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GOVERNMENT

French luxury goods are target of new Trump administration tit-for-tat tariffs

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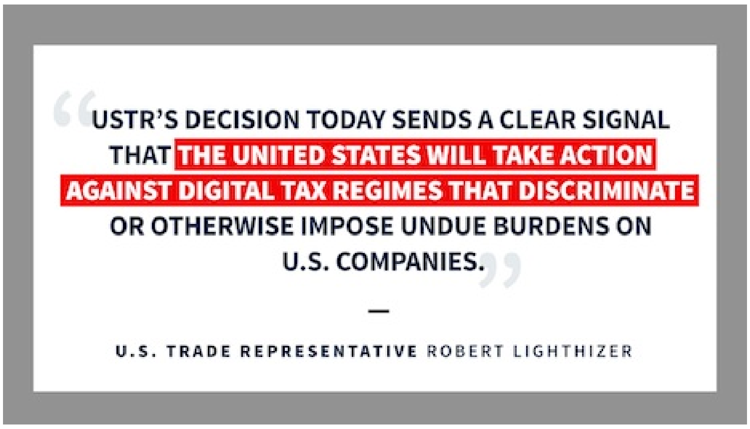

The United States will threaten retaliatory tariffs if countries impose punitive taxes on its tech national champions. Image credit: USTR

By MICKEY ALAM KHAN

The United States is preparing to impose tariffs on French exports worth $2.4 billion after a report released last evening concluded that France was unfairly targeting large U.S. tech companies with a new digital services tax.

Tariffs of up to 100 percent will likely be imposed on French cheese, yogurt, Champagne, wine, handbags, porcelain and cosmetics a decision sure to hit the bottom lines of small luxury brands as well as large conglomerates such as LVMH and Kering. The U.S. Trade Representative's office recommended the tit-for-tat tariffs in a dense 93-page report.

"USTR's decision today sends a clear signal that the United States will take action against digital tax regimes that discriminate or otherwise impose undue burdens on U.S. companies," U.S. Trade Representative Robert E. Lighthizer said in a statement issued by his office in Washington.

While China has faced the ire of the Trump administration in the past few months, this time it is French truculence toward U.S. tech companies that has caused umbrage.

Made law July 24, the French Digital Services Tax slaps a 3 percent tax on revenue that tech companies generate in France from targeted advertising services or running a digital marketplace definitions that neatly capture the services of Google, Amazon, Facebook and Apple.

GAFA flexes muscle

Explaining USTR's decision, Mr. Lighthizer said the potential tariffs on uniquely French goods were meant to stop other countries from adopting similar tax measures.

"Indeed, USTR is exploring whether to open Section 301 investigations into the digital services taxes of Austria, Italy and Turkey," Mr. Lighthizer said.

"The USTR is focused on countering the growing protectionism of E.U. member states, which unfairly targets U.S. companies, whether through digital services taxes or other efforts that target leading U.S. digital services companies," he said.

The USTR completed the first segment of its investigation under section 301 of the Trade Act of 1974. Its findings concluded that France's Digital Services Tax (DST) discriminates against U.S. companies, is inconsistent with prevailing principles of international tax policy, and is unusually burdensome for affected U.S. companies.

More specifically, USTR's investigation found that the French DST discriminates against U.S. digital companies such as Google, Apple, Facebook and Amazon, known colloquially as GAFA.

Also, USTR said the French DST is inconsistent with prevailing tax principles on account of its retroactivity, its application to revenue rather than income, its extraterritorial application, and its purpose of penalizing particular U.S. technology companies.

Public feedback sought

The USTR issued a Federal Register notice that claimed the French DST is unreasonable, discriminatory and burdens U.S. commerce.

The notice asks for public comment on USTR's proposed action of imposing additional duties of up to 100 percent on certain French products.

Additionally, the notice seeks public comment on the option of imposing fees or restrictions on French services.

The list of French products subject to potential duties includes 63 tariff subheadings with an approximate trade value of $2.4 billion roughly 5 percent of the $52 billion worth of products that France exported last year to the U.S.

COMMENTS MUST be submitted by Jan. 6 and post-rebuttal comments by Jan. 14. The Section 301 committee will hold a public meeting starting 9:30 a.m. on Jan. 7 at the U.S. International Trade Commission's office in Washington.

The feedback period buys time for French and U.S. diplomats to address each party's grievance. However, the U.S. is in no mood to take things lying down.

"The value of any U.S. action through either duties or fees may take into account the level of harm to the U.S. economy resulting from the DST," the USTR said in a statement.

Please click here to download a PDF of the Section 301 Investigation: Report on France's Digital Services Tax