

Will Retaliation Work for Europe? It's a Gamble.

Europe wants to negotiate, but it is also trying to project strength. As Trump warns nations against retaliation, that strategy could be perilous.



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By Jeanna Smialek

Reporting from Brussels

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The European Union is responding to President Trump's sweeping trade war with a handshake and a punch: It is promising the administration potential wins while also preparing its own retaliatory tariffs on American products starting next week.

The questions are whether the enticements are enough, and whether a show of strength could backfire.

“Europe can hurt America, and retaliating seems like a good strategy if you believe that Trump cares about the political fallout from economic pain here at home,” said Michael Strain, director of economic policy studies at the conservative think tank American Enterprise Institute, in Washington. “The worry is that he doesn't care.”

Mr. Trump has threatened to impose huge additional tariffs on Chinese goods to punish the nation for retaliating against his previous tariffs, and his team appears to be giving some nations that did not retaliate and have close economic ties to the U.S. — notably Japan — priority in negotiations.

At the same time, Mr. Trump has yet to grab the carrots that Europe has dangled in front of him. Ursula von der Leyen, the president of the European Commission, offered on Monday to drop tariffs on imported American cars and other industrial products to zero if the U.S. does the same, a “zero-for-zero” strategy. Asked about that possibility, Mr. Trump said “it’s not” enough to make him back down.

Instead, the administration appears to be standing by its spate of recently-announced tariffs, at least for now. The Trump administration has announced 20 percent across-the-board levies on the E.U., in addition to even higher ones on steel, aluminum and cars.

Against that backdrop, representatives from across the European Union are expected to vote on Wednesday on a set of retaliatory tariffs that would respond to U.S. steel and aluminum levies. If approved, those counter-tariffs would take hold in phases starting in mid-April, in the bloc’s first attempt at throwing around its economic weight, betting it can prod American officials toward a deal.



President Trump announced a sweeping list of tariffs at the White House last week.

Haiyun Jiang for The New York Times

The European Union is the United States' most important trading partner by some measures, when its 27 nations are taken as a whole. But so far, Mr. Trump has expressed a willingness to accept short-term economic suffering in exchange for a long-term reordering of the global trading system.

“Trump has made it clear that any pain to the U.S. economy caused by targeted tariffs will not serve as a deterrent to an escalation of tariffs,” said Eswar Prasad, an economist focused on international trade at Cornell University. “So there is no clear off ramp.”

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The Trump administration's previous actions on North American tariffs

- March 31 Said there would be no exemptions for tariffs set to begin on April 2 ›
- March 29 Said he 'couldn't care less' if car prices went up in response to his tariffs ›
- March 26 Announced 25 percent tariffs on imported cars and car parts ›
- March 24 Threatened 25 percent tariffs against any country that buys Venezuelan oil ›
- March 13 Warned other countries that they should not retaliate against the tariffs the United States is putting on their exports ›

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European officials are conscious that a tit-for-tat trade war would also cost the continent's businesses and consumers. And since Europe sells more goods to the United States than it purchases in return, the bloc lacks the upper hand, particularly when it comes to physical products: If it responds to every tariff with a counter-tariff, it will simply run out of imports to put penalties on.

That is why Europe is taking its slow and multipronged approach — moving gradually and in stages to roll out goods tariffs, threatening the possibility of hitting American services like big technology companies, and hoping that America comes to the table before the retaliation fully takes hold.

“We’re trying to avoid tariffs,” Olof Gill, a spokesman for the European Commission, said at a news conference on Tuesday. “Our response is phased, calm, calibrated, and targeted.”

In many ways, Europe is gambling on time.

If it moves gradually, it is possible that plummeting stock prices will dim the American appetite for a trade war. The markets are down sharply over the past week, a painful blow to American retirement accounts and investment nest eggs. Falling markets could dim domestic support for tariffs in the United States.

“We’re waiting for our American counterparts to engage in a meaningful way,” Mr. Gill said.

Mr. Trump suggested late on Monday that he might be willing to strike a deal with Europe — if it eliminates its trade imbalance with the United States. He said it could do so by vastly expanding oil and gas purchases to \$350 billion, the number he claims for the trade deficit with the European Union. That would be an immense increase in how much U.S. energy Europe buys, which Goldman Sachs estimates was about 63.5 billion euros, more than \$69 billion, last year.

Most estimates put the U.S. trade imbalance much lower than Mr. Trump does, and the European Union’s own measure places it at about \$171 billion just for goods. The deficit shrinks to \$52 billion when counting services, since the United States sells Europe more internet and technology services in particular than it buys from the bloc.

European leaders have suggested a willingness to buy more American fuel, but such big liquid natural gas purchases would be difficult to promise, if not impossible, a number of analysts said. Among other issues, gas purchases are driven by demand in the market, not just political decisions.



A liquefied gas plant in Port Arthur, Tex., in February. Mr. Trump has suggested that he might be willing to strike a deal with Europe on tariffs if it expands oil and gas purchases from the United States. Brandon Bell/Getty Images

Plus, “Europe will not want to replace its old total dependence on Russian natural gas with total dependence on” American liquid natural gas, said Krishna Guha at Evercore ISI.

Also on Monday, Mr. Trump expressed comfort with leaving at least some of the tariffs on long-term — bad news for Europeans who have been hoping for a rapid, negotiated solution.

That lack of progress is why Europe is getting ready to hit back. European officials have spent weeks vetting the list of tariffs that are up for a vote on Wednesday, trying to make sure the list would not unduly hurt European firms or customers.

The size of the list was trimmed during that process, and products like bourbon are expected to be dropped; America had threatened to hit European alcohol with a 200 percent tariff if bourbon remained in the cross hairs.

But there are serious questions about whether Europe will come to regret moving ahead with retaliation. China's decision to hit back prompted Mr. Trump's threat to subject Chinese imports to a staggering 104 percent tariff.

On social media, Mr. Trump blamed China for responding "despite my warning that any country that Retaliates against the U.S. by issuing additional Tariffs, above and beyond their already existing long term Tariff abuse of our Nation, will be immediately met with new and substantially higher Tariffs."

As European officials try to figure out exactly what America wants, and what could lead to a deal, the steel and aluminum counter-tariffs that could take hold next week would be just the first move in their own retaliation.

Mr. Gill, the European Commission spokesman, suggested on Tuesday that proposed countermeasures for the 20 percent tariff on E.U. goods that Mr. Trump announced on April 2 could come as soon as next week. European officials are also talking about whether to use a new trade weapon to hit big American technology companies with trade barriers.

But the risk is that such threats will fall on deaf ears, because Mr. Trump's goal is to rewire the global trading system — and because this is his second term as president, which could make him less worried about slipping political support at home.

"There's a lot of risk around that strategy," Mr. Strain said.

Jeanna Smialek is the Brussels bureau chief for The Times.

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