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TRUMP-JUNCKER MEETING: VIEWS FROM BRUSSELS AND WASHINGTON

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OVERVIEW

Leading up to Wednesday's meeting in Washington between US President Donald Trump and European Commission President Jean-Claude Juncker, both sides had low expectations. However, after almost three hours of talks, the leaders held an impromptu joint press conference announcing **a deal signaling the start of US-EU trade negotiations.**

According to a joint [statement](#), the two sides agreed to the following general points:

- **No imposition of new tariffs** on each other while negotiations are ongoing
- To work together "toward **zero tariffs, zero non-tariff barriers, and zero subsidies on non-auto industrial goods**"
- To work to "reduce barriers and **increase trade in services, chemicals, pharmaceuticals, medical products, as well as soybeans.**"
- To **strengthen strategic cooperation on energy**, with the EU continuing to build infrastructure to import more US LNG
- To **work together with like-minded partners to reform the WTO and address unfair practices** such as intellectual property theft, forced data transfers, industrial subsidies, trade distortion, and overcapacity
- To form an "**Executive Working Group**" to move this agenda forward
- A desire to "**resolve steel and aluminum tariff issues and retaliatory tariffs**"

VIEW FROM BRUSSELS

There was a distinct sigh of relief in Brussels and in most (though not all) European capitals this morning following yesterday's meeting, and **overall a feeling that the European Commission's president had done well, having managed to "gear the conversation towards a trade deal rather than a trade war."** However, the details of the deal and what exactly was agreed remain vague, with the joint statement mentioning that the transatlantic allies would "launch a new phase" in the relationship.

While Berlin unsurprisingly hailed the truce in the budding trade war, given the importance of their auto industry and the fact it was first in line to be punished by Trump's

protectionist offensive, **Paris reacted much more harshly**, with Finance Minister Bruno Le Maire demanding "clarifications" over the agreed measures. The French feel especially miffed that existing steel and aluminum tariffs will remain in place while discussions of a larger trade deal go on. "A good business discussion can only be conducted on a clear basis and cannot be conducted under pressure," said Le Maire. The French feel this is a bit like a "peace in our time" moment, with a statement smacking of appeasement, until the US president's next twitter attack or policy course reversal. **Overall, though, the Europeans welcomed the trade truce announced by the EU and US, while doubts lingered over its feasibility and the changing moods of President Trump.**

MAIN TAKE-AWAYS OF THE MEETING, SEEN FROM BRUSSELS

While the discussions were vague, **Juncker has at least managed to get the US to put a pause on all new tariffs**, buying time for the German auto industry and a reassessment of steel and aluminum tariffs (seen in Brussels as a significant concession from President Trump). However, the grumpier **critics of yesterday's deal point out that US tariffs on steel and aluminum stay, and so do EU retaliatory tariffs**. No new tariffs on EU cars indeed, but this is basically the situation that existed prior to the meeting taking place.

In exchange, Juncker agreed that **the EU would boost its purchases of US soybeans and build more terminals to import liquified natural gas from America, though how the European Commission could deliver that pledge remained unclear**. As EU Ambassador to the US David O'Sullivan highlighted, on both LNG and soybeans, "these are ultimately commercial decisions. It's the consumers and companies that will buy them."

- **On LNG, the idea of significant increased shipments to the EU is hard to see materializing anytime soon, simply because LNG (from the US, Nigeria, Qatar, or elsewhere) is not price competitive with piped gas (around 30% more expensive)**. European gas prices are now largely determined by trading on financial markets, but they are often too low for American suppliers to compete. The cost of liquefying gas in the United States and transporting it to Europe doubles its price for American companies. By contrast, Russian or Norwegian gas shipped by pipeline to Europe costs far less. The most lucrative markets for US LNG are in South and Central America, India and Asia, with Europe near the bottom of the pile given its relatively low prices and ample supplies of piped gas. Today, three-quarters of Europe's existing LNG import facilities lie empty, while demand for US LNG on the continent remains limited.
- **On soybeans, the EU has agreed to import more from the US. However, The European Commission has no power and little leverage to make this happen by fiat**. What is true, however, is that the 25% tariff China slapped on US soy imports is affecting the global market for that commodity, with Brazil probably taking market share away from the US. Facing a reduced Chinese market, US soybean exporters have few options other than to target the EU. **The US may well, because of the US-China trade war, displace Brazil as the biggest soybean exporter to the EU**. There have been some comments about Europe's attitude to GMOs as a barrier to that happening. However, people forget that the EU is the second largest importer of soybeans in the world, and imports tens of millions of tons of GMO crops

and products every year. The EU restricts their use in animal feed only, restricting planting within the EU.

The agreement also talks about working towards “zero tariffs, zero non-tariff barriers, and zero subsidies on non-auto industrial goods.” This was, however, already an EU objective during the TTIP negotiations. The parties agreed to “reduce barriers and increase trade in services, chemicals, pharmaceuticals, medical products, as well as soybeans,” which is **understood in Brussels to mean that the EU will keep its trade barriers against US agricultural imports but is happy to buy more soybeans.**

Finally, the agreement talks about **a common commitment to reform the World Trade Organization and address unfair trading practices.** This is something the Europeans have been keen to work with Washington on, as they agree with many of the US concerns about the current functioning of the organization, and in particular want to address issues linked to China. Currency did not appear to be addressed.

VIEW FROM WASHINGTON

In the near term, **the EU’s agreement to buy more US soybeans represents a relatively-easy political “win” for the Trump administration,** under increasing pressure from Congress and agricultural groups alike on retaliatory tariffs from China, the EU, Canada, Mexico, and others. **However, it remains unclear how this agreement will be implemented given the lack of detail.** US stakeholders today sought clarification, starting with USTR Lighthizer’s morning hearing before the Senate Appropriations Subcommittee.

IMPLICATIONS FOR LIGHTHIZER-MOTEGI MEETING

Japan is watching closely as working group discussions between the EU and the US unfold. USTR Lighthizer and Japanese Economic Revitalization Minister Toshimitsu Motegi are preparing to discuss “free, fair and reciprocal” trade within the next 30 days. **For the Japanese, Trump’s pledge to pause all new tariffs while the EU-US negotiations take place adds uncertainty. Given it is already the fourth largest importer of US soybeans and LNG, Japan will be focused on securing a deal with Trump on tariffs** while continuing to resist the US push for a bilateral FTA.

CONCLUSIONS

The real question is how realistic it will be for the EU and the US to reach a concrete trade agreement. Factors such as the US not being part of the Paris Agreement (an EU condition for its trade deals), or the nature of the global gas market, may deadlock the talks and push the US president to revert to more aggressive tactics.

What has Brussels really won? Time. The German car industry is (momentarily) relieved, and the overall tone of the discussion is much more civilized. However, **nothing beyond this has fundamentally changed** and the real question is how long the ceasefire will last. From what we know, **this is a particularly vague deal:** There are no numbers, no

deadlines, and no specific measures outlined in the Trump-Juncker joint statement. **Trump's "fire and fury" against European car imports may have been put to rest, but for how long?**

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