

EU finance ministers to tell G20 they will oppose protectionism

By Jan Strupczewski and Michael Nienaber

March 13, 2017 – *The Globe and Mail / Reuters*

European Union finance ministers will tell a G20 meeting this week that they will resist protectionism and that regulation introduced after the 2008 financial crisis must be kept in place.

A document prepared by the EU ministers, which appears aimed at the United States, sets out the position of all European delegations to the G20 gathering of ministers and central bankers in Baden-Baden in Germany on March 17-18.

“We reaffirm our commitment to keep the global economy open, resist protectionism and keep global economic cooperation on track,” says the paper, seen by Reuters.

An early draft communique for the G20 meeting suggested on March 7 that the world’s financial leaders might no longer explicitly reject protectionism, breaking with a decade-old tradition.

Instead, following the change of administration in Washington, they might promise only to keep an “open and fair international trading system”, wording that some officials see as a way to accommodate the protectionist views of President Donald Trump.

The draft communique, however, could change substantially, following discussions at the meeting, G20 officials said.

International Monetary Fund (IMF) chief economist Maurice Obstfeld and a senior German government official both said on Monday they expected the G20 to debate a proposed overhaul of the U.S. tax code which would favour exports over imports.

“It’ll be discussed. There will be a lot of questions among the finance ministers,” Obstfeld said, adding that the proposed border adjustment tax (BAT) would have spillover effects because it would strengthen the dollar.

Emerging economies like Saudi Arabia would be most affected, Obstfeld said.

The German G20 presidency expects constructive discussions and a “good agreement” at Baden-Baden, the senior German government official said, speaking on condition of anonymity.

Asked if the U.S. tax dispute would overshadow the meeting, the official said: “There is no reason to be pessimistic about relations with the United States ... but there will be the need to discuss issues like tax policy”.

Resilience

Germany wants the G20 meeting to focus on strengthening economic resilience, mastering challenges of digitisation and helping African countries with investment programmes.

Trump has already formally withdrawn the United States from the Trans-Pacific Partnership trade deal, distancing America from its Asian allies, and vowed to renegotiate a free-trade deal with Canada and Mexico.

The tycoon-turned-president has also threatened foreign companies with a border tax on products imported into the U.S. market, saying such a levy would help create more jobs on American soil.

German Chancellor Angela Merkel will discuss trade and other pressing issues with Trump during talks in Washington on Tuesday.

The European Union ministers' document also appears to argue against Trump's plans to roll back U.S. legislation, called the Dodd-Frank Act, introduced to prevent another financial crisis like that one in 2008.

"Avoiding a rollback in the financial regulation agenda is necessary," the document says.

The document also appears to address remarks by Patrick McHenry, the vice-chair of the House of Representatives' Financial Services Committee, in a letter to Fed Chairman Janet Yellen about the international role of the Fed.

McHenry wrote that the U.S. central bank should stop "negotiating international regulatory standards among global bureaucrats

in foreign lands without transparency, accountability, or the authority to do so".

The European document says: "International coordination and continued participation of all G20 members in international fora on financial regulation is of fundamental importance."

European Commission Vice President Valdis Dombrovskis said in February that while the United States had every right to redefine its national interest, Europe was entitled to say that international cooperation on financial governance was in everyone's interest.

"We are sensitive to talk of unpicking financial legislation, which applies carefully negotiated international standards and rules," Dombrovskis said.