

Confusion over US tariff exemptions

Nick Beams
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Held over the weekend, a top level meeting in Brussels failed to bring any clarity over whether, and under what conditions, the European Union and Japan could be exempted from the steel and aluminium tariffs to be introduced by the United States under “national security” provisions.

The meeting, convened ten months ago to discuss joint action against overcapacity in the global steel industry, largely attributed to China, was centred on the push by the EU and Japan for exclusion from the tariffs on the basis that they were “strategic allies” of the US.

But due to the increasingly ad hoc—bordering on chaotic—character of decision-making within the Trump administration, US trade representative Robert Lighthizer was unable to give his EU and Japanese counterparts any indication of what criteria they would have to meet in order to gain an exemption.

EU trade representative Cecilia Malmström said she had a “frank discussion” with Lighthizer after a bilateral meeting, but there was “no immediate clarity on the exact US procedure for exemption however, so discussions will continue next week.”

The *Wall Street Journal* cited “people familiar with the discussions” as saying that Lighthizer failed to spell out Washington’s expectations of countries seeking exemptions and that the “US still appears to be formulating its guidelines on waivers, which may be published soon.” It cited an unnamed EU official, who said that Lighthizer appeared to be open to the idea that “we could be excluded” but “we will have to see how that translates into the documents they will be publishing.”

Officials from the US trade representative’s office, however, refused to comment on the talks, so there must be considerable doubt as to whether any stipulations will actually be set down. The agenda for further discussions is also unclear, with officials from both sides expected to engage in talks, though not at a

high level, according to the newspaper.

Insofar as the exact agenda of the Trump White House can be followed, it appears to be seeking to use the threatened tariffs on steel and aluminium as a battering ram to secure further concessions for the US.

This is the procedure that has been adopted with regard to Canada and Mexico, both of which have been exempted from the measures during the renegotiation of the North America Free Trade Agreement (NAFTA), and will be permanently excluded provided the US can secure what it considers to be a satisfactory outcome.

Judging from a tweet issued by Trump before the talks in Brussels began, this approach may be developed more broadly.

“The European Union,” Trump wrote, “wonderful countries who treat the US very badly on trade, are complaining about tariffs on steel and aluminium. If they drop their horrific barriers and tariffs on US products going in, we will likewise drop ours. If not, we tax cars etc. FAIR!”

Japan’s minister of trade and industry, Hiroshige Seko, told reporters after Saturday’s meeting he still hoped Japan could secure an exemption. He said the measures “could disrupt the steel and aluminium markets of the world and have a negative impact.”

Trump has also directed fire, however, against the US-Japan trade deficit. In another tweet, he said he had held discussions with Japanese prime minister Shinzo Abe, who was very enthusiastic about the talks with North Korea. “Also discussing opening up Japan to much better trade with the US. Currently have a massive \$100 billion trade deficit. Not fair or sustainable.”

Estimates for the US trade deficit with Japan put it at somewhere just under \$70 billion, rather than the figure claimed by Trump.

In line with Trump’s bilateral approach, characteristic of the ideology which prevailed in the

disastrous trade wars of the 1930s, trade is regarded as a zero-sum game, in which any deficit incurred by the US is regarded as detrimental to its national interests.

One of the reasons Australia may have been granted an exemption from the tariffs is because, as Trump noted in announcing the decision, the US enjoys a trade surplus with it. He also made reference to a security agreement. But the Australian government was quick to downplay suggestions that a new deal had been struck, insisting that this referred to “paper work” for an exemption from the tariff proclamation.

While that may be the case, the Trump White House will certainly be demanding undivided Australian support for its militarist and economic measures. A crucial question will be whether Canberra, which proclaims its support for free trade, backs any action against the steel and aluminium measures if a case is launched against the US through the World Trade Organisation.

While the EU has said it is looking to impose tariffs worth \$3.5 billion against the US, if it goes ahead, China has yet to announce any possible retaliation, with officials confining themselves to warnings about the implications for the global trading system.

Chinese commerce minister Zhong Zang said any trade war with the US will only bring disaster for the world economy.

“China does not wish to fight a trade war, nor will China initiate a trade war, but we can handle any challenge and we will resolutely defend the interests of our country and our people,” he said.

A much bigger issue than steel and tariffs looms for the Chinese regime, as the US considers action under Section 301 of the 1974 Trade Act against China over technology transfers, innovation and alleged Chinese intellectual property theft. A report on an investigation launched by the Trump administration last year is expected in a few months.

In other measures under consideration, the *Financial Times* reported that the Trump administration has called for the Chinese to produce a written plan to reduce the bilateral trade deficit by \$100 billion.

While the immediate outcome of negotiations over which countries may gain exemptions from the US steel and tariff measures remains unclear, the longer term implications for the global trading system are not.

In an opinion piece published in the *Financial Times*

on Saturday, Princeton University professor and author of a study on the World Trade Organisation, Christina Davis, wrote that “the world trading system is on the verge of collapse.” The Trump decision, ostensibly taken in US national security interests, threatened much more than foreign companies exporting to US markets and American businesses using imported steel. “It declares war on the trade system.”

Davis noted that the Trump measures were not confined to the US, but formed part of a developing global trend.

“While the US once led in the creation of the trade rules,” she wrote, “now it challenges their value. By favouring bilateral over multilateral deals, Mr Trump joins a wider trend for preferential agreements that carve up global trade into regional blocs.”

This international tendency, which had such disastrous consequences in the 1930s, is exemplified by the fact that the WTO has been unable to reach any new agreement on global trade, in the course of negotiations stretching back over the past 17 years.



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