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European Union seeks tariff exemptions as US sets out demands

Talks beginning in Washington today between the European Union's top trade representative and officials of the Trump administration will determine whether the EU can secure exclusion from the imposition of a 25 percent tariff on steel and 10 percent on aluminium, which are due to come into effect on Friday.

The EU's trade commissioner, Cecilia Malmström, will be holding discussions with US Commerce Secretary Wilbur Ross and Trade Representative Robert Lighthizer during her two-day visit. The outcome of the discussions will determine the response of EU leaders to the US tariffs when they meet in Brussels on Thursday.

The EU last week issued a 10-page list of American products on which tariffs could be imposed if the Trump administration refuses to exclude it from the steel and aluminium measures. The list encompasses about \$3.4 billion worth of American exports. Trump has responded to the threat by saying that the US will target the export of European cars to the American market if the EU retaliates.

Speaking before her departure for Washington, Malmström struck a conciliatory tone, stating that the EU wanted to collaborate with the US to tackle "overproduction" by China. The EU is claiming that this is the main cause of the problem in the global steel market.

"We want to work with the US and other partners in the world to address the root causes of this issue," she said. "We have different tools to do that. We are willing to reinforce them and to look at others."

EU officials have said they are not looking to rush into any escalation but are seeking exemption from the tariffs, touted by the Trump administration as "national security"

measures, on the grounds that Europe is a strategic ally of the US. But the procedures under which that might be possible have been described as “very unclear.”

In a note sent to Ross and Lighthizer at the end of last week, cited by the *Financial Times*, the EU said its industry was “paying the price for a problem it has not created nor contributed to” and that it “struggles just like US industry.”

“The EU is the highest priced significant exporter of steel to the US market, on which the main price pressure arises from overcapacity triggered notably by non-market behaviour in China,” the document said.

Germany’s economy minister Peter Altmaier also held talks with Ross last week at the conclusion of which a joint statement was issued saying that the discussions had been “constructive.”

“What’s problematic about the current situation is that we are in danger of getting into a spiral of unilateral measures. We shouldn’t publicly criticise each other. We have to try to find compromises,” Altmaier said in a television interview.

On the eve of the discussions with Malmström, Bloomberg published a report listing a series of broad conditions that countries must meet before they will be considered by the Trump administration for exemptions.

These include: limiting steel and aluminium exports to the US to 2017 levels; actively addressing China’s various distorting measures; being more assertive and co-operative with the US within the G20 steel forum; cooperating with the US in taking cases against Chinese practices through the World Trade Organisation and enhancing security cooperation with the US.

The character of the demands indicates that the US stance in any negotiations will be framed by a much broader agenda than steel and aluminium. It will involve the demand for cooperation from the EU against China, particularly over the question of intellectual property rights and hi-tech developments.

The Trump administration is preparing action against China under Section 301 of the 1974 Trade Act, alleging Chinese malpractice in these areas. It has been reported that Lighthizer prepared a list of Chinese goods as targets for tariffs, amounting to \$30 billion, but was then told to at least double it.

Such proposals have drawn opposition from US corporations which have close connections with China. On Sunday, the Information Technology Industry Council, a coalition of more than 40 business groups, including giants such as Amazon, Google and

Microsoft, issued a letter to Trump warning that broad-based tariffs on Chinese goods would “trigger a chain reaction of negative consequences for the US economy.”

The letter expressed the widely-held view in US business and political circles that while there were “serious concerns regarding China’s trade policies and practices,” including technology transfers and the “theft of trade secrets and intellectual property rights,” any measures had to be carefully targeted.

It urged the administration to take “measured, commercially meaningful actions consistent with international obligations” that benefited US exporters, importers and investors. The letter pointed out that sweeping tariffs would not only affect Chinese shippers but also harm US companies that sell component pieces of final products emanating from China and disrupt existing supply chains.

In other words, while not opposing trade war measures as such, the integration of the world economy and the close connections of many sections of US business with China made it a highly complex operation.

The same issues apply with regard to any European cooperation with the US on China. Given the EU’s pursuit of its own interests in relation to economic and trade ties with China, how far the US will be able to secure EU collaboration in return for either a relaxation of, or exemption from, the steel and aluminium tariffs remains very much an open question.

In a telephone discussion on Saturday on overcapacity in the steel industry, Chinese president Xi Jinping and German chancellor Angela Merkel agreed to work for a solution within the forum established by the G20 group.

According to Merkel’s spokesperson Steffen Seibert, the two leaders “stressed the importance of close multilateral cooperation in trade in this context.”

China is seeking a closer alliance with Europe to counter the push against it by the US. According to the Chinese news agency Xinhua, Xi told Merkel that the two countries should “become advocates for new-type international relations.”

Xi reportedly stated that, despite their ideological differences, China and the EU could be “cooperation partners,” within the framework of the Chinese Belt and Road initiative for major infrastructure projects across Eurasia.

China-Germany relations would “steadily proceed” so long as they adhered to equality and mutual respect, Xi is said to have told Merkel.

The steel and aluminium tariff measures and the prospect of a global trade war are overshadowing the two-day meeting of G20 finance ministers in Buenos Aires, Argentina, which began yesterday.

International trading relations were dealt a major shock at last year's meeting in Germany when the final communiqué withdrew a previous commitment to renounce "all forms of protectionism," because of objections from the newly-installed Trump administration.

It is measure of how far and how fast the descent into a global trade war has proceeded that, 12 months on, the world's major economies are now moving to battle stations.