

Trump postpones steel tariffs but trade tensions increase

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President Donald Trump's decision to delay the imposition of tariffs on steel and aluminium exports has not alleviated the threat of trade war between the US and Europe. Rather it has brought the danger closer. The divisions between the two sides are widening.

In a decision announced as the initial May 1 deadline for the imposition of the tariffs was about to expire, the US extended the time for negotiations with the European Union (EU), Canada and Mexico for permanent exemptions from the measures until June 1.

Any deal with the Canada and Mexico will form part of ongoing negotiations for the rewriting of the North America Free Trade Agreement (NAFTA). An agreement "in principle" was reached for permanent exemptions for Brazil, Argentina and Australia, but with details to be finalised over the next month for the establishment of quotas.

The US is demanding that EU also establish quotas, along the lines of an agreement reached with South Korea to "voluntarily" restrict its exports. This demand is ultimately aimed at China, which the US considers to be responsible for overproduction of steel and aluminium.

According to a White House statement: "In all of these negotiations, the administration is focused on quotas that will restrain imports, prevent transshipment, and protect the national security."

But the EU has rejected quotas, saying such a system would violate the rules of the World Trade Organisation (WTO). "They were pushing for us to limit the exports ourselves," an EU official told the *Wall Street Journal*. "For us, this is not in line with WTO rules."

The US measures are being taken under section 232 of the 1962 Trade Expansion Act, which allows the president to take action on trade to protect "national

security."

In statement issued yesterday, the European Commission (EC) said the US decision prolonged "market uncertainty," which was already affecting business decisions. It stated: "The EU should be fully and permanently exempted from these measures, as they cannot be justified on the grounds of national security."

The EC added: "As a longstanding partner and friend of the US, we will not negotiate under threat." Any trade negotiations would have to be "balanced and mutually beneficial." European negotiators have referred to a "mismatch" in the talks that have taken place over the past month.

It is highly unlikely that negotiations with Canada, Mexico and the EU will be extended further beyond the latest 30-day deadline.

White House trade adviser Peter Navarro told a conference yesterday that the two NAFTA partners would receive no further extensions beyond June 1.

"The guiding principle of this administration ... is that any country or entity like the European Union, which is exempt from tariffs, will have a quota and other restrictions which are necessary to defend the aluminium and steel industries from imports in defence of our national security," Navarro said.

US Commerce Secretary Wilbur Ross told CNBC the administration had no "intention of protracted negotiations." Exempting Europe from tariffs without concessions "defeats the whole purpose" of the measures.

Washington is also pushing for the lifting of tariff restrictions on US car exports to Europe, in line with the administration's targeting of the US trade deficit with Europe, above all Germany.

This demand brought a scathing response from EU

budget commissioner Günther Oettinger. He attributed the EU surplus to US consumers' preferences. "The fact that Porsche, Audi, BMW and Mercedes-Benz, that those premium cars are selling like crazy in the US ... has to do with design and motors, with quality," he said. "In contrast, there is no real reason to bring an American car from the US to Germany."

On the broader issue of the US deficit with the EU, which was \$151 billion last year, one EU official told the *Financial Times*: "In their mind very clearly is the concept of an unbalanced deal aimed at the trade deficit. That would mean a deal in which we have to lose."

As tensions with Europe escalate, the US is sending a high-level delegation to Beijing for talks due to begin on Thursday on the threatened imposition of tariffs by the US on up to \$150 billion worth of exports.

The delegation comprises Commerce Secretary Ross, Treasury Secretary Steven Mnuchin, economic adviser Larry Kudlow, US Trade Representative Robert Lighthizer and trade adviser Navarro.

There are differences in approach among the delegation members, with Navarro and Lighthizer regarded as being the most aggressive against China. In a Bloomberg television interview Mnuchin acknowledged a "diversity" of opinion but said the team would speak with one voice.

The increasingly bellicose character of that voice was seen in comments by Ross in his CNBC interview yesterday. He blamed the "evil practices" of China for the record US trade deficit, which reached \$375 billion last year and could go even higher this year.

"President Trump is of the view that it's now time for action," he said. "Our trade deficit is too big, too continuing, too chronic and too inspired by evil practices."

The US has targeted \$50 billion worth of Chinese products for tariffs due to go into effect by May 22, with threats of tariffs on additional \$100 billion worth of exports in response to threatened Chinese retaliation directed against US agricultural goods.

While the threats against Europe and other countries over steel and aluminium are under section 232 of the Trade Expansion Act, the measures against China are being taken under section 301 of the 1974 Trade Act. They follow an investigation into alleged Chinese forced technology transfers and intellectual property

theft.

Ross indicated that both measures would be deployed. "If we don't make a negotiated settlement, we will pursue the 232s and impose them, we will pursue the 301 and impose them," he said. "So, one way or another, we are going to deal with the recurring problem of trade with China," He said he would not be going to China if he did not believe there was "some hope."

The size of the trade deficit is not the only issue. Throughout the administration and US ruling circles more broadly, there is concern that China's move into more high-tech development in the fields of communications, robotics and artificial intelligence poses a threat to the economic and military supremacy of the US.

A tweet posted by Trump highlighted the militarist implications of the trade conflicts. There was a "delegation heading to China to begin talks on massive trade deficit that has been created with our country," he wrote. "Very much like North Korea, this should have been fixed years ago, not now. Same with other countries and NAFTA ... but it will all get done. Great potential for USA!"



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