Intelligence MEMOS

From: Daniel Schwanen

To: Trade Observers

Date: November 8, 2024

Re: **A Dangerous Cocktail: Trump, Tariffs, Supply Management and Bill C-282**

When Donald Trump returns to the White House in January, a series of tariffs will soon follow. His campaign promises are not exactly subtle.

After all, he has used tariffs in the past and spoke affectionately about them during the election campaign. There are dangerous implications for Canada, because we like to use tariffs too. In particular, we levy massive ones on US (and other foreign) dairy products. Proposed Canadian legislation is moving to enshrine these in stone with Bill C-282, which is at final consideration in the Senate.

This could be a flashpoint in future trade negotiations with President Trump. In a feasible worst-case scenario, it could spill over into a set of escalating tariffs on other export sectors and put large swaths of our economy and domestic jobs at risk, undermining the CUSMA review which is to take place by June 2026, in effect increasing the risk that these will turn into a major renegotiation.

Bill C-282 – an *Act to Amend the Department of Foreign Affairs, Trade and Development Act* (also known as the supply management bill) – would preclude the Canadian government from making market-access or tariff concessions for supply-managed products (notably those in in future trade deals), in exchange for benefits Canada may obtain from its trading partners. Restricting our negotiation room in face of a president who adheres to his own version of the art of the deal carries great risk.

Putting aside the virtues or drawbacks of supply management, what are the costs to the Canadian economy if this bill becomes law?

Dairy and other supply-managed sectors are of course important, comprising somewhat less than 1 percent of Canadian GDP and employment, with outsized impact on some rural communities. However, this bill is about its impact on "the other 99 percent." Other Canadian sectors that depend on open international trade – including the bulk of Canada's agriculture – and generate jobs, government revenues, and of course exports.

The bill completely ties the hands of our trade negotiators, in a global context where protectionism is on the rise – a trend not expected to improve under Mr. Trump, whatever the final congressional composition in January. Canada will have to be nimble and creative in responding to this challenge. And that may involve negotiating new trade arrangements or renegotiating and hopefully improving on existing ones.

Making small concessions in supply-managed sectors was instrumental in securing beneficial trade agreements in the past, agreements which are standing Canada in good stead in a more hostile global environment. Once we say that we will be entirely closed to improvements, however small, our trade partners will likely deny significant opportunities to other Canadian sectors in return, if they are willing to negotiate at all.

While we were seeking to strengthen our trade relationship with the United Kingdom, following its exit from the European Union, our unwillingness to "talk cheese" led the UK to walk away from those negotiations.

An uncompromising negotiating position about supply management is one thing, with trade partners aware that they also have their own politically sensitive areas to protect. But a non-negotiating position regarding a particular economic sector is an entirely different thing.

The bill ties our hands entirely unnecessarily. Supply management does not need to be protected in this costly fashion. It has survived previous trade negotiations. Dairy farmers were compensated by Canadian taxpayers for the small portions of the dairy markets that were allocated to imports in the CETA, the CPTPP and the CUSMA. And they can likewise be compensated in the future.

What is at stake with this bill is the ability for Canadian governments to conclude agreements that would benefit the Canadians economy writ large, without having their hands tied behind their back. From aluminum to forest products, from shrimps to beef and other food products, from services to technology, Canadian exports are potentially hampered by this bill.

During the previous Trump presidency and the earlier renegotiation of NAFTA (now CUSMA), the willingness for Canadian negotiators to open up our dairy markets ever so slightly was critical in preventing the US from pursuing a bilateral deal with Mexico. Bill C-282 risks undermining future trade negotiations with the US. In the event this happens, discussions may revolve around Canada's need to repeal or modify the legislation, wasting precious time and resources.

This Intelligence Memo is based on remarks to the Senate Standing Committee on Foreign Affairs and International Trade on Bill C-282.

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