



By: Tomorrow's Affairs Staff

Swedish diplomacy in new trade clash between the EU and the US



Something that Sweden did not want to happen during its EU Presidency has happened. Sweden has started its six-month presidency of the European Union. It has made thorough preparations, and secured the support of all parties in its parliament for its priorities. It will be the first major foreign policy challenge for the new government of Ulf Kristersson, a minority right-wing cabinet, which has already introduced important changes in internal policy, particularly towards migrants. Sweden will set the EU's agenda until July 1.

Its priorities are the security of EU citizens, continued support for Ukraine, the digital and green agenda, and the improvement of the Union's trade with partners throughout the world. This is the agenda that Sweden has set, but other Europeans have somewhat different expectations, and will ask Sweden to make transatlantic trade relations the top priority. Those relations are turbulent following the passage of the Inflation Reduction Act (IRA), a gigantic programme amounting to around 400 billion euros to subsidise the US "green" industry production and consumption.

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How will Sweden navigate this rift between its traditionally liberal trade orientation and attachment to the US alliance, and on the other hand, US economic protectionism and European anger over those measures? Many consider it fortunate that in this new storm in US-EU relations, Sweden will need to act as moderator, who has to bring the two sides closer together. Or does it entail 28 sides - 27 in Europe and one on the other side of the Atlantic? Liberal European economies, such as the Baltic countries or the Netherlands, are looking forward to the fact that the bloc policy will be determined to an important extent by Sweden, their like-minded partner in terms of international trade, and traditionally a good mediator in solving transnational problems.

However, there are also many different voices in Europe regarding the response to US economic protectionism. "Stockholm will have to manage the tensions between the 27 EU member states on the degree of their response and how aggressive they are", said Sebastien Maillard, director of the Jacques Delors Institute in Paris.

The EU is united on one matter: the US stimulus programme threatens European industry. Consequently, a US-EU task force was formed last November, to seek ways to respond to European concerns about the new US programme on a regular basis. In the IRA, the EU has found as many as 9 points that violate the rules of international trade. In diagnosing the problem, the EU is united and speaks with one voice. But we will arrive at the point where the EU will, as often, demonstrate its internal difficulties in finding a solution which all 27 member states support. Sweden and its EU presidency will have to fulfil high expectations and find an answer. Expectations are that Sweden will lack the capability to balance the field between the EU and the US. At least not within the next six months.

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A European answer is still being sought, but there is no doubt that it will be shaped principally by its largest economies: Germany and France. They will be of key importance in this case, because the European electric vehicles and energy industries are the most affected by the US package of subsidies, again predominantly German and French.

The new US subsidies are the reason Tesla will build its battery factory in the US, instead of Germany, and that some major European energy and vehicle manufacturers will expand production in the US rather than Europe. Although President Biden promised French President Emmanuel Macron that he would find a way to ensure that the IRA implementation does not harm European

economies to a significant extent, Europeans are closer to finding a counter-response themselves than waiting for help from Washington.

Tendencies are already visible through the announcements of the most senior German and French officials, which is similar to the US course: yet more incentives and subsidies to European producers. “We have to adjust our own rules to make it easier for public investments to power the transition. State aid is a tried and tested tool here in Europe”, said Ursula von der Leyen, President of the European Commission, early last December. France's response to the IRA is in line with its commitment to the so-called "strategic autonomy" of the EU, meaning greater reliance on European potential and reducing dependence on the US and China. “We need a Buy European Act like the Americans, we need to reserve [our subsidies] for our European manufacturers”, said President Macron. “You have China that is protecting its industry, the US that is protecting its industry and Europe that is an open house”.

The European position towards the US's IRA will not be marked by a confrontation with the US in terms of seeking justice for the free market, or disputes before the WTO. French Trade Minister Bruno Le Maire called it a “wake-up call for his European counterparts who need to protect the interests of European businesses”.