

## Dealing with Trump on Trade

15. May 2018 by [Ferdinand De Ville](#)

'We will see' is one of the favourite lines of television host turned US President Donald Trump. He thinks cliff-hangers are a great policy tool. It adds to his reputation of being unpredictable, a characteristic he considers an asset in world politics.

Earlier this month Trump responded for the second time to the question if the EU would be hit by tariffs of 25% and 10% on steel and aluminium respectively, a measure he first announced on 1<sup>st</sup> March 2018, with 'we will see.' The application of these tariffs to the EU has been postponed for another month until 1<sup>st</sup> June. Trump hopes in the meantime that in exchange for granting the European Union a permanent exclusion from these tariffs, he can elicit concessions from the EU that result in a reduction of the US's overall trade deficit, his central objective in this policy domain.

### When he goes low, we go high

Increasingly, Trump is causing headaches for EU trade policy makers. Once the initial shock of his election had passed, the EU started to see in Trump an opportunity for its own trade policies. The United States' turn towards protectionism allowed the EU to present itself as the guardian of an open, rules-based global economy. By sending the signal to third countries that the EU is willing to cement open trade through trade agreements, it has been able to accelerate its bilateral trade agenda. In recent weeks this has allowed the European Commission's trade team to announce the successful conclusion of several negotiations on its Disney-gif-drenched twitter page.

Initially, the EU's response to Trump's trade policy was thus convenient and even self-congratulatory. The Commission seemed to have adopted Michelle Obama's motto from the US Presidential campaign two years ago: 'when he goes low, we go high'. While Trump withdraws the US from the Trans-Pacific Partnership and threatens to blow up the North American Free Trade Agreement, we, the EU, conclude negotiations with Japan, start negotiations with New Zealand and Australia, modernise our agreement with Mexico, et cetera.

Now that the EU itself has come in the cross hairs of Trump's trade policy, finding the right response is trickier. There are no easy solutions this time. Every option has its downsides.

### Five unattractive response options

A first possibility for the EU is to react with 'force'. In that case, the EU would not accept Trump's justification of these tariffs as being necessary to protect 'national security', but would consider them as unjustified safeguard measures. This would give the EU as it were the right to retaliate by imposing tariffs on a significant sum of American imports. The EU has already prepared a list with products on which it would apply such retaliatory tariffs. They include products (some of them truly iconic) that are mostly produced in some swing states in

the US where midterm elections are held in the fall, such as bourbon from Kentucky, Harley Davidsons from Wisconsin, orange juice from Florida or corn from Iowa. The hope is that this would put pressure on Trump to decide not to apply the steel and aluminium tariffs to the EU. This position is supported by those who favour a tough response to Trump's tariffs, including some in the European Commission. However, opponents of this route argue that the EU is on shaky legal ground here and actually implementing retaliatory measures would challenge its affiliation to the World Trade Organisation (WTO). Some also argue that it goes against the EU's economic interests.

A second option is to respond by invoking international law. The EU could refrain from imposing retaliatory measures unilaterally in reaction to Trump's tariffs. Instead, it could launch a dispute at the WTO, arguing that the US' tariffs contravene international trade law. This has the advantage of being in line with the EU's belief in multilateralism. But it has the downside that until a ruling at the WTO has been made (and this takes over a year) EU steel and aluminium exporters would be hurt by the tariffs. Moreover, while this option seems at first sight to strengthen the multilateral system, it could eventually backfire and undermine the WTO. Maybe the EU could only lose such a dispute. If the WTO dispute settlement body rules in its favour, this could lead Trump to argue that apparently unworldly international judges think they can judge better on the US national security than its Commander-in-Chief. This may give him an excuse to withdraw the US from the WTO, something he has alluded to repeatedly in the past. But if the WTO dispute settlement body were to refrain from turning down Trump's tariffs, this could open the door for other countries to impose protectionist measures as well under the guise of 'national security' concerns. Therefore, some argue, it would be better for the EU to retaliate unilaterally. Then let the US launch a complaint and argue that the EU's counter-tariffs are WTO incompatible. That would at least have the benefit that it would mean a *de facto* recognition by Trump of the WTO's legitimacy.

A third opportunity is to accept the US' offer of quotas instead of tariffs, like other countries such as Argentina and Korea have done recently. This would limit the amount of steel and aluminium the EU could export to the US, but in return these exports would not face tariffs. Quotas could seem more appealing than tariffs, especially if they are as high as or even exceed the export levels of recent years. Quotas have a very similar effect to tariffs of causing price increases because supply is reduced, but in case of quotas the price increase would flow to the European exporters, while under tariffs the surplus flows to the US Treasury. Moreover, the more other countries decide to accept quotas, the more the pressure would rise on the EU to follow their example, because if EU exporters would be the only ones hit by tariffs, they would face a significant competitive disadvantage on the American market. However, accepting quotas would send the signal that the EU thinks Trump has a legitimate case for restricting imports. Therefore, the Commission currently rejects this offer. But EU steel and aluminium exporters might begin to lobby for this, if the alternative is that they would be the only ones facing tariffs after all other countries have accepted quotas.

A fourth possibility is to *deal* with Trump, literally. The EU could pursue an agreement with the US that would result in a permanent exemption from the tariffs. A limited bilateral trade agreement (sometimes dubbed 'TTIP light') that would eliminate tariffs on trade in goods would respond to Trump's criticism that cars (the product with which Trump seems to be

obsessed) currently face higher tariffs in the EU than in the US. Germany's Economy Minister Peter Altmaier openly called for negotiations with the US on a tariff deal last week. But others, including Trade Commissioner Cecilia Malmström and French President Emmanuel Macron, argue that the EU should not negotiate with a gun put to its head. This would give Trump the signal that his approach of negotiating-by-blackmail works. Moreover, concluding a tariff-only agreement with the US would be unattractive for other reasons. The EU has less to gain with such an agreement than the US. It is more interested in gaining better access to the US' public procurement and services markets, especially at the sub-federal level. By concluding a tariff-only agreement, it would give away an important bargaining chip for securing American concessions in these areas. Therefore, France and other Member States want a permanent exclusion from the tariffs for the EU before opening negotiations, and they want these to include other elements such as government procurement. However, even in such a scenario it is quite likely that a 'TTIP light' (a term quickly launched by opponents of such a limited deal) would bring back the contestation the original TTIP negotiations faced a couple of years ago, especially with Trump instead of Obama in the White House.

A fifth alternative is to react with Buddhist calm, and simply not respond. The reasoning behind such restraint would be that every of the above scenarios would have worse consequences than the original tariffs themselves. Trump's tariffs on steel and aluminium may help some American firms in these sectors by increasing prices, while hurting US firms in downstream sectors (like car manufacturers) that would face higher input costs. While the EU would always have to protect its own steel and aluminium producers from negative spill-overs through safeguard measures of its own, it should not react with punitive tariffs. The redistribution in the US from downstream sectors to the steel and aluminium sectors resulting from the tariffs is not something the EU should care too much about. Not responding would allow Trump 'we will see-ing' forever. He might be disappointed that his tariffs result neither in concessions by, nor a trade war with, the EU. But others argue that this would send a signal of weakness from the EU, and that Trump would conclude that he could get away with anything. The EU has to show that 'it can do stupid too', as Commission President Jean-Claude Juncker has put it.

### **Time for a rethink**

The EU faces a difficult question in how to respond to Trump's steel and aluminium tariffs. It has not only to consider the direct effects on EU producers and consumers of different response options, but also the many potential indirect effects. The different responses may have consequences beyond short-term transatlantic trade flows. They may also affect the broader EU-US relationship, have an impact on the EU's relationship with China (especially how it positions itself vis-à-vis the Sino-American trade relationship that is in an even tenser state) and influence the future of the multilateral trading system.

If there are no easy solutions, EU policy makers might as well think hard and fundamentally about how to respond to Trump on trade more broadly. This begins with reconsidering its strategy of the past year-and-a-half to respond to his protectionism by accelerated liberalisation. The 'when he goes low, we go high' response might reflect a serious

misreading of the causes that have brought Trump to power. While the balance between different determinants of his election is still hotly debated, it is generally recognised that

anxieties about the consequences of globalisation played a significant role in his deciding narrow victories in some Rust Belt states. While the situation is certainly not entirely comparable, anxieties about the consequences of free trade for the social fabric are not absent in the EU as well. Is being the champion of free trade really the right ambition for the EU in the current environment?

Thinking about these essential questions could begin with recognising that trade should not be seen as an end in itself, but as a means to help address the real fundamental challenges of our times, like climate change and inequality. From that perspective, responding forcefully to a pure trade measure with which the US mostly shoots itself in the foot with sanctions or concessions while having reacted to Trump's withdrawal from the Paris Climate Agreement with mere regret seems to be misguided. The EU may want to reserve its trade artillery or sweets to help promote real end goals on more important occasions.