

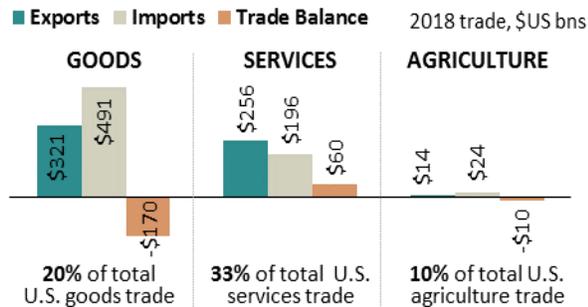


May 15, 2019

Proposed U.S.-EU Trade Agreement Negotiations

On October 16, 2018, the Trump Administration notified Congress under Trade Promotion Authority (TPA) of new U.S. trade negotiations with the European Union (EU), the United States' largest trading partner (see **Figure 1**).

Figure 1. U.S. Trade with the EU-28, 2018



Source: U.S. Bureau of Economic Analysis, and the U.S. Department of Agriculture.

The transatlantic economy is massive and highly integrated, but still features tariffs and nontariff barriers (NTBs) to trade and investment. U.S.-EU negotiations on a Transatlantic Trade and Investment Partnership (T-TIP) stalled after 15 rounds under the Obama Administration. The proposal for new talks followed a July 2018 U.S.-EU Joint Statement aiming to deescalate trade tensions. The new talks have not formally started, and their outlook is uncertain. Congress may seek to monitor and shape the trade negotiations, and could consider implementing legislation for a potential final free trade agreement (FTA).

U.S.-EU Trade Context

The negotiations come amid heightened U.S.-EU trade frictions. The Administration blames “unfair” EU trade practices, particularly by Germany, for the U.S. goods trade deficit with the EU, and seeks a “fairer, more balanced” relationship. In June 2018, the United States imposed Section 232, national-security-based tariffs on steel and aluminum imports; the EU followed with retaliatory tariffs. Both sides are now pursuing cases in the World Trade Organization (WTO) on the measures. Potential Section 232 auto tariffs also have strained ties. Frictions may grow more with potential U.S. and EU countermeasure tariffs on bilateral imports, stemming from the protracted U.S.-EU, “Boeing-Airbus” cases in the WTO on aircraft subsidies.

U.S.-EU disagreement over the scope of the negotiations, particularly on agriculture, have cast uncertainty over their outlook. U.S. negotiating objectives aim to address tariffs and NTBs for goods, services, agriculture, government procurement, investment, and other areas. The United States may seek to negotiate in stages. The EU, meanwhile, seeks limited negotiations to defuse tensions and avoid the pitfalls of T-TIP. EU negotiating directives authorize the European Commission to eliminate tariffs on industrial

products (excluding agriculture) and address regulatory NTBs in a conformity assessment agreement. The EU claims it is adhering to commitments made in the Joint Statement (see **Figure 2**). Although both sides agreed not to escalate tariffs while negotiations are active, and to examine the Section 232 steel and aluminum tariffs, President Trump has threatened the EU repeatedly with tariffs, including over its exclusion of agriculture. The EU asserts it will stop negotiating if the United States applies new Section 232 tariffs, and may stop negotiating if subject to new trade restrictions under other U.S. trade laws.

Figure 2. Proposed U.S.-EU Trade Negotiations

SCOPE	FRICION
<p>July 2018 U.S.-EU Joint Statement</p> <p>Tariffs, nontariff barriers, and subsidies on non-auto industrial goods; sectoral focus (services, chemicals, pharma, medical products, soybeans)</p>	<p>U.S. and EU agree not to apply new tariffs while negotiations ongoing and review U.S. Sec. 232 steel and aluminum tariffs</p>
<p>U.S.</p> <p>TPA notification and specific objectives: broad scope - goods, services, agriculture, gov't procurement, digital trade, regulatory cooperation, other rules (e.g., investment, intellectual property, labor, environment)</p>	<p>President Trump has threatened to impose auto tariffs under Sec. 232 if negotiations do not progress, or if EU does not include agriculture in scope</p>
<p>EU</p> <p>Negotiating mandates: narrow scope - industrial tariffs (no agriculture), regulatory cooperation, and sustainability impact assessment</p>	<p>Negotiating mandates: must stop negotiations if new Sec. 232 tariffs are imposed, may stop negotiations if trade restrictions under Sec. 301 or other U.S. laws imposed</p>

Source: U.S. and EU official documents, press reports.

Selected Issues and Sectors

Industrial Tariffs. Average U.S. and EU tariffs are relatively low (3.4% and 5.1%, respectively in 2017), after successive rounds of multilateral trade liberalization. Over 60% of bilateral merchandise flows are duty-free, but “tariff peaks” make sensitive imports more expensive. Further tariff liberalization could yield significant economic gains given the magnitude of commercial ties. The Trump Administration repeatedly has criticized the tariff imbalance on passenger vehicles; the EU tariff is 10% and the U.S. tariff is 2.5%. (For trucks, the EU tariff is 22% and the U.S. tariff is 25%.) The planned exclusion of autos may preserve U.S. leverage to negotiate, but the threat of Section 232 auto tariffs could affect EU willingness to engage in the negotiations.

Services. The EU accounts for over one-third of annual U.S. services trade worldwide. Financial services, a key part of the economic relationship, could be a major issue, depending on the scope of the negotiations, in terms of

market access and regulatory cooperation. Other potential issues include licensing and certification of professional services providers and e-commerce.

Agriculture. A central U.S. issue is the EU exclusion of agriculture from the talks. According to an EU interim report, agriculture is not included because it is “a sensitivity for the EU side.” In part, this is due to EU commercial and cultural practices that are often enshrined in EU laws and regulations—and differ from those in the United States. Such differences impeded T-TIP. U.S. exporters’ market access concerns involve the EU’s use of tariff-rate quotas for many agricultural products, including meat and dairy products, grains and oilseeds, and some fruits and vegetables. As reported by U.S. officials, the calculated average tariff rate across all U.S. agricultural imports is roughly 12%, below the EU average of 30%. U.S. nontariff and regulatory concerns involve sanitary and phytosanitary (SPS) standards, including the use of biotechnology, and the use of growth hormones and pathogen reduction treatments in meat production. Other U.S. concerns involve certification and labeling requirements, as well as geographical indications (GIs)—certain EU-protected names for foods, wine, and spirits that U.S. producers view as generic names. The EU has sought to defuse trade tensions by increasing imports of U.S. soybeans and negotiating changes to its quota for U.S. hormone-free beef.

Government Procurement. U.S. and EU public procurement markets are significant. The United States seeks more transparency about procurement opportunities in EU member states, and the EU prioritizes obtaining greater sub-federal bidding access in the United States.

Regulatory Cooperation. Greater cooperation, convergence, and transparency in regulations and standards-setting processes could lead to greater U.S.-EU market access. Some current barriers may be duplicative, costly, and burdensome, or not reflect widely shared safety and environmental risk assessments.

Sectoral Cooperation

Areas for cooperation include pharmaceuticals, medical products, and chemicals. A 2017, U.S.-EU mutual recognition agreement (MRA) on pharmaceutical manufacturing practices removed some duplicative regulations that slow global drug development. Negotiators have reportedly agreed in principle to expand the MRA and start joint inspections of certain manufacturing facilities. In addition, they have discussed improved coordination in medical device regulations, as well as cooperation on chemicals between respective regulators and risk assessment agencies.

Rules. In contrast to the EU, U.S. negotiating objectives aim to establish trade rules on a range of issues as in recent U.S. FTAs. These include intellectual property rights (IPR), investment, labor, the environment, as well as newer issues such as digital trade, state-owned enterprises (SOEs), and currency misalignment. Differing U.S. and EU approaches on some issues constrained T-TIP. Given the weight of the transatlantic economy, U.S.-EU consensus, if reached, could shape rules globally and address issues of mutual concern, for instance, regarding China’s trading practices.

Issues for Congress

Scope and Outlook. A path forward appears uncertain. A narrow agreement could lead to some “wins” and facilitate future negotiations, but may be limited in the trade liberalization secured across sectors. Yet, T-TIP shows the challenges of negotiating a more comprehensive FTA. Many in Congress and in the U.S. agricultural sector strongly oppose excluding agriculture. It is unclear how a potentially staged approach to the talks would prioritize issues, as well as if a potential final FTA would meet congressional expectations or TPA requirements. In the EU, complexities include Brexit, which would remove the UK’s leading voice on trade liberalization from the EU. France says it opposes the U.S.-EU talks due to the U.S. position on global efforts to address climate change.

Economic Implications. The effects of a potential U.S.-EU trade agreement on the U.S. economy are difficult to quantify due to data limitations and other issues. A general consensus exists that the aggregate economic benefits of an agreement would outweigh the costs. Most studies find that a U.S.-EU FTA, whether addressing tariffs or also NTBs, would yield net gains for the U.S. economy. Estimates vary, but given the relatively low U.S.-EU tariffs on average, most gains would come from reducing NTBs. Ultimately, the impact will depend on the issues covered, the extent to which barriers are reduced, and the policy responses, if any, to ease hardships on those firms and workers facing costs from greater U.S.-EU economic integration.

U.S.-EU Trade Relations. Depending on its scope and ambition, a U.S.-EU FTA would be a culmination of years of efforts toward further bilateral trade liberalization. In the absence of a U.S.-EU FTA, U.S. businesses are disadvantaged in the EU market relative to such trading partners as Canada, Japan, and Vietnam, with whom the EU recently concluded FTAs. An FTA also could be significant strategically in jointly shaping global “rules for the road” on new issues and, for instance, with respect to China.

Successful negotiations, however defined, could not only help resolve the current standoff over tariffs, but also rebuild trust and reinforce trade ties amid shifts in U.S. trade policy approaches under the Trump Administration and changes to the EU post-Brexit. Proposed U.S.-UK FTA negotiations—contingent upon the UK regaining a national trade policy after it withdraws from the EU—raise questions of whether or how the United States would prioritize talks with the EU and UK. Concluding even limited U.S.-EU trade negotiations likely will take time. If talks fail, trade tensions could escalate, or the two sides may explore other avenues for engagement, such as enhanced regulatory cooperation and sectoral agreements. Whatever the outcome, many transatlantic watchers argue that U.S.-EU trade ties will endure, buttressed by 70 years of transatlantic economic, security, and political cooperation. See CRS In Focus IF10931, *U.S.-EU Trade and Economic Issues*, by Shayerah Ilias Akhtar.

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