 tariffs, would be an odd choice.

In the very shortest term, if either of these actions headed off new US and EU tariffs, it might seem good for EU and US exporters and importers. Only a newfound consensus among the 28 member states could seriously bring back the prospect of tariff retaliation, and that seems unlikely. But, in reality, there is no outcome here that trading businesses should welcome. Either the EU simply accepts an aggressive US show of baseless tariff protection, artificially constrains its own exports or reduces the TTIP template of a deep new transatlantic trade agreement to a quick and unbalanced bilateral deal. The Trump administration might see these as wins, but they are losses for a world of constructive trade diplomacy.