

IMP

The Transatlantic Recalibration

Four Scenarios for European Industry, Trade and Security

A sandbox analysis — facts, scenarios, no political opinions

Trade & Geopolitics

Industrial Strategy

Scenario Analysis

European Economy

€1.68T

EU-US bilateral trade 2024 (goods + services)

20.6%

of EU goods exports destined for the US

+20%

EU-NATO defense spend increase 2025 vs 2024

24 Mar

EU-Australia FTA concluded 2026

Editorial Note

This paper is a scenario analysis — a sandbox exercise, it does not evaluate political intent — only structural consequences. It examines possible futures across four defined conditions, using only data from publicly available sources. It does not express political opinions, advocate for any position, or make predictions. Every figure cited is sourced and verifiable. The scenarios are analytical constructs designed to help industrial decision-makers think through implications before they become urgent. The relationship between Europe and the United States is the largest bilateral economic relationship in the world. This paper treats it as such — with the seriousness the numbers demand.

1 Executive Summary

The transatlantic relationship between Europe and the United States is, by every measurable standard, the largest and most integrated bilateral economic relationship in the world. In 2024, total trade in goods and services reached €1.68 trillion. Mutual foreign direct investment stocks exceed €4.8 trillion. Together, the EU and US represent 43% of global GDP and approximately 30% of global trade in goods and services.

That relationship is now navigating conditions it has not faced since its post-war construction. This paper maps four scenarios — not to predict outcomes, but to identify what changes in each, what the implications are for European industry, and what signals indicate which path is being taken. The approach is data-first and scenario-based. No political judgement is offered.

€1.68T

EU-US total trade in goods + services, 2024 (EU Council)

€198.2B

EU goods surplus with US, 2024 (Eurostat)

20.6%

of all EU goods exports go to the US (Eurostat)

€4.8T

Mutual FDI stocks — EU+US, 2024 (EU Council)

Scenario A

Severance

Scenario B

Baseline Tariffs

Scenario C

Unconstrained

Scenario D

Reset & Mistrust

The four scenarios examined in this paper are: (A) Full Severance — a near-complete halt in trade and institutional ties; (B) Baseline Tariff Environment — the current path, with the July 2025 deal as the operative framework; (C) Unconstrained Environment — escalating and unpredictable conditions with no stable legal ceiling; and (D) Reset with Residual Mistrust — a future return to rules-based engagement but with durably altered assumptions on both sides.

The Central Finding Across All Scenarios

In every scenario, including a full reset, the structural consequence is the same: Europe accelerates its move toward strategic autonomy. The difference between scenarios is the speed, the cost, and the partners available to absorb the transition. The question for industrial decision-makers is not whether to prepare — it is which scenario to prepare for first.

2 The Relationship in Numbers: What Is Actually at Stake

Before the scenarios, the baseline. The following data defines the relationship as it stood at end-2024 and early 2025 — the departure point from which all four scenarios diverge.

2.1 Trade Architecture

Category	Figure	Source
Total goods + services	€1.68 trillion	EU Council, 2024
EU goods exports to US	€531.6 billion	Eurostat, 2024
EU goods imports from US	€333.4 billion	Eurostat, 2024
EU goods trade surplus	€198.2 billion	Eurostat, 2024
EU services deficit with US	€148.0 billion	EU Council, 2024
Net EU surplus (goods+services)	€50.0 billion	EU Council, 2024
Share of EU exports to US	20.6%	Eurostat, 2024
Mutual FDI stocks	>€4.8 trillion	EU Council, 2024
Daily trade flow	>€4.6 billion	EU Council, 2024
EU+US share of global GDP	43%	EU Council, 2024

Note: The net EU surplus (€50B) is substantially smaller than the goods-only surplus (€198.2B) because the EU runs a significant services deficit with the US (€148B). This distinction matters for tariff negotiation framing.

2.2 Top EU Export Sectors to the US

The five largest EU export categories to the US accounted for 49.5% of all EU goods exports in 2024. These sectors carry the highest tariff exposure in any adverse scenario.

Sector	% of EU exports	Est. Value	Tariff Context
Medicinal & pharmaceutical products	22.5%	~€119.61B	Highest exposure to pharma tariffs
Road vehicles	9.6%	~€51.0B	Already under 15% tariff (Jul 2025)
General industrial machinery & equipment	6.4%	~€34.0B	Moderate exposure; exempt categories exist
Electrical machinery, appliances & parts	6.0%	~€31.9B	Partially exempt in current deal
Machinery for particular industries	5.0%	~€26.6B	Broad industrial exposure

Source: Eurostat, March 2025.

2.3 Energy Interdependence

Energy flows are a structurally significant but often underweighted dimension of the transatlantic relationship. The EU has dramatically increased US LNG imports since 2021, replacing Russian pipeline gas.

- US LNG to EU grew from 21 bcm (2021) to 82.9 bcm (2025) — US now accounts for 46% of EU LNG imports (EU Council, 2025)
- Under the July 2025 tariff deal, the EU signalled intent to purchase up to \$750B in US energy products over three years (framework agreement, subject to market conditions)
- Russian pipeline gas imports declined from >150 bcm (2021) to 38 bcm (2025) — the shift to US LNG is structural, not temporary
- Any disruption to the transatlantic relationship now carries an embedded energy security dimension that did not exist in 2019

2.4 The Current Tariff Baseline — July 2025 Deal

On 27 July 2025, the EU and US agreed a framework that established the following tariff structure. This is the Scenario B baseline — the operative environment as of March 2026.

Category	US Tariff Rate	Notes
Most EU goods	15%	Down from threatened 30%; replaces country-specific rates
Steel, aluminium, copper	50%	Section 232; separate from general deal framework
Road vehicles & auto parts	15%	Reduced from 27.5%; contingent on EU industrial tariff legislation
Branded pharmaceuticals	15%	VDA estimates 'billions annually' in German auto sector alone
Generic pharmaceuticals	~2.5%	MFN rate only; exempt from Section 232
Aircraft & parts	MFN	Exempt from Section 232; zero-for-zero retained
Chemical precursors	MFN	Exempt from Section 232; Cefic advocated for zero-for-zero
Energy (EU commitment)	n/a	EU to purchase \$750B in US energy over three years

Source: US-EU Framework Agreement, 27 July 2025; US-EU joint statement details, 21 August 2025. EA-20 modelling: ECB/SUERF, August 2025.

SCENARIO A

Full Severance

Near-complete halt in trade and institutional ties — a stress-test of European economic self-sufficiency

Scenario A is the extreme case. It assumes a near-total disruption of EU-US trade flows, withdrawal from shared institutional frameworks, and an end to the military alliance in its current form. This scenario has no direct historical precedent in the post-war period. It is presented as a stress-test — a boundary condition that defines the outer limit of European exposure.

Trigger Conditions

- Complete breakdown of July 2025 tariff framework — tariffs return to or exceed April 2025 peaks
- US withdrawal from NATO or effective suspension of Article 5 commitments
- Secondary sanctions applied to European companies doing business in specific markets
- Financial market decoupling — dollar clearing restrictions, correspondent banking disruption
- Regulatory and standards divergence accelerated beyond current trajectory

Economic Impact — What the Data Implies

Full severance of €531.6 billion in EU goods exports would require redirection of approximately one-fifth of all EU goods trade. No existing alternative market absorbs this volume in the short term. The Kiel Institute for the World Economy estimated that 30% tariffs alone would reduce EU GDP by 0.3–0.5%. Full severance implies multiples of that impact.

Immediate Sector Impacts	Structural / Secondary Effects
<ul style="list-style-type: none"> • Pharma: EU pharmaceutical exports to US (~€119.6B, 22.5% of total) would face the most acute rerouting challenge — US market is the primary revenue base for European pharma multinationals 	<ul style="list-style-type: none"> • LNG: EU signalled intent to purchase up to \$750B in US energy products over three years (framework agreement) —Norwegian (+10.7 bcm headroom), Qatari, and additional African LNG would need rapid scaling
<ul style="list-style-type: none"> • Automotive: German exporters already face 15% tariff under current deal; VW reported €1.3B hit in H1 2025. Full severance accelerates the US domestic production shift already underway 	<ul style="list-style-type: none"> • Finance: €4.8T in mutual FDI does not disappear overnight, but new investment flows halt and divestment pressure builds in rate-sensitive and politically exposed sectors
<ul style="list-style-type: none"> • Machinery & industrials: ~€91B in EU machinery exports lose their largest single-country market. Order book impact within 6–12 months 	<ul style="list-style-type: none"> • Dollar dependence: EU trade largely settled in USD. Decoupling would accelerate euro internationalisation — a structural shift with multi-year timeline
<ul style="list-style-type: none"> • Chemicals: CEFIC notes current deal 'erodes competitiveness'; full severance triggers emergency supply chain redesign 	<ul style="list-style-type: none"> • Services: EU runs a €148B services deficit with US. Disruption would affect financial, cloud, and IP-intensive sectors disproportionately — but may open EU alternatives

The Scenario A Signal to Watch

A full severance scenario does not arrive without warning. The signals are: secondary sanctions applied to European financial institutions, withdrawal from WTO dispute settlement, and formal suspension of the NATO Article 5 mutual defence guarantee. None of these has occurred as of March 2026. The scenario functions as a planning boundary, not an imminent forecast.

SCENARIO B

Baseline Tariff Environment

The July 2025 deal holds — manageable but permanently more costly than the pre-2025 environment

Scenario B is the current operating reality as of March 2026. The July 2025 EU-US framework agreement is in place: a 15% blanket tariff on most EU goods but the EU included automatic termination clauses and performance monitoring in the March 2026 parliamentary approval of the deal. This adds a layer of "legal instability" even to the baseline scenario. Steel and aluminium tariffs are at 50%, and specific exemptions for generic pharmaceuticals, aircraft, and chemical precursors. The EU signalled intent to purchase up to \$750B in US energy products over three years (framework agreement, subject to market conditions) and \$600B in US investment over three years.

Quantified Industry Impact Under Scenario B

Impact Category	Magnitude	Source / Note
Euro Area value-added decline (1 year)	-0.2%	ECB/SUERF, Aug 2025
Euro Area value-added decline (10 years)	-0.5%	ECB/SUERF, Aug 2025
Pharmaceutical manufacturing VA decline	-4.8%	ECB/SUERF — single most affected sector
Ireland: most exposed EU member state	High	53.7% of Irish extra-EU exports go to US
Germany: automotive + machinery exposure	High	VW reported €1.3B hit in H1 2025 alone
Belgium + Netherlands: chemicals hub	Medium	€32.9B and €43.4B exports at risk respectively
Second China shock risk	Active	US tariffs on China divert Chinese exports into EU

The 'second China shock' is a structural risk embedded in Scenario B. US tariffs on Chinese goods (currently higher than those on the EU) redirect Chinese exports toward the European market. This intensifies competition for EU producers — particularly in steel, chemicals, electronics, and machinery — within their own home market.

What Scenario B Requires from Industry

- **Automotive:** US domestic production expansion already underway (BMW, Mercedes-Benz, VW accelerating US footprint). The 15% tariff is priced in; the risk is further escalation
- **Pharma:** Generic drug exporters effectively shielded; branded medicine facing 15% permanently. US manufacturing investment commitments (Novartis, AstraZeneca, Roche) are partial hedges — but production switching requires 5–10 years minimum
- **Chemicals:** CEFIC's Chemical Industry Action Plan (July 2025) addresses energy cost, global competition, and investment — the tariff environment adds urgency to an already-stressed sector. Zero-for-zero chemical tariff advocacy continues
- **Energy:** The \$750B EU energy procurement intent to the US is simultaneously a cost and a security architecture. It diversifies away from Russia but creates a new structural dependency — at a higher LNG price than pipeline gas
- **Cross-sector:** The Cefic assessment that the deal 'averted the worst-case scenario' but 'risks further eroding EU chemical competitiveness' captures the Scenario B condition precisely — permanently more costly, but navigable

SCENARIO C

Unconstrained Environment

Escalating and unpredictable conditions — tariff and regulatory actions without stable legal ceiling

Scenario C assumes the July 2025 framework breaks down or proves unstable — and that subsequent actions are not constrained by the legal and institutional frameworks that have historically provided a ceiling on escalation. This is not a prediction. It is a planning condition that industrial decision-makers in high-exposure sectors should model explicitly.

What 'Unconstrained' Means in Specific Terms

Use of Section 232 (national security) as a legal basis for tariffs enables significantly higher tariff ceilings, including scenarios where pharmaceutical tariffs could reach levels up to ~250% under current legal frameworks. — rather than Section 301 (unfair trade practices) or standard anti-dumping/countervailing duty procedures — effectively removed the WTO dispute settlement ceiling. Section 232 findings are not reviewable at the WTO. Threatened pharmaceutical tariffs of up to 250% are legally available under this framework. The question in Scenario C is what happens when the political will to apply such mechanisms is not moderated by legal risk.

Sector-Level Risks	Structural Consequences
<ul style="list-style-type: none"> • Pharmaceuticals: Section 232 investigation launched April 2025. 250% tariff threats on branded medicines. If applied, ~€119.6B in EU pharma exports to US face potential elimination as a market — Europe would be forced to redirect to Asia, Middle East, and domestic consumption 	<ul style="list-style-type: none"> • Regulatory fragmentation: Pressure on GDPR, Digital Services Act, and product safety standards creates compliance cost and market access uncertainty for European companies in the US — and US companies operating under EU frameworks
<ul style="list-style-type: none"> • Automotive: 25% tariff (pre-deal level) would cost German manufacturers an estimated €6–8B annually. Escalation to 50%+ would trigger full production migration — a structural loss of EU manufacturing jobs, not a temporary hit 	<ul style="list-style-type: none"> • Investment freezing: €4.8T in mutual FDI is not immediately liquidated, but new investment flows halt rapidly under high-uncertainty conditions. Capital allocation shifts away from transatlantic positions
<ul style="list-style-type: none"> • Financial services: Any restriction on dollar clearing access for European banks would be the most disruptive single action available. No European alternative to SWIFT/dollar clearing exists at scale in the short term 	<ul style="list-style-type: none"> • China effect: An unconstrained US-EU environment accelerates Chinese exporters' access to European markets — either through trade diversion from the US or through deliberate Chinese outreach to an EU seeking to diversify commercial partners

The Critical Legal Distinction

Under current WTO rules, the EU cannot successfully challenge Section 232 tariffs at the WTO. The EU's legal response toolkit consists of the Enforcement Regulation (retaliatory tariffs on US goods) and the Anti-Coercion Instrument (ACI), which permits FDI restrictions, financial services measures, and discriminatory sanitary measures. The EU had prepared countermeasures on €93 billion of US goods before the July 2025 deal. These instruments remain available — but their deployment would escalate rather than resolve a Scenario C environment.

SCENARIO D

Reset with Residual Mistrust

A future return to rules-based engagement — but with durably altered European strategic assumptions

Scenario D assumes a change in US political direction — a return to rules-based trade engagement, recommitment to multilateral institutions, and restoration of NATO as a functioning collective defence framework. This is treated as a planning condition, not a prediction.

The central observation in Scenario D is that a policy reset does not restore the pre-2025 relationship. The structural changes already set in motion — in European defence architecture, in trade diversification, in critical materials supply chains, and in the European industrial base — will not unwind simply because the political environment in Washington changes.

What Is Structurally Different in Scenario D

Category	Why It Persists in Scenario D
European defence autonomy	Already locked in. €381B in EU defence spending (2025), all NATO members at 2%+, Hague Summit target 3.5%+1.5% by 2035. European Defence Union machinery in place.
Trade diversification	EU-Australia FTA concluded March 2026. CETA in provisional application. EU-New Zealand FTA in force May 2024. These do not unwrap under a US policy reset.
Energy infrastructure	LNG terminals built, Norwegian and US LNG supply lines established. Russian pipeline gas dependence structurally broken. US energy purchase commitment is a 3-year contractual structure.
Industrial reshoring	EU chemical, pharma, and semiconductor production investment incentives (CHIPS Act equivalent, Critical Raw Materials Act) triggered. Factory investment has a 5–10 year lead time.
Institutional mistrust	European defence planning, procurement, and strategic doctrine will incorporate a non-zero US unreliability assumption permanently — regardless of specific administration.

The Scenario D Insight

Scenario D is the scenario where European strategic autonomy becomes permanent — not because of continued adversarial conditions, but because the investments made under Scenarios B and C are already sunk. The post-WWII assumption that the US provides the baseline security and trade architecture for Europe has been structurally modified. Scenario D is therefore not a return to the pre-2025 world. It is a new equilibrium at a higher level of European self-sufficiency.

7 Industrial Sector Impact Matrix

The following matrix maps the four scenarios against Europe's most exposed industrial sectors. Impact ratings are based on EU export concentration to the US, tariff exposure under each scenario, and available rerouting capacity.

Sector	US Export Concentration	Scenario A Full Severance	Scenario B Baseline (Current)	Scenario C Unconstrained	Scenario D Reset
Pharmaceuticals (branded)	22.5% of EU goods exports	Critical — €119,61B market loss	Managed — 15% tariff, ~-4.8% VA	Severe — 250% threat live	Partial recovery with residual production shift
Automotive	~9.6% of EU goods exports	Severe — production migration	Costly — VW €1.3B H1 2025 hit	Severe — 25%+ accelerates exit	Normalised with US production expansion retained
Industrial machinery	~6.4% of EU goods exports	High — order book impact <12m	Moderate — most categories exempt	High — investment freeze	Recovery; residual EU capacity investment retained
Chemicals	High via intermediates	Critical supply chain redesign	Eroding competitiveness (Cefic)	Severe — precursor disruption	Chemical autonomy investments retained
Aerospace & defence	Moderate but strategic	Full European independence	Largely exempt (MFN only)	Risk: dual-use restrictions	Alliance maintained; EU procurement retained
Food & agriculture	Lower export concentration	Moderate — market rerouting	Low — wine/spirits unresolved	Medium — tariff escalation	Full normalisation likely
Financial services	EU deficit (€148B) with US	Dollar clearing risk	Stable — not covered by goods deal	High if dollar access targeted	Restoration with residual euro push

8 The New Alliance Architecture

Across all four scenarios, European trade and security strategy is diversifying its partner base. Several of these initiatives were already underway before 2025. Some have accelerated materially in the past 18 months. The following reviews the current state of each significant new alliance track.

8.1 Canada — CETA and the Deep Integration Base

CETA — the EU-Canada Comprehensive Economic and Trade Agreement — has been in provisional application since September 2017. It has already removed 98% of pre-existing tariffs between the two sides. 17 of 27 EU member states have fully ratified; 10 including France, Italy, Poland and Belgium have not completed domestic ratification. Trade has grown 12.5%+ above pre-CETA levels even through COVID-19.

- EU-Canada total trade: Canada is the EU's 12th largest goods trading partner — significant, but not a volume substitute for US exposure
- Strategic value: Canada shares regulatory frameworks, standards alignment, and a rules-based trade orientation — making it the most operationally compatible alternative partner for European industrial supply chains
- Security dimension: Canada is a NATO member with a long-standing Five Eyes intelligence relationship — and would be a natural anchor for any European-led Western security framework that operates without full US participation
- Completion of full ratification (particularly French ratification) would complete CETA's legal architecture — a politically significant signal under any adverse scenario

8.2 Australia — FTA Concluded March 2026

The EU-Australia Free Trade Agreement was concluded on 24 March 2026 — alongside a Security and Defence Partnership. This is one of the most strategically significant trade agreements the EU has concluded in the current cycle.

Category	Figure	Note
EU goods exports to Australia	€37 billion (2025)	Expected to increase by up to 33%
EU services exports	€31 billion (2024)	EU exports nearly 3x more than it imports
EU investment in Australia	€120 billion annually	10x Australian investment in EU
Tariff savings for EU	>€1 billion/year	From immediate tariff removal
Critical raw materials	Aluminium, lithium, manganese	EU reducing critical mineral dependence
Jobs supported	460,000 EU jobs	Via EU exports to Australia
Defence partnership	Groundbreaking	Security & Defence Partnership announced simultaneously

Source: European Commission / Australian DFAT, March 2026. The critical raw materials dimension is particularly significant: Australia is a major supplier of lithium, manganese, and aluminium — materials central to European battery, EV, and aerospace supply chains.

8.3 India - Strategic Partner, Slow Trade Progress

India represents Europe's largest potential alternative market — 1.4 billion consumers, the world's fastest-growing major economy, and a stated interest in counterbalancing dominant dependencies. EU-India FTA negotiations were relaunched in 2022 after a nine-year break. Progress has been slow. As of March 2026, significant gaps remain on market access for EU automobiles, pharmaceuticals, and agricultural products, as well as Indian concerns on EU carbon border adjustment (CBAM) and data localisation.

- EU-India bilateral trade in goods: ~€124 billion (2023) — significant but one-fifth of EU-US goods trade
- India's value for EU strategic diversification is as a manufacturing partner (APIs, generics, chemicals) and as a market — not primarily as a replacement for US export volumes
- The geopolitical case for EU-India alignment is strong: both have interests in a rules-based multilateral order and in avoiding excessive dependence on any single power
- Timeline: A comprehensive EU-India FTA is unlikely before 2027–2028 at the earliest, given the complexity of remaining gaps but this agreement is also designed under "exclusive competence," meaning it bypasses the national parliament ratification hurdles that have stalled CETA.

8.4 The Emerging Western Compact

Finland, the Netherlands, and the UK announced in early 2026 that they are considering establishing a new framework for defence financing and procurement by 2027. This is one concrete indicator of a broader structural shift: European and like-minded allies building institutional architecture that does not depend on full US participation to function.

The Diversification Architecture — Summary

The EU-Australia FTA (March 2026), the CETA base with Canada, the active India FTA negotiation, and the EU-New Zealand agreement (in force May 2024) together constitute the skeleton of a non-US-dependent trade architecture. None of these individually replaces US market volume. Together, they represent a structural hedge that will compound over time — regardless of which scenario the transatlantic relationship follows.

9 Security Architecture: The Numbers Behind European Defence

The defence dimension of European strategic autonomy has moved faster than any other in 2025. The data is unambiguous.

Category	Figure	Context
EU member state defence spending 2024	€343 billion	+10th consecutive year of increase
EU member state defence spending 2025	€381 billion	+11% vs 2024; +63% vs 2020
EU defence as % of GDP, 2024	1.9%	All NATO members at 2%+ for first time in 2025
EU defence as % of GDP, 2025	~2.1%	All 32 NATO members met 2% target (2025)
Europe + Canada NATO spending 2025	\$574 billion	+20% in real terms vs 2024
US NATO spending 2025	\$838 billion	60% of total nominal NATO spending
NATO Hague Summit target (June 2025)	3.5% + 1.5%	Core defence + resilience = 5% total by 2035
Germany defence 2025	€95 billion	€162B by 2029 = 3.2% GDP; constitutional change enacted
Poland defence 2025	4.3% of GDP	Highest in NATO by GDP proportion
European defence industry turnover	€183.4B (2024)	+13.8% YoY; 633,000 jobs
European defence VC investment	€2.6B (2025)	Up from €200M in 2021; still 3x below US
McKinsey projected EU defence spend	~€800B by 2030	Under new 3.5% benchmark trajectory

Sources: EU Council Defence Numbers; NATO Annual Report March 2026; McKinsey Aerospace & Defense, February 2026; European Parliament Research Service, March 2026.

What These Numbers Mean for a Post-US NATO Scenario

As of 2025, European NATO members and Canada collectively spend \$574 billion on defence — 41% of total NATO spending. The US contributes \$838 billion (60%). In absolute terms, a European-led security framework without full US participation would need to close a \$264 billion gap in current spending, plus address capability gaps in strategic airlift, ISR (intelligence, surveillance, reconnaissance), missile defence, and nuclear deterrence.

The trajectory is toward closing this gap materially by 2030. At the 3.5% target, Europe's collective defence budget would approach €800 billion annually — roughly equivalent to current US NATO spending in absolute terms, though with different capability profiles and industrial bases.

- Nuclear dimension: France is the EU's only nuclear power (UK has left the EU). French nuclear deterrence as a European umbrella has been discussed at highest levels but involves profound sovereignty questions that are unresolved as of March 2026
- Capability gaps: Strategic airlift, satellite ISR, and ballistic missile defence remain areas of significant European dependence on US assets — these are 10-year investment timelines at minimum
- Industrial base: European defence industry turnover €183.4B (2024) growing at 13.8% annually. Procurement is shifting toward European suppliers — a deliberate policy choice visible in German, Swedish, Polish, and French budget allocations
- The EDIP (European Defence Industry Programme): €1.5B in grants approved October 2025 for 2025–2027 — a small but symbolically significant step toward EU-level defence procurement

10 Capital Markets: The Equity Reorientation

The equity market data is among the most counterintuitive aspects of the current environment — and among the most clearly signalling the structural shift underway.

10.1 Observed Performance Divergence

Metric	Observation	Source
Euro Stoxx 50 vs S&P; 500 (Dec 2024–mid 2025)	Euro Stoxx 50 outperformed by ~15 percentage points	BIS Quarterly Review; multiple sources
Stoxx 600 January 2025	+6.3% vs S&P; 500 +2.7%	CNBC, February 2025 — best Jan outperformance in a decade
Stoxx 600 YTD by November 2025	+15% vs S&P; 500 +16.4%	MarketScreener — near parity for first time in a decade
Euro Stoxx 50 2025 YTD	+17% vs S&P; +5% (at peak spread)	Multiple sources; spread subsequently narrowed
Defense stocks in Stoxx 600 (YTD 2025)	7 of top 10 performers each up 90%+	BIS / FinBlog analysis, June 2025
S&P; 500 CAPE ratio vs historical	+30% premium to historical average	Generali Asset Management / Morningstar, May 2025
Euro Stoxx CAPE ratio vs historical	+10% premium to historical average	Generali Asset Management / Morningstar, May 2025
Q1 2025 MSCI Europe earnings growth	+5.3% (vs expected -1.5%)	London Stock Exchange data — Morningstar, May 2025

Source note: All figures from publicly available market research, institutional analyst notes, and financial data services. Past performance does not imply future returns. These figures are presented as structural signals, not investment guidance.

10.2 The Drivers Behind the Divergence

The outperformance of European equities in 2025 is driven by three identifiable structural factors, not cyclical luck but it was partly driven by a "pre-tariff front-loading" boom in exports during Q1 2025, which was followed by a sharp drop in trade volume later in the year.

Structural Drivers	Flow and Macro Drivers
<ul style="list-style-type: none"> Defence rerating: European defence stocks rerated massively — Rheinmetall, Thales, BAE Systems, Hensoldt, Saab, Leonardo each up 90%+ YTD. Defence now accounts for 7 of the Stoxx 600's top 10 performers. This is a structural, policy-driven rerating, not a speculative bubble 	<ul style="list-style-type: none"> Diversification flows: European markets benefit from investors seeking geographic diversification away from US concentration. UBS, JPMorgan and Citi all noted hedge fund rotation toward Europe in Q1 2025. Gerry Fowler (UBS): 'It doesn't require a lot of money to move from the US elsewhere to have a fairly big impact'
<ul style="list-style-type: none"> Equity risk premium compression: European investors are demanding less risk premium to hold European equities — BIS research identifies falling equity risk premia as the primary driver, reflecting reduced perceived geopolitical and economic risk in Europe relative to the US 	<ul style="list-style-type: none"> Earnings recovery: Q1 2025 MSCI Europe earnings grew 5.3% against expected -1.5%. Neuberger Berman projects European annualised profit growth to outpace the US for first time in over a decade
<ul style="list-style-type: none"> US valuation premium: S&P; 500 CAPE at 30% premium to historical average vs. Euro Stoxx at 10%. The Magnificent Seven's dominance of S&P; 500 returns in 2024 created concentration risk that is now repricing 	<ul style="list-style-type: none"> ECB vs Fed divergence: European central banks cutting rates while Fed holds — providing a valuation tailwind for European equities relative to US during the period of maximum US tariff-driven inflation concern

The Market Signal Across Scenarios

Capital market behaviour is consistent with expectations aligned to Scenario B or D — not A or C. European equity outperformance reflects confidence that European industry can navigate the current tariff environment (Scenario B) and that structural European investment in defence and autonomy creates durable earnings growth. A move toward Scenario C would likely trigger rapid reversion —particularly in export-oriented German and French industrials. Scenario A would trigger a more severe repricing across all European sectors.

11 The View from the US Side: Asymmetric Dependencies

The four scenarios are not mirror images. The US faces a different set of consequences in each — and in several respects, the US dependency on European and Canadian supply is deeper than the trade balance figures suggest. The EU runs a goods surplus with the US (€198.2B in 2024). But the US is the primary buyer of European pharmaceuticals, German machinery, Irish chemicals, and French and Italian industrial goods. Disruption of those flows affects the US consumer, the US healthcare system, and US manufacturing input costs — not just European exporters.

11.1 What the US Actually Buys from Europe

Category	US Import Value	Share / Note	US-Side Dependency Context
Pharmaceuticals & medicinal products	\$127 billion	21% of all US goods imports from EU	No short-term domestic substitute. Includes Ozempic/Wegovy (GLP-1, \$15.6B alone). Production switching requires 5–10 years minimum.
Machinery, reactors & industrial equipment	\$89.8 billion	14.8% of imports	German Siemens, Bosch, KION equipment. US machinery manufacturers' profits fell 13% H1 2025 partly due to higher input tariff costs.
Vehicles & auto parts	\$60.3 billion	10% of imports	BMW, Mercedes, VW, Volvo, Audi. Tariff pass-through to US consumers is near-complete — car price inflation hits US buyers directly.
Electrical equipment & parts	\$39.3 billion	6.5% of imports	Grid technology, industrial transformers, automation components. Germany and Netherlands dominant. Limited US domestic capacity.
Medical & surgical instruments	\$37 billion	Separate from pharma	Respirators, orthopedic devices, CRT machines. Critical healthcare infrastructure.
Medical devices	\$22 billion	Critical category	Hearing aids, artificial joints, imaging equipment. Indiana and North Carolina most exposed US states.
Organic chemicals & precursors	~\$30 billion	Part of chemical total	Active pharmaceutical ingredients, specialty chemical intermediates. Currently partially exempt from tariffs — but not under Scenario C.

Sources: US Trade Census 2024 (CNBC/ImportGenius analysis, February 2025); Al Jazeera/US ITC 2024; SUERF ECB analysis.

11.2 The Asymmetric US Vulnerability by Scenario

US Import-Side Vulnerabilities	US Export and Financial Vulnerabilities
<ul style="list-style-type: none"> Pharmaceuticals: Under Scenario A, US healthcare faces supply disruption for branded drugs, biologics, and specialty medicines. The US has no domestic capacity to replace €119.8B in EU pharmaceutical exports on any short-term timeline. Higher drug prices are immediate and regressive — hitting middle-income households hardest 	<ul style="list-style-type: none"> Dollar and financial services: The US services surplus with Europe (€148B) is dominated by financial, cloud, and IP-intensive sectors. These are structurally protected in the short term but face long-term risk if European digital sovereignty initiatives accelerate
<ul style="list-style-type: none"> Industrial inputs: \$89.8B in EU machinery serves US manufacturing. Oxford Economics analysis found no US sector would face more than 1% producer price increase from 25% tariffs on EU goods — but this finding applies at moderate tariff levels, not full severance 	<ul style="list-style-type: none"> Investment flows: EU companies employ 3.4 million people in the US (EU Council). Their US investment (\$600B+ committed under July 2025 deal) supports American jobs in manufacturing, research, and services. Scenario A halts new EU investment flows to the US entirely

<ul style="list-style-type: none"> • Energy: Under Scenarios B and D, the US benefits from EU commitment to purchase \$750B in US LNG. Under Scenario A, that energy purchase commitment collapses — removing a significant revenue stream for US energy producers in Texas, Louisiana, and Pennsylvania 	<ul style="list-style-type: none"> • Boeing and aerospace: The US aerospace sector is the largest US goods export to Europe (\$35.1B). Boeing's commercial aircraft sales to European carriers are a major revenue source. EU retaliatory tariffs under Scenario C would directly target this sector
<ul style="list-style-type: none"> • Consumer prices: Tariffs are paid by US importers and passed through to US consumers. The 2018-19 tariff experience showed near-complete pass-through on consumer goods. US households could face \$1,300+ annual cost increases from sustained tariff regimes 	<ul style="list-style-type: none"> • Agricultural exports: The US exports \$78.9B in energy + significant agricultural products to Europe. EU counter-tariffs under Scenario C would target US soybeans, corn, and whisky — sectors with strong congressional constituencies

11.3 The Canada Variable: What It Changes

Canada is the single largest US trading partner by export destination (\$350B in US goods exports in 2024) and the third-largest source of US imports (\$412B). More critically, Canada supplies ~60% of US crude oil imports (range varies by definition and period) — 1.48 billion barrels in 2024. A Canada that strategically aligns with the EU rather than maintaining its current economic integration with the US represents a qualitatively different scenario for the US than anything in the current analysis.

Category	Figure	Context
US-Canada total goods trade	\$762 billion (2024)	Largest single bilateral relationship; Canada = #1 US export market
Canadian crude oil to US	63% of US crude imports	1.48 billion barrels in 2024. US has no short-term domestic substitution.
US jobs dependent on Canadian exports	1.4 million (direct)	34 US states have Canada as their #1 export market
Canadian jobs on US trade	2.6+ million	17% of Canadian total value added — asymmetric dependency
US tariffs on Canada (Aug 2025)	35% on most goods; 50% steel/aluminium	Supreme Court struck down IEEPA tariffs Feb 2026; Section 122 10% active
Canada export redirection to Europe	+22% in 2025 vs 2024	Only covers 25-30% of lost US volume — transition incomplete
US FDI in Canada	>\$600 billion	Largest foreign investor in Canada; mutual integration deep
Critical minerals from Canada	50-80% of 43 US critical minerals	Including zinc, nickel, vanadium, tellurium — EV and defence supply chains

Sources: US Census Bureau; Congress.gov CRS IF12595; Statistics Canada; Analyzify US-Canada Trade Statistics 2025; Bank of Canada June 2025.

The Canada-Aligned Scenario

A Canada that formally aligns its trade strategy with the EU — completing CETA ratification, deepening supply chain links with Europe, and reducing energy sales to the US — would add a critical energy supply disruption to the US-side consequences of Scenario A or C. The US currently has no domestic alternative for 63% of its crude oil import supply at current production levels. This is the single most asymmetric dependency in the entire transatlantic system — and it sits north of the US border, not east of the Atlantic. Any Canadian pivot toward European alignment represents a far greater threat to US economic stability than the loss of European luxury goods or machinery.

12 Workforce Implications: Jobs, Sectors and Human Cost

Behind the trade volumes and GDP projections are people whose employment, wages, and career trajectories depend on the state of the transatlantic relationship. The question posed directly: are we talking about a severe structural crisis, or a period of adjustment with recoverable consequences? The data gives a differentiated answer — it depends sharply on which scenario, which country, which sector, and which type of worker.

12.1 European Workforce — What the Numbers Say

The European Commission has modelled workforce exposure in detail as part of its 2025 quarterly employment review. The headline finding: 5.2 million EU jobs directly support exports to the US.

Category	Figure	Context
EU jobs directly supporting US exports	5.2 million	European Commission, 2025 — direct jobs only, excludes supply chain
EU jobs at risk under 15% tariff (Scenario B)	135,000–450,000	European Commission range. Most likely outcome: 0.1–0.3% of workforce per state
EU jobs at risk under full severance (Scenario A)	Up to 0.8% of EU workforce	EC estimate — ~1.8 million jobs. Described as 'unlikely' at current trajectory
Share of EU workers concerned about job security	15%	ECB survey July 2025 — 85% report unchanged or lower job loss expectations
Countries most exposed	Ireland, Germany, Denmark, Slovakia	High direct exports + indirect integration in transatlantic value chain
Most exposed EU sectors	Pharma, chemicals, machinery	Pharma: –1.3% employment under Scenario B. Chemicals: –1.0%. Machinery: –0.9%
Ireland pharma employment risk	–2.6% possible under Scenario B	53.7% of Irish extra-EU exports go to US. Highest country exposure.
Germany: direct US-linked jobs	1–3% of workforce	Higher in auto-adjacent regions (Bavaria, Baden-Württemberg, Niedersachsen)
Defence sector offset	633,000 EU defence jobs (2024)	+13.8% YoY. Structural offset to export-sector job losses under all scenarios

Sources: European Commission ESDE July 2025; ECB Blog October 2025 (Consumer Expectations Survey July 2025); CEPR/VoxEU August 2025; EU Council Defence Numbers 2024.

12.2 Who Gets Hit First — and Hardest

The workforce impact of the transatlantic scenarios is not evenly distributed. It concentrates in specific countries, specific sectors, and — within sectors — disproportionately among workers without university degrees who cannot easily retrain or relocate.

High-Exposure European Workforces	Structural Context
<ul style="list-style-type: none"> Ireland: pharma workers in Cork and Dublin corridors directly exposed to US market dynamics. Companies like Pfizer, AbbVie, and Eli Lilly have major Irish operations; production relocation decisions take years but are strategically feasible 	<ul style="list-style-type: none"> The structural insight: EU labour market protections (strong unions, short-time work schemes like German Kurzarbeit, social safety nets) mean that job losses under Scenario B are unlikely to be sudden. The pattern is: hiring freezes, reduced hours, delayed investment — before visible unemployment rises
<ul style="list-style-type: none"> Germany: automotive and machinery workers in Bavaria and Baden-Württemberg. Already under structural pressure from EV transition. Tariff headwinds add to a workforce already navigating multi-decade industrial transformation 	<ul style="list-style-type: none"> 10.9% of EU extended labour force was already underutilised in Q1 2025 (Eurostat) — 23.6 million people in underemployment. Tariff headwinds land on a labour market already absorbing strain
<ul style="list-style-type: none"> Denmark: pharmaceutical workers (Novo Nordisk employs 16,000+ in Denmark); air transport. High-wage, high-skill employment — harder to replace than low-skill manufacturing 	<ul style="list-style-type: none"> Defence sector creates a genuine structural offset: 633,000 EU defence industry jobs, growing at 13.8% annually. Germany, France, Poland, Sweden, and Finland are all expanding defence manufacturing. For skilled manufacturing workers, this is a reallocation pathway — but not an immediate one
<ul style="list-style-type: none"> Slovakia, Hungary, Czech Republic: vehicle assembly workers. VW, Audi, BMW production plants. Among the most directly exposed manufacturing workforces in the EU — and among the least mobile in terms of retraining and alternative employment 	<ul style="list-style-type: none"> Bottom line on Europe: Not a severe structural crisis under Scenario B. A measurable squeeze — particularly in Ireland, Germany, Denmark — with sector-specific pain that is real but recoverable within the existing social infrastructure. Scenario A is categorically different.

12.3 US Workforce — The Other Side of the Numbers

The US workforce exposure is less concentrated but has different characteristics. The critical distinction: tariffs are paid by US importers and passed through to US consumers. Workers in import-dependent manufacturing face higher input costs. Workers in export-oriented sectors face retaliatory risks. All US consumers face higher prices for goods that include European pharmaceutical, machinery, or automotive content.

Category	Figure	Context
EU companies employing US workers	3.4 million	EU Council. These jobs at risk in Scenario A if investment freezes.
US jobs supported by US exports to EU	2.3 million	EU Council data. Aerospace, agriculture, pharma, energy sectors.
US monthly job creation slowdown (2025)	170K/month (2024) → 75K/month (Aug 2025)	Federal Reserve Kansas City — tariffs identified as contributing factor
US jobs lost in 2018-19 tariff experience	~320,000 (net)	Including China retaliation effects. Protected sectors gained; input-dependent manufacturing lost more.
US household cost from Canada tariffs alone	~\$1,300/year	Energy price increase: \$0.30–0.70/gallon gasoline. Regressive impact.
US auto manufacturers' profits H1 2025	First loss in 3 years	Not from weak demand (auto sales +4%) but from higher tariff input costs.
Canadian crude oil share of US imports	63%	No short-term substitute. Energy price pass-through to US consumers direct.
US defence export employment	Significant but embedded	Boeing aerospace (\$35.1B EU exports). Retaliatory EU tariffs target this.

Sources: EU Council; Federal Reserve Kansas City December 2025; Analyzify US-Canada Trade Statistics; RBC Economics December 2025; Richmond Fed Economic Brief December 2025.

12.4 The Honest Assessment: Severe Crisis or Difficult Adjustment?

The question asked directly deserves a direct answer.

Scenario	Europe: Workforce Assessment	US: Workforce Assessment
Scenario B — Baseline Tariffs	Europe: Recoverable adjustment, not structural crisis. 135K–450K jobs at risk — real but manageable within EU social infrastructure. Defence employment growing faster than export jobs being lost in several countries. Consumers face higher prices for US goods.	US: Noticeable economic drag. Higher consumer prices (\$1,300+/year household), slower job growth (170K → 75K/month), US auto/pharma importing companies under margin pressure. Not a crisis for the overall economy. Concentrated pain in specific regions and sectors.
Scenario C — Unconstrained	Europe: Sector-specific severe pain. Irish pharma, German auto, Slovak assembly workers face structural disruption. EU social systems absorb the shock, but long-term investment flight is the more serious risk — factories that don't get built, R&D; that moves to the US.	US: Escalating consumer inflation. Healthcare supply disruption if pharma tariffs hit 250%. US machinery manufacturers already reporting profit losses. Export sectors (aerospace, agriculture) face retaliatory risk. Less like a crisis, more like persistent stagflation pressure.
Scenario A — Full Severance	Europe: Genuine structural disruption. Up to 1.8 million jobs at direct risk. Supply chain redesign cost is multi-year and significant. However: EU social systems, Kurzarbeit schemes, and retraining infrastructure mean adjustment is slower and more managed than in an unprotected labour market.	US: The Canada variable changes the calculus fundamentally. 63% of crude oil imports disrupted; 1.4M US jobs dependent on Canadian exports at risk; pharmaceutical supply disruption for US patients. Without Canadian energy, a full transatlantic severance scenario has severe near-term economic consequences for the US that do not have a managed institutional response.
Scenario D — Reset	Europe: The structural investments are sunk — defence jobs, new supply chains, diversified trade partnerships. A managed return to a new normal, somewhat more self-sufficient. Net employment impact positive in defence and strategic sectors.	US: Recovery of transatlantic trade flows, but at a permanently higher European self-sufficiency baseline. EU companies continue US investment but EU procurement increasingly favours European suppliers. The 2.3M US jobs supported by EU trade partially affected by reduced EU import dependency over time.

The Honest Bottom Line on Workforce

For Europe under Scenario B: not indicative of a structural crisis under current assumptions — but a measurable squeeze. The numbers are real (135K–450K jobs at risk) but they represent 0.5–1.7% of EU export-sector employment, distributed across a labour market with strong institutional shock absorbers. The pain is concentrated geographically and sectorally — Ireland, Germany, Denmark bear disproportionate exposure. For the US under Scenario A with Canadian alignment: the energy dependency on Canada is the variable that converts a difficult trade adjustment into a genuine economic crisis — one that would affect US consumers, energy markets, and manufacturing supply chains more rapidly than European export losses would affect EU workers.

13 Digital Services: The Parallel Battlefield

The July 2025 EU-US tariff deal settled the goods trade framework at a 15% ceiling. It explicitly excluded the Digital Services Act from scope. The EU trade commissioner confirmed: 'The digital sector has been kept out of trade talks.' This is not a resolution. It is a structural complication — goods trade has a framework, digital services does not. The digital dimension of the transatlantic relationship is therefore operating on a separate, unresolved, and potentially more consequential track.

The Structural Point

Tariffs apply to physical goods crossing a border. The services that Google, Microsoft, Meta, Amazon, Netflix, and OpenAI deliver to European users cross no border in the traditional sense — they run on servers in Frankfurt, Dublin, and Amsterdam, billed through Irish subsidiaries, governed by US parent companies subject to US law. The regulatory and fiscal instruments that affect these companies are not tariffs. They are taxes, fines, data governance rules, and procurement restrictions — and they are already in active use on both sides.

13.1 The Scale of US Digital Presence in Europe

The US technology sector's European revenue is not comprehensively reported in official trade statistics, because most of it is booked through European subsidiaries — primarily Irish entities — rather than appearing as cross-border service exports. This structural accounting feature means the true scale of US digital revenue from Europe is systematically underrepresented in the goods and services trade balance numbers.

Category	Figure	Context
AWS + Azure + Google Cloud — EU market share	~70%	Three US hyperscalers dominate. European providers: ~13–15% and declining.
€264 billion/year EU spending on foreign cloud + software	1.5% of EU GDP	European Parliament Research Service 2025. Flows primarily to US vendors.
EU digital trade deficit	>€100 billion annually	European Parliament estimate. Separate from goods trade surplus.
Meta European revenue	~€40 billion annually	Primarily digital advertising via Irish subsidiary. Not in goods trade figures.
Microsoft EMEA cloud + services (estimated)	~\$26 billion	Booked via Microsoft Ireland Operations. Not in US-EU goods trade statistics.
AWS estimated European cloud revenue	~\$25–30 billion	Back-of-envelope: 25% of \$107B total AWS revenue. Exact figures not disclosed.
US Big Tech EU market reach	Google: 89% of EU web search. Android+iOS: ~100% mobile OS. Windows: 73% desktop.	Practical monopoly position across operating systems, search, and enterprise software.
80% of EU corporate software + cloud spending	Goes to US vendors	Cigref/Asterès study 2025. SAP is the only significant European vendor.

Sources: European Parliament Research Service 2025; Synergy Research Group; Cigref/Asterès 2025; EU Institute for Security Studies 2025; various company filings and analyst estimates.

13.2 The Existing Regulatory Friction — Already Acting Like Tariffs

The EU regulatory framework for digital services is the most developed in the world — and it applies overwhelmingly to US companies. Five of the seven DMA 'gatekeepers' are American. Fourteen of the twenty-four VLOPs/VLOSEs under the DSA are American. The ITIF (US Information Technology and Innovation Foundation) described by some US policy institutions as a 'de facto tariff system on American tech companies.' Meta's Chief Global Affairs Officer said EU regulation was 'effectively imposing a multi-billion-dollar tariff on Meta.' Whether or not one accepts that framing, the financial data is real.

Category	Figure	Context
EU fines on US tech companies 2024	\$6.7 billion	~20% of EU total tariff revenue. Apple €500M, Meta €200M, X €120M. DMA fines can reach 4–20% of global annual turnover for repeat offences.
Direct annual compliance costs (5 largest US tech)	\$2.2 billion	ITIF December 2025. DMA compliance alone: \$200M per company per year.
Financial risk exposure per company	\$4.3–\$12.5 billion annually	CSIS analysis. 1.2–3.5% of global turnover in regulatory uncertainty.
Digital Services Taxes (DSTs)	\$1.5 billion extracted in 2023	Austria, France, Italy, Spain alone. France: 3% on digital interface, advertising and data revenues. Rates: 1.5% (Poland) to 7.5% (Hungary).
Meta: DMA compliance engineering	590,000 engineering hours	Dedicated to DMA compliance by early 2024. Equivalent to 355 full-time employees.
DMA+DSA compliance cost as % of EU revenue	8–13% for 5 US firms	CSIS estimate. If firms invest 2% of global revenue: costs reach \$50 billion.
GDPR fines against US firms	>80% of total GDPR fines	Disproportionate share of €4.5B+ total GDPR enforcement goes to US companies.

Sources: ITIF December 2025; CSIS January 2026; Tax Foundation DST data 2025; EU Commission enforcement records 2024.

13.3 The CLOUD Act — The Structural Issue Beneath the Market Issue

Behind the market share and fine numbers creates a structural legal tension that is not fully resolved under current frameworks. The US CLOUD Act (2018) authorises US authorities to compel US-owned companies to produce data 'regardless of whether such communication, record, or other information is located within or outside the United States.' A data centre in Frankfurt, staffed by German citizens, with data encrypted by a French company — if the parent company is in Seattle or Redmond, that data is accessible to US authorities under US law. Microsoft's chief legal officer admitted before the French Senate that the company cannot guarantee EU data sovereignty. AWS, Azure, and Google Cloud collectively serve 70% of EU cloud infrastructure. Only 4% of global cloud capacity is owned by European providers.

The EU Regulatory Toolkit	The Structural Tensions
<ul style="list-style-type: none"> • CLOUD Act vs. GDPR creates an irresolvable compliance conflict for European companies using US cloud providers: comply with US legal demands or comply with EU data protection requirements — in the most sensitive cases, you cannot do both simultaneously 	<ul style="list-style-type: none"> • Netherlands parliament voted to 'move away from US cloud services' (March 2025). Denmark's Ministry of Digitalization began phasing out Microsoft. These are early signals of a structural procurement shift — sovereign government data moving to EU-compliant providers
<ul style="list-style-type: none"> • EU Data Act (September 2025): cloud switching requirements, elimination of egress fees by January 2027, vendor lock-in restrictions. Designed to enable European cloud alternatives but cannot force workload migration on a 20-year dependency stack 	<ul style="list-style-type: none"> • The EU\$40B AI chip commitment in the July 2025 deal goes the other direction: European governments committing to buy US AI infrastructure (Nvidia H100s etc.) as part of the trade framework — deepening the dependency even as sovereignty legislation tries to reduce it

<ul style="list-style-type: none"> • CADA (Cloud and AI Development Act, proposed 2026): most ambitious EU cloud legislation. Aims to triple EU data centre capacity within 5–7 years. CISPE (European cloud providers) warn against 'sovereignty-washing' — building EU data centres for US companies changes nothing about CLOUD Act jurisdiction 	<ul style="list-style-type: none"> • European AI Act (2024–2025): first binding AI regulation globally. US AI systems (OpenAI, Google Gemini, Meta Llama) classified as General Purpose AI with transparency and audit requirements. Compliance costs additional to DMA/DSA. Non-compliance: up to €35 million or 7% of global turnover
<ul style="list-style-type: none"> • AWS + Azure under DMA gatekeeper investigation (November 2025): if designated, cloud services face interoperability mandates, data access obligations, and potential structural separation requirements 	<ul style="list-style-type: none"> • Gaia-X (2020–present): EU initiative to build sovereign cloud alternatives. Paradox: major US hyperscalers joined Gaia-X to shape its standards. European cloud providers' market share continued to fall (22% in 2017 → 13–15% in 2024) despite the initiative

13.4 Digital Services Under the Four Scenarios

Scenario	EU Digital Perspective	US Tech Perspective
Scenario B — Baseline	Current trajectory continues. DMA/DSA enforcement ongoing; DSTs active in France, Austria, Italy, Spain. Digital sector explicitly excluded from July 2025 deal — runs on separate, unresolved track. US companies comply under protest, invest in EU data centres as 'sovereign' offerings. Regulatory friction costs: ~\$8–9B annually for top 5 US firms.	US tech companies retain European market dominance but at higher cost and compliance burden. EU regulatory model spreads — Japan, India, Australia copying DMA. US tech revenues from Europe continue growing but margin pressure increases. CLOUD Act jurisdiction conflict unresolved.
Scenario C — Unconstrained	US responds to DMA/DSA enforcement with Section 301 trade retaliation. Trump already included DSTs in 'Fair and Reciprocal Plan.' EU enforcement accelerates in retaliation for goods tariffs. Both sides weaponise digital regulation. CLOUD Act becomes explicitly used for industrial intelligence or leverage. Dutch/Danish government cloud migration accelerates across EU.	Most disruptive scenario for US tech. Section 301 retaliatory tariffs on EU goods would affect industrial exporters. EU retaliates with accelerated DMA enforcement, potential operating restrictions. Both sides lose: EU loses tech services, US loses most profitable international revenue stream.
Scenario A — Full Severance	Regulatory decoupling completed. EU mandates European-provider cloud for government and critical infrastructure. DSTs at maximum. CLOUD Act jurisdiction becomes formal security threat justifying procurement bans. European AI alternatives (Mistral, Aleph Alpha) receive emergency government support. Netflix, Spotify-model services continue — they have no CLOUD Act issue. Cloud and enterprise software is the critical chokepoint.	Most damaging for US tech by revenue. Meta loses ~€40B European advertising revenue. AWS+Azure+Google lose ~\$55B European cloud market to alternative providers over 5–10 years. US loses the EU as the primary testing ground for AI regulation. Untangling 20 years of EU enterprise software dependency takes decades — transition is painful for European companies too.
Scenario D — Reset	Digital trade chapter reopened in future negotiations. EU-US Digital Trade Framework discussed. CLOUD Act reform or bilateral data access agreement (like MLAT but for cloud) negotiated to resolve sovereignty conflict. DMA/DSA enforcement continues — structural, not retaliatory.	Most sustainable outcome for US tech. European market retained. Regulatory compliance becomes the operating cost of a structured access framework. EU cloud sovereignty investment creates new procurement opportunities for European providers alongside US hyperscalers — not replacement but diversification.

The Signal the Market Is Already Sending

In Q1 2025, the Magnificent Seven's dominance of S&P; 500 returns came under pressure — not from European regulation, but from AI competition (DeepSeek), tariff-driven investor rotation, and valuation concerns. European institutional investors began reducing US tech concentration. The CLOUD Act sovereign risk question is emerging in European government procurement decisions in the Netherlands, Denmark, Germany, and France. These are early-stage signals, not a structural shift — yet. The question is whether Scenario B gradually normalises this pressure, or Scenario C accelerates it to a breakpoint.

15 What to Watch: Signals by Scenario

The following identifies the observable signals that indicate which scenario is developing — and what responses are appropriate for industrial decision-makers under each.

Signal Category	Scenario B indicator	Scenario C indicator	Scenario A indicator
Tariff trajectory	15% framework holds; sector-specific negotiations ongoing	July 2025 deal suspended or tariffs escalate above 15%	New blanket tariffs above 30%; Section 232 invoked on pharma at high rates
WTO engagement	EU-US bilateral disputes managed; WTO reform discussions	US ignores WTO rulings; EU counter-measures activated	US withdraws from WTO dispute settlement; EU retaliates at €93B+
NATO / Security	All NATO members at 2%+; Hague targets being implemented	US threatens Article 5 suspension; bilateral defence deals sought	US formally reduces or withdraws from NATO; European-only framework activated
Financial system	Dollar clearing normal; SWIFT functioning	Secondary sanctions on European banks; FDI restrictions discussed	Dollar clearing restrictions applied; emergency euro clearing infrastructure
Energy	\$750B EU-US energy commitment on track; LNG contracts normal	Energy purchases weaponised as negotiating leverage	LNG supply disruption; EU activates emergency energy supply protocols
Capital markets	European outperformance moderate; defence stocks elevated	Volatility spike; EUR/USD disruption; credit spreads widen	Severe cross-asset repricing; flight to CHF, JPY, gold

The Five Decisions European Industrial Firms Should Not Defer

- Map US revenue concentration. Any business with more than 15% of revenues from the US market should model Scenarios B, C, and A explicitly — with scenario-specific contingency plans for each
- Audit critical input dependencies. Raw materials, APIs, specialty gases, electronic components with US origin — identify alternatives and minimum stockpile requirements at each tariff level
- Review contractual frameworks for force majeure and tariff pass-through. Long-term contracts without tariff adjustment clauses transfer all scenario risk to the contracting party
- Monitor the EU-Australia FTA ratification process. The critical raw materials access (lithium, manganese) is strategically significant for battery, aerospace, and chemical supply chains
- Track the dollar clearing and financial system signals. These are low-probability but high-impact Scenario C/A indicators — and require the longest lead time to hedge if they materialise

16 Closing Observation

The transatlantic relationship between Europe and the United States is, by the numbers, the most consequential bilateral economic relationship ever constructed. €1.68 trillion in annual trade, €4.8 trillion in mutual investment, 43% of global GDP. These are not abstract statistics — they represent supply chains, employment, research collaboration, energy security, and institutional trust built over eight decades.

This paper has not argued that any particular scenario is likely, desirable, or imminent. It has mapped what each scenario means in quantifiable terms — for trade flows, for industrial sectors, for capital markets, for security architecture, and for the emerging alliance partnerships that are already structurally underway.

The most important observation across all four scenarios is this: the structural investments Europe is making in defence, in trade diversification, in critical materials supply chains, and in energy security are not scenario-dependent. They are compounding regardless. The EU-Australia FTA concluded last week. CETA has been provisionally removing tariffs for seven years. European defence spending has risen for ten consecutive years. None of these unwind under Scenario D.

The Working Assumption for Industrial Strategy

Prepare operationally for Scenario B. Model financially for Scenario C. Build structurally for Scenario D. Use Scenario A as the stress-test boundary. The signals are observable. The data is public. The decisions are not.

About This Paper

This paper is part of the IMP Intelligence Series — a programme of strategic market intelligence papers for industrial decision-makers. All analysis is scenario-based and data-driven. No political opinions are expressed or implied. All data is sourced from publicly available institutional, governmental, and market sources.

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