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Europe Struggles to Defend Itself Against a Weaponized Dollar

Despite warm words from Biden, U.S. secondary sanctions against Iran, Russia and others punish European companies and prompt new calls for strategic autonomy.

By Steven Erlanger

BRUSSELS — The new Biden administration is making nice with the European Union, talking of renewed cooperation and suspending retaliatory tariffs stemming from an old dispute between Airbus and Boeing.

But despite the warm words and efforts at rebuilding trust, the American willingness to punish its European allies and impose sanctions on them in pursuit of foreign-policy goals continues to rankle.

It is an underlying tension, a ready reminder of the asymmetric power of the United States. That is especially so when it comes to what are known as **secondary sanctions. While Iran and Russia, **for example, may be the primary target of sanctions, the secondary sanctions punish other countries and companies** — very often European — that do business with them as well.**

Increasingly popular with Congress, secondary sanctions have been deployed to coerce allies to fall into line on any number of issues. In recent years, those have included the Nord Stream 2 natural gas pipeline, Iran’s nuclear program and the socialist governments of Venezuela and Cuba. The great fear is that they would some day be used by the United States against China — or even vice versa — leaving Europe squeezed in the middle.

Secondary sanctions cut off access to the American banking system, an effective threat because of the centrality of that system and the global reach of the dollar.

The weaponization of the American dollar and the Treasury is a marked vulnerability for Europe, which depends on open markets. It has prompted serious discussions of how to defend Europe and the euro from Washington’s whims, and it has become a central part of the argument about how to create “strategic autonomy,” so Europe can protect its own interests.

Last month, the European Union announced efforts to strengthen an “anti-coercion instrument” against “unfair trading practices.” The main sources of them are China and Europe’s self-professed ally and partner, the United States.

While Europe favors using multilateral institutions on trade disputes, “we cannot afford to stand defenseless in the meantime,” said Valdis Dombrovskis, the European Union’s commissioner for trade. The European Union must be able to defend itself “from those trying to take advantage of our openness,” he said.

The European Union’s foreign policy chief, Josep Borrell Fontelles, has condemned Washington’s use of secondary sanctions against European companies doing “legitimate business.”

“I am deeply concerned at the growing use of sanctions, or the threat of sanctions, by the United States against European companies and interests,” Mr. Borrell said.

“Where common foreign and security policy goals are shared, there is great value in the coordination of targeted sanctions with partners,” he said. “Where policy differences exist, the European Union is always open to dialogue. But this cannot take place against the threat of sanctions.”

Such objections have not stopped American lawmakers from turning to secondary sanctions time and again, most prominently in the case of the Iran nuclear deal and of Nord Stream 2, the nearly completed natural-gas pipeline running from Russia to Germany.

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American senators even wrote directly to a small state-owned port in Chancellor Angela Merkel’s constituency, Sassnitz, which has been a base for pipe-laying ships constructing Nord Stream 2, threatening “crushing legal and economic sanctions.”

Denying access to the American market and the dollar is “an immense source of political power,” said Jonathan Hackenbroich of the European Council on Foreign Relations in Berlin, who has studied the issue as part of a project with senior German and French officials, who want to reduce European vulnerability.

Almost any company that has business in the United States or uses the American banking system or the dollar is going to try to preserve that relationship and cut off business with the target of the sanctions, he said, even to the point of “overcompliance.”

President Trump’s use of secondary sanctions against Iran, which Europe could not manage to counter, “was a real moment of truth for Europeans to realize their weakness,” said Daniela Schwarzer, director of the German Council on Foreign Relations.

“Do Europeans want to trust Biden? Are they ready to trust the U.S. again? No one knows what will come after Biden,” Ms. Schwarzer added. “And we have to think what to do if China uses secondary sanctions, too, so the debate is alive.”

European resentment about American secondary sanctions “is linked to an awareness of our own internal and economic fragility,” said Nathalie Tocci, director of Italy’s International Affairs Institute and adviser to Mr. Borrell.

Now that President Trump has used them so lavishly, “the way companies and politicians think won’t go back, even if Biden does not use them,” she said.

In December, Mr. Borrell wrote that “we need to develop the international role of the euro, to avoid being forced to break our own laws under the weight of secondary sanctions.”

But few believe that the euro will become a rival to the dollar any time soon, or perhaps ever, given Europe’s slow growth, its internal divisions over how to solidify and strengthen the euro, and the growing power of China and the renminbi.

China is beginning to take lessons from the American use of sanctions to punish countries like Australia and Sweden. For Europe and Germany, built on exports, “you see the rules-based order crumbling, and you worry about the same kind of blackmail coming from China,” Mr. Hackenbroich said.

German companies in particular worry about the growing confrontation between Washington and Beijing. American secondary sanctions that might be imposed on China would create a huge problem for Germany, said Stormy-Annika Mildner, who until recently was head of external economic policy for the Federation of German Industries.

Given the small Iranian economy, the impact of sanctions on German companies was minor. Still, Ms. Mildner said, “the prospect of severe sanctions and secondary sanctions on China” of “having to choose between the U.S. and Chinese markets will be ugly, and that’s what people worry is coming down the road.”

China is already beginning to legislate export controls, which could end up squeezing European companies between American, European and Chinese laws.

“Having to choose between your two biggest markets, America and China, that’s half your wealth,” Mr. Hackenbroich said. “In 10 years China will be increasingly central to economic networks — perhaps not as central as the United States, but getting there.”

On Iran alone, the costs of U.S. secondary sanctions have been significant. The French energy giant Total abandoned a major investment in Iran as soon as President Trump pulled out of the 2015 Iran deal and reimposed American sanctions on Iran. That cost Total an estimated \$2 billion, while Siemens lost a rail contract worth \$1.5 billion and Airbus lost \$19 billion.

President Biden has said that he will rejoin the Iran deal, but will not lift sanctions until Iran returns to compliance. Although most diplomats assume that Washington and Tehran will work out some sort of sequencing, European companies remain hesitant.

The best way to stop others from using secondary sanctions would be to retaliate in kind, said Guntram Wolff, director of Bruegel, an economic research institution. “To be credible you need reciprocity, and retaliation is the only way to do it,” he said.

“But the politics are more difficult,” he added, given the asymmetrical power of the U.S. Treasury and the global role of the dollar. “The reality is that there is no united European power able to project power on that scale.”

Even if many Europeans dislike Nord Stream 2, they are driven to defend it by Washington’s use of secondary sanctions to punish European companies and even cities, like Sassnitz, Mr. Wolff said. “The E.U. sees it as an attack not just against a city but against the E.U. as a whole.”

“With quiet diplomacy one could have achieved much more than now,” Mr. Wolff said. That is a lesson Mr. Biden seems to have accepted, wanting to settle the issue and move on to better relations with powerful Germany — if Congress will let him.

But the debate over how Europe can project its own power and protect itself from larger and more powerful nations, whether allies or competitors, will not go away.