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Power and Tax Policy: When Does Leveraging Market Access as a Coercive Geoeconomic Tool Succeed?

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Sean Bray Vice President of Global Tax Policy

Key Findings:

- The study of geoeconomic coercion seldom focuses on domestic tax policy as a tool for governments to consider.
- The Section 899 retaliatory tax stands out as a clear success in changing other governments' behavior.
- However, misinterpreting why Section 899 or certain tariff threats were successful can lead to doubling down on those strategies even when similar results are not achievable, negatively affecting the American economy.
- Leveraging access to the US financial system is a core tenet of American economic statecraft; however, policymakers need to holistically weigh the costs before making threats.
- As policymakers consider using other geoeconomic tools, such as tariffs or enforcement mechanisms that leverage access to a given market, they should understand that simply having a larger economy is not sufficient to achieve international policy goals in an interdependent world.

Introduction

Negotiations between governments often include some use of leverage to change the behavior of counterparties or to force a compromise. While economic levers like sanctions and tariffs have long been recognized as geoeconomic tools, tax policies have rarely been considered a part of this toolkit.

US legislation in 2025 proposing Section 899, also known as the retaliatory tax, has become the cleanest example of using tax policy threats against allies to exempt US multinationals from the global minimum tax's most controversial provisions. On the trade side, Canada abandoned its digital services tax primarily targeted at US tech firms, and the US has signed a plethora of new agreements with countries that have committed to refrain from adopting digital services taxes in the future. Taken together, some policymakers in Washington are converging on a risky conclusion: the American economy is so powerful that leveraging access to it can change government policy in other countries.

It's a compelling story, but is it true?

As the global economic order continues to fragment, it is likely that allies, competitors, and enemies alike will target the US's services surplus as a cost-inducing strategy. In 2024, the US imported services with a total value of $0.84 trillion and exported $1.1 trillion.[1] This could make the cost of non-action untenable for the US. It is therefore imperative that policymakers understand what drove these successes, and under what conditions they might be repeatable. Misinterpreting why Section 899 or certain tariff threats were successful can lead to doubling down on those strategies even when similar results are not achievable. This could bring significant, negative economic effects for the US and diminish both the credibility and effectiveness of these tools to change other governments' behavior long-term.

Therefore, this paper tries to answer the question of why Section 899 worked, whether a future Section 899-style template could be successfully repeated, and whether there is a material difference policymakers should consider between designing geoeconomic tax and trade tools. It does not define success in terms of revenue raised, but rather, in terms of using economic leverage to influence other countries to change their own policies.[2]

While this paper examines some recent successes, there have also been many objective failures. Further analysis is required to better understand what, if anything, could have been done differently to have made those attempts successful. This paper leaves those questions aside and focuses on Section 899 as a case study.

1 B. Ravikumar and Dawn Chinagorom-Abiakalam, "A Look at U.S. Services Export Trends," Federal Reserve Bank of St. Louis, Dec. 22, 2025, https://www.stlouisfed.org/on-the-economy/2025/dec/look-at-us-services-export-trends.

2 In his 2020 book, *Economic Statecraft*, David Baldwin says that "policy instruments used to make influence attempts should be described in ways that imply nothing whatever about either the probability of success or the causal condition of success," and notes that "the study of statecraft is based predominantly on case studies rather than on experimental or statistical research approaches." This paper, therefore, does not attempt to establish a causal relationship, but rather analyzes the case study.

Defining Technical Tax Terms

The OECD's Two-Pillar Project

In recent years, countries have debated significant changes to international tax rules affecting multinational companies. In October 2021, after negotiations at the Organisation for Economic Co-Operation and Development (OECD), more than 130 member jurisdictions agreed to an outline for new tax rules.[3] However, in the years since that initial agreement, much has changed.

The OECD proposal follows an outline that has been discussed since 2019. There are two "pillars" of the reform: Pillar One,[4] if implemented, would move more taxation rights to the countries where customers reside, impacting roughly $200 billion in profits;[5] Pillar Two introduces a global minimum tax of 15 percent, increasing taxes on companies with earnings in low-tax jurisdictions and potentially increasing tax revenues by an estimated $220 billion globally.[6]

A draft of the multilateral treaty for Pillar One was published in October 2023, and the deadline of June 2024 for a final agreement has come and gone. The agreement between the US and several nations with discriminatory digital services taxes has also lapsed.[7] Canada, which was not part of that agreement, planned to implement its own digital services tax, but changed course in June 2025.[8] However, the window of opportunity for Pillar One to resolve disputes over digital services taxes seems to have lapsed as well.

Pillar Two implementation, on the other hand, began in 2024 for the earliest adopters, and as of this writing, more than 65 countries have either introduced draft legislation or adopted final legislation transposing Pillar Two's model rules into their national laws.[9] Pillar Two includes three main taxes that apply to companies with more than €750 million in revenues.

The OECD/G20 Inclusive Framework

The Inclusive Framework (IF) is a group of over 145 countries and jurisdictions (OECD and non-OECD members) that collaborate to develop and implement standards addressing base erosion and profit shifting (BEPS). The IF grew out of the original OECD/G20 BEPS Project on combating tax avoidance and reforming the international tax system for the digitalized economy.[10] Since 2021, the IF has been the primary venue where members negotiate and monitor implementation of the Two-Pillar Solution.

3 OECD, "Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy," Oct. 8, 2021, https://www.oecd.org/en/about/news/announcements/2021/10/statement-on-a-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-october-2021.html.
4 Tax Foundation, "OECD Pillar One," TaxEDU Glossary, accessed Aug. 25, 2026, https://www.taxfoundation.org/taxedu/glossary/oecd-pillar-1/.
5 OECD, "Revenue Impact of International Tax Reform Better than Expected: OECD," January 2023, https://www.oecd.org/en/about/news/press-releases/2023/01/revenue-impact-of-international-tax-reform-better-than-expected.html.
6 Daniel Bunn and Sean Bray, "The Latest on the Global Tax Agreement," Tax Foundation, Aug. 15, 2025, https://www.taxfoundation.org/blog/global-tax-agreement/.
7 US Department of the Treasury, "The United States, Austria, France, Italy, Spain, and the United Kingdom Announce Extension of Agreement on the Transition from Existing Digital Services Taxes to New Multilateral Solution Agreed by the G20/OECD Inclusive Framework," Feb. 15, 2024, https://home.treasury.gov/news/press-releases/jy2098.
8 Department of Finance Canada, "Canada Rescinds Digital Services Tax to Advance Broader Trade Negotiations with the United States," Jun. 29, 2025, https://www.canada.ca/en/department-finance/news/2025/06/canada-rescinds-digital-services-tax-to-advance-broader-trade-negotiations-with-the-united-states.html.
9 PwC, "Pillar Two Country Tracker," accessed Aug. 25, 2026, https://www.pwc.com/gx/en/services/tax/pillar-two-readiness/country-tracker.html.
10 Alan Cole, "The Impact of BEPS 1.0," Tax Foundation, Apr. 12, 2024, https://www.taxfoundation.org/research/all/global/beps-international-corporate-taxation/.

Qualified Domestic Minimum Top-Up Tax

Qualified domestic minimum top-up taxes (QDMTTs) identify corporations paying less than 15 percent on domestic income for a fiscal year and increase ("top up") the tax burden to 15 percent.[11] QDMTTs come first in the Pillar Two ordering rules, before the income inclusion rule (IRR) and undertaxed profits rule (UTPR). This preserves taxing rights for the country where the economic activity happened rather than ceding that revenue to the parent company's home country or a third country under the UTPR backstop rule.

Income Inclusion Rule

IIRs determine when a company's foreign income should be included in the parent (main) company's taxable income at a minimum 15 percent rate. This minimum tax calculation is done on a country-by-country basis and includes foreign tax crediting.[12]

Undertaxed Profits Rule

UTPRs allow countries to increase taxes on a business if that business is part of a larger company that pays less than 15 percent in another jurisdiction, even if the group is not headquartered in the country assessing the UTPR, and even if the profits are not in that country either. This is unprecedented relative to the usual international understanding of what income countries are allowed to tax.[13]

Pillar Two Side-By-Side Agreement

The Pillar Two side-by-side agreement (SbyS) is a political agreement negotiated at the G7,[14] and later adopted by the OECD's IF,[15] between the US and its allies. It excludes US-parented groups from Pillar Two's IIR and UTPR; however, they are still subject to QDMTTs in any given jurisdiction. The IIR and UTPR serve as enforcement mechanisms in the Pillar Two system and attempt to motivate countries that do not have a qualified domestic minimum tax to adopt one. However, the US anti-avoidance regime already has multiple minimum taxes, including net CFC-tested income (NCTI), the corporate alternative minimum tax (CAMT), and Subpart F.[16] The US system was determined by the IF to have met all the conditions for a qualified SbyS system. So far, the US is the only jurisdiction to receive this qualification.[17]

Base Erosion and Anti-Abuse Tax

The base erosion and anti-abuse tax (BEAT) was adopted as part of the 2017 Tax Cuts and Jobs Act (TCJA) and works much like a minimum tax. It is meant to prevent foreign and domestic corporations operating in the US from avoiding domestic tax liability by shifting profits out of the US. The scope of

11 Tax Foundation, "OECD Pillar Two (Global Minimum Tax)," TaxEDU Glossary, accessed Aug. 25, 2026, https://www.taxfoundation.org/taxedu/glossary/oecd-pillar-2-global-minimum-tax/.
12 Ibid.
13 Ibid.
14 US Department of the Treasury, "G7 Statement on Global Minimum Tax," Jun. 28, 2025, https://home.treasury.gov/news/press-releases/sb0181.
15 OECD/G20 Inclusive Framework on BEPS, "International Community Agrees Way Forward on Global Minimum Tax Package," Jan. 5, 2026, https://www.oecd.org/en/about/news/press-releases/2025/12/international-community-agrees-way-forward-on-global-minimum-tax-package.html.
16 Sean Bray and William McBride, "Does the G7 Global Minimum Tax 'Side-by-Side' Solution Give US Multinationals an Advantage?" Tax Foundation, Sept. 18, 2025, https://www.taxfoundation.org/blog/g7-global-minimum-tax-side-by-side-solution-us-multinationals/.
17 OECD, "Central Record for Purposes of the Global Minimum Tax," accessed Aug. 25, 2026, https://www.oecd.org/en/topics/sub-issues/global-minimum-tax/central-record-of-legislation-with-transitional-qualified-status.html.

the BEAT is limited to large multinational corporations with gross receipts of $500 million or more. As of 2026, a 10.5 percent rate applies (up from the original 10 percent).[18]

Background

On 1 July 2021, the OECD announced that 130 countries and jurisdictions, including the United States, had agreed to a two-pillar statement on a global minimum tax of 15 percent for multinational corporations.[19] After it was finalized in October, the agreement intended for countries to amend their national laws by 2023. However, the Biden administration failed to implement changes to US tax rules to align with the deal through a Democratic-controlled Congress before losing the House in the 2022 midterms.

The lack of US alignment with the global minimum tax left the US tax base exposed to the regime's rules.[20] This meant that foreign governments would have the authority to levy higher taxes on US companies based on the effective tax rate those companies paid in the US. The mechanism behind this is the UTPR. The OECD tax negotiation was also intended to eliminate digital services taxes, which serve as tariffs on services and primarily targeted US multinationals.[21]

Over the next three years, House Ways and Means Chair Jason Smith (R-MO) was an outspoken critic of the OECD process that created the global minimum tax and signaled that if Republicans should retake the White House, they would view the deal as discriminatory and extraterritorial and take corrective actions.[22]

In May of 2023, Smith introduced a bill that would have required the Treasury Department to identify extra-territorial and discriminatory taxes enacted by foreign countries and increase US withholding and income taxes on citizens, corporations, and partnerships tied to the listed country.[23] Starting 180 days after the first Treasury report naming that country, the rate would increase 5 percentage points per year, up to a 20-point cap.

In July of that year, Rep. Ron Estes (R-KS) introduced a separate bill that made the existing BEAT more costly for countries that had "foreign-owned extraterritorial tax regime entities" operating in the US.[24] This idea became known as "Super BEAT."

Both bills had the same goal: to increase costs for citizens and firms from jurisdictions that levied digital services taxes and/or the OECD's UTPR against American firms. However, they used different retaliatory tax mechanisms to impose those costs.

18 For a simplified example of a BEAT calculation, see Tax Foundation's educational resource: Tax Foundation, "Base Erosion and Anti-Abuse Tax (BEAT)," TaxEDU Glossary, last updated Feb. 7, 2024, https://www.taxfoundation.org/taxedu/glossary/base-erosion-anti-abuse-tax-beat/.

19 OECD/G20 Inclusive Framework on BEPS, *Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy*, Jul. 1, 2021, https://www.oecd.org/content/dam/oecd/en/topics/policy-issues/beps/statement-on-a-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-july-2021.pdf.

20 Alan Cole and Cody Kallen, "Risks to the U.S. Tax Base from Pillar Two," Tax Foundation, August 2023, https://www.taxfoundation.org/wp-content/uploads/2023/08/Risks-to-the-U.S.-Tax-Base-from-Pillar-Two.pdf.

21 Cristina Enache, *Digital Taxation around the World*, Tax Foundation, Apr. 30, 2024, https://www.taxfoundation.org/research/all/global/digital-taxation/.

22 US House Committee on Ways and Means, "Biden-Harris Administration Forfeiting U.S. Sovereignty in Global Tax Deal Is an Unconstitutional Giveaway to China," Sep. 18, 2024, https://waysandmeans.house.gov/2024/09/18/biden-harris-administration-forfeiting-u-s-sovereignty-in-global-tax-deal-is-an-unconstitutional-giveaway-to-china/.

23 US House Committee on Ways and Means, "Ways and Means Republicans Introduce Bill to Combat Biden's Global Tax Surrender," May 25, 2023, https://waysandmeans.house.gov/2023/05/25/ways-and-means-republicans-introduce-bill-to-combat-bidens-global-tax-surrender/.

24 US House Committee on Ways and Means, "Rep. Estes Introduces Legislation to Protect Americans from Unfair Taxes in Global Tax Pact," Jul. 19, 2023, https://waysandmeans.house.gov/2023/07/19/rep-estes-introduces-legislation-to-protect-americans-from-unfair-taxes-in-global-tax-pact/.

After winning the 2024 presidential election, President Trump signed a Presidential Memorandum on his first day back in office declaring that the OECD's Global Tax Deal had "no force or effect" in the US, instructed the Treasury Department to investigate whether foreign countries' tax rules were discriminatory against US companies, and to develop protective measures.[25] He also signed a memorandum on trade instructing Treasury to investigate "whether any foreign country subjects United States citizens or corporations to discriminatory or extraterritorial taxes"[26] with specific reference to a retaliatory measure passed in 1934 called Section 891.[27]

The following day, Chairman Smith reintroduced H.R. 59,[28] the "Defending American Jobs and Investment Act," which "provides for the enforcement of remedies against foreign countries that have extraterritorial or discriminatory taxes," and required the Treasury to "periodically submit a report to Congress that lists each foreign country that has one or more extraterritorial or discriminatory taxes." This effectively started the congressional process of developing Section 899.

On May 20, House Budget Committee Chairman Jodey Arrington (R-TX), introduced H.R. 1 (that later became the One Big Beautiful Bill Act), which included a retaliatory tax provision merging concepts from the original Smith and Estes' bills.[29] On May 22, the House sent its budget reconciliation proposal to the Senate for consideration.

What Was Section 899?

The House version of the proposed "Enforcement of Remedies Against Foreign Taxes," known as Section 899,[30] raised US withholding and income tax rates on "applicable persons" by 5 percentage points per year up to a 20-point cap on top of statutory rates, starting as early as January 2026.

Policymakers also proposed changes to the BEAT. Passed as part of the TCJA, BEAT had a 10 percent rate, applied to corporations with average annual gross receipts over $500 million over the prior three years, and only if a firm's base erosion percentage (the share of deductible payments going to foreign related parties) crossed a 3 percent threshold. It included some exceptions from the calculation, such as cost of goods sold, the services cost method, and payments already subject to full US withholding tax.

The House version of Section 899 imposed a "Super BEAT" by increasing the rate from 10 percent to 12.5 percent, eliminating the $500 million gross-receipts threshold, and eliminating the base-erosion-percentage floor for inbound corporations tied to applicable persons, making nearly all deductible payments to foreign affiliates subject to the base erosion tax regardless of company size. It also turned off the exceptions listed above. Unlike previous bills, Section 899 stated explicitly that any country imposing a digital services tax, the UTPR, or a diverted profits tax would be targeted.

25 Executive Office of the President, "The Organization for Economic Co-Operation and Development (OECD) Global Tax Deal," 90 Fed. Reg. 8483 (Jan. 30, 2025), https://www.federalregister.gov/documents/2025/01/30/2025-02043/the-organization-for-economic-co-operation-and-development-oecd-global-tax-deal-global-tax-deal.

26 Executive Office of the President, "America First Trade Policy," 90 Fed. Reg. 8471 (Jan. 30, 2025), https://www.federalregister.gov/documents/2025/01/30/2025-02032/america-first-trade-policy.

27 26 U.S.C. § 891 (2024), https://www.govinfo.gov/content/pkg/USCODE-2024-title26/pdf/USCODE-2024-title26-subtitleA-chap1-subchapN-partII-subpartD-sec891.pdf.

28 Defending American Jobs and Investment Act, H.R. 591, 119th Cong. (2025), https://www.congress.gov/bill/119th-congress/house-bill/591.

29 Alan Cole, Sean Bray, and Daniel Bunn, "What Are the Goals of Retaliatory Tax Policies?" Tax Foundation, May 21, 2025, https://www.taxfoundation.org/blog/us-retaliatory-tax-policies-eu-international-taxes/.

30 Also known publicly as the "retaliatory tax" or "revenge tax."

The Senate's version kept the structure roughly the same but softened the House's version in a few ways. For one, it capped the rate increase to 15 percentage points (instead of 20 points) and was applied against the treaty rate instead of the statutory rate. This nuance was important because it made the cap a ceiling rather than a de facto treaty override provision. Furthermore, the effective date was pushed back until January 2027, and portfolio interest (and related interest income) was specifically carved out, reducing the impact on foreign holders of debts like US Treasury bonds or corporate bonds.

Policymakers proposed two innovations to the standard BEAT that would have increased the costs between the standard and new "Super BEAT." The Senate proposed reducing the standard base erosion percentage threshold from 3 percent to 2 percent. It also proposed a new exception for high-tax related parties (defined as foreign related parties facing a rate at least 90 percent of the US rate, i.e., about 18.9 percent), making the BEAT more focused on low-tax jurisdictions.

For "Super BEAT," the Senate version eliminated the $500 million gross-receipts threshold in line with the House. It increased the rate further to 14 percent from the House's 12.5 percent proposal and the standard 10 percent. It also kept the base erosion percentage threshold, rather than eliminating it in line with the House version, but reduced it from 3 percent to 0.5 percent. Finally, it turned off the newly proposed high-tax exception, in addition to the exceptions turned off by the House as well.[31]

Table 1. Differences Between House and Senate Section 899 Proposals

Element	House Version	Senate Version	Origin
Direct rate escalator on withholding/income tax (5 pts/yr, capped) targeting "applicable persons" in listed countries	Yes, 20-pt cap, stacked on statutory rate	Yes, reduced to 15-pt cap, applied to treaty rate	Chairman Smith's Defending American Jobs and Investment Act (H.R. 3665, 2023; reintroduced as H.R. 591, Jan. 2025)
"Super BEAT" stripping $500M gross-receipts threshold and base-erosion-percentage floor for entities tied to applicable persons	Yes	Yes, plus extended to US branches	Rep. Estes' Unfair Tax Prevention Act (H.R. 4695, 2023; reintroduced as H.R. 2423, Mar. 2025)
Revocation of Section 892 exemption for foreign sovereign wealth funds/governments	Yes	Yes	Not in Smith's or Estes' bills
Portfolio interest carve-out	No	Yes	Not in Smith's or Estes' bills
High-tax exception for related-party payments (regular BEAT)	No	Yes, turned off for taxpayers subject to the "Super BEAT"	Not in Smith's or Estes' bills
Effective date	As early as Jan. 1, 2026	Delayed to Jan. 1, 2027	Smith's bill tied its effective date to 180 days after a Treasury report listing a country, not a fixed calendar date
Non-tax retaliation (procurement limits, treaty/trade-agreement restrictions)	Dropped	Dropped	From Smith's H.R. 591/H.R. 3665, but left out of Section 899 in both chambers
Compliance grace period / safe harbor	No	Yes, 90-day grace period, "best efforts" safe harbor	Not in Smith's or Estes' bills

Note: Section 899 was dropped from the OBBBA and never adopted into law
Source: Sources: US Senate Committee on Finance, Legislative Text – Title VII, released by Chairman Mike Crapo; H.R. 1, 119th Cong.; Unfair Tax Prevention Act, H.R. 2423, 119th Cong. (2025); Defending American Jobs and Investment Act, H.R. 591, 119th Cong. (2025); Jay L. Buchman, "Senate Updates Code Section 899," K&L Gates, June 18, 2025; Ryan Bray et al., "Proposed Section 899 – Analysis of Both the House and Senate Bills."

31 Nathaniel J. Dorfman et al., "Senate Finance Committee Proposes Key Departures From House Provisions for the One Big Beautiful Bill Act," Skadden, Arps, Slate, Meagher & Flom LLP, Jun. 25, 2025, https://www.skadden.com/insights/publications/2025/06/senate-finance-committee-proposes-key-departures-from-house-provisions#beat.

What Did Section 899 Achieve?

While Congress was pressing forward with the One Big Beautiful Bill Act (OBBBA), the US Treasury was negotiating with other G7 countries on a plan to exclude US-parented groups from the global minimum tax's IIR and UTPR. The US viewed these rules as extraterritorial and an attack on American sovereignty because the US already had a minimum tax that was adopted in the 2017 TCJA, and the UTPR would have enabled other jurisdictions to tax American businesses under the OECD agreement despite the US Congress never passing such rules into national law. A similar idea to grandfather the US system into the global minimum tax framework was envisioned by a 2020 OECD Blueprint before the Biden administration changed the US's negotiating objectives.[32] If a deal was not reached that recognized the US system as equivalent for Pillar Two purposes, Treasury Secretary Bessent threatened that the US would adopt Section 899.

On June 28, 2025, the G7 finalized a statement on a side-by-side solution and agreed to exempt US-parented groups from the IIR and UTPR so long as Congress removed Section 899 from the OBBBA.[33] Congress obliged, and the OBBBA was signed into law on July 4, 2025, without a retaliatory tax provision.

However, given its success, some have wondered whether another Section 899 proposal could be used as a new coercive tool to change other behaviors, such as digital services taxes or non-tariff barriers that disadvantage the US. It raises the question: *why* was Section 899 successful at getting G7 countries to change their policies, and what can policymakers learn from this experience for future tax-based geoeconomic tools?

To answer this question, it is necessary to review how academics have examined similar choices and outcomes.

How Does Tax Policy Fit (or Not) in the Literature?

Given the nature of using economic tools for purposes other than generating revenue, there are multiple academic fields that focus on various aspects of power, coercion, trade, and foreign policy beyond economics. However, no discipline specifically focuses on tax policy measures as coercive tools.[34]

Recently, tax law professors Itai Grinberg and Reuven S. Avi-Yonah have produced articles on Section 891 and provided commentary on how this section could be used as a retaliatory measure.[35] For example, Gringberg's 2016 article, "A Constructive U.S. Counter to EU State Aid Cases,"[36] argues that "the history of state aid law suggests that credible sources of economic and political pressure have significantly affected the development of EU state aid investigations over time," and that "section 891 constitutes a plausible source of leverage" over the EU. Avi-Yonah's 2025 article, "The Forgotten Weapon: Section 891 and the

32 OECD, *Tax Challenges Arising from Digitalisation – Report on Pillar Two Blueprint*, Oct. 13, 2020, https://www.oecd.org/en/publications/tax-challenges-arising-from-digitalisation-report-on-pillar-two-blueprint_abb4c3d1-en/full-report.html.

33 Department of Finance Canada, "G7 Statement on Global Minimum Taxes," Jun. 28, 2025, https://www.canada.ca/en/department-finance/news/2025/06/g7-statement-on-global-minimum-taxes.html.

34 It should be noted that tariffs are considered a tax, and therefore, a reasonable criticism of this assertion is that tax policy is frequently covered by the literature. However, tariffs are traditionally viewed as trade policy, which is distinct from domestic tax policy, and rarely are domestic tax policies studied from a geoeconomic point of view. Domestic taxes are generally aimed at raising revenue, and in the cases where excise taxes are used to change behavior, they are usually studied at the consumer or firm level, not the country level.

35 Itai Grinberg, "Beyond FATCA: An Evolutionary Moment for the International Tax System," Georgetown Law Faculty Working Papers, Jan. 27, 2012, https://scholarship.law.georgetown.edu/fwps_papers/160/; Reuven S. Avi-Yonah and Gianluca Mazzoni, "The Forgotten Weapon: Section 891 and the Origins of U.S. Retaliatory Tax Policy," *Tax Notes* 120:8 (November 2025): 1301-1311, https://repository.law.umich.edu/facarticles/3143.

36 Itai Grinberg, "A Constructive U.S. Counter to EU State Aid Cases," *Tax Notes International* (Jan. 11, 2016): 167-170, https://scholarship.law.georgetown.edu/facpub/1657/.

Origins of U.S. Retaliatory Tax Policy," describes the history of a 1930's discriminatory French tax that led to the US creating Section 891 as a deterrent against future discriminatory taxes on US firms. These articles, however, have been mostly focused on legal arguments and historical context, rather than answering the question of why a coercive tax measure could be successfully leveraged to accomplish a geopolitical goal. Furthermore, there is a material difference between Section 891 and Section 899, as Section 891 was used as a threat in defense against a discriminatory tax on US firms but without a broader geopolitical goal. Section 899 was used against an extraterritorial enforcement mechanism that conflicted with American policy goals.

Economist Albert Hirschman's 1945 book, *National Power and the Structure of Foreign Trade*, stands as the intellectual foundation for multiple branches of research.[37] His work focused on how Nazi Germany structured trade with smaller European states to make those countries dependent on the German market for specific exports. At the time, this challenged the mutually beneficial relationship assumed in classical trade theory by showing trade interdependence is not symmetric. A dominant economy can deliberately shape the structure of a trade relationship to make the smaller partner's economy dependent on continued access, and that dependence itself becomes a lever of political influence. This is called the "influence effect," on top of the ordinary gains-from-trade "supply effect."

Political scientists Robert Keohane and Joseph Nye's 1977 book, *Power and Interdependence*, built on this work and formalized what they called the "sensitivity" and "vulnerability" framework, which outlines how costly it is to be affected by a policy shift elsewhere versus how costly it is to escape the dependence.[38]

Political scientists Henry Farrell and Abraham L. Newman's 2019 article, "Weaponized Interdependence: How Global Economic Networks Shape State Coercion,"[39] contends that "chokepoints" generate coercive power for states that have jurisdiction over them. These states gain a distinct form of leverage that has nothing to do with overall economy size or military strength, and therefore, non-hegemonic states could theoretically coerce larger states by cutting them off from the network where there is no alternative.

International political economist Rasmus Corlin Christensen extends this framing in his 2025 article, "Harnessing Network Power: Weaponized Interdependence in Global Tax Policy,"[40] to tax policy by arguing the US "weaponized its access to major financial institutions to coerce radical information access from foreign banks."

Economists Matteo Maggiori, Christopher Clayton, and Jesse Schreger have provided empirical measurement of why specific chokepoints produce coercive power.[41] Citing Robert Dahl's 1957 article, "The Concept of Power," the authors define power as "Country A has power over Country B to the extent that he can get B to do something that B would not otherwise do." In subsequent work, Maggiori, Clayton, and Schreger develop an economic framework for understanding when a target complies with a hegemon's demand, stating that its "inside option" (going along) is worth at least as much as its "outside option" (refusing). In this sense, power is the ability to change either the inside or outside option until complying becomes the target's best choice.

37 Albert O. Hirschman, *National Power and the Structure of Foreign Trade* (Oakland, CA: University of California Press, 1980).
38 Robert Keohane and Joseph Nye, *Power and Interdependence: World Politics in Transition* (Boston, MA: Little, Brown, and Company, 1977).
39 Henry Farrell and Abraham L. Newman, "Weaponized Interdependence: How Global Economic Networks Shape State Coercion," *International Security* 44:1 (Summer 2019): 42-79, https://direct.mit.edu/isec/article/44/1/42/12237/Weaponized-Interdependence-How-Global-Economic.
40 Rasmus Corlin Christensen, "Harnessing Network Power: Weaponised Interdependence in Global Tax Policy," *Global Policy* 16:1 (February 2025): 175-189, https://onlinelibrary.wiley.com/doi/10.1111/1758-5899.13456.
41 Christopher Clayton, Matteo Maggiori, and Jesse Schreger, "Putting Economics Back into Geoeconomics," NBER Working Paper No. 33681, April 2025, https://www.nber.org/papers/w33681.

Political scientist David Baldwin defined economic statecraft as the use of economic means to pursue foreign policy goals.[42] Since then, this definition has been expanded to include economic security as well.[43] According to the Atlantic Council, economic statecraft may include the intentional use of financial, regulatory, and economic tools by a state to shape other states', commercial agents', or other societal actors' behaviors in ways that benefit the state's foreign policy objectives.

In his 1985 book, *Economic Statecraft*, Baldwin defines the categories of statecraft by the nature of the resource used (like something with a market price). That is, for example, why trade, investment, monetary policy, foreign aid, and sanctions are treated in the same category despite their obvious policy differences. These tools are compared to alternative statecraft tools the sender has,[44] such as the threat or use of force through the military, propaganda, or diplomatic negotiation. In the 2020 renewed edition, Baldwin lists taxation as both a "positive and negative sanction," defining the positive as "especially favorable taxation of foreign capital investment" and the negative as when "assets of the target state are taxed in a discriminatory manner."[45]

It is under this broad literature that tax policy as a coercive tool should be analyzed. However, apart from the work mentioned above by Grinberg, Avi-Yonah, and Christensen, coercive tax policies are seldom the focus. Much more attention has been paid to tariffs and sanctions as forcing mechanisms. In principle, though, the same framework should be useful in considering tax policy as an economic statecraft tool given that it affects something like "a market price" in negotiations.

A closely related literature is that of geoeconomics,[46] which is the study of how economic power and relationships shape, and are shaped by, political and strategic interests on the global stage.[47] The field stands at the nexus of economics, finance, geopolitics, and foreign policy. The most common taxonomy used to categorize geoeconomic tools is from Robert Blackwell and Jennifer Harris' *War by Other Means: Geoeconomics and Statecraft*,[48] where tax policy is not explicitly mentioned but would likely fall under the trade policy distinction.[49]

It should be noted that there are many political scientists, such as Johan Galtung and Robert Pape,[50] in the sanctions literature who dispute whether and when sanctions are actually successful. Daniel Drezner's "sanctions paradox" focuses on the fact that adversaries are the countries a sender is most eager to sanction, and yet, they are the least likely to acquiesce.[51] Instead, allies that have "low-conflict expectations" are ones a sender has the least reason to target but are most likely to fold sooner.

Others, such as political scientist Jonathan Kirshner,[52] question whether rational modeling truly incorporates when economic power converts into political outcomes, given that effectiveness is contingent on domestic politics, ideology, and history.

42 David A. Baldwin, *Economic Statecraft* (Princeton, NJ: Princeton University Press, 1985).
43 Atlantic Council, "Economic Statecraft Lexicon," last updated Jan. 28, 2025, https://www.atlanticcouncil.org/programs/geoeconomics-center/economic-statecraft-initiative/economic-statecraft-lexicon/.
44 In this literature, the sender is defined as the country using the economic tool, and the target is the country receiving the threats or coercion.
45 David A. Baldwin, *Economic Statecraft: New Edition* (Princeton, NJ: Princeton University Press, 2020), vii.
46 Marianne Schneider-Petsinger, "Geoeconomics Explained," Chatham House, Dec. 9, 2016, https://www.chathamhouse.org/2016/12/geoeconomics-explained.
47 Atlantic Council, "Economic Statecraft Lexicon."
48 Robert D. Blackwill and Jennifer M. Harris, *War by Other Means: Geoeconomics and Statecraft* (Cambridge, MA: Harvard University Press, 2016).
49 The other categories are investment policy, economic sanctions, cyber, aid, monetary policy, and energy and commodity policy.
50 Johan Galtung, "On the Effects of International Economic Sanctions, With Examples from the Case of Rhodesia," *World Politics* 19:3 (April 1967): 378-416, https://www.jstor.org/stable/2009785; Robert A. Pape, "Why Economic Sanctions Do Not Work," *International Security* 22:2 (Fall 1997): 90-136, https://web.stanford.edu/class/ips216/Readings/pape_97%20(jstor).pdf.
51 Daniel W. Drezner, *The Sanctions Paradox: Economic Statecraft and International Relations* (Cambridge, UK: Cambridge University Press, 1999).
52 Jonathan Kirshner, *Currency and Coercion: The Political Economy of International Monetary Power* (Princeton, NJ: Princeton University Press, 1995).

While all these scholars touch on certain characteristics of Section 899, none of them provides a general theory of why it worked or if it is repeatable. However, with this literature in mind, we will next consider three theories for why Section 899 worked.

Why Did Section 899 Work?

Theory One: The Prevailing View in Washington

The prevailing view in Washington is that access to the US financial market is simply too important to citizens and firms of the targeted countries to face increased tax rates on capital. This belief follows the chokepoint logic above with financial returns from the US market as leverage. Once Section 899 was put into draft legislation, losers of the potential policy successfully lobbied governments in their home jurisdictions to agree to a side-by-side solution. This is a combination of Drezner's idea that allies may be more willing to fold to credible threats and Maggiori's prediction that targets comply with hegemon demands if it is less costly than refusing. Further, the fact that the threat was able to be credibly removed if concessions were made contributed to the success. The US legislative process created a clear off-ramp.

Theory Two: The Make It Right Idea

Countries engaged in the BEPS/IF process from the beginning understood that the US system adopted the first global minimum tax and the OECD's objective was to build a system around the US rules. The 2020 OECD Blueprint report envisioned grandfathering the US rules with an equivalence determination. The Biden administration's approach was to give partners a good deal, but countries knew if Republicans came back to power (as communicated by Republicans in Congress), their demand would be to go back to the 2020 logic. This created a public perception problem for other G7 countries of looking like they were giving in to Trump threats, but at a technical level, it was a contingency plan countries had in their back pockets.

Theory Three: The EU (Over)playing Its Geoeconomic Hand

In line with weaponizing interdependence, Christensen claims the EU's market access itself can produce network effects for global tax policy. Using the Pillar Two Directive, he claims that because 80 percent of the world's largest multinationals have a legal presence in the EU, despite only 20 percent of them being headquartered there, the EU will be able to leverage control in domains where it has both influence over key hubs and well-developed institutions. He cites Lukas Hakelberg's argument that "should the EU overcome internal disunity in corporate tax; it may join the US as a great power in international tax policy."[53]

Policymakers from other countries negotiated for US firms to be required to comply with QDMTTs as part of SbyS. SbyS also leaves in place the UTPR as a tool for enforcing Pillar Two on non-US headquartered companies. This is especially important for the EU. The UTPR's continued existence, even if not applicable to US firms, gives the EU an enforcement tool to change the dynamics of tax competition. Therefore,

53 Lukas Hakelberg, "Coercion in International Tax Cooperation: Identifying the Prerequisites for Sanction Threats by a Great Power," *Review of International Political Economy* 23:3 (2016): 511-541, https://doi.org/10.1080/09692290.2015.1127269.

Section 899 was not worth the negative economic effects regardless of how credible the threat was, and it was instead worth the benefit of maintaining the remaining pieces of the reformed international tax system for domestic European audiences.

In this case, the EU's approach was to ask more of the US than it could achieve and then be willing to accept (as a compromise) that maintaining QDMTTs was a sufficient outcome.

Misinterpretation Is Costly

Misinterpreting why the policy worked can have significant costs for the US economy over time if future policies are designed as iterations of Section 899. According to Tax Foundation research,[54] Section 899 would have hit inbound investment from countries that make up more than 80 percent of the US inbound FDI stock. Furthermore, leveraging the US financial system and dollar-based infrastructure could motivate other countries, including traditional allies, to look for dependency-reducing alternatives. Even a small reduction in the demand for dollars could upset the bond market, making US debt unsustainable over the medium term. Overusing a hegemon's chokepoint can reduce the efficacy of the chokepoint over time.

Lessons from Europe

While there is no clear analogous EU example of Section 899,[55] the EU has also attempted to leverage access to its market with tax and trade tools to change behavior in other jurisdictions.

Anu Bradford's book, *The Brussels Effect: How the European Union Rules the World*, builds on network effects and argues that through regulation, the EU can leverage its market to change firm behavior without coercive practices on other governments.[56] Joanne Scott comes to a similar conclusion from a legal perspective, claiming that through "territorial extension, not extraterritorial legislation," the EU engages in "action-forcing" to "galvanize third country or global action to tackle transboundary problems and pursue objectives that have been internationally agreed upon."[57] While Bradford and Scott provide a plethora of examples related to cases where EU regulators are put in a position to influence third country behavior, it is primarily in terms of regulatory processes or environmental standards. However, the regulatory template they provide has expanded to the areas of tax and trade policy.[58]

The clearest example of an EU-designed policy with built-in enforcement of international agreements is the Carbon Border Adjustment Mechanism (CBAM). As one tool to enforce the international commitments made under the Paris Climate Accords, CBAM payments are required at the EU border for imported products from other jurisdictions if that jurisdiction does not have a domestic carbon price equivalent to the EU's Emissions Trading System (ETS) price. At the time of writing, this equivalency determination is done by the EU, not an international body. Therefore, it enables decision-makers in the EU to negotiate with other jurisdictions from a position of strength if firms from those countries want equal access to sell goods

54 Alan Cole, Sean Bray, and Daniel Bunn, "What Are the Goals of Retaliatory Tax Policies?"
55 This would be nearly impossible at the EU level given that tax policy is a national competence, there is no EU Capital Market, and the role of the euro as a reserve currency is nowhere near the dollar.
56 Anu Bradford, *The Brussels Effect: How the European Union Rules the World* (New York: Oxford University Press, 2020).
57 Joanne Scott, "Extraterritoriality and Territorial Extension in EU Law," *American Journal of Comparative Law* 62:1 (2014): 87-126, https://academic.oup.com/ajcl/article-abstract/62/1/87/2572174.
58 See Appendix 1 for a table of EU policies with similar designs.

into the EU market. However, to date, the world's largest economies, such as the US, China, and India, have not adopted domestic carbon prices in line with the EU's ETS system. Recently, the US Ambassador to the EU wrote an op-ed in the *Financial Times* calling CBAM a tariff.[59] Both China and India have openly criticized CBAM in the media and in the World Trade Organization's Goods Committee.[60] Furthermore, under India's chairship, the BRICS (the organization named for Brazil, Russia, India, China, and South Africa, but now includes 11 member countries) countries called CBAM "unilateral, punitive, discriminatory and protectionist measures that are not in line with international law."[61] Despite the rhetoric, Russia is the only country so far to formally submit a World Trade Organization (WTO) complaint.[62] Optimists will argue the policy just needs more time to put pressure on third jurisdictions. Skeptics will argue that the EU does not have enough leverage through market access alone to change third jurisdictions' policies unless domestic politics in those countries view a change as beneficial.

Another example would be the UTPR under the Pillar Two Directive. As first mover, the EU is leveraging access to its market to enforce internationally agreed upon tax rules unless a third jurisdiction has been determined to have an equivalent global minimum tax. Unlike CBAM, the equivalency determination is based on negotiations at the OECD's IF, but with the US out of the system, it will be up to the EU to broadly enforce the rules, even if those third jurisdictions have not adopted the OECD rules domestically. While more than 65 jurisdictions around the world have adopted some part of the Pillar Two rules, notably, economic rivals China and India have not. The EU clearly has the strongest interest in seeing the Pillar Two rules maintained and enforced.

Finally, the EU's List of Non-Cooperative Jurisdictions for Tax Purposes is another example of leveraging access to the EU market to enforce internationally agreed upon standards on third jurisdictions. The Council updates a list twice a year with jurisdictions it deems to be out of compliance with OECD standards on tax transparency, harmful preferential tax regimes, and anti-abuse minimum standards. For listed jurisdictions, EU Member States may take uncoordinated defensive measures, such as non-deductibility of costs paid to entities in said jurisdictions, stricter controlled-foreign-company rules, or withholding taxes. Listed jurisdictions may also be cut off from EU funding instruments. Critics note that EU Member States are not listed regardless of standards compliance, making the list less technical and more geopolitical. Furthermore, it is likely that the EU decides which jurisdictions to put on the list based on a political calculation of which ones EU policymakers believe they have more leverage over.[63] A World Bank report found that being selected for the EU's list review increased the odds of a jurisdiction joining the OECD/G20 Inclusive Framework on BEPS; however, it found no evidence that being blacklisted had any impact on offshore wealth or shifted profits because "the bulk of jurisdictions that host both of these were not the target by the EU" and suggested that "coercive efforts to reduce global tax evasion and avoidance will struggle without better targeting and enforcement."[64]

59 Andrew Puzder, "Europe's carbon mechanism is a tariff by another name," Financial Times, Aug. 12, 2026, https://www.ft.com/content/99bbb4e9-32de-40cb-aa15-537937d70889.

60 Simon Lester, "WTO Committee Meeting Addresses Chinese Concerns on CBAM, Solar Panels, EV Tariff Issues," China Trade Monitor, Nov. 26, 2023, https://www.chinatrademonitor.com/wto-committee-meeting-addresses-chinese-concerns-cbam-solar-panels-ev-tariff/.

61 Akshita Singh, "Brics Nations Oppose EU's CBAM, Say It Burdens Developing Economies," Business Standard, Aug. 19, 2026, https://www.business-standard.com/world-news/brics-nations-oppose-eu-cbam-burdens-developing-economies-126081900358_1.html.

62 World Trade Organization, "European Union and Its Member States – Carbon Border Adjustment Mechanism (DS639)," May 19, 2025, https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds639_e.htm.

63 This question is evaluated empirically by Vincent Arel-Bundock, Loriana Crasnic, Indra Roemgens, and Aanor Roland, "The EU and the Politics of Blacklisting Tax Havens," University of Zurich Equality of Opportunity Research Series #27, July 2023, https://www.urpp-equality.uzh.ch/dam/jcr:86003873-1228-461c-8c56-1c8f79486277/27_Arel-bundock_crasnic_romgens_roland_blacklist.pdf.

64 Matthew Collin, "The Impact of Tax Blacklisting," World Bank Policy Research Working Paper No. 10435, May 2023, https://documents1.worldbank.org/curated/en/099918205042371705/pdf/IDU0fd264bfb0c6f704cda09bd20025a1aa3a08c.pdf.

The EU's track record shows that simply restricting access to a large economy does not guarantee compliance by other countries. It may succeed in putting European negotiators in the room to discuss possible international coordination problems, but it's questionable whether the EU Single Market, or any market including the US's, can function as a global chokepoint. In the meantime, these actions have real economic costs to European consumers and firms that should be considered.

What Makes Section 899 Different from Tariffs?

On the surface, European digital services taxes (DSTs) may seem similar to Section 899 in that both are forms of economic coercion against an ally and offer a clear path to removal of the threat.[65] European Member States (and the UK) have repeatedly stated that their domestic DSTs would be removed as soon as an international agreement reallocating taxing rights is signed at the OECD. They argue DSTs are simply a proxy for value created in their jurisdictions and therefore will be unnecessary once the US agrees to a more concrete reallocation formula.

The logic behind US tariffs similarly resembles Section 899 in that policymakers are leveraging access to the US economy to create power asymmetries with smaller countries.

However, both DSTs and US tariffs suffer from the same flaws: they are unilateral moves, without an underlying international consensus, attempting to rewrite international reforms through very public coercion. Put another way, some European Member States think they can rewrite 100 years of international tax norms by pressuring US tech companies, and US policymakers think they can unravel decades of supply chain interdependencies through erratic tariffs. To date, Pillar One has not been signed. US policymakers think they can reform the WTO with the US as central arbiter. Both approaches misinterpret the academic literature presented above. The elements that made Section 899 successful (a clear off-ramp, an underlying willingness to negotiate, and an obvious fallback position) are not present.

Future Templates of Tax Policy as a Geoeconomic Tool

Before moving forward with a future Section 899 template, policymakers should consider the following series of questions.

Did Section 899 produce different coercive dynamics distinct from a tariff or sanction?

There is an extensive academic literature on what makes sanctions successful. Economists and international political economists have researched the coercive dynamics of tariff policies for decades. However, domestic tax policy as a coercive tool is seldom studied.

65 Though tax is in the name, experts widely agree that DSTs function more like a tariff on services than as a true domestic tax policy. DSTs should therefore be considered more of a trade tool than a tax policy.

Was a key to Section 899's success the lobbying power of foreign companies that would have been targeted by the policy?

One of the key ideas behind Bradford's "Brussels Effect" is that foreign firms that sell into the EU market end up lobbying their own governments for domestic changes toward the EU standard to reduce compliance costs and duplication. While Bradford describes this as a non-coercive process, Section 899 followed a similar approach with a coercive element. Weaponizing targeted firms from the coercive tool against their own governments is itself a strategy.

Would a Section 899 tactic have worked if the counterparties in the negotiation were adversaries to the US rather than allies?

According to Drezner's "sanctions paradox," it would be more likely for this threat to have failed against an adversary than a group of allies. The question is, however, whether policymakers should expect similar probabilities of success between Section 899 and a sanction. Furthermore, it is possible that the use of the threat will impact the strength of the relationships between traditional allies over time.

Is reshaping international systems, such as international trade or tax, a realistic goal of economic powers like the US or EU without a broad-based consensus?

Reforming the international tax system through DSTs or the WTO with tariffs will be significantly more difficult without a broad-based consensus. The transatlantic relationship could be an engine for global reform of both, but it will require policymakers on both sides to see greater benefits to working together than costs of compromising.

What would have been the cost of enacting Section 899 to economic growth, US debt exposure risk, and the dollar as the global reserve currency? Did these costs outweigh the benefits?

If Congress had implemented Section 899, it would have had a negative impact on foreign investors in the US. If investors decided to find a safer place to put their capital, that could have magnified pressures on investment, growth, and the US bond market. The US dollar's reserve status gives policymakers an "exorbitant privilege" to spend more than the bond market would otherwise tolerate, but this dynamic is partly based on significant capital flows coming into the US.

Did G7 countries view Section 899 as a credible threat, and if so, why?

A key characteristic of successful coercive tools is that the target assesses the sender's threat to be credible. Otherwise, the threat is unlikely to change behavior. Understanding what aspects of Section 899 made it credible (asymmetric information during the US legislative process, the economic costs to policy targets, domestic political costs, and the impact on foreign US bondholders) would be informative for knowing when deploying a future template of a similar nature has a higher chance of success.

What are the costs of non-action?

When analyzing whether to use coercive tools, policymakers should consider all benefits and costs. This includes the cost of non-action. In the case of UTPR, the cost to the US of non-action was significant, as it would have had fiscal implications for the US and led to double taxation of US firms.[66] Furthermore, the US would have been subject to a fundamentally redefined idea of tax sovereignty, without congressional approval, by allowing foreign governments to "extract taxes from U.S. companies on their U.S. earnings."[67] As is often the case with sanctions, sometimes the costs of non-action can be higher than the costs of using a coercive tool and should be taken into consideration.

Conclusion

Section 899 provides US policymakers with a fascinating new geoeconomic template to consider as a coercive tax policy. Leveraging access to the US financial system is a core tenet of American economic statecraft. And, especially in the case of the UTPR, the costs of the US doing nothing were significant. However, policymakers should also weigh the domestic economic costs, damage to long-term relationships with allies, and potential benefits of foreign policy changes before reintroducing a similar template.

It is reasonable to conclude that Section 899 achieved a side-by-side solution because the US weaponized one of its most powerful chokepoints against allies who determined it was in their best interest domestically and internationally to adjust their approach to international tax reform. The US demand was clear, manageable, and provided a clear path to dispose of the threat if policy was changed. This nuanced conclusion is more plausible than the simple conclusion that the US is the hegemon, and all others comply when demanded.

As policymakers consider using other geoeconomic tools, such as tariffs or enforcement mechanisms that leverage access to a given market, they should understand that having a larger economy is not sufficient to achieve international policy goals in an interdependent world. What may work to coerce one trading partner may not work with another. Taking a one-size-fits-all approach is unlikely to have a high success rate. Rather, G7 countries should look to identify focused areas of cooperation to achieve strategic international outcomes.

Section 899 showed that using economic leverage against allies can be successful in changing damaging policies while imposing a relatively low cost to the US. However, the challenge for policymakers going forward will be to understand when using coercion can be successful, under what conditions, and at what cost.

66 Alan Cole, "Why Does the UTPR Matter?" Tax Foundation, Jun. 1, 2023, https://taxfoundation.org/blog/utpr-pillar-two-us-tax-base/.
67 Alan Cole and Cody Kallen, "Risks to the US Tax Base from Pillar Two," Tax Foundation, Aug. 30, 2023, https://taxfoundation.org/research/all/federal/global-minimum-tax-us-tax-base/.

Appendix

European Tax and Trade Policies State Changing Government Policy in Third Countries as a Goal

EU Policy	EU (or National) Legislative Text — Extraterritorial Goal	Notes / Context	Origination
CBAM	"…in order to prevent the risk of carbon leakage, thereby reducing global carbon emissions and supporting the goals of the Paris Agreement, also by creating incentives for the reduction of emissions by operators in third countries."	"This Regulation establishes a carbon border adjustment mechanism (the 'CBAM') to address greenhouse gas emissions embedded in the goods listed in Annex I on their importation into the customs territory of the Union…"	Regulation (EU) 2023/956, Art. 1(1) EUR-Lex, consolidated 02023R0956
DST (EU)	"An EU solution rather than different national policies entails a reduction in the compliance burden for businesses subject to the new rules, and also gives a strong sign to the international community as to the commitment of the EU to act when it comes to ensuring the fair taxation of the digital economy."	"At the international level, the OECD already recognised, in its Action 1 report (2015, OECD/G20 BEPS project), that digitalisation ... present[s] challenges for international taxation." "Work at the OECD level is essential in order to reach a global consensus on this topic."	COM(2018) 148 final, Expl. Mem. §1 EUR-Lex, 52018PC0148
DST (France)	"Le Gouvernement remet au Parlement, avant le 30 septembre de chaque année, un rapport sur les négociations conduites au sein de l'Organisation de coopération et de développement économiques pour identifier et mettre en œuvre une solution internationale coordonnée destinée à renforcer l'adéquation des règles fiscales internationales aux évolutions économiques et technologiques modernes." "Il fait également état de l'incidence de ces négociations sur la taxe sur les services numériques prévue à l'article 299 du code général des impôts et indique la date à laquelle un nouveau dispositif mettant en œuvre la solution internationale coordonnée se substituera à cette taxe."	Names the OECD directly in the statute: the Government must report annually on negotiations "au sein de l'Organisation de coopération et de développement économiques" (within the OECD) and on each participating jurisdiction's position — i.e., the French Parliament is monitoring whether the DST is succeeding in pushing OECD members toward a coordinated solution.	Loi n° 2019-759, Art. 1, § V Légifrance, JORF-TEXT000038811588
UTPR	Recital (2): "By removing a substantial part of the advantages of shifting profits to jurisdictions with no or very low taxation, the global minimum tax reform will level the playing field for businesses worldwide and allow jurisdictions to better protect their tax bases." Recital (10): "...where the ultimate parent entity is located in a third-country jurisdiction with a qualified IIR, the constituent entities of the MNE group should apply the UTPR to the constituent entities located in that third-country jurisdiction, in cases where that third-country jurisdiction is low-taxed..."	"...the global minimum tax was developed by the Inclusive Framework... The rules ensure that large multinational enterprises pay a minimum level of tax on their income in each jurisdiction where they operate, thereby reducing the incentive for profit shifting and placing a floor under tax competition, bringing an end to the race to the bottom on corporate tax rates."	Dir. (EU) 2022/2523, Recitals (2) & (10) EUR-Lex, 32022L2523 OECD Minimum Tax Implementation Handbook

European Tax and Trade Policies State Changing Government Policy in Third Countries as a Goal

EU Policy	EU (or National) Legislative Text — Extraterritorial Goal	Notes / Context	Origination
EU Tax Haven Blacklist	"The aim of the EU list of non-cooperative jurisdictions ... is not to name and shame countries, but to encourage positive change in their tax legislation and practices through cooperation."	"Criterion 3.1: Jurisdictions should commit to implementing the OECD anti-BEPS minimum standards, which concern harmful tax measures, treaty shopping, country-by-country reporting and dispute resolution." "Criterion 3.2: Jurisdictions should be compliant as regards the implementation of the anti-BEPS minimum standards."	Council conclusions on the EU list of non-cooperative jurisdictions for tax purposes, Annex I (criteria)
Foreign Subsidies Regulation	Article 1(1) — core purpose (internal-market framing): "The purpose of this Regulation is to contribute to the proper functioning of the internal market by establishing a harmonised framework to address distortions caused, directly or indirectly, by foreign subsidies, with a view to ensuring a level playing field." Recital (60) — dialogue with third countries: "...the Commission should be able to engage in a dialogue with the third country concerned to explore options aimed at obtaining the cessation or modification of the foreign subsidies distorting the internal market with a view to eliminating their distortive effects in the internal market."	The FSR fills a gap the Commission identified in the WTO Agreement on Subsidies and Countervailing Measures (Recital 5), which covers only goods and requires State-to-State dispute settlement.	Regulation (EU) 2022/2560, Art. 1(1) & Recital (60) EUR-Lex, 32022R2560
Anti-Coercion Instrument	Article 1(2): "This Regulation establishes a framework for the Union to respond to economic coercion with the objective of deterring economic coercion or obtaining the cessation of economic coercion, whilst enabling the Union, as a last resort, to counteract economic coercion through Union response measures."	The ACI is an EU common commercial policy instrument primarily designed for deterrence against foreign coercion.	Regulation (EU) 2023/2675, Art. 1(2) EUR-Lex, 32023R2675

Note: The EU's DST was never adopted into law.