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EU Eyes \$4 Billion Tariff Strike to Take Trade Fight to Trump

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The European Union is weighing an aggressive new approach to its trade dispute with the U.S., signaling a willingness to engage in the combative tactics embraced by President Donald Trump and risking a further deterioration in transatlantic relations.

The EU is considering imposing tariffs on more than \$4 billion of U.S. exports, citing as justification a 22-year-old World Trade Organization dispute over prohibited subsidies, according to people familiar with the strategy. This is despite the fact that the two sides reached a “mutually acceptable solution” to the claim in 2006.

The tariffs would ostensibly be to retaliate against duties the U.S. is poised to impose on as much as \$7 billion of EU exports because of illegal aid the bloc provided Airbus SE, said the people, who asked not to be identified because the plans are private. A decision on using the strategy hasn't been agreed and at least one EU member state has pushed back against the idea, according to one of the people.

“If the EU goes forward with this, it will be yet another blow to WTO rules that were intended to prevent tit-for-tat escalation of tariff retaliation,” said Edward Alden, a senior fellow at the New York-based Council on Foreign Relations.

“This dispute was properly resolved more than a decade ago,” he said. “To dig it up now as a pretext for immediate retaliation against the U.S. further undermines the system for adjudicating disputes.”

Until now, the EU has vowed to wait to respond to the expected U.S. tariffs over aid to Airbus until the Geneva-based WTO fixes the level of countermeasures that the bloc can take in a related, nearly 15-year-old WTO case over illegal subsidies to Airbus' chief competitor, Chicago-based Boeing Co.

Escalation

If deployed, the EU's move would mark a dramatic escalation between the two regions, and would pile onto another series of tariffs they've already levied on one another. The U.S. is also mulling whether to go ahead with auto tariffs in an effort to reset trade relations with the EU, which Trump has called "worse than China, just smaller."

The U.S. fired the first salvo in the conflict, hitting European exports of steel and aluminum with tariffs last year, saying they posed a national-security threat. This justification was roundly dismissed by the EU, which is a fellow member of the North Atlantic Treaty Organization, and which the bloc's chief trade negotiator, Cecilia Malmstrom, characterized as "ridiculous."

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While the EU is expected to also gain WTO authorization to retaliate against American goods in response to prohibited U.S. subsidies for Boeing, the WTO's authorization for those tariffs won't come until the first half of 2020. That's one reason the EU looked to old cases to see if there was a more immediate cause to retaliate, according to the people.

An EU decision to use the old WTO ruling against the U.S. to retaliate sooner would be meant to press Washington to seek a negotiated settlement over aircraft aid. Officials in Brussels made proposals for a settlement over the summer to the Trump administration without winning it over.

Pushing Boundaries

In 2002, the Geneva-based WTO said the U.S. tax scheme provided U.S. exporters with an unfair advantage over their European competitors. The WTO then authorized the EU to retaliate against \$4 billion worth of American exports per year until the U.S. complied with the ruling.

However, the matter was considered to be settled in 2006 when U.S. lawmakers repealed the illegal measures and the EU withdrew its retaliatory tariffs against the U.S.

Though the U.S. could challenge the legality of the EU's move, a final dispute ruling could take several years and the WTO may never fully resolve the matter if the U.S. continues to block nominations to the WTO appellate body beyond Dec. 10.

"Imposing tariff retaliation in this way, based on another case from long ago, pushes the boundaries of what is permissible under WTO rules," Simon Lester, an associate director at the Washington-based Cato Institute, said in an interview.