A New Trade Framework for The U.S. and EU

Center Forward Basics

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Overview

The United States and the bloc of countries making up the European Union (EU) are two of the most influential economies on the global stage. They rank first and second in gross domestic product (GDP) globally, and account for nearly half of the worldwide GDP. Aside from the valuable consumer markets and exports from each, they also share the most significant bilateral trade relationship in the world. In 2024, goods and services traded between the two partners totaled an estimated $1.5 trillion. This Basic will examine the history of this powerful trading alliance, the sensitive industries and supply chains connecting the U.S. and EU, and the framework for a new trade relationship in 2025.

Establishing Transatlantic Ties

The close relationship between the U.S. and EU has developed over many decades, starting with bilateral ties and massive investments by the U.S. under the Marshall Plan and the recovery in European countries following World War II. The European Union emerged gradually, starting with the founding of the European Economic Community (EEC) in 1957. The European alliance gradually grew in membership, and nations broadened trade, security, and governance agreements, culminating in formally establishing the EU under the Maastricht Treaty in 1993. Before the Maastricht Treaty, the U.S. built deep trade ties with key partners, including the United Kingdom, France, and Germany, often framed through NATO cooperation and transatlantic investments. This set the foundation for an economic relationship that would later encompass the whole EU bloc.

Unlike some of the U.S.'s other close trading partners, the U.S. and EU have never negotiated a comprehensive **Free Trade Agreement (FTA)**. The relationship has developed through the ties with individual member states and multilateral negotiations on regulatory cooperation, tariff reductions, and cross-border investment through intergovernmental institutions like the World Trade Organization (WTO). The U.S. and EU tried several times to formalize the partnership under an FTA. The Transatlantic Trade and Investment Partnership launched in 2013, envisioned as a far-reaching FTA covering goods, services, data flows, and regulatory standards. TIPP negotiations stalled in 2016 amid political opposition on both sides of the Atlantic, fueled by regulatory differences, shifts in public opinion, and the United Kingdom's departure from the EU earlier that year. Without an FTA, the U.S.-EU relationship has been managed through sectoral agreements and ongoing WTO commitments.

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Center Forward brings together members of Congress, not-for profits, academic experts, trade associations, corporations and unions to find common ground. Our mission: to give centrist allies the information they need to craft common sense solutions, and provide those allies the support they need to turn those ideas into results.

In order to meet our challenges we need to put aside the partisan bickering that has gridlocked Washington and come together to find common sense solutions.

For more information, please visit www.center-forward.org

Key Terms:

- **Free Trade Agreement (FTA):** An agreement between two or more countries to reduce or eliminate trade barriers to make it easier and cheaper to exchange goods and services and establish a permanent and predictable schedule of tariffs and regulatory alignment.
- **Most Favored Nation Status:** A trade principle under the World Trade Organization (WTO) requiring countries to treat each other no less favorably than their most preferred trading partner, ensuring non-discriminatory tariff and market access.

The State of Play

Despite lacking a comprehensive trade agreement, the U.S. and EU have been each other's largest trading partners for combined goods and services for more than two decades. The partners share deeply connected supply chains in critical sectors, including pharmaceuticals, chemicals, and medical devices. Supply chains for automobiles, airplanes, aviation parts, and industrial machinery have increasingly intertwined. In recent years, the U.S. has become the EU's largest supplier of crude oil, refined petroleum products, and liquid natural gas (LNG), and Europe its largest buyer. Following the start of the war in Ukraine and embargoes on Russian energy products, LNG has become a focal point of the transatlantic trade.

The U.S.-EU relationship is highly integrated in digital trade, data flows, intellectual property (IP) licensing, and financial services. The U.S. is the largest supplier of IP-licensed products to the EU, often for software platforms and life sciences patents. European companies license manufacturing, industrial design, and automotive designs to U.S. firms. In 2023, IP-related exports from the U.S. to the E.U. were valued at roughly $200 billion, making it the world's largest bilateral IP licensing market.

Digital services form a complementary pillar of transatlantic trade, with cloud computing, software-as-a-service, financial technology, and digital platforms representing a significant portion of U.S. services exports. Cross-border data flows are essential to enabling IP licensing, financial transactions, digital services, and e-commerce. The U.S. runs a significant services surplus with the EU, meaning it exports more services than it imports, reflecting strong American leadership in software, cloud infrastructure, IP, and digital media.

- **Harmonization:** The process of aligning laws, regulations, or technical standards across countries or regions to reduce compliance costs for businesses and facilitate smoother cross-border trade.
- **Corporate Sustainability Due Diligence Directive (CS3D):** An EU regulation requiring large companies, including foreign firms, with significant EU operations, to identify and address human rights and environmental risks in their supply chains, with potential civil and financial penalties for non-compliance.
- **Digital Services Tax (DST):** A gross-receipts tax imposed by some jurisdictions on revenues from digital platforms or online advertising. DSTs are typically levied on revenues rather than profits and have been found by the U.S. Trade Representative to be discriminatory toward U.S.-based digital companies under Section 301 investigations.

Data transfers are governed by legal frameworks such as the U.S.-EU Data Privacy Framework, which replaced the 2016–2020 Privacy Shield arrangement after the EU Court of Justice invalidated it. These frameworks aim to balance privacy protection with economic efficiency, limiting government access to EU personal data while providing mechanisms for redress. Despite these agreements, regulatory uncertainty remains a concern for businesses. One persistent obstacle between the United States and EU is the **Digital Services Taxes (DSTs)** proposed and enacted in several EU member states, including France, Italy, and Spain. These unilateral gross-receipts taxes are imposed on digital platforms' revenues, typically between two and seven percent, once they surpass a local revenue threshold. The United States Trade Representative has repeatedly found these practices discriminatory under Section 301 of the Trade Act of 1974. You can read more about DSTs here.

On April 2, 2025, President Donald Trump announced reciprocal tariff rates on nearly every U.S. trading partner in the world, which the administration has referred to as "Liberation Day," sparking an upheaval of the existing international trade order and new negotiations. The President cited the International Emergency Economic Powers Act of 1977 (IEEPA) as a basis for this action. The Liberation Day tariffs placed an additional 20% "reciprocal" tariff on imports from the EU, subsequently reduced to a time-limited 10% baseline tariff. Products subject to existing Section 232 tariffs (such as steel, aluminum, or automobiles) were excluded from the reciprocal tariff.

Responding quickly, the EU threatened retaliatory measures on U.S. products, including a broad 10% reciprocal tariff and an additional 25% on agricultural, textile, and industrial products. After threats from both sides, both partners agreed to a pause before implementing the new rates to leave time for further negotiations. On July 11, 2025, President Trump announced a new 30% reciprocal tariff on EU products, effective August 1.

The New Framework

President Trump and European Commission President Ursula von der Leyen met in late July 2025, days before the full U.S. reciprocal tariffs would go into effect. Following the talks, the U.S. and EU, Trump and von der Leyen left the meeting on July 28, announcing they had agreed on a framework. The White House and EU immediately released separate statements, followed by a joint statement on the framework on August 21.

In the August framework, the U.S. and EU agreed to significant tariff rate adjustments from the April levels. The EU agreed to eliminate tariffs on all U.S. industrial goods and gave preferential market access to a broad set of American agricultural goods. The U.S. committed to apply the higher of either the U.S. **Most Favored Nation (MFN)** tariff rate or a tariff rate of 15%, comprised of the MFN tariff and a reciprocal tariff, on originating goods of the EU. The MFN status means that each side agrees to apply the same tariff rates and trade conditions to the other as to its lowest-tariff trading partner, ensuring non-discriminatory treatment of goods. Starting September 1, the U.S. will apply only MFN tariffs on select EU products, including cork, aircraft parts, generic pharmaceuticals, and pharmaceutical precursor chemicals.

The U.S. also agreed to limit any future Section 232 tariffs on pharmaceuticals, semiconductors, and lumber to a maximum of 15%. Moreover, pending specific action by the EU, no Section 232 automobile or automobile parts tariffs will apply to covered EU goods with an MFN tariff of 15% or higher; and for covered goods with an MFN rate lower than 15%, a combined rate of 15%, comprised of the MFN tariff and Section 232 automobile tariffs, will be applied. The existing Section 232 tariffs on steel and aluminum remain unchanged.

The framework also laid out a plan for significant joint investment and purchase agreements. The EU committed to substantially increasing procurement contracts with U.S. defense firms and $600 billion in state investments in key U.S. strategic sectors through 2028. The EU also committed to buy $40 billion of U.S. semiconductors to power its data centers and an additional $750 billion in U.S. energy products, including LNG, crude oil, and nuclear products.

Both parties also voiced interest in lowering non-tariff trade barriers and **harmonizing** regulatory regimes. Under the preferential market access for U.S. agricultural products, both partners agreed to work to align food safety and sanitary requirements for pork, dairy, and other agricultural products. The framework included an agreement to increase cooperation on inbound and outbound investment reviews, IP protections, export controls, and duty evasion.

Both sides also committed to addressing “unjustified digital trade barriers,” maintaining zero customs duties on electronic transmissions, and prohibiting network-usage fees that could distort cross-border data flows. However, the agreement does not cover DSTs, which several EU member states continue to apply or consider. The partners likewise affirmed that cross-border digital services should not be subject to discriminatory gross receipts taxation. While the framework emphasized cooperation on digital trade, the United States retains enforcement authority under Section 301 and has successfully challenged and suspended DSTs in other jurisdictions.

Automotive supply chains are heavily intertwined between the U.S. and EU, but are also challenged by regulatory differences between the two markets. In the August framework, the U.S. agreed to reduce tariff rates on European automobiles once the EU enacts legislation codifying its broader tariff rate reductions. Once both parties reduce automobile tariffs, the framework established an agreement to harmonize vehicle safety and environmental standards. Automobile manufacturers in the U.S. and Europe have expressed concern at the lack of detail in the framework, both for the scope of regulations that could be harmonized between the two markets and the timeline for any new deals moving forward.

In the energy sector, the EU has also committed to ensuring that the **Corporate Sustainability Due Diligence Directive (CS3D)** regulations will not impose undue restrictions on transatlantic energy trade. CS3D is an EU regulation that requires companies doing significant business in European markets to identify, prevent, and mitigate the environmental risks and impacts of their global business operations. It gives the EU authority to pursue civil penalties. Read more about CS3D here. American energy companies have raised serious questions about the depth of Europe's regulatory review, claiming their civil liability under CS3D would make it impossible for Europe to meet the $750 billion energy products purchase agreement in the framework.

Reception and Paths Ahead

EU member states have shared mixed reactions following the July meetings and the release of the August framework. Italian Prime Minister Georgia Meloni described the deal as "positive" and "sustainable," but asked for more details, specifically on agricultural and dairy products. German and Dutch politicians acknowledged the deal avoided some of the worst possible outcomes, but it was also imperfect, and that this framework would impose costs on European economies, and further negotiations were necessary. French and Irish leaders took a different tack, slamming the deal as political capitulation that handed away the European bloc's most valuable leverage. The Irish government took particular issue with the framework, which lacked carve-outs for the beer and spirits trade.

In the U.S., reception was still mixed, but not as polarized. Republicans in Congress and throughout the national party celebrated the deal as a significant victory for the "America First" trade agenda. Democrats, progressives, and some business groups expressed skepticism that the framework conceded on important regulatory frameworks in exchange for politically framed tariff cuts. Skeptics have also voiced concern at the Trump Administration's far-reaching use of tariff authority without congressional approval. Industry groups were pleased to see the two major partners avoid an all-out trade war, but have asked for charity on timing, rules of origin, and how standards will be harmonized.

The Trump Administration has framed the deal as an executive agreement, with U.S. action hinging on existing executive authority under section 301 of the Trade Act of 1974 and national security tariff powers under IEEPA. Since the framework is not a treaty, it is not subject to Senate review and ratification. Without legislative authority, any deal from this framework is not binding and rides on political promises. For any permanent changes to the tariff schedule, cross-border investments, and regulatory agreements, the U.S. will need new statutory authority from Congress.

In Europe, the framework's provisions must be voted on and approved by member states in the Council of the European Union to become binding. Many provisions of the framework, such as reduced tariffs on U.S. industrial goods and automobiles, will not come into place until the council passes legislation. Any legislative changes to implement the framework agreement are likely to run in parallel to the EU's ongoing customs reform efforts, which aim to digitize and update the current system and are crucial for implementing US-EU trade commitments.

The reciprocal tariffs from both partners have been suspended through administrative action, but could be reversed through executive action before any binding framework is approved. The Trump Administration is also fighting legal challenges to using tariff authority under IEEPA, with a case waiting to be heard at the Supreme Court that could potentially strike down all of the President's reciprocal tariffs. Until both sides translate the provisions into legal statute with new tariff schedules, the framework is primarily a truce and a roadmap for further negotiations.

Links to Other Resources

- Congressional Research Service - U.S.-EU Tariffs and Trade Framework Agreement
- Federal Register - Implementing Certain Tariff-Related Elements of the U.S.-EU Framework on an Agreement on Reciprocal, Fair, and Balanced Trade
- Ropes & Gray - U.S. and EU Agree on Trade Framework Agreement - Implications for ESG/CSR Compliance
- Reuters - U.S. implements EU trade deal, 15% autos tariffs retroactive to Aug 1
- White House - Joint Statement on a United States - European Union Trade Framework