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EU-US Trade Deal:

Strategic Assessment and Macroeconomic Implications

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Context and Key features of the Agreement

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- A last-minute framework deal between the EU and US avoids an escalation from 30% tariffs to a **flat 15% tariff on most EU exports to the US**.
- Main components:
  - **Tariffs**: 15% on cars, pharmaceuticals (scope unclear), semiconductors.
  - **Exemptions**: aerospace, some chemicals, selected luxury goods.
  - **EU commitments**: **USD 750bn in energy purchases over 3 years** (oil, LNG, nuclear) and **USD 600bn in additional investments in the US**.
- Presented as "stability and predictability" by EU leaders, yet the structure is heavily asymmetric and politically charged.

Our View: The EU secured short-term stability but at a high strategic cost, setting a precedent for managed trade rather than genuine free trade.

Areas of major uncertainty

- **Pharmaceutical tariffs**: conflicting messages between Washington and Brussels.
- **Steel and aluminum**: tariffs remain at 50%, with vague mention of quotas.
- **Wine, spirits, cosmetics**: exemptions pending clarification.
- **Energy and investment pledges**: no clear enforcement or financing mechanism.
- **Timing and implementation**: no binding text, only public statements.

Our View: Reduced immediate uncertainty, but lack of clarity raises business and legal risks, undermining credibility on both sides.

Energy commitments: unrealistic and contradictory

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- EU pledge: **USD 750bn over 3 years** → USD 250bn/year.
- Current reality:
  - Total EU energy imports (2024): USD 435bn.
  - US share: USD 75bn → would require **3.3x increase in value**.
- Physical bottlenecks: US LNG export capacity (~120 Mt/year) cannot support this pledge without new multi-year investments.
- **Inconsistent with EU climate agenda** (Fit-for-55, Green Deal).

Our View: A political signal rather than an actionable target. Full implementation would undermine Europe's decarbonization goals and strategic autonomy.

Macroeconomic impact for Eurozone

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- **Effective tariff jump**: from ~2% to 15%.
- Eurozone GDP impact (2025): ~ **-0.2 pp compared to baseline** (direct effects, might be more severe) with **Germany**: -0.5% (auto sector hit hardest), **France/Italy**: -0.2% GDP, **Spain:** -0.1%.
- Sectoral exposure: **automotive, cosmetics/beauty, pharmaceuticals, machinery**.
- Indirect effects: persistent uncertainty → drag on investment.

Our View: Headline GDP losses look moderate, but sectoral asymmetries and confidence effects could magnify the economic cost.

Strategic and political dimensions

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- **Loss of leverage**: EU failed to capitalize on its market power; conceded without extracting reciprocal benefits.
- **Contradictions**:
  - Green Deal vs fossil energy lock-in.
  - EU industrial policy vs USD 600bn pledged to US investments.
- **Geopolitical trade-off**: deal seen as implicit price for maintaining US security guarantees, especially on Ukraine.
- **Precedent risk**: confirms that tariff threats are effective; invites repetition.

Our View: This is more than a trade deal; it signals Europe's structural weakness in strategic bargaining and its dependency on US security guarantees.

The Bigger Picture: Trump’s trade doctrine

- US tariff regime now at **17.3% on average** – highest since the 1930s.
- **Bilateral, transactional, coercive approach** replacing multilateralism.
- Objective: reindustrialization of the US and increased strategic leverage over allies.
- Implication: **global trade fragmentation accelerates**, WTO rules further eroded.

Our View: The EU-US agreement is not an end point but a template for Trump’s second-term trade regime, posing systemic challenges to global trade governance.

What Europe should do (but likely won't)

- **Strengthen strategic autonomy**: leverage the EU's internal market to negotiate from a position of strength rather than accepting asymmetric deals.
- **Accelerate industrial policy**: reduce reliance on US defense and fossil fuels, scale up domestic clean tech, and secure critical supply chains.
- **Build a coordinated trade front**: forge alliances with like-minded partners (UK, Japan, Canada) to counterbalance US coercion and maintain multilateral rules.
- **Reassess energy commitments**: replace vague LNG promises with realistic, diversified procurement aligned with the Green Deal.
- **Institutional reform**: overcome intra-EU divisions that weaken bargaining power and slow decision-making.

Why this is challenging:

- Diverging national interests (e.g., Germany vs France on energy and defense).
- Short-term political cost of resisting US pressure amid security dependencies.
- Limited capacity to deploy rapid fiscal and industrial support compared to the US.

Our View: Europe faces a structural dilemma: the need to act strategically vs political fragmentation and reliance on US security guarantees. This imbalance will persist unless structural reforms are prioritized.

Any questions?

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