

Peterson Institute for International Economics

**A brave new world of tariffs**

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**[00:00:17.11] - Cecilia Malmström**

Good morning, good afternoon, good evening, depending on where you are in the world. Welcome to this episode of Trade Winds. Today we're going to talk about tariffs, one of the hottest topics in the world right now. My name is Cecilia Malmström. I'm a non-resident senior fellow at the Peterson Institute for International Economics in Washington. Tariffs. We all know and we have discovered that President Trump is very fond of tariffs. On April 2nd, what he called Liberation Day, the president announced so-called reciprocal tariffs on most countries of the world. That followed a general announcement on tariffs on steel and aluminum and also on car and car parts that preceded this. And since then, there has been a lot of discussions. Tariffs have been coming and going. There's been delays, there's been deadlines moved, new deadlines, postponement, uh, first postponement to the June 9th. And the intention by the administration was to conclude 90 deals with 90 countries in 90 days. So far, we have seen 3 deals and a deal with China, which is more of a truce than a deal. And those deals seem to be rather preliminary, and they are in no way legally binding.

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Most countries of the world are now trying to see if they can make some kind of deal, but they consider that those tariffs are not in compliance with WTO rules and they are illegal and highly unfair. There is also a reluctance to do a deal without really knowing what's in it, because you don't get anything in the deal, you just give up. And will a deal with be permanent? Or would there be new tariffs coming after? Can you trust that the deal is a deal? The European Union had initially offered to eliminate all its tariffs on goods to the US if they did the same. That was immediately rejected. In the negotiations that have been taking place now for several weeks, there has been discussions about EU buying more liquid gas, more soya, cooperation on China, and different facilitation and some, some cooperation in rules But so far, there are no— there is no deal in the making. The reciprocal tariffs against the European Union was originally 20%, then it went down to 10%. And in this weekend, again, they increased to 30% in the letter that

President Trump sent out to many countries. Brazil got 50%, Mexico 30%, Japan, Canada, South Korea 25%, etc.

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And now there is a new deadline set until the 1st of August. So the European Union also talked about different kinds of retaliation. It has two lists ready, one smaller retaliation which was meant for the steel and aluminum tariffs, and one bigger one where it has been consulting with member states for quite some time. And the value of that is around €72 billion. Almost the same in dollars. So now negotiations are entering in the final stage. The EU chief negotiator, Trade Commissioner Maroš Šefčovič, is on his way to Washington. So will there be a deal? Tariffs seems to be not only addressing real trade problems, but also there's been talk about fentanyl smuggling, the treatment of the former president in Brazil, migration issues, VIT, tech rules, phytosanitary rules, which makes it kind of hard to negotiate because you don't really know what's on the agenda. But everything will be very clear in about an hour because we have two fantastic panelists who will clarify and help us to, to sort this out. And I have Penelope Naas, who is lead at the Allied Strategic Competitiveness at the German Marshall Fund in the US, and also a long background at the Department of Commerce as a managing director of government affairs for Citigroup in Brussels, and also several years as President of Global Affairs and Sustainability at UPS.

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And we have Luisa Santos, who is Deputy Director General at Business Europe, responsible for international relations. She also has a very long background working in trade and as Trade and Industry Manager for the European Apparel and Textile Confederation, and also a long experience dealing with the US and other countries within Business Europe. And Business Europe represents thousands of small and big companies via 42 national business federations representations from 36 European countries. So it's a big, big organization. You are both very welcome. So starting with Penny, what is the strategy behind those letters that were suddenly sent out to so many countries when there were actually some countries that felt that they were approaching a deal? Is this a negotiating tactic? Is it a sign of desperation because there aren't any deals or very few? Is it a final attack on the existing trading system? Or is it a way to finance the big and beautiful bill. What do you think?

**[00:05:29.20] - Penelope Naas**

Thanks, Cecilia, and thanks for having Louisa Nyeon, and hi to Louisa as well, who I'm always pleased to be on panels with. I learned so much being with her. So let me just start with where I

think this starts. So if you go all the way back to the 1980s, Trump took out several full-page ads in the New York Times and in the Boston Globe and other papers using language almost identical to what he used today. Those papers, he talked about how we were being ripped were being ripped off. By then it was the Japanese, the Saudis, and the Kuwaitis complained that they were— we were being ripped off and that we were funding all of their defense, and in return we were getting nothing. And flip the switch. It's now almost 40 years later, and it's the exact same message. But now the names have changed a little bit. Still, you know, Japan a little bit, but, but, but more about China, but also about Europe, about Canada, about Mexico, about other longstanding allies. And so it's something that's deeply felt by the president. It's something that he's had a long belief in. And tariffs now are his preferred tool to try to extract concessions to help rebalance the world.

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And I think he uses tariffs in 4 ways. And the letters, I think, fit within this narrative. First is what you talked about, the reciprocal tariffs, the two which, which for me are more about the trade deficit. And he has had longstanding views on the trade deficit, particularly the goods deficit, excluding services, excluding subsidiary income and investment. He's very focused just on goods. The second is reshoring. He wants to use tariffs to reshore, and there he's using Section 232 under the Trade Act to reshore what he believes are important defense industrial complex industries to the United States. And right now we have 3 investigations that have been completed, 6 more pending, and 2 more just announced this week with even more in the queue that we expect to come out by the end of the year. Third is revenue. And this administration has been trumpeting how much revenue they've been taking in. That revenue comes from US importers. It's paid for on the US side of the transaction, even if it's part of the pricing negotiation with supply. And it's a very important part of what is now the past US budget. And it's going to be hard to move these tariffs back as a result of the fact that it's now incorporated in the US financial calculations in terms of revenue that we're bringing in.

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And then last is leverage. And that goes to your point about Brazil and other countries where he's using tariffs as a tool to extract concessions on unrelated issues. So, I mean, the president really sees tariffs as like the Swiss Army knife. It's there to like solve every problem. Problem. And even though, you know, for me, it's a little bit more complicated because while it may have a very simple purpose for the president, it has ramifications that run across geopolitics as well as economies with secondary and third level effects. So with the letters, I think he was trying to continue this strategy.

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He—

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whether— I think he thinks that he can get better deals still out of countries. And he is somebody who believes that he is a master dealmaker, and he is going to continue to leverage up the pressure, um, to see if he can extract additional deals. And so, um, that's what I think the letters were. I do think they were, um, a bit of a negotiating tactic, but if you don't treat them as real, they will go into effect. So I think last week was the week of the letter. I'm hoping that this week is the week of the deal as a result. Of that. And I think with the EU Commissioner on his way to Washington at the moment, with the announcement on the Indonesian deals, I think we are seeing a little bit of that strategy come into play.

**[00:09:30.04] - Cecilia Malmström**

Luisa, from the European side, how do you see that 30%? That's a lot of— that's a very high percentage. And in addition, we have 50% on steel and aluminum, 25% on car and car parts. And the EU Commissioner just yesterday, I think, said that with 30% tariffs, it's basically no use trading with the US because that is so high. So we will have to stop trade. How damaging are these tariffs on Europe?

**[00:10:04.07] - Luisa Santos**

Well, good morning and good afternoon to everyone, and happy, of course, as well to be here with you, Cecilia, and with Penny. I think 30% is of course a no deal, meaning that with 30%, uh, there is no real access to the US market for European exports. We also need to factor in, uh, also the depreciation of the dollar vis-à-vis the euro, and this adds to the percentage of the tariffs. So it would mean that unless you are in the US unless you are producing everything in the US, and this is not happening in, at the moment, even if there are very strong investments of a lot of European companies in many critical sectors, we are not producing everything in the US to be sold in the US market. So it would mean that this would disrupt not only the trade flows from Europe to the US in terms of direct exports, but would significantly disrupt also existing investment operations in the US. And this is not great for US either. So it's not just about, for US economy, for the US consumers, is not just about having European products more expensive, in some cases with no alternative, is also that a lot of US investments, either from European companies but also from US companies that require EU inputs would be severely damaged.

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So this is the impact. So that is not an option, I would say, and it would be extremely harmful. So what can we expect then? I think we can expect, of course, and I think Penny already said, we are right now in the art of negotiation. And I think the President Trump thinks that putting extra leverage, putting extra pressure, uh, gives in the end more results. Um, one thing is very clear, in the short term these tactics seem to be working because indeed the partners are accepting the deals that in a way are not great because you are basically abdicating already from a lot of your access to the US market in any case. I mean, because 10% as a baseline is already worse than was before. So you're already accepting this and sometimes even accepting more. So it is in a way in the short run working. Now, in the medium to long run, we need to see what, what this means, if indeed the objective of getting more revenue, of attracting more investments to the US of making sure that we have more solid innovation and also reinforce the US economy really plays out or not, or if the impact is, is different.

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I think I will definitely have to point out one important aspect for European business, and Penny already alluded to it. We are very much focusing on the tariffs, but the most important, or one of the most important aspects for us is the Section 232 investigations, is the sectorial investigations, because they do target some of the sectors where the EU has more exports to the US and also more investments in the US. We're talking about automotive, we're talking about pharmaceuticals, semiconductors, but also steel and aluminum. So these are all very important sectors. They're all sectors where the US— a lot of exports to the US, where the US sometimes does not really have alternatives.. And here we really need to find a solution as well. So the tariffs are not coming alone. There needs to be a deal, and we hope there will be a deal. It needs to include as well a solution for the 232 investigations.

**[00:14:19.07] - Cecilia Malmström**

Let's come back to that in a little while. But Penny, listening also to what Louisa says, even if they are now coming in a lot of money to, to, to the US budget because of the tariffs, this is, you know, this is very short term because the long-term consequences might be less trade with the US. We know that a tariff is a tax, so it will raise prices for American consumers, for ordinary American households. Things will become much more expensive. And also, as many colleagues at Peterson have shown, they are also inflationary. And even if inflation has stayed rather calm the, the last weeks, we do see some movements coming here. So this might just be a very short long-term effect in the end. And also, as Louisa said, if he expects all these investments, what the company wants is predictability, stable playground where you know the rules. And this is not the case in the American economy right now. So this might backfire, don't you think so?

**[00:15:19.10] - Penelope Naas**

So let me just address a couple of those things. So first, on the incentives to reshore, I mean, the one thing is, is that, you know, Depending on the level of the tariffs, you know, there are those that are making the argument that, okay, so you're going to shift production from coming in and you're now collecting these tariffs. If that suddenly stops coming in and production has now shifted to the United States, well, you're going to be collecting corporate taxes on an equivalent level on that production. So in some sense, it could be a net-net. For the, for the budget of the United States as you lose that tariff revenue. But indeed, over time, in, in theory, you would see tariff revenue decline. But that's for stuff that you can move. So yesterday, Rio Tinto, the mining company, made a statement, and I think in their earnings call that they've paid \$300 million in tariffs for aluminum to import aluminum into the United States because there's not enough aluminum in the United States. To, to fulfill needs. And so you have to import it. You have to import bananas. You have to import coffee. These are things we don't have in the United States.

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Just our natural endowments, which are vast in the US, are not— don't include everything. And so, so yeah, in theory, there's some of this conversation going on, but it, it, it ignores the fact that there are, you know, certain specialties and endowments that don't exist in the United States and have to be imported. And that, that is why we have developed supply chains over time, particularly with our friends and allies. So I think, you know, that's kind of what I think we're, we're going to see coming out of this. The second thing is, is that I do think the economists talk a lot about how the tariffs are going to lead to price increases. And I think that, you know, The implication is, is that you're going to see a 10% tariff become a 10% price increase. And so we will start to see, I think, some price shocks coming through and being transmitted through to consumers. But I think that it's not a one-to-one. Pricing in companies tends to not be as direct of that. And so it's going to be harder, I think, to see some of those price impacts than I think people would like.

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And the example is, you know, in the United States we have this company Costco where they sell tons and tons and tons of stuff. But most people like to go to Costco because they sell a hot dog for \$1.50 and they've sold it for \$1.50 for 20 years. But guess what? It doesn't cost \$1.50 to make and sell that hot dog. So what they do is they raise prices on other products that are less price sensitive. In order to compensate for the cost of the hot dog while maintaining the price at

\$1.50. So I think we're going to continue to see some of the price impacts maybe be a little more diffuse than I think we, we might have anticipated or economists might have anticipated. But what we will see is we're going to start seeing statements, I think, in corporate earnings. And I think that what you're seeing is corporations pulling back on CapEx, pulling back on other expenses to cover the cost of the tariffs. But they're also, I think, going to start to have earnings implications for companies. And that's going to have, I think, a longer-term impact that hasn't yet been priced in.

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So those are some of the ramifications that I think are waiting for us and we're going to start seeing over the coming weeks and months.

**[00:19:02.22] - Cecilia Malmström**

And Luisa, so as we We said the EU Trade Commissioner is on his way to Washington. There has been talks for several weeks. Not much is known about how they're actually going, apart from there is no deal. President Trump has said that the deal is the letter that I sent out, but still he's open to talk. So what should the EU do? What's your advice? Have we been, we in Europe, have we been too weak? Have we been too Divided? Have we not been determined enough? Or is this— of course, you know, we all know that this is a very special kind of negotiation, so it's not really the kind of template that the EU is familiar with. But still, we have dealt with Trump under his first administration. So what shall we do? What tools shall we use?

**[00:19:51.04] - Luisa Santos**

Look, I think this is, as you said, Cecilia, it's very challenging for Europe because we are not talking We are talking about a democracy, so things are not decided by one person alone. And although this is— we are talking about trade, so is EU competence, so the Commission has the power to negotiate, it does consult the member states. And, and this is very important. It's also very important to have unity that these consultations take place. And of course, we are 27, We, we have 27 different economic realities in Europe. We have 27 different interests as well when it comes to the relationship with the US. So this is very challenging. And of course, the US is a big partner. And because it is a big partner, there are very few countries in Europe that are not impacted by the US and whatever happens with the US, either directly because you are exporting or indirectly because because your products are integrated in supply chains that are, have exposure to the US. So I think it's not easy. It's a challenge. It's also not easy because I think the, the approach of this Trump 2 is very different from the previous one.

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We see that he has much more power, also within his own party, and we see that the Congress in the US is has been absent. And this has, of course, the administration has much more leverage to take its decisions and to not be confronted with a lot of criticism. And this is the difference. It is that, of course, in the past, there was some more checks and balances also internally when the positions were put on the table. So that's the additional challenge. How did Europe perform, or should we have done a different, a different way? Look, I think, um, from the business perspective, of course we would have preferred things to be different than what they are today. We would have preferred at the moment that we have a more stable solution. We would have preferred that we are talking about eliminating tariffs instead of increasing tariffs. This is what we have preferred. I think on the member states they would have preferred as well that we had, we continue to have a transatlantic partnership with a lot of common interests ranging from security to defense to the economy. But the reality is different. And I think from the initial shock, we are now in a different phase.

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We are acknowledging that there is a difference. I think there's one important point is that we will not be shocked again. Because I think now we are expecting everything to come from the US. We— this means we will need to have a pragmatic solution, and the pragmatic solution might be at one point to swallow something that is difficult for us to swallow. But there is a limit, there is a limit. Whatever is beyond 10% will be very difficult to accept in Europe, precisely for the reasons I mentioned. We have also differentiation in terms of price, and we need a sort of stable solution for the 232, because otherwise I'm afraid we can still have a no deal, even if we don't want that, and even if the EU is, is ready to do everything to avoid that situation. On a more pragmatic approach, of course, The, the way we see the US market today is different from the way we were seeing the US market 5 months ago. And this has consequences as well in the medium to long term. The trust is no longer there. So that's also why the EU now is trying to diversify its markets as well, because of course we are not going to abandon the US market, but we are definitely looking for alternatives.

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Because we are not sure how stable the relationship will be, even if we get the deal. And that's, I think, is the biggest question we have these days, is how stable this deal is going to be, how much can we trust it to move the relationship forward in a more predictable manner. And this we don't know.

**[00:24:22.08] - Cecilia Malmström**

But we do have a few tools in the European Union. We have the lists of possible retaliation, and we have other instruments. Recently, China was excluded from the EU market public procurement contracts in the pharmaceutical sector. This is something that could be used as well. We have the, the big bazooka, the anti-corruption instrument, which could also look at licenses and so on. There are many people, especially in the European Parliament and in some member states, who are also pushing for maybe taxing big tech or or directing more targeted sanctions against them. Do you think it would be necessary, or would it be desirable to use that as well?

**[00:25:03.03] - Luisa Santos**

I think we are not there right now. We need to be prepared. And here, I think, now I'm really speaking on behalf of the business, we need to be prepared for all the options. We are still believing that we can get deal. If we cannot get a deal, or if we get a deal that is not good enough, as I said, that puts tariffs so high that is simply breaching, you know, the possibility of stopping the possibility of trade, then of course we will need to, we will need to prepare for some reaction. But I think on one end the US tried to, to, to play the rational card and avoid the tariffs as escalation, because of course, we, we think that this is not or has not been a very rational negotiation from the start, or at least some aspects have not been when we, we are, you know, putting everything on the table, not just trade, but other aspects as well. So we're trying to rationalize, I think the US is trying to rationalize, and this is something we support as as European business. But of course, we need to put all our options on the table.

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We also, I believe, are being rational in the sense that our economies are so intertwined that if we start escalating, this is going to be massive. And, and in the end, it will harm the two sides. So we are trying to avoid that. Because if we are going that way, I think it's going to be a very, very difficult economic situation, both for EU and US and also for the world. And that's why we're trying to avoid that and try to find a solution that does not lead to, to a tariff escalation, an escalation that could also spread to other areas, including a security, security area. So we are trying to contain it in a way that remains rational and manageable. But I would not exclude that this is not not in the end producing a deal that would be acceptable for Europe. I think we cannot exclude any options. And then we would have to use the different tools we have, possibly going in a crescendo, because I think we should be rational even in responding. If we believe when the deal is not possible, then we will need to go to the response and to react in a more I would say, aggressive way.

**[00:27:35.25] - Cecilia Malmström**

How do you see this, Penny? Because if we look at the few deals that have been made so far, we have the UK, we have Vietnam, and then just yesterday Indonesia. With China, I wouldn't really call it a deal, it's more of a sort of truce. And also the other deals are quite temporary in a way, because the UK were sure that they had been exempted from the steel tariffs, but just a week later President Trump said, no, no, no, no, they're still on. So it's very volatile, all this. And you can't say that any of these deals are really fair from the other side. So what are the options for the European Union to get rather minimal damage out of this, in your view?

**[00:28:18.26] - Penelope Naas**

Yeah, well, I'm not sure that that's going to be a possibility, because it seems to me that every time the EU has deferred, the ratchets going up. And so, you know, and I think that, again, people are, I think, distracted by the bright shiny objects that are going on out there. So, you know, big numbers get thrown out and then when they come back, people forget that we were starting out the US having a 2% tariff, weighted average tariff. And now we're at minimum 10%. And now with these new deals in Asia, it's 20%, 20 or 19. So I mean, you know, so these 50%, 30%, everything's getting thrown out. But, and I hear you, Louisa, on the 10%, but it's looking to me like the new 10% is 20% to a certain extent. And so, and he's seeing he can get deals out of Vietnam and Indonesia, where they drop all tariffs. They claim to be dropping all non-tariff barriers and accepting a 20% tariff on their goods coming into the United States. That is, the EU is a different economy than those countries with, with different characteristics, a lot more intra-company trade across the Atlantic.

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And so tariffs are really going to have impacts on US companies and US workers in a way that's different than it will for some of these Asian economies. But so, so for Europe, I mean, you, you have those options. You can either do nothing because you believe tariffs are bad for your economy and that they're taxes that the US is paying. So, um, number 2 is you can come up with, you know, some medium, um, smaller solutions or you go with the big bazooka. And I think those are the questions confronting Europe at the moment. Do you escalate to de-escalate? And I think overall, Trump is really good at looking at your weaknesses and sticking, sticking his finger into your weaknesses. That's where the name-calling comes from. That's where a lot of the other things he's doing. And unfortunately, Europe does have a a lot of things that they are still dependent on the United States for, whether it be Ukraine, whether it be NATO, but then also all of, all of the trade that's going on. And so what, what Europe needs to do is to try to lower their vulnerabilities due to weaknesses that Trump can exploit.

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And the question for me is, is that, is that Is that what retaliation is going to show? Is that going to show European strength? If it's not, what will? And what will show European resolve to get them out of this cycle? Because once you cut a deal and you show that you're willing to cut deals, they're going to keep coming back for more. And it's not going to stop. So the question is, how do you, how do you use all of this to strength in Europe and to eliminate those weaknesses that can be exploited as you, as you move through this process? Because there's, there's, this isn't going to end.

**[00:31:41.14] - Cecilia Malmström**

Well, it's of course difficult for Louisa to answer this as Deputy Chair of Director General of Business Europe. She's not negotiating, but of course businesses has views on this and stakes as well. I remember when the UK deal was made, there were lots of people in Europe who said, aha, that, that is not the template we are looking to imitate. And the Brits did what they thought they could do at the moment. But maybe now we will have something similar based exactly on that template, but of course looking at different, more EU-specific things. The non-tariff barriers that the Trump administration have complained about. They concern everything from VAT, which is national competence in the European Union, so not EU, to rules, phytosanitary rules, consumer protections, tech rules, and so on. And these have been negotiated for years with member states in the European Parliament, so the Commission is not really in a position to just give away or give them up. And that makes it, of course, very very difficult. So I know that you're not the negotiator, Louisa, but do you have any comments to what Penny said?

**[00:32:56.19] - Luisa Santos**

Look, I mean, I think we also have weaknesses. I think in the beginning— and the weakness are the strengths in Europe. As I said in the beginning, we are 27, we are not one country, and we have a democratic system. I'm afraid right now in the US, the Congress is is basically not doing the counterweight to, to, to, to the president. And this of course means that you only have one view that is prevailing, while in Europe of course you still have very divergent views. And, and this is of course can be considered as weakness, or it can be considered as a strength. We are in a new environment where of course power play, has become much more important than rules-based. And this is an issue for Europe. Now, are we going to abandon the way we are working? I don't think so, at least not for the moment, because rules-based is still important for companies. By the way, the current situation right now of not knowing is the worst for companies, because of course, I mean, if we have 30% tariffs, by the way, companies will decide, okay, is my, is my operation in the US still relevant or not?

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And then I have to move on, I have to take a decision, or 35% or 20% or 10%, whatever. The problem is at the moment this is not clear, and, and this is what is raising, is raising even more concerns than the tariffs themselves at the moment. So the, the certainty is important. We might not have totally that under this US administration. We need to see, because I think that the leverage that the US has managed to have at the beginning of the negotiations, at one point it will be over, because people will say, okay, I mean, you're always using the same approach. I'm sorry, this doesn't work anymore. So we're done. We are over with negotiations. So I think it's also, again, I repeat, is the short-term and the medium term. And we are at the moment taking more the approach of the medium term and not the short term. Now, this might change if this approach of the medium term is not paying off and we need to go for the more short term to safeguard the medium term. And I think on this, the EU, of course, needs to do much more also in terms of its own internal, internal cooking, in terms of reinforcing its own competitiveness.

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And when we talk about rules that the US is criticizing many times, many of the legislation that the US has put in place in the last 5 years or 6 years, I mean, some of these rules we are also complaining about them because they create a lot of burden for companies and we are now trying to simplify them. We are now trying to improve our internal cooking and our internal competitiveness. And this is something we are doing doing for us and not just for the US or because the US is asking us to do. So I think that process is also important that it goes in parallel and that we do it. And the US has been asking us to do, and we as business have also been asking the Commission to do. So this is important, this is continuing, this is medium to long term. Then I think again, we will need to see what will be the end result. Whether, you know, the more rational medium-term approach pays off or the short-term pays off. And then we will have to see. I think in the end, of course, the business is not, as you said, Cecilia, negotiating.

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We are trusting and giving the Commission, you know, the benefit of the doubt also in terms of negotiations, because for us it's important European unity is very important. So the business community is standing behind it as well, and we are aligning also our positions to make sure that we are not every— we don't have a cacophony when it comes to the opposition. And this, from my view, is still there. We are still united and backing the approach that has been taken by you.

**[00:37:10.05] - Cecilia Malmström**

Well, maybe in just a couple of days we will see something coming out of this, some kind of deal. But you mentioned, Louisa, in the beginning, and I think you touched upon it, Penny, as well, that countries who have traditionally traded with the US will, of course, keep on trading, but on different terms now, but that there is also a movement of de-risking from the US. We used to use the word de-risking when we spoke about China, because we were very dependent on some vulnerable goods and so on. But now, countries and companies Rather, companies are more seeking to broaden their— to reduce their dependence on Europe and on the US and diversify. We have seen this in Europe lately with the conclusion of new trade agreements. Also speaking about Indonesia, there was some smaller deal made with Indonesia. There are negotiations ongoing with India, with Australia, with Philippines, Vietnam. There's hopefully a signing of the agreement with Mercosur later this fall. And there is also a rapprochement between the EU and the CPTPP countries. And the CPTPP countries have also increased their internal trade and trying to diversify. So this seems to be a global pattern, which of course on the more long-term will affect the US economy as well if countries find replacement to their value chains.

**[00:38:31.16]**

And if they can diversify in a way that meaning reducing the US trade. So how— what should we make of this? Is this a realistic and desirable way to do? Is the EU and CPTPP— this is something I have been advocating for a long time— a closer cooperation between the two, because CPTPP countries are allies and friends of the European Union, and they all believe in rule-based trade and a certain world order based on predictability and rules. Is this something that will, on the more long-term effect, how do you see that, Louisa and Penny? Do you see this will in any way influence the analysis of the US administration?

**[00:39:16.27] - Luisa Santos**

I don't know, maybe Penny, you want to start? Because I spoke last time.

**[00:39:22.22] - Penelope Naas**

I'm happy to let you answer that, Louisa, and what your guys' thoughts are on the EU-CPTPP alliance.

**[00:39:30.18] - Luisa Santos**

Look, I mean, we also ask for an assessment of a potential accession of the EU to the CPTPP. We know this is very difficult because, of course, the rules in certain areas are very different from the the ones that the EU normally, normally defends. Talking about IP, talking about data. But there is definitely one important aspect is that we have bilateral agreements with most of the countries that are part of the CPTPP. Some of them we are still negotiating, but we, we are confident that we will be concluding them soon. And there's definitely one important aspect is that we can cooperate further in two main areas. One of it is more on the economic gains, and it's important for business, is how we integrate further our supply chains. And this has to do with, you know, trying to make our rules of origin compatible and trying to do potentially accumulation of rules of origin that can maximize, you know, the benefits in terms of market integration. So that's one aspect. And the other aspect is, of course, cooperation when it comes to rules in areas that are important for us. If the WTO is indeed stuck at the moment in defining new rules, will we, through countries like the ones that are part part of the CPTPP, start to put, you know, building new rules in areas where the WTO for the moment is not able to put those rules.

**[00:41:16.02]**

So we see them, we see the approach in these two areas, and we see that as a very positive sign that Europe is ready and open to work with other regions in the world, not just the one in the neighborhood that is very important for us, but try also to work with other regions where we have a huge footprint to try to maximize that footprint as well.

**[00:41:42.13] - Penelope Naas**

So maybe to follow on from that, Cecilia, if I look at, you know, EU CPTPP, or you look at other efforts for countries to come together and try to collectively negotiate with the US during this process, and I look at ASEAN in particular, You know, what, what does look clear to me is that this administration has been focusing on efforts taking place to align and develop, develop bigger blocs to negotiate with the US. So the president has been threatening the BRICS countries, for example, with a 10% tariff. And so I do think they're paying attention to what's going on. But that doesn't mean that Europe shouldn't itself think about what the third way is going to be. The US is, you know, 13% of the world economy. So 87% of the world economy is still out there. So what comes next out of this? I think there's, there's the stuff that Europe can control and the stuff they can't. They can't necessarily control Donald Trump and the decisions he's going to make, but they can control a lot of other things that are out there. The question is whether you can get to collective action.

**[00:42:51.01]**

And I think what we have seen is the US so far has been able to kind of, again, pick people off because they, they find their, their weaknesses and they're able to, to, to really dig into those to, to get to where they are. If I could go back to your investment question, and I think some of the stuff that Louise has been talking about, how business is thinking about the US as a trading partner in the future. I mean, one thing that in talking to businesses here, and particularly European businesses. You know, they want to understand what's going on and what to anticipate and what to expect. If they are a manufacturer of something, many of them are thinking about the United States similar to how they were thinking about China. How do we serve the US market per se, but maybe not necessarily use the US as an export platform? So how do I set up a supply chain to serve maybe the North American market or the US market, from the United States because there is, you know, there are things that this administration is doing that are boosting some of the internal capabilities for companies who want to establish and set up.

**[00:43:55.21]**

If they're a service company, for example, many of them are still quite interested in the US market, in part because the US is still quite a large and growing market, particularly vis-à-vis Europe. And here is where I think, again, Europe does need to really be focused on their competitiveness agenda and really focused on how can they boost their own growth and productivity and, and get rid of their internal barriers. Because, because there are a lot of European companies who are using the US to de-risk from Europe in terms of their growth. And then I think the last are those, you know, and again, this is where Europe could, could lead. There is those that are now looking, where do I export from? Where do I serve the rest of the world from? Is it Mexico? Mexico has a lot of trade agreements. Is it Asia? Is it, you know, someplace in, someplace in Europe? That's a, that's another, I think, really great opportunity for Europe to take advantage of the situation and present itself as a, an export platform for the world. But it does need to work on some of those competitiveness issues first before I think they can change the narrative that's out there that sometimes Europe is a little hard to do businesses.

**[00:45:10.09] - Cecilia Malmström**

Well, that's what we were talking about, Louisa, about the need for simplification and also for doing all these reforms on the internal market that we've been talking about for decades, and lately articulated in the Draghi report and in the Letta report and all these reports saying that, you know, and there has been estimations also by the World Bank and IMF saying that the internal obstacles on the internal market are equivalent to quite a high level of tariff as well when it comes to not be really taking advantage of the possibilities that internal market can give

further to European companies. So this is of course something— when you spoke about doing your homework, that this is important. But also, look, what you said, both of you, that the US is an important part of the global economy, but still a small part. And the EU as a whole as a whole, I think, trades 19% with the US, meaning that 81% or even 82% is not with the US. So, that speaks for trying to broaden the alliances, and CPTPP can be one of these alliances, of course. And the Commission President, Ursula von der Leyen, also called for the EU and CPTPP countries and other countries who are interested to try to see if they can form some sort of global alliance to maintain the global rules that we have agreed upon in the WTO context.

**[00:46:38.06]**

And then if the US doesn't want to join, well, you know, we— tant pis, we will continue without them. Do you think this is a way— because of course business as well want predictability and global rules. So can this be a way to strengthen WTO and the WTO spirit in the world outside the US?

**[00:46:58.24] - Luisa Santos**

Yes, but first I wanted to come back to the question of investment, because the idea indeed is to spur more investments to the US. But just to signal two points, I mean, the tariffs are not enough. You, you need to have an environment that is conducive to investment. And I have to recall that the US is not a cheap market. On the contrary, it's a market, of course, it has cheaper energy and that's a good advantage as compared to Europe for sure. And that has motivated a lot of companies to start investing in US, especially in renewables with the IRA. Many of these are now being put in question, of course. We, we know, but the US is a very tight labor market and, and this is an issue. It was an issue in the past and it remains an issue. So just to signal that there are some other aspects, um, the fact that of course you have rules that are not at the moment, or the environment in general is not very stable or very predictable, is also not attracting a lot a lot of investment. And of course, the tariffs. I mean, a lot of high tariffs on steel and aluminum are not good for investments because, of course, a lot of these are primary materials that are needed also for investments in a number of areas.

**[00:48:25.23]**

So these factors are also weighing in, in terms of investments in the US. And then talking about the rules and the WTO, look, I think we definitely need to find a solution for the major problem in our view in the WTO right now is that you have certain countries, and I'm not talking only about the US, that are systematically blocking the adoptions of decisions in the WTO. So we know the consensus was a very good rule to ensure inclusive effectiveness of the system, but it's actually

preventing the system from moving on. So if we always— it— consensus is becoming unanimity, and, and this is something that is simply impossible to maintain if we want to keep the, the organization alive and adjusted to the new reality. So I think to make sure that the WTO moves, it doesn't mean that I don't think we should leave the WTO because the WTO remains relevant. I mean, we still have a basic system of rules that everyone is using, both US business, European business. So we're still using the dispute mechanism even if, you know, the appellate body is not working. So the rules remain relevant, but we definitely need to start building alternatives.

**[00:49:53.10]**

When we don't have enough rules in areas that are critical, like digital, for instance. But when we talk about industrial subsidies and distortive subsidies, I mean, these areas, they are major challenges today, and the WTO is not responding. And if we continue with the situation where we have certain countries systematically blocking any movement even from coalitions of the willing, it will be very difficult to maintain the system alive. So we definitely need to look for alternatives, but without destroying what we have until we have these alternatives in place.

**[00:50:31.21] - Cecilia Malmström**

So a smaller coalition of the willing to work on more plurilateral agreements, as you said, in subsidies, but also there's an urgent need to facilitate the green trade or green technology trade. There has been several attempts, but they are stuck for different reasons. So this could be something that maybe EUCPTTP and other countries could look at in the future.

**[00:50:54.24] - Luisa Santos**

I think so, but always with a caveat that of course we— the aim is always to put those agreements back into WTO. We have this situation now with the joint initiative on e-commerce, but of course if we have one or two countries always blocking, it's going to be very difficult to do these plurilaterals and these coalitions in the willing in the current status of the WTO. And that's a pity because we are not even able to move in the coalitions of the willing. So we definitely need to see what kind of alternatives we have available.

**[00:51:32.03] - Cecilia Malmström**

We are approaching the end, and I would like to ask you one more question before we end, but we have a question from from the audience on Brazil. I don't know if you feel that you can answer it. It's by Mr. Winter saying, can you discuss the tariff threat against Brazil now backed by a 301 investigation and the higher threatening rate at 50% even though it was 10% before?

What does this say about trade policy, Trump's trade policy, and what does it mean for other talks with other countries? I think you have a little bit tried to answer it in general. Anybody wants to comment on, on the specific Brazilian issue.

**[00:52:07.19] - Penelope Naas**

So I think, you know, the president is quite complicated, I think, in how he uses a lot of the trade tools. I was going to say, Cecilia, we haven't talked about China yet, but you've seen also quite an at times schizophrenic approach to China. And while in many ways the U.S. government is really taking a whole-of-government approach to advocate for certain things or to advance certain procedures. And so tariff can, can come in the mix even for unrelated issues, or trade actions can come in for unrelated issues like, like in the Brazilian case. You're also seeing the same in China where, you know, we— there have been at times tough policies against the Chinese and then yet, you know, on export controls you're seeing some other things going on. So some, some maybe some steps back and some of that may be needed based on, you know, a reevaluation of some of the policies that were in place with regards to, for example, semiconductor chips and other things. But for China, but for Europe, there's an upcoming summit, EU-China summit. And while we're talking a lot about the US and EU, you've, you've actually got a triangle with Europe as well.

**[00:53:21.20]**

And I think Europe's got— has been taking quite a tough line with the Chinese coming up and going into this summit, which I think is probably equally important for their positioning. They're not necessarily doing it with the United States. They're going to need to do it separately. But I think that the EU-China and what happens at the summit will also help lay the groundwork a little bit for what is going to be the proactive European strategy moving forward. Because if, if Europe just becomes where all the Chinese imports that can't go to the United States come, and you're seeing it a little bit with cars that are still coming in even with tariffs in place, you know, what, what is going to be the EU-China policy moving forward and how are you going to balance the world between the US and China and Europe's place in it.

**[00:54:17.10] - Cecilia Malmström**

Exactly. I was going to ask a final question about China. And China-US-EU also had a new dimension yesterday or the day before when President Trump addressed Russia and threatened with 100% tariffs against Russia, which is just symbolic because they don't really trade with each other. But he also said that there could also be tariffs on the secondary trade with Russia, meaning of course China and India, and then trade again becomes a much more

security-focused policy because this is really what counts in Europe. And the war in Ukraine is number one on the agenda right now. Tariffs maybe only number two. But this could have an effect. Do you think this will impact influence the next week's summit with China, Luisa? Will there be more other items?

**[00:55:10.17] - Luisa Santos**

No, we have a lot of issues on the table, including economic issues. I mean, we do have, of course, the investigations on, in our case, on the anti-subsidies on the electric vehicles that the Chinese consider made it a top priority. They want to find a negotiated solution for that. On the European side, we also have Chinese investigations that we believe are politically motivated, uh, and, and therefore make no sense. And of course, we had recently, uh, the EU took action on medical devices because the Chinese have closed down their markets, uh, on medical devices in terms of procurement, and the China's responded. So there is a posture for sure, also from China, I think that has been emboldened by whatever deal it did with the US, and is feeling much more confident. Also externally, we see as well that from the, from an economic point of view, the Chinese economy is doing rather well. Chinese exports continue to grow. So I think that for China, they also feel, at least on the short term, that their actions and their posture is right. Now, I think on the US side with China, as Penny was saying, independently of what the US does or does not, the US has its own economic interests with China.

**[00:56:44.01]**

It's very clear that we don't see the situation with China improving from an economic point of view. We see a lot of good words, but we need to see real deeds. And, and this is something that for the moment has not happened. And we have still problems with, with the critical minerals now and, and the export license system that, that China has introduced. And this is going to be a key issue in the summit.

**[00:57:08.29] - Cecilia Malmström**

And also China is trying to de-risk from the US. It has been engaging in trying to do deals, especially in the Indo-Pacific, but also all over the world, as it is a very export-dependent country. The sort of mini deal or the agreement or the terms of reference that exists between the EU and China, is that likely to come back? And maybe this would be the final question for you, Penny. Is this likely to come back on the agenda of President President Trump once those deals are made, China again? Because it is not a deal, it's a kind of truce for the moment.

**[00:57:45.28] - Penelope Naas**

Yeah, I mean, you've seen behind the scenes there is some stuff going on, I believe, on some of the deals. So the UK and others, they're already— they're exchanging discussions. But again, the teams have been quite busy working on other deals. And with other countries at the moment as well. So, but I would expect China will, will reemerge. I mean, this Trump administration is still lacking a lot of people in key positions. It's still quite, quite lightly staffed in some places. And so, I mean, the whole of government approach that has been taken to date, I could see expanding in certain areas. The president doesn't currently got his big bill through the Congress. I'm not sure they plan on a whole lot of other big legislative initiatives before the midterm elections next year. And so I would imagine that we'll see quite a bit of international action and continued international potential negotiations. Again, we didn't get a chance to really dig into the 232 Section investigations, but I do see those as being a very significant follow-up on these letters. There, those are going to be ongoing and those are going to be US government initiated investigations with global ramifications and wide scopes that I think people need to keep an eye on, both if you're a US company that feels that you're facing unfair competition, as well as foreign companies who are trying to figure out their, what what they're going to be doing in the US market.

**[00:59:22.26] - Cecilia Malmström**

Yes, that's what you mentioned as well, Louisa, that that is key, that any kind of deal or agreement needs to, to provide more clarity on this. And on China, there are several of the criticisms that the EU has vis-à-vis China are also shared by the US. Not all, but we have, have a lot in common. And at the early stages of these negotiations, there were talks about maybe agreeing on a common line vis-à-vis China that could be be part of a deal, but that seems to have departed from the agenda right now. But is it possible that that could come back, Lisa?

**[00:59:54.17] - Luisa Santos**

Look, I think part of the discussions around 232 are related to China. That's why China's been— and President Xi Jinping made some tours, especially in Asia, to make sure that he had guarantees from other trading partners that they will be very clear that China should not be excluded from supply chains. But this is part of the discussion right now, is how much you are exposed to China, how much you need to produce in the US, how much you need to, you know, ensure that only those that do the deal benefit from, from this deal. So it's all about this. I mean, the only question we have is We know President Trump has a special relationship with President Xi. So in Europe, where we are wondering if indeed there will be some sort of big deal between the US and China at one point that goes beyond whatever has been agreed in terms of, you know, the more technical aspects and is more, you know, more friendly deal than, than what any of us is doing right now with China. So that is the big question mark for us.

**[01:01:10.11] - Cecilia Malmström**

We have reached the, the hour. Lots of interesting things here, some more clarity, other things to be continued, to be seen where it lands. I'm sure we'll have opportunities to, to come back to, to all of this. But Peninas, Luisa Santos, thank you so much for joining, and thanks to the audience for joining us as well, and wishing you a nice afternoon, good, and good evening.

**[01:01:36.26] - Penelope Naas**

Bye. Thank you, Cecilia.

**[01:01:39.18] - Cecilia Malmström**

Thank you.