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## EU Trade Policy in the Age of U.S. Protectionism

Marta Makowska, Marek Wąsiński

*In the escalation of the [U.S.-China trade war](#), the EU is trying to remain neutral. However, the consequences of the conflict and the immediate risk of a trade dispute with the U.S. threaten the economic growth of the Union, strongly dependent on exports. This is especially true for the euro area. At the same time, protectionist measures taken by the U.S. mobilise the EU to accelerate work on concluding free-trade agreements with other partners.*

The U.S. trade dispute with the EU is in a suspended state. After the [U.S. imposed steep tariffs on European steel and aluminium imports in June](#), to which the EU responded with retaliatory tariffs, in July, the President of the European Commission (EC) Jean-Claude Juncker and President Donald Trump declared their readiness to negotiate an agreement and avoid escalation of the tariffs war. Preparations are underway to start talks on an agreement liberalising the exchange of industrial goods, with another meeting on this matter scheduled for November this year. Nevertheless, the EU is threatened with more tariffs, as the U.S. is [investigating excessive imports in the automotive sector](#). The decision to impose additional tariffs of 20–25% will be made by May 2019 at the latest.

The U.S. protectionist measures threaten EU relations with its most important external partners—the United States and China. Although the share of external trade in EU GDP remains lower than for China, it is higher than for the U.S. or Japan. The dependence of the EU on the condition of external economies increases its susceptibility to the effects of trade disputes, with [Germany being the most vulnerable](#), as its 28% share of the EU's external exchange exceeds its share of EU GDP (21%). Due to significant interdependencies between individual EU economies in the EU, the American actions would threaten the entire Community. For Poland, whose main trading partner is Germany, this is of particular importance.

**Assumptions of European Trade Policy.** Increasing the volume of trade in goods and services by opening new sales markets is considered a measure to ensure a long-term upward trend. The EU's goal is, on the one hand, to liberalise trade with key partners and, on the other, institute WTO reform to defend more effectively against dishonest commercial practices, promote the free movement of goods and services, and protect intellectual property. By concluding trade agreements, the EU wants to reduce tariff and non-tariff barriers for companies from the Member States while respecting the high standards (including phytosanitary regulations, environmental protection, and labour rights) protecting EU consumers, producers and employees.

To minimise potential losses resulting from U.S. protectionism, the EU will seek to negotiate a bilateral agreement between the EU and the U.S. on the elimination of trade barriers in industrial goods trade. Such an agreement may protect the Union against new tariffs. It would also partly fulfil the assumptions of the [Transatlantic Trade and Investment Partnership \(TTIP\)](#), the negotiations of which were not resumed after Donald Trump won the U.S. presidency in 2016. TTIP was supposed to stop the decline of the importance of the EU and U.S. in global trade. Although talks on narrower liberalisation may be easier, it will be necessary to persuade some of the reluctant Member States, including France. French President Emmanuel Macron

announced conditioning the conclusion of trade agreements with partners on their participation in the Paris Agreement.

**Threats Posed by U.S. Protectionism.** From the EU's perspective, U.S. unilateral actions can hamper the Union's economy both directly and indirectly. Above all, the imposition of further tariffs based on national security reasons—especially in the automotive sector—would expose the EU to a reduced number of cars and their parts to export to the U.S. Moreover, duties may be imposed via other procedures, including anti-subsidy and anti-dumping regulations, for example, on washing machines or olives. The indirect risks are related to the shift of trade from third countries as a result of the U.S. protectionist measures. The U.S. [trade war with China](#), the EU's second-largest export market, can prompt the diversion of goods from the U.S. market to Europe's. That would increase competition, which may be positive for consumers by a drop in prices, but also would negatively affect European producers of these goods.

The protectionist measures are also a tool for [the U.S. to increase its negotiating power](#) with other countries. The determination of the Trump administration may give it an advantage in the negotiations with the EU on the agreement on trade in industrial goods. A sign of this advantage is the recently completed renegotiation of the [agreement with Mexico and Canada](#) as well as the deal with South Korea. As part of the agreement with its North American partners, the U.S. gave them guarantees that their automotive sectors will be protected from potential tariffs. In this situation, the imposition of barriers on the EU could be less economically expensive for the U.S. If China succumbs to the American pressure and de-escalates the trade war, the Trump administration could increase the pressure in negotiations with the EU or Japan.

**Opportunities Stemming from the U.S. Strategy.** The [Juncker–Trump Joint Declaration](#) offers the chance not only to avoid a transatlantic trade war and reach a bilateral agreement, though one less ambitious than TTIP, but also joint protection against China's unfair trade practices. Protection against Chinese investment in critical infrastructure and firms with patents on modern technology is in the common interests of the U.S. and the EU, as is opening the Chinese market.

Furthermore, unilateral U.S. decisions encourage third countries to form alliances and agreements with the EU. The Union has already used it to advance ongoing negotiations—it has concluded talks with Japan, has almost finished them with Mexico, is trying to finalise deals with Mercosur, and is negotiating with China, the ASEAN countries, Australia and New Zealand, and others. This moment is a chance to gain new markets for companies from the EU Member States. The U.S.–China trade war might also be an opportunity for European companies to compete in these markets with entities that have been charged the additional tariffs.

The U.S. unilateral actions encourage referrals to the WTO dispute-resolution system. The EU is committed to reforming this institution, not least because of the Trump administration's current blocks on the appointment of judges to the resolution system. On 18 September, the European Commission published a concept paper presenting its main objectives for WTO reform: improving the mechanisms to deal with unfair subsidies, reducing the role of state-owned enterprises and their market-distorting activities, creating a set of rules on free trade in services and investment flows, and reform of the dispute-resolution system. The EU has formed a coalition with the U.S. and Japan on WTO reform.

**Perspectives.** The “standby” approach of the EU and reluctance to support either of the parties in the U.S.–China conflict comes from the desire to minimise the losses and not escalate the dispute. If the dispute worsens, political pressure for taking a side will increase.

Although it seems unlikely that the conflict will escalate before the November elections to Congress, the U.S. has not withdrawn from its pressure on the EU, and in the first half of 2019 could impose tariffs on imported cars from the EU. It is, in fact, probable since the U.S. administration expects quick results from the negotiations on free trade. Even if considered easier than TTIP, the talks will take time. After agreeing the scope, it will be necessary to obtain a mandate from the Member States for the talks to begin.

Although the U.S. pressure may help strike a [negotiating bargain within the WTO](#), reform of this organisation will be difficult to achieve. Despite the convergent interests of the EU and the U.S., the obstacle to reaching a compromise appears to be the disagreement between developed and developing countries. It seems most effective to seek agreements with third countries that will see the Union as a more reliable partner than the U.S. in the current circumstances.