

US tariffs: EU response and fears of a trade war

On 1 June 2018, US tariffs entered into force for steel and aluminium imports from the EU, Canada and Mexico, following US President Donald Trump's decision not to extend temporary exemptions. Argentina, Australia, Brazil and South Korea managed to obtain permanent exemptions as a result of deals struck with the Trump Administration. For all other countries, the US tariffs had already taken effect at the end of March 2018. After talks with the Trump Administration failed to result in a permanent exemption, the EU responded to the new tariffs by lodging a complaint at the WTO and instituting rebalancing measures on specific US exports. A safeguard investigation on steel imports into the EU is also on-going. Other US trading partners have responded in similar ways, raising fears that this could be the start of a full-blown trade war that would harm economic growth.

Background

On 23 March 2018, US tariffs of 25 % on [steel](#) imports and 10 % on [aluminium](#) imports took effect, following two [Section 232 investigations](#) that had [concluded](#) that such imports [threatened](#) to impair US national security. One day earlier, however, President Trump had decided to [grant](#) exemptions until 1 May 2018 to the EU as well as to Argentina, Australia, Brazil, Canada, Mexico and South Korea. The purpose of these exemptions was to provide these [trading partners](#) with an opportunity to discuss and address the Trump Administration's security concerns. On 30 April 2018, the US President decided to [extend](#) these [temporary exemptions](#) for another 30 days. This ultimately resulted in US agreements with Argentina, Australia, Brazil and South Korea that warranted permanent exemptions from the tariffs in one form or another (see Box 1).

Box 1 – Permanent exemptions obtained by Argentina, Australia, Brazil and South Korea

Four countries have struck deals with the USA, resulting in the following [exemptions](#) from the tariffs:

- Argentina: permanent exemptions from both tariffs after it agreed to absolute quotas on both its steel and aluminium exports.
- Australia: permanent exemptions from both tariffs (details on what it agreed to are not (yet) available).
- Brazil: permanent exemption from the steel tariffs after it agreed to an absolute quota on its steel exports.
- South Korea: permanent exemption from the steel tariffs after it agreed to an absolute [quota](#) on its steel exports (70 % of the annual 2015-2017 average) and improved market access for US exports of cars.

The EU also pursued intense talks with the Trump Administration to obtain a permanent exemption. Among other things, it made a specific offer for trade talks (see Box 2), but this ultimately did not satisfy the US Administration. Similarly, the USA did not achieve any major breakthrough in its ongoing renegotiation of the North American Free Trade Agreement (NAFTA) with Canada and Mexico. President Trump therefore decided on 31 May 2018 that these three trading partners [would not](#) be granted any further temporary exemptions. The US tariffs subsequently [entered into force](#) on 1 June 2018 for the EU, Canada and Mexico.

Box 2 – EU offer for trade talks with the US in return for a permanent exemption

At the Western Balkans summit (Sofia) in May, EU leaders [expressed](#) a willingness to conduct trade talks with the Trump Administration in four areas, provided that the EU would first be granted a permanent exemption:

- (1) Deepening of energy cooperation, in particular in the field of liquefied natural gas;
- (2) Voluntary regulatory cooperation;
- (3) Reform of the World Trade Organization (WTO), in particular unblocking appointments to the Appellate Body;
- (4) Reciprocal market access for industrial products, including cars, and public procurement.

EU response to the US tariffs

The EU's response has been three-pronged, in line with the [strategy](#) outlined by the Commission in March:

- 1 On 26 March 2018, the Commission [initiated](#) a [safeguard investigation](#) in relation to the EU's imports of 26 [steel](#) products. This investigation is on-going and enables the Commission to impose safeguard

EPRS US tariffs: EU response and fears of a trade war

measures to protect EU producers in case of excessive imports due to trade diverted from the USA. Temporary measures [could](#) be applied as of July and potential exemptions are being discussed.

- 2 On 1 June 2018, the EU [launched](#) legal proceedings against the USA at the WTO by [filing](#) a request for [consultations](#). Despite the Trump Administration's justification of its measures on grounds of national security ([Art. XXI of the General Agreement on Tariffs and Trade, GATT](#)), the EU considers these tariffs to be [safeguard measures](#) (in disguise) to which GATT security exceptions do not apply.
- 3 EU [rebalancing measures](#) will [apply](#) to imports of selected US products as of 22 June 2018, and could ultimately target up to €6.4 billion in US exports to the EU (see Box 3). In May, the EU [notified the](#) WTO of a [list](#) of US products that could become subject to duties. This list was subsequently approved by the [Member States](#) and [adopted](#) by the [Commission](#) in June 2018.

Box 3 – Two stage-approach of EU rebalancing measures

(1) The initial rebalancing measures taking effect on 22 June 2018 will be applied to around 180 products worth up to €2.8 billion in US exports. These include agricultural (e.g. bourbon, orange juice, corn), industrial (mainly steel and aluminium items) and manufactured goods (e.g. make-up, clothes, motor cycles, boats).

(2) After three years or after a positive WTO outcome, the EU will target an additional 150+ American products worth around €3.6 billion in US exports. These again include agricultural, industrial and manufactured goods.

The total amount of US exports that could eventually be targeted by the EU's rebalancing measures would correspond to the amount of EU steel and aluminium exports hit by the US tariffs (based on 2017 figures). These measures are in line with the WTO Agreement on Safeguards, according to the Commission.

Global responses to the US tariffs and potential trade wars ahead

In response to the US tariffs, other countries have taken steps similar to the EU, raising fears of a trade war:

- China [imposed](#) duties in April on 128 US [products](#) (mostly agricultural and industrial goods) worth US\$3 billion in US exports. In June [Mexico instituted](#) duties on US [exports](#) worth US\$3 billion, and [Canadian](#) duties targeting C\$16.6 billion in US exports will take effect in July. Both countries' measures target 100-200 agricultural, industrial and manufactured goods. On 21 June 2018, [Turkey](#) became the latest country to [impose](#) tariffs on US goods (worth US\$1.8 billion in exports). [Japan](#), [Russia](#) and [India](#) have notified the WTO of their intention to take similar action against the USA.
- Five countries have initiated WTO proceedings: [China](#) was the first to do so on [5 April](#), followed by [India](#) ([18 May](#)), [Canada](#) ([1 June](#)), [Mexico](#) ([5 June](#)) and [Norway](#) ([12 June](#)). Japan is [reportedly](#) also considering launching a WTO case and [Canada](#) filed an additional legal challenge under NAFTA.
- [Turkey](#) has [notified](#) the WTO of a safeguard investigation on iron and steel products.

At their recent summit, G7 leaders were unable to resolve their differences on trade. Initially, it had looked as if they had agreed on a joint [communiqué](#) that included a reference to 'a rules-based international trading system' and a vow to 'fight protectionism'. Shortly after the summit, however, President Trump [withdrew](#) his support. It is not yet clear what this means for transatlantic cooperation on trade matters. Until recently, regular [trilateral meetings between](#) the EU, Japan and USA to discuss common trade concerns suggested that cooperation with the USA was still possible. On 14 June, the [USA](#) (and [Japan](#)) also requested to join WTO proceedings that the EU [recently initiated](#) against China in relation to technology transfers.

Fears of a trade war have also been stoked by rising trade tensions between the USA and China. Following the [findings](#) of a US [Section 301 investigation](#), the two countries have been [in talks](#) for some time to address US concerns about Chinese trade practices related to technology. On 15 June, however, President Trump followed through on [prior](#) threats and [imposed](#) tariffs on up to US\$50 billion of [Chinese imports](#) starting on 6 July, to which China [responded](#) in kind. The US President has [threatened](#) to target an additional US\$400 billion in Chinese imports should China retaliate, which [could](#) result in a sharp response from China.

Box 4 – Will cars be the next target of US tariffs?

On 23 May 2018, the US Department of Commerce [started](#) a Section 232 investigation into US imports of cars and car parts. If this investigation determines that these threaten US national security, President Trump could take action to adjust US imports. He has previously [expressed](#) his readiness to impose tariffs on car imports from the EU.

