

Trade talks between the EU and US reach a truce

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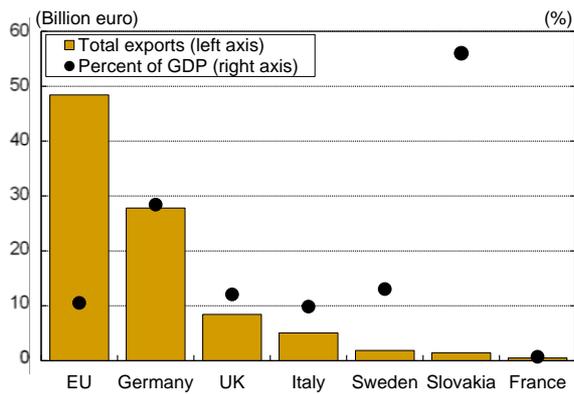
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Trade talks between the European Union (EU) and the US have been set in motion. From June, the US started to apply tariffs on EU steel and aluminium. Within the same month, the EU imposed retaliatory tariffs on US products such as motorcycles, whisky, and cigarettes (totalling 2.8 billion euro). This escalated further, to the point that President Trump was talking of imposing tariffs of 20% on automotive imports from the EU. EU exports of motor vehicles and automotive parts to the US total 48.4 billion euro, 0.32% of nominal GDP (Chart 1). Exports from Germany are particularly significant, at 0.85% of nominal GDP, meaning that German manufacturing sentiment has also been affected (Chart 2).

A meeting between Jean-Claude Juncker, President of the European Commission, and President Trump was held on 25 July amid rising concern over this increase in trade friction. At the meeting, the leaders agreed 1) to come down to zero tariffs, zero non-tariff barriers, and zero subsidies on non-automotive industrial goods, and increasing trade in services, chemicals, pharmaceuticals, medical products, and soybeans, 2) to increase cooperation in the energy sector, for example by increasing EU imports of liquefied natural gas (LNG) from the US, 3) to establish a framework for ongoing close dialogue, and 4) to work together to reform the WTO and address unfair trade practices, including intellectual property theft. The outcome of the talks was positive, with statements such as "that as long as we are negotiating... we will hold off further tariffs", and "we will reassess existing tariffs on steel and aluminium" at the joint press conference.

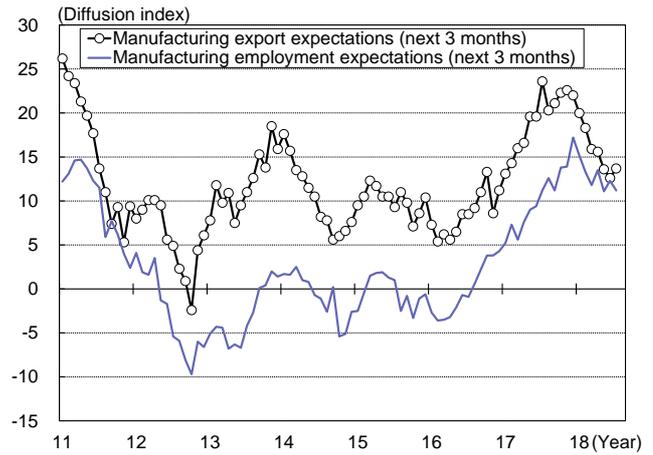
While the outcome of this meeting between the EU and US about automotive tariffs is unclear, it is possible that the topic may be raised again depending on future discussion. Not only did these talks bring the trade conflict between the EU and US to a truce, various topics such as soybeans, unfair trade practices, and energy cooperation were also discussed, along with the ongoing trade war between the US and China, and close competition between the US and Russia over supply of German natural gas. Though it remains to be seen whether both sides are singing from the same hymn book, it does seem that the EU is willing to cooperate with the US in its other trade wars, and the US feels that it has gained an ally in the EU. This has the potential to affect future trade talks between the US and other allied nations.

Chart 1: Exports of Motor Vehicles, Automotive Parts from Major European Countries to US(2017)



Source: Eurostat, MUFG Bank Economic Research Office

Chart 2: German Ifo Business Climate Index



Source: Ifo, MUFG Bank Economic Research Office

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