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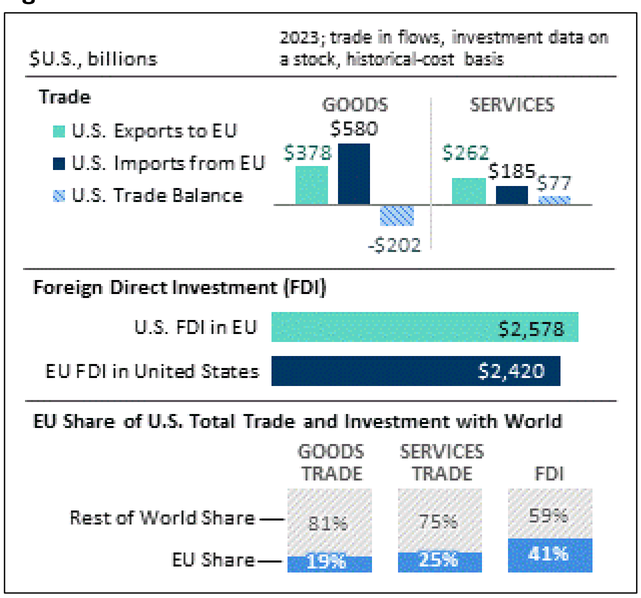
U.S.-EU Trade Relations

The United States and the 27-member European Union (EU)—when considered as a bloc—have the world's largest bilateral trade and investment relationship. Their ties are highly integrated, with supply chains and cross-border investments. Given their magnitude and integrated nature, U.S.-EU trade relations are of congressional interest. Congress may assess U.S.-EU trade relations under President Trump's trade policy, and consider legislating on potential tariffs, cooperative dialogues on select trade issues, or any pursuit of a free trade agreement (FTA).

U.S.-EU Trade Trends

U.S.-EU total goods and services trade (exports plus imports) reached $1.4 trillion in 2023, a nearly 50% increase from 2020. The United States ran an overall trade deficit with the EU (exports minus imports) of -$125 billion in 2023, with the goods trade deficit outweighing the services trade surplus (**Figure 1**). The EU was the source of the United States' second-largest goods trade deficit after China in 2023. (U.S. Bureau of Economic Analysis data.)

Figure 1. U.S. Trade and Investment with the EU



Source: CRS, with U.S. Bureau of Economic Analysis data for 2023.

In 2023, top U.S. goods exports to the EU were oil and gas, pharmaceuticals and medicines, and aerospace and parts. Top U.S. goods imports from the EU included pharmaceuticals and medicines, motor vehicles, and general purpose machinery. In services, top U.S. exports were business services (e.g., consulting), charges for intellectual property rights use (e.g., licenses), and financial services. Top U.S. services imports were in transport, business services, and travel (e.g., EU visitors to the United States).

The total stock of two-way investment reached nearly $5 trillion in 2023. The largest share of U.S. direct investment in the EU was in holding companies, followed by manufacturing firms. The largest destination of EU direct investment in the United States was manufacturing. Chemicals are a key sector of manufacturing investment.

Select Issues in U.S.-EU Trade Relations

U.S.-EU trade relations, rooted in extensive commercial ties, cooperation on shared interests, and efforts to address frictions on select issues, may be in flux. Issues include

Possible Additional Tariffs. President Trump has renewed a pledge to impose additional tariffs on the EU, citing his concerns about the U.S. goods trade deficit with the EU. In the first key economic address of his second term, the President stated both that he "love[s] Europe," and the "EU treats us very, very unfairly." In a press interaction after his decision to impose tariffs on Canada, Mexico, and China (tariffs on Canada and Mexico are on pause pending talks), the President stated that he would "definitely" impose tariffs on the EU, calling the EU's trade practices an "atrocity" and asserting that the EU "take[s] almost nothing and we take everything from them." He has criticized the EU for not buying more U.S. autos and farm products. Many economists attribute the U.S. goods trade deficit more to macroeconomic variables, such as a relatively low savings rate and relatively high consumer spending in the United States compared to other economies, than trade practices. In his January 2025, "America First Trade Policy" memorandum, the President directed the Secretary of Commerce, in consultation with the Secretary of the Treasury and U.S. Trade Representative (USTR), to investigate the causes of the "largest and persistent" U.S. goods trade deficits," and to recommend by April 1, 2025 measures, including tariffs, to address such deficits.

EU officials have characterized the U.S.-EU relationship as mutually beneficial, supporting jobs and trade on both sides of the Atlantic. Some press reports indicate that EU officials have voiced a desire to negotiate with the United States to avert potential U.S. tariffs. Some press reports indicate that the EU also has been preparing retaliatory tariffs against such potential tariffs. An EU spokesperson reportedly said that the EU "regrets the [U.S.] decision to impose tariffs on Canada, Mexico, and China," and while reiterating the importance of U.S.-EU trade and investment ties, asserted "the EU would respond firmly to any trading partner that unfairly or arbitrarily imposes tariffs on EU goods." Potential renewed U.S.-EU trade frictions come at a time when the EU faces economic uncertainty and competitiveness challenges.

Other tariff issues could emerge in U.S.-EU trade relations. For example, in 2021, the Biden Administration and the EU reached an interim deal to replace U.S. steel and aluminum tariffs on the EU with tariff-rate quotas (TRQs). In exchange, the EU lifted retaliatory tariffs on products including U.S. whiskey and motorcycles. The Biden Administration extended the TRQs until end-2025; the EU extended tariff suspensions until March 31, 2025. Whether the two sides re-impose tariffs, negotiate another extension, or reach a more durable agreement remains to be seen.

Targeted Trade Initiatives. U.S. and EU officials convened a Trade and Technology Council (TTC) forum on select issues during the Biden Administration. TTC parties agreed to: coordinate on export controls in response to Russia's war on Ukraine, establish an early-warning and monitoring tool for semiconductor supply chains, cooperate on artificial intelligence standards, share information on investment screening, and discuss issues posed by non-market economies (i.e., China). The two sides also pursued a Critical Minerals Agreement (CMA) to enable EU critical minerals to qualify toward certain requirements in P.L. 117-169 (Inflation Reduction Act of 2022, IRA) regarding electric vehicle (EV) tax credits, and cooperate to diversify critical mineral and EV battery supply chains. The EU asserted that some U.S. EV tax credits were discriminatory against foreign firms. The two sides did not reach a final CMA. One reported factor was differences over U.S. efforts to attain labor and environment commitments that were more stringent than those in the final U.S.-Japan CMA.

The status of the TTC and CMA negotiations going forward is unclear. Questions include if these initiatives continue, what scope will they have, and if they do not, whether U.S.-EU cooperation on issues under these initiatives will continue in other fora. Some Members previously urged the Biden Administration to address, in the TTC, U.S. concerns about discriminatory treatment of U.S. firms by EU digital economy rules. The Trump Administration and some Members (e.g., 118th Congress, S. 4237, H.R. 3938) have shown interest in changing or eliminating the EV tax credit.

Potential FTA. No comprehensive U.S.-EU FTA exists despite past attempts to negotiate one—leaving each with less favorable access to the other's market relative to countries with whom each has FTAs. The most recent U.S.-EU FTA efforts, pursued by the first Trump Administration, stalled partly over the EU's position in tariff discussions to exclude agricultural products, the inclusion of which some in Congress prioritized. Separately, the parties agreed to increase market access for certain products. It is unclear whether President Trump will seek to resume FTA negotiations with the EU. President Trump instructed USTR to identify countries for potential bilateral or sector-specific trade negotiations by April 1, 2025.

Other Bilateral Trade Issues. Some U.S. policymakers have raised concerns about barriers to EU markets. In the *2024 National Trade Estimate Report on Foreign Trade Barriers*, USTR noted some high EU tariffs (e.g., fish, seafood, trucks, bikes, and autos). Other USTR-named barriers included certain EU regulatory processes, which the agency claimed lacked sufficient transparency and opportunity for stakeholder input. Additionally, some in U.S. industry have voiced concerns about lack of clarity and feasibility of compliance with certain EU rules, such as requirements for firms to conduct due diligence to address adverse environmental and social impacts of their supply chains. A planned carbon border adjustment mechanism, which is to impose a fee on carbon-intensive imports (e.g., steel, aluminum, cement, fertilizer) by 2026, has also faced criticism from U.S. corporations.

Some in U.S. industry argue that EU digital competition rules unfairly target large U.S. technology firms. President Trump also has criticized various fines levied by the EU on U.S. technology firms, characterizing them as a "form of taxation," and citing, as examples, Google and Apple; the former faced an anti-trust penalty and the latter, a penalty for unauthorized tax breaks. Further, the outlook for the U.S.-EU Data Privacy Framework, which aims to facilitate transatlantic data flows, is in question amid possible action by President Trump on a related U.S. oversight board.

Possible U.S.-EU Cooperation on China. U.S. and EU officials have expressed shared concerns about China's industrial policies, dominance of key supply chains, and use of "economic coercion," while also expressing varying views on appropriate responses. EU policy casts China as a partner, competitor, and "systemic rival," while noting shifts to a "critically unbalanced" economic relationship. While the EU favors using the World Trade Organization (WTO) to resolve issues of imbalance with China, it has also emphasized de-risking supply chains, adopted a tool to combat foreign coercive economic practices, and imposed tariffs on EVs from China to address subsidies by China's government. The EU's approach to China may align in some respects with the U.S. approach, potentially allowing for expanded U.S-EU cooperation on China; yet, U.S.-EU trade differences could constrain such cooperation.

Multilateral Trade. Post-World War II, the United States and EU collaborated to lead development of the rules-based global trading system underpinned by the WTO. During the first Trump Administration, some EU officials reportedly voiced concern about U.S. commitment to the WTO. During the Biden Administration, the two sides pledged to "uphold and reform" the trading system and cooperate in the WTO. A key focus of U.S.-EU cooperation was challenges posed by non-market economies (e.g., global overcapacity, subsidies, forced technology transfer). EU concerns persist over continued U.S. blocking of new appointments to the WTO appellate body and implications for the WTO dispute settlement role.

Issues for Congress

Key U.S.-EU trade issues facing Congress include

- Assessing how potential higher U.S. tariffs and EU counter-tariffs might affect the U.S. economy and U.S.-EU trade relations.
- Whether or not to support continued U.S.-EU trade cooperation (e.g., critical mineral supply chains, investment reviews, technologies) and if so, whether to back doing so in existing fora, such as the TTC, or pursue new trade frameworks;
- Whether or not to assert greater authority vis-à-vis the President in approving any tariff changes or trade dialogue outcomes regarding the EU;
- Whether or not to direct the Administration to pursue a comprehensive FTA with the EU; and
- Assessing prospects for U.S.-EU cooperation on China and other global trade issues in bilateral and other fora.

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