



To the point!

Cross-Asset- and Strategy-Research

Good luck, Ursula von der Leyen!

Moritz Kraemer -- Chief Economist

LBBWResearch@LBBW.de

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The new Commission faces significant challenges

On Sunday, December 1st, the new European Commission began its work. Comprising 16 men and 11 women, with one representative from each member state, it effectively serves as the cabinet of the European Union, led by Ursula von der Leyen as President. For quite a time, it seemed that the European Parliament would block certain nominations, but in the end, von der Leyen managed to get all her candidates approved, which is quite unusual. Parliamentarians from various factions gritted their teeth and voted for candidates who, in normal times, would have been scrutinized more closely or outright rejected.

But these are not normal times. Therefore, it is a relief that the parliament did not throw a fit over individual candidates and that the Commission is now operational. Across the Atlantic, Donald Trump is gearing up for a second term. And he has little good in store for Europe. Europe must be ready to deal with the Trump-related challenges. In most fields of international affairs, it is the EU collectively, not nation states, interacting with foreign powers.

Brussels must negotiate tariffs with Trump

An immediate economic threat comes from Trump's dogged determination to impose import tariffs not only on Chinese but also on European products. Sometimes he speaks of 10%, sometimes of 20%. Europe's trade surplus is a significant issue for him. Trump bizarrely believes a trade surplus is a sign that the exporting country is exploiting the population in the importing one. Germany is playing the leading role: over 40% of the European surplus comes from German products. In September alone, it was a record-breaking \$7 billion. Only China and Mexico have larger surpluses with the US.

The new
Commission
must deal with
Trump . . .

. . . and try
to dissuade him
from his tariff
extravaganza

It seems unlikely that Trump will be dissuaded easily from his tariff obsession. Nevertheless, an attempt should be made. This requires a functioning Commission, which we now have. And there is reason for hope based on past experience. In the summer of 2018, the then EU Commission President, Jean-Claude Juncker, managed against all expectations to dissuade Trump from imposing punitive tariffs on European cars through a deal. In return, the EU promised to buy more soybeans and liquefied natural gas from the U.S.

However, von der Leyen will have a much harder time than Juncker, as Trump 2.0 appears more entrenched in his position and determined to carry out his protectionist threats.

Europe's decision-making ability impaired

Moreover, Europe is in a politically weaker position than during Juncker's time. Germany and France are without majority governments, and Spain's is struggling. Italy is led by a government that is rather Eurosceptic. The Berlin-Paris axis has rarely been so weak. In many other countries, right-wing populists are consistently winning elections, not only in Eastern Europe but most recently also in Austria. The political center is flagging. This is also evident in the composition of the European Parliament, where centrist parties hold the slimmest majority in decades (see Fig. 1). This is not what powerful unity looks like. Trump and the warmonger in the Kremlin will be pleased.

Additionally, Europe's economic weight is continuously decreasing, weakening its negotiating position (see Fig. 2). A functioning Commission is a necessary but not sufficient condition to effectively tackle the growing challenges.

Let us wish the new Commission political wisdom. And the necessary luck!

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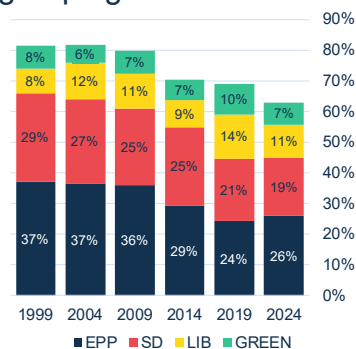
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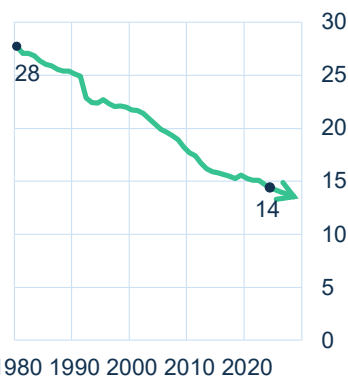
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Fig. 1: MEPs by political grouping



Source: European Parliament, LBBW Research

Fig. 2: EU27 as share of the world economy (in %, purchasing power adjusted)



Source: IMF, LBBW Research