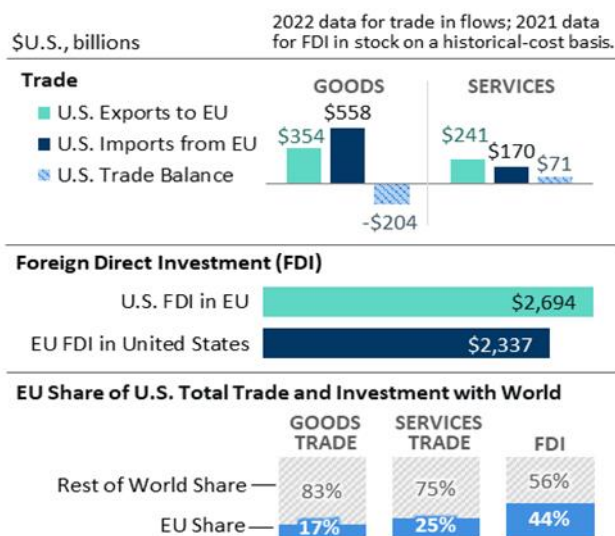


U.S.-EU Trade and Economic Relations

The United States and the European Union (EU), each other's largest overall trade and investment partners, have a highly integrated economic relationship (see **Figure 1**). Their trade policies largely align on many fronts, but tensions emerge periodically on specific issues. Many observers agreed that bilateral trade relations were especially fraught during the Trump Administration. During the Biden Administration, which pledged "to repair and revitalize the U.S.-EU partnership," U.S.-EU trade relations have seen renewed engagement, but trade frictions persist. In the 118th Congress, Members may continue to oversee and legislate on various aspects of U.S.-EU trade relations.

Figure 1. U.S. Trade and Investment with the EU



Source: CRS, with data from U.S. Bureau of Economic Analysis.

Trade Initiatives and Negotiations

The United States and the EU are cooperating on bilateral and global trade issues through executive-led trade efforts.

U.S.-EU Trade and Technology Council (TTC). Taking a central role in bilateral trade relations is the TTC, launched by the United States and the EU in June 2021 to promote their shared prosperity and competitiveness through collaboration in working groups. A key TTC focus since 2022 has been coordination of U.S.-EU responses to Russia's war in Ukraine (e.g., through export controls).

At the fourth TTC ministerial, held in May 2023, the partners announced initiatives to collaborate further in areas such as on: a "roadmap" on artificial intelligence (AI) risk and opportunities; technical standards for key technologies; clean energy development; information-sharing to address non-market economy (e.g., China's) policies affecting digital trade and the global semiconductor supply chain; and removing forced labor from global supply chains.

Some Members and stakeholders support the TTC as a way to deepen U.S.-EU cooperation on key trade, technology,

and regulatory issues. Some urge for more concrete "deliverables," particularly on longstanding U.S. trade concerns with the EU. Others see the TTC dialogue process of relationship-building as an outcome in and of itself.

Critical Minerals Agreement (CMA) Negotiations. The United States and the EU have prioritized cooperation on climate policies, but differ over some approaches. The EU strongly opposes some electric vehicle (EV) tax credit requirements under P.L. 117-169, commonly referred to as the Inflation Reduction Act of 2022 (IRA), asserting that the provisions discriminate against foreign companies and violate World Trade Organization (WTO) obligations related to non-discrimination and subsidies prohibitions. In March 2023, the United States and the EU launched negotiations on a targeted CMA, to enable critical minerals extracted or processed in the EU to count toward certain EV tax credit requirements of the IRA. A potential CMA likely would not include removal of tariffs on relevant products since tariff liberalization has not been a focus of the Biden Administration's current trade policies.

After controversy spurred by the U.S.-Japan CMA, concluded in March, the United States may seek binding commitments from the EU in a CMA, which could require the European Commission to receive a formal negotiation mandate from EU members. While it is possible that a potential CMA would not require changes to U.S. law, some Members oppose the current lack of a formal role for Congress in the negotiations. Some Members also call for the talks to address U.S. trade concerns with the EU (e.g., digital policies).

Potential Comprehensive Free Trade Agreement (FTA).

While U.S. and EU markets are relatively open, certain tariff and nontariff barriers constrain U.S.-EU trade and have been the focus of periodic U.S.-EU FTA negotiations. The Trump Administration led the most recent such efforts, doing so under now-expired Trade Promotion Authority (TPA). Seen by many as an attempt to defuse escalating bilateral trade tensions, the talks stalled over disagreement on scope—in particular, the EU's desire to exclude agricultural tariffs, the inclusion of which some Members prioritized. The EU also was wary of pursuing a broad FTA in light of U.S.-EU inability to conclude a Transatlantic Trade and Investment Partnership (T-TIP) in the 2010s.

The Biden Administration has not pursued a comprehensive FTA with the EU. Transatlantic stakeholders have called at times for a U.S.-EU FTA for commercial and strategic reasons. Some studies estimate that a U.S.-EU FTA could have overall positive U.S. economic effects, but its benefits and costs could vary across industries and workers.

Selected Other Developments and Issues

U.S.-EU trade relations are multi-faceted and comprise a range of issues, some generating frictions that the partners

have sought to address. Other frictions remain, complicating cooperation efforts at times.

Resolutions of Trade Irritants. In 2021, the United States and the EU tackled some trade frictions, reaching:

- An understanding on a cooperative framework to address their long-running “Boeing-Airbus” dispute in the WTO over *civil aircraft subsidies*. They agreed to suspend dispute-related tariffs while seeking a more durable solution, and to cooperate on related challenges posed by non-market economies.
- A deal to replace *U.S. Section 232 tariffs on steel and aluminum imports* from the EU below a specific threshold with a tariff-rate quota system. In exchange, the EU lifted retaliatory tariffs on U.S. products (e.g., whiskey and motorcycles). The partners suspended their related WTO disputes and are working to reach a pact to address steel and aluminum global overcapacity by a self-imposed October 2023 deadline (or risk reimposing tariffs on each other).
- Reduction of tensions over *digital services taxes (DSTs)* on revenues from certain companies’ digital services. The United States reached political agreements with Austria, France, Italy, and Spain for them to take a transitional approach to their DSTs, while implementing a new global tax framework concluded in 2021. Per the agreements, the Biden Administration cancelled tariffs against these countries (tariffs it already suspended during the global tax talks); the tariffs stemmed from U.S. Section 301 findings that the DSTs discriminate against U.S. firms. Implementation of the global tax deal faces hurdles.

Some stakeholders welcomed these efforts to address bilateral trade irritants and shift to a “positive” agenda (e.g., the TTC). Others question the measures’ economic impact.

Other Trade Issues. A range of other concerns include:

- The *bilateral Data Privacy Framework*, agreed to in principle in March 2022, with an aim to comply with EU data protection requirements for cross-border personal data transfers. It would succeed the Privacy Shield agreement, invalidated by the EU’s top court in 2020, largely over concerns about U.S. surveillance practices. The invalidation created uncertainty over the future of cross-border data flows, which are key for U.S.-EU trade and investment. The EU could decide on the new framework’s adequacy in the coming months.
- The *EU’s carbon border adjustment mechanism (CBAM)* to impose a fee on certain carbon-intensive imports (e.g., steel, aluminum, cement, fertilizer). Expected to apply starting in October 2023, CBAM aims to dis-incentivize relocation of carbon-intensive production overseas (“carbon leakage”). Possible U.S. policy responses include seeking an exemption from some EU CBAM duties or creating a U.S. CBAM.
- The EU’s approach to *regulation of digital competition*, which some U.S. stakeholders contend unfairly targets large U.S. technology firms. In April 2023, the EU designated several U.S. firms as “very large online platforms” for enhanced regulation under its Digital Services Act. EU moves to regulate other areas of technology, such as AI, also could diverge

with U.S. approaches. Some stakeholders call for more cooperation in the TTC on these issues.

- *EU regulatory measures* to limit certain practices in agricultural production, as well as uncertainty of and delays in the EU approval process related to the use of agricultural biotechnology. The United States has longstanding concerns that the EU’s risk-based approach to regulations is not always science-based.
- The EU’s treatment of *geographical indications (GIs)* or certain EU-protected names for food, wine, and spirits that many U.S. producers view as generic. The United States has voiced concern about EU efforts to incorporate its GI and some of other policy approaches into its network of FTAs with other countries.

Meanwhile, some in the EU are wary of U.S. efforts to strengthen “Buy American” public procurement rules. A longtime EU priority is to gain further access to U.S. public procurement markets.

U.S. policymakers also may monitor the EU’s trade policy approaches in the context of Administration efforts to cooperate further with the EU to address shared economic concerns related to China’s industrial policies, role in supply chains, and other issues. The EU, for instance, is finalizing a new anti-coercion instrument, to allow the EU to deter “economic coercion” by other countries by imposing trade restrictions (e.g., tariffs, export controls).

Multilateral Trade

Post-World War II, the United States and the EU led in developing the rules-based global trading system underpinned by the WTO. Trump Administration threats to flout WTO rules deeply concerned EU officials. During the Biden Administration, the partners pledged to “uphold and reform” the trading system, and are cooperating on global trade issues in the WTO and other venues. A key U.S.-EU focus is addressing challenges posed by non-market economies such as on global overcapacity, subsidies, forced technology transfer, and global supply chains. Yet, U.S.-EU frictions persist over the continued U.S. practice of blocking new appointments to the WTO appellate body, due to U.S. concerns about WTO dispute settlement.

Issues for Congress

In the 118th Congress, Members may oversee current U.S.-EU trade engagement, including the Administration’s efforts to reach long-term solutions to tariffs and other bilateral trade frictions. They also may assess to what extent the TTC and CMA negotiations advance U.S. priorities and whether to require a formal role for Congress in them.

Looking forward, Members may consider whether to direct the Administration to pursue a comprehensive U.S.-EU FTA and set negotiating objectives in a potential TPA renewal. They also may examine opportunities to collaborate with the EU to address global trade challenges and set global rules for the road, and to what extent U.S. and EU approaches align or diverge. Additionally, they may track the overall trajectory of U.S. and EU trade policies, and potential risks for future tit-for-tat tariff escalations or a subsidy “race to bottom.” See CRS In Focus IF10930, *U.S.-EU Trade and Investment Ties: Magnitude and Scope*.

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