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The U.S.-EU Trade Agenda in 2024: Curb Your Enthusiasm

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Key takeaways

- The U.S.-EU Trade and Technology Council's (TTC) latest meeting was held without much fanfare last week in Washington. With expectations already set low for this 'stocktaking meeting,' officials mainly discussed economic security, semiconductors, and AI. The sixth and final round of the TTC will take place in Belgium in early April before the election season on both sides of the Atlantic kicks into high gear.

- The future of the TTC is uncertain and very much dependent on the outcome of the U.S. election. While the EU remains committed to keeping the TTC as a central platform to coordinate with Washington on trade and tech policy, albeit possibly with some adjustments made in the format, a potential Trump administration would likely be less focused on cooperation with the EU.

- Beyond the TTC, transatlantic trade discussions are not yielding much in 2024. Negotiations on a critical minerals agreement, while still ongoing, remain effectively stuck. Meanwhile, efforts to find a permanent resolution to steel and aluminum tariffs were punted until after the elections in a deal late last year.

Background

Despite unprecedented and strong transatlantic cooperation on foreign and security policy under President Joe Biden, the U.S.-EU trade and technology agenda has seen more modest progress. Both sides have taken concrete steps to remove trade obstacles inherited from the Trump administration, set up new major initiatives such as the U.S.-EU Trade and Technology Council (TTC), and aligned approaches on crucial areas such as Russia sanctions, AI, and semiconductors, but notable areas of tension are clearly visible. In particular, the effects of the U.S. Inflation Reduction Act (IRA) remain a source of consternation among European leaders who see it as protectionist while Biden officials have at times been critical of the EU's tech regulations or its lack of enthusiasm for aligning with Washington on a tough approach towards China.

Analysis

A modest TTC meeting in Washington

Originally supposed to take place late last year, the fifth ministerial meeting of the TTC was held without much fanfare in Washington on January 30th. As expected, the meeting did not produce any policy breakthroughs or even a joint statement. The meeting nevertheless provided an opportunity for the relevant principals on both sides – Secretary Antony Blinken, Secretary Gina Raimondo, Trade Representative Katherine Tai on the U.S. side and Commissioners Margrethe Vestager, Valdis Dombrovskis and Thierry Breton on the EU side – to take stock of progress made and lay out plans for the sixth and final TTC meeting to be held in Belgium in early April.

The main topics discussed at TTC5 were semiconductors, artificial intelligence, and economic security – the latter especially a top priority for the Biden administration who is keen to use the TTC as a format for promoting alignment with Brussels on China. Discussions on the coordination of export controls and semiconductor policy often came hand in hand, with China the clear consideration. On semiconductors, there was also some alignment on legacy chip overcapacity and the need to further advance export control discussions. Relatedly, there was also strong agreement on the need to ensure close coordination on the transparency of subsidies to avoid a transatlantic subsidy race.

The EU officials used the meeting as an opportunity to brief U.S. counterparts on the newly released European economic security package. This package includes proposals for an upgraded investment screening mechanism as well as initial steps for a stronger EU-wide approach to dual-use export controls, outbound investment screening, and research security. Limited progress was also reported on plans to finalize an industry roadmap for 6G, as both the U.S. and EU officials are keen to align on a common vision for next generation wireless technology to avoid repeating falling behind China on 5G.

AI coordination remains central to U.S.-EU discussions on tech as global governance architectures develop in the wake of the EU's AI Act, the Biden administration's executive order, and the G7 Code of Conduct, all of which favor a risk-based regulatory approach. The U.S. officials expressed some concerns about how the implementation of the AI Act is managed. Officials pledged to continue to coordinate closely on multilateral AI initiatives in the context of the G7 Code of Conduct for AI and the work on a forthcoming United Nations 'AI for Good' resolution. TTC discussions on AI also included how to foster institutional cooperation between the U.S. AI Safety Office and the new European AI Office. Other discussions focused on success at the technical level, like the clarification of joint technical standards, how to adequately watermark AI, or conduct red teaming with further progress expected in the technical working groups. TTC has been successful at coordinating these small details since its conception, even if big wins have been in short supply.

The meeting also touched on the green tech agenda. The EU is keen to discuss how to unlock the transatlantic marketplace for investments in green tech such as mutual recognition of conformity assessments for green tech, how to use digital tools to facilitate trade, and align charging or green procurement standards. Aside from the official meeting, a well-attended stakeholder meeting gathered industry and civil society representatives for in-depth discussions on opportunities in the green transatlantic economy.

After Washington, focus is now shifting to the sixth TTC ministerial planned for April in Belgium, the current holder of the rotating Presidency of the Council of the European Union. This meeting will seek to tie up loose ends to help demonstrate as much progress as possible in the format. Taking stock of what the TTC has accomplished, the meeting is also expected to hear ideas for how to further develop cooperation in the TTC going forward. Although both sides are committed to the TTC, the format is likely due for a shake-up no matter who sits in the White House next year. A streamlined format that focuses on targeted workstreams, like global AI governance and critical technologies, could be in the cards if the forum manages to survive elections on both sides of the Atlantic.

No breakthrough on critical minerals (yet)

As expected, the January 30th meeting in Washington reported no progress on unlocking a critical minerals agreement (CMA) that would enable European producers to address certain content requirements for the consumer tax credits for Electric Vehicles (EVs) in the IRA. Despite negotiation progress on allowing tax credits for EVs that use EU-produced minerals like cobalt, graphite, lithium, and manganese, the last U.S.–EU Summit on October 20th 2023 had failed to reach an agreement. In particular, the U.S. Congress' pressure to allow labor provisions and rapid inspection system of mines and processing of critical minerals in Europe has caused an obstacle in the talks. On the European level, pushback from environmental groups, the election of climate-skeptical political parties, and the slowdown of the legislative cycle ahead of the upcoming European Parliament elections, are expected to further slow negotiations.

Should the presumptive Republican nominee Donald Trump win the election, prospects of an agreement with the EU on critical minerals look dim as Trump is dismissive of the EU and has talked about imposing 10% tariffs on all imports. Conversely, should Joe Biden be reelected, it is possible he would have more leeway to engage as part of a broader discussion with the EU on critical minerals cooperation beyond just the IRA issue. An agreement between the U.S. and the EU to satisfy IRA provisions could eventually even lead to a 'critical raw materials club', as proposed by the EU, whereby a larger group of industrialized economies team up on offering alternative investments to resource-rich countries in the Global South to promote new and sustainable critical minerals mining and processing facilities without China.

Steeling oneself against tariffs

If reaching agreement on a critical minerals deal has proven difficult, resolving the Trump-era so-called Section 232 steel and aluminum tariffs has been even more challenging. President Biden and European Commission President Ursula von der Leyen reached a deal in October 2021 to temporarily scrap the tariffs for up to two years while pursuing establishing a Global Arrangement on Sustainable Steel and Aluminum (GASSA) to permanently resolve the temporary cessation of tariffs. Although the October summit in Washington was meant to drive progress on GASSA, it failed to permanently resolve the Trump-era tariffs and cement the deal. In the last proposal, the U.S sought the inclusion of a snapback mechanism for Section 232 tariffs to satisfy demands from steel workers' unions in crucial Midwestern swing states. The proposal was firmly rebuked by the EU, wanting the tariffs to be fully removed.

The two months that followed October's summit, however, failed to produce a permanent solution to the trade dispute. Resolute hard lines, differing approaches to the talks, and looming elections caused the U.S. and EU to once again forge an interim deal to suspend tariffs on both sides to avoid a transatlantic tariff spat and put off permanent resolution to a later date. The Biden administration suspended the U.S' Section 232 tariffs for another two years, while the EU only suspended their counter tariffs for fifteen months until March 2025, just shortly after the next U.S. administration assumes office to ensure maximum leverage. The talks also extended the temporary tariff-quota arrangement, which grants the EU limited duty-free exports to the U.S. up to a certain threshold, for an additional two years. Brussels had sought a friendlier arrangement in recent negotiations as these tariff-rate quotas amount to $350 million annually, but the status quo perseveres here, as well.

If Biden were to be reelected, political pressures currently undermining a deal could abate in 2025 although differing approaches and interests may remain. For now, the major economic ramifications for the deal are put to the side, but differences between the U.S. and EU remain on how to approach Beijing and multilateral trade.

ABOUT US

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