

FINANCIAL TRIBUNE

European Trade Backlash to Hit \$3.5b of US Products

March 7, 2018

The European Union intends to target €2.8 billion (\$3.5 billion) of US goods ranging from T-shirts to motorcycles should President Donald Trump go ahead with his plan to impose a 25% tariff on foreign steel.

The EU aims to apply a tit-for-tat levy on a range of consumer, agricultural and steel goods imported from the US, according to a list drawn up by the European Commission and obtained by Bloomberg News. The commission, the EU's executive arm, discussed the measures with representatives of the bloc's governments at a meeting on Monday evening in Brussels.

The EU's retaliatory list targets imports from the US of shirts, jeans, cosmetics, other consumer goods, motorbikes and pleasure boats worth around €1 billion; orange juice, corn and other agricultural products totaling €951 million; and steel and other industrial products valued at €854 million.

Trump's vow to curb US imports of foreign steel has sparked opposition within his Republican Party and is based on a national-security argument that the EU dismisses. The White House threat risks provoking retaliation across the globe and a slew of complaints to the World Trade Organization, which has never ruled on a dispute involving trade restrictions justified on national-security grounds.

Growing Concerns

Europe has expressed growing concerns about Trump's protectionist stance on international trade. The list of US goods on which the EU intends to apply its own 25% tariff sends a political message to Washington about the potential domestic economic costs of making good on the president's threat.

Paul Ryan, Republican speaker of the House of Representatives, comes from the same state—Wisconsin—where motorbike maker Harley-Davidson Inc. is based. Earlier this week, Ryan said he was “extremely worried about the consequences of a trade war” and urged Trump to drop his steel-tariff plan.

European Commission President Jean-Claude Juncker and his leadership team are due to discuss the retaliation proposal at a meeting on Wednesday. The commission is also weighing filing a complaint to the WTO against the US and introducing “safeguard” measures to prevent steel shipments from other parts of the world to America from being diverted to the European market and flooding it.

Cecilia Malmstrom, the EU’s trade commissioner, has insisted that the planned retaliatory measures would be “completely legal” and told the BBC on Monday that the EU would “calibrate” its response in accordance with WTO rules.

Both the US invocation of national security and the EU’s rejection of Washington’s argument would be rare maneuvers in WTO history and be a test of the trade arbiter’s ability to resolve disputes between its largest members.

Adding to Price Pressures

Goldman Sachs Group Inc. delivered a comprehensive critique of Trump’s planned metal tariffs, saying they risk damaging the world’s biggest economy by raising costs just as price pressures build, hurting allies more than others, and creating a two-tier global market.

“Import tariffs make the US less competitive by raising the prices of raw materials,” the New York-based bank said in a report received on Tuesday. It added: “By imposing across-the-board tariffs to all steel and aluminum imports, the larger economic impact is on Canada, Mexico and the EU, and it ironically eases the economic impact to China and Russia.”

Trump’s plan has ignited a firestorm of opposition, with criticism from around the globe, senior members of his own party, and top manufacturers including Ford Motor Co. As Goldman weighed in, BHP Billiton Ltd. delivered its own assessment, with the world’s biggest miner describing Trump’s move as a “black day for the world.” Goldman’s report came as White House economic adviser Gary Cohn is summoning executives from US metals users to meet with the president on Thursday to fight the curbs.

Edward Alden, a senior fellow at the Council on Foreign Relations in Washington, said that by stretching the rules the EU move could undermine the WTO and exacerbate a trade war. “This is just a hair’s breadth away from a no-rules trade war,” he said.

Simon Lester, an expert on WTO law at the libertarian Cato Institute, said there was also a risk that the EU could set a precedent akin to the one it was accusing the US of making by using a rarely used national security loophole in global trade rules.