



## U.S.-Europe Trade War Reerupts in London

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Relations between the United States and its oldest ally, France, were dealt a one-two punch Tuesday after U.S. President Donald Trump lambasted French President Emmanuel Macron for his “very, very nasty” comments about NATO only hours after the Trump administration threatened big tariffs on billions of dollars’ worth of prestige French exports.

And as ugly as the war of words over NATO was at the summit in London, the fight over trade could go on even longer, with Trump reacting harshly to Macron’s imposition of a digital services tax that will hit big U.S. tech firms like Google and Amazon.

The rising tension over the digital tax and U.S. tariffs reflects a fundamental disagreement over how to deal with the multinational digital giants, most of which are American, and could easily spread to other European countries. Like France, many other countries are considering similar fixes to a glaring loophole in the international tax code that allows digital “products” to go untaxed and has defied any sort of consensus solution for years. The United States singled out Italy, Austria, and Turkey as potentially the next victims of U.S. tariffs.

“It may be that the administration is thinking, ‘We need to pressure France to make sure the others don’t follow along,’” said Simon Lester, a trade expert at the Cato Institute.

The new acrimony also comes as Trump seems to have rediscovered his love of tariffs after briefly hitting the pause button on his many trade wars. On Monday, the World Trade Organization (WTO) gave the United States approval to slap tariffs on billions of dollars more in European goods due to continued European state support for Airbus. Also on Monday, Trump turned on Brazil and Argentina, announcing tariffs on their steel exports due to alleged currency manipulation, catching government officials in both countries off guard and scrambling to placate Washington. On Tuesday, Trump said he’s in no hurry to finalize a tiny trade deal with China (which would mean lifting some tariffs), which sent stock markets plunging.

“It’s just the status quo of Trump using tariffs for various purposes—whether to raise revenue or to gain negotiating leverage or to get other countries to change their policies,” Lester said. “It’s just more of the same.”

Trump later dismissed the fight over the “Google tax” as a minor disagreement, but relations between Washington, Paris, and Brussels are already strained. French Economy Minister Bruno Le Maire took aim at the latest Trump tariff threat, saying, “It’s not worthy of an ally, and it’s

not the behavior we expect from the U.S. toward one of its main allies,” while also warning that Europe would retaliate. That would further escalate a trade war between the United States and Europe that has already included U.S. duties on European steel, European countermeasures, and an ongoing fight over state support for the aerospace giants Boeing and Airbus that has led to tit-for-tat tariffs on billions more goods. The French Economy and Finance Ministry said it wants to see a global solution to the digital tax question but in the meantime is working with the European Commission to prepare responses to U.S. tariffs.

Trump’s latest escalation of trade tensions comes at a critical time for the global economy—and for the international order that has propped up global trade in recent decades. Trade wars between the United States, China, and Europe have chilled global investment and driven forecasters like the Organization for Economic Cooperation and Development to trim global growth forecasts to their lowest level since the financial crisis a decade ago, while red lights are blinking in the U.S. manufacturing sector. Meanwhile, the organization in charge of regulating the rules of global trade is itself facing an existential threat: Due to U.S. obstruction, the WTO’s appeals system, which ultimately adjudicates trade fights between countries, will cease to function next week.

The Trump administration’s latest front in its trade battle with Europe is over France’s imposition of a digital tax on big tech firms (which are largely American) that make a lot of money overseas but pay little there in taxes. The Trump administration late Monday released the findings of its investigation into the French law and found that it is “unreasonable, discriminatory, and burdens U.S. commerce.” France argues that the law, which also affects European and Chinese firms, isn’t meant to target U.S. tech giants.

In response, the administration drew up a list of \$2.4 billion worth of high-end French exports—from Gruyere cheese to handbags to champagne—that could be hit with tariffs of up to 100 percent by early next year in retaliation.

It’s not clear the U.S. actions will make France think twice—let alone other countries. French officials insisted Tuesday that they will go ahead as planned with the digital tax despite U.S. threats, and other countries including the U.K., Turkey, Spain, Italy, and Canada all have plans to impose digital taxes or proposals to do so. But France might not be able to hold out alone against the might of the U.S. economy, despite early vows of resistance. And other countries will be watching.

French unilateral efforts to fix loopholes in global tax rules are adding fuel to the trans-Atlantic trade spat.

“Other countries are likely to think twice before moving ahead with their draft laws,” said Julien Nocetti, an associate fellow at the French Institute of International Relations. “If they see France withdraw its own project, they will surely backpedal.”

For other observers, Trump’s actions are losing their dissuasive powers. “There have been so many unilateral actions. No one is in the mood to back down,” Lester said.

For now, the U.S. threat of tariffs on France is not set in stone; the Trump administration could file a complaint against France at the soon-to-be-paralyzed WTO or even use the threat of tariffs to jump-start international talks on a global solution for how to tax digital companies with worldwide operations and little local tax exposure. Those talks have made a lot of progress, Nocetti said, so a global consensus is possible.

Remarkably, the trade fight with France isn't the only conflagration the Trump administration has started this week. Trump's out-of-the-blue tweet early Monday that he was applying tariffs "immediately" on Brazil and Argentina—ostensibly because they have driven down the value of their currencies to gain a trade advantage—sowed concern and confusion in Brasília and Buenos Aires. Brazil in particular has bent over backward to accommodate the Trump administration and seemed shocked to be targeted with punitive sanctions—especially when its currency floats freely and isn't subject to government meddling one way or the other.

Those aren't the only problems with those tariff threats (and it's still not clear, Trump's tweet notwithstanding, if they will actually be levied or not). The official justification for those tariffs on steel and aluminum, first broached in 2018, is concern about U.S. national security. National security concerns as a rule do not include the value of foreign countries' currencies.

Moreover, the window for using that national security argument for steel tariffs has already closed, as a U.S. trade court recently ruled. That's why many trade experts view even tariffs on Brazil and Argentina as illegal.

Regardless of the legality of the proposed tariffs, they also could create problems for other U.S. trade relations—like the ongoing talks with China to reach some sort of mini-deal that will stave off further tariff escalation between the world's two biggest economies. Trump's broadside against Brazil and Argentina is being watched by other countries that are trying to reach limited trade agreements with the United States, Lester said—and that kind of payback to pliant allies does not go unnoticed.

"There is a danger. I'm not sure how anyone can trust the Trump administration to stick to their agreements," he said.

Not that China and the United States were about to ink their "phase one" deal anytime soon. Trump on Tuesday reiterated that he could push back any such agreement—which just days ago was "millimeters away"—until after next year's election. That spells another full year of uncertainty for business, increased costs for U.S. firms and consumers who have to pay the tariffs, and shrinking export markets for U.S. farmers who've seen countries like Brazil and Argentina eat their lunch by selling to China. But for Trump, who famously proclaimed himself "Tariff Man," that's just business as usual.