



## US “America First Trade Policy” and EU Competitiveness Compass: Key implications for EU trade policy

As the new year started, both the US President and the European Commission communicated visions for their new mandates. On 20 January 2025, US President Donald Trump issued a [Presidential Memorandum](#) entitled “America First Trade Policy” mandating a full review of US trade and economic policies. Similarly, on 29 January 2025, the European Commission published its long-awaited [Competitiveness Compass](#), a roadmap which lays down the priority actions for the European Commission for the next five years. This client alert sets out the key elements of these plans as well as their main implications for EU trade policy and companies operating in the EU.

### 1. THE “AMERICA FIRST” TRADE POLICY

The aim of the “America First Trade Policy” is to establish a “robust and reinvigorated trade policy” as a critical component to US national security. The Memorandum ordered a number of agencies to review elements of US trade policies and communicate their findings and recommendations largely by 1 April 2025.

A central focus of the review is on investigating the causes of the US’s “large and persistent annual trade deficits in goods” and the resulting economic and national security risks. The agencies are expected to recommend appropriate measures, including a global supplemental tariff, to remedy those deficits. The Memorandum also mandated a review of the tariffs imposed on steel and aluminium imports during Trump’s first presidency. At the time of writing, President Trump has already reimposed those tariffs effective from 12 March 2025. To support his tariff plans, Trump equally ordered an investigation into the feasibility of establishing an External Revenue Service to collect tariffs, duties and other foreign trade-related revenues. In addition, the Memorandum called for a review of US trade agreements, anti-dumping and anti-subsidy laws, practices of currency manipulation by third countries and the customs duty-free *de minimis* exemption.

President’s “America First Trade Policy” has several implications for EU trade policy:

- The policy’s focus on trade deficits and the need to eliminate them through tariffs might lead the US into a trade war with the EU. According to President Trump, the US’s trade deficit with the EU is “an atrocity” and he announced his readiness to impose tariffs on EU imports.
- In response to this threat, the European Commission President, Ursula von der Leyen, [stated](#) that the EU will respond “firmly” if unfairly or arbitrarily targeted. The EU has reportedly prepared potential retaliation measures. These could include the (re)imposition of retaliatory tariffs on luxury US goods. However, the EU may also decide to apply pressure through more novel measures including restrictions on trade in services and intellectual property rights under its Anti-Coercion Instrument.
- The EU’s first line of defence, however, is to engage in constructive dialogue with the US. In this respect, President Trump has shown that he is open to negotiating with allies. Indeed, following discussions with the Presidents of Canada and Mexico, President Trump agreed to halt for one month the announced 25% tariffs on imports from these countries. A similar deal may be struck with the EU.
- More generally, the policy highlights the increasingly uncertain geopolitical environment in which the EU is operating. In response, the EU is looking inward to ensure that it remains competitive and prosperous as exemplified by the EU’s Competitiveness Compass.

## 2. COMPETITIVENESS COMPASS

The Competitiveness Compass aims to secure the EU's prosperity so as to "safeguard the EU's future as an economic powerhouse, an investment destination and a manufacturing centre" as well as the future of its model amongst "a world of great power rivalry". Inspired by the findings of the [Draghi](#) and [Letta](#) reports, the Competitiveness Compass highlights three core pillars of action: closing the innovation gap, accelerating decarbonisation and increasing security by reducing excessive dependencies.

In terms of trade policy, the Competitiveness Compass identifies the following key action points:

- **Deepening trade partnerships with third countries:** the European Commission sees trade with strategic third countries as a way to achieve its goals to diversify and reduce dependencies and thus as a key driver for Europe's prosperity. As such, the European Commission plans to continue negotiating both traditional free trade agreements and more targeted forms of cooperation such as Digital Trade Agreements, Mutual Recognition Agreements and Clean Trade and Investment Partnerships.
- **Supporting key strategic sectors of EU industry:** to reduce its dependencies on single or highly concentrated suppliers, the EU plans to continue with policies to support the establishment or promotion of domestic processing or manufacturing capacities as well the creation of back-ups and stockpiles of strategic items. This includes support through financial means such as the new European Competitiveness Fund and Competitiveness Coordination tool which should be proposed in 2025. In addition, the Competitiveness Compass sets out a number of sector-specific measures such as: a Clean Industrial Deal (expected in Q1 2025); an Affordable Energy Action Plan (expected in Q1 2025); a Steel and Metal Action Plan (expected in Spring 2025); an industrial action plan for the automotive sector (expected in Q1 2025); and a Circular Economy Act proposal to, alongside the roll-out of eco-design requirements on important product groups, catalyse investment in recycling capacity (expected during Q4 2026).
- **Further developing the EU's economic security strategy:** the EU plans to strengthen its screening of foreign direct investment, export controls and outward investment monitoring. Whilst doing so, it plans to develop economic security standards for key supply chains with its allies.
- **Using both old and new trade protective tools:** the European Commission plans to use all the protective tools at its disposal including traditional trade defence instruments and newer tools such as the Foreign Subsidies Regulation. Already, we have seen an increased use of such instruments during the past year and this trend is likely to continue, including in reaction to the measures that may be adopted by the US.
- **Leverage public procurement to favour EU industry:** the European Commission plans to introduce a European preference in public procurement for strategic sectors and technologies to safeguard EU manufacturing capacity.
- **Simplifications to EU Regulatory environment:** the European Commission identifies the reduction of regulatory burdens as a key feature to enhance competitiveness. In this respect, the European Commission announced a series of simplification omnibus packages. The first omnibus package will concern sustainable finance reporting, sustainability due diligence and taxonomy with a draft proposal expected on 26 February 2025. The European Commission is also planning a simplification of the Carbon Border Adjustment Mechanism as well as the EU's rules on chemicals and medical devices.

### 3. SUMMARY- KEY IMPLICATIONS FOR COMPANIES

The new geopolitical environment is increasingly uncertain and unpredictable for companies to navigate. Nonetheless, the “America First Trade Policy” and the EU Competitiveness Compass illustrate some general trends in trade policy for upcoming years. In essence, both the US and the EU are taking a more protectionist direction to support their own industries (albeit to different degrees and with a different respect for WTO law). At the same time, the EU is trying to position itself as a reliable trading partner that is “open for business” to benefit from trade frictions created between the US and third countries.

In particular, companies operating in the EU should be aware of, and monitor, the following trade-related risks/opportunities:

- US tariffs and EU retaliatory tariffs or other measures (e.g. under the Anti-Coercion Instrument).
- Increased use of trade defence instruments and other protectionist tools such as the Foreign Subsidies Regulation with respect to imports from third countries, including to avoid trade diversion from the US.
- Additional regulatory barriers to trade through measures such as “made in Europe” provisions in EU public procurement, screening of foreign direct investments, enhanced export controls and outward investment monitoring. At the same time, the EU is likely to reduce the regulatory burdens in other areas, particularly legislation concerning the European Green Deal.
- Negotiations between the EU and third countries on free trade agreements and other similar trade-related deals.
- Reforms to both the EU and US customs rules especially targeting e-commerce.
- Potential intensification of sanctions targeting Russia and other third countries.

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