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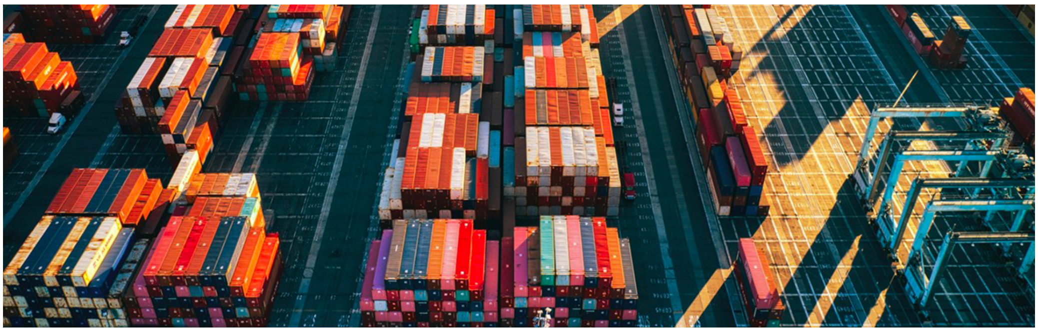
The clock is ticking on EU-US trade negotiations



The July 9 deadline by which US trading partners must have reached a trade deal with the US to avoid the “reciprocal” tariffs announced on “Liberation Day” is on the doorstep. Most of the 90-day pause passed with few discussions between the EU and US until President Trump lit a fire under negotiations when he threatened to impose tariffs of 50% on EU imports.

Now, while negotiations are ongoing, the EU is equipping itself with a long list of retaliatory tariffs, to be implemented if a deal is not reached.

Tariffs facing the EU

The EU already faces US tariffs of 50% on steel and aluminium, 25% on cars and car parts, and a baseline tariff of 10% on most other goods. If no deal is struck, it could face an additional 20% of “reciprocal” tariffs on top of these.

Should this come to fruition, the EU is preparing to impose retaliatory tariffs on US goods and services in an attempt to rebalance the trade relationship.

What would an EU retaliation look like?

The EU's ideal scenario would, of course, be for the US to impose no tariffs, thus eliminating the need to impose retaliatory tariffs altogether. However, based on the trade negotiations between the US and the UK, it is likely that the US will maintain at least a 10% tariff on all imports, regardless of the outcome of the negotiations. This would be seen as an “unfair” deal, likely triggering retaliatory measures.

In April, EU member states quickly approved a package of levies of up to 50% on €21 billion worth of American goods in response to Trump's "reciprocal tariffs". These tariffs were later put on hold during the 90-day negotiation pause. Another package is now being discussed on €95 billion worth of US goods that could come into place if negotiations fail. It includes tariffs on cars and parts, aircraft, wine and other food products, as well as US tech companies. The package could also limit American companies' access to public procurement contracts.

What impact would these tariffs have on the US?

The main goods imported by the EU from the US in 2024 were petroleum oils (crude), medicinal and pharmaceutical products, and engines and motors (non-electric), the last of which are currently under threat of retaliatory tariffs.

The bloc imported around €18 billion worth of aircraft and associated equipment from the US, meaning that the proposed tariff on aircraft could hit the US industry hard.

However, the EU's most powerful retaliatory tool is not tariffs on US goods, but services. While the EU had a trade surplus with the US in terms of goods in 2024, it had a trade deficit in terms of services. Therefore, if a "no deal" scenario was to occur, one option for rebalancing could be to target the dominant American tech industry. The proposed tax on digital advertising would greatly impact the largest US blue chip companies that generate significant income through digital ads. Unlike the digital sales tax, which is imposed by each member state individually at different rates, the tax on digital advertising would be applied across the single market.

This would significantly impact US tech companies, which currently have a strong market presence in the EU, where, in recent years, digital advertising has been a €100 billion business. Implementing this tax would likely be seen as rectifying an "unfair" business arrangement, at least according to the EU.

It would, however, risk retaliation from President Trump, who recently announced that he was ending trade negotiations with Canada over a digital services tax, which was subsequently rescinded to ease trade discussions with the US. Trump has already expressed frustration concerning the EU's Digital Markets Act and Digital Services Act, under which major US tech companies have been fined in recent years. Nevertheless, the EU has made it clear that these pieces of legislation are not up for discussion.

Will all these tariffs be implemented if there is no deal?

With different member states having different priorities, disagreements about which tariffs should be implemented and which sectors should be exempted are inevitable. After all, tariffs not only penalise the country on which they are imposed, but also businesses in the imposing countries that wish to import the affected goods and services.

The tariff package approved in April was reduced from an initial proposal of €26 billion following complaints from France and Italy, among others, that targeting US whisky and wine could lead to significant retaliation from the US — something the countries producing alcohol were keen to avoid. The same issues will undoubtedly arise when the EU finalises the retaliatory tariffs it will impose on the US in the event of a “no-deal” scenario. Member states are already lobbying for exemptions for their most important industries. Ireland has asked for exemptions for aircraft, medical equipment and certain food products, while Belgium has managed to keep diamonds out of the cross hairs.

Conclusion

As the trade negotiation deadline looms, many trade partners are rushing to appease President Trump in hopes of securing a tariff rate lower than the one announced on April’s “Liberation Day.” The EU is standing firm, seemingly unwilling to accept a baseline 10% tariff on all US imports as a “fair deal.” It will, nevertheless, need to balance the need to defend its economic interests in the trade negotiations against the potential fallout of retaliatory tariffs that could destabilise already fragile economic activity. However, as demonstrated by the past, a lot can change before the deadline is reached, including the deadline itself.

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