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Introduction

The architecture of today's transatlantic relationship emerged at the end of the Second World War. Building on the collaboration between European countries and the United States (US), a liberal international order was created. Defending and maintaining that order has given rise to a close alliance at the political, economic, military and strategic levels. At governmental level, this alliance has been embodied in cooperation and agreements; at business level, in investment and the acquisition of companies; and, at the social level, in the values and interests shared between the two sides of the Atlantic.

Politically, the relationship has not been without cyclical crises. As well as the Iraq war, many examples of varying nature have arisen over the past 70 years, with disagreements traditionally limited to economic rivalry and particular issues. The relationship has also been based on mutual respect for differences. However, the current transatlantic crisis raises doubts about the foundations of the relationship, as President Trump replaces respect with coercion and imposition. This chapter argues that while the Biden Presidency will seek to improve the forms of the relationship, the underlying problems will persist and China will continue to be the priority for the US.

1. A slow, long-term erosion

The recent inability to conclude agreements like the Transatlantic Trade and Investment Agreement (TTIP) is the product of long deterioration and absent political will in the transatlantic relationship. When the Cold War ended, Europe ceased to be the main region of geostrategic importance for the United States.

The George H. W. Bush presidency was the last to focus on Europe. As well as managing the end of the Cold War, he responded to the Single European Act of 1987 by proposing a transatlantic free trade agreement. Bill Clinton signed the New Transatlantic Agenda in 1995, but the free trade agreement it was meant to produce failed to materialise as the

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president focused his efforts on ratifying the free trade agreement with Mexico and Canada.

Presidents George W. Bush and Barack Obama were more preoccupied with Asia, particularly the war on terror in the Middle East and the pivot of US foreign policy to the Far East, respectively. But President Trump's erratic foreign policy has disrupted the United States' global leadership position. Indeed, its credibility is so diminished that the capacity of the US to be a responsible actor in international society is questioned. Among other things, the president has not hidden his dislike for the European Union (EU), which he calls a competitor to the US.

More recently the tension has emerged in security and multilateralism. The Americans believe that Europeans take advantage of the military protection the US provides without making the agreed investments in defence. In their days, Presidents Bush and Obama also called for increased military spending, but Trump has gone further, using aggressive rhetoric and calling European countries *debtors*.

He has cast doubt on whether the US will honour its security commitments to NATO. Indeed, the withdrawal of 12,000 soldiers from Germany generated debate about whether the Atlantic Alliance has been weakened. Transatlantic frictions have also exposed differences in foreign policy values, with the US turning its back on the use of multilateral agreements to solve global problems, as evidenced by the withdrawals from the Paris climate agreement and the nuclear agreement with Iran.

On an economic level, although a transatlantic free trade agreement has not been concluded, trade barriers are low, except in highly sensitive sectors like automobiles and agriculture – the source of the US trade deficit with the EU. This trade deficit is what lies behind the US belief that the trade relationship is unequal, even though the US actually leads when services and primary income are counted. The main transatlantic disputes have been over agricultural products like hormone-treated beef and industrial subsidies to Boeing and Airbus.

The dispute between the aeronautical giants has been ongoing since 2006, with little willingness to resolve it. The World Trade Organization has ruled that both the US and the EU provide unjustified subsidies, and has authorised both to cross-retaliate with tariff hikes. Hence, the dispute has led to higher transatlantic tariffs.

The last attempt to conclude a transatlantic free trade agreement was under President Obama. Negotiations over TTIP began in 2013, and one of its main US supporters, then Vice President Biden, called it an extremely ambitious agreement. The negotiation aimed to reduce tariff and non-tariff barriers to the trade in goods and services and to transatlantic investment. To achieve this, regulatory alignment needed improving through mutual recognition agreements to reduce type-approval costs. Finally, TTIP also proposed collaboration to reduce anti-competitive behaviour.

The tariff barriers TTIP proposed to lower are in highly sensitive sectors. The EU was not prepared to accept a tariff cut without the US opening up public procurement and cabotage markets. The lack of will to reach

these agreements meant little progress was made in four years of negotiation.

The different regulatory attitudes of the two blocs made concluding mutual recognition agreements very complicated. But although the agreements did not materialise, the negotiation did enable dialogue to be established between the regulatory agencies that may help align future regulation and reduce transatlantic divergences. No progress was made on the issues of maximum intransigence, such as genetically modified organisms and denominations of origin.

In part, TTIP failed because the negotiations involved two economic actors of equal strength who are used to imposing their own conditions and who did not adapt to negotiating with an equal. America's maximum pressure strategy was counterproductive and showed an inability to understand EU dynamics. Such an ambitious agreement can only be reached if there is acceptance that each bloc has sensitive sectors in which agreement will not be reached. Political capital must be invested in both negotiations and in persuading public opinion of the need for the agreement. President Obama invested his political capital in the Trans-Pacific Partnership, and prioritised it to the detriment of TTIP.

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2 . A change of economic strategy shakes the Atlantic

President Trump has brought these latent tensions in the transatlantic relationship into the light and tension is higher than in decades. The differences have been evident mainly at the economic level. Although trade flows have continued to grow, a shift towards protectionism and economic nationalism has characterised the Trump presidency.

His 2016 electoral victory capitalised on discontent with a globalisation that was accused of causing deindustrialisation and unemployment. But protectionist slogans are not unique to Donald Trump. President-elect Joe Biden has also used the slogans "Made in America" and "Buy American" in his campaign, and US protectionist tendencies will not vanish with the end of the Trump Administration.

Eventually President Trump has also shown some willingness to reduce transatlantic tensions. When the von der Leyen Commission took office, Secretary of State Pompeo travelled to Europe with the intention of relaunching transatlantic relations. It seems that, after initially questioning these relationships, the Trump Administration recognised that the US prefers a strong and united Europe.

The desire to rebuild ties stems from the fact that the transatlantic alliance is the world's closest economic relationship. The EU and the USA are each other's main trading partners and the relationship extends beyond the trade in goods to include services, investment and subsidiaries. For example, the sales of subsidiaries of European and US companies across the ocean are two and a half times higher than transatlantic trade. These foreign subsidiaries are part of the value creation network for large corporations; they are centres for receiving investment, generating value, research and development and repatriating profits.

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This economic interdependence means that US trade and foreign policy impact European business interests. Inevitably, the trade war the United States unilaterally began against China has impacted the EU. On the one hand, higher trade barriers to Chinese exports have prompted China to seek new markets, increasing competition in European markets. On the other hand, Chinese retaliation affects the US subsidiaries of European corporations. For example, higher Chinese tariffs have affected the price of the commercial vehicles BMW exports to China from its factory in South Carolina. This causes European multinationals to lose competitiveness.

While transatlantic trade flows have continued to grow, tensions have not eased. In 2019, according to Eurostat, total exports and imports from the EU to the US rose by 9% and 11%, respectively, compared to 2018, the year President Trump launched a trade war over steel and aluminium. This war directly affected European exports to the US in this sector, which fell by 25% in 2019, according to UN Comtrade. Europe responded to the rise in steel and aluminium tariffs by raising tariffs on iconic US products from “swing” states.

President Trump’s repeated threats to raise tariffs on European cars mean the trade wars cannot be considered to have stabilised. However, the potential tariff hike has been postponed thanks to then President of the European Commission, Jean Claude Juncker, making an offer to the US president in 2018 to begin negotiations over a new preferential trade agreement. This agreement is so unambitious that it is known as the *mini-deal*. The parties are still negotiating the scope of the negotiations: for example, the Americans want to include the agricultural sector, while the Europeans want to keep it out. Expectations of concluding the agreement therefore remain low.

Along the same lines, in August 2020 a small agreement was reached over lobsters. The agreement primarily benefits the state of Maine, an electorally important swing state for President Trump. The two giants’ first mutual tariff reduction in over 20 years, it affects less than 0.02% of transatlantic trade and should be seen as a show of European good will to conclude the Boeing–Airbus dispute, but not to negotiate a trade agreement.

3 . Trump, a turning point

Europe will place new stumbling blocks in the relationship by possibly taxing digital companies. In this key sector for the US economy, the EU wants the large digital corporations to pay taxes where they create value. In parallel, the OECD is negotiating a new global agreement on multinational taxation. It should be noted that although the US has left that negotiating table and tried to block the result, negotiations remain ongoing. The US has begun a process of retaliation against luxury brands from European countries that want to apply digital taxes, which could well end up affecting Spanish companies such as Balenciaga and Loewe. President Biden may return to the negotiating table in Paris, but the underlying differences will remain.

There are also other pitfalls. First, the EU carbon tax, which will directly affect US exports. Second, the European Parliament’s proposal to include intellectual property in the arsenal of commercial retaliation. The adop-

tion and application of these measures against American companies would undoubtedly increase trade tensions. Hence, we cannot assume escalated tensions with the US have been avoided – it is possible that from now on elements of cooperation and competition will coexist in different economic sectors.

The Trump administration's main legacy will be US awareness of the need for a different foreign policy. The world it faces is multipolar and contains revisionist powers set on challenging its hegemony. In this sense, there is consensus in Washington that China poses a danger to the United States, but no agreement on the policies and strategies for dealing with it. The Trump administration has tried to deal with China unilaterally, but the strategy has not worked. In the medium term, the US will need allies to contain the Asian giant, including the Europeans. The transatlantic relationship will thus be contingent upon US and EU policy towards China.

European ambassadors in the US interviewed by the Carnegie Endowment do not believe that the US policy of protectionism, isolationism and burden sharing will change in the coming decades. Nor do they believe transatlantic relations are likely to improve under President Biden. Although he is a defender of the transatlantic relationship and a good friend of European leaders such as Angela Merkel, he will fall short of the EU public's expectations of him. The president-elect will rejoin multilateral agreements and seek the support of allies to build a common front against China. But his priority will be domestic politics and his line in trade policy will be one of continuity, with a greater role for protectionism. This will make it difficult to resolve trade disputes between the EU and the US.

But the future of the relationship does not lie exclusively in American hands. Europeans also bear part of the responsibility for shaping the relationship. The von der Leyen Commission has had a more harmonious relationship with the Trump Administration than the Juncker Commission managed. Former Commissioner Hogan's pragmatic and transactional vision allowed progress to be made on selected disputed issues. His replacement by Vice-President Dombrovskis presents us with a series of unknowns, but they appear to share a similar predisposition.

However, the coronavirus pandemic has accelerated the change in European people's perceptions of the US. In recent months, citizens have seen China as a better ally than the United States,² reinforcing a trend that began with the US abdicating global leadership and returning to unilateralism. This attitude has reduced European citizens' trust in the US, making it difficult to imagine the transatlantic relationship returning to previous levels of collaboration. Without popular support, obtaining the political will for new large agreements such as TTIP will be problematic, although collaboration may be possible on specific regulatory matters, such as setting standards in areas such as new technologies and artificial intelligence.

The knowledge that at any moment a president like Trump could emerge and reverse all the progress made will make EU governments more reluctant to collaborate with the US government. France and Germany have shown their willingness to maintain good relations with the US while preparing to reduce dependence on it, setting the tone for the next few years. Another factor is the strongest bridge between the EU and the US – the United Kingdom – leaving the union. Brexit will complicate

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2. Survey carried out by the ECFR between the end of April and the beginning of May 2020.

relations from now on, particularly if the Gaullist tendencies London previously counterbalanced take hold in EU foreign policy.

Conclusion

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The strongest bridge between the EU and the US – the United Kingdom – has left the Union.

The appetite for strengthening transatlantic economic relations is shown by the recent purchases of the American companies Varian Medical Systems by Siemens Healthineers and Alkahest by the pharmaceutical company Grifols. The strength of economic ties between the EU and the US will mean that in the short term the two blocs remain united by intersecting interests. Nevertheless, transatlantic relations are at one of their lowest points.

Latent political tensions have surfaced under the Trump presidency. At the bilateral level, these tensions have led to higher tariff barriers as a result of the steel and aluminium trade war and the Boeing–Airbus dispute. What is more, transatlantic interconnection means European companies are affected by American foreign policy towards third countries.

The EU's priority is undoubtedly to work on reducing tension and returning to a situation of cooperation rather than confrontation. But negotiating a deeper reduction in trade barriers will not be possible without investing political capital that neither partner wants to spend. The failure to resolve these issues will make it more difficult to solve new problems that emerge like digital taxation, the carbon tax or retaliation on intellectual property.

The Biden administration may be more willing to resolve disputes, but the red lines drawn by the Trump administration will not change. The transatlantic relationship appears destined to hit new potholes in a more uncertain geopolitical landscape.

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Interview with a senior official of the European Commission of the Directorate of Trade carried out in September 2020.

