Congressional Research Service
Informing the legislative debate since 1914

INSIGHT

What's in the New U.S.-EU Steel and Aluminum Deal?

November 12, 2021

On October 31, 2021, the United States and European Union (EU) announced a multifaceted agreement to address U.S. steel and aluminum tariffs on EU exports, imposed by the Trump Administration under Section 232, and EU retaliatory tariffs on certain U.S. exports. The deal establishes a new tariff rate quota (TRQ) to replace original Section 232 tariffs. It also creates a new forum to strengthen U.S.-EU cooperation to address global overcapacity, ensure market-oriented conditions, and reduce carbon intensity in these industries. In addressing the tariffs, President Biden sought to decrease trade tensions with allies, build partnerships to tackle global issues, and protect U.S. jobs and industry from unfair competition, stemming from China's excess capacity and industrial policies.

Steel and Aluminum Exports and Tariffs

Effective March 23, 2018, President Trump applied 25% and 10% tariffs, respectively, on certain steel and aluminum imports, under Section 232 of the Trade Expansion Act of 1962 (19 U.S.C. §1862). Although the United States negotiated various tariff exemptions with Brazil, South Korea, Argentina, Australia, Mexico, and Canada, it has fully maintained the tariffs on EU exports since June 1, 2018.

The new arrangement replaces the existing tariffs with a complex TRQ system. Effective January 1, 2022, the EU may export tariff-free 3.3 million tons of steel, 18 thousand metric tons (TMT) for unwrought aluminum, and 366 TMT for semi-finished (wrought) aluminum. Any exports above those levels will be subject to the higher tariff levels applied under Section 232. In addition to the overall quotas, each of the three TRQs are broken into subcategories (54 product categories for steel, two and 14 categories for unwrought and wrought aluminum), applied annually, administered quarterly for steel and semi-annually for aluminum, and are allocated on a member-state basis for the 27 EU countries. Under the deal, the United States will review and may adjust the TRQs annually.

The arrangement includes other conditions. Steel imports must be "melted and poured" in the EU so that non-EU countries cannot avoid tariffs by exporting through the EU. Derivative products from the EU, currently subject to tariffs under Section 232, will be exempt. The product exclusion process will remain in place, allowing U.S. importers to request tariff exclusions for certain products; such imports are not to count toward the TRQ limits, and the exclusions are not to expire until the end of 2023. The two-year time limit adds a level of uncertainty.

Congressional Research Service

https://crsreports.congress.gov

IN11799

As part of the agreement, the EU committed to suspending its retaliatory tariffs on a variety of U.S. exports, including American whisky and motorcycles, as of January 1, 2022. Additionally, the parties agreed to further cooperate on trade remedies and customs issues. This will allow officials to provide mutual assistance, monitor bilateral trade, and share information and best practices on topics like fraud detection.

WTO Disputes

The United States and EU agreed to suspend their disputes at the World Trade Organization (WTO) regarding these matters and not initiate new cases on them. The parties are now determining arbitration procedures to formally terminate the disputes. The United States, however, continues to face challenges against its Section 232 tariffs from some other WTO members, including Turkey, Switzerland, Russia, Norway, India, and China.

Addressing Global Overcapacity and Carbon Intensity

The arrangement focuses largely on U.S.-EU opportunities to collaborate to restore market-oriented conditions and reduce carbon emissions in the steel and aluminum sectors. The partners agreed to form a technical working group to discuss establishing a "Global Arrangement on Sustainable Steel and Aluminum," with a two-year target timeframe.

They plan to invite like-minded economies to participate in the arrangement to promote trade in carbon-friendly steel and aluminum. Compatible with international rules and obligations, members would restrict market access to nonparticipants who do not meet market-oriented conditions, contribute to excess capacity, or do not meet low-carbon intensity standards. The participants would be required to have domestic policies that support lowering carbon intensity and to ensure market-oriented conditions, including screening investment from nonmarket-oriented actors like China.

A goal of this new arrangement is to create a new global forum to tackle both overcapacity and greenhouse gas emissions. It is unclear if the United States and the EU consulted with other economies before making the joint announcement or how the parties might work with the OECD and Global Forum on Steel Excess Capacity.

Stakeholder Reaction

The reaction from steel and aluminum stakeholders is mixed.

The United Steelworkers voiced support for the interim arrangement, stating it would allow U.S. industries to remain competitive while addressing the nonmarket policies of China and others, but noted the need for strict monitoring and enforcement. The American Iron and Steel Institute expressed similar sentiments, adding that the U.S. industry has the lowest carbon-intensity steel of major steel-producing countries. The European Steel Association also welcomed the deal as a "new, transatlantic partnership tackling global trade distortions and climate change together."

The aluminum industry was not as clearly aligned. The American Primary Aluminum Association welcomed the agreement, while the Aluminum Association opposes the TRQ system, preferring joint enforcement against China.

Others view the U.S.-EU announcement as positive, but insufficient. The Coalition of American Metal Manufacturers and Users said the deal is "good news," but voiced concern that the TRQ does not fully eliminate the threat of tariffs if U.S. demand surges with new domestic infrastructure investment.

The National Foreign Trade Council sees the shift to TRQs as "an unwelcome form of managed trade," and the U.S. Chamber of Commerce advocated terminating all steel and aluminum tariffs and quotas on U.S. allies. One analyst pointed to the complexity of the TRQ system, calling it "just brutal for small and medium steel-consuming companies."

The New Democrats commended the deal and encouraged deals with other allies to remove tariffs. House Ways and Means Committee Ranking Member Brady expressed cautious support, voicing concern about the complexity of the TRQ system.

Outlook

The full impact of the deal will take time to emerge; it goes into effect in January 2022, and the new Global Arrangement may not be finalized for two years. Potential areas of congressional interest and oversight may include the impact of the tariff elimination and TRQ system on U.S. industry and bilateral trade, the joint efforts to tackle China-driven global overcapacity, and the Biden Administration's announced consultations with Japan and the United Kingdom on the tariffs.

Author Information

Rachel F. Fefer
Analyst in International Trade and Finance

Disclaimer