Economic Research

Economic Briefing

Trade agreement between the EU and the US – less bad is not necessarily good

28 July 2025

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The EU and the US have agreed on a framework trade deal. According to the agreement, most imports from the EU to the US will be subject to 15% tariffs. Steel and aluminum will continue to be subject to 50% tariffs, while some products will not be subject to any additional tariffs. In addition, the EU has committed to purchasing large quantities of fossile fuels from the US. At the same time, the EU is refraining from taking countermeasures against the higher US tariffs. Initially, this agreement is good news, as it prevents a trade war between the US and the EU that would have caused significant damage to both sides. However, it does not change the fact that European companies will find it significantly more difficult to export to their most important foreign market, which in itself will put a noticeable strain on the EU economy.

15% on most US imports from the EU

Shortly before the deadline set by the Trump administration expired, the EU and the US agreed yesterday on a framework trade deal. According to the agreement, imports from the EU to the US will be subject to a 15% tariff in future, although according to the President of the European Commission, this will include the tariffs imposed on various products prior to Trump's presidency, meaning that the average effective tariff rate is likely to increase by less. Car exports, which are particularly important from a German perspective, will also be subject to a 15% tariff in the future. Only steel, aluminum, and related products will continue to be subject to 50% tariffs in the future. No tariffs will be imposed on specific products such as aircraft parts, certain pharmaceutical products (generic drugs), and certain chemical products. In addition, the EU has committed to purchasing fossile fuels from the US worth €750 billion and to investing €600 billion in the US. Part of the agreement is apparently also that the EU will refrain from taking countermeasures against the higher US tariffs.

Much remains unclear

As with the agreements between the US and the UK and Japan, many details remain unclear. For example, there has been no confirmation from the US side that the 15% actually includes tariffs that were already in place before Trump took office. Furthermore, it is not clear which products are included in the “certain” chemicals and pharmaceutical products (generic drugs). Last but not least, it remains unclear who will purchase the additional energy sources from the US and who will invest the €600 billion in the US. It will certainly not be the EU Commission.

Positive: Trade war averted

In view of the economic development in the coming quarters, the agreement between the US and the EU is certainly to be welcomed. It prevents a trade war between the two economic areas and, for the time being, provides planning security for companies. However, it remains to be seen whether both sides will ultimately be able to agree on a uniform interpretation of the rather general agreements reached so far. This could certainly lead to frictions and renewed uncertainty.

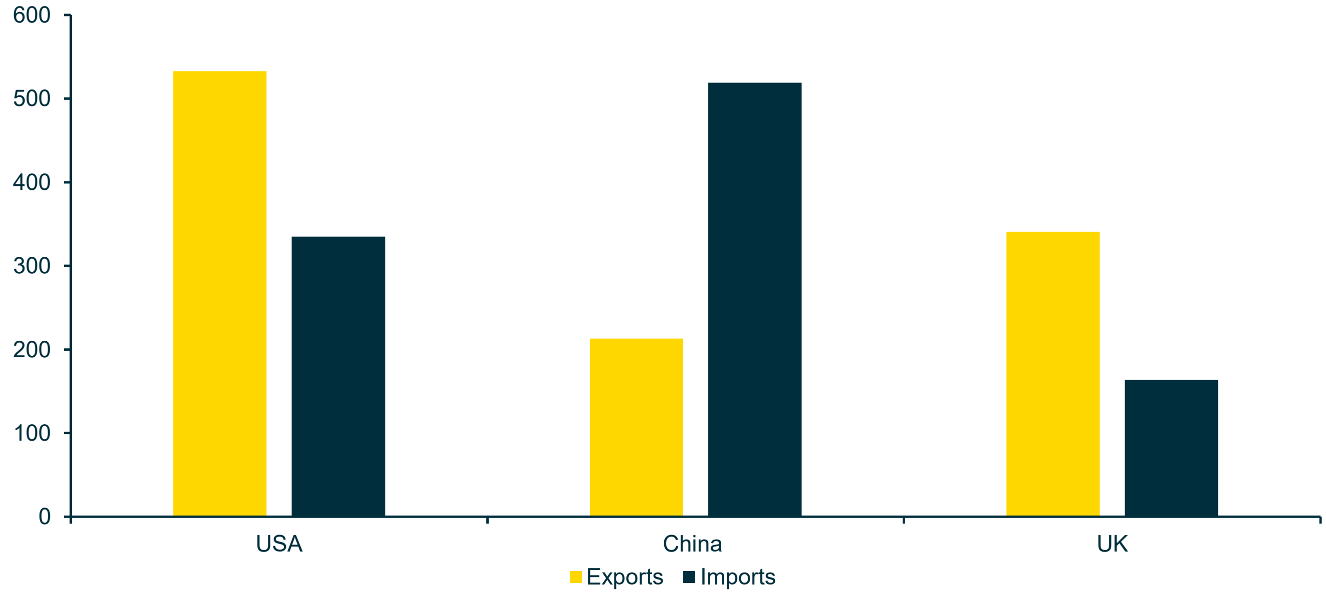
Negative: Higher tariffs make access to the most important foreign market more difficult

However, it should not be forgotten that this agreement will result in significantly higher US tariffs on imports from the EU as compared to a year ago. The average US tariff on deliveries from the EU will rise by more than 10 percentage points compared with last year. This will make it significantly more difficult for many companies to access their most important foreign market, which accounts for more than €500 billion or 20 percent of EU exports to outside the EU (Chart 1). We expect this to reduce EU exports to the US by around a quarter over the next two years.

This alone is likely to slow economic growth in the EU significantly. Although this effect should be more than offset by increasing monetary policy stimulus and expansionary fiscal policy in Germany, weaker exports to the US and numerous structural problems mean that the emerging economic recovery is likely to be modest.

Chart 1 - The US is the EU's largest trading partner

EU imports and exports of goods in billion euros, data for 2024



Source: Eurostat, Commerzbank Research

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This report was completed 28/7/2025 08:40 CEST and disseminated 28/7/2025 08:40 CEST.

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