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When the Rules No Longer Rule: The EU and Canada's Responses to Trump's Tariffs

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The erosion of the WTO-based multilateral trading system, accelerated by Trump's tariff offensive since 2025, has challenged the foundations of the EU and Canada's economic models, centred on openness and rules. While Canada's deeper integration with the US and Europe's broader dependencies shape different vulnerabilities, both have pursued negotiated settlements and accelerated diversification through new trade agreements. China's state-led export model adds a further complication: it is both a growing competitive threat and a source of technology and input dependencies that diversification cannot easily unwind. Given persistent US unreliability, China's more assertive stance and WTO paralysis, the EU and Canada should anchor a plurilateral coalition – built on existing partnerships and open to eventual WTO reintegration – as the most credible foundation for a durable, rules-based trading order.

For almost eighty years, the international trading system rested on a shared idea that open, rules-based trade was economically beneficial and strategically stabilising. It was widely believed that countries that traded extensively with one another were less likely to go to war, and that, thanks to agreed rules, commercial disputes could be resolved through law rather than power. The General Agreement on Tariffs and Trade (GATT), signed in 1947 in the aftermath of the Second World War, and its 1995 successor, the World Trade Organisation (WTO), are the institutional embodiment of this logic. They contributed to underpinning one of the greatest waves of globalisation in history by providing a framework of certainty and reciprocity that helped companies to invest, governments to plan and trade to expand. Yet, the WTO has also faced issues and experienced setbacks. Since the Doha Round in 2001, trade liberalisation talks within the WTO have stalled and in the last decade the WTO dispute settlement mechanism has been almost paralysed. Meanwhile, its rules have increasingly struggled to keep pace with the transformations brought about by global value chains, digital trade and industrial subsidies.

The world trade system may have now reached a breaking point. However, the deepest cracks are political rather than technical. US trade policy has become increasingly unilateral and aggressive since 2016, while China's state-led economic model has strained WTO norms from within. The backlash against globalisation, the

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United Kingdom's exit from the EU (Brexit) and anti-free trade protest movements across advanced economies reflect the failure by mainstream parties to address the uneven distribution of globalisation's gains.

The expansion of global trade has contributed to bringing hundreds of millions of people, especially in Asia, out of poverty. Yet, in the United States and Europe, the heavy distributional effects of global market integration, mostly associated with growing deindustrialisation, have become a major driver of political polarisation and the rise of populism. As a result, the narrative of mutual benefits that once underpinned support for trade openness has increasingly given way to one centred on economic insecurity, disruptive foreign competition and loss of national prosperity and primacy.

Donald Trump's return to the White House in January 2025 has been a powerful accelerator of the crisis affecting the global trade system

Donald Trump's return to the White House in January 2025, after a third electoral campaign built on deep anti-globalisation sentiment, has been a powerful accelerator of the crisis affecting the global trade system. Adopting a sweeping protectionist strategy, presented as a cornerstone of the "America First" doctrine, Trump has imposed across-the-board tariffs. Allies or trade partners were not spared, not even Canada and Mexico, with which Trump himself had negotiated the US-Mexico-Canada (USMCA) agreement replacing the North American Free Trade Agreement (NAFTA) during his first term. Tariffs were justified by specious national security arguments. For trade actors like Canada and the EU that built their prosperity on rules-based openness, the implications were – and are – profound.

1. Two open economies, one shared vulnerability and some differences

In his 2026 address in Davos, Canada's Prime Minister Carney[1] captured the scale of the rupture: great powers have begun using economic integration as a weapon, tariffs as leverage, financial infrastructure as a means of coercion and supply chains as vulnerabilities to be exploited. Integration, once the basis of shared prosperity, has become, in his words, a source of subordination for middle powers. The multilateral institutions on which the middle powers rely – the WTO, the UN and climate-focussed Conference of the Parties (COP) – are under threat. Countries like Canada are now seeking greater strategic autonomy in energy, food, critical minerals and supply chains. This message aligns with the EU's current approach and has

[1] World Economic Forum, "Davos 2026: Special Address by Mark Carney, Prime Minister of Canada", in *Forum in Focus*, 20 January 2026, https://www.weforum.org/stories/forum-institutional/davos-2026-special-address-by-mark-carney-prime-minister-of-canada.

been echoed by several EU member state leaders.

Interestingly, despite the apparent breakdown of many assumptions underpinning the post-war trading order and the turbulence of 2025 triggered by Trump's tariffs, trade globalisation has not stopped; global trade has continued to grow in both volume and value terms, including in 2025.[2] Two dynamics explain why international trade has remained remarkably robust: the efforts to circumvent US tariffs – China, in particular, has managed to tranship goods to the United States through countries with lower or no tariffs, possibly amplifying trade flows; and a renewed push for new trade agreements. Most countries confronted with United States tariffs chose negotiation and diversification over escalation – only China responded in kind. This suggests that, while confidence in the institutions governing global trade has been considerably eroded, economic incentives to preserve trade relations remain powerful.

Canada and the EU are among the most open economies in the world

Canada and the EU are among the most open economies in the world. Both are liberal democracies committed to a rule-based international order and the multilateral system. Both have been hard hit by the Trump Administration's coercive unilateralism. But those similarities should not obscure important differences, particularly in the nature and depth of their exposure to US protectionist measures and in the distinct vulnerabilities each economy faces to external shocks.

Canada's dependence on the United States is far greater than the EU's. About three-quarters of Canadian exports go to the United States, and Canada imports from America more than the United Kingdom, France, China and Japan combined. US-Canada trade in goods amounted to about 720 billion dollars in 2025.[3] The two countries are, in practice, an integrated continental economy, with goods crossing the border multiple times before reaching final consumers.[4] The shock of Trump's tariffs on Canada has therefore been much heavier than that suffered by the EU.

The EU's exposure, while significant, is structurally different. The United States is the EU's most significant trading partner for goods, accounting for 18 per cent of the EU's total external trade in 2025. In the same year, total bilateral trade (imports plus exports) reached 910.4 billion euros.[5] While significant, this is far from Canada's heavy

[2] See WTO data: *World Trade Statistics 2025*, https://www.wto.org/english/res_e/statis_e/world_trade_statistics_e.htm.

[3] According to the US Trade Representative, US goods trade with Canada totalled an estimated 719.5 billion dollars in 2025, with US goods exports to Canada down 3.8 per cent and US goods imports down 7.0 per cent from 2024. US Trade Representative website: *Canada*, https://ustr.gov/countries-regions/americas/canada.

[4] See Coulibaly, Brahima S. et al. (eds), *USMCA Forward 2026*, Brookings, March 2026, https://www.brookings.edu/?p=1850173.

[5] See an overview of the EU-US trade relations: Mácsai, Györgyi, "EU-US Trade and Investment Relations", in *EPRS At a Glance*, April 2026, https://www.europarl.europa.

dependence, considering that the EU GDP is about 10 times Canada's GDP.

However, the EU faces other vulnerabilities. The EU suffers from a heavy energy dependence, and is consequently highly exposed to global commodity shocks. By contrast, Canada is a net energy exporter. If anything, oil price increases favour Canada's economy. This asymmetry matters for how each economy frames its response to trade disruption: for the EU, trade diversification and energy security are deeply intertwined strategic imperatives; for Canada, diversification is primarily about reducing overall trade dependency on the United States.

2. Trump's tariffs

The immediate responses of both Canada and the EU to Trump's tariffs followed a similar pattern, but they differed considerably in emphasis, instruments and structural capacity

The immediate responses of both Canada and the EU to Trump's tariffs followed a similar pattern: threat of retaliation, then negotiation to achieve a deal and the simultaneous pursuit of alternative partnerships. But they differed considerably in emphasis, instruments and structural capacity.

Canada's initial reaction was firm and fast. It responded to the initial US tariffs[6] with retaliatory tariffs on 30 billion dollars' worth of US goods, which were expanded to 155 billion after three weeks. But the country's leadership did not take long to recognise that tit-for-tat escalation against a much bigger economy with an aggressive stance was economically self-defeating. Canada gradually scaled back some of the initial measures in favour of targeted counteractions in politically sensitive sectors such as steel, aluminium and automobiles. By September 2025, most retaliatory tariffs had been removed in exchange for US concessions under USMCA provisions; however, specific measures were retained in sectors where the United States maintained duties.[7]

Alongside this, Canada announced an ambitious agenda: doubling exports of goods and services to non-US markets, an infrastructure investment plan and new bilateral trade agreements. It signed a new trade agreement with Indonesia, relaunched negotiations with India, opened trade negotiations and signed an investment agreement with the United Arab Emirates (UAE), and engaged in consultations to

eu/thinktank/en/document/EPRS_ATA(2026)785679.

[6] See Canada's Department of Finance, *Canada's Response to U.S. Tariffs on Canadian Goods*, last updated on 1 September 2026, https://www.canada.ca/en/department-finance/programs/international-trade-finance-policy/canadas-response-us-tariffs.html.

[7] In August 2026, tensions escalated again. The US rejected the request from Mexico and Canada to renegotiate the USMCA and imposed 50 per cent tariffs on certain Canadian goods (using, for the first time, Section 338 of the Trade Act as the legal basis). In response, Canada has announced retaliatory tariffs on 20 billion dollar worth of US goods.

Despite their different approaches, both Canada and the EU reached negotiated settlements with the United States

reopen negotiations with the Mercosur bloc comprising Argentina, Bolivia, Brazil, Paraguay and Uruguay. However, Canada faces a structural constraint: in trade, geography matters and relations are defined by gravity. Asian or European markets cannot compensate for the proximity, degree of integration and scale that characterise Canada's relationship with the United States.

The EU's approach has been more politically laborious. EU leaders have been caught between the political desire to give a firm, equally forceful response to Trump's tariffs and the need for economic pragmatism, given the potentially high costs that an escalation could entail.

Despite their different approaches, both Canada and the EU reached negotiated settlements with the United States. Following intense negotiation during the summer of 2025, the EU agreed to the so-called Turnberry trade deal.[8] Its central trade provision is the elimination of EU tariffs on US industrial goods, while the United States set a ceiling of 15 per cent on nearly all EU industrial goods. Importantly, the existing US tariffs on steel and aluminium, imposed under a different legal basis – Section 232, rather than the International Emergency Economic Powers Act (IEEPA), which was invoked for the tariffs imposed on "Liberation Day" – have remained in place. The agreement also includes other significant commitments. The EU has pledged to buy US energy products (including liquefied natural gas, oil and nuclear energy-related products) worth 750 billion dollars as well as US-made AI chips. In parallel, European companies have committed to investing 600 billion dollars in strategic sectors in the United States by 2029. The two sides have also agreed to strengthen cooperation on investment screening, export controls and supply chain resilience.

The significance of those additional commitments should not be overestimated. While the headline figures are substantial, much of the underlying activity would likely have occurred irrespective of the agreement. The EU's post-2022 energy diversification strategy had already led to increased reliance on US energy imports, particularly liquefied natural gas. The war in Iran has made EU reliance on US supply a necessity. Likewise, European firms have been major investors in the United States for decades, and a significant share of the announced investments was likely already planned.

The most consequential aspect of the deal is therefore the tariff

[8] See European Commission, *The EU-US Trade Deal: Restoring Stability and Predictability*, last updated on 27 July 2026, https://commission.europa.eu/node/42927_en.

US tariffs have faced domestic legal challenges

provisions.[9] After intense debates,[10] in June 2026, the European Parliament gave the green light to the two regulations intended to implement the tariff-related elements of the EU-US Joint Statement of Turnberry, and the Council formally adopted them a few days later.

Meanwhile, US tariffs have faced domestic legal challenges. In February 2026, the US Supreme Court ruled Trump's tariffs unlawful[11] because of the improper use of their legal basis, the International Emergency Economic Powers Act of 1977, entitling affected US companies to a refund. The ruling has further increased uncertainty about the future of the tariff regime and any associated trade arrangements with the United States.[12]

US tariffs and the surrounding uncertainty have also triggered another global effect: an acceleration of bilateral trade agreements and a fresh impetus to diversify trade relationships. The EU-Mercosur agreement, about twenty-five years in the making, entered provisional application on 1 May 2026,[13] creating one of the world's largest free trade areas. In January 2026, the EU and India concluded what Ursula von der Leyen described as "the mother of all deals".[14] Since Trump's trade war began, the EU has adopted or ratified

[9] Interestingly, evidence suggests that much of the economic cost burden of US tariffs has fallen on US importers and consumers through higher prices. See Hinz, Julian et al., "America's Own Goal: Who Pays the Tariffs?", in *Kiel Policy Briefs*, No. 201 (January 2026), https://www.kielinstitut.de/publications/americas-own-goal-who-pays-the-tariffs-19398.

[10] In February, immediately after the ruling of the US Court, the European Parliament froze its ratification vote, citing "growing uncertainty" about whether the deal's terms still held. Trump's administration then replaced the invalidated IEEPA tariffs with a Section 122 tariff (10 per cent, later 15 per cent); according to some analysts, this directly breached the Turnberry ceiling. This partially explained why ratification dragged on for months before the June 2026 vote.

[11] See US Court opinion: US Supreme Court, *Learning Resources, Inc., et al. v. Trump, President of the United States, et al.*, 20 February 2026, https://supreme.justia.com/cases/federal/us/607/24-1287.

[12] In practice, uncertainty is even higher, and the situation keeps evolving. Immediately after the ruling, the administration replaced those tariffs with a 10 per cent across-the-board import tariff, grounded in Section 122 of the Trade Act of 1974, valid for 150 days until July 2026. However, on 7 May, the US Court of International Trade (CIT) also struck this measure down and enjoined its enforcement against two companies and the state of Washington. See AFP, "US Appeals Court Halts Order Declaring Trump's Global 10% Tariff Illegal", in *France 24*, 12 May 2026, https://www.france24.com/en/live-news/20260512-us-appeals-court-halts-order-declaring-trump-s-global-10-tariff-illegal. Nevertheless, the US government appealed immediately, and the appeals court extended a pause on the trade court decision, keeping the 10 per cent tariff in place for the three importers that had won a reprieve from the duties. Since then, the White House has shifted toward Section 301 and Section 338 investigations to establish a more durable legal basis for persistent trade tariffs. It remains unclear, however, whether this strategy will succeed. For Section 301 to apply, the United States would need to establish that foreign trade practices burden or restrict US commerce. Under Section 338, it would need to demonstrate that a foreign country discriminates against US commerce.

[13] See Alcidi, Cinzia, "The Provisional Application of the EU-Mercosur Agreement Matters…Despite Legal Uncertainty", in *CEPS Opinions*, 28 April 2026, https://www.ceps.eu/?p=57723.

[14] See India-EU Trade Council, *"The Mother of All Deals": EU and India Sign Free Trade Agreement | International Trade*, 7 February 2026, https://eu-india.org/?p=3686.

agreements with Australia, Indonesia and Mexico. New agreements are being negotiated with the Philippines and the UAE, and others have been reinforced, like the one with Japan.[15]

Lastly, while both the EU and Canada are pursuing diversification from a different starting point, they face one common challenge. The WTO's chronic problems have not necessarily become more acute[16] but they have certainly become more visible. Its inability to discipline tariffs at a time when they have again become a central instrument of economic statecraft has further highlighted the institution's declining relevance. Interestingly, while Trump has openly rejected multilateralism and has violated the WTO rules, the United States has not withdrawn from the WTO. It remains inside it but continues to block the WTO's dispute settlement system by vetoing appointments to the Appellate Body, effectively paralysing the institution.[17] A key issue for the EU and Canada is how to reform the WTO.

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3. The China complication

China openly positions itself as a defender of free trade and multilateralism. Yet this claim sits uneasily with the reality of its economic policies. The functioning of a rules-based trading system depends, at least in part, on a broadly shared perception that the gains from trade are distributed fairly. This perception has weakened considerably over the last few years. China's policies are broadly seen as a key factor behind large and persistent trade imbalances, with its economic model generating substantial export surpluses vis-à-vis many of its trading partners. Concerns over China's excess

[15] See a full overview of the EU trade negotiations and agreements on the European Commission DG for Trade website: *Negotiations and Agreements*, https://policy.trade.ec.europa.eu/node/447_en.

[16] See Baldwin, Richard, "The WTO Is Not in Crisis. It Has Arthritis", in *Substack*, 22 May 2026, https://rbaldwin.substack.com/p/the-wto-is-not-in-crisis-it-has-arthritis.

[17] The Appellate Body consists of seven members, appointed by WTO members. Each member serves a four-year term, renewable once. They must be independent and impartial trade law experts. Appeals are reviewed by three randomly selected judges from the seven-member body. Any WTO member can veto a candidate by objecting to the selection. The United States has repeatedly used this power to block new appointments. Under the Obama administration, the United States opposed or blocked three appointments or reappointments, citing concerns about judicial overreach by the Appellate Body. This approach intensified under the first Trump administration. In 2018, when the United States imposed tariffs on steel and aluminium, citing national security concerns, several WTO members initiated disputes against the measures. The Trump administration simultaneously began systematically blocking the appointment and reappointment of Appellate Body members. As members' terms expired, the number of sitting members fell below the three-member quorum required to hear appeals, and in December 2019 the Appellate Body became unable to function. In 2022, when Trump was no longer President, the WTO ruled against the United States, stating that the tariffs were not legitimate national security measures. The Biden Administration rejected the decision, claiming that the WTO had no authority to judge national security matters and maintained the blockage.

industrial capacity, state subsidies, domestic market restrictions and other forms of state intervention in the economy have further fuelled perceptions that the existing WTO rules are ill-equipped to address the challenges posed by China's economic model, which has been building for decades.

The contrast between the US and Chinese rhetoric and objectives is striking

The contrast between the US and Chinese rhetoric and objectives is striking. Trump has been vocal and openly aggressive in pursuing his protectionist policies to rebalance trade, but his tariff offensive has been less impactful than originally anticipated. The US trade deficit has remained broadly unchanged, while the effects on global trade flows have been less dramatic than feared. China, by contrast, has pursued a less confrontational but highly effective export-led model, supported by a range of industrial and trade policies. This model has contributed to a record trade surplus of 1.2 trillion in 2025 dollars.[18]

China lurks in the background of every strategic trade decision of any country. It is a source of supply chain and raw materials, a market offering opportunities for diversification from the United States, a systemic competitor and an increasingly dominant technology power. These multiple dimensions of China's role on the world market have generated competing views among policymakers and experts about the appropriate strategies towards China.

For most Europeans, China's tech and manufacturing capabilities are increasingly not simply a source of competition but a strategic threat. Following the so-called China 2.0 shock, which transformed China from a producer of low-cost, labour-intensive goods to a leader in advanced manufacturing sectors (electric vehicles, batteries, solar panels and so on), Chinese firms are increasingly competing with European producers both in international markets and within the EU itself. This transformation is widely attributed, at least in part, to extensive state interventions and industrial subsidies. From this perspective, the resulting competition distortions, which threaten EU industrial capacity and employment, should be addressed with a tougher stance, including the use of tariffs.

Others favour a more cautious approach. Europe remains deeply integrated into Chinese value chains and heavily dependent on China for a range of critical products and inputs, including rare earths, batteries, solar technologies and other strategic materials which play a central role in digital, defence and green industries and are difficult to source elsewhere. A confrontational approach carries significant economic risks, including the possibility of retaliatory measures or restrictions on access to key technologies and materials. Moreover, the increasingly unilateral and unpredictable nature of US trade policy has complicated the strategic calculus and made China appear

[18] See US-China Economic and Security Review Commission, *China Bulletin*, 4 February 2026, https://www.uscc.gov/node/1047.

The EU faces an acute strategic dilemma in managing its economic relationship with China

as a relatively more reliable partner.

For the EU, however, the balance between challenges and opportunities is shifting as the economic relationship has become more asymmetric. In 2025, the EU's goods trade deficit with China amounted to around 360 billion euros, higher than in 2024.[19] China is the EU's largest source of imports and its fourth-largest export destination, a structural asymmetry that has raised political concern.

The EU's response to China's market distortion has been to resort to WTO-compatible trade defence instruments. Tariffs of up to 37.6 per cent on Chinese electric vehicles (EVs) were imposed in mid-2024, following an anti-subsidy investigation (but without full political support from EU member states).[20] China retaliated with counter-duties on European agricultural exports, and tensions have continued to mount since.[21] In April and October 2025, China announced new export controls on rare earth elements in response to stricter US export controls, which also hit the EU.

The EU faces an acute strategic dilemma in managing its economic relationship with China. De-risking, as distinct from full decoupling, has been the EU's official approach. This has involved measures such as technology risk assessments, tighter export controls,[22] the Critical Raw Materials Act[23] and investment screening.[24] Yet implementation has been lengthy and reducing strategic dependencies is inherently difficult given the scale of existing economic integration. Recognition that the EU's dependence on China will persist for a long time has tempered the appetite for a more confrontational approach.

Trump's changing attitude toward China adds a further layer of complexity. The US president has repeatedly pressured Brussels to align more closely with American policy on China to impose higher tariffs, restrict Chinese investment more aggressively, and coordinate technology export controls. In September 2025, Trump urged EU

[19] See the European Commission DG for Trade website: *China*, https://policy.trade.ec.europa.eu/node/455_en.

[20] See, for instance, Rinke, Andreas, "Exclusive: Germany to Vote against EU Tariffs on Chinese Electric Vehicles", in *Reuters*, 3 October 2024, https://www.reuters.com/business/autos-transportation/germany-vote-against-eu-tariffs-chinese-electric-vehicles-sources-say-2024-10-03.

[21] Although the EU has maintained anti-subsidy measures against Chinese EVs, the Commission's recent decision to invite price undertaking proposals from Chinese BEV exporters suggests a more pragmatic approach and a preference for negotiated solutions, allowing negotiated price commitments as an alternative to anti-subsidy duties. See European Commission DG for Trade, *Commission Issues Guidance Document on Submission of Price Undertaking Offers for Battery Electric Vehicles from China*, 12 January 2026, https://policy.trade.ec.europa.eu/node/1952_en.

[22] See the European Commission DG for Trade website: *Exporting Dual-use Items*, https://policy.trade.ec.europa.eu/node/1021_en.

[23] See the European Commission DG for Internal Market website: *Critical Raw Materials Act*, https://single-market-economy.ec.europa.eu/node/2053_en.

[24] See the European Commission DG for Trade website: *Investment Screening*, https://policy.trade.ec.europa.eu/node/844_en.

Canada's China trajectory has been more pragmatic from the start and more explicitly transactional

member states to impose 100 per cent tariffs on Chinese goods. The EU has resisted these demands, which are perceived as serving American geopolitical objectives not aligned with EU economic and strategic interests. EU-US-China relations have therefore increasingly acquired the characteristics of a triangular game, in which the move of one player toward another inevitably affects its relationship with the third.

Canada's China trajectory has been markedly different in character: more pragmatic from the start and more explicitly transactional. In January 2026, Ottawa and Beijing decided to lower tariffs on specific products (Chinese EVs into Canada and Canadian agrifood into China, among other measures). The logic behind Canada's engagement with China is to proactively diversify away from the United States. But this approach is not without risks. Trump has threatened 100 per cent tariffs on Canadian imports if Canada strikes a free trade agreement with China, which has placed Canada in a structurally uncomfortable position.

Despite their different approaches towards China, the EU and Canada share important economic interests in maintaining and, in some areas, even deepening their relations with Beijing. At the same time, greater engagement with China carries higher dependency risks and could expose both economies to retaliation from the United States.

As Carney has argued, the only possible path forward for the EU and Canada is to strengthen their own competitiveness, defend an open and rules-based multilateral trading system and build coalitions with partners that offer alternatives to excessive dependence on either the United States or China. Translating this vision into concrete policies, however, will be neither straightforward nor immediate.

The strategic objective should not be to replace dependence on one major power with dependence on another, but to build greater resilience through diversification. Reducing exposure to any single partner, expanding a network of rules-based economic relationships and leveraging market power where it exists may offer the most coherent response to a world in which both the United States and China increasingly use economic interdependence as a source of geopolitical leverage.

4. Deepening EU-Canada strategic partnership despite EU internal politics

Against the backdrop of mounting strain on the international trading system, the EU-Canada relationship has acquired significance that extends well beyond trade. In June 2025, both sides committed to

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a "Strategic Partnership of the Future"[25] including a Security and Defence Partnership – another clear signal that in a more fragmented world, trade, economic security and geopolitics are increasingly intertwined.

The economic foundation of the relationship remains the Comprehensive Economic and Trade Agreement (CETA),[26] now in its ninth year of provisional application. Since 2017, bilateral trade in goods has risen by more than 75 per cent, while trade in services has nearly doubled.[27] In 2025, total bilateral trade (goods and services) reached about 130 billion euros, demonstrating that CETA has generated tangible gains. But the partnership is also evolving. In March 2026, the two sides agreed to improve investment dispute procedures for small and medium-sized enterprises and launched discussions on a Digital Trade Agreement to address areas not covered in the original text. They also reaffirmed their shared commitment to WTO reform[28] and welcomed closer cooperation between the EU and members of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the Pacific free trade agreement of which Canada is a party, underscoring a common interest in trade diversification and rule-setting for the digital economy.

Beyond trade, Canada is a major investor in the EU, and the EU remains one of Canada's most important economic partners. More broadly, CETA's provisions on labour, environment and sustainable development have become a reference point for modern trade agreements.

The key unresolved issue is CETA's full ratification.[29] Ten EU member states have yet to complete ratification processes, largely because of domestic political concerns regarding the impact on agriculture. The parallel with the political blockage of the EU-Mercosur deal, which eventually was also overcome through the provisional application mechanism, is telling. These delays are

[25] European External Action Service, *EU-Canada Strategic Partnership Agreement*, 1 April 2017, https://www.eeas.europa.eu/node/13529_en.

[26] Consult the European Commission DG for Trade website: *EU-Canada Comprehensive Economic and Trade Agreement (CETA) and Digital Trade Agreement*, https://policy.trade.ec.europa.eu/node/476_en.

[27] European Commission DG for Trade website: *Canada*, https://policy.trade.ec.europa.eu/node/42_en.

[28] The joint statement emphasises WTO reform through cooperation among like-minded members, support for plurilateral agreements, advancement of digital trade and investment facilitation rules, reinforcement of the WTO dispute-settlement system through the Multi-Party Interim Appeal Arbitration Arrangement (to resolve trade disputes while a permanent WTO appellate body remains stalled) and coordinated responses to market distortions, excess capacity and economic coercion. European Union et al., *Joint Ministerial Statement from the EU and the CPTPP at the 14th WTO Ministerial Conference*, Yaoundé, 27 March 2026, https://policy.trade.ec.europa.eu/node/2039_en.

[29] See the European Commission DG for Trade website: *The EU-Canada Agreement Explained*, https://policy.trade.ec.europa.eu/node/685_en#application.

increasingly at odds with the EU's strategic imperative to respond effectively to the mounting pressures from big powers. At a time when partners are seeking reliable allies and closer economic ties with various partners, completing such agreements should be a priority.

5. Pragmatism and Plurilateralism in a Fragmented World

In a world where global trade rules no longer rule, bilateral and regional trade agreements are the most pragmatic response to the weakening of the system

In a world where global trade rules no longer rule, bilateral and regional trade agreements are the most pragmatic response to the weakening of the system. For the EU and Canada, agreements such as CETA, EU-Mercosur, EU-India and Canada's Indo-Pacific partnerships may help strengthen supply chains and demonstrate that rules-based cooperation remains possible even as the multilateral framework fractures. From this perspective, adopting a pragmatic approach is not an option but a necessity, and both the EU and Canada have arguably made faster progress in this direction than expected.

But pragmatism has its own limitations. The first issue is the risk of a world of overlapping bilateral agreements, each with its own standards and dispute mechanisms. This can create a patchwork of legal complexity that imposes costs on businesses and leaves the vast share of global trade between non-signatories in a regulatory no-man's land. Most of these agreements incorporate core WTO principles, such as non-discrimination and binding dispute settlement, even if they apply only among participating countries. CETA, for example, builds on WTO rules while extending them to areas such as regulatory cooperation, labour and environmental standards. However, without a common architecture, neither CETA nor EU-Mercosur may function effectively.

A second issue is the United States' strategic posture toward trade. Here, the challenge sits at the intersection of economic interest and politics. Trump's tariff regime has been partially struck down by US courts, and the current legal uncertainty over the Administration's future tariff policy undermines the credibility of any durable trade arrangement with Washington. The EU-US summer 2025 deal clearly reflects asymmetric leverage rather than a stable, mutual equilibrium. For Canada, the challenge is even more acute: the Trump administration has already stated that USMCA will not be renewed and, in August 2026, imposed new 50 per cent tariffs on selected imports from Canada. The unpleasant reality is that concerns about the US position go beyond the current Administration, even though this is very extreme. As a matter of fact, the US political system has not produced a durable consensus in favour of rules-based trade since the early 2000s, and there is little reason to expect the next Administration to reverse course. Both the EU and Canada should plan for a prolonged period in which the United States will be neither a reliable partner in sustaining the multilateral system nor a predictable bilateral interlocutor. This makes the plurilateral coalition argument a strategic necessity rather than a fallback option.

The third problem is China. Both the EU and Canada (as well as other countries) are keenly interested in economic relations with China, but deeper engagement with China creates new dependency risks of its own. The EU's de-risking strategy and Canada's pragmatic strategic partnership with China are different attempts to respond to this dilemma but have both limitations.

A fourth issue, increasingly inseparable from the first three, is the growing entanglement of trade policy with national security. Export controls on semiconductors and other technologies, screening of inbound and outbound investment, and the exploitation of supply chain dependencies to advance security interests have become standard tools of trade policy in the United States, China and increasingly the EU. This shift creates a deep trade-off because national security motivations are difficult to discipline through normal trade rules. As an increasing number of trade restrictions are framed in security terms, the space for rules-based decisions shrinks correspondingly, as a growing share of economically consequential measures falls outside their effective reach. For the EU and Canada, this raises a difficult question: how to pursue legitimate security objectives – in critical technologies, in energy infrastructure, in defence-related supply chains – without contributing to the erosion of the very rules-based framework that both have an interest in preserving. There is no easy resolution to this tension, but any plurilateral initiative will need to grapple explicitly with how security-related exceptions are defined and bounded.

Taken together, these four problems point to one common conclusion. It must be accepted that the WTO cannot be reformed by consensus if one of its founding members, the United States, continues to actively sabotage its institutions, while constructive engagement by its largest trading member, China, including restraint in the use of industrial subsidies and state-led economic policies, is very unlikely. But a functioning plurilateral framework – a coalition of economies that still value common rules and openness and commit to binding dispute settlement – is not beyond reach. It would not be universal, but it could provide the foundations of a new trading order that is more durable than a patchwork of bilateral deals and more credible than a multilateral institution that still exists but no longer performs its critical functions.

A functioning plurilateral framework is not beyond reach

One way to reconcile these tensions is to amend the WTO institutional structure under which consensus is needed to

Any WTO reform proposals should address longstanding US concerns

incorporate plurilateral agreements.[30] As numerous WTO members have now agreed to plurilateral agreements (for instance, the one on e-commerce), this is not impossible. One option would be to create incentives to integrate open plurilateral agreements into the WTO, but without limiting the right to conclude plurilateral agreements outside the WTO. The risks of fragmentation that the latter entails could be mitigated through a reinforced WTO monitoring function.

This approach does not mean that the EU and Canada should not engage with the United States and China. In fact, any WTO reform proposals should address longstanding US concerns, including the functioning of the Appellate Body and the impact of Chinese non-market practices, which are crucially important for the EU itself.[31] Despite scepticism about whether China would accept significant discipline on industrial subsidies, it will be important to maintain a dialogue with Beijing. But engagement should go beyond the United States and China and involve other large partners such as India, Indonesia and Brazil that do not have a common position on the WTO but have all signed a trade deal with the EU, which may facilitate cooperation on WTO reform. Canada could support this approach.

Canada's middle-power diplomacy and the EU's weight as the world's largest trading bloc could be key to building such a coalition. A common approach between the EU and Canada could demonstrate that open and democratic economies can sustain rules-based trade relationships, even in the absence of US leadership. As such, it can also serve as the foundation of broader partnerships.

Concluding remarks

Translating this into practice requires concrete choices. Drawing on Emerson,[32] three recommendations follow. First, the EU and Canada should jointly identify a founding group for a plurilateral coalition, built around partners with which both already have deep trade

[30] García Bercero, Ignacio, "A Plan to Revitalise the World Trade Organization", in *Bruegel Policy Briefs*, No. 11/2026 (26 May 2026), https://www.bruegel.org/node/12223.

[31] It should be noted that under Obama, the United States began blocking particular appointments, citing concerns that the Appellate Body was exceeding its mandate. China nevertheless became increasingly important to these concerns, as a number of the cases at issue involved anti-dumping and countervailing-duty measures against China and the interpretation of WTO rules concerning non-market economies and subsidies. Under the first Trump administration, these institutional concerns became intertwined with a broader confrontation with China. The United States argued that WTO rules and dispute settlement were inadequate to address China's state-led economic model, subsidies and industrial policies, while also challenging Chinese practices through unilateral measures, including the Section 301 tariffs imposed in 2018. China challenged those tariffs at the WTO, and a panel ruled against the United States in 2020. The United States appealed the ruling, but, by then, the Appellate Body was unable to function, resulting in an appeal into the void.

[32] Emerson, Michael, "A 'Middle Power' Coalition and Why This Has Become a Global Necessity", in *CEPS Policy Briefs*, No. 2026-03 (May 2026), https://www.ceps.eu/?p=57907.

relationships and a demonstrated willingness to commit to binding rules – a natural starting point being the signatories of the EU-Mercosur and Canada's Indo-Pacific agreements, as well as India and Indonesia, with the prospect of expanding such a coalition if it proves successful. Second, that coalition should prioritise a small number of workstreams focusing on the sectors with the widest gaps between existing rules and economic reality and where agreements among a subset of countries could deliver tangible benefits. Establishing digital trade standards and striking a critical minerals agreement stand out as the most promising initiatives; the latter can also help to address the security-related supply chain concerns discussed above. Third, as suggested by García Bercero,[33] that coalition should be organised in a way that keeps the door open to a revival of the WTO: plurilateral provisions should be designed, where possible, for eventual multilateralisation, and the coalition should commit to a reinforced transparency and monitoring relationship with the WTO.

If such a plurilateral, rules-based framework reached sufficient scale and economic significance, it would create strong incentives for both the United States and China to engage with it. Given its economic weight, regulatory influence and extensive network of trade agreements, the EU is particularly well placed to lead such an initiative. The window for doing so, however, may not remain open indefinitely.

Rebuilding the trading system is not only a matter of institutional design. It also requires restoring public confidence in the benefits of economic openness. Greater engagement with emerging and developing economies could help achieve both objectives. By involving a broader range of partners in shaping future trade rules, the EU and Canada would not only strengthen the legitimacy of a renewed trading order but also help develop a more inclusive narrative around trade – one that addresses concerns about resilience, fairness and economic security while preserving the gains from openness. Ultimately, the future of the trading system will depend not only on new rules but also on building an effective political coalition to support them.

[33] García Bercero, Ignacio, "A Plan to Revitalise the World Trade Organization", cit.

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