Canada initiates WTO dispute over U.S. tariffs on automobiles and parts

April 28, 2025

Canada's request for consultations

On April 3, 2025, Canada initiated dispute settlement proceedings at the World Trade Organization (WTO) by requesting consultations with the United States. The challenge targets the U.S.- imposed tariffs of 25 per cent on automobiles (effective April 3, 2025) and 25 per cent on automobile parts (scheduled to take effect no later than May 3, 2025). These tariffs, Canada argues, violate several provisions of the General Agreement on Tariffs and Trade 1994 (GATT 1994), the foundational legal instrument of the WTO.

The tariffs were imposed under a combination of U.S. domestic laws and presidential proclamations, most notably Presidential Proclamation No. 10908, issued in March 2025. This proclamation builds on earlier measures, such as the 2019 U.S. Department of Commerce report asserting that automotive imports pose a threat to national security, and outlines the specific mechanisms for imposing and administering the tariffs.

Canada's consultation request maintains that these measures are inconsistent with the United States' commitments under the GATT 1994:

- **Article II:1(a)**, which requires the U.S. to provide no less favorable treatment to Canadian goods than what is outlined in its WTO schedule of concessions.
- **Article II:1(b)**, which prohibits duties that exceed bound rates.
- **Article VIII:3**, which restrains excessive penalties for minor customs violations.

According to Canada, the U.S. measures nullify benefits owed to Canada under the GATT 1994.

The WTO Dispute Settlement mechanism in brief

The WTO Dispute Settlement Understanding (DSU) provides a structured process for resolving trade disputes among its members. It encourages countries to settle disagreements diplomatically and multilaterally, rather than unilaterally.

The consultation phase is the first step and is mandatory. It gives both parties a chance to clarify legal and factual issues and explore negotiated solutions. If no agreement is reached within 60 days, the complainant may request the establishment of a panel to adjudicate the matter.

The Dispute Settlement Body (DSB), composed of representatives from all WTO member states, establishes a panel, which typically consists of three independent trade law experts. The panel reviews written and oral submissions from the parties, may seek additional information or expert opinions, and typically issues a report within six to nine months. The parties, in principle, may request appeal from the Appellate Body. However, since 2020, the Appellate Body has been non-functional due to a U.S. blockade on new appointments. It no longer has the minimum of three members required to hear cases, creating uncertainty for the final stage of the process.

Canada's request invokes Article XXII:1 of GATT 1994, which allows other WTO members to join consultations as third parties, subject to the consent of the responding party. This choice reflects Canada's preference for transparency and broader engagement within the WTO system, possibly to gather additional support or scrutiny of the U.S. position.

The process is designed to promote compliance with WTO rules and avoid escalating trade conflicts. While most disputes are resolved during consultations, high-profile cases like this one may proceed to litigation, particularly when broader principles, such as national security, are alleged.

The U.S. response and the "essential security interests" exception

In its response dated April 15, 2025, the United States acknowledged receipt of Canada's request and expressed willingness to enter into consultations. However, the U.S. underscored its firm stance that the tariffs in question are grounded in national security concerns, which it claims place the measures beyond the reach of WTO dispute settlement.

The U.S. asserts that the tariffs are imposed under Section 232 of the *Trade Expansion Act* of 1962, a U.S. statute that permits trade restrictions if imports are deemed a threat to national security.

Citing Article XXI of the GATT 1994, the U.S. argues that each WTO member has the sovereign right to determine what actions are necessary to protect its "essential security interests". In the U.S. view, such determinations are inherently political and non-justiciable, meaning they fall outside the WTO's jurisdiction to review or resolve.

Article XXI allows WTO members to take measures they consider necessary for the protection of their national security. Specifically, it permits departures from general trade obligations in cases involving:

- fissionable materials or related goods;
- arms and war materials; or
- actions taken in times of war or other emergencies in international relations.

In addition to defending the legality of its own measures, the U.S. took issue with Canada's retaliatory response. Just days after the U.S. tariffs came into effect, Canada imposed its own 25 per cent tariffs on certain U.S.-made vehicles. While framed by Canada as countermeasures, the U.S. questioned their legality under WTO rules, calling them a "unilateral decision" made "without apparent justification".

Despite these strong differences, the United States expressed a willingness to hold consultations with Canada at a mutually agreed time. However, it made clear that this cooperation does not mean it accepts the WTO dispute settlement mechanism's authority to rule on the matter.

Although the U.S. may technically request an appeal from a WTO panel's finding against it, thereby indefinitely delaying the enforcement of the decision due to the Appellate Body's current non-functionality, the consultation phase still provides a valuable diplomatic platform for both countries to negotiate and settle trade conflicts.

By

Hessam Mehrabi, Rambod Behboodi

Expertise

Transportation, Automotive

BLG | Canada's Law Firm

As the largest, truly full-service Canadian law firm, Borden Ladner Gervais LLP (BLG) delivers practical legal advice for domestic and international clients across more practices and industries than any Canadian firm. With over 800 lawyers, intellectual property agents and other professionals, BLG serves the legal needs of businesses and institutions across Canada and beyond – from M&A and capital markets, to disputes, financing, and trademark & patent registration.

blg.com

BLG Offices

Calgary
Centennial Place, East Tower
520 3rd Avenue S.W.
Calgary, AB, Canada
T2P 0R3

T 403.232.9500
F 403.266.1395

Ottawa
World Exchange Plaza
100 Queen Street
Ottawa, ON, Canada
K1P 1J9

T 613.237.5160
F 613.230.8842

Vancouver
1200 Waterfront Centre
200 Burrard Street
Vancouver, BC, Canada
V7X 1T2

T 604.687.5744
F 604.687.1415

Montréal
1000 De La Gauchetière Street West
Suite 900
Montréal, QC, Canada
H3B 5H4

T 514.954.2555
F 514.879.9015

Toronto
Bay Adelaide Centre, East Tower
22 Adelaide Street West
Toronto, ON, Canada
M5H 4E3

T 416.367.6000
F 416.367.6749

The information contained herein is of a general nature and is not intended to constitute legal advice, a complete statement of the law, or an opinion on any subject. No one should act upon it or refrain from acting without a thorough examination of the law after the facts of a specific situation are considered. You are urged to consult your legal adviser in cases of specific questions or concerns. BLG does not warrant or guarantee the accuracy, currency or completeness of this publication. No part of this publication may be reproduced without prior written permission of Borden Ladner Gervais LLP. If this publication was sent to you by BLG and you do not wish to receive further publications from BLG, you may ask to remove your contact information from our mailing lists by emailing unsubscribe@blg.com or manage your subscription preferences at blg.com/MyPreferences. If you feel you have received this message in error please contact communications@blg.com. BLG's privacy policy for publications may be found at blg.com/en/privacy.

© 2026 Borden Ladner Gervais LLP. Borden Ladner Gervais LLP is an Ontario Limited Liability Partnership.