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Transatlantic Policy Impacts of the U.S. – EU Trade Conflict

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Introduction

The U.S. imposition of tariffs on steel and aluminium imports from the EU in 2018, followed by proportionate EU retaliations, coupled with the threats of additional U.S. tariffs in recent months on imports of cars, was both unwise policy and unwise economics. But as previous episodes in this intermittent tariff conflict show, neither the policy impacts of these tariffs nor their novelty should be exaggerated. While tariffs do matter, the greater risk to free trade – and thus to economic growth – are non-tariff barriers, an area where the U.S. is not guiltless, but where EU regulation poses greater risks. The U.S. should firmly adopt the position that the only acceptable level of tariff protection is zero, and should move rapidly to negotiate ambitious free trade areas with partners, such as the United Kingdom after Brexit, which share its understanding that regulation imposes costs that are just as real, and much larger, than tariffs.

The Current U.S.-EU Trade Conflict

The U.S. imposition on June 1, 2018 of tariffs on imports of steel (25%) and aluminium (10%) affected 6.4 billion euro worth of EU goods. The EU retaliationed with proportionate measures on June 22, 2018, affecting 2.8 billion euro worth of highly symbolic U.S. imports, including tobacco, bourbon whiskey, and peanut buttter. Recent months have seen a pending threat to impose 25% tariffs on imports of cars from the EU, and a threat to impose tariffs on a variety of imports from the EU to compensate for $11 billion in claimed damages from illegal EU state aid to Airbus.

These Tariffs Are Unwise Policy

The Administration has consistenly argued in its own defense that, as the March 2019 *Economic Report of the President* puts it "Tariffs provide benefits as well as costs."[1] There are four basic reasons why the Administration's position on tariffs is unwise:

1. **Spurious Justifications.** The steel and aluminium tariffs were imposed under the President's authority under Section 232 of the Trade Expansion Act of 1962. In other words, they were justified explicitly on national security grounds. But as my colleagues Tori Whiting and Rachel Zissimos put it in June 2017, a year before the tariffs were imposed, "unlike dependence on Russian rocket engines (for which few alternatives exist) or Chinese microchips (which can be infected or counterfeited), steel imports do not present the same vulnerabilities or technological sensitivities. There is not an inherent threat in steel imports, but rather a vague concern regarding availability of supply."[2]
2. **Unwise Reliance on Section 232**. The use of Section 232 itself is both unwise and relatively uncommon. There have been only 26 investigations under Section 232 since 1962, and 19 of these resulted in a determination that the import in question did not pose a threat to national security or resulted in no presidential action. Moreover, while the Trade Expansion Act of 1962 was indeed broadly effective in promoting free trade, Section 232 represented another damaging transfer by Congress of powers to the Executive Branch. This is a problem much bigger than tariffs and trade. Anyone who is opposed to the President's use of his legal authorities – and make no mistake: the use of Section 232 is legal, though unwise – to impose tariffs ought to be equally opposed to the wider delegation of Congressional powers to the Executive Branch that forms the basis of the modern administrative state.
3. **Higher Domestic Costs**. The 2019 *Economic Report of the President* celebrates the fact that the "The Federal government benefited from $14.4 billion in revenue collected in 2018 from newly imposed tariffs."[3] This revenue gain, derived from tariffs wider than those on the EU, represents a transfer of a sizable sum from the U.S. consumer to the federal government, as – contrary to the views often expressed by the President – it is the U.S. consumer, not the foreign exporter, who pays the tariffs. Studies of past U.S. tariffs have consistently found that they cost far more U.S. jobs than they created, and as the administrations claims only an increase of a mere 100 jobs in alumina and aluminium production, and 6,200 jobs in the steel industry, there can be little doubt that the 2018 tariffs will also cost U.S. jobs.
4. **Foreign Policy Pressures**. There are reasons to be profoundly skeptical about claims that the 2018 tariffs represent a new and unparalleled low in trade relations between the U.S. and Europe. On the contrary, the evidence of the past suggests that trade tensions are not new, and represent a normal, if unwelcome, part of the trans-Atlantic relationship. In other words, there is cause for concern, but not for panic. On the other hand, the cumulated picture of U.S. tariff and trade policy since 2017 makes the U.S.-European tensions look worse. To put it simply, the administration's willingness to resort to tariffs in its trade relations with China – which poses different challenges than those presented by the EU – coupled with its lack of substantive

[1] *Economic Report of the President, Together with The Annual Report of the Council of Economic Advisers*, March 2019, p. 496, https://www.whitehouse.gov/wp-content/uploads/2019/03/ERP-2019.pdf
[2] Tori Whiting and Rachel Zissimos, "Steel Imports Do Not Threaten National Security," The Heritage Foundation *Issue Brief* #4719, June 16, 2017, https://www.heritage.org/trade/report/steel-imports-do-not-threaten-national-security.
[3] *Economic Report of the President, Together with The Annual Report of the Council of Economic Advisers*, March 2019, p. 496.

achievements in negotiating new trade agreements that clearly advance the cause of free trade, make the trade tensions with the EU look less like another episode of unwelcome trans-Atlantic history, and more like a concerted retreat from the policy of free trade as such. This, in turn, means that the tensions over trade raise wider concerns about foreign policy, and the U.S.'s commitment to institutions beyond those related to trade.

Past U.S.-European Trade Tensions

Space does not permit a complete history of U.S-European trade disputes. But the basic point is that, on their own, the current disputes are either continuations of long-running ones, or examples of new disputes that more or less mirror ones of the past. Example include:

1. **The 'Chicken Tax'**. In 1962, when implementing the European Common Market, the European Comminuty – the predecessor to today's EU – denied access to U.S. chicken producers. In retaliation, the U.S. in 1964 imposed tariffs of 25% on imports of light trucks from all countries, a tariff that survives today, 55 years later.
2. **The Boeing-Airbus Saga**. Since 2004, a lengthy dispute between the U.S. and the EU over subsidies to Boeing and Airbus has roiled the World Trade Organization, with both sides – though the EU more than the U.S. – being found guilty of breaking the rules. This dispute has over the years certainly generated more heat than the 2018 tariffs.
3. **The Steel Tariffs.** In March 2002, President George W. Bush imposed tariffs on imported steel, leading to threats of EU retaliation through tariffs on $2.2 billion in U.S. goods ranging from Florida citrus products to Harley Davidson motorcycles. At the time, the U.S. move produced enormous criticism from Europe – and elsewhere – and was regarded as the start of a trade war, which was averted when U.S. lifted the tariffs in 2003.

Ironically, in retrospect, the U.S. administrations that took these steps – primarily the administrations of Lyndon Johnson and George W. Bush – look today like traditional advocates of the U.S.'s post-war policy of support for free trade, not protectionists. The same is true of administrations involved in tariff or trade disputes that did not relate to Europe, such as the Reagan administration's voluntary restraints on Japanese car exports to the United States in the early 1980s.

None of this makes these disputes desirable, or the new tariffs welcome, but it does strongly suggest that we should not panic or proclaim that the sky is falling because the U.S. and the EU have imposed tariffs on each other. They have both done it before, and the regrettable likelihood is that they will both do it again. The fact is that these sort of disputes, by themselves, are the occasional stuff of relations between advanced democracies, and that administrations that in retrospect are regarded as having traditional post-war trade policies have regularly engaged in them.

The Proclaimed Zero/Zero/Zero Trade Goal

The problem with the current trade conflict with the EU is not that it is unprecedented. It is that it is the result of a policy that is unwise, and which so far has not resulted in agreements that justify the use of tariffs as a weapon to compel the other side to the negotiating table. It is true that the administration has signed a revised U.S.-South Korea Free Trade Agreement in September 2018, and a revised U.S.-Mexico-Canada Agreement in November 2018, but Heritage analysis of the revised

South Korean agreement characterized it as achieving "no major changes."[4] Moroever, the U.S. and the EU have no trade agreement to renegotiate, and it is likely easier to compel a trade partner to renegotiate a mutually beneficial agreement by threatening to tear it up than it is to compel such a partner to negotiate such an agreement in the first place.

On the other hand, the administration's proclaimed goal of zero tariffs, zero nontariffs barriers, and zero subsidies is certainly the correct one. But one of the most disappointing, and revealing, episodes in the recent history of this trade dispute has been the sparing around this goal. At the G-7 Summit in Quebec in June 2018, the President reiterated his zero/zero/zero goal. When EU Trade Commissioner Cecilia Malmstrom responded in August with the statement that the EU is "willing to bring down even our car tariffs to zero, all tariffs to zero, if the U.S. does the same," the President said the offer was "not good enough," because EU "consumer habits are to buy their cars, not to buy our cars." While there are elements of truth in this statement, it is beyond the power of U.S. trade policy, or for that matter of European goverments, to change the buying preferences of European consumers.[5]

But the EU's response has been just as disappointing as the President's. In concluding a détente on possible car tariffs in July 2018, the U.S. and the EU agreed to negotiate an agreement to elimate tariffs on non-auto industrial goods, and another on non-tariff barriers. But when in April 2019 the EU approved the start of these negotiations, it did so over the opposition of France and an abstention from Belgium, and did so with the specific and clear stance that agriculture would not be included.

As Malmstrom put it, "Agriculture will certainly not be part of these negotiations. That is a red line for Europe." The U.S. position, as U.S. Trade Representative Robert Lighthizer, is one of frustration with the "complete stalemate" with the EU on agriculture.[6] Eliminating tariffs on non-auto industrial goods would be a major gain for the U.S. economy (and that of the EU), but so would an end to the EU's agricultural protectionism. Coupled with the signs of French and Belgian reluctance, the new U.S.-EU negotitaions are starting to look a lot like the failed Transatlantic Trade and Investment Partnership (TTIP) negotiations that floundered in 2016.[7]

The European Unpopularity of TTIP

It is commonly believed that it was the election of President Trump that led to the collapse of TTIP. In fact, it was actually the EU that put the talks "on ice" before elections in France and Germany, on the grounds that the TTIP talks were deeply unpopular in Europe.[8]

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[4] Tori Whiting, "Analyzing the Renegotiated U.S.-Korea Free Trade Agreement (KORUS)," Heritage Foundation *Backgrounder* #4838, April 13, 2019, https://www.heritage.org/trade/report/analyzing-the-renegotiated-us-korea-free-trade-agreement-korus.

[5] David Reid, "EU Trade Boss Says Brussels is Ready to Scrap Car Tarifffs If US Does the Same," *CNBC*, August 30, 2018, https://www.cnbc.com/2018/08/30/eus-malmstrom-says-brussels-ready-to-scrap-car-tariffs-if-us-does.html, and Philip Blenkinsop, "EU Deeply Disagrees with U.S. on Trade Despite Détente," *Reuters*, August 30, 2018, https://www.reuters.com/article/us-usa-trade-eu/eu-deeply-disagrees-with-u-s-on-trade-despite-detente-idUSKCN1LF1E0.

[6] Philip Blenkinsop, "EU Says It is Ready to Launch U.S. Trade Tralks, But Without Agriculture," April 15, 2019, *Reuters*, https://www.reuters.com/article/us-usa-trade-eu/eu-says-it-is-ready-to-launch-u-s-trade-talks-but-without-agriculture-idUSKCN1RR0OZ.

[7] "Macron "Not In Favor" of "Vast New Trade Deal" with US," *RTE*, July 27, 2018, https://www.rte.ie/news/world/2018/0727/981357-eu-us-trade-deal/

[8] Darrell Delamiade, "Trump May Have a Point About EU Tariffs, IFO Says," *Handelsblatt Today*, March 15, 2018, https://www.handelsblatt.com/today/politics/unfree-trade-trump-may-have-a-point-about-eu-tariffs-ifo-says/23581496.html?ticket=ST-770784-cEV3ioOVvdGAuGpaar3g-ap6

This unpopularity has not been sufficiently appreciated in the U.S. A poll by YouGov for the Berteslmann Foundation in April 2016 found that "only one in five Germans think TTIP is a good thing, down from 55 percent in 2014." Only half of the German public considered free trade a good idea, and a quarter rejected it completely. Levels of opposition were just as high in Austria, and only slightly lower in France, which in August 2016 demanded an end to the negotiations on the grounds that there was "no longer any political support" in Paris for TTIP. An umbrella group of anti-TTIP activists collected more than 3 million signatures across Europe in opposition to TTIP.[9]

Ironically, the cause of the most divisive recent moment in trans-Atlantic trade was not U.S. tariffs, but the U.S.'s and the EU's efforts to negotiate a free trade area. One scholarly study has pointed out that "both German business and the wider public voiced fierce opposition to . . . . TTIP [which] became a flash point for the German public to overcome collective action problems and create a broad protest movement against a free trade agreement for the first time in German history."[10] Or, as a representative of the German Marshall Fund put it at the time of President Barack Obama's visit to Hanover in April 2016, "there's a limit to what the U.S. side can to to help convince a skeptical German public." [11]

In short, the history of U.S. trade diplomacy with the EU over the past decade is deeply ironic. The Obama Administration's TTIP won favor with EU leaders until they were pushed to reject it by their own outraged publics, while the Trump administration's tariffs are opposed by EU leaders but have not raised nearly the same level of public and campaigning opposition as TTIP. The implication appears to be that a big deal like TTIP is unsustainably unpopoular in Europe, while a smaller industrial goods only deal is unacceptable in the U.S. because it omits agriculture. The result is that there is no easy resolution to be had of the U.S-EU trade conflict, as no matter what approach is tried, a deadlock is reached that ends up blocking progress and raising precisely the wider concerns about the systemic health of free trade that resulted from the collapse of TTIP and the 2018 tariffs.

The Unwise Approach of TTIP

While the specific criticisms leveled at TTIP were unfair, and infected with an aggressive anti-Americanism, the fact remains that, in both concept and approach, the approach TTIP took was just as unwise as the 2018 tariffs.

In concept, TTIP was intended to be an all-inclusive deal. TTIP was framed as a "comprehensive," "ambitious" undertaking that would "move forward fast" and "make rapid progress." The only thing that actually happened rapidly, however, was that the air went out of the balloon. Largely because of opposition from the left, the Obama Administration's interest—which was never robust—in promoting the free-trade agenda waned considerably after TTIP was launched in 2013. The slackening of the Administration's enthusiasm for the TTIP and the precedent of the failed Doha Round only emphasize the difficulties inherent in negotiating a comprehensive trade agreement. In retrospect, the

[9] Siobhän Dowling, "How TTIP Reached a Tipping Point," *Handelsblatt Today*, April 22, 2016, https://www.handelsblatt.com/today/politics/opposition-movements-how-ttip-reached-a-tipping-point/23537458.html#wt_eid=2156112367858420225&wt_t=1561138236924 and "France Demands End to TTIP Talks," *Euractiv*, August 30, 2016, https://www.euractiv.com/section/trade-society/news/paris-to-demand-an-end-to-opaque-ttip-negotiations/

[10] Alexsia T. Chan and Beverely K. Crawford, "The Puzzle of Public Opposition to TTIP in Germany," *Business and Politics*, Volume 19, Special Issue 4, December 2017, pp. 683-708.

[11] Siobhän Dowling, "How TTIP Reached a Tipping Point."

approach that the U.S. and the EU are now warily eyeing, an approach that favors limited agreements, appears the wiser one, no matter what negotiating difficulties it presents.

Unfortunately, TTIP was also flawed in its approach. Because tariffs between the U.S. and the EU are already low on average, the majority of the gains from TTIP would have come from reducing non-tariff barriers (NTBs). The central risk of TTIP was that the quest to eliminate non-tariff barriers to trade would turn into a supranational exercise in rolling the lawn, whereby any national difference would be treated as something that must be eliminated, even if that difference promoted economic freedom. TTIP's approach was one of applying a variety of mechanisms to reduce the burdens imposed by differing U.S. and EU regulations over the short run while relying on harmonization, led by a U.S.–EU institution, over the long run. In time, the number of harmonized regulations would grow, and the amount of regulatory competition between the U.S. and the EU would decline.

But in practice, while reducing these burdens would have been good for today's businesses, it would not likely have been good for tomorrow's business, because the harmonized regulations favored under TTIP would have tended to prevent new competitors from entering the much larger, and harmonized, trans-Atlantic market. In other words, harmonization around a high and costly standard of regulation may eliminate the burden caused by a lack of harmonization, but it does not eliminate the burden of the regulations itself – estimated by one 2009 study to amount to 12.3% of the EU's GDP annually – especially for new market entrants who play no role in shaping the regulations.[12] While defenders of TTIP frequently offered the justification that it was an essential part of countering China's push into the world trading system, that does not make locking in a high level of regulatory costs in the U.S. economy a desirable goal for U.S. trade policy.[13]

The Risks of the EU's Trade Policy – And the Alternative

While attention has focused – naturally and to an extent rightly – on U.S. tariff and trade policy, it has tended to neglect the risks of the EU's trade policy, and the extent to which it promotes trade that is neither free nor fair. The EU simply rejects freeing the trade in agricultural goods, as demonstrated by its exclusion of agriculture from the current talks with the U.S. But the risks of the EU's trade policy are much wider than agriculture. These risks include:

1. **The German Problem.** Any major U.S.-EU trade agreement is going to redound significantly to the benefit of Germany, simply because the U.S. is the largest purchaser of German exports outside the EU and Germany is the U.S.'s most important trading partner in Europe. It is certainly not a bad thing to give Americans greater freedom to buy from efficient and successful German industries. But if Germany continues to pile up trade surpluses at the expense of importing more from the rest of the Eurozone, it will only exacerbate the instability

[12] Tim Ambler, Francis Chittenden, and Asif Bashir, "Counting the Cost of EU Regulation to Business," Eurochambres, 2009, https://www.eesc.europa.eu/resources/docs/costregulation_2009_bis-2009-00286-01.pdf

[13] Theodore Bromund, Luke Coffey, and Bryan Riley, "The Transatlantic Trade and Investment Partnership (TTIP): Economic Benefits and Potential Risks," Heritage Foundation *Backgrounder* #2952, https://www.heritage.org/trade/report/the-transatlantic-trade-and-investment-partnership-ttip-economic-benefits-and, and Nile Gardiner, Theodore Bromund, and Luke Coffey, "The Transatlantic Trade and Investment Partnership (TTIP): The Geopolitical Reality," Heritage Foundation *Backgrounder* #2953, https://www.heritage.org/trade/report/the-transatlantic-trade-and-investment-partnership-ttip-the-geopolitical-reality

of the euro currency. In other words, an ambitious U.S.-EU trade agreement is likely over time to make the existing economic imbalance in the EU even worse.

2. **EU Protectionism**. One of the weaknesses of the U.S. approach of imposing tariffs on EU exports is that it tends to conceal the extent to which – in practice – U.S. exports to the EU suffer more from EU protectionism than EU exports suffer from U.S. protectionism. The IFO Center for International Economics, a leading Munich-based think tank, pointed out that the unweighted EU average customs duty is 5.2%, almost 50% higher than the U.S. rate of 3.5%. It summed up: "Overall, tariffs totaling $5.7 billion were levied on US exports to the EU in 2015. The far greater volume of EU exports into the US were subject to customs duties of just $7.1 billion. This does not even take into account the inhibitory effect of the higher EU tariffs on the volume of US exports."[14] In short, while the U.S.'s new tariffs make this an awkward point to argue today, the fact remains that – even by the very partial and hence somewhat outdated measure of tariffs – the U.S. likely suffers more from EU protectionism than the EU does from U.S. protectionism.
3. **European Champions**. Important voices in Europe are now championing the creation of European economic champions, and closer government/business coordination, along the lines of Airbus, as an explicit reaction to U.S. and Chinese dominance of lists of the world's largest firms. In February, German Economics Minister Peter Altmaier proposed a national economic strategy that would protect so-called vital industries from foreign takeovers and competition, saying that "I am a great suppoerter of the market economy. But this market economy is now being challenged internationally is threatened by subsidies and protectionism."[15] Given the long-running battle between the U.S. and the EU over Airbus's EU subsidies, arguments that the EU needs to follow the Airbus precedent are a bad omen for U.S.-EU trade.
4. **Restrictions on Foreign Investment**. In December 2018, Germany agreed on new rules to lower the threshold for, and even for blocking, the sale of stakes in German firms by non-European investors. Undoubtedly the concerns that motivated these rules center on China, and parallel the U.S.'s Committee on Foreign Investment in the United States (CFIUS), and to a significant extent are legitmate. But the Association of German Chambers of Industry and Commerce commented that the threshold sent "a negative signal to foreign partners." The U.S. – and all other non-European investors – will have to watch carefully to make sure that this threshold requirement does not operate against legitimate investments.
5. **The Defense Trade**. The Administration has publicly expressed its concerns that the European Defense Fund and the Permanent Structured Coopeation (PESCO) project "would limit U.S. and other third parties outside of the EU in terms of participating in programs moving forward," commented Ellen Lord, Undersecretary of Defense for Acquisition and Sustainment, on June 17, 2019: "As we read the language right now, even European-based subsidiaries of U.S. corporations with European facilities or European employees would not be allowed to participate."[16] Given the existence of Buy America provisions in the defense realm such as

[14] Darrell Delamiade, "Trump May Have a Point About EU Tariffs, IFO Says."
[15] Daniel Michaels, "Europe Again Champions Intervention to Counter China's Ecnomic Might," *Wall Street Journal*, February 19, 2019, https://www.wsj.com/articles/europe-again-champions-intervention-to-counter-chinas-economic-might-11550572200.
[16] Jon Harper, "Paris Air Show News: EU Defense Programs Have Trump Administration Talking Retaliation," *National Defense Magazine*, June 17, 2019, http://www.nationaldefensemagazine.org/articles/2019/6/17/trump-administration-considering-restricting-european-access-to-us-defense-market

Berry Amendment, the U.S. does not have clean hands itself in this regard.[17] Nevertheless, the answer to unwise old U.S. protectionism in the defense realm is not new EU protectionism.

6. **Financial Services Regulations**. The EU is a believer in top-down regulations. Nothing illustrates this better than its MiFID II (Market in Financial Instruments Directive), which recently passed its one year anniversary. The issue is not the regulation of financial markets. It is that MiFID, containing more than 1.4 million paragraphs of rules, "represents," in the words of analyst Farnoush Farsiar, "regulation at its most intrusive and inflexible. Different jurisdictions with different financial services industries should be differently regulated." The UK has already signaled that, in the wrds of the chief executive of the Financial Conduct Authority Andrew Bailey, it could evolve an "outcome focused" and "lower burden" approach to financial regulation after leaving the EU that would still allow it to maintain "equivalence" with other jurisdictions.[18] This is a very hopeful sign, because it implies the openness of U.K. authorities to regulate in ways that, while remaining effective, seek to reduce the burdens on markets. It should be remembered that the only kind of trade that deserves to be called freer trae is trade that reduces the effective costs of government restraints on the trade in question.

In short, the future of the U.S.-EU trade relationship is cloudy, not only because of the 2018 tariffs, but because the there appears to be no way to break the current deadlock that makes a large TTIP-style agreement both impossible and unwise to negotiate. On the other hand, a series of smaller agreements liberalizing agricultural trade and industrial goods, and genuinely reducing non-tariffs barriers, would be desirable, but the EU's resistance to including agriculture appears to foreclose this possibility too. In these circumstances, the existing disagreements, coupled with emerging new ones in the defense sector and potentially in other areas of German or EU activity, mean that the U.S. would be well advised both to stop imposing tariffs, but also to stop pressing at a door that appears unlike to open.

The alternative is to look for other doors that are – or soon will be – open. There are many such possibilities, including negotiations for a free trade area with Japan. But the U.S. has made its single biggest commitment to negotiating broadly and ambitiously with post-Brexit Britain.[19] One of the many up sides of Brexit is that – presuming the U.K. exits the EU without adopting Prime Minister Theresa May's Withdrawal Agreement, which would profoundly constrain its ability to negotiate freely – it will create a major new player on the world's economic and trading scene. This in turn creates several opportunities. Of course, it opens to the door to the negotiation of a U.S.-U.K. free trade area, a completely logical institution that would undoubtedly exist today if the U.K. had not joined the European Communities in 1973. Such a free trade agreement is not only logical: thanks to the efforts of eleven free-trade supporting think tanks on both sides of the Atlantic, a text of an agreement already exists today, ready for adoption.[20]

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17 Tori K. Whiting, "'Buy American' Laws: A Costly Policy Mistake That Hurts Americans," Heritage Foundation Backgrounder No. 3218, May 18, 2017, http://www.heritage.org/trade/report/buy-american-laws-costly-policy-mistake-hurts-americans.

18 Farnoush Farsair, "Financial Services Will Enjoy A Brexit Boom If the Regualtors Let Us Take Advantages of the Opportuniities It Presents," *BrexitCentral*, June 16, 2019, https://brexitcentral.com/financial-services-will-enjoy-a-brexit-boom-if-the-regulators-let-us-take-advantage-of-the-opportunities-it-presents/.

19 "Why the U.S. Is Right to Back the 'Mini-Deal Brexit'," Heritage Foundation *Issue Brief* #4971, June 20, 2019, http://report.heritage.org/ib4971.

20 Daniel J. Ikenson, Simon Lester, and Daniel Hannan, "The Ideal U.S.-U.K. Free Trade Agreement: A Free Trader's Perspective," *Cato Institute,* September 18, 2018, https://www.cato.org/publications/white-paper/ideal-us-uk-free-trade-agreement-free-traders-perspective.

But the arrival of the U.K. as an independent player offers an even greater prize. Today, it is becoming a commonplace that the world will be divided up into spheres of trading influence – either a Chinese sphere and a Western one, or a U.S. sphere, a European one, and a Chinese one. This is not a vision of the future that the U.S. should welcome. It is profoundly in our interests to make sure that all the great trading nations – and the smaller ones – resist these tendencies. Unfortunately, there is relatively little that the smaller nations can do to preserve flexibility and freedom in the system. But the U.K., as the fifth largest economy in the world, has the potential to sit outside all the main blocks, and to work constructively with all them. The goal of U.S. trade diplomacy towards the U.K., therefore, should not be to incorporate it into a U.S. bloc: it should be to ensure that the U.K. is not part of the European bloc, and that the U.K. has the freedom to negotiate as its national interests dictate. In many cases, this will see the U.K. align itself with the U.S. But, just as the U.S. did during the Cold War, we have more to gain from preserving freedom within the ranks of our allies than we do from ensuring that all of our allies agree with us all of the time.

Conclusion

The frequency and history of U.S.-EU trade tensions strongly implies that today's conflicts are likely to fade – and, unfortunately, be replaced by new ones, some of which may already be visible – over time. These tensions have in the past been caused, or excaserbated, by U.S. administrations with a strong commitment to free trade, and to major post-war institutions such as NATO, and while that is no reason not to work vigorously to lessen today's conflicts, it also implies there is no need for panic. What is lacking today, in the EU as much as in the U.S., is leadership which makes a simple and clear case for economic freedom, the benefits which flow from it, and the fact that economic freedom means much more than just free trade.

The history of TTIP strongly suggests that the most dangerous thing the U.S. could do – the way the U.S. could make the policy impacts of the current U.S-EU trade conflict even worse – is to respond to today's conflict by advocating the negotiation of a major U.S.-EU trade deal in the style of TTIP. Whether the popular concerns that sank TTIP in Europe are justified or not, the fact remains that they exist, and there is no reason to believe that an effort to revive TTIP would not fan the same anti-Americanism that sank TTIP in Europe. The fact that TTIP's approach of regulatory harmonization was tailor-made to favor high regulatory costs and existing businesses – at the expense of new entrants into the market – also offers a sound policy reason to reject TTIP's approach.

But that does not mean that the right approach is the precise one the U.S. administration has chosen. Its zero/zero/zero goal is the correct one, and its commitment to an ambitious U.S.-U.K. free trade area post-Brexit is laudible. But it has not found a successful diplomatic strategy to convince the EU to negotiate a genuinely zero/zero/zero agreement that includes agriculture, and its chosen instrument of tariffs is both damaging to the U.S. consumer and raises wider concerns about its commitment to the U.S.'s post-war support for free trade. The zero/zero/zero goal, and that commitment, would have more credibility if the administration could point to a major negotiating success that involved a new trading partner, not the renegotiation of an existing agreement. It is therefore all to the good that the U.S. has set out its stall so strongly on the goal of a U.S.-U.K. free trade agreement, which offers the single best opportunity to negotiate a major ambitious new agreement.

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