European Union readies trade war retaliation against Trump tariffs

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Economic conflicts between Washington and the European Union (EU) are escalating, after Trump last week threatened EU exports to the United States with 30 percent tariffs starting August 1. EU negotiators are readying €72 to €92 billion in tariffs against US exports to the EU, threatening to unleash a catastrophic trade war between the world's two largest economies. US-EU negotiations to try to avert these massive tariffs before August 1 are continuing.

EU officials said 30 percent tariffs would price EU goods out of US markets and end US-EU trade, the world's largest trading relationship at $1.7 trillion in goods and services per year. "It will be almost impossible to continue the trading as we are used to in the trans-Atlantic relationship," EU trade chief Maros Sefcovic said. Speaking of the 30 percent tariffs threatened by Trump, Sefcovic added: "Practically, it prohibits trade."

German Chancellor Friedrich Merz echoed Sefcovic's warnings, as the German economic institute IW calculated Germany could lose €200 billion in exports to the United States by 2028. If Trump imposes 30 percent tariffs, Merz said, "We would have to postpone large parts of our economic policy efforts, because it would interfere with everything and hit the German export industry to the core."

The world capitalist economy is teetering on the brink of collapse, with trillions of dollars in products and millions of jobs on the line. EU automobile, pharmaceuticals, food and luxury and machinery sectors, and US automotive and aerospace, machinery, medical and food sectors all face vast potential losses. US officials are threatening the largest hike in US tariffs since the devastating 1930 Smoot-Hawley tariffs, which accelerated capitalism's plunge into the Great Depression.

Even if a last-minute deal is reached, the brandishing of the threat to cut off US-EU trade will have a long lasting impact on relations between American and European capitalism. On both sides of the Atlantic, government ministers and corporate executives must plan what to do if no deal is reached, and US-EU trade grinds to a halt. The economic foundations of the peaceful relations established between Washington and the major European powers after World War II are collapsing.

In the bitter interimperialist conflict that is emerging, workers cannot support any of the rival imperialist factions, none of whose policies are progressive. It faces a crisis rooted in intractable contradictions of capitalism—in particular, between international production and the nation-state system, leading to a bitter struggle between the imperialist powers to dominate key industries and markets. A progressive resolution to this can only come about through the unification of American and European workers, based on a vast intensification of the international class struggle.

Amid a decades-long decline in US competitiveness, EU countries led by Germany have built up vast trade surpluses with the United States. Last year, the EU exported €192.8 billion more in goods to the United States than the United States did to the EU. While US banks and tech firms had a $75 billion surplus in trade in services with the EU, this still leaves the EU with a substantial economic and financial advantage over the United States.

As Trump mailed off letters last week threatening new tariff hikes, he launched a tirade against his European "allies" revealing the explosive anger building up in the US financial oligarchy over this state of affairs. "The United States of America has been ripped off on TRADE (and MILITARY!), by friend and foe, alike, for DECADES," Trump wrote on his Truth Social network last week. "It has come at a cost of TRILLIONS OF DOLLARS, and it is just not sustainable any longer—And never was!"

This blew up talks on a trade agreement that EU negotiators hoped would have left US tariffs on the EU at 10 percent. Afterwards, however, EU negotiators raised tariff threats against US products from the earlier level of €21 billion, and EU officials began raising the so-called Anti-Coercion Instrument (ACI) program. Invoking the ACI would let the EU unilaterally slash payments for services to US tech and financial firms, now running at over €420 billion yearly, and block US banks from financing multi-trillion-euro EU public procurement markets.

French President Emmanuel Macron tweeted a call "to resolutely defend European interests. In particular, this implies speeding up the preparation of credible countermeasures, by mobilising all the instruments at its disposal, including anti-coercion, if no agreement is reached by August 1st."

Similarly, Danish Foreign Minister Lars Lokke Rasmussen said, "we should prepare to be ready to use all the tools. … If you want peace, you have to prepare for war. And I think that's where we are."

Germany and Italy, which export more goods to the United States and are therefore more directly exposed to US tariffs, have been more cautious in their threats. EU officials told the *Financial Times* they hoped a panic on Wall Street over the economic impact of Trump's tariffs on the EU would force him to pull back. However, after Macron called to invoke the ACI, Merz also signaled Berlin's readiness to wage trade war, declaring: "The US government should know that Europe is ready to respond to excessively high customs burdens with similar measures."

Washington and the EU can escalate the economic damage beyond the trade war measures already announced. EU officials fear that Washington might respond to EU's use of the ACI by cutting access to cloud computing and other key digital services in Europe.

On the other hand, as China cuts its use of the dollar and its holdings of US Treasury debt, Europe has emerged as a key source of financing for the massive US trade and government budget deficits. In May, Britain overtook China as the second-largest holder of US Treasury debt just after Japan, with $809.4 billion. EU countries collectively held even more Treasury debt, including Belgium at $415.5 billion, Luxembourg $412.6 billion, France $375.1 billion and Ireland $327.3 billion.

This potentially gives EU countries the ability to pressure the indebted US economy, by slowing their lending to the United States—pushing up US interest rates and threatening a seize-up of US debt markets, under conditions where the US Treasury already struggles to find buyers for its debt.

Workers cannot support either faction of the ruling elite that pursue a conciliatory line with America's would-be Führer, or those that seek to wage all-out trade war against him. Indeed, both support the vast ongoing increases in EU military spending—whether in the name of maintaining the NATO alliance with America, or of preparing an independent EU military that could potentially act against US interests. EU governments are financing their remilitarization, which paves the way for even greater wars, by hundreds of billions of euros in social attacks on the working class.

International trade war does not bring together the classes in each country in national unity but sharply polarizes politics internationally along class lines. While the ruling classes pursue their rival imperialist interests, workers in every country face the same essential problems: social austerity, the loss of jobs in export industries and related supply chains hit by tariffs abroad, and the rising cost of living as imported goods are hit by tariffs at home.

These mounting economic difficulties will soon provoke mounting class struggles. The decisive question will be the international unification of workers' struggles in America and Europe, and in particular opposing attempts by imperialist governments and union bureaucracies to divide workers along national lines. Only a common struggle of the working class to take the resources of the world economy out of the hands of the imperialists and subordinate them to social need instead of private profit can halt the accelerating downward spiral of the capitalist system.