Trump puts Europe in his sights for trade war

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23 January 2020

If leaders of the world's major economies thought that the trade war initiated by the Trump administration had somewhat subsided following an agreement with Canada and Mexico and the signing of a "phase one" trade deal with China, then they were given a rude shock at the annual meeting of the World Economic Forum in Davos this week.

After delivering a keynote address on Tuesday in which he lauded the policies of his administration, claiming the US was "in the midst of an economic boom the like of which the world has never seen," Trump made clear in a series of comments and interviews that the trade war has only just begun.

The stepped-up offensive was foreshadowed in his keynote address in which he said the US had pioneered "a new model for trade in the 21st century."

In an interview with the business channel CNBC on the sidelines of the Davos meeting, Trump made clear that his administration had Europe firmly in its sights.

The US and the European Union reached an agreement in July 2018 to begin talks on a new trade deal after the US had threatened to impose a 25 percent tariff on European cars and auto products. But the administration put the threat on the backburner while it focused on China and North America.

"I wanted to wait until I finished with China, I didn't want to go with China and Europe at the same time … I wanted to do Mexico and Canada first. Now they're all done and we're going to do Europe," Trump told CNBC.

What it means to "do Europe" was made clear at the beginning of this week when the French government backed down on its plan to impose a digital services tax on high-tech companies, which reap large revenues its jurisdiction but pay virtually no tax, after the US had threatened to impose a 100 percent tariff on French luxury goods.

The agenda was further elaborated in comments by Trump and his Treasury Secretary Steven Mnuchin.

In an interview on Tuesday, Mnuchin said French President Macron had agreed to hold off on the tax until the end of the year until a permanent solution was worked out. In off-the-record comments administration officials said Macron's decision was a response to the US tariff threat.

Mnuchin warned that if the UK and Italy proceeded with similar measures "they'll find themselves faced with President Trump's tariffs," he said, menacingly adding: "We'll be having similar conversations with them."

Mnuchin escalated the threat during a Davos panel discussion yesterday with UK Chancellor of the Exchequer Sajid Javid. The Johnson government has said it plans to go ahead with a digital tax in April which will be lifted when an international agreement is reached. Mnuchin made clear the US was having none of it.

"If people want to just arbitrarily just put taxes on our digital companies, we will consider arbitrarily putting taxes on car companies" he said. "We think the digital tax is discriminatory in nature."

The threat to impose auto tariffs goes far beyond the issue of the digital services tax. It is the main economic weapon being readied by the Trump administration to force the European Union to make a trade deal. The EU has agreed to talks on industrial products but insists that agriculture is excluded. The Trump administration is demanding that EU markets be opened to US agriculture.

"They're going to make a deal because they have to. They have to," Trump said in a television interview. "They have no choice."

He told CNBC that he had had a great talk with the incoming president of the European Commission, Ursula von der Leyen. "But I said, 'look if we don't get something, I'm going to take some action, and the action will be a very high tariff on their cars and other things that come into our country.'"

In other comments, Trump denounced the EU for having tariffs "all over the place, they make it impossible. They are frankly more difficult to do business with than China."

In an interview with the *Wall Street Journal*, he said: "They know that I'm going to put tariffs on them if they don't make a deal that's a fair deal." Trump however declined to indicate what deadline he had set for the EU saying only "they know what the deadline is" and that he would soon reveal it publicly.

The threatened auto tariffs, which would increase the price of cars imported from Europe by as much almost $7000 and escalate problems in the already troubled German car industry—making it virtually impossible to profitably export cars to the US—would be invoked under Section 232 of the 1962 Trade Expansion Act which gives the power to act on "national security" grounds.

The Commerce Department has prepared a report which supposedly justifies the use of these powers but has so far refused to release it, despite a Congress resolution that it do so.

In a 23-page letter released last week the Justice Department, citing a series of historical precedents, said the president could use executive privilege in denying the request from Congress to have the report released by January 19.

In another expression of the drive to concentrate power in the hands of the presidency, it said disclosure of the report would "risk impairing ongoing diplomatic efforts to address a national-security threat and would risk interfering with executive branch deliberations."

Unlike the measures against China, which enjoyed broad bipartisan support, there is opposition to tariff measures against the European auto industry and the bogus use of "national security" provisions against what are regarded as "strategic allies" of the US.

But such attitudes may be shifting in the US corporate establishment. Writing in the *New York Times* on the eve of the Davos meeting, Andrew Ross Sorkin noted a change in the views of the corporate oligarchs, particularly in the US, and that in a tariff-based, decoupled world Trump may be the new "Davos Man."

The article cited the comments of Stephen Schwarzman, the co-founder of the major hedge fund, Blackstone, who said the attitude of the business community towards Trump was "quite positive" because of the strength of the US economy, the trade deals with Mexico, Canada and China, the major corporate tax cuts and the elimination of regulations.

That "positive" attitude may well translate into active support for the new stage in the US-initiated global trade war.