Insight

Terminated U.S. Retaliatory Tariffs to Digital Services Taxes

TOM LEE | NOVEMBER 30, 2021

Update: In November 2021, the United States reached a similar agreement with India and Turkey, the two countries that were not included in the prior agreement with the five European countries. All U.S. tariffs in retaliation towards foreign digital services taxes have been removed.

Executive Summary

- The United States has reached an agreement to terminate tariffs it had threatened against five European countries in exchange for those countries to eventually remove digital services taxes (DST) on large U.S. technology firms.
- The tariffs would have covered $3.0 billion worth of traded goods and cost the United States $739.5 million annually.
- The United States has similar potential tariffs slated to go in effect in November against India and Turkey unless a deal is reached with those countries.
- The Biden Administration should limit the use of tariffs to boost its interest in other policy areas because this practice undermines U.S. trade relations with its strategic allies.

Introduction

On October 21, 2021, the United States announced it will terminate tariffs it had threatened against Austria, France, Italy, Spain, and the United Kingdom (UK).[1] In exchange, those five European countries will eventually remove digital services taxes (DST) they currently impose on large U.S technology firms. Taken as a whole, the tariffs would have covered $3.0 billion worth of imports and cost $739.5 million annually. The full removal of these tariffs, which never went into effect, eliminates the threat that U.S. consumers would face tariff-induced inflation on some goods from Europe. The United States has threatened similar tariffs against India and Turkey that will go into effect at the end of November unless a deal is reached with those countries. The tariffs against India and Turkey would cover $425.5 million and cost the United States $106.4 million per year.

The Biden Administration should limit the use of tariff threats as leverage on non-trade related issues such as DST, as this practice adds stress and division to relations with strategic allies—already at a relative low point for a variety of reasons. These relations with strategic allies are essential to countering the growing economic and global influence of China.

Digital Services Taxes and Section 301 Investigations

On July 19, 2019, the United States Trade Representative (USTR) under former President Trump initiated Section 301 investigations against France's DST on large U.S. technology companies.[2] Section 301 of the Trade Act of 1974 allows USTR to impose trade restrictions against countries it finds engage in unfair trade practices against U.S. firms.[3] USTR found France's DST was discriminatory and burdensome against a select few large U.S. tech firms including Amazon and Google.[4] USTR eventually levied 25 percent tariffs on $1.3 billion worth of imports from France but then ultimately suspended the tariffs "to allow additional time for bilateral and multilateral discussions that could lead to a satisfactory resolution of this matter."[5]

Throughout 2020 and 2021, USTR has performed similar Section 301 investigations on numerous other countries for their DSTs. USTR under President Biden finalized 25 percent tariffs in June 2021 on certain goods from Austria, India, Italy, Spain, Turkey and the UK. As with France, USTR immediately suspended the tariffs until the end of November 2021 to show goodwill towards bilateral and multilateral negotiations to resolve disputes on DSTs.[6]

The Tariffs

The table below lists the approximate value of U.S. imports that would be subject to the retaliatory tariffs if they were imposed. It additionally displays estimates of how much U.S. consumers and firms would pay due to these tariffs.

Based on 2019 import figures, the tariffs on the seven countries would cover $3.4 billion worth of goods. U.S. consumers and firms would have to pay at least $845.8 million a year in additional upfront costs due to these tariffs.

Table 1: Tariff List (Based on 2019 Import Figures)

Country	Value of Affected U.S. Imports	Tariff Rate	Additional Cost Burden
Austria	$65.2M	25%	$16.3M
France	$1.3B	25%	$324.2M
India	$116.6M	25%	$29.2M
Italy	$385.8M	25%	$96.4M
Spain	$323.4M	25%	$80.9M
Turkey	$308.8M	25%	$77.2M
United Kingdom	$886.6M	25%	$221.6M
Total	$3.4B	25%	$845.8M

An Excel file detailing the tariffs and the products they affect can be found here.
As noted, the United States has removed tariffs for Austria, France, Italy, Spain, and United Kingdom. The corresponding tariffs for these countries are highlighted in yellow in the table above. This means the United States will avoid $739.5 million in increased costs per year. The retaliatory tariffs on certain Indian and Turkish goods are still set to go into effect at the end of November of this year unless a similar deal is reached. These tariffs on Indian and Turkish goods would cover $425.4 million worth of imports and cost the United States $106.4 million annually.

Tariffs are typically chosen on one of three strategies: to raise revenue, protect domestic industry, or gain political leverage over a foreign country. The United States' retaliatory tariffs were chosen for the latter reason, to gain leverage in the DST fight over European countries. Since protecting domestic industry is not a priority with these tariffs, most goods that are covered are not commonly produced in the United States. As an example, the tariffs on France would have covered luxury items such as handbags and cosmetics. The tariffs on Italy would have covered such items as handbags, men's suits, and leather footwear. These tariffs would have done little to nothing to protect U.S. industry since it produces a small amount of high-end fashion and luxury items compared to European industry. Such luxury goods are also disproportionately consumed by upper-income individuals and families; hence, the incidence of the tariffs would have fallen on a relatively small amount of wealthier U.S. consumers.

Tariffs and Trade Relations

While the Trump Administration threatened to retaliate for the DST tariffs by imposing luxury-good tariffs only on France, the Biden Administration threatened similar tariffs on six other countries. By doing so, the administration hopes to dissuade foreign countries from applying targeted taxes on U.S. tech firms. Unfortunately, the tariffs in question would ultimately impose costs on U.S. consumers. Threatening tariffs is also risky from a broader international trade cooperation standpoint since a strong U.S.-European alliance is essential to countering the growing economic influence of China. The Biden Administration should limit the scope of tariffs it threatens given the added stress they impose on U.S. relations with its strategic allies. Those relationships will be crucial for advancing and securing global U.S. economic interests in the future.

[1] https://home.treasury.gov/news/press-releases/jy0419

[2] https://ustr.gov/sites/default/files/enforcement/301Investigations/Initiation_of_Section_301_Investigation.pdf

[3] https://www.americanactionforum.org/insight/from-the-trump-to-biden-administration-protectionism-and-trade-enforcement-actions/

[4] https://ustr.gov/sites/default/files/Report_On_France%27s_Digital_Services_Tax.pdf

[5] https://ustr.gov/sites/default/files/enforcement/301Investigations/France_Digital_Services_Tax_Notice_July_2020.pdf

[6] https://ustr.gov/issue-areas/enforcement/section-301-investigations/section-301-digital-services-taxes