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IENE Comment

Europe in the Age of Tariffs



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The new tariff regime is here. The United States federal government went ahead with what President Trump—with partial factual correctness—calls reciprocal tariffs. The world, or rather financial and stock markets, is reeling. Warnings about a looming recession, depression, total chaos and destruction from everyone and their cousin are pouring in. It is, in a way, the end of the world as we knew it. And Europe is not feeling fine.

ING analysts called it “Europe’s worst economic nightmare” come true. Legacy media struggled to present the EU in a positive light in the context of Trump’s tariffs. The most they managed was to copiously quote the Anti-Coercion Instrument that the EU devised a few years ago as a means of defending itself against countries wanting to take advantage of the bloc. The ACI, however, cannot work against the U.S. and the reason for this is a simple one: the EU needs the U.S. a lot more than the U.S. needs the EU, even if various officials do their best to make it sound the other way around.

The most obvious piece of evidence in support of the above is, of course, energy. Not-so-united Europe is heavily dependent on energy imports for the security of its supply and the rush to replace hydrocarbons with wind and solar has not only not improved the situation but it has made it severely worse, notably in the electricity price department. The EU has also been out of luck this winter season, with the weather being its usual cold rather than unusually mild, leading to greater demand. That resulted in much emptier gas storages at the end of heating season than over the last two years.

Here's a number: \$11 billion. This is how much the EU will need to pay for additional LNG supply this year in order to refill its storage to some comfortable level ahead of next winter. This means 250 additional LNG cargos, per energy cargo trackers Kpler. In other words, the EU already needs a lot of LNG to prepare for next winter and now it will need an extra 250 tankers worth \$11 billion—at least. And Brussels’ best tool for responding to Trump’s tariffs is to impose tariffs on the things that Europe imports from the U.S. – such as, you know, LNG. Those tariffs will definitely do wonders for the EU’s gas bill.

In the interest of fairness, some form of response from the EU is in order. Indeed, various officials speaking to the media have suggested the mood is for the most part cautious and there aren’t many trigger-happy eurocrats eager to set the ACI in motion come what may. Yet there have been suggestions in these comments that Brussels will not just lie down and take the tariffs, including from top eurocrat Ursula von der Leyen who spoke about all options being on the table and the EU having various tools at its disposal to respond to the tariffs. It doesn’t, but you don’t

just admit powerlessness openly. And the EU is quite powerless against Trump—especially now, with its new focus on defence.

The EU needs huge amounts of commodities and materials to produce all the military equipment, weapons, and ammunitions that it says it needs to produce under its Readiness 2030/ReArm Europe plans. It also needs money—and cheap energy. Until April 2, it could rely on the U.S. to provide some of those commodities, materials, and more importantly money and energy, although not exactly cheap. Now, the EU is in a position where it must choose between self-sabotage by tariffing U.S. imports, including LNG, and restricting access of U.S. investors to EU financial markets, on the one hand, and admitting it's got no trump cards at all, on the other.

It is a painful admission. It means the EU has to face the fact it had relied on the U.S. for far too much for far too long, tariffing U.S. imports and enjoying tariff-free exports to the U.S., and assuming this would go on forever. Of course, nothing goes on forever, as Trump has demonstrated so bluntly. Yet making this admission sooner rather than later would allow for a faster start of the adaptation process—whatever form it might take.

For now, the signs are not exactly promising. Although some national governments have called for calm and reason, at the Brussels level, reports have it that the EU is considering tariffs on...Chinese imports in anticipation of a flood of such imports, getting redirected from the U.S. markets. In other words, the EU is preparing to do to China exactly what the U.S. did to the EU (and the rest of the world) and it's going to do it with a straight face—unless sober minds prevail.

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