
Study-guide

# European Commission

# “Responding to American tariffs”

# 1 Words of welcome

Dear Delegates,

It is our pleasure to welcome you back to our Debate Block of this academic year and to this important session by the **European Commission** on **“Responding to American Tariffs”**.

We hope you’ve all ‘imported’ your best arguments, because things might ‘escalate’ faster than a trade war! This Debate Block’s topic is taxing in more ways than one, and we’ll be imposing plenty of intellectual duties on everyone here. But don’t worry—no need for tariffs on fun. Just make sure your points have value-added! So avoid any 'protectionist' behaviour, and remember: diplomacy is key. Or as we say, let’s negotiate before we retaliate! Now let’s get things rolling before someone tries to slap a tariff on the beer at AdHoc!

Welcome to our debate block, and best of luck to each of you in this challenging endeavour!

# 2 Introduction of the Committee

“My view is that our era’s greatest challenges – from security to climate change to competitiveness - can only be solved through joint action. Against this backdrop, I believe Europe must choose its best option: Union.”

*Ursula von der Leyen*

The European Commission, established in 1958, serves as the executive branch of the European Union (EU). Its primary responsibilities include proposing new legislation, implementing decisions, upholding EU treaties, and managing the day-to-day operations of the EU. In the realm of international trade, the Commission represents the EU's interests, negotiating agreements and addressing trade disputes. When confronted with tariffs imposed by the United States, the European Commission is empowered to implement countermeasures to safeguard the EU's economic interests. For instance, in response to U.S. tariffs on European steel and aluminium, the Commission has adopted rebalancing measures in the past targeting U.S. products.

# 3 Introduction to the topic

## 3.1 US tariffs on Mexico, Canada and China

President Trump's mood had been both euphoric and combative, even by his standards, after announcing tariffs on America's three biggest trading partners – Mexico, Canada and China. "THIS WILL BE THE GOLDEN AGE OF AMERICA!" he posted on Truth Social, his social-media platform. "IT WILL ALL BE WORTH THE PRICE THAT MUST BE PAID." On February 3rd global markets offered a glimpse of that price: stocks fell throughout the world, oil prices rose, and most currencies weakened against the dollar. But as soon as Trump relented – first announcing the delay in the tariffs on Mexican imports and then, a few hours later, on Canadian goods (both delayed by a month) – the market moves went into reverse.

Trump does not want to prompt a stock market rout. That is why some observers assumed that his tariffs of 25% on goods from Canada and Mexico were always going to be short-lived. Such an assumption was validated by his abrupt reversal. It may, therefore, end up limiting selloffs during any future trade disputes, which in turn could allow Mr Trump to stick to his protectionist guns for longer.

Canada, China and Mexico all threatened retaliation. Justin Trudeau, Canada's prime minister, said that he would impose tariffs of 25% on over 1,000 imports from America from Tuesday. China threatened to "take corresponding countermeasures" and refer America to the World Trade Organisation. Claudia Sheinbaum, Mexico's president, said she would announce a "Plan B" that contained "tariff and non-tariff measures". She won praise at home and abroad for her handling of her mercurial American counterpart. When Mr Trump ordered tariffs on February 1st, she told her team to prepare countermeasures, but did not publicise the details.

Mr Trudeau took a more defiant stance. Faced with a 25% tariff on all goods but oil, which would be subject to 10%, Mr Trudeau announced retaliatory tariffs on C$155bn (US$106bn) of imports from America. His negotiation took two calls, during which he was reportedly told that Canada could avoid tariffs by becoming the 51st member of the United States.

Mexico and Canada both agreed to increase security at their borders with the United States to address Mr Trump's concerns about fentanyl trafficking and immigration. Ms Sheinbaum pledged to deploy 10,000 National Guard troops to Mexico's northern border,

adding to the 10,000 already stationed there. Mexican officials will work with their American counterparts on trade and security, as they already do on migration. Mr Trudeau reheated a border-security package worth C$1.3bn that was announced in December and promised to appoint a “fentanyl czar”.

Nevertheless, neither Mexican nor Canadian officials are resting easy. Both think it likely that Mr Trump will at some point follow through and impose tariffs, at least on a subset of imports. They are certain that he will use tariffs as leverage during a forthcoming renegotiation of the United States-Mexico-Canada free-trade agreement (USMCA). Mr Trump signed the USMCA in 2020, but he always maintained that he wanted it scrapped. Now he wants to renegotiate it ahead of the scheduled review in 2026. The uncertainty alone will stifle investment.

### 3.2 The European Union

Donald Trump’s bluster on trade is concerning for Europe precisely because international commerce matters to it so much. For despite an enduring bout of economic anaemia, the EU is an importing and exporting powerhouse. Its 27 countries sell more goods to foreigners than anyone bar China, and are behind only America when it comes to buying them in. Despite its smaller economy, the EU out-trades America in absolute terms. It sends and receives goods from outside the bloc worth 29% of GDP, compared with 19% for America. The surplus of trade beyond the club’s borders is vital for the European economy, not least given that its own consumers (and many governments) are hard-up. “Europe has been relying on exports more than other regions,” points out Brad Setser of the Council on Foreign Relations, an American think-tank.

Two prospects haunt the EU. The first is an inescapable trade conflict with Mr Trump, who calls the EU an “atrocity” on trade and has promised to impose his beloved tariffs, as he did in his first term. Assuming the threat is enacted, this would throttle Europe’s exports to its biggest market just as its economy is in the doldrums. The second fear is how China will react to finding itself on the sharp end of American protectionism. With its own biggest foreign market increasingly restricted, China might divert goods to the still-open EU to keep its factories humming. Though consumers would benefit from cheap wares, European firms making cars, dishwashers and the like there would suffer. Politicians are unlikely to tolerate this; a surge in Chinese electric vehicles (EVs) heading to the EU last

year prompted the bloc to impose tariffs of around 35%, purportedly to offset the advantage Chinese firms get from state subsidies.

These days it is not only European farmers who complain about imports. “Trade used to be about economics; now it is also about geopolitics,” says Jacob Kirkegaard at Bruegel, a think-tank in Brussels. Globe-spanning supply chains were once seen as clever business. Now politicians worry more about economic security, and becoming hooked on stuff produced by potential foes (Russian gas comes to mind). France, long sceptical of overly open trade, has pushed the idea of “strategic autonomy”, meaning reducing reliance on foreigners. Germany used to be keen on trade with China when that meant shipping lots of cars there; less so now that Chinese rivals build world-beating EVs. The EU has also gummed up international trade by insisting its partners must espouse Euro-regulatory norms as a condition of trade: countries exporting steel made with planet-warming coal, for example, will soon have to pay into a “carbon border adjustment mechanism”.

**For our (intentionally heated) debate we will assume: Trump has (as threatened) imposed 25% tariffs on all steel and aluminium imports from the EU, as well as a 25% tariff on European automobiles taking effect if the EU retaliates with counter tariffs.**

### 3.3 Economics behind tariffs

Economic literature has long identified uncertainty as an impediment to investment and growth. In one highly pertinent example, a discussion paper for the Federal Reserve found that trade-policy uncertainty during Mr Trump’s first term—then mainly focused on China—reduced investment in America in 2018 alone by at least 1%. This time, Mr Trump’s mooted tariffs cover both far more of the world and a far larger slice of America’s industrial landscape.

The economic stakes can be illustrated by looking at market reactions to Mr Trump’s earlier trade wars. Mary Amiti of the New York Fed and her co-authors point out that the American stock market fell by a combined 12% on the 11 days in 2018 and 2019 when tariffs were announced by America or China. That wiped over $4trn from American firms’ market value. By looking at the response of options prices and Treasury yields, the economists calculate that about half the drop reflected a flight to safety and a reluctance to hold risky assets, rather than a simple change in expected profits. Chinese business nerves also increased by over 300% from 2016 to 2018. The authors distinguish between

the “pain” of tariffs and the “anxiety” of uncertainty. They show that the anxiety, even controlling for the pain, had a measurable impact on profits and investment.

Tariffs raise prices for consumers. Does that mean they cause painful inflation? Not necessarily. A one-off increase in prices might create only a short-term pop in inflation, not a sustained rise. Tariffs erode consumers’ overall spending power, and falling consumption of things produced at home creates offsetting disinflation over time. Yet there is at least a danger that a one-off shock would set off an upwards spiral of prices and wages. After several years of high inflation, such a risk is now more pronounced.

## 4 Questions your Regulation should/could address

Should the EU impose retaliatory tariffs?

If so, at what rate and on which goods?

Will the regulation be temporary or permanent?

What conditions must be met for the regulation to be lifted?

How will the regulation be enforced across the EU?

Should non-tariff measures (e.g., subsidies for affected industries) be implemented instead of or in addition to tariffs?

How should the EU support industries most affected by the tariffs?

What protections should be in place to prevent price increases for European consumers?

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