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Fire & Ice: 5 Levers of EU Resistance in the Greenland Crisis

President Trump's threat of acquiring Greenland and imposing tariffs on eight European trading partners has further eroded the European Union (EU) leaders' trust in the powerful alliance that formed in the aftermath of World War II. Ceding sovereignty over Greenland to the United States is a red line for the EU. While Trump seems to back down, the issue is still on the table. In any case, Europe is not without leverage in the Greenland saga.

WHAT'S THE END GAME?

Let's be clear from the start. America's annexation of Greenland would violate Danish sovereignty and Greenlandic self-determination, fundamentally undermining NATO's credibility and potentially ending the alliance. That would greatly benefit countries like Russia and China.

Our working premise is that Donald Trump intends to showcase another signature achievement in his famous 'art of the deal' style. By using maximalist pressure and brute-force escalation, Donald Trump tries to create a massive bargaining chip to get something in return (including personal prestige).

Officially, the push for Greenland is primarily related to national security, as Donald Trump views the island as essential for the Golden Dome missile system to intercept hostile strikes. The island's strategic value is amplified by its command over emerging Arctic shipping routes. As melting ice opens the Northwest Passage, this reduces transit times between Asia, Europe, and North America. Observers also highlight Greenland's mineral wealth as an economic bonus, even though these resources are currently too difficult (expensive) to access.

One wonders why the United States is pursuing such an unusually aggressive strategy towards Greenland, rather than relying on traditional diplomacy with Denmark, Greenland's own government and NATO. **Especially since a 1951 treaty already provides extensive US military basing rights**. Also, 'grabbing Greenland' is rather unpopular with his Republican fanbase (even though many support a peaceful purchase). One reason is that Trump, as a 'real estate businessman', wants something concrete (ownership instead of partnership). A second reason is disregard for Europe, which is seen as weak. A third reason is that Trump is Trump.

WHAT COULD EUROPE DO IN THE SHORT RUN?

The United States could almost certainly secure more durable and stable access to Greenland's strategic benefits through collaborative diplomacy rather than coercion. But since Trump is Trump, we cannot dismiss the risk of further hostile moves towards the annexation of Greenland (paid or otherwise). After all, the 'TACO' psychology that observers have labelled Trump with – acronym for Trump Always Chickens Out – has not always proven right.

Trump announced that eight European (and NATO) countries – including Denmark, Norway, Sweden, France, Germany, the Netherlands, Finland, and the United Kingdom – would face a 10% additional tariff on all exports to the United States beginning on 1 February, with the rate scheduled to rise to 25% on 1 June unless a complete and total takeover of Greenland is achieved.

This begs the question of how Europe could react. While we are convinced that Europe will react – talk about a red line does not look cheap in this matter – we believe European leaders will continue to tread carefully. Below we list five potential pillars of resistance (in no particular order) alongside a short assessment of the likelihood of implementation.

1. FREEZING LAST YEAR'S TRADE DEAL

One of the most immediate and politically viable tools is blocking the EU-US trade agreement reached last August. That framework provided for 15% tariffs on all European exports and 0% tariffs on certain US exports. The European Parliament has now placed this transatlantic trade pact 'on hold', which effectively means that at this point there is no trade deal between the EU and the US anymore.

2. ACTIVATING THE EU 'ANTI-COERCION' INSTRUMENT

The EU is also considering activating its 2023 'Anti-Coercion Instrument' (ACI) legal framework in response to economic pressure. ACI would provide a unified legal grounding for retaliation and elevate the conflict from a Danish-American dispute to a matter of EU sovereignty protection. Sequentially the European Commission would declare economic coercion and propose activating the ACI. The EU Council must then approve this by qualified majority (55% of member states representing at least 65% of the EU population) within 10 weeks. The European Commission would then have to enact response measures. The process could well take up to six months to implement. But that would allow European leaders to design more targeted countermeasures, like imposing extra taxes or regulation on US digital services companies, while continuing to negotiate with Donald Trump. The EU's most obvious geopolitical asset is the size of its market. It's unclear at this stage how willing European leaders are to deploy this instrument, as most measures would also hurt EU consumers and firms.

3. REIMPOSING RETALIATION MEASURES

The EU is currently exploring the possibility of 93 billion euros in retaliatory tariffs on goods. The exercise was already prepared last year (before reaching a trade deal with the US) and could therefore be activated swiftly. The package would primarily target products from politically sensitive Republican-leaning states, including bourbon, aircraft components, soybeans and poultry. Europe seems ready to use this instrument if needed. This would probably hurt Trump's polls even more, something he would rather avoid considering the upcoming mid-term elections.

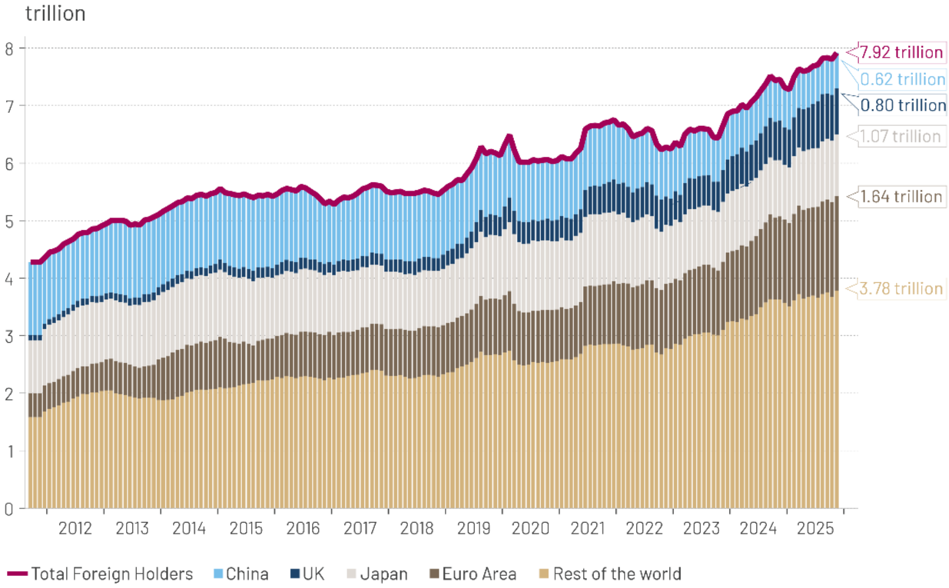
4. WEAPONISING EU FINANCIAL ASSETS IN THE US

European countries (households, firms and governments) hold trillions of dollars of US assets (USD 15.2 trillion according to the US Department of Treasury). In terms of the Net International Investment Position of the US versus the Euro Area (Chart 1), it stands at a 5 trillion dollars deficit for the US. The Euro Area represents 25% of the US total Net International Investment Position. More specifically, US Treasuries represent 15% of US assets owned by the Euro Area. The Euro Area now represents 5.5% of US Treasury holders, more than Japanese investors (3.5%) (Chart 2). In terms of US total investment liabilities in Portfolio Investments (19 trillion dollars), the Euro Area accounts for 25% of these liabilities. This has spurred speculation that Europe could stop investing in the US or even start selling financial assets. However, this is much easier said than done. The bulk of these assets are controlled by private funds rather than governments. It's totally unclear at this stage how state intervention could be orchestrated in an orderly way. Moreover, the move would harm European investors as well (as they would miss out on potential returns and financially suffer from fire sales), at a time when they have been increasingly hedging their US positions already.

Chart 1: Net Investment Position US vs. Euro Area (portfolio investments)

Source: Macrobond, Indosuez Wealth Management, 20.01.2026.

Chart 2: US Treasury holders (by country)



Source: Macrobond, Indosuez Wealth Management, 20.01.2026.

5. LEVERAGING US MILITARY PRESENCE IN THE EU

Several observers (including The Economist magazine) have suggested that Europe could leverage the substantial US military presence on its continent, which includes bases and infrastructure in Germany, Italy, Belgium, the Netherlands, and elsewhere. This presence is essential to US global defence planning. However, we do not think this is feasible in the near-term, as it would directly threaten transatlantic defence structures. Moreover, this would not be the smartest move due to the ongoing war in Ukraine.

WHAT'S IN IT FOR MARKETS?

European stocks have been hit hardest by concerns over tariffs. As long as the tariff threat looms this underperformance can be expected to continue as the threat adds to downside risks on an already fragile recovery. European defence spending would likely remain a bright spot. We see additional tariffs and retaliation as a risk more to economic activity than to inflation in the short run, possibly triggering the European Central Bank (ECB) to react with more than the one cut that we currently have factored in. For US stocks, as mentioned in our CIO Perspectives: 10 things to watch in 2026! from early January, we believe that markets will remain more focused on AI and meeting ambitious earnings targets than geopolitics. However, while renewed European unity in response to escalating US foreign policy may benefit the euro, the resulting uncertainty around US policy increases downside risks for the US dollar, on which we remain cautious for 2026. The "Sell America" theme could be revived, prompting investors to diversify away from dollar exposure in addition to more hedging on the currency. In this context, we remain bullish on gold which is expected to reach new heights and look to emerging markets as a compelling avenue for diversification.

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