From duties to import bans: The Canada–U.S. tariff war after the collapse of negotiations

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Just after midnight on Aug. 22, 2026, the United States began collecting 50 per cent duties on approximately US$20 billion (C$27.6 billion) worth of Canadian goods under Section 338 of the *Tariff Act of 1930* (the Tariff Act). Our earlier insight examined this Depression-era provision after the underlying proclamations were signed in July.

Within hours, Prime Minister Carney made an announcement that Canada would match the U.S. duties “dollar for dollar.” On Aug. 25, the Department of Finance released the details of Canada’s response: counter-tariffs of 15 per cent, 25 per cent and 50 per cent on C$27.6 billion worth of U.S. goods, effective on Sept. 8, together with a C$7.5 billion support package.

Between those announcements, President Trump stated that tariffs on all Canadian cars, trucks, and automotive parts would increase to 50 per cent on Jan. 1, 2027, and that Canadian steel would also be subject to that rate.

Canada’s counter-tariffs took effect on Sept. 8.

Within hours, the President signed five further Section 338 proclamations: three impose outright import bans on specified Canadian alcoholic beverages, dairy products and motorcycles, effective Sept. 29, and two recalibrate the existing 50 per cent tariff lists, effective Sept. 15, adding products, removing others, and reversing the July carve-out for goods already subject to Section 232.

The President directed the removal of Canadian-origin products from a federal procurement channel the White House values at more than US$50 billion a year.

This update situates developments since the collapse of negotiations in the arc of the dispute we have tracked since November 2024 and considers what may come next for Canadian businesses.

1. How we got here

The most recent iteration of the Canada-U.S. trade dispute began on Nov. 25, 2024. That was when the then president-elect announced his intention a 25 per cent tariff on all goods imported from Canada and Mexico, citing concerns about fentanyl and border security.

The measures and responses that followed included tariffs imposed under the *International Emergency Economic Powers Act,* the resumption of the tariff dispute in March 2025, Section 232 measures targeting steel, aluminum and automobiles, Canada's WTO challenge, and successive rounds of Canadian counter tariffs. Canada ultimately withdrew most of its counter-tariffs in September 2025.

These events are chronicled in our Tariffs and Trade Resource Centre.

Two developments this summer reshaped the bilateral dynamics.

First, at the first CUSMA joint review on July 1, the United States declined to renew the agreement in its current form. CUSMA remains in force, but the parties are now on a cycle of annual reviews rather than securing a further 16-year term.

Second, on July 20, the President signed three proclamations under Section 338 of the Tariff Act, citing provincial bans on U.S. alcoholic beverages, Canada's administration of tariff-rate quotas for cheese, and Canada's 25 per cent tariff on non-CUSMA-qualifying U.S. vehicles.

The accompanying annexes extended well beyond those three sectors, covering products such as furniture, cement, plywood, apparel, cosmetics, toys and hockey equipment. The duties apply irrespective of whether the goods qualify as originating under CUSMA. As originally proclaimed, they did not apply to goods already subject to Section 232 measures but, as discussed below, that carve-out was reversed on Sept. 8.

The July proclamations set Aug. 19 as the effective date, reflecting Section 338's minimum 30-day notice period. On Aug. 18, amid reports of progress in the negotiations, the President suspended the effective date by three days, to Aug. 22. The suspension proclamation recorded that Canada had "expressed a commitment" to remove the measures at issue.

2. The collapse: Two accounts

Late on Friday, Aug. 21, Prime Minister Carney announced that Canada was suspending negotiations and recalling its negotiators to Ottawa. He stated that, in the preceding days, the United States had proposed new terms that were "unfair, uneconomic, and called into question the reliability of any deal."

At a press conference the following morning, the Prime Minister added that the United States had "asked too much and offered too little." He said that the late-stage demands implicated Canada's relationships with other trading partners, its automotive sector, and its cultural and French-language protections. He also confirmed that Canada had been prepared to remove its remaining counter-tariffs on steel, aluminum and automobiles had the United States lowered its own. When asked on Tuesday about Canada's account of the eleventh-hour demands, the President replied, "I don't deny anything."

In various interviews in the following days, U.S. officials offered a different account. Shortly after midnight, the United States Trade Representative posted that Canada had "declined to finalize the trade deal under the terms agreed earlier this week" and that "new demands and walk backs of other commitments by Canada" had upended the balance struck earlier in the week. According to an X post by the United States Trade Representative, the U.S. offer included significant tariff reductions on steel, aluminum, automobiles and lumber, cooperation on aerospace, critical minerals and forced-labour enforcement, and the launch of formal CUSMA negotiations.

No agreement was reached, no further negotiations were scheduled and, according to the United States Trade Representative, the United States was "moving forward with measures that respond to Canadian retaliation." Those measures arrived on Sept. 8.

3. Canada's response

Canada's countermeasures, announced on Aug. 25 and in force since 12:01 a.m. on Sept. 8, have three notable features.

First, the countermeasures are rate-matched, not merely value-matched. The targeted products are drawn from those covered by the U.S. Section 338 and Section 232 measures, with each product generally subject to the same tariff rate that the United States applies to the corresponding Canadian product.

The Sept. 8 list contains roughly 700 items and covers C$27.6 billion in annual imports, and imposes tariffs of:

1. 50 per cent on steel and aluminum products;
2. 25 per cent on furniture, clothing and apparel, appliances, dairy products, cheese, fish and seafood, and certain steel and aluminum derivatives; and
3. 15 per cent on other products such as air conditioning units and tool parts.

Second, the government's stated rationale has shifted. The Minister of Finance made clear that the primary objective is to improve the competitive position of Canadian producers relative to U.S. products in the Canadian market. As the government had stated in respect of steel sector counter-tariffs, it would be illogical to force Canadian producers to compete with U.S. imports, when Canadian products are denied entry into the U.S. market.

This is a candid acknowledgement of the leverage problem we identified in January 2025. Retaliation against U.S. imports is unlikely, on its own, to move the United States. At the same time, there is no question that Canadian retaliatory measures to date are having both an economic and a political impact – and, likely, a strategic one as well. Retaliatory measures of this sort typically pursue multiple objects, and Canada's latest measures are not different.

Third, the implementation framework is familiar. Existing counter-tariffs, including those on automobiles, remain in place, while goods already in transit when the measures took effect on Sept. 8 were exempt.

The tariff remission framework also remains available to provide exceptional relief. The Canadian Government has also paired the countermeasures with a C$7.5 billion support package. The package includes regional liquidity support, a new Business Development Bank of Canada financing stream, a C$2 billion Canada Strong Diversification Fund, C$3.5 billion in worker supports, and additional flexibility under the Large Enterprise Tariff Loan Facility. These measures build on approximately C$25 billion in support announced since 2025.

4. The U.S. response: from duties to import bans

Canada's counter-tariffs took effect at 12:01 a.m. on Sept. 8.

The United States responded the same day, on two fronts. In the morning, the President directed the General Services Administration, working with the USTR, to take steps to remove Canadian-origin products from GSA's Multiple Award Schedules (long-term contracts through which federal agencies buy commercial goods and services) unless Canada restores "full and fair reciprocity" for U.S. suppliers in Canadian government procurement. That evening, he signed five further proclamations under Section 338.

Three of the five are import bans. Section 338 permits the President, where a foreign country "maintains or increases" its discrimination after additional duties have been imposed, to exclude that country's products from importation altogether. The President has now invoked that power. Effective 12:01 a.m. on Sept. 29, specified Canadian products currently subject to the 50 per cent duty (most alcoholic beverages, certain dairy and related products, and motorcycles) will be prohibited from entry into the U.S market. The White House frames the alcohol ban as a response to Canada having "maintained and in fact increased" its discrimination against U.S. alcoholic beverages; the ban closely mirrors the provincial bans on U.S. alcohol in place since early 2025, and follows Saskatchewan's 50 per cent markup on U.S. alcohol, which took effect the same day as Canada's counter-tariffs. The USTR described the package as "a natural consequence of Canada's continued discriminatory treatment" of U.S. exports.

The other two proclamations recalibrate the underlying tariff lists, effective Sept. 15, for the motor vehicle and alcoholic beverage actions. Each removes some products from the 50 per cent duty and adds others. The White House cites rock salt and cement among the removals, and all-terrain vehicles and additional dairy products among the additions; cheese, mattresses and motorboats also appear to be new entrants.
Two further features deserve attention.

First, the modified duties "apply in addition to" Section 232 duties, reversing the July carve-out under which goods already subject to Section 232 measures were excluded from Section 338 coverage. On the face of the Sept. 8 announcement from the White House, Canadian aluminum bars and tubes, and fabricated steel structures newly added to the list may attract both layers.

Second, the additions were made without a fresh 30-day notice period. Section 338 requires that additional duties take effect no earlier than 30 days after the President's finding of discrimination. The administration's position appears to be that supplementing an existing proclamation, which the statute expressly permits, is not a new imposition.

Canada's reaction has so far been measured. Minister LeBlanc called the measures "unjustified," said the government was assessing them, and confirmed he was in contact with Ambassador Greer. Hours earlier, the Prime Minister had told Canadians in a video address that Canada's pivot away from the United States "will come at a cost," though not one approaching "the cost of standing still."

5. What comes next

Escalation. The President's announcement concerning Jan. 1, 2027 would raise tariffs on all Canadian cars, trucks and automotive parts to 50 per cent, doubling the current headline tariff rate on automobiles and applying the announced 50 per cent rate expressly to automotive parts.

Because U.S. duties on Canadian steel are already 50 per cent, the practical significance of the President's reference to steel remains unclear. The four-month lead time resembles a negotiating deadline more than a settled policy decision. Automotive businesses and supply-chain participants should not, however, plan on the assumption that the increase will be withdrawn or postponed.

The Sept. 8 measures show that the U.S. administration is prepared to use the full range of Section 338, from duties to outright bans. They also show a willingness to move beyond tariffs altogether: the procurement directive targets a channel that Section 338 does not reach, and that Canadian suppliers have generally treated as insulated from the tariff dispute.

Litigation. Unlike Section 122, which limits tariffs imposed under that provision to 150 days, Section 338 contains no comparable express time limit and, according to the U.S. Government's interpretation, permits duties of indefinite duration.

Some U.S. scholars have questioned whether the provision survived the *1962 Trade Expansion Act*, and legal challenges are widely expected. Importers exposed to the duties or bans should consider taking steps now to preserve their ability to seek refunds, rather than waiting for the courts to resolve those potential challenges.

CUSMA. The annual review cycle has effectively transformed CUSMA from a relatively settled framework into an ongoing negotiation. The United States Trade Representative's proposed package purportedly included the launch of formal CUSMA negotiations, but that offer appears to have lapsed with the breakdown of the broader talks. Canadian officials reportedly see "little chance" of negotiations resuming before the U.S. midterm elections in November 2026.

Meanwhile, the U.S.–Mexico track continues: the U.S. Commerce Secretary travelled to Mexico on Sept. 9 to meet President Sheinbaum. Canada risks watching the agreement's future being negotiated bilaterally around it.

6. What Canadian businesses should do now

Revisit the origin of your exports. The Section 338 duties apply regardless of whether goods qualify for preferential treatment under CUSMA. Canada's counter-tariffs, by contrast, apply to goods considered to originate in the United States under the applicable marking rules. The analysis differs on each side of the border, and the answer for U.S.-assembled goods containing foreign inputs may not be straightforward.

Use the lead time before Sept. 15 and Sept. 29. The recalibrated U.S. lists take effect on Sept. 15 and the import bans on Sept. 29. Goods classified in newly added subheadings should be re-costed now; goods deleted from the lists should be checked for whether they were removed outright or merely narrowed to a statistical suffix. Goods in the banned categories cannot enter after 12:01 a.m. on Sept. 29, and shipments should be timed accordingly.

Preserve potential refund rights. Importers subject to the U.S. Section 338 duties should consider taking the steps necessary to preserve potential refund claims pending any litigation challenging those measures.

Review existing and future contracts. Business should examine tariff pass-through, price-adjustment and force majeure provisions in existing agreements and address tariff allocation expressly in new contracts – advice we first gave in March 2025 that has not aged.

Review U.S. federal procurement exposure. Canadian suppliers holding GSA Multiple Award Schedule contracts, and their U.S. resellers, should review origin documentation and contract terms.

BLG can assist

BLG's International Trade and Investment Group has advised clients through every phase of this dispute, including on origin qualification, remission requests, classification and scope determinations, contractual risk allocation and refund preservation. For assistance, contact any member of our team, and follow developments on our Tariffs and Trade Resource Centre and The Tariff Home Companion podcast.

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