

# Out with the old tariffs, in with the new

- **The Supreme Court ruled to annul the Trump administration's tariffs imposed under the International Emergency Economic Powers Act**
- **Roughly 60% of tariffs were cancelled, but quickly replaced by temporary 15% tariffs under Section 122**
- **The aggregate level of tariffs has declined only modestly, but for some countries the decline is significant**
- **For the EU, tariffs remain mostly in place, although there is fresh uncertainty about the ratification of the Turnberry agreement**
- **China, and various emerging markets are the major beneficiaries of this development, who see their competitive position improve**



Rogier Quaedvlieg  
Senior Economist US  
[rogier.quaedvlieg@nl.abnamro.com](mailto:rogier.quaedvlieg@nl.abnamro.com)



Arjen van Dijkhuizen  
Senior Economist China/World Trade  
[arjen.van.dijkhuizen@nl.abnamro.com](mailto:arjen.van.dijkhuizen@nl.abnamro.com)



Bill Diviney  
Senior Economist Eurozone/Head Macro  
[bill.diviney@nl.abnamro.com](mailto:bill.diviney@nl.abnamro.com)

After a surprisingly long delay, the Supreme Court ruled 6-3 last Friday that the International Emergency Economic Powers Act (IEEPA) does not give the President the authority to impose tariffs. Importantly, they referred the decision on whether paid tariffs, over \$160 billion, have to be refunded back to lower courts. The Trump administration was quick to reimpose tariffs through other means. Still, overall tariff levels were somewhat reduced, with some countries benefiting substantially more than others.

## The SCOTUS decision

The legal basis for the tariffs always seemed dubious, relying on chronic bilateral trade deficits to declare a national emergency. From an economic point of view there was always little doubt that the basis was false. The legal case mainly settled around whether the President had the authority to impose tariffs without Congress' approval. The majority ultimately ruled against the President.

The decision was important, because it shows that the final check on the US presidency remains in place. At the same time, the Trump administration has acted more frequently with seemingly weak legal basis, 'asking for forgiveness not permission.' They carried out an attack on Iran without congressional approval last year, they carried out the military operation to extract Maduro from Venezuela without approval. This has allowed the Trump administration to permanently alter the geopolitical environment, seemingly without constraints.

Still, this ruling is a positive development, as it takes away one of the most important instruments Trump has used to pressure its trading partners into gaining various concessions. He can no longer impose arbitrarily high tariff levels on other countries overnight. Any threat would now take the form of a months-long investigation. Many of last year's developments would have played out very differently with this restriction in place.

## Which tariffs are affected

The SC decision annulled IEEPA tariffs, which included the Liberation Day 'Reciprocal Tariffs,' as well as the fentanyl-related tariffs. This means that all country-level tariffs imposed last year have been annulled. Sectoral tariffs under Section 232, such as those on steel and aluminium, cars and some other goods, remain in effect. The IEEPA tariffs were however by far the biggest, representing almost

60% of total tariff revenue since Trump took office. It is as of now unclear whether these tariffs will have to be paid back, although it seems unlikely that businesses will just accept having paid an unlawful tax. Lower courts have previously been quick to dismiss the IEEPA tariffs, and we therefore also see it as likely that these will have to be paid back.

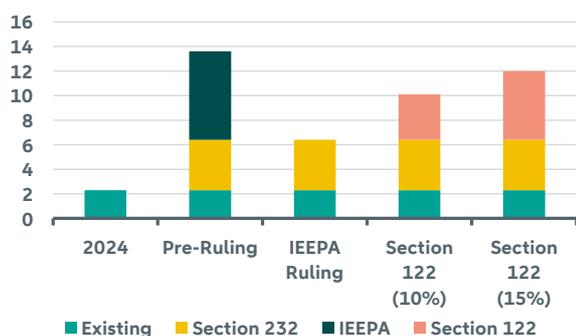
The impact on the fiscal picture will be limited. Our base case already saw a decrease in tariffs this year, which has now materialized. Having to pay back last year's tariffs will raise this year's deficit again but is overall unlikely to qualitatively alter the trajectory of the US debt. We also do not expect a substantial impact on inflation. The overall aggregate tariff level remains at historically high levels. Even if businesses do get tariff refunds, they're unlikely to pass that fiscal windfall on to end-consumers. Any pass-through of tariff price hikes will not be reversed, but some of the remaining pressure may ease somewhat.

### The Trump response

Trump was clearly not happy with the Supreme Court decision. In line with expectations, he immediately re-implemented some of the tariffs through Section 122. This section allows the US to impose tariffs up to 15% for up to 150 days, without congressional approval. Importantly, it does not allow for between-country variation. The Trump administration initially imposed 10%, the lowest of the country-specific reciprocal rates, but later upgraded to the maximal 15%. Tariff exemptions for goods subject to Section 232 action, such as those for various consumer electronics, energy and pharmaceuticals, as well as USMCA-compliant goods, remained. In the meantime, US Trade representative Greer stated that the SC decision won't unravel deals that the US negotiated with its partners, such as those with the EU, UK and Japan – at least, from the US's point of view (see below for the EU's).

#### Section 122 replaces most of IEEPA in the aggregate

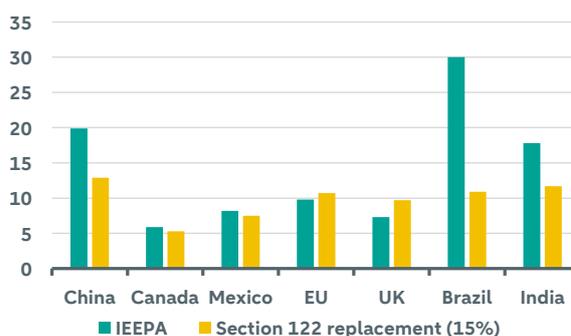
Aggregate effective tariff rate, %



Source: Bloomberg, ABN AMRO Group Economics

#### But can lead to different outcomes on a country-level

Tariff increases relative to Jan 1<sup>st</sup> 2025, pp



Source: Bloomberg, ABN AMRO Group Economics

Tariff levels therefore briefly dropped substantially, but quickly bounced back, and the aggregate effective tariff rate has now settled at a level roughly 2pp below the level it was before the ruling (see chart above-left). Some countries benefit, while others do not. In the chart on the right, we see that countries like China, Brazil and India, who had large, and largely political tariffs applied to them, now face substantially lower tariffs. At the same time, the EU and UK may actually see a minor increase in the tariff rate, depending on whether the caps of 15% and 10% in their trade agreements hold, or whether they face the full extent of the 15% Section 122 tariff.

## **The next tariff steps**

Section 122 again provides legally dubious grounds for tariffs. Formally, it was written to prevent international payment problems in a fixed exchange rate regime. Given the precedent in the IEEPA tariffs, it's unlikely that a legal challenge, which is sure to come, will be concluded before the 150 day term is up. In the meantime, the Trump administration is expected to take the sector-level Section 232 and the 'unfair foreign trade practices' Section 301 to rebuild the tariffs in a permanent, and more legally-sound manner. Both require extended investigations before they can be applied. Neither can be used to completely rebuild the Liberation Day package as they do not allow for sweeping universal tariffs, but an extended effort can get close. This might be good news for the penguins on the Heard and MacDonald Islands who currently face 10% tariffs, but will likely not be investigated. Section 232 applies only to certain sectors rather than countries, though country-specific exemptions could be granted. Section 301 applies to countries and similarly requires a long and formal investigation. Duration must be reviewed every four years, and the US trade representative can keep them in place if a US company can claim they are benefitting from the tariffs.

What happens if investigations are not concluded in 150 days? Congress can extend the Section 122 tariffs beyond the 150 day period, and by that time the current Republican majority will still be seated. Still, the timing is consequential, as a decision to extend would be close to the mid-terms. Tariffs are unpopular, and Republican congress members up for re-election might be hesitant to go along.

## **EU reaction and eurozone impact**

The EU responded to the latest tariff developments with a stern statement demanding clarification that the new 15% tariff would not violate the US-EU Turnberry agreement of last July. So far, the list of exemptions to the 15% tariff suggests that the 'new' tariff regime is very similar if not identical to what existed before the Supreme Court decision, at least for the EU. However, developments could still be impactful, for two reasons. First, it creates fresh uncertainty around EU ratification of the Turnberry agreement, which was already delayed by the Greenland episode in January. The agreement is quietly loathed in the EU as a capitulation to the US, and Bernd Lange, leader of the European Parliament's international trade committee, has proposed suspending ratification, which was due to take place tomorrow. Even if the US does uphold its part of the deal, it could be argued that the whole basis for political support of the deal – that the concessions the EU made helps it avoid even higher tariffs – has fallen away now that Trump has no legal basis to impose higher tariffs. Whether this is enough to scupper the deal entirely is unclear. If the deal were to be scrapped entirely, the EU could still run the risk of higher future section 232 tariffs – for instance in pharmaceuticals (1/4 of EU exports to the US), where the Turnberry agreement currently contains a cap of 15%.

The second factor to consider is the EU's loss of competitiveness vis-à-vis other US trade partners, notably China. Under the previous regime, EU exports faced much lower tariffs to the US than did China and many emerging markets (see below). That competitive advantage has now partly fallen away. However, the EU and China mostly compete in different spheres when it comes to the US market: the EU exports more value-added and differentiated products (think pharmaceuticals, (luxury) cars, food products unique to the EU). Where they do compete, for instance in steel, the EU's competitive advantage still remains, as steel is covered by the section 232/301 tariffs which are unaffected by the Supreme Court decision.

All told, we do not see sufficient reason yet to adjust our base case for eurozone growth based on current developments. The biggest risk probably comes from a failure to ratify the Turnberry

agreement and the potential for this to trigger higher sector-specific tariffs. This could then lead to a renewed tit-for-tat trade war, though the scope for escalation here is clearly capped now by the Supreme Court decision.

### **China looks to benefit as US tariffs will come down further...**

At first glance, China looks to be one of the beneficiaries of the Supreme Court Ruling, as the two grounds that the US used last year to install tariffs on China (the 'global reciprocal' one and a fentanyl-related one) under IEEPA are now gone. After an initial skyrocketing following US Liberation Day, bilateral tariffs were lowered sharply after the Geneva truce in May, and reduced further following the Trump-Xi meeting in South Korea end-October. Before the Supreme Court Ruling, US nominal tariffs on China under the 2<sup>nd</sup> Trump administration amounted to 30% (20% reciprocal, and the fentanyl-related part reduced from 20% to 10%), with consumer electronics being exempted. Should the US now install 15% tariffs on China under Section 122 of the 1974 Trade Act, that would leave China facing lower nominal tariffs (assuming exemptions for consumer electronics remain). That could help restore to some extent direct bilateral trade flows between the US and China (in itself a positive for growth), with Chinese exports to the US down by 20% in 2025 compared to 2024. We should add that the decline of direct Chinese exports to the US has been more than offset by higher exports to other regions, including some trade rerouting via South-East Asia. Chinese total exports grew by 5.5% in 2025, and its trade surplus reached a record high of USD 1.2 trillion last year.

### **...but both China and the US still have reasons to stick to trade truce**

The Supreme Court Ruling will likely also strengthen Beijing's hand in future bilateral trade negotiations, with Trump allegedly visiting his Chinese counterpart in Beijing end-March/early April. China promised to buy more US soybeans and other US products as part of the trade deal, and may now feel emboldened as the US has less ammunition than before in terms of future tariff threats. Nevertheless, we still are of the view that both the US and China will have their own reasons to keep the trade truce in place. A very important part of that truce does not relate to tariffs, but to chokepoints – with both countries agreeing last October to postpone tighter restrictions on semiconductors (US) and rare earth exports (China) by one year. So far, Beijing has responded cautiously to the Supreme Court decision and Trump's new tariff plans. China's Ministry of Commerce stated on Monday it is conducting a comprehensive assessment of the implications, adding that China will continue to monitor closely further tariff developments while protecting its own interests.

### **Other EMs also stand to benefit**

For the Asian car and electronic producers (Japan, South-Korea, Taiwan) the replacement of IEEPA tariffs by a 15% Section 122 tariff does not seem to have large repercussions at first sight, as the bilateral trade deals of these countries with the US were all based on a 15% tariff rate. Still, these countries are about to lose their comparative edge versus countries like China in terms of US tariffs. Large EMs such as India and Brazil stand to benefit from the new tariff framework. Before the Supreme Court ruling, the US had already agreed to cut tariffs on India from 25% to 18%, while removing additional tariffs installed due to India's purchasing of Russian oil. The US and India are still negotiating on a broader trade framework. Brazil was faced with high tariffs (around 30%) before the ruling, and should therefore also benefit from the new framework.

## DISCLAIMER

ABN AMRO Bank  
Gustav Mahlerlaan 10 (visiting address)  
P.O. Box 283  
1000 EA Amsterdam  
The Netherlands

This document has been compiled by ABN AMRO. Its sole purpose is to provide financial and general information about the economy and sustainability. ABN AMRO reserves all rights in relation to the information in the documents the document is provided to you for your information only. You may not copy, distribute or transmit this document (in whole or in part) to any third party or use it for any other purpose than that referred to above.

This document is informative and does not constitute an offer of securities to the public, or a solicitation of an offer. You should not for any reason rely on the information, opinions, estimates and assumptions contained in this document or that it is complete, accurate or correct. No warranty, express or implied, is given by or on behalf of ABN AMRO, its directors, officers, representatives, affiliates, group companies or employees as to the accuracy or completeness of the information contained in this document, and no liability is accepted for any loss arising directly or indirectly from the use of this information. The views and opinions contained herein may be subject to change at any time and ABN AMRO is under no obligation to revise the information contained in this document after the date hereof.

Before investing in any ABN AMRO product, you should inform yourself about the various financial and other risks, as well as possible restrictions on you and your investments due to applicable laws and regulations. If, after reading this document, you are considering making an investment in a product, ABN AMRO recommends that you discuss such an investment with your relationship manager or personal adviser to further consider whether the relevant product - taking into account all possible risks - is appropriate for your investments. The value of investments may fluctuate. Past performance is no guarantee for the future. ABN AMRO reserves the right to make changes to this material.

© Copyright 2026 ABN AMRO Bank N.V. ABN AMRO Bank N.V. and affiliates ("ABN AMRO")

All rights reserved. No part of the contents of this publication may be reproduced, distributed or copied for any purpose without the express prior consent of ABN AMRO Bank