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Before the Window Closes: Canada Needs a Framework for CUSMA Renewal Soon

Eighth Meeting of the C.D. Howe Institute Trade Crisis Working Group

The C.D. Howe Institute Trade Crisis Working Group held its eighth meeting on August 6, 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. Noting the apparent lack of results so far in Canada-US negotiations toward a new framework for trade and security, the group discussed the deepening economic implications for Canada of the uncertainty around the future trade relationship with the United States and took stock of recent US actions, including “deals” reached by the White House with other countries.

Reviewing evidence from a representative range of Canadian goods-producing industries, the group noted that uncertainty around tariffs is causing growing economic damage in both Canada and the United States – and threatens significant permanent damage to Canadian investments and jobs, or the need for massive restructuring in key sectors if prolonged.

Given the unique situations of Canada and Mexico within North American supply chains, only limited insights can be gained from “deals” concluded between the Administration and other countries' governments, and from ongoing negotiations with others. But there are some, both hopeful and ominous ones, that could help guide Canadian negotiators.

Key issues, conclusions, and recommendations emanating from the group's discussions on these themes are detailed below. In summary:

- While the Canada-United States-Mexico Agreement (CUSMA/USMCA) currently shields around 90 percent of Canadian exports from US tariffs, more goods or higher tariffs are being added by the White House to the list of those that are not, on grounds of national security (section 232 tariffs), undermining the economic benefits of CUSMA for its three parties.



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- Uncertainty also hangs around the terms under which the United States might be willing to extend CUSMA past its current expiry date of June 2036, or even whether all three parties can agree to an extension or changes to the agreement at a review slated to take place by July 2026.
- In addition to the direct negative impact of tariffs on trade, the uncertainty about the Canada-US relationship is making companies in key sectors postpone or reconsider potential investments and production in Canada, and these impacts are worsening.
- While it is important to pursue trade diversification options, these are of little medium-term help to the prospects for farm production predicated on proximity to the US market, and to manufacturing industries structured around plant specialization within North America. Such specialization also makes it difficult to replace imports with domestic production without significant restructuring.
- Canada therefore needs to keep its eyes on the goal of securing, as soon as possible, a trade and security framework with the United States which will pave the way for a satisfactory renewal and extension of CUSMA, including its tariff-free regime extending to as many sectors as possible, by encouraging an early review of the agreement.
- Because of its higher degree of economic integration with the United States, and in particular the leverage it has due to its products supporting the US' own competitiveness, Canada should not settle for the 10-15 percent tariffs that peer countries such as the UK, Japan, or the EU have agreed their products should be charged in the US market – even with some reduced tariffs obtained by these countries from existing (e.g. autos for Japan and the EU) and prospective (pharmaceuticals for the EU) s. 232 tariffs.
- Nor should Canada accept a deal that would enshrine the continuation of the arbitrary 35 percent tariffs on its non-CUSMA compliant exports under the *International Emergency Economic Powers Act (IEEPA)*, tariffs which in any event are currently being challenged in US court. In that sense, Canada is right to wait for the right deal, centred on a revamped CUSMA.
- Some members of the group noted that Canada has already aligned on many US priorities but received no tangible consideration in return, which raises questions about an approach based on further accommodation.

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- Nevertheless, it remains urgent for Canada to reach a mutually beneficial trade and security framework agreement with the United States. Members felt that there is a deal to be made with an Administration apparently eager to conclude some and whose decisions can sometimes seek to minimize in their technical details the costs of tariffs on its own industry and consumers. To that effect, Canada should examine the potential for duty-free quotas into the US market, as obtained by the UK for some sectors subject to s. 232 tariffs.
- Noting the tenor of the eight trade “deals” achieved by the Administration so far, and lessons from negotiations between the US and other countries that haven’t yet borne fruit, the group favours a temporary suspension of Canadian retaliatory tariffs, and supports Canada offering to make additional pledges around restricting transshipments from third countries through Canada into the US, critical minerals developments, and even providing guarantees of Canadian direct investments in the United States or purchases of US government securities – in addition to those commitments Canada already made around defence spending and border security – as part of the mix that could facilitate a framework agreement that would underpin the renewal and extension of CUSMA favourable to all three countries.

The details of the discussion follow:

Keeping our Eyes on the Goal

CUSMA currently shields much of Canadian trade from tariffs – with the effective tariff rate on all imports from Canada about 10 percent, according to one member. This is despite extraordinarily high tariffs on steel and aluminum crippling Canada-US trade in those sectors, and the general tariff rate of 35 percent imposed on August 1st on goods from Canada not certified as meeting CUSMA rules of origin on August 1 – up from 25 percent that had been imposed early in the Trump presidency.

The long-term implications of Mr. Trump’s trade agenda mean that leaders in all industries are reassessing the location of their investments. But a renewed CUSMA would avoid the costly short- and medium-term dislocation of sectors whose supply chains are highly integrated across North America, like autos and parts, or that exhibit a high degree of specialization across borders, like steel, or which cannot quickly kick-start production after a disruption, like farming.

Thus, Canada needs to keep the United States engaged and focused on an ideally accelerated review and extension of CUSMA, preserving largely duty-free trade between Canada, the United States and Mexico, as soon as possible, ahead of the currently slated July 2026 date for this review set out in the Agreement.

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The United States has made it clear that the trade rules it will accept (or impose) are subordinate to the Trump Administration's views on security, geopolitical, macroeconomic balances, and industrial policy. A favourable outcome on the CUSMA review, therefore, depends on the conclusion of a broad framework agreement between Canada and the United States addressing these concerns.

The group reiterates its support for the strategy outlined in its May 23, 2025, Communiqué toward reaching such an accord, with the following additional or amended observations.

Canada's Leverage

Most members of the group believed that there remained compelling economic reasons for the White House to maintain more open trade flows within North America than with the rest of the world, and in general, avoid the dislocation of key supply chains involving allies, to help maintain North American competitiveness.

In that vein, the group noted the significance of the Canadian market for US industries such as autos and trucks – the United States sells barely any of the latter outside North America.

The group also noted that the authority of the US President to impose tariffs under the *IEEPA* – which underpins current baseline tariffs against Canada, Mexico (due to a declared border emergency), and other countries (due to the declared emergency of the US trade deficit) – is being challenged in US courts.

As well, businesses and voters can be expected to push back against the higher costs and lower availability of goods caused by tariffs.

The implication of these observations is that there is an objective rationale for the United States to come to an agreement with Canada and Mexico that preserves and enhances our joint competitiveness, and which does not rest on the President declaring a continued state of emergency.

However, the group also noted with alarm the rapid expansion of universal, product-specific s. 232 tariffs, imposed by the United States for national security reasons – notably on steel and aluminum (raised to 50 percent on June 4) and on autos, some copper products, and now microchips – with threats to extend them to aircraft and parts, and pharmaceuticals. These rest on well-established presidential authority.

Even then, members noted that some in the Administration recognize the costs to the US economy from supply chain dislocation caused by indiscriminate s. 232 tariffs: for example, US copper tariffs were strategically targeted to hit far down the value chain (e.g., wiring), which preserved much of Canada-US upstream integration in mining, smelting, and refining.

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On balance, the group therefore believes that Canada does have leverage and that reason may, if not prevailing outright, then play a strong part in a mutually agreeable arrangement. But some members queried how much the pro-tariff political side in the US would let this type of mutually beneficial forbearance – ultimately embodied in the continuation of CUSMA and circumscribing the use of s. 232 tariffs with respect to Canada prevail, no matter the domestic opposition and no matter how beneficial North American trade can be for the United States' own competitiveness.

With that backdrop, the group examined whether there could be useful pointers for Canada from recent “deals” made by the White House with other countries – or from the “no-deal” situations that other countries find themselves in.

Lessons and Pathways for Canada

The group noted that the lessons Canada and Mexico can draw from the eight trade “deals” reached so far by the White House with other countries, and from the other important “no-deals” situations, like that of Canada itself, are limited, given the large differences between the degree of mutually beneficial economic integration within North America, and that between the United States and other countries.

Over the long-term, the imposition on, or acceptance by, Canada and Mexico of any significant permanent tariff – such as the 10 percent “baseline” which the United States is forcing under IEEPA even on partners with which it has a trade surplus, like the United Kingdom or Australia, would lead to the kind of mutually harmful dislocation previewed above and be very problematic for the competitiveness of North America's economy.

Still, some useful qualitative lessons about what has transpired with other countries can help illuminate the path forward.

The first lesson is that countries that “play ball” geopolitically and politically can get more relief than others – at least relative to what the White House threatened. In contrast, retaliation or threat of retaliation against US tariffs is punished by harsher tariffs, as is cooperating with countries that the United States perceives as threatening or hostile.

A second lesson is that the United States knows that to get countries to agree to a “deal,” it needs to offer something in return – again, relative to what was threatened – and is willing to do so, even in relation to the s. 232 national security tariffs. A case in point is the tariff-free quotas that the United Kingdom obtained for its autos and steel. There are no other cases so far under which the United States completely forgoes these tariffs for any quantity of trade – but it has lowered them (e.g. cars from Japan, from the EU).

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A third lesson is that the Administration almost invariably expects some non-tariff commitments to be able to sell these in the United States as a big “win,” especially when the trade partners retain some tariffs or other trade restrictions against some US products. Depending on the country, these may involve removing non-tariff barriers against US products (e.g., regarding conformity with national standards), developing rare earths and other critical minerals, and make them available for sale to the United States, or commitments to purchase from the United States (notably LNG and defence equipment) or invest or provide loan guarantees for private investments in that economy.

The group noted that many of these commitments are unenforceable on companies that would make these purchases or investments, by governments making them. Given their longer time horizons, some even called these commitments “phantom” or, at best, symbolic. Nevertheless, Canada should be open to playing such cards to make a deal that would restore substantially open trade.

A fourth lesson, however, is that rushed agreements can give rise not only to delays in implementation but also to significant discrepancies in the stories about what was agreed to, leading to political frictions that undermine the deal on substance. These agreements are made with the US Executive and are not enshrined into US law by Congress (unlike CUSMA, for example, which was approved massively by the United States Congress), undermining their credibility as a guide to business decisions if they are not at least carefully fleshed out.

Implications for Canada

Trade uncertainty creates a dilemma: if tariffs are temporary, restructuring is risky and potentially irreversible; if permanent, restructuring is necessary but costly and slow, and in some cases, even low tariffs will still incentivize shifts in production out of Canada over a three-year period. Even simple decisions (e.g., how much seed to buy) are affected in an unstable policy environment. Industry lacks the time and liquidity to wait much longer for clarity – uncertainty delays investment while revenue dries up.

In that context, there was widespread agreement that current government support is essential but may only delay shutdowns in some industries unless there’s a clear, viable path forward.

Despite the heightened urgency, the group felt that Canada still had the leverage to hold out for a deal that would make economic sense for it – and for the United States – over the long term, rather than rush into a bad or unstable deal that would not help preserve mostly tariff-free trade under a revamped CUSMA.

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The group discussed the merits of making further concessions to get to a deal in this environment. Canada has already aligned on many US priorities (e.g. 100 percent tariff on Chinese electric vehicles, credible pledge for much higher defence spending, major investments in border security, dropping the planned digital services tax), but received no tangible consideration in return, which raises questions about the accommodation approach.

That said, members expressed skepticism about retaliatory tariffs (“a losing strategy” according to some), and relief that a second tranche of Canadian tariff retaliation on \$150 billion of US imports was never implemented, as that would have put significant pressure on input costs.

On balance, the group favours a temporary suspension of Canadian retaliatory tariffs, and Canada offering to make strategic pledges around restricting transshipments from third countries, critical minerals developments, or even providing guarantees of Canadian direct investments in the United States or purchases of US government securities – in addition to those already made around defence spending and border security – as part of the mix that could facilitate a framework agreement that would underpin the renewal and extension of CUSMA favourable to all three countries.

Finally, given the large impact of uncertainty, it remains vital for Canada’s economic security to strengthen and de-risk its domestic economy, notably through trade diversification and accelerated approval of major projects that would enable it, as highlighted in previous Communiqués from the group.

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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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