



PISM | POLSKI INSTYTUT SPRAW MIĘDZYNARODOWYCH
THE POLISH INSTITUTE OF INTERNATIONAL AFFAIRS

BULLETIN

No. 145 (1391), 17 October 2019 © PISM

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Prospects of a Reset in EU-U.S. Relations

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During his September visit to Brussels, U.S. Secretary of State Mike Pompeo proposed a reset in EU-U.S. relations. By this, President Donald Trump is signalling he is considering adjusting his EU policy as he searches for support in the U.S. rivalry with China and seeks a diplomatic win for his upcoming re-election campaign. For the EU, it could be a chance to prevent an escalation of the trade dispute and to also save the Iran nuclear deal. However, the economic differences between the two partners, as well as the unwillingness by the EU to take a clear side in the U.S.-China dispute, diminishes the likelihood of an improvement in relations.

U.S.-EU relations have deteriorated under the Trump presidency. His criticism of the Union and the foreign policies of some of its Member States have led to decisions that have clashed with EU preferences. Trump withdrew the U.S. from the Iran nuclear deal (JCPOA) and announced that the U.S. will withdraw from the Paris Climate Agreement. American tariffs on steel and aluminium have negatively impacted the EU economy. Nevertheless, during Pompeo's meeting with politicians who will assume top EU positions toward the end of this year (the heads of the European Commission and European Council), he declared U.S. readiness to reset relations.

U.S. Goals. Trump hopes that the reset offer will make it easier for him to convince European leaders to decidedly support his positions on China, especially blocking the Chinese company Huawei from accessing and developing 5G networks in the EU. A key element of his presidency, Trump's geopolitical and economic rivalry with China has yet to yield the anticipated results. U.S. exports to China have fallen while in the first seven months of 2019 China has maintained a trade surplus of \$168 billion.

Trump is also counting on improvements in trade with the EU. In September, the U.S. signed a trade deal with Japan that foresees a decrease in tariffs on American agricultural products worth a total of \$7 billion. Meanwhile, U.S.-EU negotiations began in July 2018 after an agreement was struck between Trump and the head of the European Commission (EC), Jean-Claude Juncker, to avoid a trade war. Since then, only some of the expected benefits have come to fruition. In line with Juncker's declaration and Trump's expectations, imports of American soybeans to the EU increased in the second half of 2018 by 112%. An agreement signed in July 2019 anticipates the EU will reserve 77% of its beef import quota for the U.S. For Trump, this is especially important since American farmers and ranchers, an important electorate in key states, have been hurt by the export restrictions to China. A trade deal that includes a wider array of American products, but specifically agricultural ones, could be presented by Trump in the upcoming presidential campaign as a success and symbol of his deal-making abilities.

The announcement that the U.S. will enforce additional tariffs on EU products (such as wine and cheese) beginning in mid-October 2019 makes Trump's intentions questionable. The World Trade Organisation decision in the Americans' case against Airbus over illegal state subsidies gives the U.S. the right to place tariffs amounting to 100% on EU goods worth a total of \$7.5 billion. The U.S. Commerce Department has not utilised this in full, however, stipulating only 25% tariffs on food and industrial products and 10% tariffs

on aeroplanes. It can be assumed that Trump is unwilling to escalate the trade conflict but seeks to exert additional pressure on the EU.

Improving relations with the EU could assist Trump in the negotiations with Iran. Presumably, Trump is considering mitigating his position to attempt to negotiate a deal to replace the JCPOA. If successful, this would be an additional argument in his upcoming campaign. In September, the president dismissed his third National Security Advisor, John Bolton, a proponent of aggressive action against Iran. Trump also seemed accepting of the French president's attempt to arrange a meeting or talks between the U.S. president and the Iranian president during the United Nations General Assembly session, although ultimately the Iranian side refused both overtures. Trump also did not order an aggressive military response after a September attack on Saudi Arabia's major oil refinery that the U.S. and the EU blame on Iran.

EU Priorities. The increasingly critical evaluations circulating among European politicians and businesspeople of the Chinese activity have been conducive to improvements in EU-U.S. relations. The European allegations against China are similar to those framed by the U.S. president. Comments by EU Trade Commissioner-designate Phil Hogan suggest that he will be pursuing a firmer policy towards China. In accordance with a new strategy published this March by the EC, Hogan proposed strict control over Chinese entities acquiring European companies, especially in the advanced-technologies sector. He also suggested limiting the access of Chinese companies benefiting from restricted state subsidies to the EU market. The EC will also strive to remove barriers against European companies in China and improve the security of their intellectual property. However, individual EU Member States are likely to assume a more moderate position towards Huawei than the U.S.

The EU may perceive the reset as an opportunity to limit the escalation of the trade dispute. For the Union, the U.S. is a key import partner, accounting for 21% of goods exported from the EU. In 2008-2018, the value of these imports doubled from €248 billion to €504 billion. Additionally, the EU has a trade surplus with the U.S., which in the same period increased from €65 billion to €139 billion. Trade matters are especially important to Germany, which generates nearly half of the EU trade surplus with the U.S. Higher tariffs on automobiles, something Trump has constantly threatened, would damage Germany's economy because a third of all automobiles exported by Germany go to the U.S. The tariffs could also hit Polish companies that supply components to German automakers.

Hopes of a compromise with the U.S. on economic matters were strengthened by the Franco-American understanding on the digital tax. Plans to implement the tax, especially against large U.S.-based corporations (mainly Google and Facebook), received a sharp reaction from Trump. He declared the U.S. would impose tariffs on French products in response. However, during the August G7 summit, the U.S. signed an agreement to not undertake any retaliatory measures and the French government agreed to return the difference if an international solution to the digital tax assumes a lower rate than the one agreed upon in France. This is currently being worked on by the OECD.

Besides distancing the danger of war in regions near the EU, convincing Trump to engage in negotiations with Iran would allow European companies to return to economic cooperation with that country, stymied now by the American sanctions. Defending the key elements of the JCPOA agreement—negotiated in part by EU diplomats and considered a success—is significant for the EU's reputation.

Conclusions and Perspectives. The U.S. administration's reset proposal suggests that President Trump recognizes the importance of the EU as an ally in international politics and that he may be inclined to make certain corrections in the relationship. However, it also appears that his position is dictated rather by a willingness to achieve visible political benefits ahead of his re-election campaign than a more profound change in his position towards the EU. This attitude may favour attempts to build an understanding over such questions as Iran or the digital tax, which would achieve at least some of the EU's priorities. Common interests should create grounds for a compromise on China, even though a majority of EU Member States, including Germany, which has a trade surplus with China, may not be ready to decisively take the U.S. side. On economic questions, it is difficult to assume that the EU will agree to anything that might limit its trade surplus with the U.S.

The unpredictability of Trump's stances on foreign policy issues may make some Member States unwilling to make concessions in exchange for an uncertain reset in relations. Some may decide it better to wait for the next administration, especially if Trump's support decreases or the impeachment investigation intensifies.