

Intelligence MEMOS



From: Lawrence Herman
To: Trade Observers
Date: May 13, 2025
Re: **GOOD VIBES BUT LOTS OF FOG AFTER THE OVAL OFFICE VISIT**

There was lot of attention in foreign circles to Mark Carney's visit with Donald Trump, reflecting avid international interest as to how the PM would handle Mr. Trump, given the unprecedentedly tense, adversarial relationship between the two countries.

All things considered; the meeting went well. The two leaders got along. Mr. Carney wasn't subjected to the torrent of abuse that Ukraine president Volodymyr Zelensky had faced just weeks earlier.

So, that's a good thing. Assuming it lasts, it gets the bilateral relationship back on a more mature, respectful track, even if short of a full re-set.

Tone is one thing, substance is another. And on substance, details about the future trading relationship didn't become much clearer.

So, where does all this lead?

While details remain elusive, at least to those outside the inner circles of government, from the public record there seem to be at least four distinct packages involved: (1) Trump's tariffs; (2) a possible bilateral economic security deal; (3) the process of review and future of CUSMA and; (4) Canada-US arrangements on items like critical minerals.

The most immediate one concerns Trump's Section 232 tariffs on Canadian steel, aluminum and the auto sector, plus on other exports such as non-CUSMA compliant potash and energy. It seems that Mr. Trump is not likely to waver much, given the importance he placed on bringing manufacturing back to the United States. Maybe something will emerge on auto parts in the ensuing negotiations, but it remains uncertain that much will change on the assembled vehicle front or in the steel or aluminum sectors. Maybe pressure from US industry, notably the auto manufacturers, will lead somewhere.

The tariff issues are complicated by not knowing whether auto negotiations will ultimately be part of a three-party deal with Mexico or a purely bilateral Canada-US set of talks. But given the trilateral integration of the sector, it would seem that any tariff deal on autos would have to involve Mexico.

A second package involves the so-called new "economic and security relationship" to which Mr. Carney referred after his first Trump phone call in late March. It also came up in the Oval Office discussions. How will this factor into the other complex issues on the table?

That raises the third package, entailing CUSMA and the impending review/re-negotiations over the agreement's future. At the Oval Office meeting, Mr. Trump said he wasn't sure if the deal was still relevant, though he did frame it in more positive terms than he has since launching this trade war.

The CUSMA review is an unusual process that formally starts in July 2026 under Article 34.7 of the agreement. Assuming it proceeds as set out – whether or not all the technical details are followed – it will be a fraught exercise. The review provision was pushed through by Robert Lighthizer, the former USTR, to give maximum leverage to the US side. There's every indication that the Americans want to put a lot of things back on the table during the review that weren't settled earlier and that Canada – yet again – will be into acrimonious horse-trading with the Americans on a whole range of items. We can predict this will include access to Canada's dairy sector and the digital services tax, among other things.

Even with an aggressive American position, there's still the possibility, remote as it may seem, that the three governments may find common ground on modernizing and updating the deal, preserving it at least up to its 2036 termination date. We'll know more when the USTR reports to Congress in early 2026 on the items the United States wants addressed.

Then, there's a fourth package on the strictly bilateral front, non-CUSMA items that could well be on the table. This could include the Joint Action Plan on Critical Minerals agreed to between Justin Trudeau and Mr. Trump back in 2019. Assuming it still has life, the action plan is outside of the CUSMA arrangements and seems to be compatible with the national security and re-shoring MAGA objectives of the Trump administration.

There are other bilateral items in this last package: Enhanced border security procedures, defence production sharing, cooperation in energy and so on. These are potentially new two-way arrangements – beneficial to the Americans and therefore of value in the mix of negotiables.

Tough days ahead, unquestionably, with many uncertainties and difficulties for Canadian businesses trying to evaluate commercial risks. It would seem prudent to have a list of potential risk-based scenarios that deal with each of the above packages.

It's possible that some of these risks are attenuated by the more courteous tone in the Carney-Trump relationship. While the atmosphere could change, at least there's a sense that things will cool down and, even with all the unknowns, follow a more reasonable and less contentious course over the next few months.

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