

MITIGATE, DETER, ESCALATE: EUROPE'S OPTIONS AGAINST US ECONOMIC COERCION

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SUMMARY

- European policymakers are in dire need of concrete plans to respond to growing US economic coercion under President Donald Trump. As US tariffs bump up against their limits, it is likely the administration will turn its sights to fields other than trade to apply pressure on Europe.
- This paper explores three scenarios in the finance, energy and digital spheres. In each scenario, Europeans deploy three types of response to US economic coercion: mitigation—avoiding potential damage and buying time; deterrence—finding ways to fend off US actions; and escalation—going all in to respond to US actions.
- Common lessons emerge from the scenarios:
 - First, the Europeans have more options to respond to American economic coercion than they might think.
 - Second, the EU's best bet is to act on what moves: flows—financial exchanges, energy trade and data transfers—rather than existing stocks.
 - Third, financial markets can sometimes convey messages to Trump better than the EU can.
- Judicious actions can help Europeans fend off a good chunk of American coercion attempts while buying time to build durable economic leverage the bloc is able to deploy towards the US and others.

Now for the bad news

All is not well in transatlantic relations. In the 17 months since his inauguration, US president Donald Trump has applied tariffs on European exports to America; threatened to annex Greenland; and tried to negotiate a Ukraine settlement without consulting Europe. The bad news for Europeans is twofold. First, there are 31 more months of Trump 2.0 to go. Second, Washington has solid levers to weaponise Europe's ties to America in the spheres of: finance, through the bloc's reliance on the dollar and American financial mechanisms; energy, through the EU's growing dependence on US hydrocarbon supplies; and technology, through European dependencies on American digital firms.

This policy brief shares three scenarios of economic coercion by the US against Europe. The first scenario examines how Europeans could respond to American demands to sell a portion of their holdings of US Treasuries in a bid to engineer a depreciation of the dollar. In the second scenario, Washington seeks to leverage Europe's reliance on American liquefied natural gas (LNG) to extract concessions from the bloc in the energy and investment fields. The third scenario focuses on the technology sphere and American pressure on the EU to drop its digital regulations.

Each scenario unfolds in three stages. The first stage demonstrates EU efforts at **mitigation**. If mitigation fails and the US doubles down, the second stage—**deterrence**—contains robust options that communicate EU leverage and assets to Washington. Assuming the US keeps pressing, the third stage is that of **escalation**—when European leaders decide they have no choice but to respond to the coercion.

None of these scenarios would unfold exactly as described, and the twists and turns of US coercion attempts would undoubtedly be far messier than the neat, three-part structure suggests. However, recent US actions suggest the events underpinning each of the scenarios are plausible. All the scenarios conclude with an assessment of a potential landing zone for America and Europe, sketching out areas where both sides could make compromises.

In addition to sparking vigorous debate, the point of this policy brief is to highlight EU leverage in the financial, energy and technology spheres. Across the scenarios, the same lessons for Europeans emerge: act on what moves (financial, energy or data flows), not stocks (such as foreign-exchange reserves or existing investments); trust that financial markets can convey messages to Trump better than the EU can; make the most of the EU's internal market; deploy the EU's regulatory power; and spot opportunities to lay infrastructure that will endure long after the US president leaves the White House.

Our hope is that readers can reflect on these scenarios and imagine much-needed, creative ideas about how the EU could best approach some potentially difficult dilemmas.

Currency

The coercion begins

It is autumn 2026 and the mood in the White House is tense. The president's beloved tariffs have bumped up against their limits. True, they brought in extra fiscal revenues. But America's trade deficit remains abysmal and even right-wing media are running story after story suggesting Trump's grand trade plan needs a rethink. As White House advisers ponder next moves, a 2024 essay from US Federal Reserve board member Stephen Miran gains traction. The piece argues that weakening the dollar against other major currencies would help curb the US trade deficit by boosting the competitiveness of America's exports and making it more expensive for US firms to import (cheap) Chinese products.

Fast-forward just a few weeks and US treasury secretary Scott Bessent has already briefed the media about the merits of a potential Mar-a-Lago Accord—a revamp of the Plaza Accord of 1985, when major foreign holders of US Treasuries agreed to sell a portion of their holdings to engineer a depreciation of the dollar. The White House does not need to think long before it finds a moment when Washington can ask foreign Treasury holders to apply this strategy: in December the US will preside over the G20 summit at a Florida golf resort.

The US offer should be simple, American policymakers reckon. Foreign holders of Treasuries will get a reprieve on US tariffs in return for selling their holdings of US Treasuries. As Trump puts it on Truth Social, “*EUROPE has been RIPPING US OFF for 40 YEARS with their PHONY euro and their PHONY ‘Commission’. They hold TRILLIONS in OUR Treasuries and give us back NOTHING. Show up in December at the BEAUTIFUL Mar-a-Lago G20 ready to make a DEAL. Thank you for your attention to this matter.*”

On the other side of the Atlantic, emerging demands for US dollar depreciation set off alarm bells in Brussels and European capitals. The impact of a Mar-a-Lago deal on European economies would be massive. A sudden depreciation of the US dollar would entail an appreciation of the euro, hurting EU exporters. Amid fears of European deindustrialisation, the political fallout could be huge.

Europeans are exposed. Jointly, EU member states are the largest holder of US Treasuries. European central banks and investment funds hold around \$2trn in Treasury bonds, or about one-fifth of foreign-held stocks. This makes combined EU holdings roughly 65% larger than Japan's (the largest single holder of US Treasuries) and around three times as large as China's.

An additional complication is that just four countries—Belgium, Luxembourg, France and Ireland—account for three-quarters of EU holdings of US Treasuries. (The holdings in Belgium, Luxembourg and Ireland largely reflect custodian and fund domiciles, rather than genuine holdings from central banks or investment funds.) The risks of EU fragmentation are high, with the US likely to place pressure on these four states and private custodian firms like Belgium’s Euroclear or Luxembourg’s Clearstream.

Stage one: Mitigation

Play for time and work with others

At the mitigation phase, Europeans’ goal is simple: avoid entering into pointless negotiations and stretch the negotiation timeline past the December G20 window, which is America’s only shot in a while to gather all major US Treasury holders around the negotiating table. With this in mind, the EU’s best mitigation strategy entails, first, turning the bloc’s institutional set-up to its advantage to make it difficult for America to negotiate with Europeans; and, second, letting Tokyo’s and Beijing’s reluctance to sign a Mar-a-Lago deal sink US demands. The EU begins its mitigation play in two parts.

First, European policymakers make the most of Europe’s institutional fragmentation to remind the White House that no single EU body has a mandate to sign a currency deal. The European Commission has tariff competence, but no Treasury holdings it could sell; European central banks have reserves, but no tariff mandate. “We’re so sorry, we can’t help you,” is a response grounded in reality.

Second, the EU looks to the unwillingness of Japan and China to agree a Mar-a-Lago deal. Japan had a bruising experience with the 1985 Plaza Accord—the ensuing repatriation of huge amounts of savings to Japan partly fuelled the development of a property bubble which, once it burst in the early 1990s, led to years of deflation. China, for its part, has little interest in fostering an appreciation of its currency that would hurt its exporting firms. The EU sets out to amplify Japanese and Chinese concerns, thus keeping the spotlight off Europe. As the second-largest single holder of Treasuries, Britain quietly acquiesces to this plan and plays ball with the European strategy.

Stage two: Deterrence

Assemble a silent flow-denial coalition

The G20 summit concludes with great fanfare and Europe's mitigation tactics have proved successful: Trump bids farewell to his fellow G20 leaders with no currency deal to boast about. The president is furious and his advisers are hard at work planning ways to make America's ungrateful allies pay their dues and stop ripping off US firms.

Europeans do not have to wait long to discover the next twist. In February 2027, the White House convenes a huge press conference: Trump threatens to invoke the International Emergency Economic Powers Act (IEEPA) to suspend interest payments on Treasuries held by "non-cooperative" foreign holders if they do not submit to a Mar-a-Lago currency deal within 120 days. Trump invoking the IEEPA comes as no surprise: Washington used the act to impose the 2025 tariffs that the US Supreme Court struck down a year later.

For good measure, Trump takes to Truth Social: "*BREAKING—Under my AUTHORITY in the GREAT IEEPA law, the U.S. Treasury will CONVERT all foreign-held Treasury bonds into BEAUTIFUL 100-YEAR Bonds at ZERO PERCENT INTEREST if boring EUROPE and OTHERS do not make a DEAL. For DECADES our so-called 'allies' parked their money here and demanded INTEREST while freeloading off our military and our innovation. NO MORE.*"

In practice, the White House's move forces the conversion of foreign-held stocks of US Treasuries into zero-coupon, century bonds. Such bonds are exactly what their name suggests, namely 100-year Treasuries paying no interest. The logic is simple: from Washington's perspective, withholding interest claws back the losses American exporters incur because of an overvalued dollar, while financing the security guarantees that the US reckons unreliable NATO allies freeload on. From a public relations perspective, a move to century bonds is a three-in-one bundle: a tax on European investors, packaged as repayment for US security guarantees, and framed as undoing US dollar overvaluation.

As Europeans consider next steps, two traps come into view. First, just as when Trump threatened to annex Greenland in January, op-eds flood European newspapers arguing the EU should dump its holdings of US Treasuries in retaliation against Washington's century bond threats. Policymakers see how cute this is: the president's demands are effectively calling on European governments to do precisely what a Mar-a-Lago deal would entail, ie, a US Treasury sell-off. Trump would get his US dollar depreciation and blame Europe for the financial mess that ensues.

Second, European policymakers manage to avoid the temptation to "do something" and instead stand ready to do nothing—even if it means absorbing a huge financial market rout in reaction to the US threats. Indeed, Trump's IEEPA threats cause some serious stock market reaction. But Europeans have a better, quieter option: building a silent flow-denial coalition.

The EU teams up with other middle powers such as Canada, Japan and Britain to jointly turn down buying new US Treasuries. In doing so, the silent flow-denial coalition makes the best use of a glaring paradox in US demands: the administration may want Europe to sell its stock of US Treasuries to push the dollar down, yet it is still running a massive fiscal deficit, which is only getting bigger. With its Mar-a-Lago demands, Washington is trying to have it both ways: wanting Europeans to sell existing stocks of US debt to depreciate the dollar, all while the hungry federal budget still needs European central banks and investors to buy new flows of Treasuries to finance the deficit. Europe's leverage lies in making the most of this contradiction. Major capitals like Paris, Berlin, Ottawa, Tokyo and London say nothing about the collective abstinence they are planning. When US Treasury auctions take place, they simply send no bidders. (Alternatively, they could at least make vastly downgraded purchases.)

Such a silent coalition makes a big impact. Combined, these economies hold about half of the foreign-held stock of Treasuries. Assuming that official holdings account for roughly 40% of each country's portfolio (there are no country-by-country statistics, but the global average is 42%), EU member states, Canada, Japan and Britain hold about a fifth of official, foreign-held Treasury holdings. By refusing the new issues, the coalition weighs on demand for new US Treasuries, forcing yields up and making it more expensive for the US to finance its fiscal deficit.

While some object that refusing new auctions is just the same dumping Treasuries—just more slowly—politically and economically the coalition's actions are in a different universe. The gradual impact of a silent flow-denial coalition is unrecognisable as a Mar-a-Lago deal. Members of the coalition are in charge of what is going on; they are managing the speed of the process and avoiding sudden currency appreciation that would hurt their domestic exporters.

Stage three: Escalation

Require US Treasury assets backing dollar-pegged stablecoins marketed in the EU to be held in EU-based custodians

By summer 2027 the silent flow-denial coalition is working and the US faces mounting pressure to finance its ballooning fiscal deficit at reasonable cost. IEEPA blackmail remains on the table, but American investors are privately urging Trump not to make good on these threats. White House advisers contemplate their next steps, whispering that the best option is for the US to stop relying on uncooperative, unfriendly and unreliable foreign holders of Treasuries. Demand for Treasuries should be found elsewhere, closer to home. It would also be ideal if America could make the most of its dominance of the global stablecoin landscape: 99% of the world's \$317bn in stablecoins are pegged to the US dollar.

After hours of meetings, an idea emerges—and Trump loves it: the White House announces that US dollar-pegged stablecoins will be the new default currency for cross-border payments with American counterparts. Back on Truth Social, Trump boasts about the “*HUGE news for AMERICA—ALL U.S. crossborder payments will use STABLECOINS pegged to the MIGHTY U.S. DOLLAR. No more SWIFT (a system run out of BELGIUM, of all places!!). No more correspondent banks skimming YOUR money. INSTANT, BEAUTIFUL settlement. The Euro is FINISHED. Wall Street loves it. Crypto people LOVE it. America is BACK!!*”

To achieve this goal, the Treasury requires American banks to settle cross-border transactions in stablecoins, forcing foreign counterparts to use them or lose access to the US market. On the surface, the White House’s goal looks clear: avoid the need to process international transfers via SWIFT (the Belgium-based Rolodex connecting all global banks) and ditch reliance on correspondent banks for a portion of global dollar-denominated flows. The offer to those switching to stablecoins is simple: faster settlement and no correspondent-bank fees.

As European policymakers brush up their stablecoins knowledge, the trick with Trump’s move becomes obvious: higher demand for dollar-pegged stablecoins will help the US finance its fiscal deficit without relying on foreign Treasury holders. Instead, the burden will shift onto stablecoin issuers.

To understand this concept, Europeans refer to a handy primer on stablecoins. These privately issued digital coins are pegged one to one to the US dollar because the US GENIUS Act 2025 mandates that they are fully backed by short-dated Treasuries. In practice, this means every \$1 in stablecoin issuance requires roughly \$1 worth of Treasury purchases from the stablecoin issuer to guarantee the currency’s value. The world’s largest stablecoin, Tether, holds \$117bn in Treasuries—broadly the same amount as Israel or the UAE.

The implication is that, if the stock of US dollar-pegged stablecoins grows massively, then the US could partly reduce its reliance on foreigners’ willingness to buy Treasury securities to finance America’s fiscal deficit. Of course, even whopping growth in stablecoin use would not be enough to replace the roughly \$2trn in net yearly US Treasury issuance. Yet a sharp rise in stablecoin issuance is a useful first step for the US to bypass the silent flow-denial coalition and open a new chapter in US dollar weaponisation.

Facing this extreme scenario, the EU goes back to basics as it works out its response. First, the bloc’s greatest strength lies with its market of 450 million wealthy consumers. Second, major stablecoins like Tether have no presence in the single market because they have yet to comply with the EU’s Markets in Crypto-Assets Regulation (MiCA), which governs stablecoins. With stablecoins now required for cross-border payments, missing out on transatlantic financial flows is a lost opportunity for stablecoin firms. Putting these two facts together, a strategy for Europeans emerges: make the most of the licensing process for stablecoin issuers applying to operate in the EU.

MiCA is the tool for Brussels to put this strategy into practice. The commission requires that the US Treasuries backing stablecoins marketed in the EU are held in EU-based custodians like Euroclear or Clearstream. This applies regulatory pressure to stablecoin issuers while remaining invisible for European consumers. The policy also gives the EU leverage, in a worst-case scenario, to freeze a portion of US stablecoin reserve assets. EU policymakers are well aware how, in 2022, member states were able to immobilise a portion of the reserve assets of Russia's central bank precisely because these were mostly held in Euroclear.

There is a risk stablecoin issuers try to relocate to the Cayman Islands or Bermuda to offer digital coins to European customers from outside the US. But this would not shield them from MiCA rules, which apply to all stablecoins marketed to EU-based users—ignoring where the issuer is incorporated.

Of course, massive US retaliation is likely. Washington could, for instance, designate Euroclear or Clearstream as institutions of primary money-laundering concern (an immediate death sentence in the financial sphere), ban LNG exports to the EU (as the energy scenario hints at) or double down on pressure on Europe to ditch digital regulations (as the technology scenario later shows). All of this is plausible and the US has escalation dominance—there is little Europe can do to prevent such steps. Nevertheless, US investors try hard to dissuade Trump from creating more financial chaos.

De-escalation

The scenario ends in a stalemate. Trump's IEEPA threats to convert existing US Treasuries into zero-coupon, century bonds quietly disappear, as investors have made it crystal clear to whoever would listen at the White House that such a move would tank financial markets. US stablecoin issuers operating in Europe comply with MiCA's custody requirement and migrate a portion of their US Treasuries to Euroclear and Clearstream. Both sides sign a non-binding "digital payments understanding" whose content is notably vague.

Trump claims credit for forcing European "recognition" of dollar-pegged stablecoins (whatever that means), while Brussels has beefed up its regulation of emerging financial assets. The dollar depreciates against the euro throughout the scenario as investors grow distrustful of the greenback and shift portfolios towards "ex-US" assets. Neither side has won—but Europe ends the confrontation with US-linked assets in EU custody, an upgrade to existing financial regulation and a stronger appeal to investors as the boring adult in the room.

Energy

The coercion begins

It is September 2026, and the mood inside the White House is sour. Eight months into a costly war on Iran with no European naval assets in the region, frustration with allies is boiling over in Washington. The Strait of Hormuz remains only partially open. Iranian drone attacks keep tanker traffic at just 30% of pre-war levels. The impact of the war on global energy markets is huge, fuelling US inflation ahead of the midterm elections; oil prices sit at \$115 a barrel and damage to Qatar's Ras Laffan complex has cut global LNG supplies.

In Europe, the Iran war-fuelled energy crisis is taking a similar economic toll; German household energy bills are running a third above 2025 levels and Europe's chemical industry is warning further price rises will trigger production curtailments by winter. Meanwhile, European reliance on American energy keeps rising from an already high base: the US supplies more than 60% of the EU's LNG imports, with the bloc's regasification infrastructure increasingly rebuilt around American imports.

American policymakers decide enough is enough and that Europeans need to show some gratitude to their American allies. In the 2025 Turnberry trade agreement, the EU committed to buying \$750bn in US energy supplies by the end of Trump's second term in early 2029: the US is keen to see Brussels fulfil its side of the bargain.

Treasury secretary Scott Bessent and trade representative Jamieson Greer press Europeans to sign more 20-year contracts for American LNG. At the same time, defence secretary Pete Hegseth and secretary of state Marco Rubio make an explicit alliance condition of European alignment with America's Energy Dominance doctrine, which aims to maximise domestic fossil fuel production, reduce environmental regulations and accelerate energy exports.

These demands start an unprecedented energy crisis between America and Europe. The bloc faces a triple whammy: the structurally impossible commitment of meeting the Turnberry LNG import goal, which requires the EU to treble its LNG imports; even greater dependency on American LNG supplies it cannot easily replace; and a US administration embracing energy coercion.

Stage one: Mitigation

Promise to buy more gas

European leaders' first instinct is accommodation, on the bet that Washington's threats will exceed its actions, as they have in the majority of tariff-threat cases since Trump returned to power. The EU decides the best mitigation strategy is to channel existing European demand towards US energy as a signal of good faith to uphold the Turnberry deal. Decision-makers' goal is to buy time for European firms to increase American LNG imports and for Trump to climb down from his own threats.

The EU's play follows two tracks: trying to direct European energy companies towards American supplies and demonstrating alignment with the US on economic security and China in the hope this will lead to more clemency from Washington. Although US policy on China sometimes appears confusing, senior administration figures make clear they want allies to adopt a tougher stance towards Beijing.

At a gas summit in Brussels, the commission offers to direct EU demand for LNG via the AggregateEU platform explicitly towards American supplies, encouraging European energy firms to submit binding purchase plans for US energy supplies and accelerate participation in US upstream projects. The bloc also signals openness to relaxing EU Methane Regulation requirements that penalise American LNG exporters.

In parallel, the EU launches trade defence investigations into Chinese solar inverters and electrolyzers to indicate concerns about Chinese clean tech exports. The idea is to demonstrate to US counterparts that Europe is keen to align with America in at least some energy topics, namely addressing the risks of overreliance on Chinese clean energy equipment.

Europeans are aware of two drawbacks to the mitigation approach. First, signalling accommodation risks being read across Europe as dressed-up appeasement, and in Washington as evidence that US pressure is working and can be taken further. Second, indications the EU will expand long-term purchases of American LNG and relax climate rules similarly risks igniting backlash across Europe (in addition to being a very bad idea). In particular, the European clean tech industry is likely to warn that further fossil fuel commitments will strangle the investment case for renewables and compound dependencies on both China and America.

EU decision-makers get ahead of these objections by making it clear that every accommodation measure is time-limited and conditional on progress towards its renewable energy targets—framing LNG concessions as a crisis-management bridge, not a broader retreat from decarbonisation. Besides, skipping mitigation and leading with deterrence forfeits the consolidation window that mitigation creates: without a paper trail of EU good faith shown to both Washington and the European public and business community, deterrence reads as escalation—not response.

Stage two: Deterrence

Set up a coalition to highlight American interdependencies with Europe

European mitigation efforts make little difference to Washington's calculations. The administration doubles down on its Energy Dominance doctrine: the US trade representative demands a binding commitment that the EU will direct 40% of its Turnberry pledges to make \$600bn in FDI on US soil. This investment is destined for pipeline and terminal infrastructure that expands American oil and gas export capacity and supports AI data centre energy supplies.

The demand lands awkwardly in Brussels: the European Commission has no authority to direct the investment decisions of private companies. Washington presses its case anyway, citing the US-Japan Strategic Industrial Fund under which Japanese public investment commitments worth \$550bn are partly steered by the US commerce secretary.

Meanwhile, Rubio demands that the EU remove Chinese equipment from its energy systems. Energy secretary Chris Wright briefs the media on the Natural Gas Act, under which the White House can condition or slow the granting of LNG export licences on public interest grounds.

To round things off, Trump posts on Truth Social: “*Without America's Energy Dominance, European industry would be dead, totally taken over by China. Instead of being grateful, they are UNLOYAL and want to undermine our energy dominance. NOT WITH PRESIDENT DONALD TRUMP. My administration will make sure American gas goes to our REAL allies. EUROPE MUST BUY IT, whether it wants it or NOT.*” The post goes viral and is shared 80,000 times in two hours. European capitals read it as a declaration of US intent to use gas exports as a coercive leverage to extract more European economic concessions.

By the time an emergency European Council convenes to discuss the US threats, the toll of the energy crisis looks heavy across Europe—adding a further layer of complexity to European calculations. EU chemical producers are announcing reductions in ammonia and fertiliser output; projected household heating bills across central Europe are running 45% above last year; and energy-intensive steel, aluminium and glass producers in Germany, Belgium and Italy are idling furnaces. In such circumstances, an energy dispute with the US appears politically explosive.

After a tense European Council meeting, political leaders reluctantly conclude the EU must shift to a deterrence posture. This entails setting up a deterrence coalition of EU member states and companies willing to play tough; and having the members of this coalition publicly highlight the costs of a transatlantic row for the American economy.

The coalition loudly and visibly points to the costs of (yet another) transatlantic row to business, with a focus on AI—an economic and national security priority for the US administration. European diplomats begin intensive outreach to Congress and US industry about the many supply-chain interdependencies between the EU and the US in the AI economy. They indicate the frozen €93bn tariff package on EU imports from the US will be triggered should Washington violate the Turnberry deal; this would drag markets and the AI economy down, the European diplomats warn. The message is simple: without Europe, American AI ambitions will be slowed—helping China win the global AI race. With its chosen approach, the EU refrains from making direct threats and instead highlights that its map of supply-chain interdependence is merely a piece of analysis from European bureaucrats—not coercion.

The bloc has solid material enough to build its dependency case. ASML and its suppliers Zeiss and Trumpf are indispensable to AI chip production. Together, Ericsson and Nokia supply the majority of 5G (and future 6G) networking equipment, as well as optical networking equipment for US data centres. Schneider Electric leads global data centre power and cooling management. Infineon is co-developing Nvidia's next-generation AI power architecture. Siemens Energy is one of only three companies globally capable of building the gas turbines that the US data centre buildout depends on.

The EU does not ask European firms to act against their commercial interests, but rather coordinates a diplomatic translation of what those firms are already lobbying for. ASML, Siemens Energy and Infineon have even stronger incentives than any European diplomat to brief Congress on what a transatlantic trade war would cost the US economy (and their US business). The EU's role is to turn scattered industry noise into a coherent signal.

Stage three: Escalation

Threaten the ACI in order to communicate “Sell American”

By October 2026, it is clear the EU's deterrence strategy has failed. With the US midterms only weeks away and domestic energy prices still elevated, the White House faces mounting political incentives to restrict US hydrocarbon exports as a visible “America First” gesture. (Granted, this is economically incoherent, but White House advisers believe it could be politically salient.) Before an EU deterrence coalition is able to consolidate, Trump posts on Truth Social that: “*Spain, Germany and Denmark have treated us very badly in Iran and Greenland. Why should we send them our PRECIOUS gas? Thank you for your attention to this matter.*”

The US offers Poland and the Baltic states bilateral energy security memoranda that both guarantee preferential access to American LNG through to 2030 and formalise US troop stationing commitments. The kicker is that said troops are to be partially redirected from other

EU countries that the US deems to be “uncooperative”, like Germany and Spain. Within 72 hours, Warsaw and the Baltic capitals accept Washington’s offer in principle.

European unity is under serious threat. Poland publicly calls for the EU to accommodate the American asks, while Hungary, Italy and Slovakia begin reaching out to the US directly. For better or for worse, experience from the Greenland episode earlier in the year has solidified the belief, among European policymakers, that escalation will allow the EU to gain a better negotiation position from which it can de-escalate. An extraordinary European Council summit tasks the European Commission with suspending the implementation of the Turnberry deal and applying the frozen €93bn tariff package on EU imports from the US. The commission also launches a formal, expedited ACI investigation.

At this stage, Brussels accepts that any move it makes will partly deliver what Washington wanted in the first place. The challenge is how to do this on Europe’s terms, through instruments the EU already controls and with the option to build durable infrastructure in the wake of the dispute with the US. European decision-makers note, that although it could come at a high political price, deploying the ACI is a solid option here. The instrument provides the EU with great flexibility to “escalate to negotiate”, as restrictions are temporary and can be taken off the table just as quickly as they are added. The commission and member states decide to use the ACI and other tools in the hope that accumulated “Sell American” signals on financial markets—with ACI-related measures targeting US big tech firms, whose stock valuations are an important KPI for the Trump admin—will force de-escalation.

This leaves Brussels with three main options under the menu of ACI-related measures. First, the bloc could prepare a digital levy on the EU-sourced revenues of US big tech firms; such a move could challenge these firms’ market valuations. This move would also turn the dispute into a critical challenge for the clutch of American tech CEOs that are most able to push the White House towards de-escalation.

Second, a coalition of EU member states could suspend licence recognition for American cryptocurrency platforms. As a bonus, the European Banking Authority could open a review of the systemic risks that US stablecoins pose. As the currency scenario shows, dollar-pegged stablecoins are central to the administration’s vision of projecting dollar dominance (and ability to finance the US fiscal deficit). Putting US cryptocurrency platforms and dollar-pegged stablecoins under the spotlight could make a liability of the White House’s flagship tools of financial statecraft.

Third, EU governments could hold private meetings with industry to press them to delay the FDI envisaged under the Turnberry agreement. Meanwhile, the European Parliament has the power to push for capital movement safeguards under Article 66 of the Treaty on the Functioning of the European Union, temporarily freezing European investment in US power

projects. Such a move would alarm decision-makers in Washington: without capital investment and technical knowledge from European firms, the US will struggle to sustain the intense growth in AI data centres.

Crucially, these final options for escalation follow the same “regulation as leverage” logic that the Mar-a-Lago currency scenario rests on, applied to a different battlefield: every measure stays inside the EU’s legal perimeter, is easy to calibrate and leaves a piece of European regulatory infrastructure standing once the transatlantic crisis passes.

In parallel, (and again, as with the currency and technology scenarios) the EU builds off-ramps to de-escalate the dispute. The main objective of the EU’s off-ramps is to give Trump something to announce as a win—and bring about de-escalation. For instance, on the table is a “New Transatlantic Energy and Security Compact”, which specifies US LNG import targets for the bloc and cooperation language on China.

De-escalation

In the end, the midterms deliver Republican losses in the House. The EU’s escalation menu, coupled with the off-ramps, achieves a partial climbdown from the White House. Trump declares he indeed got a better deal for America in a “New Transatlantic Energy and Security Compact”—a rebranded Turnberry with more energy-specific language. The EU suspends its escalation measures, pending further negotiations. That distinction matters: the escalation menu stays legally prepared and politically credible, ready to be reactivated if the next confrontation demands it.

Neither side has fully won and Europe’s structural LNG dependency remains. However, in the process the EU has built a layer of deterrence infrastructure that will make it easier for the bloc to respond to America’s next coercion attempt.

Technology

The coercion begins

It is September 2026 and Trump is frustrated: despite months of US pressure, Europeans continue to regulate American tech companies as if Washington’s warnings meant nothing. Digital services taxes remain in place across several member states. Despite intense pressure, the Europeans have refused to repeal or amend the Digital Services Act (DSA) and the Digital Markets Act (DMA).

For Trump, an intolerable twist lies in the fact that the EU is daring to impose finances and sanctions on American companies for violations of competition and digital services rules. Google faces the prospect of being compelled to break up its advertising business. X faces a substantial fine over non-consensual nude imagery generated by its AI model, Grok. Meta awaits the outcome of investigations into Facebook's failure to protect children. OpenAI anticipates EU sanctions against ChatGPT over its interactions with minors.

Enough is enough. Trump decides he wants to hit at Europe on digital regulation—a domain where US big tech lobbying translates directly into presidential action and where the president can act without congressional approval. He instructs US treasury secretary Scott Bessent and commerce secretary Howard Lutnick to press two demands on the Europeans. First, national governments in France, Italy, Spain and elsewhere must repeal their digital services taxes. Second, the European Commission must halt all investigations into American companies under the DMA and DSA.

Should these demands not be met, Trump warns on Truth Social that his administration may compel US cloud providers to deny services to the European Commission and EU member states, as well as restrict European access to Nvidia semiconductors. He also hints at placing the commission's director-general for competition and director-general for connectivity—the officials responsible for enforcing the DMA and DSA, respectively—under American sanctions.

Stage one: Mitigation

Keep calm and carry on

The commission and member states absorb the pressure without visibly reacting. To the outside world, they maintain the business-as-usual posture they have held since Trump's inauguration—ignoring American officials who denounce EU regulations, declining to react to US travel bans on European citizens and refraining from publicly demanding that American officials and social media platforms stop interfering in Europe's domestic politics.

Behind the scenes, though, the president of the European Commission, Ursula von der Leyen, asks her cabinet to discreetly send the message to commissioners Teresa Ribera and Henna Virkkunen to “take it easy” with investigations into US big tech companies so as to not provoke an escalation.

EU leaders believe that mitigation is the only viable strategy. European dependencies on US technology are so acute that Europe is simply not prepared for a direct confrontation with the administration. In their view, the US could shut down their internet access, inflicting severe economic pain on Europe. What is more, many EU leaders see no credible path to deterring Washington or managing an escalation of tensions on favourable terms.

The EU's mitigation plan thus has one key objective: buying time for the implementation of the 2023 EU technological sovereignty strategy. This strategy aims to increase supply-chain resilience through investment in AI gigafactories, semiconductor production and rare-earth mining. The European Commission has reinforced the implementation of that agenda by appointing an executive vice-president for technological sovereignty tasked with: reducing EU cloud dependencies; strengthening European data governance; and using public procurement rules to favour domestic suppliers of critical technology.

Mitigation is, however, a strategy with two major flaws. First, conservative estimates put the cost of a full Eurostack package delivering genuine technological sovereignty at no less than €300bn over ten years. Current EU investment trajectories fall well short of what the strategy requires: the gap between dependency today and any credible resilience horizon is precisely what makes mitigation fragile.

Second, even if the EU had an industrial strategy to move from dependency to resilience, it still lacks a plan to withstand US pressure along the way. In March 2026 the European Council asked the commission to map EU dependencies in strategic sectors. However, the council did not request an examination of US critical vulnerabilities and chokepoints that Europeans could use in case of outright coercion.

Overall, the EU and its member states find themselves without the instruments and operational playbooks to deploy them, and they have not built the coalitions of member states needed for collective action. Internal decision-making remains untested. Nor is there consensus: member states thus remain divided over how much digital dependence on the US they can tolerate.

Stage two: Deterrence

Identify America's digital chokepoints—and make them public

The EU's mitigation strategy has been a resounding failure. Trump reads Europe's restrained response to aggressive rhetoric as weakness. US officials, members of Congress and big tech CEOs conclude sustained pressure can yet yield results—at best, outright changes to EU regulation or public commitments not to fine any US big tech company; at worst, intimidating EU officials into stopping all investigations or at least neutralising enforcement. For Trump, aggression also serves a domestic purpose: attacking Europe plays well with the MAGA base and gives its politicians a useful weapon against Democrats.

The US president signs an executive order giving European governments and the European Commission one month to repeal their digital services taxes and publicly commit to refrain

from imposing sanctions on US big tech. If they fail to do this, EU member states and firms face restrictions on access to American-designed semiconductors and cloud services.

At the same time, Trump signals to Jim Jordan, the chairman of the US House Judiciary Committee, that he would love to see him increasing the pressure on the EU. The Judiciary Committee issues subpoenas to Ribera and Virkkunen—compelling them to travel to Washington to testify about Europe’s alleged “censorship machine” and “extraterritorial and discriminatory treatment of US companies.”

As if the message was not clear enough, on Truth Social Trump declares: “A *SINGLE FINE* on a US company by BORING Von der Leyen and her CROWD OF LOSERS will be met with DEVASTATING sanctions crippling DEAD EU economies. If Europeans DO NOT WANT OUR PRECIOUS TECHNOLOGY, we will be happy to concede their wishes. Thank you for your attention to this matter.”

Europe’s first response is to reject US pressure openly, forsaking its usual quietude. Von der Leyen announces that EU officials will not travel to Washington to testify. She further states that ongoing investigations into US big tech companies will proceed as planned. In parallel, the European governments levying taxes on US digital services make it clear that those taxes will remain in place and that they intend to continue enforcing outright bans on platform access for children under 16, with hefty fines against platforms that fail to comply.

In parallel, the commission and the member states start setting up a credible deterrence package. At the deterrence stage, the EU’s task is twofold: signal credible costs to Washington; and force a repricing of the confrontation on financial markets, without sparking a market crisis.

Two actions do the work. First, policymakers draw up a credible EU toolbox that contains all possible instruments: the anti-coercion instrument (ACI), the emergency powers envisaged in Article 122 of the Treaty on the Functioning of the European Union (TFEU) and the restrictive measures (sanctions) envisaged in Article 29 of the Treaty on European Union (TEU) in conjunction with Article 215 TFEU. The commission tasks the director-general of the legal service with producing the toolbox, for submission to member states within two weeks. The assignment requires the commission to rate the instruments against three criteria: severity of harm inflicted; speed of deployment; and scope—whether confined to the digital and technology domain or extended into trade, finance and diplomacy. Second, decision-makers initiate a managed leak campaign about the work now taking place, designed to put financial markets on notice. The EU’s objective is not to use the toolbox, but to make Washington recalculate the price of its coercion tactics.

In parallel, *Politico* happens to publish a breaking story based on a confidential think-tank note that was circulated to the cabinets of von der Leyen and to several European capitals before the

summer. The note, entitled “When facing US tech coercion: Where is our Strait of Hormuz?”, argues that, just as Iran can interrupt global oil flows through a single geographical chokepoint, the EU’s regulatory and market leverage over American big tech constitutes a structural chokepoint never activated by the block. It concludes that the EU should develop a deterrence package to put this potential into practice.

The commission makes no effort to contain these leaks. The menu of measures reads like a list of robust options for the bloc in its digital fight against Washington: caps on EU pension fund investments in US big tech; a special levy on US social platforms to compensate for harm to minors; placing X under the supervision of the European Board of Digital Services; breaking up Google’s advertising business; introducing EU travel bans and personal sanctions targeting American big tech CEOs and members of Congress; “Buy European” preferences in public procurement of technology; compulsory licensing for US cloud providers; and threatening to weaponise American AI dependencies on EU firms such as ASML, Ericsson and Nokia.

As it takes stock of developments, the European Commission is broadly satisfied: the announcements and leaks have put traders on notice and signalled to the US administration that escalation carries real costs, without being so alarming as to trigger a market crisis. The implicit message, it believes, is that Washington is better served by not carrying out its threats.

On the other side of the Atlantic, though, Washington is unimpressed. It sees EU institutions and member state governments as vulnerable and unprepared—their public institutions exposed to potential denial of cloud services, their chip production plans going slowly, and their rare-earth mining ambitions failing to take off. US decision-makers also note the ACI has never been used, its governance is cumbersome, and even, with qualified majority voting, the decision-making process is unwieldy enough to blunt any credible threat.

Stage three: Escalation

Use the Democracy Shield, threaten foreign agent designations and deploy the ACI

Transatlantic relations deteriorate further. In October 2026, Trump posts on Truth Social: “*Europeans are BLUFFING with their ANTI-COERCION INSTRUMENT lies. They have ZERO cards and they are SCARED to do anything at us.*”

At around the same time, the European Commission and courts in France, Germany and Spain conclude their investigations into X’s Grok. EU officials and prosecutors call for substantial fines and even hint at operating bans. Simultaneously, the commission decides that Google has put forward no credible remedies to address its market concentration in online advertising and requires it to submit a divestment plan. Meta is fined €2bn for failing to implement effective age restrictions on Facebook and Instagram.

Weakened in the polls as the midterm elections approach, Trump instructs the State and Treasury Departments to apply maximum pressure on EU digital regulations and to throw their full weight behind MAGA-aligned forces across Europe—through funding, public endorsement and social media amplification.

The escalation stage plays out in four moves per side.

1.

America's move. Bessent places the commission's directors-general for competition and connectivity on the American sanctions list. In so doing, he follows the playbook previously used by the US against officials from the International Criminal Court. Rubio imposes a travel ban to the US on all European Commission officials working on DMA and DSA enforcement.

Europe's response. Europeans know speed and visibility are their friends. Following an emergency European Council meeting, EU member states call on the commission to trigger the ACI and begin examining trade, financial and digital services sanctions against the US. The EU activates Article 29 TEU and Article 215 TFEU, which allow the council to adopt restrictive measures—including travel bans and asset freezes—against non-state entities and individuals.

2. _____

America's move. Elon Musk announces the launch of a European foundation to promote MAGA-aligned movements and deploys X in their service. Spain is a prime target for both Trump and Musk. Its prime minister, Pedro Sánchez, is a progressive in favour of immigration and renewables. He has blocked the use of Spanish bases for US attacks on Iran and led the charge against big tech in Europe. As Sánchez calls an early election, Musk announces he will travel to Spain to back the far-right Vox party and personally campaign against the prime minister.

Europe's response. Spain invokes the EU Solidarity Clause in Article 222 TFEU and announces it will call for the EU to impose an entry ban on Musk. It also asks the European Commission to examine whether X is complying with the EU's 2025 Regulation on the Targeting of Political Advertising. Sánchez threatens to designate X a “foreign agent” and hints that Spain's general prosecutor may ask the electoral commission to ban the platform from operating during the electoral campaign. Sánchez's actions open the way for other EU member states to adopt similar measures, and for the commission to curtail X's operations across Europe.

3.

America's move. Faced with Spain's legal moves and the prospect of X being designated a foreign agent, Musk escalates rather than retreats. He uses X to mobilise pressure on the Treasury, Congress and Senate to impose sanctions on Spanish officials and terminate bilateral security agreements. He also threatens to cut Starlink services to Ukraine if he receives a travel ban or if X is fined, in order to pressure European governments showing solidarity with Spain.

Europe's response. The commission announces the activation of the recently approved “Democracy Shield”. This includes launching the DSA's Article 36 (emergency powers), applicable to “extraordinary circumstances leading to a serious threat to public security or public health in the Union or in significant parts of it” and the 2025 European Media Freedom Act to allow national regulators to investigate X's selective amplification or suppression of content during the election campaign (and eventually impose fines).

4.

America's move. Fearing the weakening of X as a political asset, Trump escalates further: he warns EU governments that defying him over the platform will automatically trigger denial of access for the European Commission and block “defiant” EU governments' access to US cloud services and Nvidia semiconductors.

Europe's response. The European Council activates the ACI and the emergency powers under TFEU Article 122—previously deployed to ban Kremlin mouthpieces Russia Today and Sputnik. It warns US cloud companies that any denial of services will trigger substantial fines across member states, result in their designation as a “high-risk vendor” for future public procurement contracts and leading to the suspension of the transfer of personal data to the US envisaged in GDPR article 45. In addition, the bloc threatens to impose fines on Starlink if the company suspends services to Ukraine—an EU candidate country.

De-escalation

The combination of EU threats meets with success, producing a stock-market reaction that forces Musk's hand. The White House executes another TACO (Trump Always Chickens Out). The president instructs Rubio and Bessent to lift the sanctions on European policymakers. In a call with von der Leyen, Trump makes it clear that EU attempts to target Amazon or Google will be a red line because these companies are essential for America to win the AI race. Von der Leyen understands from the call that the US will make noise but accept fines if the commission does not brag about them, keeps its business-as-usual profile and does not break up US companies.

Musk, choosing to protect Starlink and SpaceX contracts in Europe, retreats and agrees to operate X within the bounds of the DSA and stop interfering in European electoral campaigns. American big tech firms, fearing further EU retaliation, discreetly press Trump to stand down and protect their European revenues. Trump posts on Truth Social that he has secured a great deal: the EU will keep its market wide open to US companies: “*Europeans have learnt a BIG lesson*”, he says. “*Do not confront an American bear.*” Brussels moves back to mitigation and depoliticisation, conscious there will still be bumps along the road. Still, the DMA and DSA remain intact and Musk is—for now—kept at bay.

Three lessons for dealing with a coercive America

Lesson 1—Act on flows, not stocks

The EU’s best move across all three scenarios is to act on what moves—flows, not stocks. In the currency confrontation, this means denying Washington any negotiation flow at the mitigation stage; refusing to buy new US Treasuries at the deterrence stage; and regulating the use of US dollar-pegged stablecoins in the EU market at the escalation stage—all without meeting Trump’s request to dump existing stocks of US Treasuries.

The same logic carries across to the energy and digital scenarios. In the gas crisis, the EU’s strongest plays involve refusing to sign new 20-year contracts for LNG and halting new European FDI into US pipeline infrastructure—while leaving existing import flows untouched. In the digital scenario, the leaked ACI menu—caps on EU pension-fund investments in American big tech, special levies or fines on US social media platforms, a halt in data transfers and floating “Buy European” regulations—targets new revenue flows rather than existing American assets. As a bonus, flow denial keeps Brussels in control of the timeline: the dollar depreciates only gradually, the LNG terminals remain unbuilt and the digital chokepoint tightens—all on Europe’s clock.

Lesson 2—Trust that financial markets will carry messages to

Trump’s circle

Trump may be unmoved by EU démarches, but his entourage is not and US financial market moves are exactly what his inner circle carefully watches. The ACI is untested, cumbersome and slow, and the president’s officials know it—making procedure only a second-best weapon. What influences Washington is not the prospect of an EU vote on the ACI, but the prospect of a

vote that bond traders, red-state energy constituencies and big tech CEOs will price in against the things they actually care about: yields on new US Treasuries, the financial spine of the Turnberry deal and big tech earnings.

In the Mar-a-Lago scenario, the silent flow-denial coalition forces the bond market to issue a verdict—rising yields for US Treasuries—that Trump cannot ignore. In the energy scenario, the transatlantic AI interdependency map (drawn up by a similar coalition) forms a coherent message for American industry to carry. In the digital scenario, drafting a memo of “digital Hormuz” chokepoints turns the DMA and DSA into a market-readable threat that transforms big tech CEOs into envoys for Europe. The EU does not need to convince Trump; it can count on Wall Street, the oil patch and Silicon Valley to convince him on the bloc’s behalf.

Lesson 3—Lay durable infrastructure for after the crisis

All three scenarios end with Washington getting some of what it wanted in the first place—a weaker US dollar against the euro; a rebranded Turnberry agreement; a partial EU retreat from stringent DMA and DSA enforcement. The trick for the bloc is to deliver these outcomes on its own terms and to leave a piece of regulation standing once the confrontation passes.

Mandating that reserve assets backing dollar-pegged stablecoins used in the EU are stored on EU soil; integrating the ACI into the EU’s broader economic statecraft toolkit; funding the €300bn, ten-year technological sovereignty strategy in full—AI gigafactories, semiconductor production and rare-earth mining—these choices all follow the same logic of turning US coercion into positive developments. The EU has more options to respond to US coercion than it might think. There is no better moment for the EU to do its homework at speed than during rows with the US, and turn the Trump-fuelled chaos into an opportunity.

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