

May 23, 2025

Tariffs are Bad, Uncertainty is Worse: Implications for Canada Ahead of Trade and Security Negotiations with the United States

Sixth and Seventh Meetings of the C.D. Howe Institute Trade Crisis Working Group

The C.D. Howe Institute Trade Crisis Working Group held its seventh meeting on May 16, 2025, co-chaired by the Hon. Jason Kenney, Senior Advisor at Bennett Jones LLP, and the Hon. Mitzie Hunter, President & CEO of the Canadian Women's Foundation. The Group heard a presentation by Dr. Meredith Lilly, Associate Professor and Simon Reisman Chair in International Economic Policy at Carleton University, who summarized the state of play between Canada and the United States with a focus on the future of the Canada-United States-Mexico Agreement (CUSMA/USMCA).

Building on a prior meeting of the group on May 1, which focused on removing barriers to major projects that foster Canada's economic resilience, the group discussed a range of issues which will affect the next steps in the Canada-US trade and security partnership. These included questions of political leadership, the nature of the forthcoming CUSMA/USMCA review, fresh questions of timing and trade-offs for Canada based on recent events, the "China factor," and the importance for Canada and Mexico to work together to avoid the United States isolating itself in a "Fortress USA."

Key conclusions and recommendations emanating from the meeting are outlined below.

Political Context & Leadership

The group expressed support for exercising caution or suspension of retaliatory action and for maintaining a constructive tone ahead of substantive talks on the broader Canada-US relationship and CUSMA/USMCA renegotiations specifically.

The group also emphasized the importance of continued high-level engagement with Mexico and reaffirmed that preserving the trilateral structure of CUSMA/USMCA is necessary to maintain the current and future competitiveness of the North American industry.



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There is a need for Canada to continue emphasizing to US stakeholders – especially ahead of the November 2026 mid-term elections – the multiple ways open trade and investment between Canada and the United States benefit US industry, contrary to the White House narrative.

CUSMA Review, Timing, and Trade-Offs

With the CUSMA/USMCA review still slated for July 1, 2026, Canada should not rush to make specific trade concessions ahead of time. It does, however, need to soon propose an overarching framework for a new partnership between Canada and the United States – one that interlocks trade (anchored in a future-updated CUSMA/USMCA), security (including border and economic security), and defence. The US narrative presents all three as being interrelated, which means it is very unlikely Canada will achieve trade peace without offering a compelling vision about the other two pieces.

That said, a serious Canadian proposal on defence and security needs to be met by a positive response by the United States regarding the removal of the 25 percent tariff imposed on Canadian products on the grounds of emergencies at the border or on grounds of national security (such as on autos, steel, and aluminum), before Canada can consider trade concessions in response to US complaints. Otherwise, Canada would give up something in exchange for nothing.

The recent UK-US trade deal provides a cautionary tale in this respect, although it also offers useful ideas for facilitating more open trade in steel, aluminum, and agriculture.

Canada certainly has to look hard at trade and investment irritants identified by, or complaints made, by the United States. It could do worse than classifying these as serious, such as concerns about access to the market for supply-managed products or about the digital services tax, and not serious, such as calling the GST a discriminatory barrier to trade. Canada should only be ready to seriously discuss irritants for which the United States has an objective case.

Avoiding “Fortress USA”

The group noted that many US national security concerns centre on Chinese investment, influence, and unfair trade practices. There will be a continued balancing act for Canada between maintaining market access to any “Fortress North America” – remaining inside the tent – and facing the consequences of retaliatory Chinese actions against Canadian products, notably agricultural products.

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There is a strong view that Canada should strive to be “inside the tent.” For example, given that China has outpaced North America in electric vehicle technology and supply chains, Canada’s future in auto manufacturing depends crucially on maintaining preferential access to the US market.

That said, members also felt that Canada could leverage this tension to advance its own security and economic interests, firmly linking such discussions to the lifting of tariffs the United States has imposed on Canada on the grounds of national emergencies or security.

One way to push the United States in the right direction of accepting freer flows within North America and away from a narrower “Fortress USA” concept would be to seek a revival of standards harmonization or mutual recognition efforts, begun a decade or so ago but since abandoned. The group considered that this approach could greatly facilitate trade within North America to the benefit of the US and other North American businesses, especially in the autos and agricultural sectors, while helping square the circle with respect to China (high standards but potentially lower tariffs).

Urgent Need to Start Dispelling Uncertainty

Despite walking through these relatively hopeful scenarios, members of the group noted a growing sense of trade fatigue and strategic confusion in some sectors, which is affecting the United States and other trading partners as well as Canada. It is unclear that Canada and Mexico can maintain a unique tariff-free status under a revamped CUSMA, let alone what will emerge from likely tighter rules of origin required for products to benefit from such status, which could end up making North American production less competitive in any event.

Business leaders are now emphasizing that uncertainty is becoming more damaging to long-term economic prospects than tariffs themselves, as lack of clarity stalls investment and planning in Canada, Mexico, and the US, risking an even worse economic outcome than that generated by new tariffs alone. Canada needs to propose a strong framework for an agreement which can discourage the United States from weaponizing this uncertainty against its partners – and ultimately against itself.

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Members of the C.D. Howe Institute Trade Crisis Working Group

Members participate in their personal capacities, and the views collectively expressed do not represent those of any individual, institution, or client.

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