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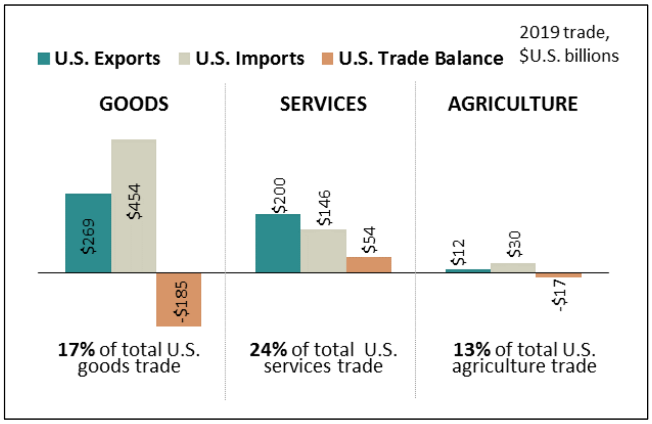
U.S.-EU Trade Agreement Negotiations: Issues and Prospects

The United States and the 27-member European Union (EU) share a large, highly integrated trade and investment relationship. The EU accounts for a significant share of U.S. trade (see **Figure 1**).Yet, tariffs and nontariff barriers (NTBs) to U.S.-EU trade and investment exist. Successive Administrations have sought to address these barriers and expand ties. If U.S.-EU trade talks take place under a Biden Administration, Congress likely would actively monitor and shape them, and could consider implementing legislation for a potential final free trade agreement (FTA).

Figure 1. U.S. Trade with the EU27, 2019



Source: U.S. Bureau of Economic Analysis (BEA); U.S. Department of Agriculture (USDA) Global Agricultural Trade System (GATS).
Notes: Although the United Kingdom (UK) was still a member of the EU in 2019, this figure does not include UK trade data in light of the UK's departure from the EU in January 2020. Agriculture and related products data are included in goods trade, but U.S. government trade data for agricultural and related products is calculated distinctly for various reasons.

Previous Trade Negotiation Efforts

High-level interest in a bilateral trade agreement dates back to at least 1995, rooted, in part, in a desire to reinforce transatlantic relations after the Cold War. Efforts did not advance, possibly due to concerns that they could signal a lack of U.S. confidence in the newly-formed World Trade Organization (WTO) and they might fail over long-standing differences on certain trade issues. Instead, the two sides focused primarily on sector-specific regulatory cooperation.

In 2013, during the Obama Administration, the two sides launched comprehensive negotiations on a Transatlantic Trade and Investment Partnership (T-TIP), in hopes of boosting U.S.-EU economic growth and jobs, along with responding to increased competition from emerging markets. After 15 negotiating rounds, T-TIP stalled in 2016 over key differences, e.g., on agriculture, data flows, geographical indications (GIs), and investor protections.

On October 16, 2018, the Trump Administration notified Congress under Trade Promotion Authority (TPA) of new trade negotiations with the EU. This followed a July 2018 U.S.-EU Joint Statement to deescalate U.S.-EU trade tensions—heightened due to the Administration's criticism of "unfair" EU trading practices, and issues such as

- U.S. application of Section 232, national-security-based tariffs on steel, aluminum, and possibly auto imports;
- EU retaliatory tariffs on certain U.S. exports to the EU;
- the long-running Boeing-Airbus subsidy dispute, in which the WTO authorized each side to retaliate for illegal subsidies given by the other to its respective aircraft manufacturing industry; and
- digital services tax measures by the EU and certain member states.

U.S. negotiating objectives aimed to address tariffs and NTBs for goods, services, agriculture, government procurement, and investment, as well as regulatory cooperation and trade-related rules. The EU, meanwhile, sought limited negotiations to defuse tensions and avoid the complications of T-TIP. EU negotiating directives, released in April 2019, authorized negotiations to eliminate tariffs on industrial products (excluding agriculture) and to address regulatory NTBs in a conformity assessment agreement. Differences in scope stymied the talks from the outset. Limited progress was made with some market-opening commitments in agriculture sector-specific regulatory cooperation steps.

Selected Issues and Sectors

Potential future U.S.-EU trade negotiations could include

Industrial Tariffs. Average U.S. and EU tariffs are relatively low (trade-weighted average of 2.3% and 3.3%, respectively in 2018), after successive rounds of multilateral trade liberalization. Over 60% of bilateral merchandise flows are duty-free, but "tariff peaks" make sensitive imports more expensive. Additional tariff liberalization could yield economic gains given the magnitude of commercial ties.

Services. Trade in services, given its magnitude, may be prominent in any future talks. Potential issues include financial services market access and regulatory cooperation, licensing and certification of professional services providers, digital services, and EU "cultural" restrictions on audiovisual and broadcasting services.

Agriculture. A central U.S. issue during the Trump Administration was the EU's desire to exclude agriculture from the negotiations. Despite public statements by U.S. and EU officials in early 2020 signaling that talks might include certain NTBs, other statements by EU officials downplayed this possibility. In part, the exclusion of agriculture is due to EU commercial and cultural practices that are often enshrined in EU laws and regulations, and that differ from those in the United States. Such differences impeded T-TIP. U.S. exporters' market access concerns include the EU's use of tariff-rate quotas for certain agricultural products. 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 EU sanitary and phytosanitary (SPS) standards that limit the use of biotechnology, growth hormones, and pathogen reduction treatments in meat production. Other U.S. concerns involve geographical indications (GIs) or certain EU-protected names for foods, wine, and spirits that U.S. producers view as generic names. The EU sought to defuse tensions by increasing imports of U.S. soybeans and raising the U.S-quota for hormone-free beef. In an August 2020 deal, the EU removed import tariffs on lobster in exchange for certain U.S. tariff reductions; both actions were on a WTO most-favored-nation basis.

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. The two sides have a long history of sector-specific cooperation, including under the Trump Administration (see **text box**). Limited progress on NTBs in the recent trade talks included U.S. and EU text proposals in 2019 to enable each side's domestic regulatory bodies to test domestically-manufactured products for conformity with the other's technical regulations.

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. Subsequent U.S.-EU developments included

- reportedly agreeing in principle to expand the MRA and carry out joint inspections of other manufacturing facilities;
- discussing improved coordination in medical device regulations; and
- discussing cooperation on chemicals between respective regulators and risk assessment agencies.

Rules. U.S. objectives include addressing trade-related rules in a range of areas, including intellectual property rights (IPR), investment, labor, the environment, digital trade, state-owned enterprises, and currency misalignment. U.S.-EU differences on some rules constrained T-TIP.

Issues for Congress

Outlook. While President-elect Biden pledged to work to deepen the U.S.-EU relationship, the outlook for bilateral trade negotiations is unclear. Some observers speculate that the two sides may negotiate a trade agreement to spur post-COVID-19 economic recovery and advance strategic goals. Others expect them to focus on resolving specific trade issues, such as the Boeing-Airbus subsidy and digital tax disputes, and addressing common trade challenges in the WTO. The EU proposed a new joint Trade and Technology Council to tackle bilateral trade irritants and cooperate on data flows, regulations and standards, and other issues.

During talks under the Trump Administration, many in Congress, including Senate Finance Chairman Grassley, have opposed the EU's exclusion of agriculture from the talks. House Ways and Means Chairman Neal recently voiced support for renewing U.S.-EU trade cooperation and negotiations, and some Members of Congress previously supported T-TIP. While EU leaders have been wary about embarking on broad-based trade talks in light of T-TIP, a recent European Parliament resolution calls for building on the momentum from the August 2020, limited tariff deal to work on a broader U.S.-EU trade agenda.

Potential sticking points also may evolve. Brexit removed the UK's leading voice on trade liberalization from the EU, which could widen gaps in U.S. and EU positions. Yet, some issues may be less contentious. For instance, France opposed U.S.-EU trade talks under President Trump due to the Administration's position on global efforts to address climate change; the U.S. position in a Biden Administration may be more aligned with the EU's position.

If trade negotiations proceed, one issue is how the United States and EU would prioritize them relative to other negotiations. Another issue is whether they would seek to negotiate limited trade deals, or a more comprehensive FTA. A narrow agreement could lead to some "wins" and facilitate future negotiations, but may be limited in the trade liberalization it secures across sectors. T-TIP, however, showed the challenges of more comprehensive FTA negotiations. It is unclear how a potentially staged approach to the talks would sequence issues, as well as if a potential final FTA would meet the requirements of TPA, which expires on July 1, 2021.

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 would depend on the issues covered and the extent to which barriers are reduced.

U.S.-EU Trade Relations. Without 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 for the United States and EU to jointly shape global trade rules and address issues of mutual concern, such as China's trading practices. Successful talks not only would culminate years of trade liberalization efforts, but they also could help reinforce U.S.-EU political and economic ties after recent heightened frictions. For more information, see CRS In Focus IF10930, *U.S.-EU Trade and Investment Ties: Magnitude and Scope*.

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