

Trading with Europe – UGH!

President Trump and President Ursula van der Leyen, European Union President, just concluded a new trade deal. Congratulations are in order but wait. The EU only represents 27 European countries. What about the rest of Europe?

The United Kingdom (UK) already made a deal with the U.S. That leaves 22 more countries to negotiate a trade deal. Unless you only count the European countries recognized by the United Nations – which is only 44 countries. So far, it's a little confusing, but manageable. Let's review the history of Europe to better understand the complexity of trading with a faux continent. Yep, Europe is not really a continent.

Back in the day – my grammar school days – we were introduced to the geographical continent of Eurasia, later dubbed the African-Asia continent. Europe was part of that continent, but earlier in history the snobby-elitist of Europe did not want to be associated with Asians. So, they drafted a new “continent” with the eastern boundary the Ural Mountains which are east of Moscow, which covers two of the eleven time zones of Russia. Nonetheless Europe is geopolitically a continent. By the way, Australia is an island, but it is considered a continent. Webster, what is the meaning of continent?

Back to trading in Europe. We need to identify some political subdivisions within Europe. In 1992 the European Union was officially defined within a treaty to represent European countries in monetary trade creating the Euro dollar. But all countries did not join the EU. The United Kingdom did join but opted out in 2020 – Brexit.

In addition to the EU there is the Economic Monetary Union (ERM). The countries in this union coordinate their fiscal policies. Not all the members of the ERM entirely embrace the Euro. One group uses the Euro (ERM2), The other group (ERM3) use the Euro but maintain their sovereign currency.

UK, Norway and Switzerland are European, but not in the EU nor ERM.

Sweden, Poland, Romania, Hungary, and Slovak Republic are in the EU, but not the ERM.

Bulgaria is in the EU and ERM2 but does not use the Euro. Denmark is similar to Bulgaria.

Next, the European Central Bank (ECB), which is primarily used as the Exchange Rate Bank for the Euro. These 20 countries are known as the Eurozone countries. All of the EU or European countries.

Last, but not least, is NATO. This has the largest contingent of European countries (32) plus the United States and Canada. Guess who is the “big dog” in this group?

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NATO brings another weird association – Iceland. Iceland is 860 miles east of Greenland and is part of Europe, but only in NATO. Greenland is part of North America but is a vassal state of Denmark.

If you are the one negotiating trade with Europe there are many quirks to be considered. True, some of the big trade players are in the EU. The UK, Ukraine, Serbia, Norway, Switzerland, Norway and others are not. These countries are still to be addressed.

Dealing with South America and Asian countries is much more straight forward. There is a single head of state, and the sovereign country makes its own deals. Which leads me to the USMCA agreement, the trade agreement between Mexico, Canada and the U.S.

This agreement will fall by the wayside. Trump would rather deal directly with Mexico as they are a country that has manufacturing, agriculture and petroleum products. Canada has oil to be refined, but they are an importer. They no longer have a manufacturing base. This is also true of Germany. An importer country has little leverage in trade negotiations. They are dependent on the source country and the buying country. They are in effect a middleman subject to replacement in the supply chain.

Remember Canada is part of NATO and they are not meeting their 2% (now 5%) contribution. This means Canada as a country can go insolvent and not be able to meet its internal obligations as well. Mexico is not part of NATO.

Trade with China will be all too political and our supply chain on critical goods can and will see a blip. Taiwan is the chip (no pun intended) in dealing with China. The U.S. and the UN should recognize Taiwan independence. This would put President Xi in a predicament within the CCP. A carrot and stick may not work with China, but saving face in China will.

TwoSmartFarts – August 2025

Source *Strategic Intelligence*