BETWEEN UNCERTAINTY AND COERCION: THE EU'S 'LEAST BAD' TRADE DEAL WITH TRUMP'S AMERICA

by
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The Trump administration's August 7 tariffs have officially taken effect. After four months of shifting deadlines and opaque negotiations, some clarity is finally emerging–at least on paper. Instead of "90 deals in 90 days," the world saw sweeping unilateral U.S. tariffs and only eight confirmed agreements, one of them with the European Union.

Controversial from the onset, the July 27 deal has faced criticism even from reluctant supporters. Brussels and Washington quickly sparred over its terms, analysts questioned its viability, and some declared it dead on arrival. Yet despite its flaws, it serves a strategic purpose while raising questions about the precedent it sets and its political costs.

The Least Bad Option?

European governments' reactions ranged from dejected to openly negative. Having resigned themselves to accepting then standard 10 percent baseline tariffs as the new normal, the threat of 30 percent—before settling on 15—was a harsh blow.

Spanish Prime Minister Pedro Sánchez backed the deal but "without any enthusiasm," while German Chancellor Friedrich Merz warned it would cause "significant damage" to the German economy, albeit feeling that more "simply wasn't achievable." Italian Prime Minister Giorgia Meloni stressed the stability offered over a no-deal scenario, even as she acknowledged much remained unresolved. Across the free-trading Nordics, views were similarly cautious; Swedish Trade Minister Benjamin Dousa called it "the least bad alternative." In contrast, Hungary's Prime Minister Viktor Orbán captured sentiments in the broader far-right by saying "Donald Trump ate [Commission President Ursula] von der Leyen for Breakfast." And French Prime Minister François Bayrou called it a "dark day when an alliance of free peoples … resigns itself to submission," criticizing the Commission's failure to activate its prepared €93 billion retaliatory package.

Yet months earlier, Bayrou had lobbied to exclude alcohol from the retaliation, wary of U.S. backlash against France's embattled cognac sector. Others sought carve-outs as well, neatly capturing Europe's dilemma: a need for unity outweighed by reluctance to take political risk.

More Questions Than Answers

At the July high-level meeting in Scotland, Commission President von der Leyen echoed President Trump's call to address an "imbalance" in trade relations. Publicly fact-checking Trump is politically risky, but that framing glossed over reality: while Europe runs a sizeable goods surplus with the U.S., it also runs a substantial deficit in digital and services trade, leaving overall trade flows broadly balanced. EU officials have long reiterated this point—conspicuously absent from the joint press conference.

Also absent were references to the deal's asymmetry. Before Trump's April tariff surge, U.S. duties on EU goods averaged 1.35 percent; the EU's most-favored nation tariffs on U.S. goods were similarly low—approximately 1 percent according to the Commission and 4.8 percent according to the WTO. Under the new deal, EU exports face a "single, all-inclusive" U.S. tariff ceiling of 15 percent, with some exceptions, quotas, and carve-outs for strategic products, including a still-in development "metals alliance." By contrast, the EU will eliminate its industrial tariffs and grant U.S. producers better access in fisheries and select non-sensitive agriculture goods.

Such "reciprocal tariffs" often bear little relations to actual tariff rates or trade deficits. Instead, they reflect President Trump's shifting motivations and politicized targeting, ranging from power politics to interference in judicial and foreign policy matters. India—but not Turkey or China—received higher tariffs for buying Russian energy, despite trading

less overall with Russia than the EU. Brazil, despite importing more from the U.S. than it exports, faced a 50 percent tariff explicitly tied to Trump's disapproval of its social media regulations and the Supreme Court's prosecution of former President Jair Bolsonaro. Canada's tariff rose from 25 to 35 percent after Ottawa's support for Palestinian statehood was deemed a red line.

Critics worry that the Commission could retreat from its pledge that EU legislation is "non-negotiable" when talks turn to non-tariff barriers. The Commission's insists there is "absolutely no commitment on digital regulation, nor on digital taxes," but already faces pushback from both U.S. Commerce Secretary Howard Lutnick and a State Department's lobbying campaign targeting the EU's Digital Markets Act. Doubts also surround Trump's headline pledges—most notably that the EU will deliver $600 billion in investments in the U.S. and purchase $750 billion in American energy through 2028. Yet, Brussels is not Beijing and cannot direct private capital at will; the Commission describes these as expressions of interest by EU companies, not binding commitments. For all the White House's references to a "U.S.-European Union Agreement," this is a symbolic political arrangement that serves as a framework for future talks rather than a legally enforceable deal.

Moreover, while the EU Commission could pool some demand through its Aggregate EU joint purchasing platform, energy experts widely consider the $750 billion energy import pledge unrealistic. The annualized figure of $250 billion is roughly three times the EU's 2024 energy imports from the U.S. and accounts for three quarters of the U.S. total energy exports that year. Current infrastructure, U.S. supply, and EU demand all far short of supporting such a surge. Despite Commission assurances that the deal aligns with climate neutrality goals, environmental groups warn it could lock in new fossil fuel dependencies—especially since fossil and nuclear energy contracts often involve long-term contracts.

A Deal "Dead on Arrival"

Due to its many ambiguities and diverging interpretations, European Policy Centre (EPC) analysts Riekeles and Folkman declared the deal dead on arrival, urging the Commission to withdraw before the "unstable interim accord" is cemented. Rather than guaranteeing trade stability, they argue, the deal merely kicks the can down the road, leaving the EU exposed to further coercion as it struggles to meet practically unattainable pledges.

In an August 5 interview, Trump clarified that tariffs would rise to 35 percent if the $600 billion investment pledge failed to materialize—on top of the existing annualized EU $100 billion investments. While the Commission insists pharmaceuticals fall under the 15 percent tariff ceiling, Trump also floated plans for a "small tariff" that would rise incrementally to 250 percent. Instead of centralizing U.S. drug price negotiations, his administration has taken issue with Europe's lower, state-negotiated drug prices, demanding that companies raise their EU prices to subsidize them in the U.S.

Beyond the deal's inability to decisively end the trade war, critics advance two further concerns. First, by endorsing Trump's rebalancing narrative, the deal does "incalculable damage" on the EU's international credibility as a defender of rules-based trade, effectively abandoning its right to challenge tariffs at the WTO. That loss of credibility will not only reverberate across the EU's other trade disputes but also risks tethering the EU more closely to the U.S. than member-states may prefer. Second, the EU missed a crucial opportunity to coordinate resistance alongside other major economies—a failure captured by one EU diplomat's cynical observation: "Those who don't hang together get hanged separately."

This failure to push back left many governments scrambling to avoid being singled out, but the U.S. economy is less insulated than it appears. While the AI-driven investment boom remained largely unaffected after Trump's first policy reversals following the April stock market crash—giving rise to the reductive "TACO" trade moniker (Trump Always Chickens Out)—the real impacts on the U.S. economy are starting to surface. Despite Trump's attacks on the Federal Reserve and politicized dismissal of the

Bureau of Labor Statistics Commissioner, official data points to rising inflation and worsening jobs numbers since May.

Stocks built up by importers temporarily ahead of expected tariffs hikes are likely running down. With average tariff rates now stabilizing at the highest levels since 1934 rather than decreasing, U.S. retailers face growing pressure to pass higher costs on to consumers instead of absorbing them to protect market share. Meanwhile, fluctuating tariff rates complicate long-term investment and hiring decisions, especially since these unilateral tariffs and so-called "trade deals" yet lack legal clarity and can be reversed at political discretion.

This uncertainty is compounded by stagflation fears and Trump's attempts to pressure the Federal Reserve into lowering interest rates, echoing Turkish President Recep Tayyip Erdoğan's five-year experiment with unorthodox interest rate policies that fuelled 75 percent inflation in 2024.

Why Agree to It Then?

Despite the handshake deal's many flaws, the EU Commission has pushed ahead—for now. The strategic logic appears to invert the old Brexit mantra: "No deal is better than a bad deal." Even considering Trump's history of reneging on trade commitments he himself negotiated, striking a deal offers at least a minimal, if fragile, framework for future negotiations. With the U.S. continuing its eight-year blockade of the WTO's Appellate Body, there is no effective rules-based recourse to resolve disputes aside from escalating to a trade war.

Brussels also faces other pressing considerations. EU trade chief Maros Šefčovič called it "clearly the best deal we could get under very difficult circumstances," emphasizing it was "not only about the trade - it's about security, it's about Ukraine." However unworkable or humiliating the deal may be, transactionally appeasing Trump shortened his 50-day deadline for Russia to show progress in Ukraine peace negotiations to 10 days.

Commission officials, noting the "ball is in the U.S. court now," may hope this buys time to reshape the deal's terms later—ideally after a peace agreement in Ukraine or the 2026 U.S. mid-terms, with an eye to the next presidential race and the tariff's domestic economic impacts. Yet, in the meantime, they must contend with growing backlash within Europe. While the Commission could technically sideline the EU Parliament in ratifying a hammered-out deal, doing so would require an unlikely unanimous EU Council and risk alienating von der Leyen's own EPP Group, which has condemned the 15 percent baseline tariff's "blatant breach of WTO principles."

This may prove the deal's greatest cost. As LSE Associate Professor Robert Basedow argues, the real costs are likely political rather than economic. Compared to other U.S. trading partners, the EU's interim deal may not be the worst—unlike the precedent it sets. Having failed mount a challenge to the tariffs, the EU may now bear the "long-term costs of protectionism, coercion and degradation of global economic governance institutions." As EU security and legislation become increasingly linked with trade in Trump's narrative—after precisely working out European capitals' pain thresholds—he or his successor may soon seek to wield this leverage again.

The European Central Bank found in April that nearly half of euro-zone consumers expressed a willingness to shift spending away from U.S. products if European counterparts faced new tariffs, irrespective of the rate. With U.S. approval ratings in Europe already plummeting before the summer, these sentiments could create a potent cocktail of political pressure in future European elections.

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