



## How does the EU react to Trump's tariffs?

The US government has exacerbated the trade conflict with the EU by imposing further tariff increases. At the same time, the negotiations between the EU and the US, which have been ongoing for several weeks, have not yet made any progress. The EU is therefore likely to take countermeasures in the foreseeable future. We show what these are likely to look like and why they are unlikely to be blocked by individual member states. In the medium term, however, we consider a compromise more likely than further escalation.

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### The EU is under pressure as a result of Trump's tariffs...

The European Union is increasingly coming into the line of fire of Donald Trump and his tariff policy – not least because of its nearly €200 billion surplus in trade with the United States. Donald Trump is therefore taking a harder line with Europe and has imposed various tariffs that are hitting the EU hard:

- **Sectoral tariffs on steel and aluminum:** Since June 4, tariffs of 50% have been imposed on all imports of steel and aluminum and their derivatives, such as beverage cans and fitness equipment. Lower tariffs of 25% were in place from March 12 to June 4.
- **Sectoral tariffs on cars and car parts:** Since April 3, a tariff of 25% has been imposed on finished cars and, since May 2, on car parts such as engines and gearboxes.
- **General (“reciprocal”) tariffs:** Additional tariffs of 10% have been in place on most other goods since April 9. Exceptions are made for some goods such as pharmaceuticals and fossil fuels. The higher additional tariff of 20% is set to apply again from July 9.

These tariffs reduce the competitiveness of EU products on the US market and thus burden the economies of the member states. After all, the US is the most important market outside Europe for European companies. The European Commission, led by President Ursula von der Leyen, is therefore under pressure to negotiate a significant reduction or even the withdrawal of these tariffs.

### ... but negotiations are stalling

In the week of April 7, the European Union sent an official delegation to Washington, DC, to begin direct negotiations with the Trump administration. However, these talks are proving difficult. A trade agreement proposed by the EU on manufactured goods failed in May because it largely excluded the agricultural sector, which is important to the US. However, some member states are resisting the opening of the agricultural market, and this resistance is unlikely to diminish with the election of the national conservative Nawrocki as Polish president.

In addition, the Americans are apparently insisting on their general 10% tariff as a minimum rate, while the EU – unlike the UK – does not want to accept any general, unilateral tariff increases by the US. This is because Brussels sees itself more as a negotiator on an equal footing with the US, as China has exemplified. However, China's self-confident stance provoked Donald Trump to escalate the trade dispute. The fact that the EU has not allowed the conflict to escalate so far is probably due to its dependence on the US for security. The EU leadership therefore apparently wants to wait until after the NATO summit at the end of June before responding confidently. After that, the risk of escalation will increase.

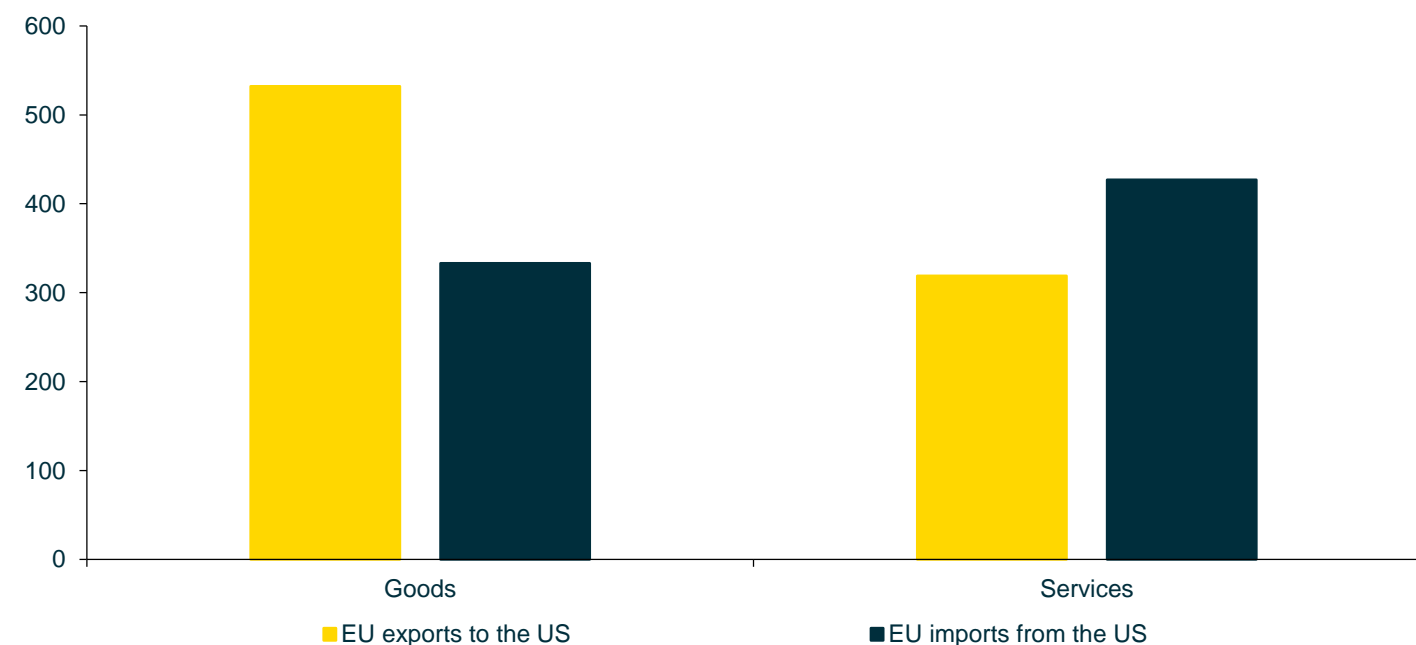
### What would an escalation by the EU look like?

If no progress is made in the negotiations in the coming weeks or if Trump even raises tariffs further, the EU would probably initially focus on counter-tariffs. The first stage of escalation has already been decided, with counter-tariffs in response to US tariffs on steel and aluminum. These specific counter-tariffs affect only a fraction of EU imports from the US, which amounted to EUR 333 billion last year (Chart 1): The 25% tariffs imposed for a short time in 2018 on products such as orange juice, motorcycles, and jeans would be reintroduced. In addition to these goods worth around €6 to €7 billion affected by the previous tariffs, imports worth €21 billion, including meat, plastic products, and textiles, will now be added. This list has also already been agreed with the member states and also provides for tariffs of 25%.



### Chart 1 - A taxation of service providers would hurt the US economy

Trade between the EU and the USA, goods trade as of 2024 and services trade as of 2023, in Bn. Euros



Quelle: Eurostat, Commerzbank-Research

A bigger response would be to impose counter-tariffs on reciprocal tariffs. The European Commission has already presented member states with a list of imports worth €90 billion for approval. The range of goods affected is correspondingly broad, extending from other food products to electronic goods and machine parts. The European Commission does not want to place too much strain on its own economy by excluding important, hard-to-replace intermediate goods as far as possible. However, given the long list, it is unlikely to succeed in doing so completely.

The final stage of escalation consists of activating the so-called Anti-Coercion Instruments (ACI). Once economic coercion by a third country has been established, the relevant EU law gives the European Commission, after consultation with the member states or the European Council, a wide range of instruments at its disposal. These include restrictions on imports and exports of goods and services, the removal of protection status for American intellectual property, and restrictions on investments by US companies in the EU. In addition to export controls on important machine parts, specialty chemicals, and pharmaceuticals, selective taxation of American tech companies would also be possible. Commission President von der Leyen has brought the latter into play several times. Since the United States has a surplus in service exports to the EU and the big internet companies maintain good relations with the White House, taxation of service providers could have a sizeable impact.

### Can individual EU countries stop the countermeasures?

The EU's position in the negotiations is weakened by the fact that individual EU member states are unlikely to support an escalation. However, they have only limited options for stopping the European Commission's countermeasures. This is because the EU Commission has sovereignty over foreign trade policy, and there are already various laws at EU level that precisely define the EU's powers to take necessary countermeasures. However, depending on the scope of the countermeasures, the member states have a say in the matter:

Only the counter-tariffs on steel and aluminum in the first stage of escalation could be introduced immediately and without additional voting. This is because the tariffs from 2018 were merely suspended and the new tariff list for this year has already been agreed by the member states. It is noteworthy that there was unusual unanimity in this vote, with only Hungary voting against.

In the case of new measures, the involvement of the member states will depend on how severe the interventions are considered to be. Minor adjustments to trade policy can be introduced immediately by the EU Commission. However, new counter-tariffs on US imports worth €90 billion on the new tariff list are measures with "potentially significant consequences" on which member states have a say. However, either 14 countries or countries representing 65% of the population (a qualified majority) would have to vote explicitly



against these tariffs in order to stop them. An alliance between Hungary and Poland would therefore need to find a few more allies to prevent these measures from being implemented. As this tariff list is also already in the voting process, it is likely that these measures could also be implemented at short notice.

The same voting rules apply to the anti-coercion instruments: they can also only be stopped by a qualified majority. However, a country such as Hungary could delay the process. This is because, in this case, up to six months are allowed for member states to respond to the European Commission.

## **Agreement more likely than escalation**

We still believe that successful negotiations between the EU and the US are more likely than an escalation similar to that between China and the US. Ultimately, Donald Trump sees himself as a “deal maker,” and the United States also has a lot to lose in a trade war with the European Union. Should an escalation occur nonetheless, the EU is likely to quickly impose counter-tariffs. In the event of an escalation, the EU may also focus on taxation of US tech companies. Although individual states could slow down this process, they would be unable to stop it. The fact that the member states have taken a surprisingly unified stance on trade policy in recent weeks also suggests that the EU will respond quickly.



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This report was completed 6/6/2025 07:21 CEST and disseminated 6/6/2025 07:21 CEST.

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