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What would it take to further intensify Canada-EU economic relations?

Achim Hurrelmann, Carleton University

Summary

* *Canada and the EU have formulated the goal of intensifying bilateral economic relations. Realizing this goal makes it necessary to identify and address obstacles that currently complicate economic relations. Overcoming these would require difficult political decisions and tradeoffs with other legitimate objectives.*

Background/Challenges

- The Canada-EU Summit in June 2025 concluded with an agreement to "increase trade flows and promote economic security" through intensified collaboration. This objective strongly aligns with the Canadian government's ambition to diversify international trade, and the EU Commission's goal of reducing strategic dependencies especially with respect to critical minerals.
- Canada and the EU already have a strong economic relationship. Since 2017, when the Comprehensive Economic and Trade Agreement (CETA) entered into provisional application, bilateral goods trade has increased by 65% and services trade by 81%. That is more than the general increase in trade. However, these increases have not fundamentally altered both partners' importance for each other's economies.
- For Canada, the EU is currently the second most important trade partner, but Canada-EU trade is only a fraction of trade with the US (10% of US trade in goods, 18% in services in 2024). For the EU, Canada is the 12th most important trading partner in goods (behind countries such as Japan, South Korea, Mexico, and Brazil) and the 8th most important partner in services.
- Canada and the EU are not new markets for each other. Many trade opportunities are already being exploited. This raises the question of how the ambitious goal of further intensifying bilateral economic relations can be realized.

KEY FINDINGS

◊ In the context of a successful relationship, **three key obstacles** have prevented a further intensification of Canada-EU trade relations.

◊ First, there is not always a strong **business case for Canada-EU trade**. Many Canadian companies are focused on the US market, which remains relatively accessible under the Canada-US-Mexico Agreement (CUSMA). The fact that CETA has not been fully ratified triggers further doubts about a strategic shift to trade with the EU. For EU businesses, Canada is a small market attractive in part because of proximity to the US, a rationale put in question by recent US tariffs. As long as the US tariff situation remains fluid, both Canadian and EU companies are likely to hedge their bets, rather than making bilateral trade a strategic priority.

◊ Second, **non-tariff trade barriers** continue to pose obstacles despite CETA. Issues of contention in this area concern, for instance, the EU's sanitary and phytosanitary (SPS) measures and Canada's implementation of tariff rate quotas and geographical indications (GIs). Legislation such as the EU's Deforestation Regulation and Canada's luxury tax have also raised concerns. CETA's rules for regulatory cooperation, conformity assessments, and mutual recognition have been slow to produce results.

◊ Third, some of the areas where there is potential for an intensification of Canada-EU relations require large **private investments** —but investment is the one area where the achievements of CETA have been the least impressive. Bilateral FDI flows have grown by just 15.4% since the start of provisional application. This has hampered Canada-EU relations when it comes to the exploitation of Canadian reserves in strategic raw materials.

KEY FINDINGS (continued)

◊ Another investment-intensive field where there is a significant potential of intensified Canada-EU collaboration is **defence procurement**. In December 2025, Canada and the EU reached agreement on Canada's participation in the EU's Security Action for Europe (SAFE) initiative, which will allow joint procurement benefiting the Canadian defence industry. However, precise modalities, including Canada's financial contribution, have not yet been agreed.

◊ This overview suggests five priorities and challenges for policy makers keen to expand Canada-EU economic relations:

◊ First, Canada and the EU must **safeguard and expand existing support to export-oriented businesses**—especially small businesses—to help them take advantage of CETA. This may entail easing administrative requirements and supporting business-to-business matchmaking to help them find partners across the Atlantic.

◊ Second, Canada and the EU must discuss how to **speed up processes of regulatory alignment and mutual recognition** under CETA, while recognizing that non-tariff trade barriers often serve other legitimate objectives (such as environmental or social concerns).

◊ Third, Canada and the EU should advance plans to **negotiate agreements that complement CETA**. This includes a Digital Trade Agreement on issues such as artificial intelligence, cybersecurity, and online platform regulation, as well as the necessary implementation measures for collaboration under SAFE.

◊ Fourth, Canada and the EU must develop measures to **mobilize public and private investment in Canada-EU projects**, in fields such as strategic raw materials or defence procurement. This may entail setting up frameworks for public-private partnerships or public backing for private credit.

◊ Fifth, the 10 EU member states that have not ratified CETA must develop **pathways to ratification**. Full ratification would remove a source of uncertainty about the long-term future of the agreement; it thus promises to increase buy-in from business.

Policy Implications

- Economic relations between Canada and the EU are in good shape. Both polities are important trade and investment partners for each other. This means, however, that it will not be easy for Canada and the EU to further grow their bilateral economic relations very quickly, and to meet the ambitious targets and expectations that have been communicated on both sides.
- Since the start of the provisional application of CETA, the agreement has contributed to solid increases in bilateral goods and services trade. These were triggered in part by the reduction or elimination of tariffs, for instance in the agricultural sector. CETA's performance in the area of investment has been less impressive.
- Further increases in economic relations would require difficult political decisions, including the reduction of non-tariff barriers—which often serve legitimate objectives—or the mobilization of significant public funds. There is a potential for intensifying the Canada-EU economic relationship, but this objective should be approached with realistic expectations and with a full understanding of the political and social tradeoffs that may be involved.

Further Reading

European Commission. 2025. Study in support of an ex-post evaluation of the Comprehensive Economic and Trade Agreement (CETA) between the EU and its Member States and Canada, 16 June 2025, https://www.ceta-evaluation.eu/.

Author Information

♦ Achim Hurrelmann is Professor of Political Science and Co-Director of the Centre for European Studies at Carleton University.
Email: achim.hurrelmann@carleton.ca

Contact

♦ **Email:** ces@carleton.ca
♦ **Phone:** (613) 520-2600, Ext. 1087
♦ **Website:** www.carleton.ca/ces

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