

# Facing off Trump's coercive bargaining: Preparing Europe's response and retaliation to 'Liberation Day'

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Credit: BRENDAN SMIALOWSKI / AFP

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# Executive summary

President Trump's 'Liberation Day' tariff announcements must be understood not simply as a trade war but as an attempt to reshape the global economic system and to coerce partners into submission through a logic of coercive bargaining. On par with all other countries, Europe is a target and a prey to the US.

In this paper, we suggest that there are two fundamental aims the EU must pursue: taking leadership in salvaging the open economic order and increase its capacity to withstand coercive bargaining in defence of own interests.

We also consider what the US negotiation strategy entails. While Trump struck a considered 'madman' pose to frighten trade partners into making unfavourable deals, he also postponed the tariffs in response to the spectre of a market crash and credit crunch.

In the face of fundamental uncertainty, the EU's tightrope act consists of preparing to negotiate through the threat of retaliation but also preparing for negotiations to fail. We argue for holding off and buying time, letting the Americans reap what they sow, while preparing a vigorous "one date, one strike"-retaliation together with a term sheet for a reciprocal economic deal, making clear European red lines in any rapprochement.

We map out various tools and instruments the EU can avail of to push back against US trade aggression. The Union is not without means to fight back against Trump's coercive approach. The bloc's Trade Enforcement Regulation allows for a wide set of responses to the trade measures we are seeing from the US. Even more far reaching is the Anti-Coercion Instrument. Additionally, the EU can strike US services trade by tightening digital rules and addressing intellectual property and tax shifting. While increasing trade barriers with partners is a sticking point, the EU must also consider safeguard measures to protect European domestic industries from Chinese overcapacities and trade diversion.

Although unlikely at the moment, we also suggest further opportunities, such as pursuing economic security deals with the US. Along with like-minded partners, the EU could also take action to counter Trump, including reinvigorating ideas around a 'WTO 2.0'.

The gravity of the moment should not be lost on us. Europe faces the prospect of a fundamental shift in global economic flows and systems, along with the risk of an international economic crisis. Facing this onslaught will take effort, unity and collective action.

# Introduction

Europeans should make no mistake: President Trump's 'Liberation Day' tariff announcement is not a within-the-rules trade conflict. It was and continues to be a full-blown attempt both at rewriting the international economic order and coercing Europe and other trade partners into obedience. As one of the world's other two major trade blocks, the EU holds historic and international responsibility in stopping a complete unravelling of the

world economy. At the same time, the EU must understand the logic of Trump's *coercive bargaining*. In the first instance, the EU's tightrope act requires holding off, biding its time and letting the Americans reap what they sow, while readying the eventuality of vigorous EU retaliation. Trump has postponed the tariffs for 90 days, but we know now what his new administration is capable of, and must must prepare accordingly.

## 1. This is no ordinary trade war, it's economic revisionism and full-blown coercion

As Edward Luce writes in his 'Ten weeks that shook the world', brutality is now the point — Europeans would do well not to misread the antebellum and Trump's *casus belli*.<sup>1</sup>

President Trump's trade war, allegedly to reindustrialise his own country, is much more than that: it's an all-out attack on the global trading system, perceived by Trump as harmful and defunct, and a structured, coercive drive against America's trading partners. In this, the US 'Liberation Day' tariffs are characterised both by profound delusion and the determination to leverage US power and control to the maximum.

With his 2 April Rose Garden announcement, a minimum levy of 10% will apply to nearly all US imports from 5 April. Trump also makes good on his threat to impose sweeping "reciprocal" tariffs to rebalance perceived trade restrictions by trade partners, such as tariffs, taxes and subsidies, as well as so-called currency manipulation. For Europe this means tariffs as high as 20% as of 9 April, for Japan and China, 24% and 54% respectively.

At the news of the tariffs, world markets dived, intermittently swinging unpredictably at rumours of a reprieve from the 'Liberation Day'-measures. On April 9, Trump gave in, granting a 90-day pause on reciprocal tariffs for most trade partners – leaving China out in the cold. This development shows that while Trump may be radicalised this go-around, he is not invulnerable to external pressure.

Since taking office, President Trump has already rolled out 25% tariffs on steel, aluminium, cars and automobile parts, and threatened across the board 25% tariffs on all buyers of Venezuelan oil and gas. When the EU dared to push back against some of these, he threatened 200% retaliatory tariffs on EU wine and spirits.

Europeans who think this is a Mar-a-Lago protectionist monster to be tamed are not getting the message. The Americans will brook no indulgence, partnership or alliance with anyone. On the contrary, the message is 'Uncle Sam is coming for you'. The only thing able to faze Trump seems to be a US stock market crash and the

spectre of a credit crunch. On a par with previous targets Mexico and Canada, Europe is a prey to the US. For poorer, defenceless countries it will be even worse: if they've been hit in the first round by tariffs, it is because they will face extortion for natural resources or assets in the next.

The scale of this US Administration's capacity for cynicism and revisionism should come as no surprise. After all, it is negotiating Ukraine's partition with Putin's Russia and trying to loot the victim in the process.<sup>2</sup> It is drawing up new territorial designs in the Arctic and the Middle East, intentionally undercutting the international rules-based order as well as the fundamental interests and norms that constitute the West's backbone.

Without doubt, Trump's actions pose a serious challenge to Europe. As a block, the European Union is reliant on trade for a large chunk of its GDP, much of which is trade with the US. For trade in goods, the EU has a significant surplus with the Americans.<sup>3</sup>

As matters stand, transatlantic relations are already deep into coercive territory and will remain there for the foreseeable future. The Executive Order, '*Defending American Companies and Innovators From Overseas Extortion and Unfair Fines and Penalties*' takes direct aim at and threatens retribution against actions by the Union in competition policy and digital regulation.<sup>4</sup>

There have been repeated threats and intimidations that security and defence cooperation and NATO funding hang in the balance. The threat to the security umbrella is seemingly based on deep resentment and "loathing of European free-loading" (imagined or real), as the accidentally published Signal exchanges between the US Vice-President and Defence Secretary recently revealed.<sup>5</sup>

Realities, in the first instance in the form of increased prices on US consumers and business, will carry weight in the US too. But even as costs go up, expect no automatic climb-down or return to normal. With the Rose Garden address came also in subtext the classic 'Madman-message': '*if the world falls apart, all will be worse off, but I slightly better*'.<sup>6</sup>

## 2. Fundamental EU objectives: Gearing up for coercive bargaining yet avoiding the protectionist death spiral

The EU holds a singular responsibility in this moment as one of the world's three major trade blocks. It must balance the simultaneous pursuit of two critical objectives: taking leadership in salvaging the open economic order and upping its game in coercive bargaining in defence of its own interests.

A look-back to the 1930s is instructive as to how quickly world commerce and political structures can unravel when protectionism rears its ugly head. As illustrated by the *Kindleberger spiral*, over just four years between 1929 and 1933, world trade contracted month by month to less than a third of its original value.

Of course, the structure of the global economy today is not comparable to that of the 1930s, and trade barriers were not the sole, or even main, cause of the Great Depression and its aftermath. Yet it remains a powerful cautionary tell of unintended and unforeseeable consequences of unchecked protectionism and retaliatory spirals.

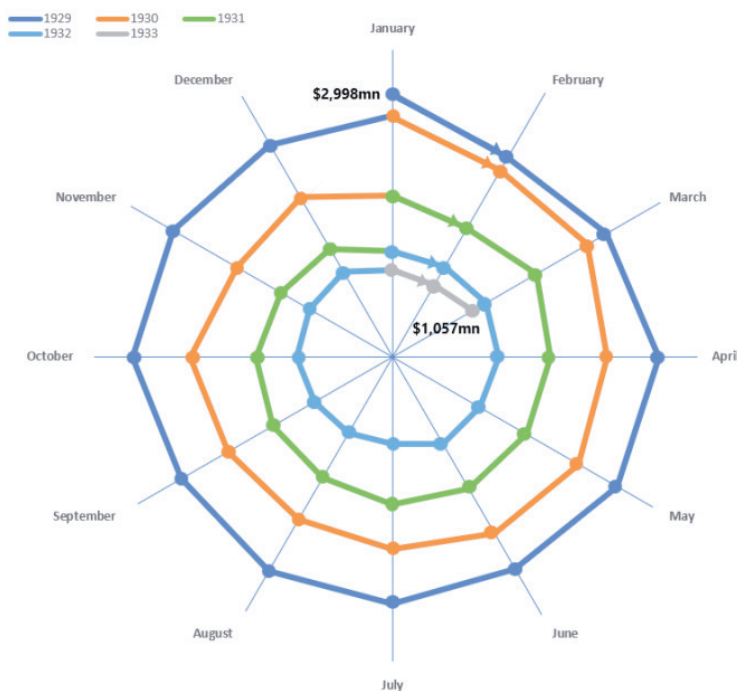
In a scenario of escalating tariff retaliation, Aston University economists point to a 1.4 trillion hit to the world economy, including widespread trade disruption, rising prices and falling living standards.<sup>7</sup>

Going forward, Europe will be walking a tightrope trying to keep retaliatory and protectionist dynamics in check while responding to President Trump's trade assault on Europe's economy. In a context of *coercive bargaining*, where weakness becomes the pretext to further extortion, no retaliation is not an option. Retaliation must be well calibrated as an incentive, both in strength and in time, to bring the US to the table.

The EU did not want this, the offer to deescalate must always be there. At the same time, a negotiated outcome will always remain uncertain. As part of its response, the EU must therefore also prepare its citizens and businesses for the brutal reality that nobody ever wins a trade war and that everybody will suffer in this.

Figure 1

THE KINDLEBERGER SPIRAL  
World Trade, January 1929-March 1933, total imports, 75 countries, monthly, old US gold dollars, millions



Source: League of Nations Monthly Bulletin of Statistics, February 1934, p.51.

Recreated from: Kindleberger, Charles P, *The World Depression 1929-1939*, London: Allen Lane The Penguin Press, 1973.

### 3. Lessons so far: European cooperative offers, and equivocation, have failed

In preparation for negotiations, the EU leadership must learn from past experiences and failures in defusing US trade aggression. Over the past months, high level officials in European Commission President von der Leyen's immediate entourage have shuttled back and forth to Washington in attempts to better read the US Administration's intentions and stave of the worst.<sup>8</sup> If this objective ever was achievable, it manifestly failed.

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This is not the first time the EU has locked horns with the US. Already in 2018, Trump doled out tariffs on steel and aluminium, amounting to 25% on the former and 10% on the latter. In response, the EU hit the US with tariffs targeting €2.8 billion worth of American goods, like Harley Davidson motorcycles and Levi's jeans.<sup>9</sup> Additionally, the EU acted under the WTO Safeguard agreement raising tariffs on steel products against other trade partners to alleviate the damage to domestic industry.

Finally, the EU's then Commission President Jean-Claude Juncker struck a deal with President Trump during the summer in 2018, promising to increase imports of US products to reduce the EU trade surplus in goods. Famously, the political deal pledged a largely hypothetical increase in soybean imports from the US to the EU.<sup>10</sup>

The instructive element is that none of these measures were able to persuade Trump to remove the steel and aluminium tariffs on the EU. They may have stemmed further trade restrictions but a deal on the existing ones wasn't struck before 2021 with President Biden in the White House.

Drawing lessons from past attempts at engagement is not easy, as there is no counterfactual. What seems clear is that President von der Leyen's absence of leadership on tech enforcement, including signals suggesting readiness to back down on critical cases, has yielded absolutely nothing.<sup>11</sup> On the contrary, if anything, it will have weakened both Europe's defence against existential democratic threats and the EU's negotiation stance. The only thing delaying tariffs now is seemingly the prospect of a broad-based market crash and credit crunch, not EU negotiating tactics.

President von der Leyen has talked boldly about building positions of "strength to negotiate" but has in this instance done the opposite. The 2018 saga should have taught the EU executive that deals are possible but they will have to face fire with fire when it comes to Trump.<sup>12</sup> Prevarications or minor tariffs just won't faze him.

### 4. Europe's opportunity: Proactivity in defence of fundamentals and use of strengths

The first imperative in the coming fight is the EU27 sticking together in the face of the US onslaught. As retaliatory action is planned, the US will attempt to splinter off member states by direct contacts and tailored tariff exemptions on product categories dear to individual countries. Yet the randomness, scale and brutality of the US offensive can also have the opposite effect of rallying member states around the common commercial flag.

For that, it is essential that the Commission and its president, despite her instinct for presidentialism, deploy their capacities of shared leadership at technical and political levels to bring member states onboard in a common strategy, including getting tough on member states, big or small, not inclined to toe a common line.

Collectively, Europeans need to straighten up and believe in themselves and the EU's capacity to face these new and harsh realities together. As a recent poll by the European Council on Foreign Relations revealed, the only ones in the world who don't view the EU as a power capable of shaping the world alongside the US and China are Europeans themselves.<sup>13</sup>

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WHICH OF THE FOLLOWING BEST REFLECTS YOUR VIEW ON THE EU'S GLOBAL STANDING (%)?



Source: European Council on Foreign Relations.

Second, Europeans must shape their own narrative, negotiation path and economic future. A good start is rejecting that of President Trump. His worldview and story are built around the notion that the US is getting an unfair deal, or being “looted, pillaged, raped and plundered” as he put it, in the trade of goods. This despite EU tariffs averaging just 2.7% on a trade-weighted basis.<sup>14</sup>

He also conveniently omits to factor in the US advantage in services, based on largely unfettered access to EU services and procurement markets. In 2023, the EU had a surplus in goods with the US of €155.5 billion and a deficit in services of €104 billion. This deficit in services has grown from €13 billion in 2018 and €20 billion in 2020 to triple digits in 2023.

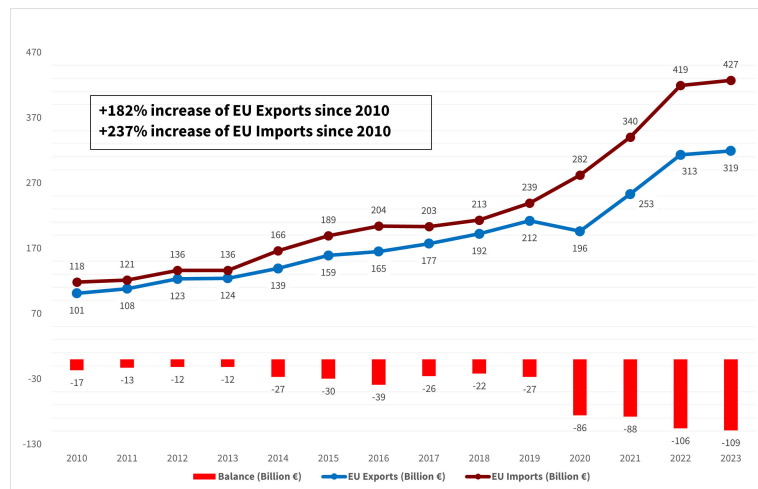
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If ever there was an imbalance and complaint to be levelled, it is probably this one: US tech companies and platforms have benefited massively from open access to the European market, the world’s largest digital service market outside the US, with some inflicting significant damage on Europe’s economy, institutions and societal fabric through anti-competitive and anti-democratic practices.<sup>15</sup>

**US tech companies and platforms have benefited massively from open access to the European market, the world’s largest digital service market outside the US.**

According to the US Chamber of Commerce, in 2021, the US exported \$283 billion in digitally deliverable services to Europe, almost twice the amount going the other direction, and more than double US exports to the entire Asia-Pacific region.<sup>16</sup>

## EU27 TRADE IN SERVICES WITH THE US (2010-2023) € BILLION



Source: Eurostat & European Services Forum.

Brad Setzer and Michael Weilandt have looked at the ‘Income Balance Puzzle’ from the US perspective, and concluded that the imbalances at play are almost entirely attributable to profit-shifting by US multinationals.<sup>17</sup> The flip side of that coin, seen from Europe, has historically been called Ireland.<sup>18</sup>

International profit shifting and corporate tax evasion are the kind of imbalances that should truly be addressed – internationally, across the Atlantic and at home. Despite the OECD agreement struck in 2021, the US is still not applying the Global Anti-Base Erosion Rules (the so-called ‘Pillar Two’).

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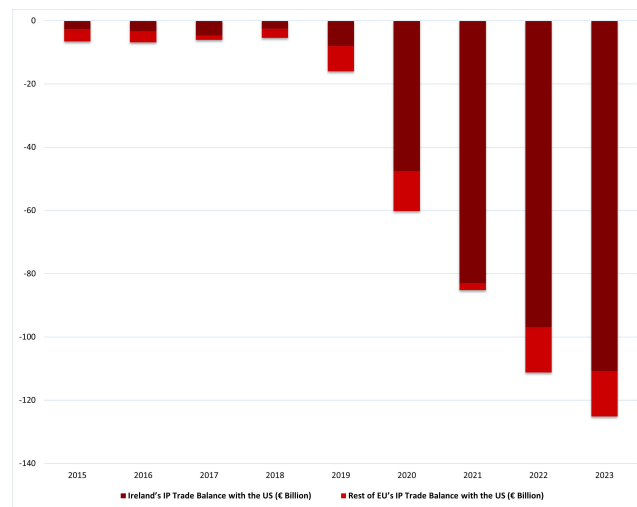
Now, President Trump’s announced tax policies, such as overhauling the US corporate tax code, withdrawal from the OECD tax convention and retaliating against “unfair” foreign digital services and VAT – promise to wreck further damage. ‘Tax where the value is created’ has been a cornerstone of tax policies. For contemporary economies, and Europe, having effective frameworks to tax the value when it is in the cloud is a must.

**President Trump will not negotiate with facts and people that don’t fit his narrative. But this only underscores that Europe must get on the front foot and do what is right for itself, whether through digital regulation or getting rid of dangerous dependencies.**

President Trump will not negotiate with facts and people that don’t fit his narrative. But this only underscores the third major lesson and point: Europe must get on the front foot and do what is right for itself, whether through taxation and digital regulation, or by getting rid of dangerous dependencies by investing in technologies and defence of its own.

The EU also must double down on its core strengths – first and foremost the single market. As Mario Draghi recently pointed out, existing and new barriers to trade among member states impose a 45% tariff on intra-EU trade in goods and a 110% barrier on trade in services.<sup>19</sup> Unlocking the potential of the single market is necessary to further reduce the US’s ability to hurt us.

## IRELAND/EU IP BALANCE WITH THE US (CHARGES FOR USE OF INTELLECTUAL PROPERTY)



Source: Eurostat & European Services Forum.

## 5. How we fight back: One date, one strike

Europeans are not bereft of trade defence tools and the economic foundations to face the US trade aggression. But strength requires **readiness to strike back with firm countermeasures**. The uncowed response by Mexico and Canada to Trump's trade threats, and their comparatively benign treatment in the latest round, shows that the Americans will rethink when faced with steely opposition. This said, returning fire will be costly and fraught with uncertainty for Europe, and results will not be immediately visible.

- (a) The aim of retaliation is to reach a negotiated, reciprocal settlement, opening transatlantic trade rather than shutting it down. The EU should therefore avoid a knee-jerk reaction in the coming days. It should take heed of Trump bowing to market pressure, biding its time before striking and letting the Americans reap what they sow. When needed, **retaliation must be well calibrated as an incentive**, both in strength and in time, to bring the US to the table, including through the targeting of where tariffs will hurt President Trump's political and electoral interests most.
- (b) A **clear schedule** should be set out, giving the US time but also indicating when and how retaliation will strike, together with a **draft term sheet for a reciprocal economic deal**. The Commission had already indicated it would respond in one blow to Trump's reciprocal tariffs and auto tariffs, which makes sense.
- (c) The **retaliatory threat must be vigorous**. Trump's reciprocal tariffs are clear-cut and breach fundamental rules of international trade law, like the most-favoured-nation principle, as well as agreed-upon tariff schedules. The EU can therefore combine different trade instruments:
- i. WTO rules and Regulation (EU) No 654/2014 give broad leeway across different sectors to respond to the economic damage inflicted by the other side through **rebalancing measures**. In response to US steel and aluminium tariffs, the EU27 recently approved €21 billion in countermeasures on US goods but subsequently suspended them after Trump's 90-day pause.<sup>20</sup>
  - ii. In lieu of the 2018 trade war, the use of coercive US second-hand sanctions on EU businesses and coercive actions by China, the EU added a further tool to combat such actions, the **Anti Coercion Instrument (ACI)** – the EU's much-vaunted 'bazooka'.<sup>21</sup> The instrument defines economic coercion broadly and covers 'legislation or other formal or informal action or inaction' and provides the EU with a flexible set of retaliatory options, listed in its Annex 1, covering inter alia tariffs, restrictions of goods imports, services, public procurement, investment, and intellectual property. The procedure for rolling out a reaction under the ACI does not induce quick action, but if there is political will to move fast, retaliation under the ACI could prove highly efficient if calibrated smartly.

The breadth and flexibility of the ACI allows the EU to approach retaliations creatively. In addition to forceful action on **services**, an out-of-the box idea could for instance be to impose the assignment to an escrow account of Intellectual Property Rights (IPR) charges suspected of profit shifting until adequate tax frameworks and agreements are in place in line with international obligations.

iii. Last, WTO rules and Regulation (EU) No 654/2014 also allow the possibility of taking **safeguard measures** consisting in drawing up trade barriers towards allies and rivals alike to protect domestic industries from import shocks.<sup>22</sup> The Union did so with the steel safeguard in 2018 now extended until 2026.<sup>23</sup> Increasing trade barriers with allies is a sticking point and the Commission will have to consider carefully whether market conditions are severe enough to justify such an action which can lead to retaliatory spirals of its own. Yet such measures seem inevitable for goods where Chinese overcapacity, and further distortions and trade diversion as part of their stand-off with the US, now pose significant risks to European industry.

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## The EU must hold-off and prepare a vigorous ‘one date, one strike’-retaliation, together with a term sheet for a reciprocal economic deal.

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(d) In parallel to direct retaliatory measures, the Commission must firm up its defence of fundamental principles and interests. Faced with both direct pressures and the reflexive control by the US Administration and Big Tech, the second von der Leyen Commission has hitherto shown far too much deference and hesitation in enforcing its digital rulebook, such as the Digital Services Act.<sup>24</sup> The temptation will be great to offer rules and regulations as bargaining chips in a bigger deal with the US. This must be avoided at all costs.

The bloc must uphold legal certainty and its democratically voted laws and retain its role as a **predictable rule-setter** including to the extent possible, in international fora such as the WTO. An irony of the current US trade aggressions could precisely be that these might reinvigorate talks on multilateral reform and stimulate ideas on a possible “*WTO 2.0*”.

(e) Nevertheless, a positive-sum settlement with the US should be explored. Brussels has started working on presenting a package of trade options to the Trump Administration, which is likely to include an offer to purchase more American natural gas as

international energy flows adjust to US punitive measures and has indicated it is willing to lower auto tariffs to the US level.

More significantly, in exchange for a US climbdown, there might be potential for a series of **economic security deals**. The list of exemptions to the latest tariff round, covering goods such as semiconductors, pharma and certain minerals, suggests there is a recognition in Washington of the need for more reflection and differentiation. In core areas such as steel and aluminium, critical raw materials, semiconductors, health and clean tech, EU-US economic security accords could combine common responses to Chinese overcapacity and critical dependencies, with commitments to keep the transatlantic space open at bound/applied tariffs and reciprocal access to subsidies and procurement. Ultimately, it is in the EU’s own interest to act more forcefully on diversifying and securing supply chains, and this might require both tariff measures and security and regulatory measures towards China.

Finally, it is important to recognise that the EU is **not alone in facing Trump**. As the US president targets allies and enemies alike, the EU should strive to strike deals, partnerships and alliances with other countries targeted by Trump and seeking to derisk their relationship with an increasingly unpredictable US.

After legislating the Smoot-Hawley Tariff Act in 1930, one of the most significant responses to the US protectionist push was Canada turning towards the UK for trade. This greatly damaged the US economy. The EU should seek to close ranks with the US’s northern neighbour once again, and must similarly keep diversifying its trade with other partners, as it has with the recent Mercosur deal.

The EU’s attractiveness, not only as the biggest market in the world but as a reliable and predictable partner, is growing by the day and creates new opportunities. At the same time, Europe must also get ready for sharp reversals in global trade, a protracted period of uncertainty, and the risk of a prolonged unfriendly trade environment. History teaches that tariffs unfortunately tend to be sticky.<sup>25</sup> In the 1930s, it took years to start inching the spiked tariff levels down to previous levels and to unlock the regionalisation spawned in response to the Smoot-Hawley tariffs and the Great Depression.

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# Into the unknown

The waters ahead are uncharted. President Trump has unleashed the kind of forces that lead to colossal, brutal, upending changes imposing huge costs on everybody. We are in presence of dynamics that no political prediction or econometric model can truly capture, but that historically have led to major wars and upheavals, the passing and birth of hegemonies and the redrawing of the world order. Europe should be relieved that Trump

blinked first in the face of the consequences of his trade tactics, but we must not be lulled into a false sense of safety. Trump has shown what he is willing to do. We have not seen the end of his coercive antics, nor of major risks to the world economic system.

EUropeans must be ready to meet the unknown and face, and shape, this future together.

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- <sup>5</sup> Goldberg, Jeffrey, "[The Trump Administration Accidentally Texted Me Its War Plans](#)", *The Atlantic*, 24 March 2025.
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- <sup>7</sup> *Financial Times*, "[How a \\$1.4tn Trump trade war could unfold](#)", 31 March 2025.
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- <sup>16</sup> Hamilton, Daniel S.; Quintan, Joseph P. (2023), "[The Transatlantic Economy 2023: Annual Survey of Jobs, Trade and Investment between the United States and Europe](#)", Washington, DC: Foreign Policy Institute, Johns Hopkins University SAIS/Transatlantic Leadership Network.
- <sup>17</sup> Setser, Brad; Weilandt, Michael (2024), "[The U.S. Income Balance Puzzle](#)", New York: Council on Foreign Relations.
- <sup>18</sup> In 2023, Intellectual property represented 37,9% of EU27 services imports from the US, with charges for use of intellectual property having grown from a deficit of €5,4 billion in 2018 to €125,1 billion in 2023. Leagues ahead of number two, Germany, Ireland has become Europe's number one importer of services, with charges for the use of Intellectual property in its US trade accounts growing from €2,5 billion in 2018 to a full €110,9 billion in 2023.
- <sup>19</sup> Draghi, Mario, "[Forget the US – Europe has successfully put tariffs on itself](#)", *Financial Times*, 14 February 2025.
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- <sup>24</sup> Riekeles, Georg, (2025), "[Straighten up Europe!](#)", Brussels: European Policy Centre.
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Using its convening power and multistakeholder taskforce model, the Programme aims to provide in-depth analysis and actionable recommendations to tackle key policy challenges. The EPE team comprises a diverse group of analysts with backgrounds from government, the private sector, academia, and journalism, bringing a broad range of expertise to its work.

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