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EU, U.S. Near Auto Trade Deal Ahead of Tariff Deadline

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With a looming August 1 deadline set by President Donald Trump for reciprocal tariffs to take effect, the U.S. and EU are racing to finalize a trade framework targeting the auto sector to avoid steep import duties.

Negotiations between the European Commission and U.S. officials have intensified recently, with discussions focusing on measures such as import quotas, export credits, and tariff cuts for autos ahead of the August 1 tariff deadline. Both sides are hoping to avoid a major tariff

escalation that could severely impact European carmakers and further strain transatlantic trade ties.

At the center of the discussions is the automotive industry, which has long been a flashpoint in trade talks. Since April, European automakers have been subject to a combined U.S. import tariff of about 27.5%, a 25% “reciprocal” tariff on top of the standard 2.5% auto duty. President Trump has warned that countries failing to reach a trade agreement by August 1 could face even higher tariffs, potentially up to 50%, on EU imports, including autos and steel.

EU negotiators have deemed auto tariffs a “red line” and are seeking concessions, including tariff relief or exemptions, to protect their automotive sector. Meanwhile, the U.S. side is focused on measures that would encourage more production on American soil and support domestic job creation.

A central proposal on the table would grant credits to automakers exporting vehicles from U.S. plants, credits that could offset the value of imported EU vehicles, allowing duty-free or reduced-rate imports up to that export volume. If approved, this would allow automakers to import vehicles either duty-free or at a reduced rate, up to the value of their U.S. exports, with tariffs applied only beyond that limit.

This approach could significantly benefit manufacturers like BMW and Mercedes-Benz, which operate major U.S. production hubs and export large volumes of sport-utility vehicles globally. The export-credit mechanism may also incentivize companies like Volkswagen to invest in U.S.-based Audi production facilities, which would help them earn credits under the proposed system.

Though the final deal is still pending, negotiators have discussed options such as reduced tariffs, import quotas, and mechanisms similar to the U.S.-UK sector-specific agreement that favored British automakers.

While details remain under wraps, negotiators have explored a range of options, including reduced tariff rates and quota systems modeled after a recent deal between the U.S. and the United Kingdom. The EU is also offering cooperation in areas like regulatory alignment, such as harmonizing vehicle safety standards.

Negotiations remain “fast-moving,” but internal EU divisions remain. Particularly over Germany’s proposal and concerns from smaller member states, underscore remaining differences. Whether an agreement can be reached in time will depend on continued goodwill and flexibility on both sides. For now, industry leaders and officials are watching closely, hoping that compromise wins out over confrontation.

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