Trade, Tariffs and Time

Trade negotiations are lengthy, complex processes that extend far beyond tariffs to encompass regulatory, fiscal and procedural ecosystems. Tariffs and non-tariff barriers reshape supply chains, raise costs and alter investment incentives. A full trade agreement like the EU-MERCOSUR has taken decades to complete.

The latest US–EU "framework agreement" is not a trade deal but a political gesture - a headline win to please Trump and avoid additional tariffs in the here and now, while postponing the real trade battles far into the future.

Taxes and tariffs are as old as trade

Tariffs have accompanied commerce since the earliest exchanges of goods. Even the Bible (Luke 19:1–10) records the presence of tax collectors in an era long before income taxation; these officials functioned effectively as customs officers, levying duties on goods that crossed territorial thresholds. The practical logic was simple: city gates and narrow straits offered convenient choke points where barrels of grain, casks of beer and wine, and other cargoes could be inspected and taxed with relative ease.

A striking historical example is Denmark's long-standing collection of the Øresund toll on vessels transiting past Kronborg at Helsingør. Levied for more than four centuries, the toll exemplified how strategic geography can create a reliable revenue stream; international pressure and changing norms of free navigation eventually ended the practice in the mid-19th century.

Taxes and tariffs affect behaviour

Taxation is not a neutral act. When governments impose levies on a tax base, economic actors (firms and households alike) respond by altering the allocation of resources, production techniques and even the physical form of assets. For that reason, public finance theory differentiates between immobile tax bases, which are hard to export or hide, and mobile bases, which are easily shifted or transformed to avoid taxation.

Property is a canonical example of a relatively immobile base: land and fixed structures cannot be moved abroad, which makes them attractive subjects for recurrent taxation. Yet immobility does not eliminate behavioural responses. Where a tax is calculated on a narrow metric, taxpayers will optimize around that metric.

In the Netherlands and Belgium, for instance, historical property levies were once assessed per linear metre of street frontage. The tax rule was simple to administer, but it produced predictable, widespread adaptation: houses were built narrow and deep (often only four to seven metres wide) because facade width directly increased the tax bill. The result was an urban morphology shaped as much by fiscal policy as by local building practices.

These examples illustrate two enduring lessons. First, tax instruments create incentives; poorly designed metrics produce avoidable economic distortions. Second, administrators favour simplicity and enforceability, but simplicity can amplify distortion when it privileges a single, manipulable measure. Modern tax design therefore seeks to reconcile administrative feasibility with economic neutrality: broaden the base, limit narrow exemptions and select metrics that are harder to arbitrage. Where distortion is unavoidable, policymakers should aim to minimise excess burden and align tax collection with wider public-policy goals (such as infrastructure provision, land-use planning or redistribution) rather than allowing revenue mechanics to inadvertently reshape markets and cities.

A full free-trade area

Many observers underestimate the scope of a contemporary full free-trade area. In the modern economic landscape, free trade extends far beyond the mere abolition of tariffs. It encompasses quantitative restrictions such as quotas, harmonised technical and product standards, food-safety and phytosanitary controls, conformity declarations and the regulatory architecture that permits cross-border provision of services. Once these non-tariff measures are taken into account, a host of fiscal questions follows: excise regimes, value-added tax treatment and the administrative mechanics for the collection of both goods and services.

Moreover, trade integration often requires conformity assessment and certification. Under typical EU rules, for example, an exporter to the Single Market must secure CE marking where applicable - a formal attestation that a product satisfies the EU's safety, health and environmental requirements (medical devices being a salient case). In short, tariffs are only a modest component of a comprehensive trade agreement, and the bulk of contemporary trade policy is technical, regulatory and administrative.

Brexit - leaving a full free-trade area

The United Kingdom's withdrawal from the EU illustrates how arduous it is to disentangle two parties that previously shared a deep regulatory, fiscal and administrative framework. Some political narratives framed the post-exit trade settlement as simple and quick to achieve: "the easiest deal in the world," with tariffs eradicated overnight. That rhetoric obscured a far more complex reality, as tariff schedules are only a small fragment of the institutional edifice that underpins frictionless trade.

Consider a practical example. Two fishermen, one from the Republic of Ireland, the other from Northern Ireland i.e. the United Kingdom of Great Britain and Northern Ireland, fish for bivalve molluscs (mussels, clams and the like) in adjacent waters. The Irish fisherman returns to port, loads his catch onto a lorry and sends it to Paris; customs formalities are minimal because the Republic remains within the Single Market and its sanitary checks are already aligned with EU rules. The Northern Irish fisherman faces a very different protocol: before dispatch, export declarations must be completed; the transport operator must verify the load and the paperwork; at the Channel crossing, customs officers inspect documentation; EU veterinary authorities may require examination to ensure compliance with EU food-safety and animal-health standards. All of these steps - paperwork, inspections and certification - impose time and cost penalties even where no tariff is levied.

This example highlights two enduring truths. First, regulatory divergence or the reimposition of border procedures generates real frictions that slow trade, raise costs and reshape supply chains. Second, even when tariff barriers are absent, non-tariff measures (sanitary controls, conformity checks and administrative formalities) can create significant economic obstacles. Policymakers contemplating changes in trade arrangements should therefore weigh not only headline tariff rates but the entire regulatory and procedural ecosystem that determines whether goods and services can flow smoothly.

Time to make a trade agreement

There is a widespread misconception that a comprehensive trade agreement can be concluded in a matter of months. In reality, trade accords can take years, and often decades, to negotiate because they are exhaustively detailed and because virtually every affected stakeholder has narrowly defined interests to protect.

Consider the recent EU–MERCOSUR agreement: the formal signing by European Commission President Ursula von der Leyen in December 2024 capped a negotiating process that began on 28 June 1999. It thus required a quarter of a century to arrive at a set of agreed principles governing the trading of goods. The

sheer scale of the paperwork is instructive: the annex entitled Tariff Elimination Schedule runs to some 45 pages alone, and the itemised specifications for categories of goods add another roughly 115 pages, numbers that describe only the schedules published for the EU side.

Figure 1 Partial list of goods categories in the EU - MERCUSOR agreement

CN 2013	Description short	Base rate	28 June 2019	Notes
95051010	Christmas articles, of glass (excl. electric lighting sets)	Free	0	
95051090	Christmas articles (excl. of glass, candles and electric lighting sets, natural Christmas trees and Christmas tree stands)	2,7	0	
95059000	Festival, carnival or other entertainment articles, incl. conjuring tricks and novelty jokes, n.e.s.	2,7	0	
95061110	Cross-country skis	3,7	0	
95061121	Monoskis and snowboards	3,7	0	
95061129	Downhill skis (excl. monoskis and snowboards)	3,7	0	
95061180	Skis for ski-jumping	3,7	0	
95061200	Ski bindings	3,7	0	
95061900	Ski equipment for winter sports (other than skis and ski-fastenings [ski-bindings])	2,7	0	
95062100	Sailboards	2,7	0	
95062900	Water-skis, surfboards and other water-sport equipment (other than sailboards)	2,7	0	
95063100	Golf clubs, complete	2,7	0	
95063200	Golf balls	2,7	0	
95063910	Parts of golf clubs	2,7	0	
95063990	Golf equipment (excl. balls, clubs and parts thereof)	2,7	0	
95064000	Articles and equipment for table-tennis	2,7	0	
95065100	Tennis rackets, whether or not strung (excl. table-tennis bats)	4,7	4	
95065900	Badminton and similar rackets, whether or not strung (other than tennis rackets and table-tennis bats)	2,7	0	
95066100	Tennis balls (excl. table tennis balls)	2,7	0	
95066200	Inflatable balls	2,7	0	
95066910	Cricket and polo balls	Free	0	
95066990	Balls (excl. inflatable, golf, table-tennis, tennis, cricket and polo balls)	2,7	0	
95067010	Ice skates, incl. skating boots with skates attached	Free	0	
95067030	Roller skates, incl. skating boots with rollers attached	2,7	0	
95067090	Parts and accessories for ice skates and roller skates, n.e.s.	2,7	0	
95069110	Exercising apparatus with adjustable resistance mechanisms	2,7	0	
95069190	Articles and equipment for general physical exercise, gymnastics or athletics (excl. exercising apparatus with adjustable resistance mechanisms)	2,7	0	
95069910	Cricket and polo equipment (excl. balls)	Free	0	
95069990	Articles and equipment for sport and outdoor games n.e.s; swimming and paddling pools	2,7	0	
95071000	Fishing rods	3,7	0	
95072010	Fish-hooks, whether or not snelled, unmounted	1,7	0	
95072090	Fish-hooks, whether or not snelled, mounted	3,7	0	
95073000	Fishing reels	3,7	0	
95079000	Line fishing tackle n.e.s; fish landing nets, butterfly nets and similar nets; decoys and similar hunting or shooting requisites (excl. decoy calls of all kinds and stuffed birds of heading 9705)	3,7	0	
95081000	Travelling circuses and travelling menageries	1,7	0	
95089000	Roundabouts, swings, shooting galleries and other fairground amusements; travelling theatres (excl. travelling circuses and travelling menageries, booths, incl. the goods on sale, goods for distribution as prizes, gaming machines accepting coins or tokens	1,7	0	
96011000	Worked ivory and articles of ivory, n.e.s.	2,7	0	
96019000	Worked bone, tortoiseshell, horn, antlers, coral, mother-of-pearl and other animal carving material, and articles of these materials, n.e.s. (excl. ivory)	Free	0	
96020000	Worked vegetable or mineral carving material and articles of these materials n.e.s; moulded or carved articles of wax, of paraffin, of stearin, of natural gums or natural resins or of modelling pastes, and other moulded or carved articles n.e.s; worked, u	2,2	0	
96031000	Brooms and brushes, consisting of twigs or other vegetable materials bound together, with or without handles	3,7	0	
96032100	Tooth brushes, incl. dental-plate brushes	3,7	0	
96032930	Hair brushes	3,7	0	
96032980	Shaving brushes, nail brushes, eyelash brushes and other brushes for use on the person (excl. tooth brushes, dental-plate brushes and hair brushes)	3,7	0	
96033010	Artists' and writing brushes	3,7	0	
96033090	Brushes for the application of cosmetics	3,7	0	
96034010	Paint, distemper, varnish or similar brushes (excl. artists' and similar brushes of subheading 9603.30)	3,7	0	
96034090	Paint pads and rollers	3,7	0	

Negotiations of this complexity demand patience and sequencing: changes in tariff lines, rules of origin, sanitary and phytosanitary measures, and technical standards must all be reconciled, and, in the words of seasoned trade negotiators, “nothing is agreed until everything is agreed.”

Trade arrangement framework between the US and the EU

Public commentary sometimes conflates political declarations with legally binding treaties. Recent White House and Berlaymont statements asserting a new US–EU trade arrangement are better characterised as a political framework or joint statement than a concluded, comprehensive treaty.

Historically, the United States and the European Union have never finalised a full, economy-wide, free-trade agreement; engagement has been sectoral and largely conducted under WTO disciplines. The most ambitious attempt in recent memory was the Transatlantic Trade and Investment Partnership (TTIP), whose negotiations have been effectively frozen since 2016.

The joint statement released on 21 August 2025, styled as a

> "Framework on an Agreement on Reciprocal, Fair and Balanced Trade *('Framework Agreement')*"[1]

contains numerous intentions and negotiated commitments, but it is not, in itself, a conventional, legally enforceable trade treaty. The document reads as a programme of political objectives and negotiating pointers rather than a codified tariff schedule or a suite of binding regulatory texts.

Examples drawn from the statement illustrate the distinction between declaratory intent and legal obligation:

- *The European Union **intends to eliminate** tariffs on all US industrial goods;*
- *The United States **commits to apply the higher** of either the US Most Favored Nation (MFN) tariff rate or a tariff rate of 15%;*
- *The United States and the European Union **will negotiate** rules of origin;*
- *the European Union **intends to procure** US liquified natural gas, oil, and nuclear energy products with an expected offtake valued at $750 billion through 2028;*
- *European companies **are expected to invest** an additional $600 billion across strategic sectors in the United States through 2028;*
- *The European Union **plans to** substantially increase procurement of military and defence equipment from the United States;*
- *the European Commission, in addition to the recently agreed increase of the de minimis exception, **commits to work** to provide additional flexibilities in the CBAM implementation;*
- *The European Union **commits to undertake** efforts to ensure that the Corporate Sustainability Due Diligence Directive (CSDDD) and the Corporate Sustainability Reporting Directive (CSRD) do not pose undue restrictions on transatlantic trade;*
- *The United States and the European Union **commit to address** unjustified digital trade barriers;*

[1] https://policy.trade.ec.europa.eu/news/joint-statement-united-states-european-union-framework-agreement-reciprocal-fair-and-balanced-trade-2025-08-21_en

- *The European Union **intends to consult** with the United States and US traders on digitalisation of trade procedures and implementation of the legislation currently proposed on EU Customs Reform.*

Reading these lines together, the document is better seen as a political roadmap. It signals mutual goodwill and establishes areas for expedited negotiation, but it does not supplant the lengthy technical work (drafting enforceable rules on market access, regulatory equivalence, dispute settlement, procurement and rules of origin) that underpins any comprehensive trade treaty.

In consequence, short-term political wins in the form of headlines or "frameworks" may reduce headline tensions, but they leave intact the substantive labour of converting intentions into legally precise, verifiable and enforceable commitments.

Effect of tariffs

International trade has long been a central subject in economic theory, particularly for its implications for allocative efficiency and long-run growth. The Swedish economists Eli Heckscher and Bertil Ohlin formalised one of the earliest tractable frameworks for thinking about how production is allocated between countries: the Heckscher–Ohlin model. Cast as a simple 2×2×2 framework:

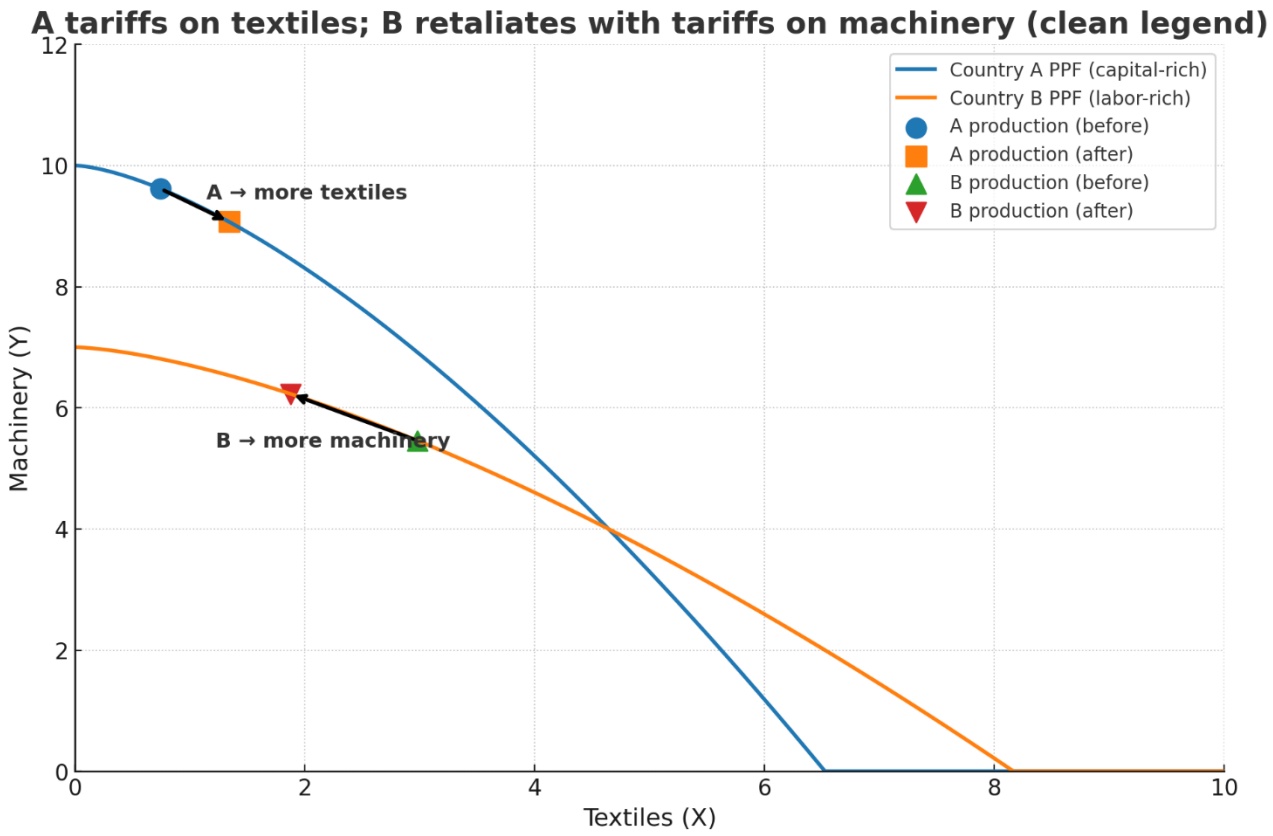
- 2 countries;
- 2 input factors (capital and labour);
- 2 products (machinery and textile).

The model yields a powerful, though stylised, prediction.

If country A is relatively abundant in capital and country B is relatively abundant in labour, and both countries can produce both goods with comparable technologies, free trade will lead capital-abundant country A to specialise relatively more in the capital-intensive good (machinery) and labour-abundant country B to specialise relatively more in the labour-intensive good (textiles).

That allocation is efficiency-enhancing under the model's assumptions and is illustrated by the familiar production-possibility frontiers (PPF) in Figure 2.

Figure 2 Illustration of distribution of production between two countries



If a government introduces a tariff to protect a declining domestic industry, the model helps explain the mechanism of distortion.

Suppose country A imposes a 30% tariff on imported textiles to protect textile workers in regions that have suffered job losses. The immediate effect is to raise the domestic price of imported textiles, improve the profit prospects of domestic textile producers and induce an inward reallocation of labour and capital toward textiles and away from machinery.

From a static-efficiency perspective, this reallocation is suboptimal, as resources move away from the production pattern implied by comparative advantage, generating a deadweight loss and higher costs for consumers.

Retaliation compounds the distortion.

If country B responds with a symmetric 30% tariff on machinery from country A, both economies experience further misallocation: country B shifts resources toward previously unprotected machinery production, while country A remains biased toward textiles. The cumulative effect is a less efficient international

division of capital and labour, lower world output relative to free trade and higher prices for consumers on both sides.

Real-world dynamics

Trade is inherently complex when one allows for adjustment costs, firm heterogeneity, supply-chain linkages and dynamic responses over time. Tariffs do not eliminate economic incentives, they redirect them.

In the short run, the exporter may attempt to absorb the tariff by accepting a lower margin, and importers may suffer squeezed profits. But, in a dynamic setting, firms and owners will always reoptimise.

Exporters will divert sales to alternative markets if global prices and demand permit. Importers will search for domestic substitutes or reprice goods to preserve or increase margins. Domestic firms, enjoying tariff protection, may come to prefer sheltered sales at markups that mirror the tariff rate, behaviour that, over time, biases firm strategy toward the home market and away from competitive export disciplines.

The ultimately enduring incidence of tariffs is commonly borne, at least in large part, by domestic consumers. As markets adjust, price increases propagate through retail channels, and the protection that initially benefited a narrow sector is diffused into higher consumer prices and altered investment incentives across the economy.

Fiscal impact

Tariff receipts do yield government revenue. Superficially, they resemble an additional sales tax on foreign-sourced goods. In the near term, this revenue can reduce the fiscal deficit. Yet a proper fiscal assessment must weigh this windfall against offsetting losses: lower corporate profitability where import-dependent firms are squeezed, reduced aggregate output from allocative inefficiency and the potential erosion of long-run growth if investment is misdirected by protectionist signals.

Whether tariff revenue represents a net fiscal gain therefore depends on complex general-equilibrium effects and distributional trade-offs.

A closing note

Inefficiency is not the same as irrationality, as policy choices often reflect distributive politics, regional pressures and short-term stabilisation goals rather than pure economic optimisation.

One metaphor that survives scrutiny is simple and apt: water always trickles down.

In the context of tariffs, the initial protection afforded to a sector eventually dissipates through the economy in the form of higher prices and misallocated investment.

In the end, we all have to pay a price for distortion caused by tariffs. The only question is: who will carry the largest part of the burden?