Mercedes to LVMH Are Blunting the EU's Fight Against Trump's Tariffs

(Bloomberg) -- German automaker Mercedes-Benz Group AG, French luxury giant LVMH Moët Hennessy Louis Vuitton SE and other major European firms are spearheading a corporate push that's weakening the European Union's efforts to stand up to Donald Trump's tariff threats.

In a bid to head off a transatlantic trade war, some executives have held back-channel meetings with US officials to pursue their own interests. The initiatives have included pressing European governments and Brussels for a quick deal and removing iconic American products — such as bourbon — from a list of goods to be targeted in retaliation to defuse the potential for escalation, according to people familiar with the matter.

Prodded by concerns about their bottom lines and competitive disadvantages, European companies have increasingly exerted pressure both publicly and privately as a July 9 deadline approaches to reach a deal to avert 50% tariffs on nearly all US imports from the EU.

If an agreement proves unsatisfactory, the European Commission — the EU's executive arm — proposed duties on about €95 billion ($112 billion) worth of US exports to Europe in response to levies on cars and metals.

Requests by member states and industry would scale back the list by as much as €70 billion, said the people, who asked not to be identified discussing closed-door deliberations. The Commission has pushed back over concerns it would hollow out the package, said the people.

"We are absolutely focusing on a positive outcome," Maros Sefcovic, the bloc's trade chief, told reporters in Brussels on Monday. He traveled to Washington for the latest round of talks on Thursday.

The EU is now willing to accept a trade deal that includes a 10% universal tariff on many of its exports, although it wants the US to commit to lower rates than that on key sectors such as pharmaceuticals, alcohol, semiconductors and commercial aircraft. In recent weeks, the EU has lowered its tone of defiance.

At the heart of the corporate pushback are lucrative commercial ties that European companies can ill afford to abandon. Automakers and medical-equipment firms benefit from higher prices and wider margins in the US, while also relying on Silicon Valley software and American-made components like super-conducting magnets and x-ray tubes. Elite US universities also power European ambitions in electric vehicles, AI medicine and biotech. The combination makes many corporate leaders wary of a forceful EU response.

"There is a perception that punishing American exporters would help European industry. It is simply not true," said Oliver Bisazza, chief executive of lobby group MedTech Europe, which represents firms including Philips NV, Bayer AG, and Siemens Healthineers AG. "If the EU retaliates, the sector is hit twice, and the cost of producing medical devices rises."

Negotiations between Brussels and Washington have been underway since May and tensions have been high. Trump has blasted current trade arrangements as "totally unacceptable" and labeled the EU "nastier than China."

While European Commission President Ursula von der Leyen has warned that "all options" are on the table, her position has been undermined by companies working to weaken the bloc's bargaining position.

EU officials say some of the most disruptive maneuvers have come from Germany's automakers. Mercedes, BMW AG and Volkswagen AG have floated their own proposals in discussions with US officials.

The chief executives and other senior officials from all three manufacturers have traveled to Washington for closed-door meetings with Trump allies, including Commerce Secretary Howard Lutnick. They've made little headway despite extending peace offerings.

BMW has announced new investments in the US, Mercedes has moved manufacturing of the GLC SUV — among the brand's best-selling models — to Alabama, and Sweden's Volvo Cars AB has pledged to expand production stateside. European officials worry the firms could lure their suppliers to also move some investments and production across the Atlantic.

Similarly, a string of European drugmakers including France's Sanofi, have pledged to spend billions on developing and manufacturing drugs in the US.

Industry groups representing producers of French Cognac and Irish whiskey have also ramped up lobbying efforts, warning that retaliatory tariffs would hit a sector where the US and China account for over 80% of exports. Trade associations in Paris and Dublin have circulated position papers urging Brussels to de-escalate, arguing that spirits have become political hostages in a dispute that has little to do with their industries.

For European boardrooms, the timing is delicate. During Trump's first term, robust growth in China and the EU made the US slightly less critical and there was also no war in Ukraine. But now, domestic demand is sluggish, competition from China is intensifying, and the loss of cheap Russian energy adds costs, making the US even more crucial.

"There is already a measurable decline in direct investment and concrete losses in prosperity," David Deissner, managing director of the German lobby group Foundation for Family Businesses and Politics, said at a press briefing in Berlin this week. "The tariff measures are already acting as a trade barrier."

As part of its broader strategy, the EU is working to improve the bloc's internal market and is rushing to complete trade deals around the world to provide companies with opportunities to diversify away from the US.

For Brussels, the stakes are high. Collective bargaining is central to the EU's power. That unity held through Brexit, but could now fray as talks go down to the wire.

"To optimize the interest of the EU, the Commission really does need to take the lead," said Michael Plummer, a professor of international economics at Johns Hopkins University's SAIS Europe campus in Bologna.

A weak outcome with Washington could ripple across other confrontations, especially with China, on issues like EV subsidies, solar panels and clean-tech access — and damage the outlook for key industries and investments.

Alongside corporate pressure, German Chancellor Friedrich Merz has criticized the Commission's approach to the trade talks as too complex and called for a greater focus on key industries such as automobiles, pharmaceuticals, chemicals and machinery — Germany's largest manufacturing sectors.

"This is not about a finely chiseled, comprehensive trade agreement with the United States of America," he said Thursday in a speech to a banking forum in Berlin. "Better quick and simple than lengthy and complicated."

Against that backdrop, influential voices are urging restraint. LVMH Chairman Bernard Arnault has warned that failure to reach a deal could be catastrophic for France's wine and spirits industry and called for compromise instead of conflict, even suggesting that a free trade zone should exist between the EU and the US.

The billionaire, who has known Trump since the 1980s, has become personally involved and visited Washington at least twice since Trump's inauguration, while his son Alexandre also met with officials on his own in May.

"I hope to succeed, with my modest means and my contacts, in convincing Europe to adopt the most constructive attitude possible," Arnault told French lawmakers in May.

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