

# U.S. increases tariffs on European aircraft: EU response a litmus test for transatlantic trade relations

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Last Friday the United States Trade Representative (USTR) ramped up its tariffs on European aircraft, increasing the duty from 10% to 15%, effective March 18.

It also announced it would make minor modifications to 25% tariffs imposed on cheese, wine, Irish and Scotch whisky, and other non-aircraft products from the EU, namely adding a 25% tax on French and German butcher and kitchen knives and dropping prune juice from the list of taxed items. While the move is hard-hitting, particularly for European aircraft, EU officials had feared more drastic measures in an increasingly fraught trade relationship with the U.S.

## Background

The tariffs are part of a 15-year-old complaint over European aircraft subsidies to plane maker Airbus, putting Boeing, its U.S. competitor, at a disadvantage. Last October, the World Trade Organization authorized the U.S. to impose tariffs of up to 100% on 7.5 billion dollars' worth of EU exports annually to recoup its losses. The imposed duties are lower than those permitted under WTO's ruling, however, USTR decided against additional escalation after a mid-December public consultation recorded protestations from more than 26,000 U.S. consumers and industries. While USTR's latest action on tariffs thus could have been significantly more painful, businesses hoping for a relief remain disappointed with the levies, which are expected to continue until the U.S. and EU come to a negotiated resolution. As the two sides cannot agree on terms for starting talks, this remains an uncertainty at least in the short-term.

## Potential for Escalation

Further escalation by Washington also is anticipated if Brussels hits U.S. imports with tariffs over unfair subsidies to Boeing. The WTO is expected to rule this spring on damages caused by U.S. plane maker's state tax breaks, which would authorize the EU to target U.S. goods with retaliatory tariffs. A preliminary list of U.S. goods proposed as targets for EU retaliatory tariffs was drawn up last year, focusing primarily on U.S. farm products. Although Brussels no doubt is mulling over a right response to the most recent U.S. tariff hikes on aircraft, the broader picture for the EU remains to reset its trade relations with the U.S.

## Impact on EU-US Trade Agreement

At the beginning of the year, European Commission President Ursula von der Leyen announced that she is seeking a mini trade deal with the U.S. in the next few weeks covering trade, technology and energy. However, the U.S. insists any deal must include EU agricultural concessions – a sticky and politically explosive topic for the EU. EU officials have conceded agricultural concessions could come in the shape of separate commitments lowering EU non-tariff barriers for certain U.S. farm goods. It

has been suggested this could include the approval of more genetically modified crops for sale in the bloc, which is of obvious interest to the U.S.

However, some EU countries disagree on linking agricultural concessions to a wider EU-U.S. deal and are highly reticent to wade in the politically sensitive waters of farm goods, food standards and genetically modified crops. The European Commission has sought to reassure EU Member States that agricultural concessions would remain minor and include only non-controversial sanitary and phytosanitary standards. On the other hand, minor concessions are unlikely to cut it for the U.S. It is, for instance, calling on Brussels to soften limits on pesticides residues, to which the EU is purposely taking a stricter approach, also increasingly working towards phasing out pesticides in favor of non-chemical alternatives.

### Next Steps

The EU's response to the U.S. levies on European aircraft will be telling in terms of how trade negotiations between the two sides are progressing. The EU has made clear on multiple occasions that it will not be pressured by tariffs into making concessions in trade talks. In a similar vein, it likely will not seek to use as a bargaining chip any retaliatory tariffs linked to the WTO Boeing battle. The question rather is whether the EU will risk any further souring of relations just as preparations are being made for a transatlantic trade agreement. Any bold action by the EU for retaliatory tariffs could bring talks to a breaking point. Conversely, it could also signal a breakdown of efforts to reach a mutually beneficial trade deal. The next few weeks will be telling.