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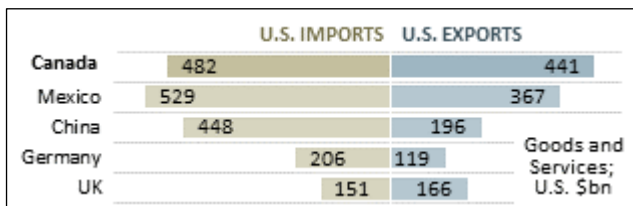
# U.S.-Canada Trade Relations

The United States and Canada have one of the largest bilateral commercial relationships in the world, including highly integrated energy and automotive markets. Over the past 35 years, U.S.-Canada trade relations have 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). Congress may consider the implications of current and potential areas of cooperation and trade disputes with Canada ahead of the scheduled 2026 review of USMCA.

## U.S.-Canada Trade Overview

Canada is the top U.S. partner for trade in goods and services (see **Figure 1**). In 2023, Canada exported 77% of its goods to, and imported almost half of its goods from, the United States. According to the U.S. Bureau of Economic Analysis and Statistics Canada, as of 2023, the United States is the largest source of foreign direct investment (FDI) by stock in Canada (C\$618.2 billion/about \$455 billion), and Canada is the third-largest source of FDI in the United States (\$671.7 billion).

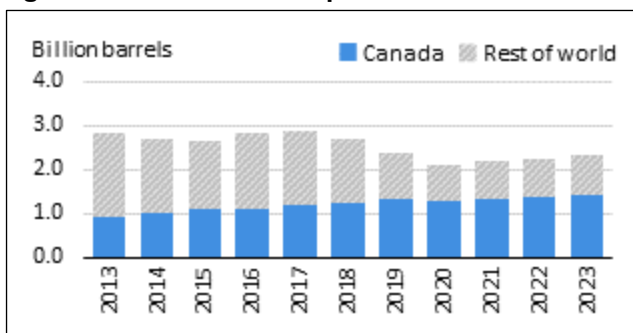
**Figure 1. Top U.S. Trade Partners (2023)**



Source: CRS, with U.S. Bureau of Economic Analysis data, December 2024.

Canada is 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 33% (924 million barrels) in 2013 to 60% (1.4 billion barrels) in 2023 (see **Figure 2**).

**Figure 2. U.S. Crude Oil Imports 2013-2023**



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

## Selected Trade Issues

Current and potential areas of discussion on trade between U.S. and Canadian officials include Canadian legislation regarding digital services providers, news outlets, and online content; automotive issues and potential cooperation on critical minerals; U.S. access to Canada’s dairy market; and Canada’s softwood lumber industry.

**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 related, for example, to online marketplaces, online advertising, social media platforms, and the sale or licensing of user data. The DST is retroactive to January 1, 2022. The United States is home to several of the world’s largest digital services providers. In its 2024 report on foreign trade barriers, the Office of the U.S. Trade Representative (USTR) expressed concerns that Canada’s DST would create “the possibility of significant retroactive tax liabilities” for U.S. companies.

In October 2021, members of the Organization for Economic Cooperation and Development (OECD)/G20 Inclusive Framework, including the United States and Canada, agreed on a plan to update the global tax system and develop an international digital tax framework. The agreement has not yet been implemented. Some Members of Congress argue the framework plan could disproportionately impact U.S. companies and assert the Biden Administration did not adequately consult with Congress on related negotiations. Other Members maintain the framework could provide more stability for U.S. firms than separate DSTs by individual countries. Congress may face proposals to implement an agreement.

In August 2024, the United States requested USMCA dispute settlement consultations with Canada regarding its DST. From 2019 to 2021, USTR previously investigated other countries’ DSTs under Title III of the Trade Act of 1974 (19 U.S.C. §§2411-2420), commonly referred to as “Section 301.” USTR found these DSTs to be discriminatory towards U.S. companies and announced plans for retaliatory action in the form of increased tariffs. Following the October 2021 OECD/G20 Inclusive Framework announcement, USTR reached agreements with partner countries, and terminated the tariffs and investigations. Some Members and U.S. industry groups have urged USTR to consider initiating a Section 301 investigation in response to Canada’s DST. USTR has stated that it would assess a Canadian DST against the “same standard” as the abovementioned DST investigations.

**Online News Act.** Canada’s Online News Act, which went into effect in December 2023, allows Canadian news outlets to collectively bargain with digital platforms (e.g., Google,

Meta) regarding payments for the use of news content. The act also establishes a mandatory arbitration framework in the event that news outlets and digital platforms cannot reach a payment agreement. The Canadian government contends that the act ensures fair sharing of revenue (e.g., from digital advertising) between news outlets and digital platforms. Some U.S. companies have received exemptions after negotiating agreements to pay Canadian news outlets, while others have stopped displaying news content through their platforms in Canada. During the 118<sup>th</sup> Congress, some Members introduced legislation (e.g., S. 1094) that would have provided collective bargaining rights similar to the Online News Act. Other Members maintain the Online News Act unfairly targets U.S. companies and violates USMCA.

**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. U.S. industry groups and some Members of Congress have criticized the measure as discriminatory towards foreign firms, while 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, which 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 decision cannot be appealed and the parties have not reached a resolution. The three countries may discuss the rules of origin debate during the USMCA joint review.

Some Members of Congress have expressed interest in strengthening collaboration with Canada on key supply chains, including those for electric vehicle (EV) batteries and critical minerals. P.L. 117-169, known as the Inflation Reduction Act (IRA), contains an EV tax credit with North American content requirements for EV and battery manufacturing. The law also requires a certain percentage of critical minerals in an EV battery to be sourced from the

United States or its free trade agreement partners, including Canada. Canada is a top provider to the United States 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. The United States also initiated the Minerals Security Partnership with Canada and other countries to facilitate public and private sector coordination on critical minerals investments.

Congress may continue to monitor the implementation and economic impacts of the USMCA automotive rules of origin, the IRA EV tax credit, and U.S.-Canada cooperation on supply chains in key strategic sectors.

**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. Some Members have urged USTR to continue to pursue improved U.S. access to Canada's dairy market. At the same time, some Members have called on USTR to pursue new U.S. dairy market access opportunities in other countries.

**Softwood Lumber.** The United States and Canada have had a decades-long dispute over trade in softwood lumber—primarily used in residential construction, remodeling, and repair. 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 filed challenges against the AD/CVD duties through NAFTA, USMCA, the World Trade Organization (WTO), and the U.S. Court of International Trade. Congress may consider whether a new softwood lumber agreement is necessary and how a potential agreement might impact U.S. producers. Congress may also consider the economic impacts of lumber duties on U.S. consumers.

## Issues for Congress

Congress may be interested in monitoring USMCA implementation—including the scheduled 2026 USMCA joint review—and Canada's compliance with USMCA commitments. Congress may also consider whether or not to engage directly with Canadian counterparts to discuss pathways for addressing bilateral disputes and deepening cooperation in key supply chains. Additionally, Congress may assess the implications and economic impacts of President-elect Trump's proposed 25% tariff on Canadian imports and potential Canadian retaliatory measures.

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