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Humiliation over Trump tariffs pushes Europe to change course

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Donald Trump has got what he wanted: the European Union has given in on the thorny issue of tariffs, accepting a compromise that, while avoiding an open trade conflict, is an ignominious defeat. Ursula von der Leyen, President of the European Commission, attempted to soften the blow by presenting the agreement as a positive outcome and praising the 'negotiating skills' of the US leader. In short, those who are content are happy. True to form, Trump rubbed salt into the wound by praising the 'exceptional agreement' reached with Europe.

The agreement, signed on Sunday 27 July, prevents tariffs of up to 30% from coming into force on 1 August. However, the agreed tariffs are still around 15%, which is triple the previous level — a Pyrrhic victory for Brussels. Rather than face a trade war it would not have been able to sustain, Europe had to give in to a punitive compromise. Trump's rough and even crude approach has revealed a precise strategy behind the provocations and a "method" that is anything but ineffective. Europe has lost once again, showing the world its inconsistency and irrelevance — the classic clay pot among iron pots on the new multipolar geopolitical chessboard being redrawn before our eyes.

This European defeat largely reflects the Union's structural weaknesses: it is a bureaucratic, ideologically unbalanced, technocratic and internally cohesive body. Franco-German leadership has proved inadequate for sustaining a clash in negotiations with a powerful, united force such as the United States. Von der Leyen is therefore not solely responsible, but rather a Union that is incapable of speaking with one voice. Germany, in particular, has been severely affected. Having already been penalised by the cessation of low-cost Russian gas supplies and the hasty 'green' energy transition, it is now also suffering a severe blow to its exports to the United States, which have always been a key contributor to its trade surplus. The repercussions will also be felt in Italy, which is heavily integrated into the German production chain. While, France, which is less exposed in terms of energy and trade, is limiting the economic damage, but not the political humiliation.

The agreement provides for significant tariff increases in various sectors, with partial exceptions for the automotive sector, where previous tariffs were already as high as 27%. Tariffs on steel and aluminium remain high at 50%, and there is still uncertainty in the pharmaceutical sector. The details of the agreement are expected to be finalised in the coming weeks, but they are unlikely to deviate from the established margins. The US trade deficit with Europe, which stands at around $200 billion on goods each year while the US has a surplus of around $150 billion on services, highlights the scale of what is at stake.

From a macroeconomic point of view, the only positive is the removal of uncertainty, which is always the worst enemy of investment. However, the backlash will be inevitable for exporting economies such as Italy's. There is also a risk that European governments will succumb to the temptation to offset the impact with new public subsidies, thereby further fuelling the clientelist mechanism at the expense of taxpayers. The competitiveness of European exports will also be affected by the euro/dollar exchange rate. The recent depreciation of the dollar – by around 10% since the beginning of the year – will add to the impact of tariffs. Only a return to parity would be capable of partially offsetting the erosion of margins for European companies, although this would inevitably increase import costs, particularly energy costs.

The package also includes a commitment by Europe to invest $600 billion in the United States, although it is unclear who would make these investments. Furthermore, there are commitments to purchase US energy supplies and weapons totalling an estimated $750 billion over the next three years. Meanwhile, NATO's commitment to increasing military spending to 5% of GDP paves the way for a 'rearmament' plan that will primarily benefit the US arms industry. Europe, still unprepared, risks passively suffering this new wave of military-industrial *Keynesianism*. The only thing missing to complete the picture is a call for substantial investment in US public debt securities. Trump would thus have achieved a strategic 'clean sweep'.

Of course, tariffs also come at a domestic cost to the United States: they are a tax, albeit an indirect one, paid by businesses and consumers. Therefore, this is not why Trump's move can be considered a victory. The hope for the United States is that the tariffs will be revised downwards and removed as soon as possible. However, Trump has used them as leverage, as a 'weapon of negotiation', to force trading partners to comply with US demands. The aim is to rebalance the historically deficit trade balance (around $900 billion per year) and revive the struggling US manufacturing industry. In this sense, it must be acknowledged that Trump has achieved one of his key economic and financial objectives: to weaken Europe and reaffirm US leadership in the West. The agreement may be revised in the future, but in the meantime, it sets a precedent: trade relations are becoming a battleground for direct political confrontation, which can only increase global instability. Meanwhile, the United States is facing a growing budget deficit of over $500 billion each quarter, which partly explains the aggressive nature of its economic policy.

The European Union should use this crisis as an opportunity to review its policies, starting with its failed ecological transition, which risks leading to the deindustrialisation of the continent. Expensive energy, an absence of reliable, low-cost suppliers and rising military spending will make it increasingly difficult to sustain the competitiveness and purchasing power of European citizens. Paradoxically, the only relief is that Brussels has not imposed retaliatory tariffs, a decision made more out of necessity than virtue, but one that has avoided further burdening Europeans with taxes.

A drastic change of course in Brussels is now unavoidable. First, the Green Deal must be abandoned, and then radical deregulation must be implemented to restore momentum to economic systems currently stifled by excessive state interference. The EU's institutional framework must be urgently revised; otherwise, it will face a long and inexorable decline rather than immediate collapse.