https://www.lemonde.fr/en/economy/article/2022/12/06/europe-is-struggling-to-find-ways-to-defend-itself-from-us-protectionism_6006794_19.html?lmd_medium=al&lmd_campaign=envoye-par-appli&lmd_creation=ios&lmd_source=default

Europe is struggling to find ways to defend itself against US protectionism

The US' Inflation Reduction Act, which aims to curb inflation by reducing the deficit and investing in domestic, clean energy production, is causing great concern in Europe. As a result, the European Commission is seeking ways to fight back.

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Although they haven't yet started hemorrhaging, they may do so in the future. Every day, European manufacturers announce that they are investing in the United States, or that they are considering it. German car manufacturers Volkswagen and BMW recently announced plans to expand their production capacities in the US, and Northvolt may finally open its battery Gigafactory stateside, despite plans to set up in Germany. Solvay, a chemical company in Belgium, has decided to take part in a major battery project across the Atlantic; currently, French company Saint-Gobain has plans to expand its operations in California; and Iberdrola, the Spanish energy company, plans to invest nearly half of its investment funds in the US over the next few years.

With energy prices, which are three to four times higher in Europe, and President Joe Biden's Inflation Reduction Act (IRA) – a $369 billion package designed to boost America's green industry with tax credits and subsidies earmarked for "Made in America" products – the US is more attractive than ever.

Europeans are concerned about the scale of the disaster ahead. A discussion of the subject took place on Monday, December 5, at the third edition of the United States-European Union Ministerial Trade and Technology Council (TTC) on the University of Maryland campus, which aims to accompany the renewal of transatlantic relations after the Trump era. However, no one expected much, even the Internal Market Commissioner, Thierry Breton, who decided not to attend.

Despite the fact that Secretary of State Antony Blinken, Secretary of Commerce Gina Raimondo, and Trade Representative Katherine Tai attended the meeting, no progress was made. On the European side, European Commission Vice Presidents Valdis Dombrovskis and Margrethe Vestager attended. According to Margrethe Vestager, the IRA represents "the most important step the United States can take against climate change."

Start-up delay

It has taken some time for the European counter-offensive to begin. On August 16, Ursula von der Leyen, president of the commission, tweeted that the IRA was "laying the groundwork for a clean energy economy." In Bruges, on December 4, she told the College of Europe that the IRA "requires a structural response" from the EU-27. There has been some delay in the reaction of the EU President to each crisis, whether that be Covid-19 or the energy crisis. She spent three and a half months drafting the broad outline of her battle plan this time. Ms. von der Leyen doesn't want to start a conflict with Washington since she is attached to the transatlantic relationship and the rules of the World Trade Organization (WTO). In this period of war in Ukraine, she is anxious to maintain a united front between the EU and the United States against Moscow.

After repeated calls for action from business representatives, Berlin has taken up the issue out of concern for its industrial sector. It is also possible that Emmanuel Macron's trip to Washington last week, during which the French president warned Mr. Biden against "fragmenting the West," may have accelerated this change. An EU source commented, "We saw Macron as a spokesman for the EU in the US. Von der Leyen needed to take back leadership."

As Ms. von der Leyen warned in Bruges, "Is not our interest to engage in a costly trade war. Nor in the interest of the Americans." It's not an ideal solution, especially as it would take time and wouldn't slow down the deindustrialization that was already happening. In spite of certain protectionist parts of the IRA federal law not respecting WTO rules, the Commission doesn't favor attacking the United States before the WTO.

Until then, the Commission will consider what trade defense measures can be used in accordance with WTO rules. According to a senior European official, "European preference is not in our DNA. And we shouldn't criticize the United States and then do the same thing." "In this context, we can try to set local content requirements since the WTO makes exceptions for the environment and security," said another expert. According to Finance Minister Bruno Le Maire, "We need a European IRA," for which "we shouldn't hesitate to use the term European preference."
In addition, the Commission is also seeking to remove all administrative obstacles that hinder industry operations. The organization also wants to "facilitate public investment in the [environmental] transition" by reviewing the framework for state aid. Their focus today is on innovation, but they could broaden their scope to include green technology, which would match the US' IRA, which covers the entire production chain.

'A review of the Commission's dogmas is necessary'
The main beneficiary of such a development would be Germany, which has the most resources in the EU. In contrast, Italy wouldn't be able to do much with it, unless it went further into debt, which would endanger eurozone stability. The risk of fragmentation of the internal market and a financial crisis have caused Ms. von der Leyen to call for a "common response" and invoked the need for a "sovereignty fund" for Europe. In an interview with the French newspaper *Journal du dimanche* on December 4, Thierry Breton said that "It would probably be necessary to consider financing around 2% of the EU's GDP, or about €350 billion."

If this fund were to be created, it's necessary to know how to finance it. Paris and others are advocating for a common debt fund for the 27 nations, similar to the €750 billion European recovery plan. Something that the frugal, led by The Hague, don't want to hear about. Dutch Finance Minister Sigrid Kaag said Monday that the government "already has substantial resources to support businesses on the table." "It would be useful [to] quickly take stock of them," and see how they can "be redistributed or refocused," she said.

Germany's position varies depending on which coalition member is speaking. Green Minister of the Economy Robert Habeck showed signs of openness. Chancellor Olaf Scholz (SPD, center-left) was more discreet, but didn't even he speak of a "Hamiltonian moment," referring to the federalization of American debt in 1790 after the EU-27 agreed on the European recovery plan? According to Finance Minister Christian Lindner (FDP, liberal), "We don't see any need for common European debt! (...) It would be a threat to our competitiveness and stability," he said on Monday. He went on to insist, "We must increase the competitiveness of the EU (...) with the existing tools."

"In the absence of a fundamental political agreement between Europeans, the Commission must review its own dogmas," summarized Macronist MEP Pascal Canfin, "It's complicated but essential." A proposal from the EU executive branch, which is as divided as the member states, is expected "in the weeks ahead," as announced by the Commissioner for Economy, Paolo Gentiloni on Monday. A Franco-German agreement is urgently sought at the Elysée before the meeting of European heads of state and government in Brussels on December 15. As a matter of fact, it was after Emmanuel Macron and Angela Merkel, then Chancellor, agreed on a recovery plan in 2020 that the Commission moved forward and negotiations between the 27 member states were finally able to move forward.

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