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# U.S.-Canada Trade Relations

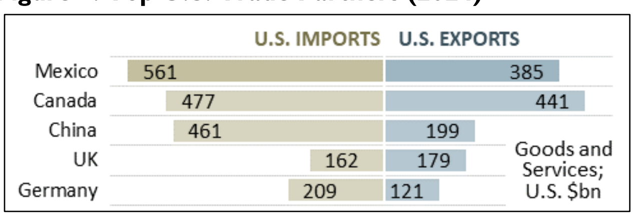
The United States and Canada have had one of the largest bilateral trade relationships in the world, including highly integrated energy and automotive markets. Since 1989, U.S.-Canada trade has been governed by the U.S.-Canada Free Trade Agreement, then by the 1994 North American Free Trade Agreement (NAFTA), and now by the 2020 United States-Mexico-Canada Agreement (USMCA).

The United States and Canada are engaged in bilateral trade talks related to U.S. tariffs on Canadian goods and Canadian retaliatory tariffs. The two countries, along with Mexico, also are scheduled to engage in a review of USMCA in July 2026. 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 data from the U.S. Bureau of Economic Analysis, June 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 $450.4 billion), and Canada was the third-largest source of U.S. FDI ($671.7 billion). Canada has become 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**).

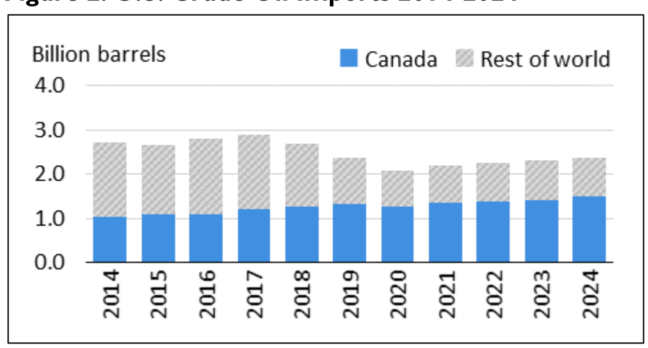
## U.S. Tariffs on Canadian Imports

In 2025, President Trump 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 certain goods had no or low tariffs, 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.

From March 2025, President Trump imposed 25% tariffs on most Canadian imports (10% on energy and potash imports) under IEEPA, citing an emergency related to illicit fentanyl and other drug trafficking at the border with Canada. Canadian goods entering the United States under USMCA are exempt from these tariffs. In July 2025, President Trump announced that the U.S. tariff rate on Canadian goods would increase to 35% on August 1. White House officials reportedly stated that the exemption for USMCA-compliant goods would continue.

In March 2025, President Trump eliminated all country exemptions, including for Canada, from Section 232 steel and aluminum tariffs. In June 2025, he increased the tariff rate to 50%. In April 2025, the Trump Administration imposed 25% tariffs on vehicle imports; tariffs do not apply to U.S. content of vehicles traded under USMCA. The Trump Administration also announced measures to prevent the cumulation of tariffs on certain products, including autos and Canadian steel and aluminum.

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




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

**Canadian Retaliation.** Canada responded to 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 $90 billion) worth of U.S. imports. The Canadian federal government is also conferring with provincial and territorial governments on potential non-tariff 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 U.S. steel and aluminum tariffs, the Canadian government imposed 25% retaliatory tariffs on C$29.8 billion (about $21.7 billion) worth of U.S. imports. In response to U.S. auto tariffs, 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). In April 2025, Canada announced exemptions from tariffs on U.S. imports for companies operating in Canada to alleviate impacts on the Canadian economy.

Congress has a constitutional role in U.S trade policy and may consider whether to bolster or curb presidential authorities related to U.S.-Canada trade talks, including the scheduled 2026 USMCA joint review. Members seeking greater oversight may also direct the Trump Administration and/or the U.S. International Trade Commission (USITC) to assess the economic impacts of current and potential U.S. tariffs and Canadian retaliatory measures.

## 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, retroactive to January 2022. Canada was to begin collecting the DST on June 30, but the Canadian government announced it would not collect the tax and would take steps to rescind the legislation after President Trump stated that he would terminate trade talks with Canada over the DST. U.S.-Canada trade talks subsequently resumed.

**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 toward 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 toward 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.

Canada has been a top U.S. source of key critical mineral inputs for EV batteries. Title III of the Defense Production Act (50 U.S.C. §§4501 et seq.) extends Canadian firms the same benefits as domestic ones, including receiving U.S. federal funding for critical minerals projects in Canada. On April 22, the Commerce Department initiated a Section 232 investigation into imports of processed critical minerals at the direction of President Trump. This and other automotive and critical minerals supply chain issues may be a key topic during the USMCA review. Congress may consider whether and how to oversee or influence the review, the implementation of USMCA automotive rules of origin, 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 criticized Canada's dairy market policies and 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. In June 2025, Canada enacted legislation preventing the government from increasing TRQs or reducing over-quota tariffs for dairy, poultry, or eggs in future negotiations.

**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. In March 2025, the Commerce Department initiated a Section 232 investigation into timber and lumber imports. Congress may consider whether to bolster or restrict the executive branch's power to impose and maintain tariffs on Canadian lumber. Those seeking greater oversight may consider instructing 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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