NATIONAL BANK OF CANADA
CAPITAL MARKETS

August 18, 2026

“Made in Europe”: What the EU’s Protectionist Turn Means for Canada

By Angelo Katsoras

Introduction

One of the lesser-discussed challenges facing Canada's strategy of reducing its trade dependence on the United States is that many of the alternative markets it hopes to expand into, including the European Union, are becoming increasingly protectionist. Ironically, the EU is adopting industrial and trade policies that resemble those it once criticized. These include higher tariffs and policies designed to ensure that more production takes place within Europe.

This shift has been driven by concerns over the EU's growing trade deficit with China, U.S. tariffs and the wars in Ukraine and Iran, all of which have exposed vulnerabilities in Europe's already weakened industrial base.

This report analyzes the EU's existing and proposed protectionist measures, its growing trade dispute with China, and the implications of these developments for Canada's efforts to expand trade with the EU. The report focuses primarily on the EU's trade relationship with China, given that the EU–U.S. trade dispute has already received extensive media coverage.

“Made in Europe”

Over the past several years, the EU has introduced a range of measures to strengthen domestic industry and reduce dependence on foreign suppliers. These include:

- **Carbon Border Adjustment Mechanism (2023):** imposes carbon charges on certain imports to protect EU industries from foreign competitors subject to less stringent environmental standards.
- **European Chips Act (2023):** Provides subsidies to expand semiconductor manufacturing within Europe.
- **Foreign Subsidies Regulation (2023):** Restricts certain foreign, state-backed firms from acquiring EU companies or winning major public contracts.
- **Steel Import Measures (2025):** Reduced tariff-free import quotas by 47% (to 18.3 million tonnes annually) while increasing the tariff on imports above the quota to 50% for 26 categories of steel products.1

These measures have laid the groundwork for the more stringent provisions set out in the proposed Industrial Accelerator Act. Under the Act, foreign companies with dominant global positions in batteries, electric vehicles, and other strategic industries would be required to build industrial facilities within the EU bloc, source more components locally, and transfer technology to European firms in order to gain greater access to the EU market. The Act would also introduce 'Buy European' preferences for major public procurement contracts.[2] The Act's broader objective is to increase manufacturing’s contribution to EU GDP from about 14% today to 20% by 2035.[3]

Before it can become law, the Act must be approved by both the European Parliament and the Council of the European Union. Given the strong political support for the EU's broader shift towards a more interventionist and protectionist industrial policy, this piece of legislation is expected to be adopted in some form.

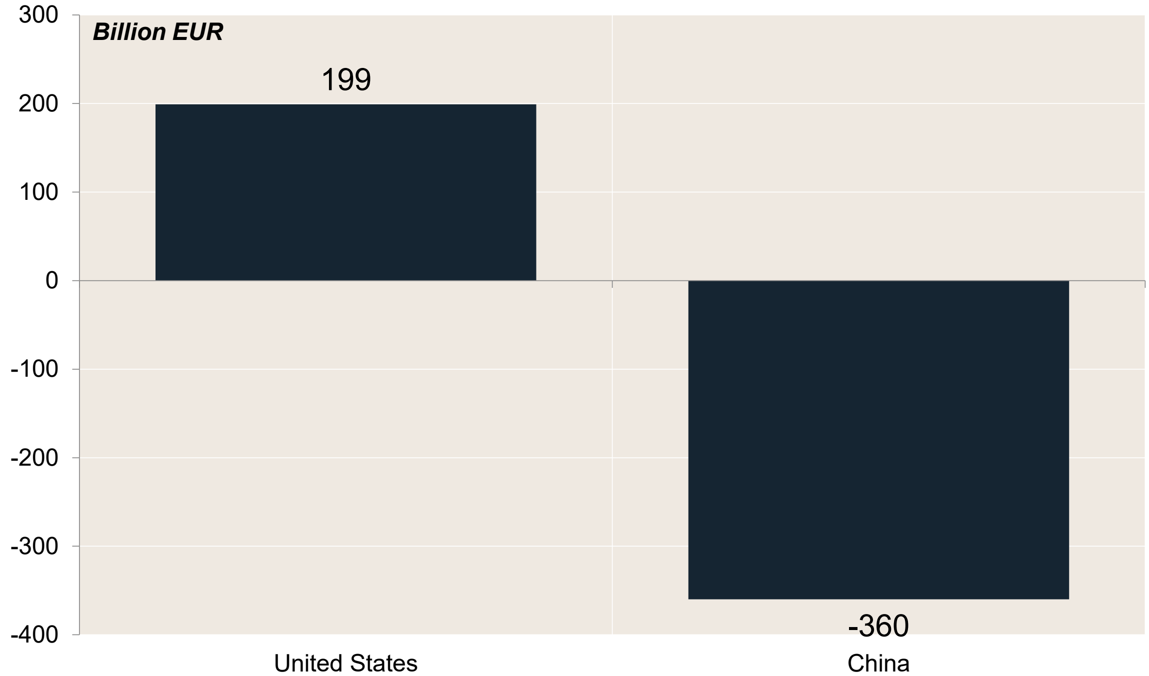
Trade tensions with China growing

While trade tensions with the United States dominate the headlines, a potentially more significant trade dispute with China is unfolding behind the scenes. A succession of visiting European leaders have warned President Xi Jinping that China's state-backed manufacturing juggernaut poses an unacceptable threat to European industry and that, unless Beijing changes course, the EU will have to implement further countermeasures.

The scale of the trade imbalance helps explain these concerns. Despite trade tensions, in 2025, the EU recorded a €199-billion goods trade surplus with the United States but a €360-billion goods trade deficit with China. The magnitude of this deficit has heightened European concerns about China's state-backed industrial policies. Beijing's support for Russia during the Ukraine war has further strained relations.

1 “EU Agrees to Double Steel Tariffs,” Wall Street Journal, April 14, 2026
2 “The EU and China are stumbling into a trade war,” The Economist, May 12, 2026
3 “EU proposes "Made in EU" rules for strategic sectors to limit China reliance,” Reuters, March 6, 2026

The European Union's Goods Trade Balance with the United States and China 2025



NBC Economics and Strategy (data via Eurostat)

What European leaders have said about the EU's trade relationship with China

- European Commission President Ursula von der Leyen said EU-China relations have reached "an inflection point." She stressed that "rebalancing of our bilateral relationship is essential" and warned that unless China's trade practices change, "our industry and citizens will demand that we defend our interests."[4]
- EU commissioner from Slovakia Maros Sefcovic, who now holds the EU trade portfolios, noted that if the EU does not defend itself, Europe risks losing "whole sectors of industry within a couple of years."[5]
- French President Emmanuel Macron has called for "the European equivalent of Section 301." This provision of the U.S. Trade Act of 1974 enables the United States to quickly impose tariffs in response to unfair or discriminatory trade practices. In contrast, the EU presently must first undertake trade defence investigations, which can take over a year to complete, before imposing countermeasures.
- German Chancellor Friedrich Merz argued that Beijing undervalues its currency by as much as 30%, describing this as "a massive competitive disadvantage" for European industry."[6]

As a sign of how trade tensions between the EU and China could escalate, China's Ministry of Commerce banned exports of "dual-use" goods to 14 EU companies shortly after the EU imposed sanctions on 14 companies in mainland China and Hong Kong over their alleged support for Russia's war in Ukraine. These goods include critical minerals and other materials used to manufacture rare-earth magnets and semiconductors. Remember that China dominates the global processing of rare earths and the production of rare-earth magnets.[7]

Beijing has also warned that it will retaliate if the proposed Industrial Accelerator Act, discussed earlier, is adopted in a form that primarily targets China.

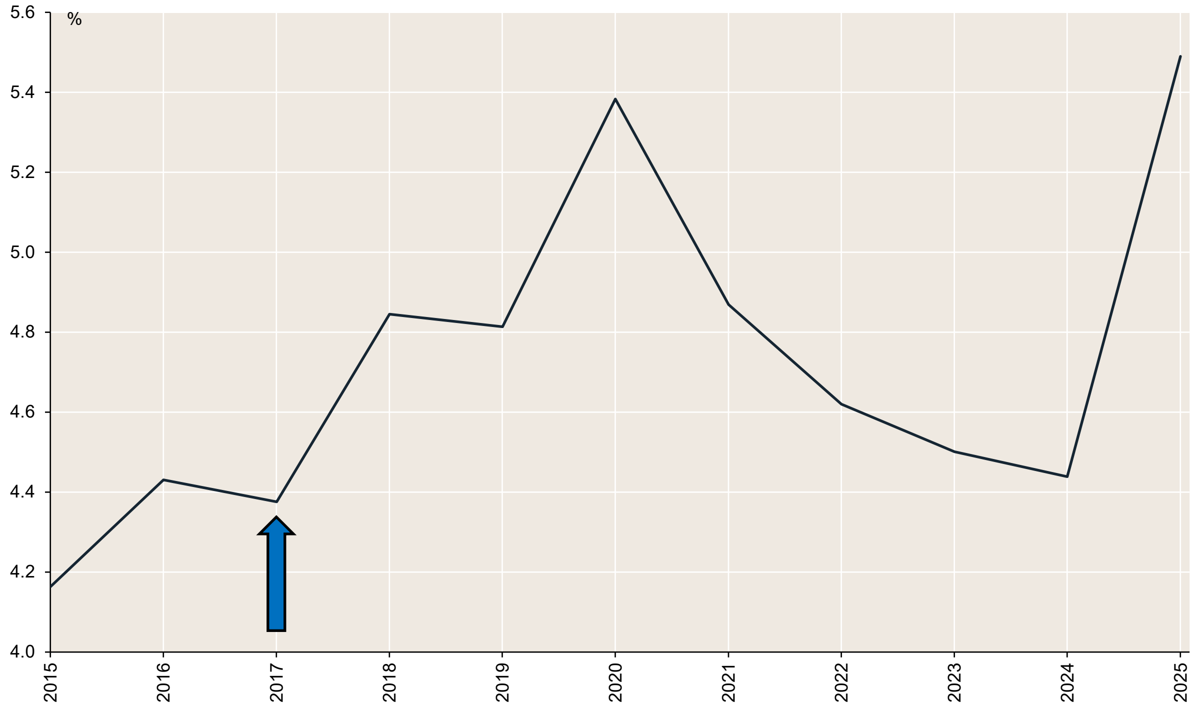
What do the EU's trade policies mean for Canada?

The fact that the EU is increasingly using procurement rules, subsidies, tariffs and local content requirements to encourage more manufacturing within Europe could pose a significant challenge for Canadian exporters. Even with the Canada-European Union Comprehensive Economic and Trade Agreement (CETA) in place, Canadian firms seeking contracts, especially in the public sector, may need to establish manufacturing facilities within the EU rather than simply exporting from Canada. In this respect, they could face a dilemma similar to that encountered by Canadian companies that set up production facilities in the United States to maintain tariff-free access to the U.S. market in certain sectors.

4 Opening remarks by European Commission President Ursula von der Leyen in the presence of President of the European Council Antonio Costa and Premier of China Li Qiang at the EU-China Summit, July 27, 2025
5 "The EU and China are stumbling into a trade war," The Economist, May 12, 2026
6 "Chinese Export Flood Tests Europe's Stomach for Trade War With Beijing," Wall Street Journal, June 19, 2026
7 "China Wields Its Rare-Earths Leverage Over Europe With Export Controls," The New York Times, July 24, 2026

The difficulty in increasing exports to the EU is illustrated by the fact that, even though CETA came into effect in 2017, the proportion of Canadian exports going to the EU has since risen only by about one percentage point, from approximately 4.4% to 5.5%. Further, much of the increase in 2025 was driven by commodity exports—particularly crude oil, aluminum, and agricultural products—rather than by an expansion of exports from the manufacturing sector.

EU Share of Canada's Merchandise Exports (%)



NBC Economics and Strategy (data via Statistics Canada/Trade Data Online)

Canada must strike a careful balance between pursuing an aggressive 'Buy Canadian' strategy at home and seeking to expand exports and create new opportunities for Canadian firms abroad without alienating key trading partners.

It is important, also, to recognize that local content policies tend to be most effective in countries and trading blocs with large domestic markets, such as China, the United States and the European Union. Canada's relatively small domestic market means it has less leverage. This point was underscored by Goldy Hyder, President and CEO of the Business Council of Canada: "For large investors from Asia or Europe considering Canada, any decision to invest would necessarily take into account not only our national investment climate, but also our connection to the wider North American economy."[8]

What are Canada's options?

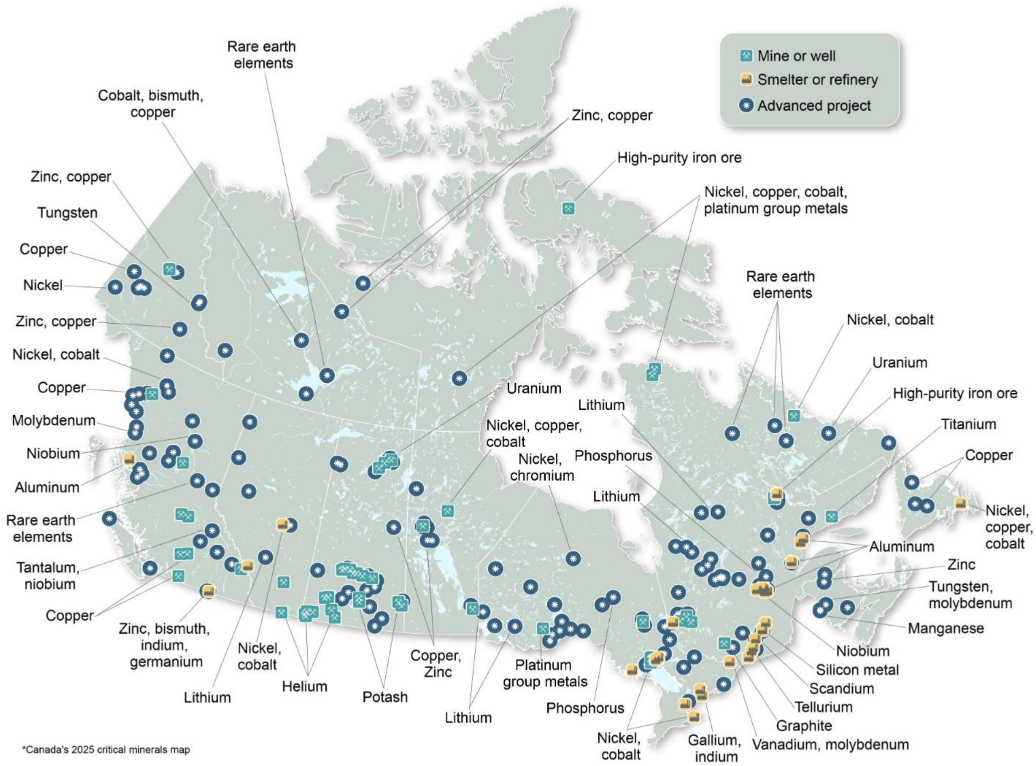
As the map below shows, Canada is a natural resources superpower. Policymakers should fully embrace this as one of the country's greatest strategic advantages. To fully capitalize on this, Canada should increase production while moving further up the value chain by expanding domestic processing and manufacturing industries connected to these sectors. (Note: The map does not include several major Canadian resources, including oil, natural gas, gold, and agricultural products.)

Further, in an era of growing geopolitical uncertainty, Canada's abundant natural resources, political stability and geographical distance from major geopolitical flashpoints and maritime chokepoints make it an increasingly attractive supplier to its allies. Canada also benefits from having higher environmental and regulatory standards than many competing resource-producing countries.

8 "Mark Carney's trade push collides with reality of U.S. dependence," Reuters, June 9, 2026

Critical mineral development across Canada

Critical mineral mines, smelters, refineries or advanced projects are located in all Canadian provinces and territories, except for Prince Edward Island.

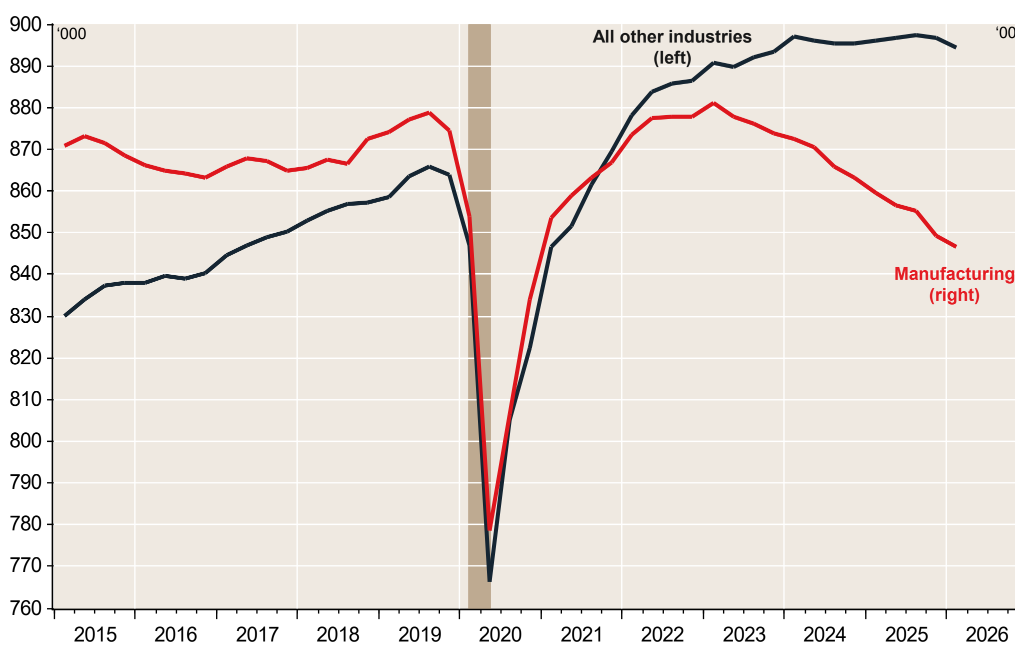


Source: Government of Canada, November 2025

However, moving further up the value chain will require reversing the long-term decline in Canada's manufacturing sector. The following chart shows that while the number of active businesses in most industries has continued to grow, the number of active manufacturing firms has steadily declined, reaching its lowest level in at least a decade in the first quarter of 2025, excluding the temporary collapse during the COVID-19 pandemic.

Canada: Manufacturing firms continue to retreat

Total number of firms—manufacturing versus all other industries (quarterly average)



NBC Economics and Strategy (data via Statistics Canada)

Bottom line

The EU's evolving trade policy shows that protectionism, regional supply chains, more stringent local content requirements and a greater focus on economic security—where price is no longer the primary factor—are not solely American policies. A growing number of governments around the world are adopting similar approaches, a trend that has been reinforced by the Iran conflict.

For Canada, diversifying trade beyond the United States to regions such as the EU will likely be more challenging than many people anticipate. Success will depend less on securing new trade agreements and more on adapting to a world where market access increasingly depends on local production, supply-chain resilience and economic security. Many countries view access to critical resources and closely related industrial inputs more and more as a matter of national security and, therefore, generally seek to keep trade barriers on these sectors relatively low. This is yet another reason for Canada to leverage its natural resource advantage in negotiations with the EU—offering greater security of supply in exchange for improved market access.

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