

# U.S.-EU Trade and Economic Issues

## Introduction

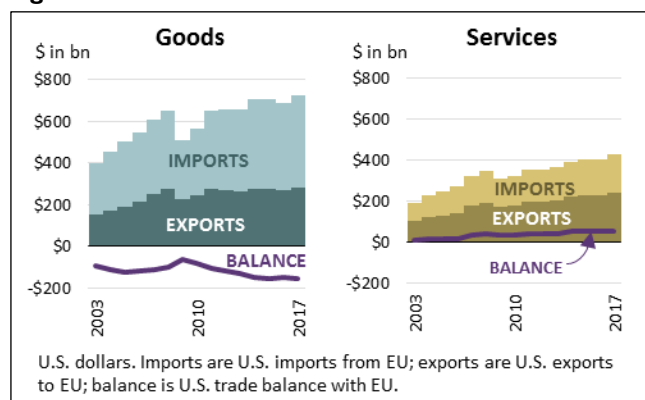
The United States and European Union (EU) are each other's largest trade and investment partners. (For more information, see CRS In Focus IF10930, *U.S.-EU Trade and Investment Ties: Magnitude and Scope*, by Shayerah Ilias Akhtar.) Their ties are deep, but some barriers to trade and investment remain. The trading relationship is largely harmonious, but frictions emerge periodically due to the high level of commercial activity and specific policy issues. U.S.-EU trade and economic relations face heightened tension currently, amid the Trump Administration's trade policy, which is focusing on unilateral tariff measures under U.S. trade law and taking a critical view of the U.S. role in international economic cooperation. Given U.S.-EU historical joint leadership on global trade and economic issues, these developments could have implications for the rules-based international trading system, a foundation of the global economic order that has contributed to global economic growth and stability in the post-World War II era.

## Selected Issues

### Trade Balance and Unfair Trade Practices

President Trump prioritizes reducing U.S. bilateral trade deficits as a major trade policy objective. The President blames EU trade policies for the U.S. deficit with the EU—\$101 overall billion deficit in 2017, as the goods deficit (\$153 billion) outweighed the surplus (\$51 billion) (see **Figure 1**). He is also particularly critical of Germany's "massive [goods] trade surplus," which, at \$64 billion, ranked as the fourth largest U.S. bilateral goods trade deficit. EU leaders counter that the trade relationship is fair and mutually beneficial. The role of "unfair" trade practices as a driver of trade deficits is contested view.

**Figure 1. U.S. Trade with the EU**



**Source:** CRS, based on data from U.S. Bureau of Economic Analysis.

### U.S. Steel, Aluminum, and Potential Auto Tariffs

On June 1, 2018, the United States began applying tariffs of 25% and 10% on imports of certain steel and aluminum products, respectively, following an investigation into the

potential threat to impair national security posed by these imports under Section 232 of the Trade Expansion Act of 1962. Some countries negotiated exceptions to the tariffs, but not the EU. The U.S. decision was preceded by consistent U.S. concerns, shared by the EU, about the negative impact of China's excess steel capacity on market prices. Despite the U.S. national security justification, the EU views the U.S. tariffs to be inconsistent with World Trade Organization (WTO) rules on safeguard actions (measures to protect domestic industries from rising imports). The EU, which accounted for about one-fifth of U.S. steel imports and less than one-tenth of U.S. aluminum imports in 2017, responded to the U.S. tariff increases by:

- Applying retaliatory tariffs on U.S. products, after notifying the WTO of its proposed list of targeted products (including iconic goods such as bourbon, motorcycles, and jeans). The total amount of tariffs the EU plans to impose is equal to the value of EU exports that the EU estimates the U.S. tariffs will affect (€6.4 billion, or \$7.5 billion, in 2017).
- Requesting WTO consultations concerning the U.S. measures, alleging that they violated the WTO Agreement on Safeguards and other commitments.
- Launching a safeguards investigation into how the U.S. measures affect EU steel trade flows.

The United States is challenging the EU's retaliatory tariffs in WTO dispute settlement. The situation raises concerns over potential tit-for-tat escalating tariffs on each other's traded goods and adverse economic effects. Harley-Davidson became the first U.S. firm to announce that it will shift some production overseas to avoid retaliatory tariffs by the EU, its largest overseas market for motorcycles.

Another source of friction is the ongoing Section 232 investigation of automobiles and parts. The President is critical of the U.S.-EU imbalance on auto trade, flagging disparate tariff levels (for cars, EU tariff is 10% and U.S. tariff is 2.5%; for trucks, EU tariff is 22% and U.S. tariff is 25%). Some EU auto companies also have manufacturing facilities in the United States. Motor vehicles are a leading U.S. import from the EU, and potential tariffs could have economic consequences. Some Members of Congress and industry groups question whether auto imports are a national security issue. President Trump reportedly offered to suspend the auto tariff threat if the EU removed its tariff on U.S. auto imports. The EU has floated the idea of negotiating tariff liberalization of the auto sector among a critical mass of countries to avoid a trade dispute.

### WTO and Multilateralism

In the post-war era, the United States and EU have been at the forefront of developing and liberalizing the rules-based international trading system anchored in the WTO, thereby contributing to its stability. EU officials are deeply troubled

by the Trump Administration's skepticism of the WTO. The Administration is blocking new appointments to the WTO appellate body based on "judicial activism" concerns, and periodically threatening to not abide by WTO decisions over trade disputes that it finds contrary to U.S. interests and also to withdraw the United States from the WTO. Many in the EU are concerned about a broader U.S. shift away from international cooperation—concerns fueled, for instance, by President Trump's withdrawal from the G-7 communiqué in June 2018 largely due to disputes over trade, and the U.S. reimposition of sanctions on Iran after the President's decision to cease U.S. participation in the 2015 Joint Comprehensive Plan of Action (JCPOA).

### U.S.-EU Trade Negotiations

The United States and EU trade on WTO most-favored-nation (MFN) terms because there is no U.S.-EU FTA granting more preferential terms. U.S. and EU tariffs are generally low (simple average MFN applied tariff was 3.5% for the United States and 5.2% for the EU in 2016), but high on some sensitive products. Nontariff barriers to trade, such as regulatory barriers related to food safety, labeling, and certifications, also pose barriers to trade. Under the Trump Administration, U.S.-EU negotiations are inactive on the Transatlantic Trade and Investment Partnership (T-TIP), a potential FTA to expand market access, enhance regulatory cooperation, and set rules and disciplines to support economic growth and trade liberalization. Many issues in T-TIP are unresolved.

On July 25, 2018, the United States and EU announced an agreement to work to eliminate tariffs, nontariff barriers, and subsidies on "non-auto industrial goods," as well as to reduce barriers and boost trade in specific sectors and products (services, chemicals, pharmaceuticals, medical products, and soybeans). They also agreed to cooperate bilaterally on energy trade and standards, and internationally to address unfair global trade practices and reform the WTO. U.S.-EU trade watchers question whether the deal actually is a "new phase" in the relationship as touted by the two sides, a revival of T-TIP in the form of limited FTA negotiations, or simply a deal to pause potential tit-for-tat escalation of tariffs while they address the Section 232 trade disputes. Certain issues, such as agriculture, already appear to be contentious in the U.S.-EU talks.

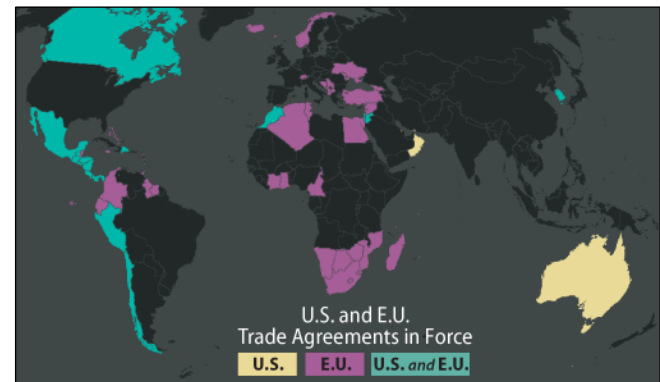
The United States and EU each has its own constellation of FTAs—14 FTAs with 20 countries in force for the United States and 39 trade agreements for the EU (see **Figure 2**). While the United States withdrew from the Trans-Pacific Partnership (TPP) and is renegotiating existing FTAs under President Trump, the EU recently concluded FTAs with Japan, Canada, and Vietnam, and upgraded its FTA with Mexico—all TPP members. EU FTAs vary on some issues compared to the traditional U.S. approach, such as emphasizing geographical indications (GIs), introducing an investment court system to replace the contested investor-state dispute settlement (ISDS), and not including explicit commitments to remove trade restrictions on data flows.

### Brexit and Other EU Developments

The UK's pending exit from the EU ("Brexit") presents some uncertainty for U.S.-EU economic relations. An EU without the UK would remain the United States' largest trading partner, but the outcome of EU-UK negotiations on

their future trade and economic relationship could affect U.S. commerce. Many U.S. firms have a significant presence in the UK, and use the UK as a platform to access the EU market. How the EU and UK structure their future trade and economic relationship could have implications for U.S. commercial interests in terms of tariffs, customs procedures, or regulatory requirements. The United States and UK are interested in negotiating a bilateral FTA. (While an EU member, the UK cannot negotiate new trade agreements with other countries, as the EU retains exclusive competence over its trade policy.)

**Figure 2. U.S. and EU FTA Constellations**



**Source:** CRS, based on U.S. and EU official trade data.

Other developments of interest include the General Data Protection Regulation (GDPR), the EU's new regulations to protect personal data aimed at updating and harmonizing rules EU-wide, which entered into force on May 25, 2018. The GDPR may simplify compliance for U.S. firms, but also raises concerns, such as the scale of potential fines for noncompliance and possible high costs of adherence, which could particularly affect smaller firms.

In addition, the EU has sought to address corporate tax avoidance and antitrust issues. In 2016, the EU ordered Ireland to collect €13 billion (about \$15.2 billion) in retroactive taxes from Apple after finding that Ireland gave Apple "sweetheart tax arrangements" reducing its effective corporate tax rate. Some Members of Congress, while concerned about tax avoidance by U.S. firms, view this and other EU actions as overreach and protectionism. Other frictions include the recent EU antitrust fine of €4.34 billion (about \$5.1 billion) on Google for its actions in the mobile phone market, which Google plans to appeal.

### Issues for Congress

Congress may wish to more extensively weigh in on U.S.-EU trade developments, examining their impacts on the U.S. and global economy and the international trading system. Congress also may consider options to resolve current issues and further liberalize trade, such as revisiting T-TIP, pursuing sector-specific tariff liberalization, and U.S.-EU cooperation to revive the WTO as a driver of trade liberalization, as well as considering legislative changes to the Administration's authority under U.S. trade laws.

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