



White House mulls new trade weapon for EU talks: 'Carousel' tariffs

Sean Higgins

February 9, 2020

The Trump administration is reportedly considering a novel source of leverage against the European Union in seeking a trade deal: "carousel" retaliation, meaning tariffs applied to a shifting set of products.

The practice is rarely used but considered particularly disruptive because it would create uncertainty across a range of industries that would have to cope with the prospect of tariffs.

"Anything that creates significant chaos and uncertainty can have a significant chilling effect on trade," said Jennifer Hillman, a senior fellow for trade and international political economy at the Council on Foreign Relations and a Georgetown University Law Center professor. "Particularly if there is little advanced notice because the tariffs will apply to goods on the water, so shipping anything from the EU to the U.S. becomes risky."

U.S. Trade Representative Robert Lighthizer is contemplating using the practice if talks between the United States and the EU fail to produce results, *Bloomberg* reported Friday. A senior USTR official told reporters in October that the administration had the authority to periodically revise the retaliatory targets and tariff rates.

The administration is embroiled in a fight with the EU over airline industry subsidies and has placed tariffs on \$7.5 billion worth of EU goods. The tariffs range from 10% to 25%, but following a World Trade Organization ruling in its favor, the U.S. may raise several as high as 100%. The WTO ruling says the U.S. may retaliate but, as is standard in such cases, leaves the specific method to America's discretion.

Carousel retaliation has rarely been used by any country and never before by the U.S., though the Clinton administration did consider using it during a dispute with Europe in 1998 over beef imports. Mexico employed it against the U.S. a decade ago during a trucking dispute. But the number of cases are so few that trade policy experts contacted by the *Washington Examiner* said the idea still existed more in the realm of theory than practice.

"I don't think they've actually been applied often enough to draw a conclusion about their effectiveness," said Bill Reinsch, the Scholl Chair in International Business for the Center for Strategic and International Studies. "They do manage to annoy business because they increase uncertainty and expand the universe of parties that are hurt."

Derek Scissors, senior fellow at the American Enterprise Institute, said the carousel practice is allowed under WTO rulings such as the U.S.-EU airline one. "You are permitted to punish the offending country and don't want the tariff burden falling on a single group of your importers, so you rotate what goods and services face the tariffs," he said.

Simon Lester, a senior fellow at the Cato Institute, was less certain of the practice's legality but said there was little to prevent the Trump administration from trying it. "There were questions about WTO legality, but it was never litigated," Lester said.

Hillman said carousel retaliation would most likely involve the White House simply announcing the latest tariffs rates. The items and the rates would be at the president's discretion.

The idea has apparently contemplated by the White House in other trade fights too. The administration considered carousel retaliation against Beijing last year, according to the *New York Times*.

A White House official referred questions to the USTR. A spokesperson for the agency could not be reached for comment.