

# E.U. TARIFF PAUSE: THE TRADE WAR IS FAR FROM OVER

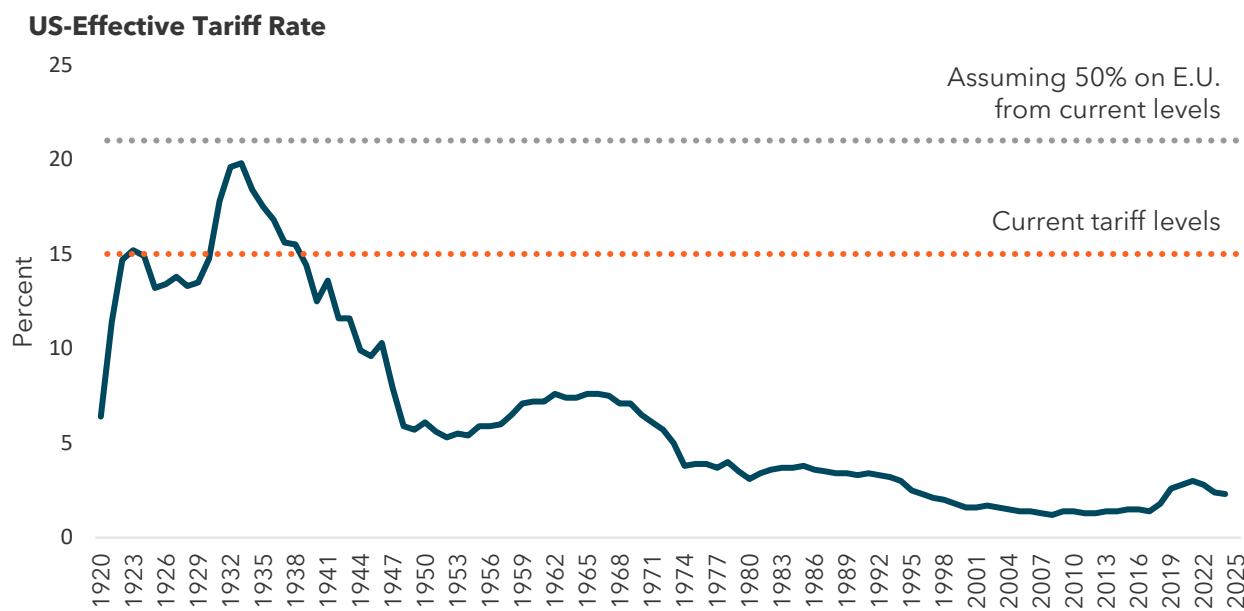
May 2025

The U.S. postponed a planned 50% tariff on European Union (E.U.) imports from June 1 to July 9. This likely serves as a strategic move but underscores the challenges of reaching an agreement between the U.S. and larger economic blocs. If implemented, the 50% tariff rate will bring the global tariff level to around 21%, up from the current 15%.

## IMPACT TO BOTH THE E.U. AND THE U.S.

Trade talks between the E.U. and U.S. have intensified, but slow progress led President Trump to propose a 50% tariff on E.U. imports starting June 1. The tariff increase was soon suspended until July 9 for the parties to negotiate.

While not our base case, if enacted, a 50% tariff from July could severely impact both economies in the second half of the year. For the E.U., exports to the U.S. represent more than 3% of GDP. The direct effects alone could reduce economic growth by at least 1.5% and can potentially push the E.U. into recession. For the U.S., the hit would also be substantial, with E.U. imports accounting for roughly 2% of GDP and a direct hit of close to 1%, at least.



BNY Investment Institute, Macrobond. Data as of 5/27/25. Chart is for illustrative purposes only.

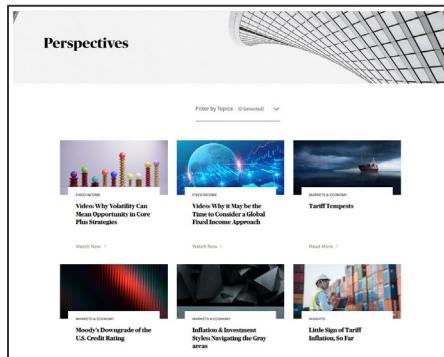
## OUR VIEWS ON THE NEWS AND ITS IMPLICATIONS

- Our base case remains that an agreement will be reached, though the path is likely to be challenging. We expect minor compromises from both sides. The E.U. is likely to respond moderately to avoid provoking further retaliation from the U.S. We believe this would likely result in a tariff rate on E.U. imports of around 15%.
- We do not view the recent U.K.-U.S. deal – broadly described as 10% tariffs, several sector carveouts, and no retaliation - as a model for the U.S.-E.U. negotiation outcome. Such an outcome would be a meaningful upside surprise.
- If anything, risks are skewed to the downside given the E.U.’s resolve to respond forcefully with retaliation. The primary obstacle is the differing perspectives on existing tariffs: the U.S. sees current levels as a starting point requiring E.U. concessions to avoid further tariffs, while E.U. officials view them as a ceiling that must be lowered to prevent retaliation. In this scenario, the U.S. would impose the 20% reciprocal tariffs, and the E.U. would respond more aggressively - raising the likelihood of a rapid escalation.
- With sectoral tariffs also likely to be delivered in the coming weeks and the remaining unresolved conflict with Asia coming to the fore, the trade war is far from over.

Though the market reacted positively to the postponement, the situation remains fluid and BNY Investments will continue to monitor the situation.

## GO FURTHER

Please visit [BNY Investment Perspectives](#) for more analysis on tariffs:



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