**Auto 232 puts Germany in US trade crosshairs**

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President Donald Trump’s Section 232 tariffs and quotas on imported steel and aluminum from the European Union show no signs of going away soon, according to trade policy and industry experts in Germany.

While Section 232 measures were welcomed by many US steel producers, fears are mounting outside the United States that they could also be [applied to automobiles and auto parts](https://www.amm.com/Article/3809304/US-starts-232-probe-vs-imports-of-autos-parts.html).

Any such move would increase tension in relations with EU allies, interviewees in Germany said. Some also see a threat to the World Trade Organization (WTO) and consequently question whether the US is still a reliable trade partner.

Trump announced Section 232 tariffs - 25% in the case of steel from most countries - in March of last year. He [subjected US allies](https://www.amm.com/Article/3810977/US-allies-get-slapped-with-full-232-tariffs.html), including the EU, to the tariffs in June.

The deep well of goodwill between the US and Germany, a keystone of the EU, was poisoned a little by the justification for Section 232: that exports from a long-time ally to US customers posed a national security threat to the US.

“I would use very negative words. Like ‘catastrophe,’ ‘bleak’ or whatever you might call it when we talk about transatlantic trade,” Claudia Schmucker, head of the globalization and world economy program at the German Council on Foreign Relations (DGAP), explained during an interview at the organization’s offices in Berlin.

A similar picture emerged during a month of in-depth interviews I conducted across Germany with well over a dozen German business executives, lobbyists, politicians and academics. Some spoke on record, while others preferred to speak only on background. The US embassy in Berlin declined to comment for this article, as did a German government spokesperson. Germany is the EU’s largest national producer of steel.

**Trump: I don't care**

“I don’t care about Europe. I’m not elected by Europeans. I’m elected by American taxpayers,” US president Donald [Trump said at a January 2 cabinet meeting](https://www.c-span.org/video/?456601-1/president-trump-presses-5-billion-border-wall-funding-cabinet-meeting) in which he also criticized Europeans, and Germany in particular, for not spending enough on defense.

Despite such rhetoric, most Americans seem unaware of how deep the rift between the two countries has become. Seven in 10 Americans think that US-German relations are going well, whereas 73% of Germans think the relationship is floundering, according to [a recent Pew Research Center Survey](http://www.pewresearch.org/fact-tank/2018/11/26/americans-and-germans-are-worlds-apart-in-views-of-their-countries-relationship/). As recently as 2017, only 56% of Germans thought that relations with the US were poor.

German sources questioned whether the White House - or even another US administration - could do much to repair the damage done by the president’s apparent hostility toward Europe.

It would not be a surprise to see such rhetoric targeted at Beijing given increasing evidence of a power struggle between the US and China, Volker Treier, deputy chief executive officer of the Association of German Chambers of Commerce and Industry (DIHK), said during an interview at the organization’s office in Berlin.

“If this is the new narrative - that we are having a new, justified systemic competition [between the US and China] - then we are wondering why tariffs are imposed on us and [how] we are threatening, with our cars and our car parts, the national security interests of the USA,” he said.

The Trump administration launched a Section 232 investigation into imports of motor vehicles and automotive parts on May 23, 2018. The US Commerce Department has 270 days, or until mid-February, to submit a report to the White House determining whether or not imports do indeed pose a threat to national security and, if they do, giving the president options to take to thwart them.

An initial version of the report has already circulated, sources said.

A Commerce Department spokesperson confirmed that the auto Section 232 investigation was ongoing in an email to Fastmarkets AMM in early February. He declined to comment on the timeline of the case or on what the impact of that probe - as well as existing Section 232 quotas on imported steel and aluminum - might be on US-EU relations and supply chains.

The Office of the United States Trade Representative - the agency in charge of crafting US trade policy - did not respond to requests for comment.

**Caught in the crossfire**

Things could get worse should trade tensions between the US and China escalate. Demand for German products, notably demand for those made in the US - such as BMW’s popular X5 SUV, which is [made in Spartanburg, South Carolina](https://www.bmwusfactory.com/manufacturing/factory-products/plant-spartanburg-vehicle-models/), could be hit, German industry and financial sources said.

BMW exports more cars from the US to the rest of the world than it ships from its assembly plants in Germany to the US, Stefan Schneider, head of strategic research and chief German economist at Deutsche Bank, said from his office at the bank’s headquarters in Frankfurt.

Many of the SUVs produced by German automakers are made in the US. The result: German auto companies with plants in the US could face higher tariffs - not only on the raw materials and parts they import but also on the vehicles they export to China. “They would be hit on both sides,” Schneider said.

He stressed that such tariffs were only a pawn in a much bigger game between the US and China. He also compared the current geopolitical scene to the turn of the last century, when Germany was challenging the United Kingdom as the world’s dominant power. “There is clearly this dispute over who is going to be the global top dog over the next 10-20 years,” he said. “It’s not just about trade. It’s about much more than that.”

Germany has the most at stake should the US hit the EU with Section 232 tariffs or quotas on autos and auto parts, said Julia Howald, deputy head of department for external economic policy at the Federation of German Industries (BDI). That is in part because tariffs or quotas targeted at Germany’s auto exports would hit not only the country’s steel and auto sectors but also businesses that provide inputs to vehicles, such as the textile and chemical industries.

All told, German gross domestic product could lose 0.16% - 5 billion euros ($5.7 billion) - should the US impose auto tariffs, [according to the Munich-based Ifo Institute](http://www.cesifo-group.de/ifoHome/presse/Pressemitteilungen/Pressemitteilungen-Archiv/2018/Q2/pm-20180524_US_Autozoelle.html).

But the US auto industry also stands to be hurt. Approximately 624,000 US jobs could be lost if the US administration imposes auto tariffs and if other countries retaliate, [according to the Peterson Institute](https://piie.com/blogs/trade-investment-policy-watch/trumps-proposed-auto-tariffs-would-throw-us-automakers-and), a Washington-based think tank. Some German experts puzzled over why the US might pursue policies that have the potential to harm not only German but also US workers.

The threat of Section 232 started when the US imposed tariffs on foreign steel and aluminum, including material from the EU, in 2018. But steel’s role in creating a global trade fight far outweighs its importance to the US economy, DZ Bank chief economist and head of research Stefan Bielmeier said during an interview at the bank’s headquarters in Frankfurt. “This is, in my view, politically driven. It is driven by the outcome of elections. But for the welfare of a country, [steel] is more or less meaningless.”

Trump made trade, and in particular the trade in steel products, [a key plank of his campaign](https://www.amm.com/Article/3566148/Nixing-of-trade-deals-to-bring-jobs-back-Trump.html) for the US presidency in 2016. The issue resonated in Rust Belt states such as Ohio, Pennsylvania and Michigan, whose voters helped catapult him into the White House.

**Frenemies**
Whether President Trump’s trade agenda will remain a political winner remains to be seen. In the meantime, dialogue between Washington and Berlin appears to have stalled.

“I am personally really concerned that this [Section 232] is not going away… There seems to be no preparedness for compromise on the other side of the Atlantic,” said Peter Beyer, a member of the German Bundestag who represents a district near Düsseldorf.

Beyer sees things from a manufacturer's and a diplomat’s perspectives. His district is in the Ruhr Valley, Germany’s industrial heartland and home to thriving steelmaking giants such as ThyssenKrupp as well as to idled mills and mines - a landscape that would not be entirely out of place in the Ohio River Valley in the US.

He is also Coordinator of Transatlantic Cooperation at Germany’s Federal Foreign Office, or Auswärtiges Amt. The agency is roughly the equivalent of the US State Department. I met with Beyer at the agency's offices in the former Reichsbank building in Berlin.

Despite Beyer’s role and the flare-up in transatlantic trade tensions that has made diplomacy more urgent, he said he has yet to meet with US Trade Representative Robert Lighthizer. By contrast, Beyer met frequently with Michael Froman, the USTR under former president Barack Obama, in Berlin and in Washington. “Not negotiations - but discussing all our interests, explaining… getting a mutual understanding. There is less of this than before, which is not a good thing,” he said.

Beyer had been more optimistic that the present US administration might soften its stance following a meeting between President Trump and European Commission President Jean-Claude Juncker in July in Washington. He remained optimistic until the G20 meeting late last year in Buenos Aires, Argentina, where hopes of improved dialogue were disappointed.

Beyer’s opinion of the US position since then: “The Americans want to dictate to us solutions. And they want us to agree to quotas. Everything that we believe is against the WTO.”

Steel tariffs are not the only topic on which Germany and the US disagree. Other contentious issues include the Nord Stream 2 natural gas pipeline with Russia; US demands for increased military spending from its North Atlantic Treaty Organization allies; and US sanctions against Iran.

Many of those issues and disagreements about them are not new. What is new, according to Beyer, is the US approach of pressing Germany to deal with all of them simultaneously.

“It is almost impossible to handle all of these very important and difficult topics at the same time. And I think that is Trump’s intention - to keep us busy. Sometimes I have doubts if he really wants an answer from the European side,” he said.

Other German trade experts expressed similar frustrations and said they no longer see the US as a reliable partner, especially when it comes to upholding the post-World War II order that the US helped to create. Such fears are founded in particular on the US’ apparent [disdain under the present administration for multilateral institutions](https://www.amm.com/Article/3803155/232-is-policy-as-drive-by-shooting-Aldonas.html) such as the WTO.

“We thought there was a very, very close relationship between Germany and the US. It started with [President John F.] Kennedy, when he was in Berlin. When he said, ‘[Ich bin ein Berliner](https://www.youtube.com/watch?v=2Ha9GJwlus8).’ And with all the presidents afterwards, whether Republicans or Democrats,” said Bernd Klages, German representative to the International Steel Trade Association and managing director of steel trader Amtex. He does not understand why that relationship is being put under strain by the US.

In Kennedy's 1963 speech in the former West Berlin, he expressed the US’ commitment to Europe and its opposition to the former Soviet Union.

My interview with Klages was at his office overlooking Düsseldorf’s train station on a rainy afternoon in December. He said he had not realized [how much power a US president had](https://www.amm.com/Article/3658791/Trumps-huge-trade-powers-may-backfire-Cato.html) to make unilateral decisions on trade issues - especially if he invokes national security.

Indeed, to justify Section 232 tariffs and quotas, the Trump administration argued that imports of steel and aluminum threatened US national security. Most industry participants and observers in Germany scoffed at that notion and said it was more about finding a loophole in WTO rules that would make it difficult to mount a successful challenge to the trade action.

If that was the strategy, it appears to have worked in the short term. But the importance to the EU of drawing other nations closer grows with each divisive Trump tweet. And each jab at US allies decreases Washington's influence as that of strategic US rivals such as China and Russia rises.

Gregor Wolf - managing director of the German Wholesale, Foreign Trade and Services Federation - said US trade policy has come perilously close to risking the transatlantic alliance. “And that is so strange for me. Because the US was always our partner - is our partner. However, it is abusing that dependency,” he said.

He is not optimistic that US-German relations will improve even if another administration takes office, given that about 40% of US voters approve of Trump - making them a constituency that leaders from the Republican and Democratic parties cannot ignore.

Wolf said the US president has some good points on Chinese trade practices, in particular when it comes to government subsidies. But he also said that the way to address such problems is to reform the WTO and not to threaten a trade war with the world’s second-largest economy. And the endgame is not clear. “Everyone is just frustrated and annoyed. You also have to think about other options than trading with the US,” he said.

The EU is aiming to form closer trade relationships with Mexico as well as emerging markets in Southeast Asia such as in Thailand, Vietnam and Indonesia. And the EU has already forged closer ties with Canada through the Comprehensive Economic and Trade Agreement, [a free-trade pact that went into effect in 2017](http://ec.europa.eu/trade/policy/in-focus/ceta/). More recently, the EU-Japan Economic Partnership Agreement - a pact that Wolf said has been fast-tracked largely owing to present US trade policy - [went into effect on February 1](http://ec.europa.eu/trade/policy/in-focus/eu-japan-economic-partnership-agreement/). The US has clobbered not only the EU but also Canada and Japan with Section 232.

**Tit-for-tat measures**

While recent US trade policy might have shocked some, the German steel industry thought it had an early idea of where the administration was heading due to Section 232.

Throughout 2017, it became clear that [Section 232 would be a top priority](https://www.amm.com/Article/3723959/Steel-232-could-end-very-very-shortly-Ross.html) for the US, so when the tariffs and quotas hit the EU on June 1 2018, it was not a complete surprise. “I think it was pretty clear right after the election that something was going to come on the trade policy front, and that it would start with steel. And it indeed started with steel,” Martin Theuringer, managing director of the German Steel Federation, said at the group’s offices in Düsseldorf.

The EU was prepared and [slapped retaliatory tariffs on a long-list of US goods](http://trade.ec.europa.eu/doclib/docs/2018/may/tradoc_156909.pdf) - including motorcycles, orange juice and whiskey. It also rolled out temporary safeguard measures in July against imported steel. The safeguards were designed to protect the 28-nation block from steel diverted there as a result of Section 232. The EU has deployed a tariff-rate quota system. That means 25% tariffs kick in if quota thresholds are exceeded.

What has perhaps been less predictable has been US trade policy since then. For example, President Trump doubled Section 232 duties on Turkish steel from 25% to 50% in a pre-dawn tweet on a Friday morning in August. The duties were effective the next business day.

Theuringer said in December that it was therefore urgent that the temporary safeguard measures introduced in July be made permanent - a move that would keep them in place for up to three years. That is [what happened on February 2](http://trade.ec.europa.eu/doclib/press/index.cfm?id=1977).

“If you look at the European market situation right now, you can recognize that the import pressure is really increasing,” said Tobias Aldenhoff, head of foreign trade, raw materials and business economics at the German Steel Federation. “We have a real import surge from [some] countries, especially Turkey… because of the 50% [Section 232] duties.”

Imports to the EU were up by 12% year on year through the first 10 months of 2018. Turkish imports, up by 43% over the same period, and Russian imports, up by 13% year on year, were the biggest contributors to the increase, according to German Steel Federation data.

On some issues - Section 232 being extended to automobiles and auto parts, for example - German steelmakers, German automakers and the EU appear to be speaking with an uncharacteristically united voice. Germany exports almost as much steel in the form of vehicles to the US as it does steel mill products such as sheet and plate.

The EU shipped 1.35 million tons of steel mill products to the US in 2017. It shipped 82.2% more - 2.46 million tons - via “indirect” exports of steel-containing goods such as automobiles, mechanical equipment and machinery. Approximately 45% of that indirect export total - 1.11 million tons - was accounted for by automotive exports alone, according to federation figures.

The US and German steel industries should have a common interest in battling steelmaking overcapacity in China. But an appropriate venue to address that problem, the Organization for Economic Co-operation and Development [(OECD) steel committee](http://www.oecd.org/sti/ind/steel.htm), is apparently not being taken seriously by the US anymore. “The international institutions are damaged, and this is very [unfortunate] for steel. Because the steel industry needs really a global solution to a global problem,” Theuringer said.

The EU and Japan alone, for example, cannot apply enough pressure on China to force Beijing to change course on steel issues. And that seems unlikely to change now that China can divert blame to the US for ignoring the OECD process.

Schmucker said the US sends relatively low-level members of the administration and that it does not put the political effort in. “They don’t withdraw but they don’t engage. They don’t see it as the right forum. They want to do it bilaterally,” she said.

**Threat to the WTO?**

Schmucker was also concerned by the impact of Section 232 tariffs and quotas on the WTO. “They have the potential to blow up the multilateral… rules-based trading system,” she said.

The EU could have lived with [Section 201 safeguard measures](https://ustr.gov/sites/default/files/files/Press/fs/201%20FactSheet.pdf) such as those imposed by the US against imports of South Korean washing machines. Safeguards are “a valid mechanism that we all use. But the national security exemption [in Section 232] is a problematic one, and that’s where you open Pandora’s box,” she said.

The WTO is in a dilemma. The US could pull out of the organization if it rules against the national security rationale behind Section 232. But if the WTO instead rules in favor of the US, other countries could follow its lead and impose tariffs or quotas on a wide range of things by invoking national security concerns.

There seem to be no emergency exits that might allow the WTO to avoid ruling on Section 232. Schmucker believes that the US consciously found a loophole in WTO rules with Section 232 tariffs and quotas. President Trump might test the boundaries further if he rolls out auto tariffs, Schmucker said. “In my view, he really wants to impose it. But even Lighthizer might be a bit reluctant to support this idea.”

Certain US goals - convincing China to relinquish emerging-market status, for example - are shared by Germany. German companies are also concerned about being forced into joint ventures in China and about being pressured to transfer sensitive intellectual property - and even about outright cybertheft.
“China cannot say forever that it is a developing country and get certain exemptions from the WTO and its rules,” BDI’s Howald said. The US needs the WTO not only to address its concerns about China, but also to address the many objections lodged against Section 232 by other nations.

“We would hope that the US could also, instead of criticizing the WTO, make more proposals on how to improve it,” Howald said. Instead, the US is hobbling the WTO by blocking appointees to the WTO’s Appellate Body, which handles appeals to WTO decisions.

At present, there are [only three judges on the WTO’s Appellate Body](https://www.amm.com/Article/3838972/Steels-role-in-protectionism-misguided-Basson.html) - one each from China, India and the US - instead of the usual seven, according to the organization’s website. The terms of two of those judges are due to expire on December 10, 2019.

A final decision on Section 232 by the WTO probably will not come until after the WTO’s Dispute Settlement Body comes to a conclusion - a move that will probably be appealed to the Appellate Body by the US. “And then it depends on whether we still have an appellate body left,” Howald said.

**History rhymes**

“History doesn’t repeat, it rhymes,” Wolf-Fabian Hungerland, an economist at investment bank Berenberg, said, paraphrasing American author Mark Twain.

Tariffs can work. Protectionism in the form of tariffs has been deployed in what amounts to a proxy for a robust welfare state, Hungerland stated. That is what happened in the late 19th and early 20th centuries. And economies thrived then despite tariffs, in part because traditional industries such as coal mining and steelmaking employed so many workers.

Thus policies aimed at improving their lot had a positive overall impact on the economy. But that is not the case anymore because, thanks to automation, steel and coal employ fewer workers, Hungerland said.

The present tariffs should benefit steelworkers. But they will come at the cost of higher prices to consumers and to other manufacturers given that steel is one of the foundations of modern supply chains. That does not mean that they will be ruinous to an economy as big as the US’. The problem is more that they have stymied a spirit of international cooperation that helped the world survive the last financial crisis, he said.

For example, The Car Allowance Rebate System in the US, better known as “[Cash for Clunkers](https://www.amm.com/Article/2505654/Study-finds-Clunkers-did-spark-auto-sales.html),” was a popular program introduced by the Obama administration in 2009 at the depth of the global financial crisis. It aimed to boost demand for new cars and trucks. Hungerland noted that it had its roots in Germany, where automakers were also looking to stave off mass layoffs and increase demand.

When the next crisis emerges, it might be more difficult to craft and share polices. “Putting tariffs on steel is kind of a textbook protectionist measure from the 19th century. And the political message is, ‘As a government, I am not interested anymore in international cooperation. It is America first and you second,’” he said.

The price for multiple nations pursuing unilateral trade agendas can be high. “That’s what happened in the Great Depression. Every government did its own thing. And things turned out really bad,” Hungerland said, recalling the rise of the Far Right in Germany in the late 1930s.

He said it should not have come as a surprise that President Trump, given his campaign pledges, enacted protectionist policies. It should also not come as a shock that the WTO could lose influence and that regional trade deals or bilateral trade deals may become more common.

When modern trade deals are hammered out, standards and specifications often prove to be thornier issues than the “low-hanging fruit” of tariffs. And those standards and specifications often reflect cultural preferences - sometimes deeply held ones. “Do you think countries will give up their national identity just to have slightly cheaper beef? The answer is ‘probably not,’” Hungerland said.

**China's influence grows**

By contrast with the uncertainties of US trade policy and its impact on allies targeted by US trade actions, China has proven to be a comparatively predictable partner, top executives at the Port of Hamburg explained to me.

Hamburg handles massive ocean-going bulk and container vessels and is Europe’s biggest rail port. It is a hub for growing Eastern European markets such as Poland and the Czech Republic. Hamburg is also an important terminus for China’s One Belt, One Road program, sometimes referred to as the “Silk Road,” as an echo of the famous ancient trade route.

“Most of the trains that are running between China and Europe are coming and going from Hamburg,” Port of Hamburg CEO Axel Mattern told me from his office in a former warehouse building near the docks.

Container trains link Hamburg and 27 Chinese cities, including not only big coastal cities such as Shanghai but also Kunming in China’s mountainous southwest. There were about 177 weekly container train connections between Hamburg and China in 2017, a number that increased by about 30% to 235 in 2018, according to port statistics.

“And it’s not only Hamburg. The Silk Road, that’s the thing about it, China wants to be connected to everyone,” he said. China exports more to Europe than it imports from the region. But Beijing is trying to address that issue, Mattern said.

Chinese e-commerce giant Alibaba entered and won a competition for a 140-hectare (345-acre) plot available at the port. Alibaba beat 13 other companies in the non-binding competition. “Because they said, ‘We pay for everything,’” Port of Hamburg Co-CEO Ingo Egloff said. Alibaba’s proposed warehouse would allow the company to stage products bought in Europe for export to China.

Egloff is of two minds about the Silk Road. He is impressed by the scale of an “imperialistic policy” that has led to big investments in ports and railways across Asia, the former Soviet Union and Africa. But he is also concerned that China might try to use its investments in the EU to drive a wedge between former Soviet countries in Eastern Europe and established democracies in the West.

What would happen if Hamburg refused the business? “Others would do it… That’s why China has gained more and more influence in Europe at the same time the US is losing it. And that’s changing the world,” he said. “That’s what I think the American government that we have right now doesn’t see.”

President Trump grabs headlines every day on Twitter. “And every day, the Chinese are in the market… and building railway lines,” Egloff said.