Tomorrow's Affairs
Analysis of today
Assessment of tomorrow

By: The Editorial Board

Trump and Europe—an agreement under pressure and without guarantees

The President of the United States of America, Donald Trump, and the President of the European Commission, Ursula von der Leyen, met in Turnberry, a town on the southwest coast of Scotland, on 27 July to try to avoid an open trade war between the two largest Western economies.

The meeting, which took place at Trump's private resort, was billed as informal but resulted in a political agreement in less than two hours that averted the announced 30 per cent tariffs on European exports to the US.

Shortly before the meeting, Trump had publicly threatened to impose tariffs of 30 per cent on almost all imports from the European Union, stating that the EU "has taken advantage of America for decades through unfair trade."

The European Union had previously proposed a reciprocal model of zero tariffs on industrial products along the lines of the stalled TTIP (Transatlantic Trade and Investment Partnership) negotiations, but Trump rejected such an approach and demanded concessions on energy and investment.

The agreement stipulates that the USA will introduce a 15 per cent tariff on most European industrial products, including cars, machine parts, and some pharmaceutical products. Although this rate is only half as high as announced, it is still a considerable burden for European exporters.

For some strategic sectors, including aircraft parts, semiconductor equipment, generic medicines, certain chemicals, and selected (restricted and negotiated) agricultural products, zero tariffs have been agreed upon by both sides.

The biggest deal ever made?

A key part of the agreement concerns the European Union's commitments outside the customs regime. The EU has committed to purchase at least $750 billion worth of US energy products over the next three years. This amount includes LNG, oil, and enriched nuclear fuel.

In addition, European companies have committed to investing around 600 billion dollars in the US economy, some of which will go towards the purchase of US military equipment.

> "Biggest deal ever made" - Donald Trump

Immediately after the meeting, Trump said that this was the "biggest deal ever made", saying that European companies "will pay more and American workers will finally have fair conditions." Von der Leyen was much more reserved. She said that the agreement was "far from ideal but necessary," and the EU had done everything it could to protect its strategic sectors and stabilise the market.

Reactions in Europe were divided. In Brussels and Berlin, the absence of a tariff war was welcomed, but several political groups, including the Greens and some of the European Social Democrats, labelled the agreement as "asymmetric" and a "capitulation under pressure".

In Paris, the French Finance Minister openly stated that "French industry will suffer multiple losses" if the energy and tariff commitments remain in their current form.

Uncertainty about the impact

The macroeconomic impact of the agreement is currently still limited, but the medium-term consequences will be serious. In the United States, a 15 per cent tariff will exert additional inflationary pressure on sectors that rely on European components.

American economic experts estimate that the consumer price index could rise by an additional 0.3 to 0.5 per cent in the autumn, depending on the structure of imports.

> Uncertainty about the impact of the energy commitments resulting from the agreement with the US

> Europe could be increasingly confronted with demands for concessions in exchange for stability

The European Central Bank has already signalled that it will not lower interest rates in the next two quarters, even though inflation has stabilised at around 2.2 per cent. The reason for the caution is precisely the uncertainty about the impact of the energy commitments resulting from the agreement with the US. If US LNG prices rise, this could put further pressure on energy-intensive sectors in Europe, particularly in Germany, Italy, and Poland.

The agreement means different things for the business community. American exporters gain stable access to the European market in strategic sectors without customs barriers. European exporters, on the other hand, have to face additional costs and the risk of losing their competitiveness on the American market.

German car manufacturers, French pharmaceutical producers, and Italian mechanical engineering companies have already announced that they will review their export strategies and possibly relocate production to third countries.

Bought peace or postponed trade crisis?

The regulatory framework for the agreement has not yet been finalised. It is a political agreement that must be ratified by both the European Parliament and the parliaments of the member states. The rejection of the agreement in Germany and France could lead to calls for further changes.

In the United States, several trade organisations and legal institutions have announced lawsuits against the administration for possible violations of international trade laws and overstepping the powers of the president.

The question arises as to whether the European Union has bought peace with this agreement or merely postponed a deeper trade crisis. Formally, an escalation was avoided. Essentially, the EU has committed to high costs without having any mechanisms in place to guarantee that the US will honour the tariff regime in the future. In the past, the Trump administration has shown a preference for unilateral measures without consulting its partners.

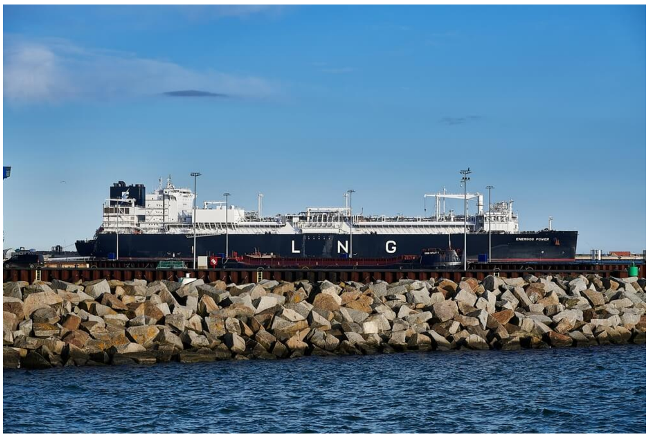
At the strategic level, the Turnberry deal confirms the long-term trend of shifting the weight of transatlantic relations from the multilateral framework to bilateral agreements. This reduces the EU's room for manoeuvre as a collective actor and sets a precedent for future negotiations with China, India, or the Persian Gulf states.

If Europe does not manage to regain some of its regulatory autonomy in the coming period and build mechanisms of reciprocity in trade, it could be increasingly confronted with demands for concessions in exchange for stability.

Time gained or strategic loss?

Although the Turnberry meeting achieved an immediate goal—avoiding a trade war—its deeper implications could exacerbate the imbalance in transatlantic economic relations. America has won a tangible gain—tariffs that protect its industry and commitments on investment and energy.

In reality, Europe has only gained time. Time is a limited resource. If the EU does not take concrete action in the next six to nine months, this time will be wasted capital with serious consequences.



More than 46% of total LNG imports into the EU will come from the US

According to the latest data from the European Commission from July, more than 46% of total LNG imports into the EU will come from the US. The Turnberry deal institutionalises this dependency.

The EU has committed to buying at least 750 billion dollars worth of energy products from the US over the next three years. If Europe does not diversify its supply through new contracts with Qatar, Norway, or Algeria, its negotiating position will be threatened by the possibility of the US dictating the terms, be they price or political, in times of volatile global energy prices.

Diversification means not only finding alternative suppliers but also building infrastructure, establishing legal regulations, and creating political capacity for stable energy imports from different sources.

When it comes to the competitiveness of European exporters, the situation is equally urgent. The 15% tariff on industrial products from the EU to the US is having a negative impact on the automotive, pharmaceutical, chemical, and high-tech industries.

An analysis published on 24 July by the German IFO Institute reveals that almost 30% of German companies have postponed planned investments in the US, while 15% have cancelled those investments due to the uncertainty created by US tariff policy.

The metal processing and mechanical engineering sectors are reporting the greatest pressure. The negative impact is also reflected in domestic investments in Germany, which are affected by postponement or cancellation, while more than 60% of companies state that they feel adversely affected by US tariff policy.

Similarly, the French economic institute CEPII has warned that aerospace and pharmaceutical companies are considering relocating parts of their production to the US to avoid the cost of the 15% tariff.

Both institutions refer to the same "window": six to nine months is the critical time for the EU to introduce tax incentives for exports, improve the supply chain, and secure market access through new agreements or subsidies. If this does not happen, the losses could become permanent.

If Europe does not use this "window" to make structural adjustments, the "time gained" may turn into a strategic loss. Not a dramatic economic collapse, but a gradual erosion of competitiveness, rising costs for consumers and industry, and increasing political dependence. These effects would not be due to a single tariff but to the loss of regulatory and industrial sovereignty.