

US imposes steel and aluminium tariffs

Trump administration takes major step toward global trade war

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The Trump administration has gone ahead with the imposition of tariffs on steel and aluminium exports from the European Union, Mexico and Canada under “national security” provisions of a 1962 US law, risking a trade war recalling that of the 1930s.

The tariffs were first invoked in March but put on hold while the EU sought a permanent carve-out from their imposition, and Mexico and Canada negotiated with the US over redrafting the North America Free Trade Agreement (NAFTA). The EU, Canada and Mexico account for about 40 percent of US steel imports.

After announcing the decision to proceed, Commerce Secretary Wilbur Ross said the NAFTA negotiations did not go far enough to warrant a further postponement.

Talks with Europe resolved nothing. The EU said it was prepared to “engage” with the United States on trade, but only if the US withdrew the threat of tariffs. According to the *Financial Times*, Washington rejected this approach, saying Europe was demanding the US give away the “big hammer” as the cost of entry to talks that would lead nowhere.

The EU said it would take immediate steps to retaliate. It has drawn up a list of €2.8 billion worth of US goods, ranging from bourbon to motor cycles, on which to impose tariffs.

Mexico has said it will impose duties on a range of US goods, while the Canadian government has threatened to put tariffs on as much as \$12.8 billion worth of US steel.

Canadian Prime Minister Justin Trudeau denounced the invocation of “national security” to justify the decision. Canada had been an ally of the US for 150 years, fighting alongside it “from the beaches of Normandy to the mountains of Afghanistan,” he said. It was “inconceivable” that Canada could be considered a national security threat to the US.

“These tariffs will harm industry and workers on both sides of the Canada-US border, disrupting supply chains that have made North American steel and aluminium more competitive around the world,” Trudeau added. It had been expected that “at some point we will see the return of common sense” but there was little sign of it at present.

Ahead of the announcement, which was widely expected, French Finance Minister Bruno Le Maire warned, after speaking with Ross, that the EU would have no choice but to “enter a trade war” with the US. “Our US friends must know that if they were to take aggressive actions against Europe, Europe would not be without reaction,” he said.

European Commission President Jean-Claude Juncker said the EU would go ahead with the plans to impose duties on a range of US products. “This is a bad day for world trade,” he said. “It’s totally unacceptable that a country is imposing unilateral measures when it comes to world trade.”

Speaking at an Organisation for Economic Cooperation and Development annual trade forum in Paris on Wednesday, French President Emmanuel Macron called on the US and other leading nations to devise a “road map” to “transform” the World Trade Organisation, against which the Trump administration has railed.

Macron cited the experience of the 1930s when the imposition of US tariffs played a major role in deepening the Great Depression, which led ultimately to World War II. “We can’t be the modern-day sleepwalkers,” he said. “One should not respond to dysfunction with nationalist retrenchment because these responses deepen the crisis and the world’s imbalances.”

These warnings and last-minute appeals to the Trump administration fell on deaf ears.

Speaking on the eve of the announcement, German Chancellor Angela Merkel's trans-Atlantic cooperation coordinator, Peter Bayer, pointed to the longer-term significance of the US move. "Europe has now understood that there is a profound change in the trans-Atlantic relationship and ... the gravity of the situation," he said.

Luxembourg Foreign Minister Jean Asselhorn expressed similar sentiments. "Europe was not prepared for a change in the world order," he said. "We were always in favour of free trade, together with the Americans. Now we are in a totally different movie."

The European reactions flow from the realisation that the imposition of the tariffs, affecting billions of dollars of trade, is just the start of even more significant measures.

The US move follows its decision to withdraw from the 2015 Iran nuclear deal and Secretary of State Mike Pompeo's warnings that the US will not tolerate European companies continuing their commercial ties with Tehran in defiance of US sanctions.

The US wields enormous power in this area because of the importance of the US market and the dollar's role as the world's major currency, enabling it to impose crippling financial sanctions on firms that defy its edicts.

In addition, the Trump administration is threatening to impose tariffs on the European auto industry. Last month, the White House launched an investigation under the legislation used to impose the steel and aluminium tariffs on "national security" grounds.

One analyst cited by the *Financial Times* warned that if Trump came up with anything like the mooted 25 percent tariff on German cars, it would be "the end of the German-American trade relationship" as not a single car built in Germany could then be sold at a profit.

The reaction from US business circles was largely negative and the Dow Jones index fell by 250 points on Thursday. Concerns were voiced that the tariffs will impact heavily on users of imported aluminium and steel and disrupt global supply chains.

The US Chamber of Commerce said the administration's trade policies, including the possibility of pulling out of NAFTA, could hit US growth and threaten up to 2.6 million jobs.

The general corporate sentiment was support for actions against China, particularly over its moves to enhance its high-tech development, amid accusations that Beijing is "stealing" US intellectual property. But there were concerns that the tariff measures against US allies are preventing the building of a coalition against Beijing.

Major support for the tariffs came from the steel industry, heavily backed by its trade unions. American Iron and Steel Association President Tom Gibson thanked Trump for ensuring "a strong American steel sector that is fundamental to our national and economic security."

Ross waved aside criticisms, saying the tariffs would amount to only a fraction of a cent on an aluminium can, and only a "very small fraction of 1 percent" for the overall economy.

In view of the further measures being prepared, however, the implications of the tariffs go far beyond their immediate impact. There is a growing sense that the entire system of post-World War II economic relations, which the US played a central role in constructing after the disasters of the 1930s, is being torn apart.

Republican Senator Ben Sasse denounced the tariffs as "dumb," reflecting the views of considerable sections of the US political establishment that the measures are missing the real target. "Europe, Canada and Mexico are not China, and you don't treat allies the same way you treat opponents," he said. "We've been down this road before—blanket protectionism is a big part of why America had a Great Depression. Make America Great Again shouldn't mean Make America 1929 Again."

However, while Sasse and others might favour a "selective" trade war against China, the consequences of such actions would prove to be equally disastrous, because of the integrated character of the global economy.



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