EU – US: Towards renewed transatlantic cooperation?

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The trade relationship between the EU and the US appears to be improving under the Biden administration, but several potential conflicts remain, such as the taxation of big tech and fossil energy, and tariffs on steel and aluminum.

While the threat of new tariffs has decreased, further transatlantic trade liberalization is not in the cards just yet. The EU's protectionist agricultural policies and Biden's 'Buy American' strategy are likely to stand in the way.

Airbus – Boeing ceasefire

On 5 March the EU and US issued a joint statement in which they said to suspend tariffs in the Airbus-Boeing dispute for four months. Although they have not yet found a common solution, they want to reduce the burden on their companies and workers, as they continue to negotiate on how to solve the matter. In their joint statement they mentioned that:

“Key elements of a negotiated solution will include disciplines on future support in this sector, outstanding support measures, monitoring and enforcement, and addressing the trade distortive practices of and challenges posed by new entrants to the sector from non-market economies, such as China”.

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Hence it seems that the objective is not to scrap subsidies altogether but to agree on the kind of support that should be allowed, particularly, to not hurt each other while maintaining their – still large – competitive edge over state-subsidized manufacturers from China. Arguably, therefore, this agreement is not only the first step towards finding a common solution for the long-running Aircraft dispute, it also seems to be a step towards forming a united front against unfair trade practices by China as a result of state subsidies.

The agreement, underscores the previously expected improved outlook for transatlantic and multilateral cooperation under the Biden administration and follows several other recent events:

1. In an opening move, on 7 January, the US withdrew its threat to impose tariffs on imports from France – and others – to retaliate against the latter’s digital services’ tax;
2. On 27 January, the EU offered to lift tariffs on EUR3.5bn of US goods, IF the US would remove its duties on metals; so far this hasn’t materialized however
3. On 19 February, the US rejoined the Paris Climate Agreement and on 9 March, John Kerry, the US Special Presidential Envoy for Climate, visited Brussels to talk about transatlantic cooperation on climate change. Whereas Trump effectively denied the need to take action and withdrew the US from the Paris Agreement, Biden has made it one of its top priorities. Although it is far from certain that his plans for USD 2 trillion of investments in greening the economy will be approved by Congress, at least the change of stance improves the scope for transatlantic cooperation on the matter. It might also lower the risk that the EU’s intended carbon border adjustment tax will cause frictions between the EU and US. More specifically, if the US actually invests in lowering its carbon emissions at production sites in line with the EU, there should be less so-called carbon leakage to the US and unfair competition in this respect stemming from US manufactured products imported into the EU;
4. On 19 February, Biden stated that the US remains committed to NATO and would act if a NATO member is attacked. Former president Trump had stoked fears the US may reduce support to NATO, lashing out against EU countries time and again over low defense spending;
5. On 15 February the US backed the appointment of Ngozi Okonjo-Iweala as the new Director-General of the WTO. The support came after a three-month stalemate as the Trump administration had vetoed her appointment before.

Direct economic impact of ending Airbus-Boeing tariffs

Following a WTO ruling that Airbus had received illegal subsidies in October 2019, the US raised tariffs on USD 7.5 billion EU products (1.5% of US imports from the EU27+UK). Products ranged from Airbus jets and parts to German industrial products and agricultural products such as Spanish oil, French and Spanish wines and Italian cheeses. Even though specific manufacturers and agri producers could benefit from a freeze in these tariffs – and more from a permanent solution – the overall direct macro-economic impact will be small. Tariffs in the US only concerned 1.5% of total imports from the EU and in the EU only 1.2% of imports from the US (less than USD 4 billion).

Other tangible signs of restoring the transatlantic cooperation remain fairly limited at this point as well, but these kind of steps can still have a positive impact, by lessening uncertainty for businesses, if only because the risk of new US tariff hikes has declined with the new Biden administration. Especially European car manufacturers should be relieved that the explicit threat of tariff hikes in the US seems to have disappeared.
No ride in the park

But make no mistake, the recent Airbus-Boeing ceasefire and other developments don’t mean the EU and US are suddenly on the same page about everything. The EU has the desire to cooperate more with the US on certain global issues such as unfair trade practices by China and setting global standards, but it also aims for more strategic autonomy. The latter means that, if necessary, it will act without the support of the US if it deems that such a decision better suits its own objectives, even if that would cause frictions with the US. A recent example of going it alone is the principle Comprehensive Agreement on Investment (CAI) the EU signed with China. That agreement has been opposed by the US. The EU's revamped industry policy, with more focus on state/ EU support for strategic sectors such as batteries, cloud services and chips is another example. Not all its actions in this respect need to upset the US, but some certainly could.

There is also still unease in the US about Nord Stream 2, low EU defense spending, and the EU's broader tech policy, including its objective to make big tech pay taxation where it earns its profits (see below), for example. Moreover, if the carbon border adjustment mechanism the EU plans to introduce by 2024 to prevent carbon leakage, would hurt US companies’ interests, this will likely cause new frictions and retaliatory measures by the US. This would be more likely should Biden prove unable to pass his multitrillion infrastructure investment package to green the economy. With there being much less consensus in the US than in the EU to act on climate change, such passage is far from assured.

At the same time, on the side of the EU there is still unease about the higher tariffs Trump imposed on Steel and Aluminum, that Biden so far has been unwilling to lift. Also ongoing blockage of appointing nominees for the appellate body of the WTO by the US has not gone down well in the EU. That said, the EU agrees with the US that the body should be reformed, which, at least, might pave the way for negotiations on the matter in future.

Digital services tax

The EU has a long-cherished wish to adapt global tax rules, to align them with the ever growing digital economy. In other words, the EU wants to tax big tech income generated at its soil. Talks to reform the global tax regime are being led by the OECD and it basically comes down to a discussion on a global minimum tax and profit base shifting, i.e. where to tax income of firms providing digital services. Talks collapsed at the end of last year, as the Trump administration withdrew from the negotiation table. Under Biden the US seems to rejoin again. In any case, at the G20 meeting on 26 February, US Treasury Secretary Janet Yellen told her counterparts the US will no longer opt for its big tech firms to be waived from new – still to be agreed upon – global digital tax rules. Such a proposal was introduced by the Trump administration and strongly opposed by the EU. Hence, if the US lives up to Yellen's comments, a solution on a minimum global tax might be something that that can find common ground. However, that is not the same as an agreement on taxing profits of big tech companies where they are earned, which is what the EU is aiming for. Due to the unbalanced flow of such products and services, such an agreement would almost certainly imply higher taxes for US big tech in the EU. As such the US would likely require concessions from the EU on other fronts to prevent US firms from being disproportionally hit and such tax income to disproportionally shift from the US to the EU.

As long as OECD talks are ongoing the EU might chose not to implement a digital services tax on its own. But if there is no global solution forthcoming, the EU intends to implement a unilateral digital services tax by January 2023 at the latest. Indeed, several member states have already introduced such a tax by themselves. The EU tax is part of the projected higher ‘own revenue sources’ of the EU, needed to pay interest payments and/or
redemptions related to the EUR 750bn Next Generation EU. Should the EU press ahead with its 'strategic autonomy' on this front, we would expect this not to go down well in Washington.

**No further trade liberalization**

Finally, even though the transatlantic relationship between the EU and US seems to be improving, at the current state of affairs we do not expect trade between the two to be substantially liberalized going forward. In other words, a revamp of the TTIP, is not in the cards. For starters, the EU is unlikely to weaken its barriers to agricultural imports much, both because of strong lobbies in multiple member states on economic grounds and because of ideological differences relating to consumer health and genetically modified organisms, for example. Meanwhile, Biden’s ‘Buy American’ strategy does not seem to match well with lower barriers to imports and broadened scope for foreign firms in public procurements - which might also explain why Trump’s steel and aluminum tariffs are still intact. While Biden’s flurry of executive orders in the first days of his presidency were mostly aimed at reversing the policies of his predecessor, the ‘Buy American’ order looked awfully similar to a Trump action. The order appears to be part of a more general strategy to ‘reshore’ production, including what is needed for the new infrastructure plan. The Democrats want to get back the white blue collar workers who shifted to the Republican Party in 2016. Bringing back manufacturing jobs to the US therefore has a high priority. Being seen as soft on trade is not going to help and will immediately be exploited by the Republicans in the 2022 midterm elections.

**To conclude**

To conclude, under Biden the transatlantic relationship seems to be improving. This helps to reach common goals and reduce trade uncertainties among businesses and financial market participants. But certain struggles and irritations will remain and the EU will pursue its path of becoming more assertive and autonomous – it will try at least –, while there will remain a strong focus in the US to benefit domestic producers and firms. Meanwhile, we would also argue that the new state of affairs is fragile and still very much open to future changes in US domestic policy (see the green deal for example) but also to any pressures from abroad (such as from the likes of China). As such, we believe that further transatlantic trade liberalization is not in the cards just yet.

![Figure 1: Search behavior on Google shows a revamp of TTIP is basically on nobody’s mind](source: Google trends, RaboResearch)

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1 Although we should bear in mind that the EU’s striving for more strategic autonomy was arguably given impetus by the behaviour of the previous US administration and given that things are not set in stone yet, the behaviour of the new US administration could still have influence over the EU’s future policy choices.
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