ECONOMIC VIEWPOINT

Which Industries Will Benefit from Increased Trade with Europe?

By Florence Jean-Jacobs, Principal Economist[1]

HIGHLIGHTS

- The geopolitical landscape has shifted, and Canada urgently needs to diversify its trade beyond the United States. Europe[2] is emerging as a key trade partner. This new dynamic could push Canadian companies to be more innovative and competitive as they find their place on the European market. It may also support their energy transition.
- These new trade relationships are expected to last. But Canada's exporters and investors should be aware that the process will take several years.
- The Canada–European Union Comprehensive Economic and Trade Agreement (CETA) is currently underutilized, and companies have much to gain from greater familiarity with its provisions. For example, CETA's government procurement provisions give Canadian companies privileged access to public calls for tenders, from local to national levels, where they are well placed to succeed.
- There are avenues for growth in several sectors, and businesses from Quebec and Canada could have a distinct competitive edge. We see opportunities in renewable energy and clean technology, professional services and digital technology, defence, advanced manufacturing, critical minerals and metals, health and pharmaceuticals, and agrifood (table A).

Table A
Europe Has Many Opportunities to Offer Canadian Businesses

Opportunities to explore*
Public procurement
Advanced manufacturing (machinery and equipment, robotics, semiconductors)
Renewable energy and clean technology
Motor vehicles and parts (including electric vehicles)
Defence
Aerospace
Critical minerals
Metals and metal products
Professional services and digital technology (e.g. software, AI)
Agriculture and agri-food (particularly fresh and prepared fruits and vegetables, grains and oilseeds)
Healthcare technology (medical equipment, biotechnology) and pharmaceutical products

AI: Artificial intelligence; * Non-exhaustive list.
Desjardins Economic Studies

[2] For the purposes of quantitative analysis in this Economic Viewpoint, Europe is defined as the 27 member countries of the European Union as well as the United Kingdom (unless otherwise specified).

Europe's Appeal Has Grown

The winds of change are blowing. In 2025, international trade dynamics broke away from the status quo. Canada's largest trading partner, the United States, has unleashed a series of tariff hikes, and the upcoming Canada–United States–Mexico Agreement (CUSMA) review may require robust negotiation. Diversifying our markets is no longer just opportune, it's necessary. Reducing our economic dependency on the United States has swiftly become a matter of economic security.

And both Canada and Europe have much to gain, politically and economically, through greater alignment. Europe is facing increased pressure to assert itself as a global leader. The

[1] The author would like to thank the Desjardins International Business Services Team, the Desjardins Representative Office in Europe, the Trade Commissioner Service and Jean-Toussaint Battestini (Expertise France).

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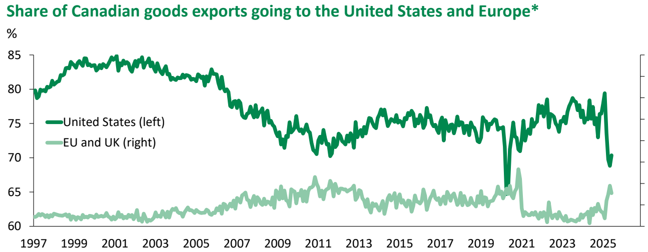
geopolitical landscape is in flux, with rising US protectionism, China's expanding influence and Russia's continued aggression in Ukraine. The increased military spending targets from the North Atlantic Treaty Organization (NATO) and the European Union (EU) are another major paradigm shift (see our most recent analysis of Canada's defence industry). Prime Minister Mark Carney has clearly demonstrated his intent to build closer ties with his European allies, choosing Europe for his first official overseas visit after taking office.

Without downplaying the potential that Canadian businesses could unlock in other areas of the world, it's safe to say that Europe's appeal has grown.

We're already seeing signs that Canadian exporters are reaching more diverse markets. Data from May and June show that goods exports to the United States have dropped to their lowest level since the pandemic (graph 1). One Quebec aluminum producer [in French only] reports that they've found new markets in Europe and have been able to move the bulk of their business away from the United States, which has applied 50% tariffs on all steel and aluminum imports.

Graph 1
The Share of Exports Destined to the United States Has Recently Dropped to Its Lowest Level (Excluding the Pandemic)
Share of Canadian goods exports going to the United States and Europe*

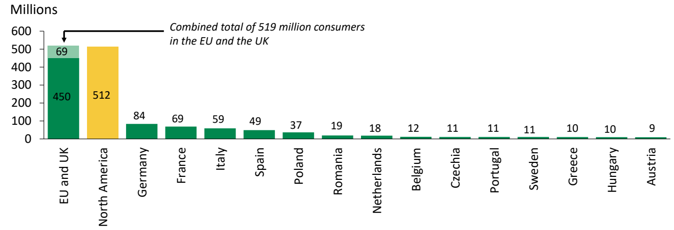


EU: European Union; UK: United Kingdom
Statistics Canada and Desjardins Economic Studies

A Market with Nearly 520 Million Consumers

While Europe may be appealing from a geopolitical standpoint, that's not the only reason for Canadian companies to cross the Atlantic. Europe has strong institutions, a solid regulatory framework, and a population of 519 million (graph 2). That's more than North America. Its demographic profile is similar to Canada's in many ways. For example, its aging population and rising longevity are fuelling a growing need for healthcare and related technologies. And like their Canadian counterparts, European companies are navigating challenges related to technological change, automation, digitization, energy use, and supply chain resilience. Canada also shares cultural ties with Europe—not only with the United Kingdom and France, but also with several other countries whose diasporas have established themselves on Canadian soil.

Graph 2
With a Population of Nearly 520 Million, Europe Outstrips North America
2024 population by country and region*

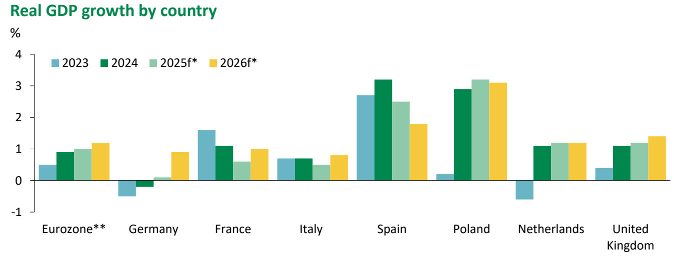


EU: European Union; UK: United Kingdom; North America: United States, Canada, Mexico
* Dark green: EU member states with a population of over 9 million.
World Bank and Desjardins Economic Studies

The EU's economy reached US$19,423 billion in GDP in 2024, led by Germany—the third largest economy in the world—with a GDP of US$4,660 billion. The United Kingdom's GDP was US$3,644 billion that same year. Despite some recent contraction in Germany, ambitious infrastructure plans and defence spending targets should support future growth. Elsewhere on the continent, growth has been particularly strong in Spain and Poland (graph 3). Europe's potential and vitality are also reflected in the stock markets, which have outperformed US markets since the start of the year (graph 4).

Graph 3
Spain and Poland Have Enjoyed Particularly Robust Growth

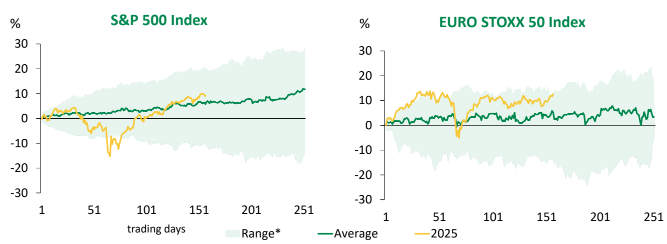
Real GDP growth by country



* IMF forecast (July 2025); ** 20 countries: Austria, Belgium, Croatia, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, Spain.
IMF and Desjardins Economic Studies

Graph 4
European Equity Performance Is Strong This Year

Index returns



* Range from 10th to 90th percentile (2000–present).
Bloomberg and Desjardins Economic Studies

CETA Is Underutilized by Canadian Companies

Canada has signed several free trade agreements with European countries, the most significant being CETA, which entered into force provisionally in 2017 (table 1).[3]

Table 1
Free Trade Agreements in Force Between Canada and Europe*

Name of Agreement	Country	In force
Canada–EU: Comprehensive Economic and Trade Agreement (CETA)	27 EU countries: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czechia, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden	2017
Canada–United Kingdom Trade Continuity Agreement (Canada–UK TCA)	United Kingdom	2021 (post Brexit)
Canada–Ukraine Free Trade Agreement (CUFTA)	Ukraine	2017
Canada–European Free Trade Association (EFTA) Free Trade Agreement	Iceland, Liechtenstein, Norway, Switzerland	2009

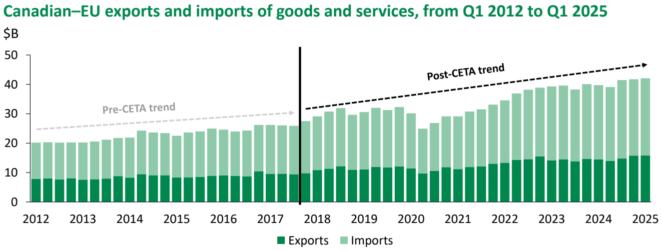
EU: European Union
* Canada also has bilateral agreements for the promotion and protection of investments with several European countries: Armenia, Croatia, Hungary, Latvia, Kosovo, Moldova, Poland, Romania, Serbia, Slovakia, Czechia.
Global Affairs Canada and Desjardins Economic Studies

However, while trade and access to the European market have increased, the data show that Canadian exporters aren't using the agreement to its full potential. Given our proximity to the United States, the CUSMA and the ease of doing business stateside, it's likely that companies didn't see the appeal or necessity of exporting to Europe. But the context has now changed.

There's no denying that bilateral trade has accelerated since CETA (graph 5). And if we compare 2012–2016 with 2022–2024, we can see that Canadian goods and services exports to the EU have grown at a faster pace than Canada's total exports (69% vs. 62%). But in nominal terms, the EU has come out ahead (graph 6). Most EU countries, including Germany, have

Graph 5
Bilateral Trade Between Canada and the EU Has Accelerated Since CETA

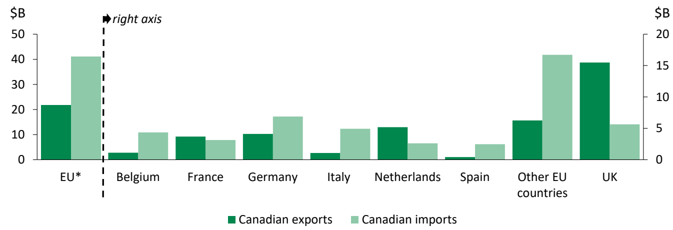
Canadian–EU exports and imports of goods and services, from Q1 2012 to Q1 2025



EU: European Union; CETA: Comprehensive Economic and Trade Agreement
* CETA came into effect on September 21, 2017.
Statistics Canada and Desjardins Economic Studies

Graph 6
Has Canada Benefited from CETA as Much as the EU?

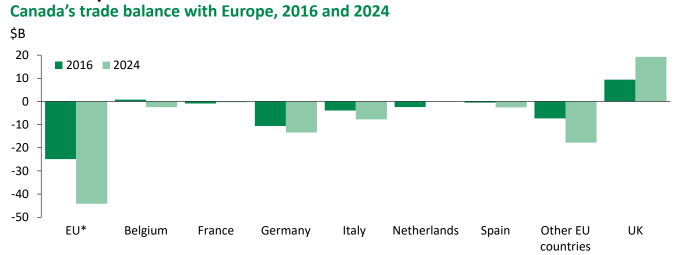
Goods and services trade growth in Canada and EU countries, from 2016 to 2024



EU: European Union; UK: United Kingdom; CETA: Comprehensive Economic and Trade Agreement
* Excluding the UK.
Statistics Canada and Desjardins Economic Studies

Graph 7
Since CETA, Canada's Trade Deficit with the EU Has Widened, but Its Trade Surplus with the UK Has Grown

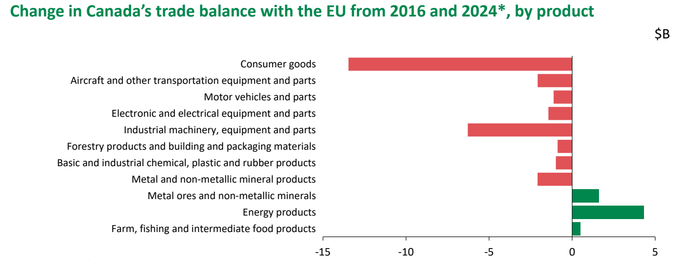
Canada's trade balance with Europe, 2016 and 2024



EU: European Union; UK: United Kingdom; CETA: Comprehensive Economic and Trade Agreement
* Excludes the UK. An agreement was reached with the UK after Brexit to maintain CETA benefits.
Statistics Canada and Desjardins Economic Studies

Graph 8
The Trade Deficit with the EU Has Widened for Most Products

Change in Canada's trade balance with the EU from 2016 and 2024*, by product



EU: European Union
* The findings are similar when comparing 3-year periods (2014–2016 and 2022–2024) and 5-year periods (2012–2016 and 2020–2024).
Statistics Canada and Desjardins Economic Studies

improved their trade balance with Canada since CETA came into force (graph 7). We're also seeing this imbalance in terms of individual products. Very few Canadian industries have improved their trade balance with the EU since CETA came into force. The only sectors that have done so are energy products, metal ores and non-metallic minerals, as well as some farm and food products (graph 8). The situation is slightly more nuanced on the services side, which benefited from a solid Canadian performance. While the services trade deficit with the EU has widened a bit from 2016 to 2024, a notable decrease is observed when we compare three-year moving averages, which

[3] The agreement is said to be "provisionally applied" because it will not come into full effect until it has been ratified by all EU member states. As of June 2025, 17 of the 27 countries have completed the ratification process.

BOX 1
Comprehensive Economic and Trade Agreement (CETA)

CETA eliminated tariffs on 98.6% of all Canadian tariff lines and on 98.7% of the EU tariff lines. The EU's weighted average tariffs on Canadian exports dropped from 2.6%[4] (in 2016) to nearly zero (in 2023). Canada's weighted average tariff with the EU went from 0.8% to nearly zero. At face value, these tariff decreases could have benefited Canadian exporters more than European ones.

An ex-post evaluation of CETA's impact identifies several Canadian sectors that have especially benefited from improved access to the European market, namely air- and spacecraft, pharmaceuticals, petroleum oils and oil seeds. However, the CETA utilization rate is not equal across sectors, suggesting that many companies are not claiming preferential entry despite their eligibility, thereby foregoing tariff-free access to the EU market. The evaluation also notes that non-tariff measures have only been partially addressed and that further progress is needed.

In 2021, one-third of exports eligible for CETA treatment entered the EU without CETA preferences. Indeed, the CETA preference utilization rate on eligible Canadian exports was 65.4% on average, while the average for EU exports was 59.5%. Several high-value sectors of Canadian exports had utilization rates well below the average: 45.6% for machinery, 51.6% for electrical and electronic machinery and equipment, and 30.4% for motor vehicles and parts (Global Affairs Canada).

[4] Most-favoured-nation (MFN) rate.

smooth over annual fluctuations (-$4.7B in 2014–2016 vs. -$2.9B in 2022–2024).

Canada Is Well Positioned to Meet European Demand

In spite of the above, Canada has several comparative advantages that will give it an edge in Europe (table 2).[5] Of the EU's top 20 imports, four are particularly promising, as they've seen a steady increase in demand over the past 10 years and are already part of Canada's productive capacity: road vehicles and parts, machinery and mechanical equipment, power generating machinery (reactors, engines and parts), and metal products. Twelve other categories also have strong potential for development, including electrical machinery and equipment, and medicinal and pharmaceutical products. Out of the 20 import categories in question, these two have grown the fastest over the last decade.

Table 2
Canada is Well Positioned to Meet European Demand

	Main EU imports in 2024 (and change from 2014 to 2024)				Produced in Canada?
	Products	% of total	Var. %	Var. (€B)	Revealed comparative advantage index
1	Road motor vehicles	● 9.7	● 51	● 212	Vehicles and parts
2	Petroleum, petroleum products and related materials	● 8.2	-13	-83	Petroleum and petroleum products
3	Electrical machinery, apparatus and appliances	● 7.8	● 71	● 210	
4	Medicinal and pharmaceutical products	● 5.9	● 73	● 162	
5	Other industrial machinery and parts	● 4.0	32	● 63	Mechanical equipment, non-electrical parts
6	Miscellaneous manufactured articles, not elsewhere specified	● 3.8	35	● 64	
7	Telecommunication and sound recording apparatus	● 3.5	31	● 54	
8	Articles of apparel and clothing accessories	● 3.1	27	● 43	
9	Automatic data processing machines	● 2.9	17	27	
10	Organic chemicals	● 2.9	● 47	● 59	
11	Manufactures of metal, not elsewhere specified	● 2.6	32	● 42	Steel and aluminum structures and parts
12	Power generating machinery and equipment	● 2.6	36	● 44	Engines and parts
13	Iron and steel	● 2.5	11	17	
14	Professional and scientific instruments	● 2.3	● 56	● 53	
15	Gas, natural and manufactured	● 2.2	7	10	Natural gas, other gaseous hydrocarbons
16	Specialized machinery	2.1	43	● 42	Farm machinery
17	Non-ferrous metals	2.1	28	30	Nickel, aluminum, zinc, lead
18	Vegetables and fruits	2.0	● 48	● 43	Vegetables, prepared fruit and vegetables
19	Chemical materials and products, not elsewhere specified	1.7	● 49	● 37	Explosives, pyrotechnics
20	Other transport equipment	1.6	-12	-14	Aircraft and parts

● Top 15 High potential Good potential (based on Canada's total exports) Canada has a comparative advantage for the products indicated (UNCTAD)
UNCTAD (SITC categories), WTO, Statistics Canada and Desjardins Economic Studies

[5] The revealed comparative advantage index is used by UNCTAD (United Nations Conference on Trade and Development) and is calculated as follows: A country has a revealed comparative advantage for a given product when the ratio for its exports of the product compared against its total export of goods is higher than the ratio for the world as a whole. In table 2, Canada has an advantage when the index exceeds 1.

Multiple Avenues for Growth Are Emerging

Table 3 lists the main opportunities we've identified, based both on European demand trends and Canadian and Quebec expertise. We'll go over a few of these opportunities below.

Table 3
Europe Has Many Opportunities to Offer Canadian Businesses

Opportunities to explore*
Public procurement
Advanced manufacturing (machinery and equipment, robotics, semiconductors)
Renewable energy and clean technology
Motor vehicles and parts (including electric vehicles)
Defence
Aerospace
Critical minerals
Metals and metal products
Professional services and digital technology (e.g. software, AI)
Agriculture and agri-food (particularly fresh and prepared fruits and vegetables, grains and oilseeds)
Healthcare technology (medical equipment, biotechnology) and pharmaceutical products

AI: Artificial intelligence; * Non-exhaustive list.
Desjardins Economic Studies

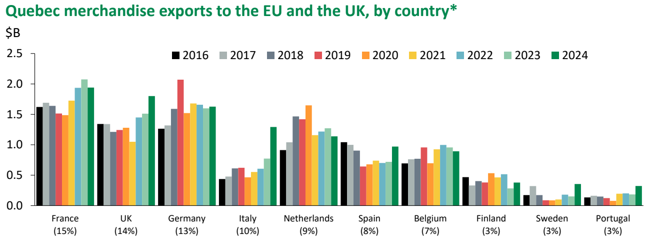
BOX 2

Exports to Europe: How Do Quebec and Canada Compare?

Quebec's exports to Europe may be similar to Canada's in some ways, but they also diverge significantly on several points. While Quebec's exports are more diversified at the country level (graphs A and B), they are more concentrated in terms of products (table B). More than a quarter of Quebec's exports to the EU in 2024 were related to aerospace (aircraft and spacecraft), followed closely by ores, then machinery and engines. In Canada, while these three categories were well represented, they're also joined by mineral fuels and inorganic chemicals (table C). Exports of motor vehicles and parts remain limited, as current supply chains are mainly North American. But this may be an avenue worth exploring, as Canada's production capacity for these goods is aligned with robust European demand—this was the EU's top import category in 2024. It should be noted, though, that Europe imports a large number of road vehicles from Asia (mainly China) and demand is higher for hybrid and electric vehicles (Eurostat). What's more, Canadian auto exports to Europe are subject to quotas. There is therefore more potential in exporting automotive parts or related mobility and connectivity technology. Pharmaceutical exports are also an area for potential growth. Germany is a major hub for these products, and medicinal and pharmaceutical products are the fourth-most-imported product by the EU.

Graph A
Quebec's Exports to Europe Are More Geographically Diverse

Quebec merchandise exports to the EU and the UK, by country*



EU: European Union; UK: United Kingdom
* Share of 2024 total (EU and UK) in parentheses.
Statistics Canada and Desjardins Economic Studies

Table B
The Aerospace Sector Is Quebec's Biggest Export to the EU

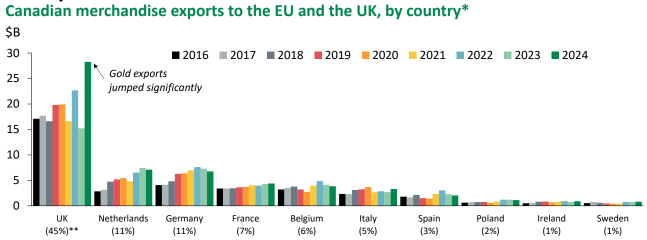
Main Quebec exports to the EU in 2024 (and change from 2016 to 2024)

#	Products (merchandise)	HS*	$M	% of total	Var. %	Var. ($M)
1	Aircraft, spacecraft, and parts thereof	88	3,014	**27.9**	30	690
2	Ores, slag and ash	26	1,988	**18.4**	21	346
3	Machinery and mechanical appliances, boilers, engines, reactors, and parts thereof	84	1,428	**13.2**	30	326
4	Electrical machinery and equipment, sound recorders and reproducers	85	471	**4.4**	39	133
5	Optical, photographic, cinematographic […] instruments and apparatus	90	430	**4.0**	16	59
6	Motor vehicles and parts (other than railway or tramway rolling-stock)	87	423	**3.9**	76	182
7	Iron and steel	72	209	**1.9**	48	68
8	Pharmaceutical products	30	173	**1.6**	14	21
9	Aluminum and articles thereof	76	165	**1.5**	43	50
10	Oil seeds and oleaginous fruits, miscellaneous grains, seeds and fruits	12	163	**1.5**	38	45
11	Paper and paperboard, articles of paper pulp, of paper or of paperboard	48	156	**1.4**	6	8
12	Miscellaneous chemical products	38	154	**1.4**	56	55
13	Mineral fuels, mineral oils and bituminous substances	27	134	**1.2**	-44	-106
14	Preparation of vegetables, fruit, nuts or other parts of plants	20	130	**1.2**	229	91
15	Sugars and sugar confectionery	17	130	**1.2**	81	58

EU: European Union; * Product code under the Harmonized System (HS).
Statistics Canada and Desjardins Economic Studies

Graph B
Canada's Exports to Europe Are Highly Concentrated in a Few Countries, Mainly the UK

Canadian merchandise exports to the EU and the UK, by country*



EU: European Union; UK: United Kingdom
* Percentage of 2024 total (EU and UK) in parentheses; ** The UK percentage was 31% in 2023.
Statistics Canada and Desjardins Economic Studies

Table C
Ore, Machinery and Aerospace Make Up One-Third of Exports

Main Canadian Exports to the EU in 2024 (and change from 2016 to 2024)

#	Products (merchandise)	HS*	$M	% of total	Var. %	Var. ($M)
1	Ores, slag and ash	26	4,055	**11.7**	60	1,521
2	Machinery and mechanical appliances, boilers, engines, reactors, and parts thereof	84	3,734	**10.8**	19	605
3	Aircraft, spacecraft, and parts thereof	88	3,520	**10.2**	30	820
4	Mineral fuels, mineral oils and bituminous substances	27	3,419	**9.9**	186	2,224
5	Inorganic chemicals	28	2,376	**6.9**	396	1,897
6	Pearls, precious or semi-precious stones, precious metals, coin	71	1,836	**5.3**	22	335
7	Optical, photographic, cinematographic […] instruments and apparatus	90	1,447	**4.2**	56	521
8	Electrical machinery and equipment, sound recorders and reproducers	85	1,379	**4.0**	25	279
9	Cereals	10	1,305	**3.8**	79	576
10	Pharmaceutical products	30	1,294	**3.7**	-1	-11
11	Oil seeds and oleaginous fruits, miscellaneous grains, seeds and fruits	12	1,034	**3.0**	-4	-43
12	Motor vehicles and parts (other than railway or tramway rolling-stock)	87	962	**2.8**	103	487
13	Nickel and articles thereof	75	782	**2.3**	65	308
14	Aluminum and articles thereof	76	467	**1.4**	186	304
15	Plastics and articles thereof	39	400	**1.2**	72	167

EU: European Union; * Product code under the Harmonized System (HS).
Statistics Canada and Desjardins Economic Studies

Government Procurement

CETA gives Canadian companies privileged access, either directly or as subcontractors, to respond to public tenders issued by public authorities in the EU. There are more than 250,000 public entities (national, regional/provincial and municipal), which spend a total of around $2,000 billion each year on goods and services, or 14% of EU GDP. This will generate opportunities for Canadian companies in energy, transportation and a variety of services.

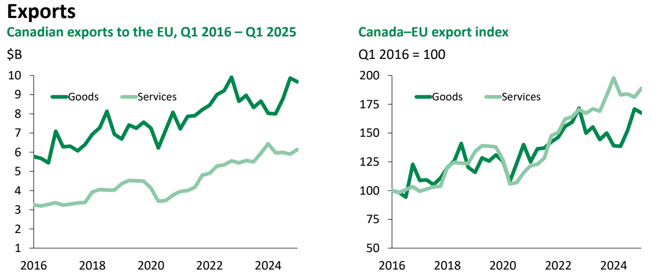
Professional Services and Digital Technology

Services account for one-third of Canada's exports to the EU, and over half of our exports to France (graph 9 on page 6). Since CETA's provisional application, Canada's service exports to the EU have grown more quickly than its goods exports (graph 10 on page 6), demonstrating how many opportunities this sector creates for Canadian companies, both within the EU and the United Kingdom (graph 11 on page 6). According to data from

Graph 9
Canada Exports More Services than Goods to France

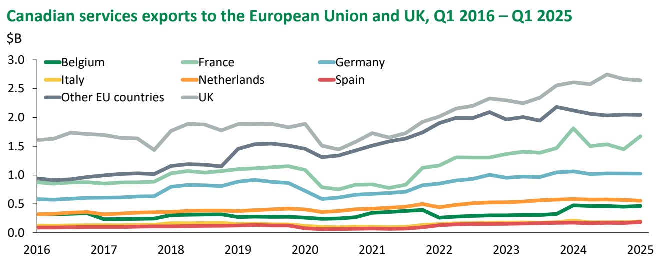
EU: European Union; UK: United Kingdom
Statistics Canada and Desjardins Economic Studies

Graph 10
Services Exports to the EU Have Grown Even More Quickly than Goods Exports



EU: European Union
Statistics Canada and Desjardins Economic Studies

Graph 11
The UK Is the Main European Destination for Canadian Services Exports



EU: European Union; UK: United Kingdom
Statistics Canada and Desjardins Economic Studies

the EU, the largest import increases between 2016 and 2023 occurred for telecom, computer and IT services and for other business services (European Commission, 2025). Secondary sources also point to growing needs for engineering consulting services, IT and digital advisory services, software, AI and cybersecurity (including applications in the defence sector).

Europe has a renewed desire for digital sovereignty, which is generating considerable demand—demand that could be met in part by Canadian and Quebec expertise. For example, several municipalities and regions are planning open calls for tenders to build data centres; under CETA, Canadian companies can submit bids on these procurement contracts.

Renewable Energy and Clean Technology

Europe's evolving energy demands have created new opportunities that Canadian companies are well placed to pursue. The EU is seeking energy independence (particularly from countries like Russia) and is hoping to speed up their transition to carbon neutrality. Canadian companies may be a natural ally on this front. While demand for oil and gas is expected to keep slowing, appetite for renewables is growing rapidly. What's more, the war in Ukraine has prompted several countries, led by Germany, to replace Russian natural gas with new energy imports from allied nations. Notably, Germany has taken steps to procure green hydrogen from Canada. This situation is generating significant needs in renewable energy, clean technology and energy efficiency.

Critical Minerals

Another promising area for Canada is the critical minerals and metals sector, where demand has picked up in response to growing energy transition and digital technology needs. Mineral ores rank among the top Canadian and Quebec exports to the EU. Canada also exports several metals to the EU, including nickel. Although China remains a fierce competitor in terms of pricing, European countries wishing to reduce their dependence on China may well look to reliable sources from allies like Canada, even if those imports come with a higher price tag. This desire to decrease reliance on China is made clear in the EU's recently adopted *European Critical Raw Materials Act* (European Commission).

Defence and Dual-Use Technology

As we noted in a recent study, Europe's significant increase in defence spending will generate further opportunities for Canadian companies. On June 24, Canada and the EU signed a security and defence partnership, opening discussions to facilitate Canadian access to SAFE (Security Action for Europe), Europe's arms procurement initiative. This move illustrates the closer relationship being built. But in this sector in particular, there are still barriers to entry for foreign companies, and the call for tenders and procurement processes can take several years. So this export opportunity should be considered a long-term undertaking, not one that will quickly appear in trade data.

Beyond these sector-specific strengths, another asset Canada and Quebec can leverage is their European diasporas. In Quebec, for example, France was the leading country of origin for permanent immigrants from 2019 to 2023, accounting for 14% of total admissions. It's also one of the province's top-ranked

European trading partners, coming in right after Germany (table 4). As highlighted by a study from Global Affairs Canada, export propensity is markedly higher in immigrant-led small and medium-sized enterprises (SMEs): "Three-quarters of the rise in export propensity among SMEs since 2017 is due to immigrant-run SMEs, which increased in number as well as in their tendency to export."

Table 4
Canada's and Quebec's Largest Trading Partners, 2024

Canada					Quebec				
#	Country	Exports ($B)	Imports ($B)	Total ($B)	#	Country	Exports ($B)	Imports ($B)	Total ($B)
1	United States	596.7	377.0	973.7	1	United States	91.2	34.6	125.8
2	China	29.9	88.8	118.7	2	China	3.8	12.7	16.5
3	Mexico	8.7	47.3	56.0	3	**Germany**	1.6	5.2	6.8
4	**United Kingdom**	28.3	9.8	38.1	4	**France**	1.9	4.7	6.6
5	Japan	15.0	21.4	36.3	5	**Italy**	1.3	4.1	5.4
	EU	34.6	86.2	120.8		**EU**	10.8	27.3	38.1

EU: European Union; * Merchandise exports and imports (excluding services).
Statistics Canada and Desjardins Economic Studies

Quebec has an added advantage: its language and culture bring it closer to Europe's French-speaking communities, which may lead to business opportunities for the province's cultural and creative industries.

It Will Take Time for Benefits to Materialize

Despite these promising business opportunities, exporters need to be realistic in their expectations and brace themselves for the particular challenges of trading with Europe. While some deals may be expedited in certain cases, it's not uncommon for companies to spend up to two years laying the groundwork for their first major sales in Europe. Among other things, businesses must expect to spend time researching and testing out trading partners, in addition to conducting market analyses, obtaining required certifications and establishing distribution networks.

Exporters also need to be aware that the EU is not a uniform market: cultural differences, language and business practices differ from country to country. Pivoting to Europe may also involve adapting products to their new market, at a cost. For example, if a company hopes to export playground equipment for municipal parks, it will need to take into consideration the average size of European parks, which are smaller than in North America. Lumber producers are another example. They will need to adjust to different grading standards and switch from the North American imperial system to the metric system used in Europe. These adjustments will take time.

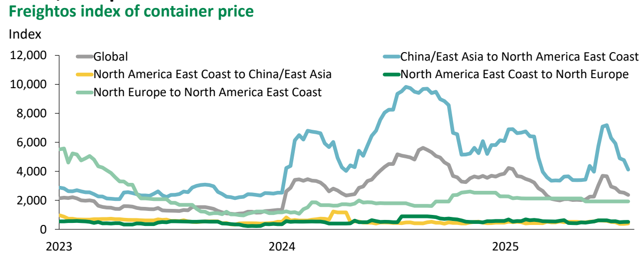
In some industries, companies may need to establish a physical presence for maintenance and after-sales support to ensure their long-term success. Furthermore, norms, standards, accreditations and certifications are not yet well harmonized between Canada and Europe, which poses additional barriers to market entry. To help businesses, especially SMEs, the federal government will need to speed up their harmonization efforts with the EU.

In short, businesses should start diversifying immediately—if they haven't already started—if they wish to reap the benefits in the medium and long term.

Overseas Shipping Comes at a Cost… but So Do Uncertainty and Tariffs

Canada's geographic proximity to the United States has always made trade easier and less expensive than shipping overseas. But for many Canadian exporters, this relative ease has been offset by the latest tariff announcements and the high costs of dealing with trade policy uncertainty. Some of these costs may be direct, such as tariffs and regulatory red tape, while others are indirect, like the costs of putting projects on hold or underutilizing production capacity. These factors are biting into companies' bottom lines and will need to be compared with the costs of maritime shipping to Europe. Maritime transport between the North American East Coast and Europe is benefiting from more stable and predictable pricing than the average for other regions in the world (graph 12).

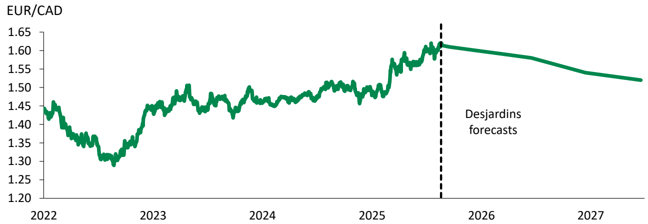
Graph 12
Shipping Costs to Europe Have Been Fairly Stable over the Past Two Years, Compared with the Global Index
Freightos index of container price



Freightos, Datastream and Desjardins Economic Studies

It's also important to factor the exchange rate into export plans. The euro has appreciated, meaning conditions are favourable for exporting to the EU right now (graph 13 on page 8). While our forecast calls for a gradual pullback, the euro should remain stronger against the Canadian dollar in the coming years, compared to the first half of the decade. This isn't a sufficient argument in itself, however. Companies cannot rely on a weak currency to keep their products attractive. They'll need to stand out through novel or value-added products if they wish to remain competitive over the long haul.

Graph 13
The Euro's Appreciation Is Favourable for Canadian Exporters Diversifying to Europe
EUR/CAD exchange rate



Bloomberg and Desjardins Economic Studies

It would also be unrealistic to expect Canada to achieve the same degree of integration with Europe that it has with the United States. The US is our neighbour, and our decades-old production chains allow materials and inputs to criss-cross the border repeatedly before becoming finished products. To establish itself in Europe, Canada will have to leverage its specific comparative advantages, as well as the uniqueness, added value, expertise and innovation of its products and services.

Conclusion

In today's shifted geopolitical landscape, Canada urgently needs to diversify its trade, looking beyond the United States to Europe. Some sectors may be well poised to profit from this change, but Canada's exporters and investors should be aware that the process will take several years, during which they'll face additional costs and other challenges. The benefits of market diversification will be felt gradually, over a 10–15-year horizon, not in the short term. But what's clear is that this is a permanent change. It's not a temporary interest that will wane when this president's term ends. Considering the vulnerable position our outsized dependency on the United States has left us in, one could argue that this change should have happened much earlier. There are a multitude of opportunities—but we must seize them now. This new dynamic could push Canadian companies to be more innovative and competitive as they find their place on the European market. It could also encourage a swifter energy transition, given that Europe's market is already well developed and committed on this front.