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News

US-EU TRADE 2019

BACKGROUND

The EU-U.S. economic partnership is the single most important driver of economic growth, trade, and prosperity worldwide. Compared to other trade relationships, the United States invests three times more in the European Union than it does in all of Asia. For the European Union, their investment in the United States is approximately eight times what it invests in India and China combined.

The EU and the U.S. are each other's main trading partners. Their economies combined account for nearly one third of world trade flows. The EU and U.S. account for almost 30 percent of global merchandise trade, which amounts to almost 40 percent of world trade in services, and about half of global GDP.

The transatlantic economic relationship creates and sustains close to 15 million jobs in the European Union and the US. These jobs are the result of transatlantic trade in goods and services, foreign investment, and the activities of foreign affiliates in each other's economies. This enormous volume of transatlantic trade and investment promotes economic prosperity on both sides of the Atlantic. The United States and the EU continue to pursue initiatives to create new opportunities for transatlantic commerce.

Last year, U.S. goods and services trade with the European Union totaled nearly $1.3 trillion. Exports totaled $575 billion and imports totaled $684 billion. The United States had a $807 billion in total bilateral goods trade with European Union countries during 2018. Goods exports totaled $319 billion; goods imports totaled $488 billion.

According to Eurostat, the top U.S. goods exported to Europe in 2018 were engines and motors, aircraft, and pharmaceutical goods. As for imported goods, the U.S. primarily bought autos from the EU as well as pharmaceutical goods.

Despite the size and importance of the transatlantic economic relationship, American exporters are still facing barriers to enter the European market, such as regulations, testing and standards requirements. These challenges are the most significant in the pharmaceutical, chemical and procurement industries.

The United States and Europe also have different legal structures to protect the data and privacy of their citizens. In order to provide a way for companies to transfer data from country to country, the EU-US Privacy Shield framework was developed. This mechanism allows for a secure operating environment for citizens and industry alike, while supporting the transatlantic digital economy.

In order to facilitate transatlantic trade and investment, governments work closely through various agreements and mechanisms. One such channel is the Transatlantic Economic Council. The Council is the primary forum for economic dialogue between the United States and the European Union. It seeks to deepen cooperation between the United States and the European Union by promoting economic growth through increased trade and job creation.

The co-chairs of the TEC are the White House Deputy National Special Advisor for International Economic Affairs and European Commission Vice President for Trade. They meet at least once a year, along with other members of the European Commission and the US Cabinet in an effort to promote dialogue and further integrate the transatlantic economies.

The TEC has built upon historical and on-going transatlantic economic integration to identify new areas of cooperation It seeks to eliminate trade barriers, implement best practices, harmonize standards, and develop market access. Current areas of engagement include energy efficiency, e-vehicles, e-health, raw materials, and nanotechnology.

In recent years, the two sides have sought to further liberalize trade and investment ties, enhance regulatory cooperation, and work together on international economic issues of joint interest. However, in 2018, trade tensions between the two sides escalated and many conflicts arose over tariffs imposed by the United States on steel and aluminum and the threat of tariffs on automobiles.

In order to try to rectify this problem, European Commission President Juncker came to an agreement with President Trump to work together to protect companies from unfair global trade practices, reduce bureaucratic obstacles and strengthen cooperation on energy. They also agreed to work together to reduce barriers and increase trade in chemicals, medical products and pharmaceuticals.

2019 DEVELOPMENTS

Tariffs and trade issues weighed heavily on the US manufacturing sector during the summer, causing a decrease in manufacturing output. Political instability negatively impacted business investment and industrial production in the United States. Earlier in the year it appeared that the United States and the European Union had diverging priorities when it came to trade relations. European leaders were concerned that the US defense market was closed to European companies. However, European companies make up the majority of worldwide imports of military equipment to the United States.

The trade relationship is for the most part harmonious, but tensions arise from time to time due to the high level of commercial activity and disagreements on specific policy issues. U.S-EU trade and economic relations are currently tense due to shifts in certain U.S. trade policy approaches under the Trump Administration. Many believe that the United States is exhibiting protectionist, unilateral trade measures, including imposing tariffs on cars and car parts.

In recent months, both sides have been threatening to impose tariffs on each other's goods. In July the US Trade Representative's office released a list of goods on which a tariff may be imposed, in addition to the products that were announced in April. The underlying cause for the back and forth is a dispute over aircraft subsidies by the European Union.

The situation is being made worse by the fact that the United States is monitoring European policy developments in the fields of data protection, digital trade, and penalties for corporate tax avoidance, some of which the United States perceives to be barriers to trade.

Given the current friction between the two parties, there are concerns that the global economy could be impacted, as well as bilateral cooperation on global economic issues. These disputes are not only having an impact on the companies and their employees, but also on consumers worldwide.

At the February US-EU Financial Regulatory Reform Forum, participants discussed financial regulatory developments, implications of host-country regulation on foreign banks, emerging financial technologies, the implications of the General Data Protection Regulation for transfers of personal data, and EU proposals on sustainable finance.

In September of 2019, the World Trade Organization approved the imposition of tariffs by the United States on the European Union. This is in response to Europe's financial support to airplane manufacturer Airbus. An exact dollar amount still has to be authorized, but it could be up to $25 billion. A final decision on the dollar amount and further details is expected to be announced during the week of September 30th. These tariffs could see the prices on some of Europe's most popular exports like wine, cheese, olive oil and luxury goods sharply increase.

In response to these tariffs, the European Union is also considering imposing tariffs on $4 billion of US exports. Their list of items includes items like aircraft, chemicals and food products.

At this point in time, European tariffs on US vehicles entering the European market are 10%, while the United States has a 2.5% tariff on vehicles imported into the country. In 2018, the United States started to apply tariffs of 25% and 10% on certain imports of steel and aluminum. Tariffs on confectionary products, including chocolate, range from 10-12%, while tariffs on petroleum based products are between six and seven percent. Tariffs on chemical and plastic products are also fairly low, and range from about three to six percent.

FOOD

On August 2, 2019, the European Union and the United States signed an agreement on the imports of hormone-free beef. In 2009, a Memorandum of Understanding was signed, under which, 45,000 tons quota of non-hormone treated beef was open by the EU to qualifying suppliers, which included the United States. The agreement signed this year establishes that that 35,000 tons of this quota will now be allocated to the U.S., phased over a 7 year period, with the remaining amount left available for all other exporters. The overall volume of the quota opened in 2009 remains unchanged, just like the quality and safety of beef imported into the European Union, which will remain in compliance with the high European standards.

ENERGY

On May 2, 2019, top energy industry executives met in Brussels to discuss ways to enhance liquefied natural gas trade, the role that competitively-priced U.S.-LNG can play on the EU market and increasing opportunities for using LNG in the transport sector. Shipments of this gas to Europe have increased and represented 40% of America's LNG exports in the first five months of 2019. In fact, LNG exports to Europe surpassed exports to Asia for the first time in January. This High-Level Energy Forum was led by EU Commissioner for Climate Action and Energy Miguel Arias Cañete and U.S. Secretary of Energy Rick Perry.

MANUFACTURING

In April of this year, European Union Member States approved the Commission's negotiations with the United States on eliminating tariffs on industrial products and a conformity assessment. The conformity assessment would help to remove non-tariff barriers by making it easier for companies to demonstrate that their products meet technical requirements. The trade agreement would be focused on industrial goods, excluding agricultural products. By eliminating tariffs on industrial goods, exports would increase on both sides of the Atlantic.

LOOKING AHEAD

During August's G-7 summit, German Chancellor Angela Merkel and President Donald Trump both expressed the desire to reach a trade deal between the European Union and the United States. Talks to reach such a deal have been moving slowly, due to disagreements as to whether or not agricultural products should be included.

The Trump administration is expected to decide in November if it will impose duties on Europe's automobile industry. Neither the United States nor Europe can afford a trade war, especially since both economies are slowing down. It remains in the best interest of both sides to maintain a positive trade agenda. Both parties are also engaged in trade disputes with China.

Nevertheless, there are significant differences and external factors that could cause the situation to deteriorate further. One such example is Brexit, which is a source of uncertainty and would likely significantly impact European trade. Another would be the desire in Europe to lower greenhouse gas emissions, and pressure has been put on its automobile industry to do so.

The European Union may seek to try to understand why the United States is demonstrating protectionist behaviors, but this is not the only thing that it needs to do. It needs to strengthen economic ties with other countries in order to mitigate the impact that US tariffs have on its economy and also show the US that it is not irreplaceable. It must also show the United States that everyone loses when tariffs are raised. This can be done through diplomatic channels, and also through global multilateral institutions.

WHAT DOES THIS MEAN FOR BELGIUM?

American companies play an essential role the Belgian economy. In 2015, total US investment in Belgium totaled $45 billion. The US remains the largest source of foreign direct investment in Belgium; in 2014, 44 of 198 new foreign direct investment projects in Belgium came from the United States.

US companies provide 12.1% of manufacturing jobs in Belgium, and nearly half of US employment in Belgium is in industrial companies. American companies contribute significantly to the success of Belgium's innovation-driven economy. They account for approximately one-third of total private sector R&D investment and employ more than 5,000 people in Belgium.

The most recent tariffs to be imposed on Europe by the United States may cause Europe to impose retaliatory tariffs. Regardless, food retailers, importers and other specialty retailers could be hit by the tariff. As previously mentioned, tariffs and retaliatory tariffs will have a crippling effect on both the transatlantic economy and domestic economies on both sides of the Atlantic Ocean.

Therefore, it is essential for the Belgian economy that the United States and European Union impose as few tariffs on each other as possible. Ongoing trade wars are likely to decrease investment, weaken economic welfare, and also corporate profitability. The consequences will be felt on the domestic front as well, as consumer spending will decrease and unemployment will increase.

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