

Lessons from the EU-U.S. Trade Agreement

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On July 27, European Commission President Ursula von der Leyen and U.S. President Donald Trump struck a framework agreement on a new baseline tariff of 15% for EU goods exported to the U.S.

The deal is expected to bring temporary relief to a volatile phase in transatlantic relations. It is intended to avoid the imposition of 30% U.S. tariffs on EU exports and reciprocal measures targeting close to \$100 billion in U.S. goods in August.

Triggered by a series of tariff threats and potential retaliations, the process has exposed significant tensions within Europe's trade policy apparatus. While trade is one of the most integrated policies led by the European Commission, recent months have revealed conflicting priorities among key European Member States and a lack of preparedness in Brussels for difficult negotiations.

What We Have Now: What Is Included in the Framework Agreement

The 15% rate applies across most sectors, including cars, semiconductors and pharmaceuticals. However, President Trump stated that investigations were still underway regarding pharmaceuticals and semiconductors.

There will also be exemptions for strategic products, such as all aircraft and component parts, certain chemicals, certain generics, specific agricultural products, natural resources and critical raw materials. A 50% tariff will be maintained on aluminum and steel, but both sides said they would work jointly to limit global overcapacity.

In additional concessions, the EU agreed to buy \$750 billion worth of U.S. energy, \$250 billion per year between 2026 and 2028. President Trump also announced that the EU had agreed to invest \$600 billion in the U.S. and to purchase hundreds of billions in military equipment. However, Brussels later clarified that these projects ultimately depend on decisions by private companies and national governments regarding investments and defense, respectively.

How We Got Here: What Contributed to an Underwhelming Outcome for the EU

The EU entered the negotiations with a strong preference for a rules-based resolution but had limited leverage. Initial hopes for a technical deal were overshadowed by President Trump's involvement in trade issues. The EU's approach shifted multiple times, alternating between concessions and a hardline stance. This reflected internal divisions and the challenge of dealing with the sometimes conflicting objectives of the U.S. administration.

The Commission repeatedly reiterated the EU's commitment to dialogue and warned Member States early on that a 10% reciprocal tariff could be a realistic outcome. Yet, Member States resisted settling early, hoping to avoid tariffs altogether. The rapid deal secured by the UK, with a 10% baseline for most goods, was initially criticized by Brussels as conceding too easily to U.S. pressure but ultimately raises the question of whether the EU's more technical approach remains fit for purpose.

Looking Ahead: Nothing Is Finalized Until Everything is Finalized

Despite the EU's struggle to keep pace, the talks are unlikely to significantly reshape how Brussels handles uncertain, fast-moving and politically charged negotiations, largely because the Commission's trade department (DG TRADE) is difficult to reform. Some leadership changes can be expected in the coming months, but no major overhaul is currently planned.

Reactions from European capitals have been mixed. Berlin expressed relief at the reduced rate of 15% applied to EU automobile exports, down from 27.5%. Rome has also hailed the deal as a positive step in transatlantic relations. However, France is calling for the EU to complement what it describes as an "unbalanced" agreement with measures targeting U.S. services, pointing to the \$110 billion deficit for the EU in that regard, compared to the \$200 billion surplus in goods.

This push from Paris to target services is unlikely to succeed, given that any move against the U.S. financial or digital sectors would likely trigger strong pushback from Washington, D.C., particularly regarding EU legislation such as the Digital Markets Act, which the U.S. administration has described as a non-tariff barrier to trade.

For now, the path forward remains uncertain. The coming days will be dedicated to interpretation and implementation, with associated risks. EU countries will then need to vote on the deal. The Commission is likely to secure approval unless major surprises emerge. On trade matters, the required majority stands at 65% of the European population, with at least 15 out of 27 countries voting in favor. The European Parliament will also need to be consulted once the deal is finalized.

Even with a framework in place, there is little confidence that the agreement will be the final word, given the volatility of the negotiation process and the perception that tariffs were used as a goal rather than as leverage.

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