



BEYOND NORTH AMERICA:

HOW CUSMA TALKS COULD RESHAPE CANADA–EU TIES

The Canada–United States–Mexico Agreement (CUSMA, also known as USMCA or T-MEC) is a cornerstone of North American trade. However, ongoing trade tensions among the United States, Canada, and Mexico—including tariff escalations and intermittent negotiations—have raised questions about the future of both North American trade relations and the agreement itself. These uncertainties are further heightened by the scheduled joint review of CUSMA in 2026. Against this backdrop, key questions arise for the EU–Canada trade relationship: how might these developments affect bilateral trade, what are the potential implications for the use of CETA, and what opportunities and challenges could emerge?

The EU Chamber of Commerce in Canada (EUCCAN) convened its annual CEO Roundtable on November 27, 2025, to discuss this pivotal moment and the priorities of Canadian and EU businesses considering potential future scenarios. This paper presents key takeaways and recommendations from participating businesses and organizations and has been prepared jointly by EUCCAN and the Consulate General of the Czech Republic.

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Consulate General of the Czech Republic
in Toronto



Executive Summary

Ongoing uncertainty around the 2026 CUSMA review and persistent US trade tensions are creating risks for Canadian and European businesses, especially in supply chains and investment. Despite these challenges, there are strategic opportunities for deeper Canada–EU cooperation in areas like defence, energy, minerals, and digital trade, with CETA providing a stable, though underutilized, framework for collaboration.

To address these risks, EUCCAN calls for urgent, coordinated action: governments and stakeholders should fast-track bilateral cooperation, remove non-tariff barriers, and actively promote CETA's benefits. Joint financial mobilization and targeted advocacy are essential to strengthen the EU–Canada partnership and maximize the impact of existing trade agreements.

Uncertainty from the 2026 CUSMA review and unpredictable U.S. tariff policies are already shaping business strategies. Sectors like automotive, steel, and advanced manufacturing face delayed investments, rising supply-chain costs, and tighter financing, while potential U.S. demands for major CUSMA changes or bilateral alternatives heighten long-term instability.

At the same time, the situation creates opportunities for stronger EU–Canada cooperation. Leveraging CETA more effectively is essential. Implementation needs to be fast and ambitious. Prevailing non-tariff barriers provide a serious obstacle. We must focus on regulatory issues and the removal of provincial barriers. It does not serve us to be fighting with both hands tied behind our back at this time of crisis. Strong, data-driven advocacy must strengthen the public-private collaboration to achieve these goals.

Canada and the EU need to leverage current momentum. Only coordinated capital deployment can maintain competitiveness in the face of the US policies. Defence, critical minerals, clean energy, the Arctic, and digital regulation are areas where shared interests make collaboration most viable. Opportunities for trade collaboration need to be strongly promoted on both sides of the Atlantic to encourage greater private-sector engagement.

EUCCAN will continue to engage in future discussions and advocacy around CUSMA renegotiation. USTR Greer indicated in December 2025 that the US administration might be open to a possible extension of CUSMA. However, his presentation to the US Congress identified the main Canadian irritants to be the supply-management for dairy and the Online Streaming Act, together with other minor irritants incl. the Online News Act, provincial procurement practices and bans on US liquor. The US administration might also push for rules of origin strengthening and deepening of North American trade ties (regardless of the contradiction to the current tariff war). In this dynamic context of upcoming CUSMA negotiations, EUCCAN will continue to advocate for strong and stable EU-Canada trade ties and will discuss concrete challenges and opportunities.



Key Recommendations

- **Harness mobilizing factors:** Uncertainty as the new norm will continue in the years ahead: The deep uncertainty related to the CUSMA review and unpredictable tariff measures pose a threat that will continue to negatively affect businesses. This is also a mobilizing factor.
- **Leverage instability as a momentum for EU-Canada cooperation:** Strategic opportunities for increased cooperation need to be leveraged, and boldy! Although there are now less opportunities in sectors like automotive, new momentum can be found in defence, the development of the Arctic, raw materials, energy and other key areas.
- **Increase the urgency of bilateral cooperation:** The window of opportunity is now. While other global partners move from concept to implementation in months, EU–Canada processes often take years. Governments must move quickly, remove unnecessary obstacles, and fix internal issues. Shared priorities should have clear deadlines and must be fast-tracked.
- **Use existing political will to drive real progress:** The EU–Canada relationship is stable and strategically aligned—this foundation should translate into practical outcomes. Stakeholders should concentrate on areas where change is more immediately achievable. Political support should lead to clear, measurable improvements for businesses.
- **Promote a framework of mutual reliance:** The EU and Canada should highlight areas where their industries already complement each other and identify where cooperation can be accelerated. A realistic, jointly defined set of priority sectors—paired with expectations on pace and commitment—will strengthen the credibility of the partnership and support mutually beneficial industrial outcomes.
- **Money talks:** Capital investment will be key in the face of massive investments made by the US. Canada and the EU need to coordinate on mobilizing capital especially in strategic areas. The announcements of the EU-Canada defence partnership, as well as Canada recently joining the Security Action for Europe initiative are steps in the right direction. Canadian investments in energy infrastructure are another example, including the announced new pipeline from Alberta.
- **Champion CETA through active use:** Increased utilization of CETA by companies and provinces is essential. The more firms leverage its mechanisms, the stronger the case for full ratification becomes. The private sector can play a decisive role by demonstrating benefits, showcasing success stories, and advocating publicly for the agreement’s strategic value.
- **Maximize the value of existing FTAs through intentional engagement:** Canada has historically under-leveraged its free-trade agreements. Public and private leaders must proactively build links at federal, provincial, and municipal levels to unlock the full potential of EU–Canada frameworks.



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- **Non-tariff barriers must be addressed:** Removal of provincial barriers needs to continue swiftly on the Canadian side. The regulatory barriers in certification also hinder the effects of CETA. Businesses need to articulate concrete, sector-specific obstacles and present actionable proposals to policymakers.
- **Advance a coordinated industrial materials strategy:** Public and private actors should collaborate on a strategic approach to critical materials and industrial transformation. Aligning industrial policies and investment tools will help channel resources toward projects that reinforce shared competitiveness and long-term resilience.
- **Build narratives of similarity and shared purpose:** Public perception matters. Communicating the deep alignment between European and Canadian values, standards, and economic interests will strengthen support for joint initiatives. A clearer narrative helps justify collaboration and increases trust among stakeholders.

EUCCAN Action Items

- Data-based advocacy – work with partners to gather data on key obstacles to leveraging CETA at its full potential and communicate the findings with key stakeholders.
- Promote a strong PR campaign about CETA in EU and Canadian markets.
- Promote more ambitious collaboration on business missions and trade shows among EU stakeholders, Member States, Canadian stakeholders and provinces. Help connect partners and multiply the effect.

APPENDIX

Key Takeaways from the Roundtable

CUSMA renegotiation in an unstable environment

- Uncertainty surrounding the potential renegotiation of CUSMA remains a significant risk factor for both Canadian and European companies and investors.
- The United States continues to benefit strategically from this uncertainty and is clearly seeking to redefine key elements of the agreement, including rules of origin, digital services, and trade restrictions.
- There are several scenarios for the renegotiations of CUSMA. The key angle for Canadian businesses should be to achieve a more predictable trade environment and avoid destabilizing the market further. The scenario of the complete dismantling of CUSMA is unlikely, but the annual revision scenario would mean continued unpredictability.



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- The US is focused on the trade deficit. Even when there is a change of administration, the new tariffs are likely to stay in place. We are facing a new normal. Even mid-term elections are unlikely to provide relief from the instability.
- The Supreme Court's decision on U.S. tariffs theoretically places the Court in a balancing role. At present, presidential tariff measures are not subject to congressional control. However, the administration could still impose tariffs under alternative statutory authorities, meaning that instability driven by unpredictable tariff actions is likely to persist.
- A pragmatic approach is key. Retaliatory tariffs are not effective; we need to maintain a rational response and consider the cost of all measures.

Impacts on the private sector

- Despite these uncertainties and risks, businesses show resilience and deep mobilization, seeking to adapt supply chains, investment plans, and compliance strategies to navigate the changing landscape.
- However, this unstable environment is taking its toll, especially in Windsor ON, Cambridge ON and other regions with strong automotive and steel industries.
- Instability and uncertainty have delayed critical business decisions and investment plans of businesses across Canada (European businesses included) At a certain point, these indecisive strategies will turn into liabilities. Eventually companies will move to other geographies to mitigate risk.
- Capital considerations are often prioritized over policy. Massive U.S. government investments and loans present companies with complex decisions, as these funds influence supply chain restructuring and shape the growth of strategic subsectors within the United States. A clear example is in raw materials, where investment in processing capacity will be critical to securing reliable access.
- These developments are already affecting supply chains and business strategies. Tariffs significantly increase warehousing and inventory-holding costs, prompting companies to reassess how and where they move goods. Many customers operate in Canada and ultimately sell their products into the U.S. market, where sourcing from Canada can reduce overall production costs. While drop-shipping within the United States is an option for some firms, tariffs would still technically apply, limiting the effectiveness of this approach.

Maintaining and enhancing CETA

- The current instability in North America has led to increased collaboration with allies. The US tariffs are opening new opportunities for European companies that want to go to the US but are being priced out by the tariffs.
- This has created a momentum for deeper collaboration between Canada and the EU, especially in defense, energy and minerals. There is also a strategic opportunity for deeper collaboration in the Arctic.



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- We observe an increase in trade and investment promotion activities between Canada and the EU and an increase in the number of business missions and delegations coming both ways. However, the capacities and personnel available to pursue an aggressive increase in EU-Canada trade is still limited.
- It is important to maintain the CETA framework and ensure the provisions are enforced, including the access of EU companies to tenders in the face of protectionist tendencies. Canada's reaction to increasing protectionist policies in the US will affect EU investments. So far, Canada has had loose rules for local content.
- CETA provides an important stable framework that needs to be leveraged to the maximum. However, the ratification is still incomplete, the removal of non-tariff barriers is slow, and implementation is lengthy.
- The renegotiation of CUSMA will put pressure on CETA especially through rules of origin ("origin trap"), catching companies in the crossfire. In case of any future changes of rules of origin, it will be critical to advocate for RoOs that do not significantly hinder trade under CETA and disrupt supply chains. Geopolitical interests are also coming into play as rules of origin can also shift towards "rules of control" seeing not just the origin of the goods, but also who controls them.
- Capital coordination is key. Canada and the EU are responding with policy measures, while the US is responding with direct financial support. If coordinated, the combined financial capacity of Canada and the EU could match the U.S. Enhanced coordination and joint strategic action is essential.
- Canada must leverage this opportunity for increased investment in Europe. It should explore opportunities in the defence sector, where favorable tax policies exist. European firms are potential partners and now is the right time to lean into that. European investments in heavy industry and mining is also showing potential.
- Digital trade is an area where Canada aims to align more closely with Europe, while the US has been trying to limit such efforts, which shapes how these rules are negotiated and influenced. Currently, Canadian tech firms face a balancing act between the US "laissez-faire" approach and the EU's strict privacy rules. Successfully navigating these rules could make Canada an attractive gateway for European data while remaining integrated with the US market.
- The crisis has provided a political impulse to address internal and regulatory barriers in Canada, especially intra-provincial barriers. But the implementation needs to be done swiftly.
- Marketing and promotional activities are also constrained. Canada is often perceived by EU partners as a fragmented market where EU companies may face higher costs and coordination challenges when entering or growing in Canada. The EU could also take a more proactive role in promoting its own markets, highlighting opportunities, streamlining information for potential partners, and supporting targeted initiatives that make engagement with EU markets clearer and more attractive for Canadian businesses.



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- Finally, geopolitics, especially trade relations with China, add another layer of complexity.

Contextual Overview of CUSMA

CUSMA Basic Details

The agreement came into effect on July 1, 2020, as it modernized and replaced the NAFTA agreement from 1994. The agreement introduces complex rules of origin, especially in the automotive sector, as well as labor provisions and other areas.

- In the automotive industry, it requires 75% of vehicle content to originate in North America and mandates that 40–45% of auto parts be made by workers earning at least \$16 per hour, promoting regional production and fair wages.
- Agricultural provisions expand market access for dairy, poultry, and eggs while maintaining zero tariffs on most other products.
- Labor standards are strengthened, requiring Mexico to enforce laws on collective bargaining, workplace safety, and fair treatment, with penalties for noncompliance.
- Robust dispute resolution mechanisms exist to ensure compliance.
- Other areas include enhancement of environmental rules to support sustainable practices; explicit protection of digital trade and e-commerce (including cross-border data flows and limits on data localization); extension and protection of intellectual property rights; updates of rules on chemicals, textiles, and energy etc.

NAFTA and CUSMA have led to strong integration of the North American market. The automotive supply chain is highly integrated, with components often manufactured in multiple countries. During production, parts can cross borders between Canada, the United States, and Mexico seven to eight times before a vehicle is fully assembled.

CUSMA has also increased the position of Canada as a nearshoring hub within North America and has supported the role of Canada as an attractive production base for companies targeting the U.S. and Mexican markets. This dynamic also extends to European firms, which first benefit from the CETA agreement between Canada and the EU and then can use Canada as a platform for access to the United States.

The U.S. administration currently treats CUSMA as a negotiating lever within broader trade disputes. Under the tariffs introduced in March 2026—25 percent on goods and 10 percent on energy products—imports from Canada and Mexico that qualify as CUSMA-compliant are explicitly exempt, except for the 50 percent tariffs on steel and aluminum.

At the same time, President Trump has repeatedly suggested that the United States could renegotiate the deal or pursue separate bilateral agreements with Canada and Mexico if it benefits the U.S. According to reporting on comments by U.S. Trade Representative Jamieson Greer, the United States is considering options that go beyond the scheduled joint review in 2026, including the possibility of withdrawing from USMCA if the agreement is not judged to sufficiently advance U.S. interests. Greer also indicated that the



administration may explore replacing the trilateral structure with two separate bilateral agreements, if this approach were to deliver more favorable terms for the United States. This signals that Washington views the 2026 review not only as a technical assessment but as an opportunity to re-open core provisions of the agreement and potentially reshape North American trade relations.

CUSMA Review and Possible Scenarios

When CUSMA came into effect on July 1, 2020, it introduced a new Article—34.7—which includes a “sunset” clause which would see the agreement expire 16 years after its entry into force unless renewed, and a provision requiring a joint review by the parties in July 2026. The purpose of the joint review is to allow the parties to assess how the agreement is functioning, consider any recommendations submitted by a party, and decide on appropriate actions. The sunset clause adds an element of uncertainty: all three countries must agree to extend for another 16 years. If any country declines, the agreement will enter a period of annual reviews, potentially leading to termination in 2036.

The future of CUSMA leading up to 2026 presents several potential scenarios that could significantly impact businesses and supply chains in North America.

- In the least disruptive scenario, all three countries agree to extend the agreement for another 16 years with minimal adjustments, providing stability for investment and long-term planning.
- However, experts view a more likely outcome as a targeted modification or painful extension, requiring compromises on rules of origin, tariff-rate quotas, or critical minerals. While this approach preserves overall stability, it may still delay investments and increase uncertainty for companies relying on integrated supply chains.
- In the most disruptive scenario, a full renegotiation or even partial withdrawal by one of the countries could occur, resulting in significant tariff barriers, disruption of integrated supply chains, and potential diversion of trade flows.

In case of the CUSMA disruption, Canada and Mexico could choose to strengthen their economic ties based on bilateral agreements or through the CPTPP, a major free trade agreement, to which both are signatories. The CETA agreement will remain unaffected by the CUSMA renegotiations, but the unpredictable environment raises many questions among European and Canadian businesses.