

PRESS RELEASE

A new world trade order: How the EU should respond to US tariff policy

Paris/ Berlin, 13.05.2025 – In a joint statement, the Conseil d'analyse économique (CAE) and the Franco-German Council of Economic Experts (FGCEE) discuss possible reactions by the European Union (EU) to the new US tariffs. The EU must adopt a leadership role in defending the global trade order and its rules. This requires taking a strong position and being ready to fight – when needed – against tariffs that put global trade and the global economy at risk.

The more the global economy (even in the face of US tariffs) remains open, the lower the economic costs will be for the EU and for the rest of the world. It is essential for the EU to support European firms by helping them to find new export markets with other trading partners. The EU should use the ninety-day moratorium to sign the EU-Mercosur agreement and to pursue new trade agreements with other countries. At the same time, it must prepare decisive countermeasures in the event that the US administration reinstates the announced and currently suspended 'reciprocal tariffs'.

In the statement, the team of authors considers two scenarios. Firstly, the general increase in tariffs by 10 percentage points for all countries and the sector-specific tariffs on automobiles, steel and aluminium. Secondly, the currently suspended, country-specific so-called 'reciprocal tariffs' announced on 'Liberation Day'.

It is very likely, that the general 10 percentage points tariff increase is permanent. The economic impact of these tariffs is more significant for the USA than for the EU: The estimated decline in real production for the USA lies between 1 and 1.63 % of real output, according to projections by the team of authors. In contrast, the impact of the tariff increase of 10 percentage points on the EU countries is estimated to be relatively low at around 0.15 % of GDP.

In the scenario of the 'Liberation Day' tariffs, the decline in real output is more significant due to higher tariffs and amounts to of between 0.22 and 0.33 % in the EU. The Trump administration is using this tariff threat as a means of exerting pressure to obtain concessions from its trading partners.

The EU has so far offered to reduce tariffs on all industrial goods to zero. This offer should remain on the table. However, the EU should respond to the threat of reinstating 'reciprocal tariffs' after the 90-day moratorium by announcing retaliation. In order to prepare for these – and make them superfluous – the given time should be utilised for negotiations while suitable measures are being prepared, such as restricting access to the EU market, regulatory measures in the digital services sector or counter tariffs on selected products.

Authors of the joint statement are: Antoine Bouët (CEPII), Xavier Jaravel and Isabelle Méjean (CAE), Ulrike Malmendier, Monika Schnitzer, Achim Truger and Martin Werding (GCEE) sowie Julian Hinz and Moritz Schularick (Kiel Institute).

The Franco-German Council of Economic Experts is a permanent, bilateral body that was established on the basis of the Treaty of Aachen. It is independent and tasked with making policy recommendations on economic issues in which both countries have shared interests. The Council of Experts reports to the Franco-German Financial and Economic Council, which consists of both countries' Ministers of Finance and Economic Affairs and the Heads of the two central banks. The co-chair of the advisory body on the German side is the chair of the German Council of Economic Experts, Monika Schnitzer. On the French side, the co-chair is Xavier Jaravel.

The co-chairs can each appoint up to four additional scientists to the FGCEE for the German and French sides, respectively. The activity for the advisory board is a personal honorary office.

Press contact:

Hélène Spoladore

Conseil d'analyse économique (CAE)

Phone: 01 42 75 77 47

helene.spoladore@cae-eco.fr

Nadine Winkelhaus

German Council of Economic Experts (GCEE)

Phone: +49 611 75-3110

presse@svr-wirtschaft.de