What the new US-EU trade agreement really means for Europe

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A trade agreement between the European Union and the United States was announced on 27 July 2025 in Turnberry, Scotland. The key points of the agreement are as follows:

- US tariffs on EU imports will be set at 15%, with certain sectors, such as steel, aluminium and copper, facing tariffs of 50%. According to European Commission president Ursula von der Leyen, the 15% tariff will also apply to cars and semiconductors, as well as pharmaceuticals, while aircraft and parts will be exempt. EU steel and aluminium exports will be subject to a quota system that will replace the current 50% tariffs, although the specific details have yet to be clarified.
- The EU has committed to purchasing USD 750 billion worth of US energy exports over the next three years, up from approximately USD 100 billion annually at present.
- Additionally, the EU will invest USD 600 billion in the US energy sector and increase its procurement of US-made defence equipment.
- The EU will not impose retaliatory tariffs for the time being.

This agreement brings a degree of stability to transatlantic trade relations, helping businesses avoid the disruption of a tit-for-tat trade war. In the lead-up to the deal, the US administration had warned that, without an agreement by 1 August, it would impose 30% tariffs on European goods. The EU was expected to respond in kind, potentially sparking a large-scale trade conflict between two of the world's largest economic blocs.

The devil is in the details

One notable win for the EU is the reduction of US tariffs on car exports from 25% to 15%. However, several aspects of the agreement remain vague. For example, the specific product categories eligible for zero tariffs have not been outlined, nor have the details of the quota system for steel and other metals. The expected tariffs on pharmaceuticals are also uncertain, pending the outcome of a US national security review, but we do not expect the duties on European exports to exceed the announced 15%.

Further negotiations will be required in the coming weeks or months, which could introduce new volatility. Oversight mechanisms and penalties for non-compliance have not yet been defined, and it remains unclear whether the agreement will be subject to periodic review. While some commitments have reportedly been made by US officials, the final decision is likely to rest with President Donald Trump. As a result, the risk of future tariff increases cannot be ruled out.

Business uncertainty remains

Uncertainty for businesses and investors remains high, which is likely to weigh on capital expenditure in the near term. The current agreement does not appear to provide enough clarity for companies to make major investment or hiring decisions.

There are also risks associated with the EU's energy purchase and investment commitments. Eurpean Commission president von der Leyen stated that the USD 750 billion target would be spread over three years. However, given that current purchases are below USD 100 billion annually, this goal appears highly ambitious. While this may not pose an immediate issue, it could lead to renewed trade tensions in the future.

No major revision to economic growth forecasts

We continue to forecast eurozone GDP growth of 1.1% in 2025 and 0.8% in 2026. Although the effective average tariff rate will rise to above 15%—five percentage points higher than our previous assumption of 10%—this is partially offset by lower tariffs on cars and a modest increase in certainty. There may be a slight improvement in the investment outlook, which could soften the expected contraction next year.

The US is the EU's largest trade partner, accounting for over 20% of goods exports. Any additional frictions to trade have a negative impact on the EU economy. The current deal will cost 2.5% of EU goods exports by end-2027 (compared to our March baseline).

Although the agreed tariffs are lower than those applied to some other US trading partners such as Brazil and China, many European products may still struggle to remain competitive under the new framework. A permanent 15% tariff on most EU exports to the US would effectively raise the price of these goods by a similar margin. According to Oxford Economics, this price increase would reduce US demand for EU exports by between 1.5% (for French and German goods) and 4.8% (for Italian and Spanish goods).

Could other markets replace US demand?

The EU continues to pursue trade agreements beyond the US, but these are unlikely to fully offset the impact of reduced access to its largest export market. Currently, the EU is negotiating or finalising agreements with Chile, India, Indonesia, Mexico, the Philippines, and Mercosur (which includes Brazil and Argentina as its largest economies).

Stronger trade ties with these countries would certainly be beneficial and could provide a modest boost to European exports. However, the relatively small size of these markets means they are unlikely to compensate for a drop in US demand. EU exports to these regions amount to roughly 35% of those to the US, so the new trade deals would need to be about three times as effective in stimulating demand as US tariffs are in reducing it. Moreover, negotiating meaningful trade agreements takes time. The World Economic Forum estimates that it can take, on average, about 18 months to agree a deal, with implementation typically taking a further 24 months.

Lower sales prices as a solution?

One option for European exporters to tap into new markets is to lower their prices compared to competitors. However, this may prove challenging due to existing price differences. Over the past decade, European export prices have generally kept pace with those in the US but have outpaced countries like China, where production costs are significantly lower. This makes it harder for European firms to enter new markets or grow demand by competing on price alone. In many cases, substantial price cuts would be needed.

Yet, demand for European exports—even outside the US—is relatively unresponsive to price changes. Any discounting aimed at improving competitiveness would likely increase pressure on businesses, many of which are already facing tight profit margins.

No certainty for the future

While the EU-US trade agreement offers some reassurance, it doesn't provide long-term certainty, particularly for the EU. The outcome reflects the current political and economic balance of power. From the outset, the EU's negotiating position was weakened by its reliance on the US for security, a dynamic that's unlikely to change soon. This is especially clear in the EU's decision not to impose counter-tariffs.

To strengthen its position in future negotiations, the EU needs to invest in its economic, technological, and military resilience. Economically, this means boosting intra-EU trade and reducing dependence on imports from outside the bloc.

Medium-term credit risks loom as tariffs tighten margins

While no immediate impact on trade credit risk is expected, negative effects could arise over the medium term as a result of the agreement. The introduction of higher tariffs may squeeze profit margins and reduce the competitiveness of certain companies. These effects are likely to develop gradually, vary significantly between businesses, and take time to materialise. Tariffs will particularly affect financially weaker companies, increasing their trade credit risk. However, it's unlikely that tariffs alone will lead to insolvency. Credit insurance will play a crucial role in supporting businesses as they explore new markets and manage the credit risks within their customer portfolios.