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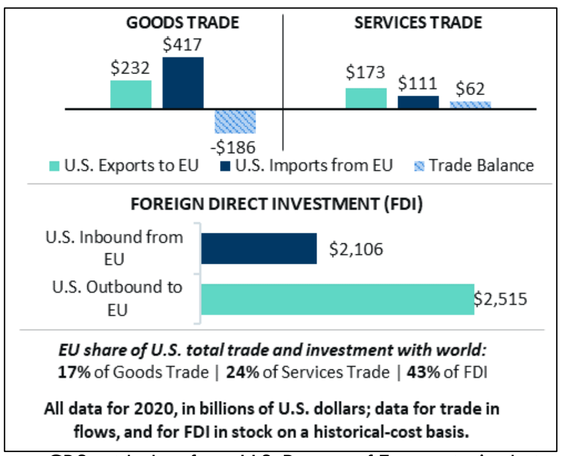
U.S.-EU Trade and Economic Relations

The United States and the European Union (EU) have a highly integrated economic relationship. They remain each other's largest overall trade and investment partners (see **Figure 1**), despite the economic challenges posed by the Coronavirus Disease 2019 (COVID-19) pandemic, the United Kingdom's withdrawal from the EU in 2020, and China's growing role as a trading partner for each. Over the years, the United States and the EU have sought to further liberalize their trade and investment ties, enhance regulatory cooperation, and work together on global issues, including through the World Trade Organization (WTO).

Figure 1. U.S. Trade and Investment with the EU



Source: CRS, with data from U.S. Bureau of Economic Analysis.

Selected Developments

U.S. and EU trade policies are largely aligned on many fronts, but frictions emerge periodically on specific issues. Many observers agreed that bilateral trade relations were especially fraught during the Trump Administration. The Biden Administration has pledged "to repair and revitalize the U.S.-EU partnership." Recent developments include efforts to resolve certain bilateral trade irritants and to address pressing global issues of shared concern, but some trade frictions persist and new ones have emerged.

Bilateral Trade Issues. The partners recently tackled some key bilateral trade frictions. In June 2021, the United States and the EU reached an understanding on a cooperative framework to address their 17-year dispute in the WTO over subsidies, respectively, to Boeing and Airbus. They agreed to suspend dispute-related tariffs while seeking a more durable solution, and to cooperate on related challenges posed by nonmarket economies (e.g., China).

In October 2021, they reached a deal to replace U.S. tariffs on steel and aluminum imports from the EU—originally imposed by the Trump Administration under Section 232 of the Trade Expansion Act of 1962—with a tariff-rate quota system, effective in January 2022. In exchange, the EU agreed to lift retaliatory tariffs on imports from the United States, including on U.S. exports of whiskey and motorcycles. The partners further agreed to suspend their related WTO disputes, and to work together to address joint concerns about steel and aluminum global overcapacity and related greenhouse gas emissions.

The United States and the EU also have worked to reduce tensions over some EU members' measures and the EU's proposal to tax revenues that certain companies generate from providing digital services—Digital Services Taxes (DSTs). In October 2021, the United States reached "political agreement" with Austria, France, Italy, and Spain on a transitional approach to these countries' DSTs, while implementing a new global tax framework under the Organisation for Economic Co-operation (OECD)/Group of Twenty (G-20). Expected to come into effect in 2023, the framework aims to address digital economy taxation issues and update the global tax system. Countries would need to take domestic procedures to implement it. Per the political agreements, the Biden Administration cancelled additional, suspended duties on certain goods of these countries; it previously had suspended the duties, including to allow for the OECD/G-20 negotiations to finish. The duties stemmed from investigations initiated under Section 301 of the Trade Act of 1974 by the Trump Administration, which concluded that the DSTs discriminate unfairly against U.S. firms and are inconsistent with prevailing international tax policy principles. The Biden Administration ceased earlier a Section 301 investigation of the EU's proposed DST, as the EU had not implemented it.

While many U.S. and EU trade watchers welcomed these actions to address trade irritants and shift to a "positive" agenda, some stakeholders voiced concerns with aspects of the measures, such as the length of their implementation periods and the potential economic consequences.

Ongoing and Emerging Issues. Other policy issues feature in U.S.-EU trade ties. For example, the Biden Administration has prioritized reaching a successor accord to the U.S.-EU Privacy Shield agreement for cross-border commercial data flows. The EU's top court invalidated the agreement in 2020, largely due to concerns about U.S. government surveillance practices, which has created legal uncertainty for U.S. and EU firms. Negotiations on a successor accord are ongoing. Some U.S. stakeholders also express concerns that the EU's proposed digital competition rules unfairly target large U.S. technology firms.

U.S. policymakers also may closely monitor the EU's proposals for a new carbon border adjustment mechanism (CBAM), and for a new anti-coercion instrument (ACI) in EU trade policy to allow the EU to deter other countries from pursuing trade or investment measures against the EU, including by the EU imposing trade, investment, or other restrictions to the EU market. These proposals may pose questions about EU market openness.

Meanwhile, some in the EU are wary of U.S. efforts to strengthen "Buy American" public procurement rules. A longtime EU priority is to gain further access to U.S. sub-federal public procurement markets. The EU also has voiced concerns that a proposed U.S. tax credit for electric vehicles made domestically and/or with domestic content would discriminate against EU automakers; some other U.S. trading partners have raised similar concerns.

Differences also persist over EU regulatory measures to limit certain practices in agricultural production, as well as uncertainty of and delays in the EU approval process related to the use of agricultural biotechnology. Other frictions include the treatment of geographical indications or certain EU-protected names for food, wine, and spirits that many U.S. producers view as generic names.

New Modes of Bilateral Cooperation. In June 2021, the partners launched a bilateral Trade and Technology Council (TTC) to promote U.S.-EU prosperity and competitiveness. At the inaugural TTC ministerial meeting in September 2021, they established 10 working groups (see **text box**) to further coordination and cooperation, best practices, technical consultations, information exchange, and outreach. The TTC may be a forum for discussing not only bilateral trade issues but also global trade challenges of shared concern, including those posed by China's state-led model and trade practices. The partners also launched a U.S.-EU Technology Competition Policy Dialogue. Other modes of trade engagement, including the Transatlantic Legislators Dialogue (TLD), remain active.

TTC Working Groups

1. Technology Standards
2. Climate and Clean Technology
3. Secure Supply Chains
4. Information and Communications Technology and Services Security and Competitiveness
5. Data Governance and Technology Platforms
6. Misuse of Technology Threatening Security and Human Rights
7. Export Controls
8. Investment Screening
9. Promoting Small- and Medium-Sized Enterprises Access to and Use of Digital Tools
10. Global Trade Challenges (e.g., non-market economies)

Source: The White House, U.S.-EU Trade and Technology Council Inaugural Joint Statement, September 29, 2021.

Potential for Trade Agreement Negotiations. The United States and the EU trade on WTO most-favored-nation (MFN) terms, because there is no U.S.-EU free trade agreement (FTA) granting more preferential terms. While U.S. and EU markets are relatively open, certain tariff and nontariff barriers constrain trade and have been the focus of periodic U.S.-EU trade agreement negotiations.

The Trump Administration led the most recent efforts, formally notifying Congress in October 2018 of its intent to negotiate a trade agreement with the EU under the 2015 Trade Promotion Authority (TPA, now expired). The talks—which many saw as an attempt to defuse escalating trade tensions—stalled over differing U.S. and EU views on scope, particularly the exclusion of agriculture. Looming over the talks were the Trump Administration's threats to impose new tariffs on the EU; the EU's wariness of undertaking broad negotiations due to the United States and the EU not concluding a Transatlantic Trade and Investment Partnership (T-TIP) in the mid-2010s, despite multiple rounds of negotiations; and longtime differences on some trade issues. During the Trump Administration, the United States and the EU did not reach a comprehensive trade agreement, but they secured limited market-opening commitments in agriculture and regulatory cooperation.

The Biden Administration has not indicated any plans to revive broader trade liberalization negotiations with the EU. Legislators on both sides of the Atlantic have periodically voiced support for pursing such efforts. A potential U.S.-EU FTA could help bolster the competitiveness in the EU market of U.S. businesses—currently at a disadvantage relative to trading partners such as Canada, Japan, and the UK, with whom the EU has concluded trade agreements in recent years. A number of prior studies have estimated that, depending on its scope and level of commitments, a potential U.S.-EU FTA could have overall positive effects on the U.S. economy, but that its benefits and costs may vary across different industries and workers.

WTO and Cooperation on Global Trade Issues. Post-World War II, the United States and the EU led in trade liberalization and the development of the rules-based international trading system underpinned by the WTO. The Trump Administration's skepticism of the WTO and threats to flout WTO rules deeply concerned EU officials. During the Biden Administration, the partners have pledged to "uphold and reform" the rules-based multilateral trading system. An ongoing issue is the continued U.S. practice of blocking new appointments to the WTO appellate body, due to concerns about the WTO dispute settlement process.

The United States and the EU are cooperating on global trade issues in the WTO and other venues (e.g., a trilateral working group with Japan). Among key issues are the challenges posed by nonmarket economies on global overcapacity, subsidies, state-owned enterprises, forced technology transfer, and global supply chains. Other issues include the WTO trade response to COVID-19, with debate ongoing on approaches to IPR obligations and flexibilities in WTO rules to support global production and distribution of vaccines and other COVID-19-related products. Some observers also expect closer U.S.-EU engagement on trade-related environmental and worker rights issues.

Issues for Congress

U.S.-EU trade concerns before Congress may include:

- What bilateral trade issues should the United States prioritize to address with the EU?
- How do U.S. and EU positions and approaches align and diverge on addressing global trade challenges?
- What roles might forums such as the TTC and TLD play in U.S. and EU engagement on trade issues?
- What are the prospects for, and the potential economic impact of, further liberalization of U.S.-EU trade?
- Are additional or modified trade authorities needed to support U.S. trade policy goals with respect to the EU?

For more information, see CRS In Focus IF10930, *U.S.-EU Trade and Investment Ties: Magnitude and Scope*.

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