TRANSATLANTIC POLICY IMPACTS OF THE U.S. – EU TRADE CONFLICT

Statement by

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Several actions taken by the Trump administration over the last two years have severely strained trade relations between Europe and the United States, weakening the transatlantic backbone of the global, rules-based trading system. But an even more worrisome threat to that relationship may be in the offing. It comes in the form of the President's warning that he may impose trade restrictions on tens of billions of dollars of imports from Europe of automobiles and automobile parts, contending that they threaten America's national security. The national security threat is fanciful, and Congress should amend existing statutes to constrain the Executive Branch's abuse of power on trade.

No evidence supports the argument that imports of automobiles and automobile parts from our closest European allies—Germany, United Kingdom, Italy, Sweden and others— threaten national security. In fact, invoking Section 232 of the Trade Expansion Act of 1962 by declaring such a threat to justify trade restrictions would damage the US economy, create uncertainty, poison trust and sow massive disruptions through both retaliation and copycat behavior relying on the same flimsy rationale.

Immediate Impacts on the US Economy

Three reasons demonstrate why imposing trade restrictions on European automobiles and parts would disrupt the American economy.

First, American consumers would be hit by price hikes. Prices would rise for Fiats, Volkswagens, and Volvos, among other brands. The reduced competition would inevitably raise prices for all cars, regardless of the make and model.

Second, the American manufacturing base would lose access to imported auto parts it needs to produce cars for both domestic consumption and export. Imported parts are vital for American-based auto plants to keep costs low for high quality cars made in states like Alabama, Tennessee and South Carolina. The facilities in these and other states make some of America's most successful exports. Restricting trade in parts would hurt these factories and their workers.

Third, Europe will retaliate. The European Union has announced it would impose counter-tariffs on US exports—a credible threat because it did so last year when President Trump imposed tariffs on their exports of steel and aluminum, also under Section 232 of the Trade Expansion Act of 1962.

Those European tariffs hit more than $3 billion of US exports, hurting American farmers and businesses. It would be surprising if you haven't already heard complaints from your districts. Among those suffering are corn farmers, makers of bourbon and whiskey, cosmetics, motorboats and yachts, peanut butter, playing cards, and motorcycles. I could name dozens of other products affected by that retaliation.

The example of Harley Davidson illustrates the futility of the Trump administration's tariffs. Harley has announced in a Securities and Exchange Commission filing that Europe's counter-tariffs mean it can no longer afford to produce motorcycles in the United States for sale in Europe. Harley Davidson and many other US manufacturers know that 95 percent of their customers live outside of the United States. Making it more expensive to make products for those customers means the Trump administration is forcing them to transfer manufacturing to some other country not hit by these cost increases.

Implications for US Economic and Foreign Policy

The Trump administration imposing trade restrictions on European autos would exacerbate three additional policy concerns.

First, such a step would likely end bilateral trade negotiations between the United States and European Union. This would include talks on several vital issues, such as the regulations that serve as the largest barriers to trade. Despite the President's colorful anecdotes, the tariffs that the EU applies on imports from the United States are not one-sided. They are comparable to the average tariffs the United States applies to imports from Europe, especially for manufactured products. Existing tariffs do not restrict trade nearly as much as regulations do. These "non-tariff barriers" can only be tackled through regulatory cooperation. The process of doing so began during the Obama administration through the transatlantic trade and investment partnership negotiations. The Trump administration has, to its credit, continued some elements of that process. A deal on conformity assessments would be an important next step for transatlantic trade. New auto tariffs and counter-tariffs would strangle that progress just as it holds promise of achieving results.

Second, imposing these tariffs would escalate tensions, impeding cooperation in other areas of vital joint interest. More, not less, cooperation is urgently needed between Europe and the United States on ecommerce, data localization, cybersecurity, a potential digital services tax, and many other hugely important areas of the new economy. The United States cannot afford to squander or disrupt any effort toward protecting consumers and businesses in the increasingly technologically sophisticated marketplace. This is an incredibly big risk to take.

Third, the tariffs would further exacerbate the Trump administration's failures to take-up the offer by Europe and other allies to resolve areas of mutual concern in other trade areas. The most serious, of course, is the administration's decision to confront its closest economic partners, including Japan as well as Europe, rather than enlisting them to put collective pressure on China. Going it alone on China may be doomed to fail. Also important is the administration's disengagement on many issues desperately needed to reform the World Trade Organization. Its current refusal to appoint new members to the

Appellate Body is undermining a dispute resolution mechanism that has helped US businesses far more than it has set them back.

What Congress Should Do

In sum, President Trump's threats to impose tariffs on auto and parts imports from Europe must be taken seriously by Congress. His economically costly tariffs on steel and aluminum in 2018 make the current threat credible. Using Section 232 for this purpose was frankly never intended by Congress.

Thus, Congress should legislate changes to Section 232, as well as the International Emergency Economic Powers Act, to require the President to seek its approval before imposing new trade restrictions in the name of national security. In both of these statutes, Congress should also more clearly define "national security."

Congress must recover from the administration its Constitutional prerogative to reshape these laws so that they can no longer be abused. Imposing costs and unnecessary uncertainty on the US economy, further eroding American policy leadership, and hurting US global economic and foreign policy interests should not be carried out by the executive branch circumventing the authority of Congress to establish trade policy as the Constitution prescribes.