

Softening stance on French tax reduces risk of another trade war

Presidents Macron and Trump have reached a truce on the French digital services tax. This shows that the EU, and France in particular, are more flexible than expected. This reduces the risks of an all out EU-US trade war, though tensions remain high



Presidents Macron and Trump signalled significant progress yesterday in talks about France's proposed tax on digital services. The tax, which would have hit large tech companies selling services to French consumers, would have been particularly damaging to the US's big tech giants, and Trump had threatened to retaliate by imposing import tariffs on \$2.4 billion worth of French luxury goods. The two sides agreed that no tariffs would be imposed and that payments for the French digital services tax will be diverted. In the meantime, France will look for an OECD-wide deal on digital services taxation.

A bilateral conflict between France and the US could have easily escalated into a tit-for-tat tariff war between the US and the EU- which would have sided with France in the tax dispute. Now that France has entered into talks, at least until the end of this year, that risk has been reduced. However, trade relations between the EU and US remain strained. A conflict over subsidies to Airbus and Boeing has yet to be resolved and tensions could still flare up again. President Trump

has said before that imposing tariffs is always an option.

Transatlantic value chains are very intertwined. Therefore, a tit-for-tat trade war between the US and Europe would inflict significant damage on the world economy.