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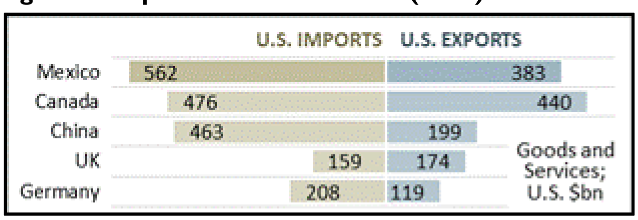
U.S.-Canada Trade Relations

The United States and Canada have had one of the largest bilateral trade relationships in the world, including highly integrated energy and automotive markets. U.S.-Canada trade has been governed first by the 1989 U.S.-Canada Free Trade Agreement, then by the 1994 North American Free Trade Agreement (NAFTA), and now by the 2020 United States-Mexico-Canada Agreement (USMCA). During his second term, President Trump has expressed dissatisfaction with the U.S.-Canada trade relationship and has imposed tariffs on Canadian goods imports. Congress may consider whether to exercise its legislative prerogatives related to the U.S.-Canada economic relationship, such as evaluating the potential benefits and costs of tariffs as well as U.S. economic integration with Canada, and engaging with the USMCA joint review process.

U.S.-Canada Trade Overview

According to U.S. Census Bureau data, Canada was the third-largest source of U.S. goods imports in 2024 ($413 billion) and the top destination for U.S. goods exports ($349 billion). When taking into account both goods and services trade, Canada was the second-largest U.S. trade partner in 2024 (see **Figure 1**).

Figure 1. Top U.S. Trade Partners (2024)



Source: CRS, with U.S. Bureau of Economic Analysis data, March 2025.

According to Statistics Canada data for 2024, Canada exported 76% of its goods to, and imported half of its goods from, the United States. As of 2023 (the latest data available from the U.S. Bureau of Economic Analysis and Statistics Canada), the United States was the largest source of foreign direct investment (FDI) by stock in Canada (C$618.2 billion/about $455 billion), and Canada was the third-largest source of U.S. FDI ($671.7 billion). Canada has been the largest supplier of U.S. energy imports—including crude oil, natural gas, and electricity. Canada's share of U.S. crude oil imports by quantity increased from 38% (1.02 billion barrels) in 2014 to 63% (1.48 billion barrels) in 2024 (see **Figure 2**).

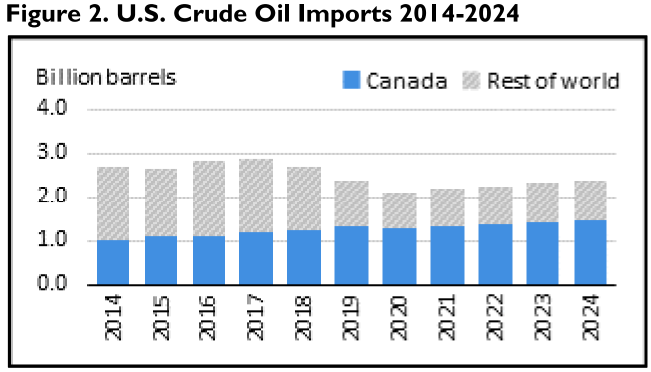
U.S. Tariffs on Canadian Imports

In 2025, the United States has imposed tariffs on Canadian goods under the International Emergency Economic Powers Act (IEEPA, 50 U.S.C. §§1701 et seq.) and Section 232 of the Trade Expansion Act of 1962 (19 U.S.C. §1862, as amended). Canadian imports under USMCA are largely exempt from such tariffs. According to 2024 U.S. Census Bureau data, about 38% of U.S. imports from Canada by value entered the United States under USMCA. Some analysts note that this could be because the United States imposed no or low tariffs on certain goods, regardless of whether they were imported under a free trade agreement. In such cases, importers may have chosen not to certify whether a Canadian import met USMCA rules.

In February 2025, President Trump announced he would impose 25% tariffs on Canadian imports (10% on energy imports) under IEEPA. The tariffs went into effect on March 4. As of March 7, the tariffs are suspended for Canadian goods entering the United States under USMCA. Imports from Canada are currently exempt from U.S. global tariffs imposed on most goods and partners from April 5. If the abovementioned IEEPA tariffs on Canada are removed, Canadian imports under USMCA, energy imports, and potash are to remain exempt from global tariffs, while other Canadian imports are to face a 12% tariff.

On March 12, President Trump eliminated all country exemptions from 25% steel and aluminum tariffs under Section 232, including for Canada. On April 3, the Trump Administration imposed 25% tariffs on vehicle imports under Section 232. For vehicles traded under USMCA, tariffs do not apply to U.S. content. On April 29, the Trump Administration announced measures to prevent the cumulation of tariffs on certain products, including autos and Canadian steel and aluminum. The Trump Administration is also considering other potential tariff actions that could impact Canada (discussed below).

Figure 2. U.S. Crude Oil Imports 2014-2024



Source: CRS, with U.S. Census Bureau data, as presented by Trade Data Monitor, accessed February 2025.

Canadian Retaliation. Canada responded to the abovementioned U.S. IEEPA tariffs with 25% tariffs on C$30 billion (approximately $22 billion) worth of U.S. imports. Canada is considering whether to impose tariffs on an additional C$125 billion (approximately $92 billion) worth of U.S. imports. Canadian Prime Minister Mark Carney has stated that the retaliatory tariffs will remain in place until the United States shows "respect" and makes "credible, reliable commitments to free and fair trade." The Canadian federal government is also conferring with provincial and territorial governments on potential nontariff measures (e.g., related to critical minerals and energy). Provinces and territories have announced retaliation measures related to the sale of U.S. alcohol and government procurement.

In response to the U.S. steel and aluminum tariffs, on March 13, Canada imposed retaliatory tariffs of 25% on C$29.8 billion (about $22 billion) worth of U.S. imports. In response to U.S. auto tariffs, on April 9, Canada imposed tariffs on non-USMCA-compliant vehicles from the United States, and the non-Canadian, non-Mexican content of vehicles traded under USMCA. Canada has challenged the Section 232 and IEEPA tariffs at the World Trade Organization (WTO).

Congress may instruct the Trump Administration and/or the U.S. International Trade Commission (USITC) to assess the economic impacts of U.S. tariffs and Canadian retaliatory measures. Congress may also consider whether to conduct oversight over U.S.-Canada trade relations, including the scheduled 2026 USMCA joint review.

Other Selected Trade Issues

Digital Services Tax Act. In June 2024, the Canadian government enacted a 3% digital services tax (DST) on certain revenue of large digital services providers. The DST is retroactive to January 1, 2022. In its 2025 report on foreign trade barriers, the Office of the U.S. Trade Representative (USTR) expressed concerns that Canada's DST "creates significant retroactive tax liabilities with immediate consequences" for U.S. companies.

On February 21, 2025, President Trump directed USTR to determine whether to pursue a USMCA dispute panel related to Canada's DST or pursue an investigation under Title III of the Trade Act of 1974 (19 U.S.C. §§2411-2420), commonly referred to as "Section 301." Some Members of Congress have expressed support for a Section 301 investigation into Canada's DST.

Online Streaming Act. The Canadian Radio-Television and Telecommunications Commission (CRTC) requires television and radio companies operating in Canada to fund and broadcast a certain percentage of Canadian content. Canada's April 2023 Online Streaming Act enables CRTC to regulate entities that broadcast through social media (e.g., Facebook) or online streaming services (e.g., Netflix, YouTube). The CRTC aims to implement a new regulatory framework for Canadian content requirements in late 2025. In June 2024, the CRTC released draft regulations and announced that it will require online streaming services with annual revenues of C$25 million ($18 million) or more to contribute towards or directly fund Canadian content. The first substantive payment is due on August 31, 2025.

Some Members of Congress have criticized the measure as discriminatory towards U.S. firms. Some Canadian observers counter that funding requirements apply to companies in Canada regardless of nationality. Congress may examine the act's potential impacts on U.S. companies and whether it raises concerns under USMCA. USMCA permits Canada to adopt or maintain measures related to a "cultural industry" that would be otherwise inconsistent under the agreement. The other Parties are allowed to take "a measure of equivalent commercial effect" in response.

Automotive and Critical Minerals. USMCA tightened content requirements for duty-free automotive trade ("rules of origin") in North America. Mexico and Canada challenged the U.S. interpretation of the rules of origin—the United States argued for a stricter approach to calculating North American content, while Mexico and Canada advanced a more flexible interpretation of the content requirements. In December 2022, a USMCA panel decided in favor of Mexico and Canada but did not determine how the issue was to be resolved. The parties have not reached a resolution.

P.L. 117-169, known as the Inflation Reduction Act (IRA), contains an electric vehicle (EV) tax credit with North American content requirements for EV and battery manufacturing. Canada has been a top U.S. source of key critical mineral inputs for EV batteries. Canadian firms are considered as domestic sources under Title III of the Defense Production Act (50 U.S.C. §§4501 et seq.) and have received U.S. federal funding for critical minerals projects in Canada. On April 15, President Trump directed the Commerce Department to launch a Section 232 investigation into imports of processed critical minerals.

Congress may consider whether to exercise oversight of the USMCA automotive rules of origin, the IRA EV tax credit, and U.S.-Canada cooperation on key supply chains.

Dairy and Supply Management. Canada supports its dairy, poultry, and egg sectors by limiting production, setting prices, and restricting imports ("supply management"). Under USMCA, Canada committed to provide greater access for U.S. dairy exports through 14 U.S.-specific tariff-rate quotas (TRQs), which allow specified quantities to be imported into Canada at preferential duty rates. USTR has challenged Canada's dairy TRQs twice under USMCA. In the first case, in December 2021, a USMCA panel ruled in favor of the United States. In the second case, in November 2023, a USMCA panel ruled in favor of Canada. U.S. officials and some Members of Congress expressed disappointment in the decision, which cannot be appealed. President Trump has suggested imposing tariffs on Canadian dairy exports. Some Members have urged USTR to continue to pursue improved U.S. access to Canada's dairy market.

Softwood Lumber. The United States and Canada have had a decades-long dispute over trade in softwood lumber—primarily used in residential construction. The last agreement governing U.S.-Canada softwood lumber trade expired in October 2015. Since the agreement's expiration, the United States has imposed antidumping (AD) and countervailing duties (CVD) on imports of Canadian softwood lumber. Canada has challenged the duties through NAFTA, USMCA, the WTO, and the U.S. Court of International Trade. On March 10, the Commerce Department initiated a Section 232 investigation into timber and lumber imports. Congress may consider whether to instruct the Trump Administration to pursue a new lumber agreement with Canada and/or commission a report on the benefits and costs of lumber duties for the U.S. economy.

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