The spat between America and Europe heats up

IN DECEMBER, George Bush caved in like warm Camembert to threats of European Union (EU) retaliation over illegal steel tariffs. That may have had something to do with the fact that Europe planned to slap the heaviest duties on products made in states that Mr Bush needs badly to win in November's presidential election. Suddenly, he decided that America’s steel industry was in fine shape, thanks very much, and sued for peace.

But only on this issue. Trade wars are spreading. From March 1st the EU imposed tariffs on $4 billion of American exports, the biggest authorised sanctions in the World Trade Organisation's (WTO) history. These latest fines are over so-called FSC-ETI (Foreign Sales Corporation and Extraterritorial Income) tax breaks for American exporters, which were ruled illegal by the WTO two years ago. The tariffs start at 5% and rise by 1% each month over the next year to 17%.

Although the EU had notified Washington of its plans last autumn, Congress has done next to nothing to
stop the damage. Pascal Lamy, Europe's trade commissioner, travelled to Washington last week to encourage Congress to fix the tax laws soon. Fat chance: this week, it greeted the most recent trade sanctions with a shrug.

Forthcoming elections are largely to blame. Protectionist sentiment is running higher than ever in Washington, with worries over the outsourcing of white-collar jobs and talk of "Benedict Arnold" companies who move their headquarters abroad in search of lower taxes.

Although the Senate has finally begun to debate a bill that would eliminate the offending parts of FSC-ETI, it will not scrap these until May at the earliest, and will create even more complexity in corporate taxes in the process. The bigger obstacle is the House of Representatives. The main bill there, sponsored by a Republican, is larded with pork and will lose billions in revenue at a time when the budget deficit is widening. Worse, Democrats want a bill that helps keep American manufacturing jobs. Moreover, they are in no hurry to agree to a new law, since they think the woes of exporters, and their laid-off workers, can only help them at the polls. Little progress is expected by the time the Congress goes on holiday later this month.

But the battle over export tax breaks is not the only transatlantic tiff. In another case, the WTO ruled last month that the EU can sue America for damages caused by its anti-dumping laws. And there is yet a further dispute at the WTO over America's hormone-treated beef, which the EU wants labelled to protect its consumers. America has recently banned French foie-gras: apparently it is not up to scratch.

Both Mr Lamy and Robert Zoellick, his opposite number in America, are playing down the significance of these disputes. Mr Lamy notes that the FSC-ETI penalties cover only 1% of American trade with the EU. And an apparently insouciant Mr Zoellick has been jetting around the world signing bilateral deals hither and thither.

This week, he agreed a new one with Morocco, covering agricultural goods and intellectual property rights. But there have been numerous other deals recently: with Australia, the Central American Free Trade Area and Chile, to name but three.

Although all of these bilateral deals would seem to go against the whole idea of multilateral free trade, Mr Zoellick seems, in fact, to be trying to gather support from poor countries to restart the stalled Doha round of trade talks, which ground to a halt after a disastrous meeting in Cancún, Mexico last September. Rising tension across the Atlantic bodes ill for getting the talks restarted.

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