New York Times (Oct. 2, 2019)

U.S. to Tax European Aircraft, Agriculture and Other Goods

By Ana Swanson

WASHINGTON — The Trump administration said Wednesday that it would impose tariffs on European aircraft, French wine and cheese, Spanish olive oil and other goods starting Oct. 18, after the World Trade Organization granted the United States permission to tax as much as $7.5 billion of European exports annually.

The tariffs are part of a long-running complaint over subsidies given to the European plane maker Airbus and are intended to allow the United States to recoup some of the losses the American plane maker Boeing sustained because of Europe's trade practices. The ruling on Wednesday gives the go-ahead for the United States to impose enough tariffs to block $7.5 billion in trade from Europe annually, until the two sides reach a negotiated settlement, or the organization decides that Europe is in compliance with its rules.

The tariffs could raise prices for American companies and customers who import products from Europe, affecting airlines, manufacturers and consumers at the grocery store. The list of products released from the United States reads like a gourmet shopping list, with the administration planning to place a 25 percent tax on imports of Parmesan cheese, mussels, coffee, single malt whiskeys and other agricultural goods from Europe.

The administration's decision to slap levies on European products could also further escalate tensions with the European Union, which has bristled at President Trump's confrontational trade approach.

The World Trade Organization's decision brings to an end a roughly 15-year dispute over the financial assistance that Europe provides to its major plane maker. The organization ruled last May that Europe had illegally subsidized several of Airbus's models. On Wednesday morning, the global trade body announced that the United States could seek to recoup $7.5 billion in damages by imposing tariffs, the largest authorized retaliation in the organization's history.

The Office of the United States Trade Representative said that it plans to levy a 10 percent tariff on European aircraft and a 25 percent tariff on agricultural goods, industrial products and other imports in an effort to pressure the European government to abandon its subsidies.

"For years, Europe has been providing massive subsidies to Airbus that have seriously injured the U.S. aerospace industry and our workers," Robert Lighthizer, the United States trade representative, said in a statement. "We expect to enter into negotiations with the European Union aimed at resolving this issue in a way that will benefit American workers."

European officials have said they are eager to negotiate a solution but are also prepared to respond with levies on American goods. The World Trade Organization is considering a parallel case that the European Union brought against the United States for subsidizing Boeing, and the union has drawn up its own list of $20 billion in American products that it could tax in response to that case. The World Trade Organization is expected to announce that decision early next year.

Cecilia Malmstrom, the European commissioner for trade, said in an interview on Sept. 23 that the European Union had been trying to head off the possibility of American retaliation through negotiations, but those talks had so far failed to produce an agreement that would

forestall tariffs. The United States had been receptive to further discussions, but not to the idea of delaying its tariffs, she said.

"We already have too many tariffs in the world, so it would be unfortunate to do this," Ms. Malmstrom said. "We have sinned, and the U.S. has sinned. And that has been recognized by the W.T.O."

In a call with reporters on Wednesday, a senior official with the Office of the United States Trade Representative said that the Europeans had not put forward a sufficient solution, arguing that the nature and size of the subsidies provided by the European Union dwarfed anything that the United States provided to domestic companies.

"The E.U. has been found in violation of the law," said Peter Chase, a former American diplomat and a senior fellow at the German Marshall Fund of the United States in Brussels. "It simply has no grounds to complain about the United States."

An escalating trade spat with Europe would open another front in the global trade war that Mr. Trump has undertaken to try to change trade terms that he says have long disadvantaged the United States. The president has already imposed tariffs on more than $360 billion of products from China, in addition to levies on washing machines, solar panels and steel and aluminum from Japan and Europe.

Those actions have raised the average American tariff rate to levels not seen in decades — the United States now has the highest tariff levels of any of the Group of 7 industrialized nations.

Markets sank Wednesday, following fresh evidence that the trade war is weighing on the global economy.

The S&P 500 dropped 1.8 percent, its worst day since late August. Stocks in Europe tumbled. In Paris trading, share prices for Airbus declined 2 percent, and on Wall Street, Boeing fell 2 percent.

In a report published Tuesday, the World Trade Organization slashed its forecast for global trade growth for this and next year. And a closely watched gauge of American manufacturing showed factory activity slowed in September, the second straight month of decline.

Trade tensions between the United States and the European Union have already been running high. The governments announced in mid-2018 that they would work toward a trade agreement, but negotiations quickly stalled over a dispute about agriculture, which the United States insists should be included in the talks. Mr. Trump has been fiercely critical of Europe for selling more to the United States than it purchases and is considering hitting the eurozone with additional tariffs this fall on cars exported to America.
"They have not been treating this country right for many, many years, and they know it," Mr. Trump said of Europe on Wednesday as he met with the president of Finland.

The Trump administration has also fiercely criticized the World Trade Organization itself, for overreaching its mandate and failing to restrain China's poor economic practices. The United States is withholding appointments to a body of the organization that considers appeals to trade disputes, which will stop the organization from being able to complete new cases like the one against Airbus as of Dec. 10.

Stephen P. Vaughn, a partner at King & Spalding and the former general counsel of the trade representative's office, called the Airbus ruling a "huge, huge win for the U.S." but said it also demonstrated the limitations of an international system that the Trump administration has often criticized as slow and ineffective.

"It's taken 15 years to get here, and it is highly unlikely that the Europeans will comply" with ending the subsidies, Mr. Vaughn said.

Chad P. Bown, a senior fellow at the Peterson Institute, said the planned exchange of tariffs highlighted the failure of the United States and Europe to work together to write more comprehensive rules about global trade, particularly subsidies. That could have major implications for China, which the United States and other countries have criticized for unfairly subsidizing its companies and undercutting other companies around the world.

"It's not just the U.S. and Europe that are subsidizing aircraft; it's also Canada, Brazil and China," Mr. Bown said. "These two are fighting last century's war, and they need to move on."

The new tariffs would be unlike the taxes that Mr. Trump has imposed on Chinese goods and imported steel and aluminum, in that they have the advance approval of the World Trade Organization.

While the global trading organization does not encourage the use of tariffs, it does allow countries to impose them in certain situations where other governments are found to have broken the organization's rules. If a country brings a trade dispute to the World Trade Organization and wins, the global body may authorize it to block a certain dollar value of trade from another country as a penalty.

Even though the tariffs would be in line with global rules, they are still likely to weigh on the economy and American companies.

United States tariffs on aircraft would raise the cost of future plane purchases for America's largest airlines. And by slowing Airbus's business, tariffs could rebound on the many American manufacturers that supply components to the European plane maker.

In a statement, Airbus said that close to 40 percent of its aircraft-related purchases come from United States suppliers. The company spent $50 billion purchasing products in the United States in the last three years — more than it spent in France, Germany or Britain.

If the United States does impose tariffs on aircraft or aircraft parts, the company said, it would "create insecurity and disruption not only to the aerospace industry, but also to the broader global economy."

Tariffs "would have a negative impact on not only the U.S. airlines but also U.S. jobs, suppliers and air travelers," said Guillaume Faury, the company's chief executive.