

Managing Geopolitical Uncertainty & Tariff Avoidance

Preparing Your Business for Future Risks

Strategy Paper



Managing Geopolitical Uncertainty & Tariff Avoidance

Executive Summary

The EU-US trade relationship is crucial to economic stability, but renewed US tariff threats pose serious risks for European businesses. Potential 10–25% duties on key exports could raise costs, disrupt supply chains, and weaken competitiveness. Companies must assess financial exposure, model different tariff scenarios, and benchmark industry responses to mitigate risks. This strategy paper examines the economic effects, sector vulnerabilities, and supply chain optimisation strategies.

Key Takeaways:

- **Tariff Risks:** New US tariffs could mirror the 2018 disputes, impacting automotive, chemicals, and steel.
- **Trade Imbalances:** The persistent EU-US deficit and VAT policies remain contentious.
- **Sector Impact:** Export-dependent industries, particularly in Germany, face heightened risks.
- **Economic Pressure:** Tariff-driven trade shifts may increase competition, currency volatility, and inflation.
- **Mitigation:** Businesses must assess exposure to different tariff scenarios, identify strategic levers to mitigate financial and operational risks, and explore supply chain optimisation options, such as supplier diversification and market flexibility.

How H&Z Can Help

H&Z supports businesses with a three-phase approach:

- 1.Exposure Analysis** – Scenario planning and benchmarking to assess financial risks.
- 2.Quantification & Mitigation** – Financial impact modelling and strategic risk reduction.
- 3.Supply Chain Resilience** – Supplier diversification, market flexibility, and logistics optimisation.

H&Z's strategic approach ensures businesses can navigate geopolitical uncertainty, maintain competitiveness, and build resilience in a rapidly evolving trade landscape.

Introduction

Trade Relations

The trade relationship between the United States and the European Union is a cornerstone of the global economy. As the EU's second-largest trading partner, any changes to US trade policy can have significant repercussions. The recent threats of tariffs by the US administration, following historical precedents set in 2018, indicate a renewed period of economic strain. With ongoing geopolitical tensions and shifting global supply chains, these developments add another layer of uncertainty for businesses operating across both regions.

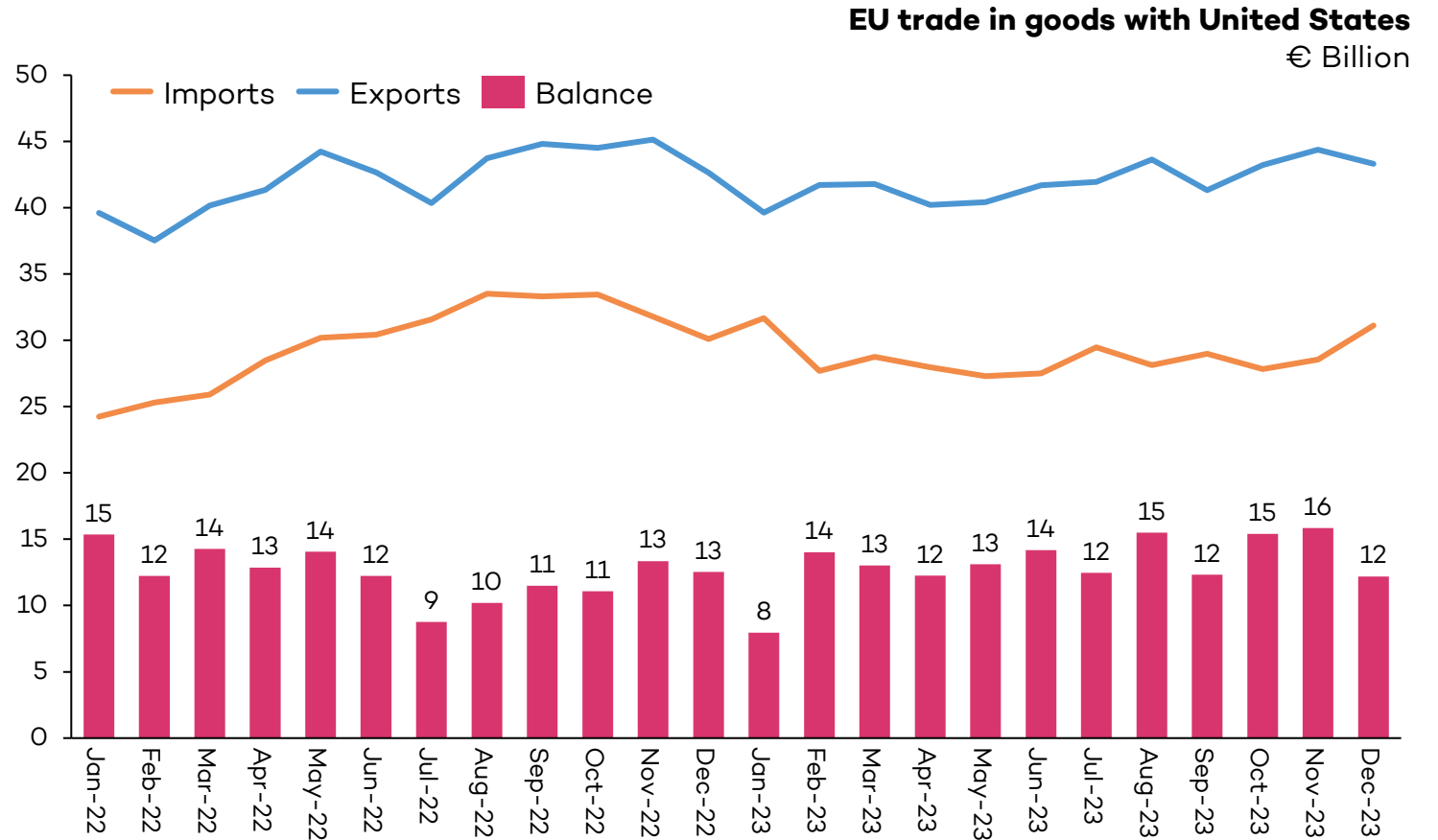
The potential introduction of tariffs ranging between 10% and 25% on key European exports could impact all industries, while also influencing global trade flows. This paper explores the consequences of these tariffs, the likely economic ramifications, and strategic responses available to European businesses to mitigate risks and maintain competitiveness.



US & EU Trade

Tensions Escalate Amid Renewed Tariff Threats

The economic relationship between the US and EU is deeply interwoven. The US remains the EU's second-largest trading partner after China. Historically, trade disputes have resulted in retaliatory tariffs, as seen in 2018 when the EU responded to US tariffs on steel and aluminium with duties on €2.8bn of American products. A further €3.6bn in tariffs was deferred under President Biden's administration, reflecting a temporary de-escalation of trade tensions. However, with renewed threats from the Trump 2.0 administration, the EU faces another wave of trade restrictions, which could undermine economic stability. This comes at a time when the EU is otherwise expanding its trade agreements, securing deals with Switzerland, Mexico, and Mercosur, reinforcing its global trade network.



Source: Eurostat (online data code: ext_st_eu27_2020sito)

Trade Deficit: VAT Rebates and Market Access Under Scrutiny



They can sell us their Mercedes-Benzes, and we can't sell them our cars.

It's very unfair.

Donald Trump

The EU maintains a persistent trade surplus with the US, with monthly balances ranging from €8bn to €15.8bn. Donald Trump has repeatedly criticised this imbalance, stating, “*They can sell us their Mercedes-Benzes, and we can't sell them our cars. It's very unfair*”.

One of the main arguments behind this criticism is the role of VAT. The US has long objected to the way European companies receive rebates on exports sold in the US. German car manufacturers, for instance, are refunded the VAT paid on inputs used to produce cars sold outside the European Union. This has led to accusations that VAT functions as a trade barrier, effectively acting as a tariff. Although this is not a new concern, it continues to fuel tensions between the two economies, reinforcing broader disputes over trade imbalances and market access.

Direct Impacts

Uneven Consequences of US Tariffs Across the EU

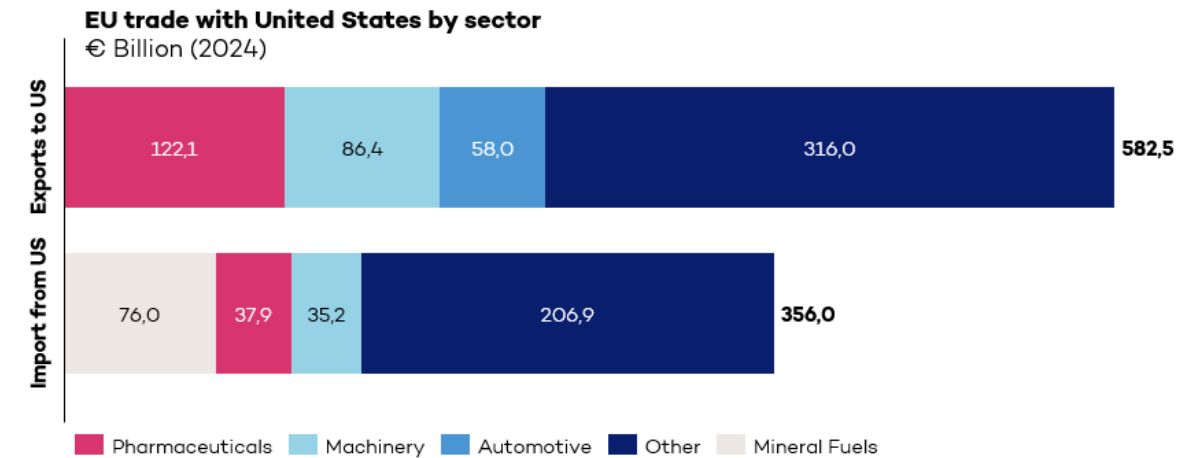
Regional Impact

The proposed tariffs on European imports to the US, ranging from 10% to 25%, could significantly impact the EU economy. A weaker euro, triggered by declining EU exports, may increase import costs for essential goods such as energy and raw materials. Inflationary pressures could rise, slowing economic growth and reducing global competitiveness. Past tariff implementations have shown that price increases on imported goods will affect both businesses and consumers.

The impact on each Eurozone country will vary to some extent, depending on the types of products the member state exports and its overall export structure. The larger economies, especially Germany and Italy, share notably similar export structures. This suggests that, for the EU as a whole, the primary challenge in identifying alternative export markets would centre on the chemicals industry and certain machinery and equipment products.

This is due to the limited availability of viable markets and structural barriers that could arise when attempting to re-export these goods.

By contrast, several Eastern European countries export different products to the US market compared to those they sell to other non-EU destinations. This, in principle, suggests greater challenges in redirecting these sales to other international markets, although the significance of these countries' exports to the US remains limited.



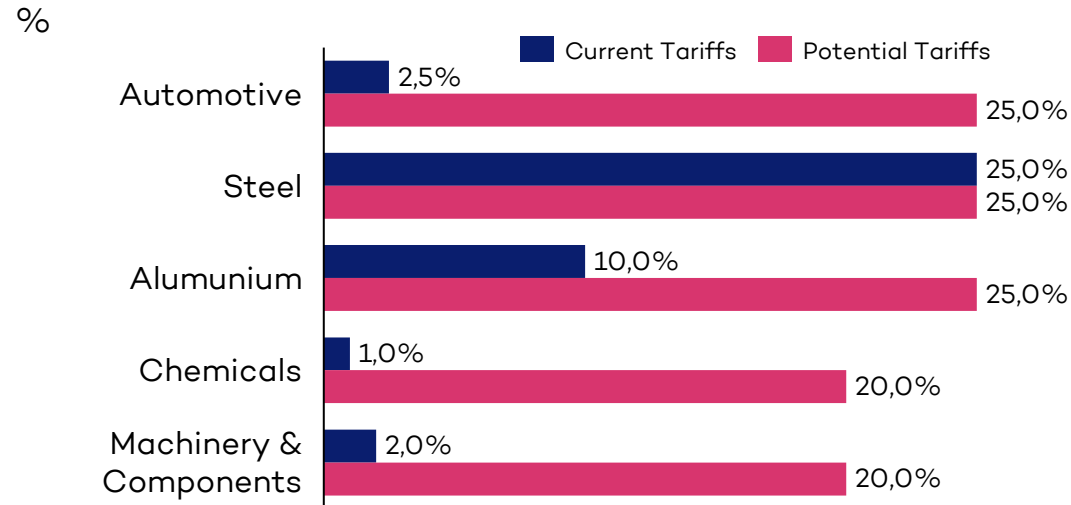
Source: US International Trade Administration

Direct Impacts

Industry Impact

Each industry faces significant risk, with the automotive industry being no different, with the US proposing a 25% tariff on EU-manufactured motor vehicles. Germany is particularly vulnerable, given 10% of its total exports go to the US, with automotive, machinery, and transport equipment accounting for 40% of these exports.

Current tariffs vs. Potential tariffs



The chemicals industry, traditionally benefiting from low tariffs (around 1%), could struggle to absorb higher costs, leading to either price increases for US buyers or a loss of market share. Additionally, Europe’s reliance on imported raw materials like aluminium, nickel, and lithium could further impact competitiveness.

Steel & Aluminium

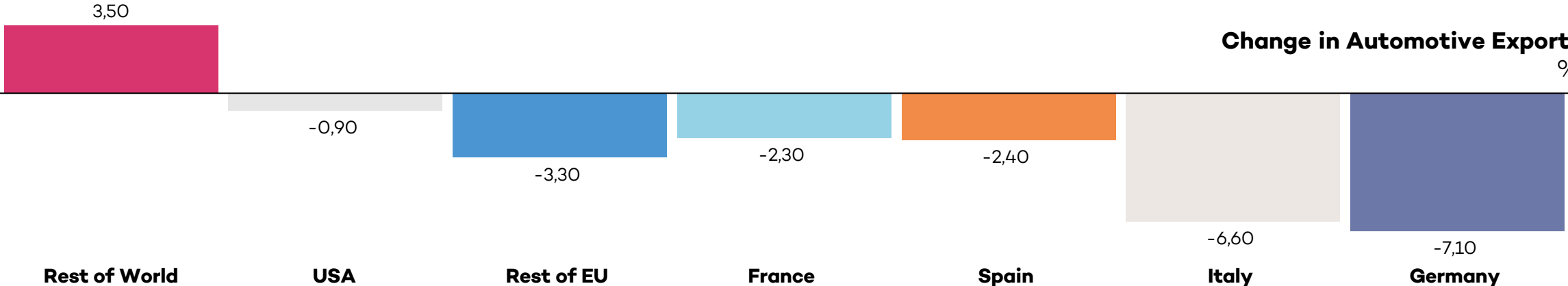
The reinstatement of 25% tariffs on all raw steel and aluminium imports, confirmed by President Trump, is set to take effect, reviving a previously paused trade dispute with the EU. This move is expected to exacerbate pressure on Europe’s shrinking steel industry, which has already faced declining output and rising costs. The impact of the 2018 tariffs provides a strong indication of what to expect. At the time, €6.4 billion worth of EU steel and aluminium exports were affected. However, these tariffs became increasingly complex due to exemptions, as US aerospace, defence and automotive manufacturers successfully lobbied for access to certain grades of metal and specialised components. The latest tariff measures are likely to follow a similar trajectory, creating uncertainty for European producers and potential disruption in transatlantic supply chains.

Direct Impacts

Chemicals

Chemical manufacturers often produce locally to minimise transportation costs, especially for hazardous materials. For instance, Germany’s BASF, the largest chemical company, generates most of its US sales through domestic production. Despite this, the US remains the top export destination for the EU’s chemical sector, which leads global chemical exports. Additionally, the EU is a major importer of chemicals from China, making it vulnerable to shifts in trade dynamics due to US tariff policies.

Source: Financial Times



Automotive

The proposed US tariffs on European OEMs will affect manufacturers differently based on their production and supply chain structures. Automakers like Stellantis, Volkswagen, BMW, and Mercedes-Benz, which use Mexican factories for cost advantages and proximity to the US, are particularly vulnerable. In contrast, Renault, with limited exposure to the US, faces less impact. Volvo, relying on direct exports from Europe to the US, is also at risk. The German and Italian automotive industries are most exposed, with export declines projected at 7.1% and 6.6%, respectively. Spanish and French automakers, with lower US reliance, will see smaller declines of 2.4% and 2.3%.

Direct Impacts

Aerospace & Defence

US tariffs on aluminium and steel would primarily harm the US aerospace industry, particularly Boeing. Imposing 25% tariffs on these products sourced from Canada and Mexico could result in a substantial cost increase for Boeing, estimated at approximately \$5 billion USD. Given this significant impact, it is improbable that the US would risk damaging its own industry in such a manner.

When assessing the impact of such tariffs on defence products, it is crucial to highlight the substantial trade deficit between Europe and the US. While tariffs would indeed affect European suppliers, retaliatory measures would have a considerably greater impact on the US. The increased costs of defence systems could drive many to seek alternative solutions from either Europe or Asia.



Indirect Impacts

The Indirect Economic Threats Facing Europe

While US tariffs on Canada, Mexico, and China do not directly target the EU, their ripple effects could significantly impact European trade and economic stability. Labelled as ‘reciprocal’ by the Trump administration, these tariffs are likely to provoke retaliatory measures, altering global trade flows. One key consequence for the EU is the potential influx of cheap imports, particularly metals from China and Indonesia, which could create increased competition for European manufacturers. Their products, often priced higher due to stringent EU regulations and labour costs, may struggle to compete, particularly in industrial sectors, a trend already seen in the European automotive industry.

Beyond trade distortions, supply chain disruptions could arise as businesses in Mexico and China adjust to shifting US demand. Mexico, integrated into US manufacturing, may face production slowdowns that impact EU trade relations. Similarly, China’s reduced demand for raw materials and industrial goods could dampen European exports.

Economic modelling by Oxford Economics suggests that a 1% decline in China’s GDP could lead to a 0.2% contraction in Germany’s GDP and a 0.1% decline in the broader EU economy—highlighting the EU’s vulnerability to these trade shocks. Furthermore, financial market volatility triggered by tariff disputes could impact European investments and currency stability, adding another layer of economic uncertainty. In summary, while the EU may not be directly targeted by these tariffs, it faces significant indirect consequences through intensified global competition, disrupted supply chains, and potential economic slowdowns.

Source: Oxford Economics

Current tariffs vs. Potential tariffs

Commodity	Canada		China		Mexico	
	Previous	Potential	Previous	Potential	Previous	Potential
Automotive	0	25	10	10	0	25
Steel	25	25	25	25	25	25
Aluminum	10	25	10	25	10	25
Chemicals	0	0	10	10	0	0
Machinery & Components	0	25-100	0-35	10-60	0	25-100

Mitigation Strategies

EU Political Response Strategies

To mitigate the economic risks posed by escalating US tariffs, the EU has several strategic tools at its disposal. The Anti-Coercion Instrument (ACI), introduced in 2023, allows Brussels to impose retaliatory measures, including restrictions on US intellectual property, financial services, and market access. The EU can also reduce reliance on US trade by further strengthening agreements with key partners like Switzerland, Mexico, and Mercosur, enhancing economic resilience. Domestically, targeted subsidies and regulatory incentives could support industries most affected by tariffs, ensuring competitiveness despite external pressures.

The EU is also considering retaliatory tariffs on politically and economically sensitive US goods, similar to its 2018 response to Section 232 tariffs on steel and aluminium. Then, it swiftly imposed 10-25% duties on American exports like soybeans, bourbon, motorcycles, and orange juice—key products in US swing states. Another potential measure is export restrictions on critical goods—in 2022, the US relied on the EU for 32 strategically important imports, particularly in chemicals and pharmaceuticals, giving Brussels a strong bargaining position.

Meanwhile, the EU is exploring a more cooperative trade approach, increasing purchases of US liquefied natural gas (LNG), military equipment, and agricultural products to align with American priorities. Given that nearly half of the EU's LNG comes from the US, energy tariffs remain unlikely, but trade-offs in other sectors—such as lowering EU tariffs on US automobiles—could serve as negotiation tools. With further trade escalations possible, Brussels has committed to a “firm and proportionate” response, particularly in steel and aluminium, balancing economic protection with diplomatic flexibility.















Mitigation Strategies

Organisational Response Strategies

The impact of US tariffs on European exports will ultimately hinge on the price elasticity of demand among US importers and the ability of European firms to either sustain their market presence through direct investment or redirect trade flows to alternative markets. To mitigate risks and safeguard competitiveness, organisations must adopt a proactive, multi-pronged strategy.

MNC Strategies

 Supply Chain and Operational Adjustments	Sourcing Diversification 30–40% of companies are actively exploring or have already initiated nearshoring or dual-sourcing strategies	 
	Inventory and Production Management 25–30% of companies in consumer goods and auto parts sectors implementing stockpiling or accelerated inventory buildup strategies as a buffer against tariff-induced price volatility	  U.S. Refiners
 Financial and Contractual Adjustments	Contractual Strategies 20–25% of companies, particularly those in sectors with long-term supplier relationships (like industrial components and automotive), have renegotiated supplier contracts to include tariff adjustment clauses	 
	Financial Risk Management 20–25% of companies in industries sensitive to commodity price volatility are reported to be employing financial instruments such as futures or options to hedge against price increases	
 Strategic and Collaborative Initiatives	Collaborative Industry Efforts 20–30% of companies are engaging in collaborative measures, such as joining industry consortia to lobby for tariff relief or coordinated responses.	
	Alternative Market and Innovation Strategies <20% Of companies are investing in R&D and/or reconfiguring their portfolio to sell products that use less tariff-sensitive inputs	

A critical first step is assembling a dedicated response team, empowered by senior leadership, to monitor policy developments, analyse organisational exposure, and drive strategic decision-making. This team should conduct a thorough profitability analysis, identifying key profit centres, assessing the feasibility of price adjustments, and actively monitoring tariff announcements and market volatility to inform strategic decision-making. Additionally, supply chain mapping is essential, as tariff-related cost increases may stem from upstream suppliers. Legal teams should also undertake contract reviews to clarify cost absorption responsibilities within the supply chain.

To build long-term resilience, businesses need strategies that go beyond immediate assessments. A tariff sensitivity model helps simulate cost scenarios and adjust pricing strategies. Optimising HS/HTS classifications, cost structures, and diversifying suppliers or materials can minimise tariff exposure. In some cases, strategic capital investments—like expanding production in the UK or US, as Volvo Cars did with its South Carolina plant—are essential. Companies that take a data-driven approach will be best positioned to navigate the changing trade landscape, protecting profits and growth opportunities.

Revenue Protection/Growth

- **Leverage Trade Agreements:** Utilise existing trade deals (e.g., with Canada, Japan) to secure favourable access to new regions
- **Adapt for Local Markets:** Tailor offerings to meet the customer demands and meet regulations of diverse international markets
- **Strengthen Intra-Europe Sales:** Focus on growing business within markets with well established customers, and establish joint ventures as well as local partnerships to minimise exposure to external trade risks

Supply Chain Resilience

- **Diversify Suppliers:** Reduce reliance on U.S.-centric supply chains by sourcing from multiple global suppliers to mitigate risks
- **Nearshoring and Reshoring:** Relocate parts of the supply chain closer to customers and/or suppliers to minimise exposure to international trade disruptions
- **Bilateral Trade Agreements:** form joint ventures or strategic alliances with companies in countries that have favourable trade agreements with the U.S., indirectly bypassing tariffs through re-routed supply chains



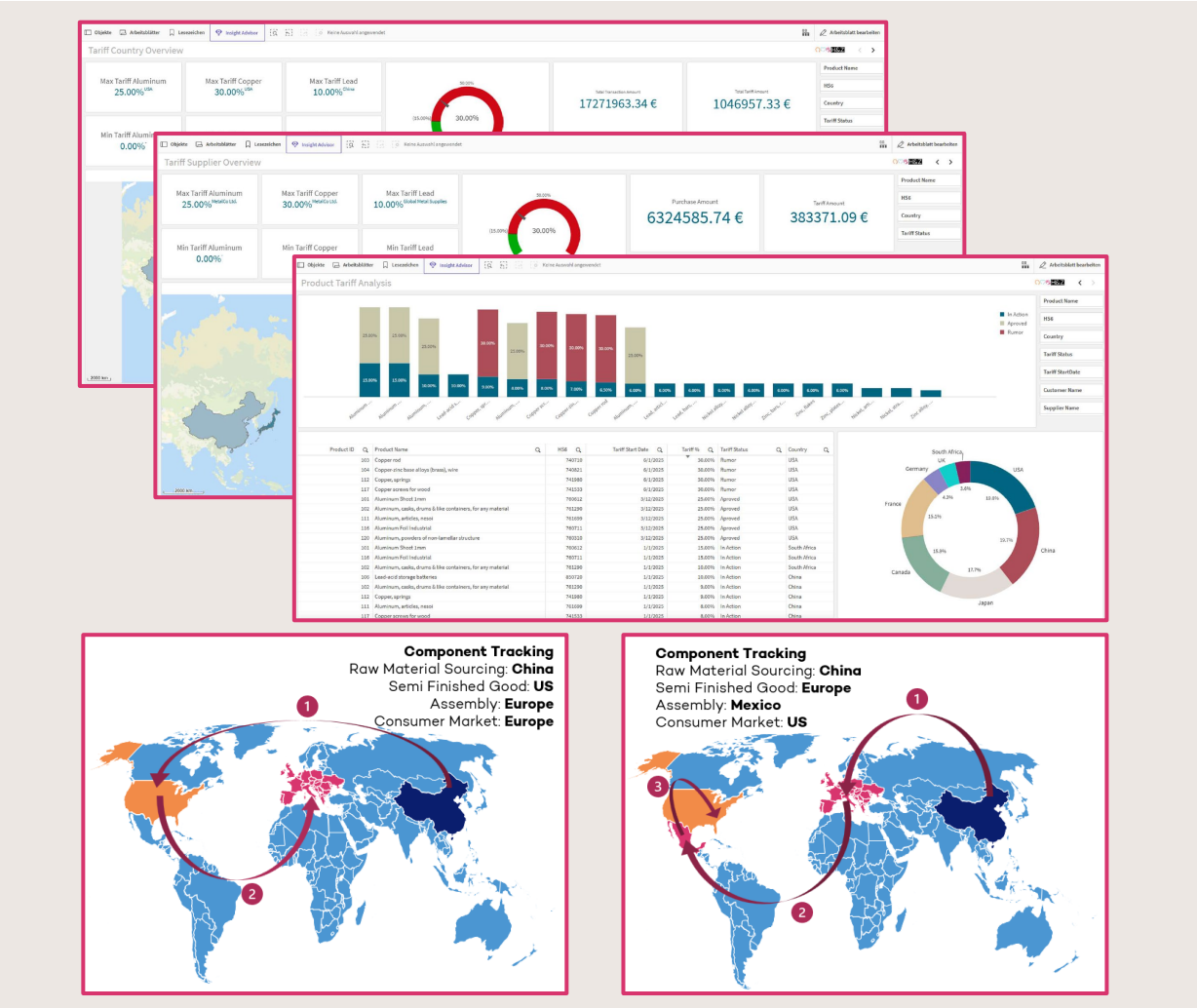
Trade/Tariff Strategy

- **Negotiate Better Trade Terms:** Work with logistics providers and clients to share tariff costs or restructure contracts to maintain profitability
- **Optimise Tax and Tariff Strategies:** Exploit legal ways to minimise tariff burdens, such as re-routing supply chains.
- **Invest in Trade Compliance:** Strengthen capabilities in customs and compliance to navigate changing trade regulations efficiently.

Local Entity Optimisation

- **Reduce Tariff Exposure:** Create subsidiaries, joint ventures, or manufacturing plants within the U.S to produce goods locally, thereby avoiding import tariffs altogether
- **Regulatory and Tax Advantages:** Companies may benefit from favourable tax structures, subsidies, or incentives offered by U.S.
- **Mitigate Risk to Global Disruption:** Establishing local entities will provide the ability to navigate other global tariff and trade disruptions

Quantifying Organisation Risk to Tariffs



Creating Transparency

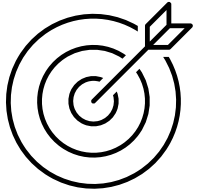
The first step for organisations to mitigate the risk of US tariff threats is to understand their level of risk. This can be achieved by scrutinising the bill of materials, origin, destination, and HS Codes for each product, enabling businesses to calculate cost exposure and trade risks at a product level. By understanding and visualising this risk, companies can identify vulnerable goods within their portfolio, ultimately allowing risks to be quantified and mitigation strategies to be established. This clarity empowers businesses to prioritise high-risk areas and make informed decisions to safeguard their operations. Moreover, it allows companies to compare their risk exposure with that of key competitors, offering valuable insights for strategic positioning. This helps businesses maintain or maximise their market share by identifying opportunities to adapt, strengthen their supply chains, or leverage advantages in areas less affected by tariff impacts, ensuring resilience in a shifting trade landscape.

The Next Step

How can H&Z Help?

H&Z offers a three-phase methodology to help organisations assess their risk exposure, implement quick-win strategies, and develop robust supply chain resilience within a six-month timeframe. This structured approach ensures companies can:

- 1. Identify vulnerabilities in supplier, customer, and product portfolios using an AI powered tariff simulation tool**
- 2. Quantify financial impacts, develop mitigation levers and achieve 'quick wins'**
- 3. Implement strategies that enhance long-term competitiveness and supply chain stability**



Phase One: Exposure Analysis

This phase identifies tariff exposure by analysing organisational structure, supply chain, and strategic directives. A portfolio assessment evaluates suppliers, customers, and products to identify risks. H&Z's bespoke AI tool and dashboard use ERP data to pinpoint high-risk products and suppliers, while the Tariff Exposure Dashboard visualises risk. Finally, the potential EBIT impact is quantified, setting the foundation for mitigation strategies.

Phase Two: Quantification & Levers

This phase focuses on actionable solutions. Key commercial levers are identified to optimise performance and reduce risks. Scenario modelling quantifies potential strategies. Implementation includes supplier and customer renegotiation to redistribute tariff costs and portfolio rationalisation to streamline suppliers and products. These measures provide quick wins while preparing for long-term resilience.

Phase Three: Supply Chain Network

Strengthening supply chain resilience, this phase includes supply base modelling to optimise product flow and value-add content analysis for sensitivity assessment. Target market evaluation assesses market entry or exit impacts, while network modelling optimises logistics. Implementation involves market engagement, new supplier onboarding, and business integration, ensuring a seamless transition and long-term supply chain stability.



Dr. Markus Contzen
 Partner
 +49 173 524 21 73
 markus.contzen@hz.group



Alex Miles-Hewinson
 Senior Consultant
 +44 7577 292 058
 alex.miles-hewinson@hz.group



Neil Jordan
 Principal
 Supply Chain SME
 +44 7717 528 005
 neil.jordan@hz.group

Europe's Leading Procurement Provider



hz.group



H&Z Unternehmensberatung GmbH
 Max-Joseph-Straße 6, 80333
 Munich +49 89 24 29 69 0

**Procurement
 Excellence.
 Delivered**