



## Germany Willing to Talk Cutting Car Tariffs After Trump's Carrot-and-Stick Negotiation

Petr Svab

July 6, 2018

German Chancellor Angela Merkel said on Thursday she would back a lowering of EU tariffs on U.S. car imports, responding to an offer from Washington to abandon threats of levies on European cars in return for concessions.

Merkel said, however, the European Union would need to cut tariffs on cars imported from countries other than the United States too, otherwise the plan would not conform to World Trade Organization (WTO) rules.

“When we want to negotiate tariffs, on cars for example, we need a common European position and we are still working on it,” Merkel said. “I would be ready to support negotiations on reducing tariffs but we would not be able to do this only with the U.S.”

President Donald Trump threatened a 20 percent tariff on European cars last month, pointing to an imbalance in trade barriers.

The EU charges 10 percent duty on American cars, while the United States levies 2.5 percent on European cars.

On the other hand, the United States levies 25 percent on trucks, while the EU charges 10 percent or 22 percent, depending on tonnage and engine capacity.

The United States imposed the truck tariff in the 1960s to punish Europe for a tariff on American chicken. It eventually forced foreign truck manufacturers to build up production in the United States, according to libertarian Cato Institute's Dan Ikenson.

Still, the EU imposes greater barriers on free trade in general than the United States, according to the Ifo Institute, a Munich-based think tank, which puts the average EU customs duty at 5.2 percent and the United States' duty at 3.5 percent.

“The EU is by no means the paradise for free traders that it likes to think,” said Gabriel Felbermayr, director of the ifo Center for International Economics, Handelsblatt reported.

This gives Trump a stick to wield. But he offers a carrot, too.

On Wednesday, U.S. Ambassador to Germany Richard Grenell met with chief executives of Daimler, Volkswagen, and BMW to offer a deal that would nix all U.S. and EU auto tariffs. The condition would be for the car makers to invest and create jobs in the United States, industry sources told Handelsblatt.

The CEOs were reportedly positive towards the proposal—after all, Germans export half a million cars a year to the United States—but, as Merkel said, WTO rules would push the EU to extend the same tariff-free conditions to other countries as well, and it may be less than enthused to further open its market to automakers of Japan, South Korea, and China.

There are some creative ways to cut through the WTO rules, like a multilateral agreement with the consent of WTO members. European Commission President Jean-Claude Juncker plans to meet Trump at the end of July and discuss the trade issues, including car trade. It remains to be seen how far the United States and the EU are willing to go secure their interests.