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## The trajectory of US-EU relations in a tumultuous year

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### Theme

This paper looks at developments in US-EU relations, their convergences and divergences, and offers recommendations for protecting the transatlantic link from the electoral political cycle and changes in leadership.

### Summary

The relationship between the US and the EU remains robust in times of geopolitical crisis. However, transatlantic convergences –such as support for Ukraine and a more cautious European approach to China– are increasingly fragile, giving way to continued [divergences on climate, trade, industry and technology](#). In these areas, Americans and Europeans share the same broad objectives, but have markedly different approaches to achieving them. The result is the adoption of independent policies that either unintentionally damage each other’s economies or create misalignments that impede effective economic integration. Existing traditional forums for cooperation are not appropriate for resolving these disagreements. The election cycle and populism in the political debate in both [the US](#) and Europe can have a negative effect on the relationship. The fear is the same on both sides of the Atlantic: isolationist policies that promote competition rather than cooperation.

Direct diplomacy by leaders may in some cases be the easiest way to resolve conflicts, especially between the European Commission’s President and the White House, which has seen unprecedented levels of cooperation under Ursula von der Leyen. If Europeans demonstrate the added value of that peculiar animal that is the EU –on single market policies and joint sanctions– it will be easier for US leaders to understand the need for deeper cooperation not only bilaterally but also in forums such as NATO and the G7. This would give the EU leverage, not only vis-à-vis its competitors and rivals, but also vis-à-vis the US, which may turn hostile towards the EU after the upcoming presidential elections.

### Analysis

Despite close coordination in [Russia’s war against Ukraine](#) and a slow but steady alignment on China policy, many areas of tensions in US-EU relations persist. Differing approaches across areas of mutual concern, such as trade, climate, technology regulation and the Middle East, are causing a divergence in policy that is not easily resolved through established forums of cooperation. Moreover, the outcomes of elections in Europe and the US promise to further complicate the trajectory of US-EU

relations in this crucial election year. To strengthen the transatlantic relationship, especially against populist attacks, cooperation in geopolitics during times of crisis alone will not be enough. US-EU relations should be deepened on the regulatory and technical level, creating climate-friendly economic win-win policies that will strengthen the position of the US and the EU towards geopolitical adversaries and benefit voters at home.

## 1. Areas of convergence

Russia's invasion of Ukraine in 2022 and the ongoing military and financial support for Ukraine, as well as efforts to contain Russia's malicious influence globally, has led to a significant convergence of US and EU policies towards Russia, Ukraine, sanctions and general security and defence issues. In the run-up to the war, the Biden Administration closely cooperated with the European Commission President Ursula von der Leyen to design a [sanctions package that would come into force immediately](#). Since then, the US and EU have been in lockstep, steadily advancing sanctions on Russia. Both sides have also reached agreement on the use of interest from Russian frozen assets, together with frontloaded loans on the interest, as financial assistance for Ukraine. EU members have been sceptical about repurposing the frozen assets outright and, therefore, worked with the US to find a creative solution, [agreed upon at the G7 summit in Italy](#). Out of concern for global price stability, the US was reluctant to sanction Russian oil but has worked closely with [the EU to enforce an oil price cap](#), especially on Russia's 'dark fleet' and Greek shippers.

The US and the EU have also converged in their mutual interest to support Ukraine with military assistance. The EU has used the peace facility, an instrument designed to support peacekeeping missions, to buy weapons for Ukraine. Simultaneously, [EU member states are building up production lines for weaponry needed in Ukraine](#) and for strengthening NATO. The US and the EU also share the financial burden of upholding Ukraine's state budget, and Washington hopes that Ukraine's prospective EU membership will secure democracy and the rule of law in the country despite the continuous state of martial law.

Likewise, US-EU cooperation on energy is lauded as a prime example of the continuing strength of the transatlantic partnership. To reduce Europe's dependency on Russian gas, the US vastly increased its production and export of liquefied natural gas (LNG). By the end of 2022, the US provided 50% of Europe's LNG, [allowing it to cut its import of Russian oil and gas by half](#). By 2023 pipeline and LNG gas from Russia accounted for only 15% of the EU's needs. However, President Biden ordered a temporary pause on the approval of new LNG projects in April, [raising fears of diminishing supply and price hikes in Europe](#) and placing billions of dollars of European investment in new contracts and LNG infrastructure in the US in jeopardy. Forums for cooperation on energy policy –notably [the US-EU Energy Council](#)–continue to allow close coordination on these issues.

The ambition of the EU to be perceived as a geopolitical actor has been fulfilled for the first time with its engagement on Ukraine, creating a new appreciation for the EU and its role in geopolitics in the US. However, the same cannot be said for the EU's China policy.

US and EU positions on China have become more aligned since 2019, when the EU simultaneously described [China as a partner, rival and competitor](#). More recently, Brussels and many European member states increasingly emphasise China's role as a 'competitor' and 'systemic rival' rather than a partner. A process of disillusionment with China has taken place. China's secretive behaviour during the pandemic, leveraging of supply-chain dependencies and support of Russia's invasion of Ukraine have awoken Europeans to the dangers of a naive China policy, domestically and internationally.<sup>1</sup>

The European Commission under the leadership of Ursula von der Leyen has played a crucial role in spearheading this shift in Europe. [So have member states like Lithuania](#), which has opened the eyes of other member states like France and Germany to the instruments of Chinese coercion. Instead of pursuing a 'third way,' distinct from the US, Europeans are now seeking ways to ally, but not fully align, with the US on China. The new universal term of 'de-risking' has raised hopes that common ground has finally been reached on both sides of the Atlantic during the Biden Administration.

The [Biden Administration's National Security Strategy](#) speaks of responsible competition with China and tries to assure its allies that it is not seeking to contain Beijing. The term 'de-risking' is not new in the China debate, but it was embraced by [von der Leyen in a speech in March 2023](#). In response, it was also adopted by [US National Security Advisor Jake Sullivan](#). In the broadest sense, de-risking means reducing one's economic vulnerabilities while at the same time continuing trade and investment with China. However, it is unclear how far de-risking goes for the US and Europe, and which instruments should be applied to reduce vulnerabilities. The US and European understandings of de-risking differ from narrow to wide, more decoupling on the US side and more diversifying on the European side. To make things more complicated, there is no consensus within Europe on what 'de-risking' means.

Most importantly, China's escalating dual-use support for Russia's defence-industrial base creates a direct security dilemma for Europe and NATO. China is not only supporting Russia in its war against Ukraine [but is supporting the buildup of a military defence-industrial base in Russia which can also threaten NATO](#). While the US sees China as a direct security threat to Europe, Europeans have not yet woken up to this challenge and refrain from countering China's support for Russia with restrictive measures to protect their trade and business interests.

## 2. Areas of divergence

At the heart of ongoing divergences between the US and EU are interconnected issues relating to their climate, trade, industrial and technology regulation policies. In these areas, the US and EU share the same overarching goals but have starkly different approaches to achieving them. The result is the adoption of independent policies that either inadvertently harm each other's economies or create misalignments that prevent effective economic integration.

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<sup>1</sup> This and the following two paragraphs are adopted from Liana Fix, 'Has Europe finally become geopolitical on China?', in *On the Rise: Perspectives on Foreign Policy – Class of 2023*, The Aspen Institute, 7/XII/2023, <https://www.aspeninstitute.org/publications/on-the-rise-perspectives-on-foreign-policy-class-of-2023/>.

Despite expectations to the contrary, the Biden Administration has advanced similar protectionist trade policies to those implemented under the Trump Administration. Principal among these policies was the passage of the Inflation Reduction Act (IRA). Approved in 2022, the IRA is intended to support the development of green industries in the US by providing subsidies to US manufacturers who meet certain environmental production standards. However, the IRA, in its attempt to foster domestic production of green goods, excludes companies from countries without a Free Trade Agreement (FTA) with the US, including all of Europe. The EU reacted strongly to the announcement, accusing the US of instigating a new trade war out of fear that the new tax breaks would draw European companies and investment to the US at a time when many European countries are struggling with the economic impact of the war in Ukraine. To prevent significant capital flight, the EU moved quickly to pass its own competing subsidy regime, announcing the Green Deal Industrial Plan in March 2023.

Of particular concern to the EU was the IRA's impact on the production of electric vehicles (EVs). Under the IRA, EV subsidies are restricted to only those assembled in North America and which have batteries that meet certain critical mineral source requirements. The resulting outcry from European leaders prompted the US to initiate negotiations with the EU in 2023 to establish a critical minerals agreement to bypass the legislation's FTA requirements. Negotiations have thus far been unsuccessful, and the agreement faces several hurdles, including gaining the required approval by all 27 EU member states as well as the US Congress, within which there is opposition to such an agreement.<sup>2</sup>

Moreover, the US continues to impose high tariffs on various green products to combat Chinese manufacturing overcapacity with inadvertent, but outsized, impacts on European production. For example, in May the Biden Administration announced additional tariffs targeting Chinese products, including EVs, lithium-ion batteries, critical minerals, and steel and aluminium. While protecting the US economy, such tariffs force Chinese producers to look for alternative markets, flooding Europe with cheap green goods that undermine European industries, especially the crucial automotive industry.

These actions add further tension to ongoing tariff disputes, notably over aluminium and steel tariffs originating under the Trump Administration. In 2018 former President Donald Trump imposed high tariffs on imported metals, including a 25% tariff on steel and a 10% tariff on aluminium, under the justification of national security. The EU responded with its own tariffs on a slew of US-manufactured products. Recognising the heavy burden this placed on the US' European allies, the Biden Administration agreed to suspend – but notably not remove– the tariffs and launched negotiations to resolve the dispute. Negotiations remain ongoing as the US proposal, the Global Arrangement on Sustainable Steel and Aluminum (GASSA, GSA in Europe), requires the US and EU to reconcile their differing approaches to decarbonisation.

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<sup>2</sup> Barfield, Claude (2023), 'The US-EU Inflation Reduction patch-up', American Enterprise Institute, 16/III/2023, <https://www.aei.org/technology-and-innovation/the-us-eu-inflation-reduction-act-patch-up/>; Benson, Emily (2023), 'Transatlantic trade and climate: evaluating differences and commonalities in mutual approaches', Center for Strategic and International Studies, 18/XII/2023, <https://www.csis.org/analysis/transatlantic-trade-and-climate-evaluating-differences-and-commonalities-mutual-approaches>.

Although combatting climate change remains a significant area of cooperation between the US and Europe, varying approaches are causing US and EU policies to diverge. A large source of contention centre around the GASSA. The GASSA seeks to regulate imports of certain products –many of which are produced in China– [based on associated carbon emissions](#), contradicting Europe’s pre-existing carbon border adjustment mechanism (CBAM). While both arrangements seek to penalise producers based on their carbon emissions, the GASSA solely targets non-US firms; the CBAM, although local to the EU, imposes costs on both domestic and foreign companies. In consequence, the EU argues that the GASSA is not compliant with World Trade Organisation principles and [would allow companies to bypass the CBAM](#).

Disagreements over the GASSA and IRA expose fundamental differences in the US and EU approaches to climate change. Broadly, climate change remains an issue of differing priorities for Europe and the US. Although President Joe Biden has made climate a stated priority for his Administration, internal political divisions have often prevented the passage of meaningful legislation or funding. For example, the US, unlike the EU, has proved reluctant to contribute to the climate damage fund over fears that it could lead to legal obligations for ‘rich polluting countries’ [to pay compensation to those most affected by climate change](#). Moreover, climate remains a secondary priority to US geopolitical interests. As Olivia Lazard, Fellow at the Carnegie Endowment for International Peace, argues, this is evidenced in the US’s [continued failure to use its international leverage to enact stronger preventive measures](#).

The mismatch in technology regulation between the US and EU equally poses challenges to the partnership. The EU’s passage of regulations on emerging technologies –including the Digital Services Act, the Digital Markets Act, the Data Act and the AI Act– [target Big Tech companies, which, predominantly located in the US](#), have an outsized impact on the US economy. [The EU has also threatened to impose new digital service taxes on US tech companies](#) if the US does not implement the minimum tax required by the International Tax Pact, an agreement created under the Organisation for Economic Cooperation (OECD) to reduce tax evasion by multinational firms. Angering US officials, Republican lawmakers responded to the European ultimatum with warnings that the US will adopt retaliatory measures in response, [potentially triggering further economic disputes](#). The European Parliament and European Court of Justice also continue to oppose agreements between the US and EU over transatlantic data transfers, an agreement that is made necessary by [the EU’s strict privacy laws](#).

Conflict in the Middle East provides a mixed view of US-EU relations. The EU, like the US, expressed strong support for Israel’s right to retaliation in the wake of Hamas’s attack on October 7 and has remained notably silent in directly criticising US support for [Israel’s ongoing military campaign in the Gaza Strip](#). Most outspoken against US support for Israel’s campaign in Gaza has been Spain, which was joined by Ireland, Norway and, later, Slovenia [in recognising the state of Palestine](#).

Contention is most evident in their differing approaches to Iran. While there is general agreement of the need to constrain Iran’s destabilising actions in the region and deter the advancement of its nuclear programme, the US has sought a measured response.



Following Iran's missile and drone attack on Israel in April, the US and Europe [jointly imposed new sanctions](#) on Iranian military leaders and weapons manufacturers. Previously, the US and Europe also agreed to impose additional sanctions on Iran if it delivered ballistic missiles to Russia. However, the US actively discouraged applying additional sanctions if Iran were to do the same with its allies in the Middle East over [fears of greater escalation of the Israel-Hamas conflict](#). Similarly, the US attempted to dissuade its European allies –notably France and Germany– from seeking to pass an IAEA resolution against Iran's nuclear programme in Spring, arguing that such a move [would only push Iran to accelerate its nuclear activities](#). However, US views on the latter may be shifting as US Secretary of State Antony Blinken [announced further sanctions on Iran](#) on 27 June, citing Iran's continued expansion of its nuclear programme.

## Conclusions

How can the transatlantic relationship be protected in the face of the electoral political cycle and changing leaderships? What issues of the US-EU relationship have not yet been adequately updated?

The transatlantic relationship, and particularly the US-EU relationship, has reached unknown heights and close levels of collaboration in the run-up to and during Russia's war against Ukraine. However, this momentum in collaboration has not extended to other critical areas of the US-EU relationship, especially related to trade, technology and climate. The strengthening of transatlantic relations after the Russian invasion of Ukraine in 2022 could be eroded not only by policy differences, but also by the electoral political cycle and populism in the US and Europe. The impact of elections in individual EU countries on Europe's relationship with the US can be significant. And of course, the US presidential election will impact Europe. The fear is the same in either direction, namely that the far-right will emerge victorious and enact isolationist policies that promote competition rather than cooperation. Further fragmentation of the EU due to the election of far-right candidates in its member states [will lessen the ability of the EU and the US to coordinate responses to mutual threats, including from China, Russia and climate change](#). Equally, growing scepticism towards foreign trade on both sides of the aisle in the US, combined with increasing disillusionment with the transatlantic relationship in Europe, [will likely result in further trade disputes](#).

For the future of US-EU relations this means that cooperating on geopolitical crises alone will not be enough. The US and the EU need to demonstrate, in a crucial election year, a clear benefit to their voters from a close partnership. The most obvious benefits would be working together, instead of against each other, on green technologies and crafting complementary, rather than contradictory, subsidy and industrial policies as instruments against systemic competitors like China. The Trade and Technology Council (TTC), created in 2021, was established for exactly that purpose: to improve transatlantic relations as a forum to resolve disputes related to trade, technology, and climate. The TTC's purpose is branded as an attempt to create a common set of standards to combat mutual economic threats, particularly the '[non-market policies and practices](#)' of China. Although creating an open line of communication between the US and EU, the six ministerial meetings held thus far have produced few tangible results beyond [a series of guiding principles and published roadmaps](#). The problem with the TTC is manifold, but

the greatest challenge is the lack of authority that European representatives at the TTC have, since many decisions have to be first decided back home with individual EU leaders. A similar dynamic is also evident among US representatives, who have to balance the pursuit of the Biden Administration's ambitious climate agenda with internal political disputes within Congress and the general public. Direct leaders' diplomacy can be, in some cases, an easier path to solve conflicts, especially between the European Commission President and the White House, which has seen unprecedented levels of cooperation under von der Leyen.

The EU with its institutional structures, competences, and procedures remains to many policy makers in the EU a black box. They prefer to deal on a bilateral basis with problems that emerge. Demonstrating the added value of the peculiar animal that the EU is –on single market policies and joint sanctions– will make it easier for future US leaders to appreciate its unique strengths and to see the value of deeper cooperation not only on a bilateral basis or in forums such as NATO or the G7. It also provides EU members with leverage, not only towards competitors and adversaries, but also towards a US that might turn hostile towards the EU after the next presidential elections.