

Intelligence MEMOS



From: Daniel Schwanen
To: Tariff watchers
Date: January 24, 2025
Re: **MR. TRUMP'S RUINOUS TRADE WAR (PART III)**

Donald Trump's second presidency began this week with a flurry of orders, memoranda and quotable moments. From these we can sense, more precisely than we could prior to his inauguration, how the US plans to shape economic relations with the world, and with Canada specifically.

Actual tariffs did not come on Day One, as had been feared. Instead, the release by the White House that day of an [America First Trade Policy](#) memorandum suggests the President will wait for a number of reports from various officials, agencies and cross-department groups before giving effect to his often-repeated (but shape-shifting) tariff threats.

As is explained in this [excellent plain-language review](#) of the memorandum, this path involves the opportunity for consultations and comments on the extent and ways that the US could address its large trade deficit, unfair trade practices by other countries, and various international security risks, using existing trade policy tools. These tools, reviewed in a recent [Intelligence Memo](#), are essentially delegated to the President by Congress.

Monday's memorandum specifically mentions illegal migration and fentanyl flows from Canada, Mexico and other countries as constituting such security risks.

It directs officials to conduct an examination into the source of the large US trade deficit in goods and its implications for US economic and national security, notably due to its potential role in weakening the US industrial base. This could lay the groundwork for an emergency 10-percent global tariff that could catch Canada in its net, despite the healthy manufacturing trade surplus the United States enjoys with us.

As well, the memorandum directs the United States Trade Representative not only to launch public consultations in preparation for the July 2026 review of the CUSMA/USMCA agreement by all three parties, but also to launch a review across key departments and agencies on the agreement's impact, with a view to assessing continued US participation in it.

Reports on all of these issues are to be delivered to the President on April 1.

They will give Mr. Trump the leeway to tailor trade actions to minimize any impact of the tariffs on the US economy, which is important to enlist the support of business, and of Congress. However, there should be no mistake that the idea is to strengthen the intellectual, factual and political base for tariffs, in addition to the existing and quite transparent [laundry list](#) of issues that USTR has already compiled under Section 301 of the *Trade Act of 1974*.

What does this imply for Canada's response? As I noted in previous memos, [here](#), and [here](#), that response cannot be based on retaliation alone. It is too easy for Canada to shoot itself in the foot while engaging in this game. That would mean higher costs for consumers and more expensive inputs for businesses, or even loss of Canadian trusted supplier status for key commodities, potentially compounding the costs and uncertainty of threatened US tariffs.

Let's not forget that there will be clamouring from the US side too, in effect, support the Canadian position. US inputs into Canadian production would naturally be hit on par with Canadian exports to the US. And even by tariff advocate's own admission, US consumers will feel the negative impact of the higher cost of imports. This is a political capital in the United States that Canada should continue to build on, not squander through blanket retaliation.

Other actions should be envisaged that can strengthen Canada's hand, both in the short and medium-term. Here are five examples:

- 1) Re-start and quickly conduct negotiations with the United Kingdom, which ran aground on the question of access for UK cheese to the Canadian market. Greater UK dairy access to the Canadian market could be dangled in front of the United States as one potential prize, in exchange only for permanent tariff peace (and in the meantime would also benefit Canadian consumers potentially squeezed by retaliatory measures).
- 2) Restrict access to Canadian public purchases to goods from companies maintaining a substantial presence in Canada or made in countries that broadly maintain tariff-free trade with Canada. As with consumer products, this might be implemented after first examining whether there are alternate suppliers of these goods.
- 3) A similar approach could be taken to allowing foreign direct investment sectors where it is currently restricted, such as telecommunications, only to countries maintaining a broad tariff-free regime with Canada.
- 4) Push to diversify markets for Canadian energy. It is now widely appreciated that obstacles Canada has put in the way of major energy and mineral projects have made us over-dependent on the US market. While waiting for a potentially revamped large projects approval process ([as suggested here](#)), re-examine project ideas such as the Energy East pipeline, just as the building of the Trans-Canada Highway beginning in 1950 allowed Canadians to ferry goods across the country without having to go through the United States.
- 5) Strengthen the legal basis for Canada to act on an emergency basis for its own economic security, even in contravention of existing trade arrangements, as some of the above measures might be, as proposed [here](#).

All these would provide Canada with added leverage in the coming fight.

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