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Trump's tariffs: What escalating trade tensions with the US imply for EU exporters and supply chains

by Sonali Chowdhry

DIW focus

US trade policy has taken a sharp turn away from multilateralism, with sweeping new tariffs posing a serious threat to global supply chains. As the US remains the EU's largest export market for goods, these measures carry significant repercussions for the bloc. Exports to the US are heavily reliant on a small number of companies and high-value business relationships—making the EU particularly vulnerable to targeted trade measures. In Germany, the top ten business relationships alone account for a fifth of maritime exports to the US. Intra-company trade also plays a crucial role: One quarter of automotive exports from Germany to the US is between business entities with clear common ownership. Simulations further suggest that a transatlantic tariff conflict would halve EU exports to the US and trigger widespread production losses, with Germany's GDP contracting by approximately 0.33% in the long term. To limit these economic damages and build long-term resilience, the EU should accelerate its export diversification by deepening trade ties with Free Trade Agreement partners and enhancing integration within the single market.

Trade policy under the new US administration is undergoing a dramatic shift away from multilateral, rules-based global trade. Since January 2025, the US has proposed tariffs of up to 25% on key partners such as Canada and Mexico while also raising duties on steel and aluminum imports from all countries to 25%. From April 2, a new 25% tariff applies to imports of motor vehicles and car parts regardless of their origin—targeting a globally integrated industry with complex supply chains. In an even more sweeping move, the administration is considering a system of "reciprocal" tariffs—potentially raising US import duties across a wider range of products and trading partners to counter what it sees as unfair foreign tariffs and regulatory barriers.

Beyond the immediate economic impact of this wave of aggressive measures, extreme uncertainty around the direction and implementation of future US trade policy has unsettled businesses, investors, and governments worldwide. In an inter-connected world economy, such rising trade frictions will generate far-reaching spillover effects. The EU is highly vulnerable: In 2024, the US was its top destination for goods exports and the second largest source of goods imports. For Germany, the US market drives a fifth of its global exports and a quarter of its global auto exports. The challenge for Germany as well as the EU is thus twofold: containing the economic damage of these trade tensions with the US and designing a forward-looking strategy to bolster economic growth and resilience in the long term.

Vulnerability of EU exporters and supply chains to trade disruptions

How exposed are EU businesses that serve the US market to this shift in trade policy? To investigate, we draw on detailed data from S&P Global, which tracks goods shipped by sea from the EU to the US. These ocean shipments account for about half of the EU's total goods exports to the US market. Unlike standard trade statistics, this data provides a much more detailed picture of the transatlantic trade relationship. It allows us to see exactly which US companies are buying from which EU suppliers and in which industries. Such a microscopic view of business relationships is crucial for understanding the EU's exposure to US tariff increases and for designing targeted measures to limit economic losses.

Analysis of the latest data from 2024 reveals that the majority of trade relationships between EU exporters and US importers are clustered in four member states: Italy, Germany, France, and Spain (Figure 1). These countries account for 60% of EU maritime exports to the US and 70% of such business relationships. This finding is consistent with EU statistics, which show that a significant share of exporters in these countries serve the US market directly (Italy: 3.6%, Germany: 2.2%, France: 4.8% and Spain: 5.6%).[1]

We also have a detailed view of trade flows at the sectoral level—such as in motor vehicles and parts, which are now directly targeted by new US tariffs. Across the EU, this industry contributed 65 billion euros in exports to the US in 2024. Within the EU, Germany is a leading exporter in this sector. It holds a share of nearly 65% in EU auto exports to the US, spanning 70,000 unique maritime shipments sent to 2,700 different US importing firms in 2024.

In addition to identifying where trade relationships are concentrated geographically, it is equally important to understand *who* is driving EU exports. The data reveal a highly uneven distribution of sales across firms: the top 1% of exporters —ranked by sales to the US and representing roughly 1,000 companies—contribute 63% of EU's total maritime exports to the US. Meanwhile, the bottom 75% account for less than 3%. In the case of Germany and its automotive sector, sales are also driven by large businesses (e.g., Mercedes-Benz, BMW, Volkswagen, and Audi) which together account for approximately 65% of maritime exports to the US in this industry.

This skewed distribution of exports reflects a well-documented feature of global trade, where a small number of large "superstar" firms dominate international markets.[2] These firms not only shape the comparative advantages of their home countries but also play an important role in the transmission of global economic shocks. Given their outsized role in EU exports to the US, they are particularly vulnerable to trade disruptions. In turn, adverse shocks to these firms could have far-reaching effects, cascading through their extensive supply chains and disrupting a wider network of suppliers, industries, and regions across the EU.

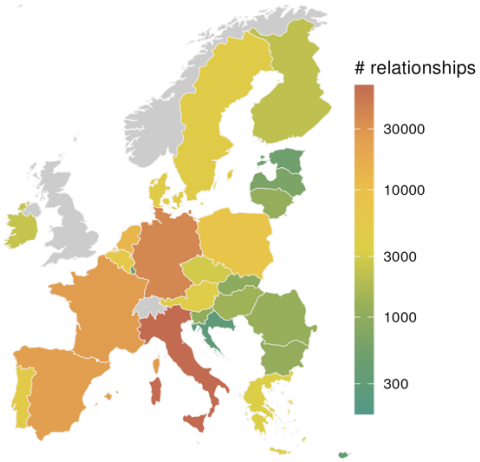
[1] Further details can be accessed via the Eurostat database on trade by enterprise characteristics (code: ext_tec10) (available online).

[2] Caroline Freund and Martha Pierola (2015): Export superstars. Review of Economics and Statistics 97(5): 1023-1032; Cecile Gaubert and Oleg Itskhoki (2021): Granular comparative advantage. Journal of Political Economy, 129(3), 871-939.

Figure 1

Geographical spread of business relationships between EU exporters and US importers

In maritime trade flows for 2024



Source: S&P Global, author's calculations.

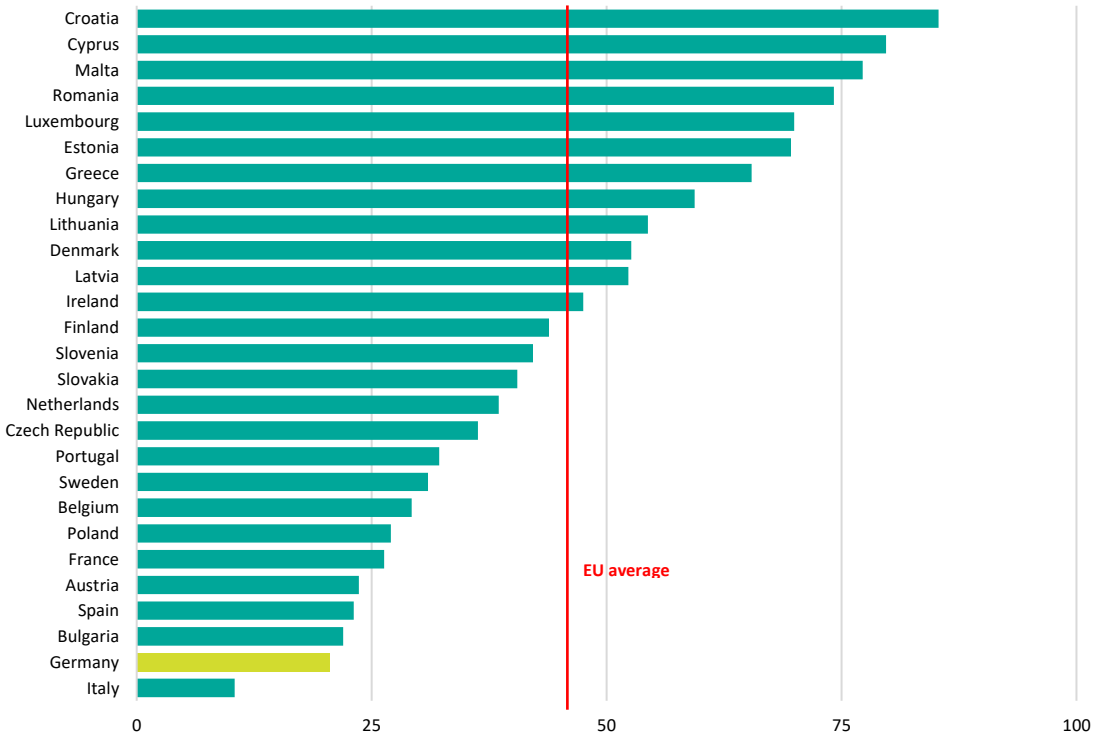
This concentration of trade is striking when we zoom in further—from individual EU exporters to the individual business relationships between EU exporters and US importers. Remarkably, just the top 100 (top 10) of these firm-to-firm links alone account for nearly 25% (8%) of the EU's total maritime exports to the US. This pattern—where a small number of buyer-supplier relationships dominate trade—is observed across all EU members, though the degree of concentration varies.

In Germany, the share of top 10 links in maritime exports to the US is 20.5%, comparable to Spain (23.1%) and France (26.3%) (Figure 2). Exports of relatively smaller economies to the US are significantly more concentrated with the share of top 10 links exceeding 70% in Croatia, Cyprus, Romania, Lithuania and Estonia. These findings highlight a common risk for Germany and across the EU, where reliance on a narrow set of business relationships may increase vulnerability to targeted trade disruptions and shocks affecting key firms.

Figure 2

Concentration of EU exports to the US

Share of the top 10 business relationships (%) in maritime exports to US, for 2024



Source: S&P Global, author's own calculations

In the case of Germany, we can further unpack the importance of these buyer-supplier relationships by breaking down maritime exports to the US along three key dimensions:

firm dimension – i.e., the number of exporters to the US;

relationship dimension – i.e., the average number of US buyers per exporter;

within-relationship dimension – i.e., the average value of sales per exporter–importer relationship.

This decomposition exercise reveals that the *within-relationship* dimension is the strongest driver of Germany's maritime exports to the US. In other words, it is not just the number of exporters or trade relationships that matters, but the scale of trade activity within a select few relationships. Thus, Germany's export performance and its resilience to trade disruptions hinges heavily on a relatively small number of high-value business connections. This pattern also holds for the EU at large.

Building on the above, we can further examine whether these high-value relationships are between independent firms or between entities with a common owner (e.g., Airbus SE headquartered in the EU and Airbus Americas Inc. based in Virginia, US). Here, we find that 2% of all EU exporter – US importer links have a clear common ultimate owner but their share rises significantly among the largest relationships.[3] They account for 24% of the top 1000 EU exporter – US importer links and

[3] Data on ultimate ownership is based on information on public companies reported in the S&P Capital IQ database (available online).

31% of the top 100. This suggests that the internal supply chains of multinational companies play a key role in driving EU exports to the US and are especially vulnerable to disruption if trade tensions continue to rise. For Germany, these business relationships between domestic firms and their US affiliates are crucial. In the motor vehicles sector, one quarter of exports to the US occurs between German and US entities for which we can clearly identify a common owner.

When we look at what is traded within these intra-firm relationships, there is a clear skew towards goods relevant for production in the US. Capital goods (e.g., industrial machinery, construction equipment) account for 37% of export transactions of these firms towards the US. Another 22% of transactions is in intermediate inputs (e.g., steel products and chemicals). In contrast, trade between firms with different owners is skewed more toward final consumer goods (e.g., beverages, cosmetics, home appliances). This distinction is significant: Disruptions in intra-firm trade would not only impact EU exports but also affect manufacturing operations of these firms in the US, given their reliance on imported inputs and equipment from EU affiliates.

While the analysis above highlights the range and type of EU businesses potentially affected by a trade conflict with the US, the impact will extend well beyond these direct exporters. Many companies across the EU supply raw materials, components, or services to firms that export to the US—making them indirectly exposed to trade disruptions. Mapping these ripple effects is far more complex, as it demands detailed, firm-level data on supply chains and production networks across the EU.

Long-run implications of a tariff conflict with the US

To assess the aggregate economic impact of a potential tariff conflict with the US, we conduct simulations using a state-of-the-art quantitative model featuring global supply chains. The model is calibrated with the state of the world as of today and simulates hypothetical states of the global economy in which new tariffs are immediately implemented.

Leveraging this model, we find that a 25% across-the-board tariff imposed by the US on EU goods—along with reciprocal EU measures—would slash EU exports to the US by half in the long-term and significantly hit EU production across key sectors, including pharmaceuticals (-9.3%), transport equipment (-7.7%), motor vehicles (-4.1%), and electronics (-2.3%). Under this scenario, the EU's real GDP drops by 0.25% (on average across members), with Germany experiencing a marked GDP reduction of approximately 0.33%.[4]

However, the EU could offset the losses from US tariff threats by deepening trade ties with its existing FTA partners such as Canada, Mexico, Japan, South Korea, and Vietnam. This would involve reducing so-called "non-tariff barriers" to trade by streamlining customs procedures, improving transport infrastructure or strengthening regulatory cooperation. Simulations show that such an approach not only neutralizes the economic damage of a tariff conflict with the US but also generates tangible GDP gains across all EU member states over the long term. Crucially, such a strategy would allow the EU to truly "de-risk" —reducing its reliance on US demand while expanding exports to other markets.

Conclusion: Building long-term resilience through a more diversified export structure

Drawing upon these findings, we outline three key recommendations for EU policymakers. First, the EU should enhance its capacity to identify and monitor systemically important businesses and supply chain relationships. This requires more investment in data infrastructure and deeper coordination

[4] Detailed findings from this analysis are published in Sonali Chowdhry, Julian Hinz and Hendrik Mahlkow (2025): Trading partners? Europe's Options against Trump's Tariffs. Heinrich Boell Foundation Policy Brief (available online). URL: https://eu.boell.org/en/trading-partners

among member states' national statistical agencies, researchers, and industry. Mapping these firm-level trade and production networks is essential for the bloc to properly assess risks and implement targeted interventions.

Second, the EU needs to prepare for the distributional consequences of these trade disruptions and ensure that the economic burden of a tariff conflict is shared more equitably. This may require further scaling up of existing instruments such as the European Globalisation Adjustment and Regional Development Funds to assist displaced workers. Strengthening the EU Single Market may also help to cushion the losses from these negative external shocks to trade.

Finally, the sheer concentration of trade within a small set of firms and their business relationships highlights the importance of de-risking the EU's export structure. In such contexts, the disruption of a few key relationships could result in disproportionately large economic costs. To mitigate these risks, the EU should push ahead with targeted diversification measures. These could range from dismantling barriers to trade within the EU to supporting firms in accessing new markets, improving the utilization of existing trade agreements, and expanding the bloc's network of trade partnerships. Such a strategy would promote the EU's economic growth and resilience over the long term, independent of future shifts in US trade policy.

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