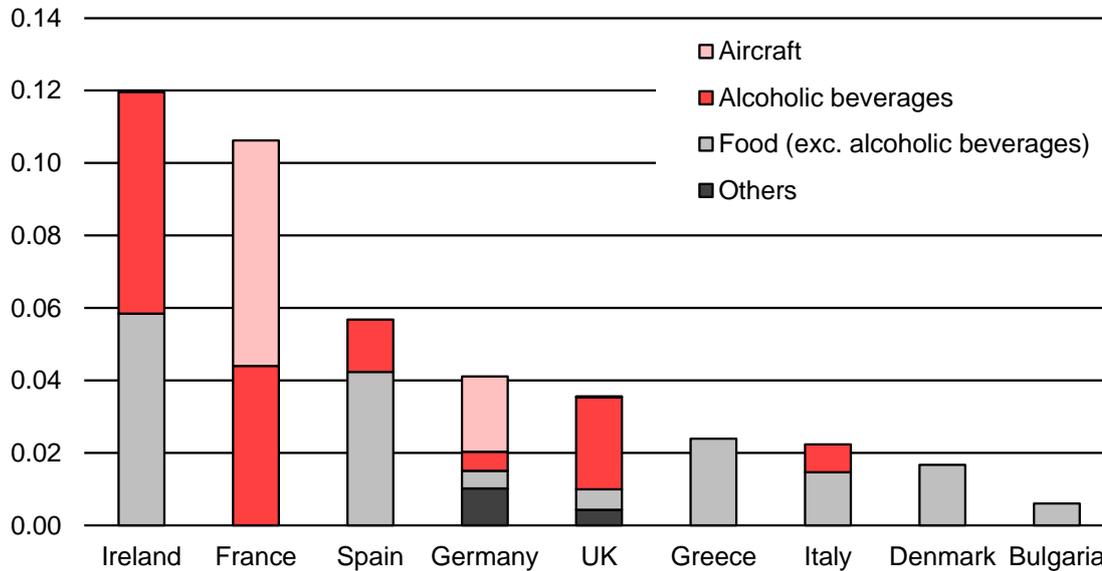


US WTO tariffs on EU goods to have small direct impact

US imports affected by tariffs imposed following the WTO large civil aircraft case, by source country (as % of source country GDP)*



Source: USITC, UniCredit Research

*For two items in the tariff list (new airplanes/aircraft of weight exceeding 15,000kg, and single-malt or straight Irish and Scotch Whiskies), tariffs will only apply to a yet-unspecified portion of goods. In the case of airplanes/aircraft, this portion encompasses airplanes and aircraft of weight exceeding 30,000 kg. In our chart, we assume that this portion is 50% of airplanes/aircraft of weight exceeding 15,000 kg, while the share of tariffed whiskies is derived as a residual, assuming that the total EU goods subject to tariffs amount to USD 7.5bn.

- Our *Chart of the Week* aims to gauge the direct impact on economic activity of the tariffs the US Administration has decided to impose on certain EU goods following the WTO ruling on the large civil aircraft case. Additional import duties amount to 10% on airplanes/aircraft, and to 25% on food, alcoholic beverages and other miscellaneous goods. The chart shows the tariff base, i.e. the value of US imported goods on which the additional tariffs will apply, as a proportion of the GDP of the exporting countries*. US import data for the targeted items are published by the United States International Trade Commission (USITC) and refer to 2018. The new tariffs will be implemented from 18 October.
- In all countries, the goods affected represent a very small share of total GDP, suggesting that the direct impact of the tariffs on growth is likely to be negligible. Ireland would be hit hardest due to their food (mainly milk products) and alcoholic beverage exports to the US, while France is the most affected of the Airbus consortium countries (which also includes Germany, the UK and Spain), with airplanes/aircraft accounting for more than half of the value of tariffed goods. In Italy and Spain, food products represent the majority of tariffed goods.
- Additional tariffs of 10% and 25% might not be the end of the US retaliation against EU subsidies to Airbus. The US received authorization from the WTO to raise tariffs up to 100% on USD 7.5bn of goods, therefore, US President Donald Trump might use tariff escalation as a threat to win concessions from the EU in trade talks ahead of the upcoming decision on car tariffs (due in mid-November).
- The last one and a half years have taught us that the indirect effects of tariffs on economic activity are often bigger than their direct effects. This happens because tariffs reduce business visibility, cause disruption to global value chains and increase uncertainty more broadly beyond the directly affected sectors, hence amplifying the drag on investment and overall GDP growth.

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