

Intelligence MEMOS



From: Lawrence Herman
To: Trade War Watchers
Date: July 21, 2025
Re: **MANAGING TRADE EXPECTATIONS IN THE TRUMP ERA**

Prime Minister Mark Carney's frank admission last week about unlikely prospects for bilateral free trade with the United States is simply an expression of reality.

Not much was revealed about Canada's trade, economic and security talks with its neighbour, but the Prime Minister made it pretty clear that he recognizes that Donald Trump will accept no agreement that limits the use of tariffs as his cornerstone policy.

Under Mr. Trump's presidency, whether it's trade or international politics, there have been no rules or constraints on his executive powers be it under US law or by way of international treaties such as the World Trade Organization agreement or the Canada-United States-Mexico-Canada Agreement (CUSMA). As observers have said, any trade deal is pretty much what Mr. Trump wants it to be.

Nothing illustrates this better than Mr. Trump's recent threats in letters to about a dozen countries, including Canada, saying that the U.S. will be applying additional tariffs on all imports – 35 percent in Canada's case – starting Aug. 1. The letters are cut-and-paste jobs, nearly all identical, telling countries that if they don't shift manufacturing activities to the United States, they'll be hit with tariffs.

As for what this means for Canada in Mr. Trump's unpredictable, levy-based world, we might look to the first country that has made a deal: Britain. It was not exactly a deal in the United Kingdom's favour.

Mr. Carney's comments bring back the question of whether this US-UK Economic Prosperity Deal offers any kind of template for an agreement with Canada. Looking beyond the congratulatory statements by both governments, they essentially struck a handshake deal, one with Mr. Trump agreeing to reduce US tariffs if Britain behaves.

In its analysis, the UK Trade and Business Commission said: "The deal is categorically not a free trade agreement. Though it contains commitments to reduce tariffs, the document consists mainly of a list of policy areas to be negotiated and implemented at an unspecified, later date."

The commission also concluded that "the published document does not carry the legal authority or breadth of a formal FTA." Both sides recognized that the deal does not constitute a legally binding agreement.

While British Prime Minister Keir Starmer did not have to abandon the United Kingdom's digital services tax, other aspects of the deal that also have significance for Canada show that power and control over the future lie in the Oval Office.

For example, on UK steel and aluminum, the United States didn't abandon its 25-percent duties, but agreed to a possible tariff rate quota system, allowing certain volumes to be imported at lower rates. But here's the catch: this is subject to the United Kingdom "promptly meeting US requirements on the security of the supply chains of steel and aluminum products," according to the deal. Only by Britain meeting these vague conditions will the United States consider reducing tariffs on its steel and aluminum. It's a one-way ticket to constant harassment and threats. Good luck to Mr. Starmer and his UK team.

The UK deal could signal what Canada will face over the next couple weeks, trying to conclude any kind of agreement on steel, aluminum, automobiles, copper, forestry and possibly other sectors together with a so-called security and defence arrangement and, not to be forgotten but hanging in the background, the CUSMA review talks next year.

In former times, the finalization of zero-duty trade agreements with the United States was a cause for celebration, with the North American Free Trade Agreement and CUSMA as examples. Today, what governments cheer aren't duty-free trade deals but – as in the case of Britain, along with Vietnam and Indonesia – arrangements with Mr. Trump to keep US tariffs in place.

Canada's talks with the White House have taken place behind closed doors. Maybe more information will emerge as we get closer to Mr. Trump's arbitrary August 1 deadline. Perhaps the Canadian side will be able to resist anything akin to what the United Kingdom bought – one-sided American undertakings that fall short of binding legal commitments, with limited duty-reduced access to the US market but with Mr. Trump retaining all the power, free to change course on a whim.

The problem in negotiating with Mr. Trump is that, when all is said and done, there are no rules and nothing to indicate a retreat from him wielding his MAGA tariff weapon. The Prime Minister was right to reduce expectations.

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