A tariff-ying new world: Unpacking Canada’s latest tariff policies

January 17, 2025

Introduction

The Liberal government’s Fall Economic Statement arrived last month in the midst of an increasingly uncertain political landscape.

Among its many offerings, in the trade sphere, the Statement presents a commitment to use the full range of Canada’s “toolkit” to protect its economic security against unfair conduct from trading partners and to promote reciprocity across Canada’s trading partnerships.

This represents a departure from Canada’s traditional approach to international trade policy, which used to be based on multilateralism and a rules-based system. It is, however, in line with the rise of progressively protectionist and unilateral trade practices in North America (particularly under the incoming Trump administration) and, to some extent, across the world.

A renewed emphasis on tariffs

In the past few years, the Biden administration sought to address unfair competition from Chinese-made products by imposing or increasing tariffs on a host of Chinese-made goods including electric vehicles, solar cells and others. Following suit, Canada imposed a 100 per cent surtax on Chinese-made electric vehicles shortly after, aimed at making the import and sale of EVs from China prohibitively expensive and shifting EV sales to either domestic sales or imports from friendlier markets.

The Statement continues this trend by emphasizing the need to combat unfair Chinese trade practices by redirecting Canadian supply chains towards allies and partners.

In addition to the already-imposed surtax on Chinese-made electric vehicles, steel, and aluminum, the Statement announces Canada’s intention to impose further tariffs on semiconductors, permanent magnets and graphite from China in 2026. The Statement also expresses Canada’s intent to amend the Export and Import Permits Act to expand the reasons for which the government may restrict imports and exports. This amendment will be used to support secure and reliable supply chains for domestic industry, but also to retaliate against countries that harm Canadian interests through unfair trade practices or economic coercion. At this stage, the scope and content of the amendment are unclear.

These announcements signify a marked departure from Canada's traditional approach to international trade relations. Given Canada's significant trade dependence on the United States, it is inevitable that our trade positions will reflect those of our southern neighbours; however, this strategy brings its share of consequences. China has already filed a complaint with the WTO against the tariff measures imposed by Canada – and while the WTO dispute settlement mechanism may be broken, the larger political and economic impact of these trade disputes remains to be seen.

Reciprocity

The Statement also emphasizes reciprocity in trading partnerships as a requirement for all federal spending and policies, including but not limited to government procurement, infrastructure spending, investment tax incentives and restrictions and technical barriers to trade.

Starting in spring 2025, the government plans to limit access to Canada's federal procurement market to Canadian entities and "trading partners who provide access to Canada". The Statement also announces an intent to explore the possibility of placing domestic content conditions on foreign supplier participation in federally funded infrastructure projects. This would continue the trend of trying to nearshore manufacture and production.

It is unclear how these proposals will be implemented in accordance with international trade obligations, or in spite of them.

Where are we heading?

The Fall Economic Statement makes it clear that the tides of international trade are shifting.

It reflects in quite explicit terms the growing concerns about the entry of Chinese-made goods into the North American market through Canada, and about securing a strong trade partnership with the United States. But it also reflects an unequivocal intention to prioritize Canadian interests and businesses, citing the success of Canada's retaliatory tariffs on steel and aluminium against the United States in 2018 as an example of this commitment.

Given the imbalance of leverage in the trade and economic relationship between the two countries, whether another round of Canadian retaliatory tariffs on US-origin orange juice, plastics and steel would force the US to rethink its announced plans to impose a 25 per cent tariff is questionable. It may well be necessary – indeed, imperative – for the Canadian trade law and policy establishment to think bigger and bolder, and to examine the possibility of moving out of goods to consider cross-sectoral retaliation in areas where the U.S. has a significant market advantage in Canada.

By

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