EDMONTON CHAMBER OF COMMERCE

#600 World Trade Centre - 9990 Jasper Avenue
Edmonton, Alberta, Canada, T5J 1P7
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Treaty 6/Métis Territory

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U.S. Tariff Escalation and Implications for Canada's Economy

Policy Brief

Issue

The U.S. tariff measures introduced by President Trump have created a volatile and uncertain trade environment for Canadian businesses. While 38% of Canadian exports to the U.S. are exempt under USMCA, it is unclear if the other 62% will face higher tariffs—25% on most goods, 10% on energy and potash, and targeted tariffs on autos, steel, and aluminum.

A 10% tariff could cause a permanent 4% drop in Canada's GDP, wiping out two years of growth. Although Canada and Mexico avoided the latest 10% tariffs aimed at other countries, the impact remains severe—especially in Alberta, which sends 80% of its $156 billion in exports to the U.S., and in Edmonton's energy and manufacturing sectors. The threat of further tariffs on pharmaceuticals, lumber, and semiconductors adds to the uncertainty facing Canadian exporters.

Background

- On January 20, 2025, U.S. President Donald Trump announced his intention to impose tariffs on Canadian and Mexican goods, citing national security and economic sovereignty concerns.
- On February 4, 2025, the original tariff implementation date was delayed by 30 days to allow for bilateral discussions and lobbying by Canadian officials.
- On February 11, 2025, President Trump announced a 25% tariff on steel and aluminum imports from several countries, including Canada, with an effective date of March 12.
- On February 12, 2025, Canadian premiers, including Alberta's Danielle Smith, travelled to Washington, D.C. to advocate for Canada's trade interests with U.S. officials.
- On February 24, 2025, Trump confirmed that all Canadian goods—excluding select energy and mineral products—would face a 25% blanket tariff beginning March 4, stating that there was "nothing Canada could do to stop it."
- On March 4, 2025, the U.S. implemented 25% tariffs on most Canadian exports and 10% tariffs on energy and potash; in response, Canada imposed $30B in retaliatory tariffs on U.S. goods, while provinces like Alberta and Ontario enacted boycotts on American liquor and other goods.
- On March 5, 2025, President Trump announced a pause on tariffs for USMCA-compliant goods, delaying their application until April 2; these goods currently account for 38% of Canadian exports to the U.S.
- On March 6, 2025, Canada mirrored the U.S. move by delaying its second tranche of retaliatory tariffs (valued at $125B) until April 2.
- On March 7, 2025, the Canadian federal government announced a $6B business support package, including $5B through Export Development Canada, $1B through Farm Credit Canada, and temporary enhancements to Employment Insurance and work-sharing programs.
- On March 10, 2025, Ontario imposed a 25% surcharge on electricity exports to U.S. states, generating an estimated $400,000 CAD in daily costs for American utilities.
- On March 11, 2025, Ontario suspended the electricity surcharge after securing a commitment from the U.S. Secretary of Commerce to hold discussions about revisiting USMCA terms.

- On March 12, 2025, the U.S. steel and aluminum tariffs came into effect, applying 25% duties on both raw and finished Canadian metal products.
- On March 26, 2025, Trump signed an executive order imposing a 25% tariff on all imported automobiles and auto parts, affecting Canadian exports unless the vehicles are fully USMCA-compliant.
- On April 2, 2025, Trump confirmed that Canada and Mexico would be exempt from the new 10% baseline tariff placed on all other U.S. trading partners under his IEEPA-based national emergency order.
- On April 3, 2025, Canadian Prime Minister Mark Carney vowed retaliation "with purpose and with force," with further details to be revealed during a scheduled press conference.
- On April 9, 2025, new country-specific tariffs will take effect for other trading partners, including 25% for the EU, 34% for China, and 50% for Lesotho, while Canada and Mexico remain exempt under USMCA compliance.
- In July 2026, the United States-Mexico-Canada Agreement (USMCA) is scheduled for formal review, with current tensions expected to influence renegotiation dynamics and long-term bilateral trade strategy.

Analysis

<u>Broad Impact of Tariffs</u>

- Short-term: Edmonton's manufacturing, energy, and export-driven sectors are expected to face increased operational costs, delayed shipments, and reduced demand. These pressures are likely to reduce profitability and force layoffs.
- Long-term: Tariffs erode North American economic integration, discourage cross-border investments, and increase inflationary pressures across the supply chain.
- Energy Sector: The U.S. imports 4.3 million barrels of oil per day from Alberta. A 25% tariff on non-USMCA-compliant exports threatens this flow, risking jobs in Edmonton's energy sector that are directly or indirectly related to the oil and gas sector.
- Manufacturing: Auto and parts manufacturing, metals, and machinery industries—all heavily tied to U.S. markets—will be among the hardest hit.
- Trade Diversification Challenge: While the push to explore non-U.S. markets is a long-term benefit, it will take years to fully materialize

<u>April 2, 2025, Announcement</u>

- Canada and Mexico were spared from the latest round of U.S. 10% baseline tariffs due to compliance with the USMCA free trade agreement.
- Existing U.S. tariffs on Canadian goods remain in effect, including 25% on automobiles, steel, and aluminum, and 10% on select energy and potash exports.
- A new 25% U.S. tariff on foreign-made automobiles came into effect at midnight, affecting Canadian auto exports not deemed fully USMCA-compliant.
- President Trump signaled the likelihood of retaliatory tariffs on Canadian dairy and agricultural products, citing Canada's current tariff structure as deceptive and excessively punitive under the new reciprocal trade framework.
- Canada has been grouped alongside countries targeted for broad economic retaliation, with future tariffs possibly imposed on key exports, including dairy, automotive goods, and even other agri-food sectors.
- No further exemptions for Canada are expected, as President Trump's remarks indicate a strategic shift toward imposing sweeping tariffs in response to perceived trade imbalances and alleged overreliance on "U.S. subsidies".

Stakeholders

- The **Canadian Chamber of Commerce** warned that escalating global tariffs will have serious economic consequences worldwide and urged that Canada's temporary exemption be used to pursue lasting, negotiated solutions focused on North American economic resilience.
- **Prime Minister Mark Carney** pledged a forceful response to U.S. tariffs, calling the situation a "crisis" and warning of potential additional duties on Canadian pharmaceuticals, lumber, and semiconductors.
- **Conservative Leader Pierre Poilievre** called the auto tariffs an "unfair attack" on Canada's economy and pledged to renegotiate them if elected.
- **British Columbia** is proceeding with legislation aimed at breaking down interprovincial trade barriers and allowing fees on U.S. truck traffic.
- **New Brunswick** has maintained its boycott of U.S. goods and continued its financial support for affected local industries, citing ongoing economic stress.
- **Ontario Premier Doug Ford** expressed hope that the auto tariffs are not final and may be reduced based on talks with auto executives and U.S. trade officials.
- **Bloc Québécois Leader Yves-François Blanchet** commented that the situation appears to have stabilized for now, enabling the continuation of the federal election campaign without additional interference.
- **Alberta Premier Danielle Smith** called the tariff outcome a win for Canada, noting most goods remain exempt. She urged continued efforts to remove remaining U.S. tariffs and emphasized diplomacy and economic independence.

Recommendations

The Edmonton Chamber of Commerce calls on all orders of government to:

- **Eliminate Interprovincial Trade Barriers**: All governments should commit to urgently dismantling the remaining interprovincial trade barriers that restrict the free flow of goods, services, and labour within Canada. Accelerating progress on internal trade liberalization will strengthen domestic resilience and unlock up to a 4% increase in national GDP, helping offset the economic risks posed by U.S. tariffs.
- **Invest in Critical Trade Infrastructure**. Federal and provincial governments must prioritize investments in trade-enabling infrastructure—such as ports, pipelines, rail, and digital logistics—that will enhance Canadian exporters' access to global markets beyond the United States. This is essential for reducing reliance on a single trading partner and building long-term competitiveness.
- **Maintain Diplomatic Channels with the U.S**. Governments should maintain high-level, ongoing diplomatic engagement with U.S. officials to preserve the integrity of the USMCA and mitigate the risk of future tariff escalations. Coordinated diplomacy is key to protecting Canadian industries from further economic disruption and ensuring Canada's voice is heard in upcoming USMCA renegotiations.