"Canada First" – Dealing with the US Tariff Threat:
Inaugural Meeting of the C.D. Howe Institute Trade Crisis Working Group

The tariffs announced on February 1 by the White House on United States imports from Canada threaten severe harm to many industries and Canada's economy. Although the application of the tariffs has been postponed until March, uncertainty about future US trade barriers alone is likely already leading some producers to pause investments in Canada.

The C.D. Howe Institute has convened a Trade Crisis Working Group to review available information and provide recommendations on tactics and strategies available to Canadian governments to respond to the threat. The group convened in two sessions on January 28 and 29.

Participants reviewed key aspects of the Canada-US trading relationship and of President Trump's trade policy, potential retaliatory measures if tariffs are imposed, Canada's leverage in any negotiation, and the desirability and possibility of a "win-win" negotiated outcome.

Key Developments in the Trading Relationship

The group noted that the Trump Administration refers to tariffs as a way to raise revenues, correct large US trade deficits, address unfair foreign trade practices, and generally bring trading partners to support U.S. policies in areas such as international security, illegal migration and drug flows.

The Administration has launched reviews of approaches to these issues, including a specific review of the source of the US trade deficit and its impact on US industrial capacity, and economic and national security. It has also launched a specific review of the USMCA/CUSMA, with a view to assessing the United States's continued participation in it.

These reviews will be completed by April 1, 2025, and it is widely anticipated that they will open the door to the broad imposition of tariffs by the Administration, under the suite of powers delegated to it by Congress. One of these, the *International Emergency Economic Powers Act* (IEEPA), was invoked to impose tariffs against Canada, Mexico and China on February 1. Unlike other powers that the President is likely to use in the future, the IEEPA requires the president to spell out the emergency the tariffs are supposed to address. In this case, the emergency invoked was the flow of "illegal aliens and drugs" into the United States.

Members of the crisis working group remarked presciently that since the Administration has suggested that the tariffs announced against Canada – 25 percent on all Canadian exports to the United States (except for energy products, which would be hit with a 10 percent tariff) – could be avoided if Canada addressed perceived problems of illegal immigration and drugs into the United States from this country, active and visible steps to stem these flows were a priority for Canada, and something Canada should do anyway.

With respect to the linkage made by President Trump between the imposition of tariffs and a reduction in the United States's overall trade deficit with Canada, the group noted that economic logic and facts do not support the US case. The United States registers a significant manufacturing trade surplus with Canada, especially with respect to finished manufacturing products such as machinery, equipment, and consumers goods, including autos. This US manufacturing trade surplus (to which can be added a large US surplus in its services trade with Canada) is, however, more than offset by the Canadian trade surplus in crude oil and in other natural resources and industrial materials. The United States runs a current account deficit for other reasons, which tariffs alone cannot change. Many members of the group stressed, however, that arguing these points with the president and other members of the Administration is unlikely to help Canada's cause.

Protectionism and Retaliation

Members noted that the above-mentioned structure of Canada's trade balance with the United States is both a source of strength and a source of stress in how Canadians can prepare to respond.

Insofar as the US "needs" Canadian oil – and the consensus was that it would be difficult and costly for it to switch to other sources of supplies – Canada can make a strong argument that these US imports from Canada are a source of economic strength and security (and lower consumer prices) for the United States.

However, to the extent that there is still an overall US trade deficit, the Canadian manufacturing sector risks bearing the brunt of US tariffs – a regional tension that complicates the Canadian response.

In this context, the group heard a presentation by Dr. Kent Fellows of the University of Calgary, expressing a dim view, on both political and economic grounds, of forced export restrictions by the federal government on Canada's oil and gas sector, even though that sector is a major point of leverage for Canada. Dr. Fellows presented a more economically palatable scenario, under which Alberta would curtail oil production, thus raising prices and maintaining revenues for the sector and the provincial government through higher prices.

More broadly, the group agreed that credible threats of retaliation need to be part of Canada's arsenal. But many members argued that retaliation needed to be strategic and targeted so as not to hurt Canada's competitiveness. Concepts such as "dollar-for-dollar" retaliation, for example, could lead to costs far out of proportion to their benefits.

Boosting Canada's Position

While some members expressed skepticism that the CUSMA/USMCA could survive a permanent imposition of significant tariffs, others expressed the view that the threat or imposition of tariffs could be a negotiating tactic meant to bolster the US position – by extracting a "better deal" or concessions from Canada and Mexico – ahead of a planned trilateral review of the CUSMA/USMCA in June 2026.

From that perspective, and given the general view that negotiations would ensue after a formal announcement of the imposition of tariffs, several members emphasized the need for Canada to:

- Avoid arguments about the validity of US claims, focusing instead on solutions that would benefit both countries.
- Double down on engagement with the US Congress – which holds ultimate sway over the continuation of any tariffs imposed by the United States – and especially with the US public. Better target communications with the latter about the effects of tariffs that raise the price of Canadian goods in that market, bolstered by specific examples, and about Canada as the top market for goods produced by US workers.
- Avoid discourse that sounds panicky or reveals Canada's hand in advance. While members appreciated the importance of maintaining economic stability in times of crisis, such as working capital support for companies hit by US tariffs, Canadian governments should not casually suggest that the fiscal cavalry is coming, and that large and perhaps unsustainable spending is the best solution to deal with the impact of tariffs; nor should they pre-emptively moot specific retaliatory strategies in public.

The group discussed other ways to boost Canada's leverage. Strengthening ties with third countries was a topic of conversation, with divisions in the group about its utility at this point. The US's large services trade surplus with Canada was also mentioned as a source of leverage. Members were generally wary of making the linkage, given the benefits Canadians also derive from such trade. These questions will be developed and elucidated at subsequent meetings of the group.

Towards a Good Negotiated Outcome?

Beyond responding constructively to US border security concerns, including undocumented workers and drugs, members evoked many areas of shared interest between the two countries, including addressing money laundering and securing the Arctic through greater cooperation and investments in the Canadian military, both of which are clear areas of concern for the new U.S. Administration.

These actions would signal a more effective working framework between the two countries, encompassing a resolution of economic and security concerns, which would be good for both.

There are other ways that Canada can contribute to what plainly appears to be the ultimate economic objective of the US Administration, which is to strengthen the US industrial base and employment while reinforcing its national security.

With respect to communication, the prevailing view was that Canada would gain little from antagonizing the administration by challenging the economic premises behind the tariffs, or explaining why shifting Canadian manufacturing to the United States would be disproportionately costly because of US capacity constraints. At the same time, many members felt that pointing out to the public and decision-makers that it is one of the best and most reliable and balanced trade partners of the United States, making direct and positive contributions to that country's prosperity would help.

The members of the Trade Crisis Working Group are drawn from the Institute's International Economic Policy Council and its Supply Chain Working Group, as well as other relevant experts. The Trade Crisis Group will meet again by mid-February to assess developments. This Communiqué captures the essence of the discussions among its members. It does not necessarily represent the views of any particular member on any particular topic.

Members of the C.D. Howe Institute Trade Crisis Working Group

Members participate in their personal capacities, and the views collectively expressed do not represent those of any individual, institution, or client.

- Dan Ciuriak, Fellow-in-Residence, C.D. Howe Institute
- Michael Dietrich, Executive Director, Policy, Innovative Medicines Canada
- Robert Dimitrieff, CEO, Patriot Forge Co.
- Don Drummond, Fellow-in-Residence, C.D. Howe Institute
- Rick Ekstein, President and CEO, Phaze 3 Associates
- G. Kent Fellows, Assistant Professor, Department of Economics, University of Calgary

- Carolina Gallo, Vice-President, Government Affairs and Policy, GE Canada
- Sarah Goldfeder, Director, Government Relations and Corporate Affairs, GM Canada
- Peter Hall, CEO, econosphere inc., Fellow-in-Residence, C.D. Howe Institute
- Lawrence Herman, Counsel, Cassidy Levy Kent; Senior Fellow, C.D. Howe Institute
- Glen Hodgson, Fellow-in-Residence, C.D. Howe Institute
- Ben Howe, Manager, Government Relations, CSA Group
- Mitzie Hunter, President and CEO, Canadian Women's Foundation; Senior Fellow, C.D. Howe Institute;
- Jill Hurley, Senior Director, Global Trade Consulting - United States, Livingston International
- Jon Johnson, Senior Fellow, C.D. Howe Institute
- Jason Kenney, Senior Advisor, Bennett Jones LLP; Senior Fellow, C.D. Howe Institute
- Jim Keon, President, Canadian Generic Pharmaceutical Association
- Geneviève Lavertu, Director, Government Affairs & Policy - Medical Technology, Johnson & Johnson Medtech
- Meredith Lilly, Associate Professor and Simon Reisman Chair in International Economic Policy, Carleton University
- Michael McAdoo, Associate Director, Boston Consulting Group
- Shauna McMillan, Independent Supply Chain consultant
- Jeanette Patell, Director of Government Affairs & Public Policy, Google Canada
- Sandra Pupatello, Director & Advisor; Senior Fellow, C.D. Howe Institute;
- Scott MacKenzie, Director, Corporate & External Affairs, Toyota Motor Manufacturing Canada
- Frank Scali, Vice-President, Industry Affairs, Food, Health & Consumer Products of Canada
- Daniel Schwanen, Senior Vice-President, C.D. Howe Institute
- Daniel Trefler, Professor, Rotman School of Management; Research Fellow, C.D. Howe Institute
- Ari Van Assche, Professor, HEC Montréal; Fellow-in-Residence, C.D. Howe Institute Fellow-in-Residence