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U.S.-Canada Trade Relations

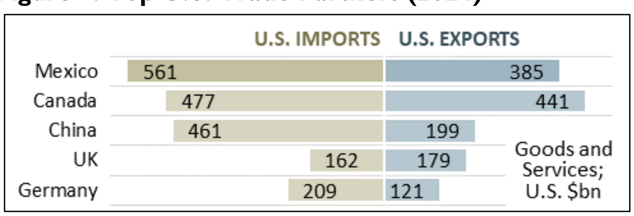
The United States and Canada have had one of the largest bilateral trade relationships in the world, including highly integrated energy and automotive markets. Since 1989, U.S.-Canada trade has been governed by the U.S.-Canada Free Trade Agreement, then by the 1994 North American Free Trade Agreement (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 ($412 billion) and the top destination for U.S. goods exports ($350 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. According to the U.S. Bureau of Economic Analysis and Statistics Canada, as of 2024, the United States was the largest source of foreign direct investment (FDI) by stock in Canada ($459.6 billion), and Canada was the second-largest source of U.S. FDI ($732.9 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.

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). Under USMCA, Canadian goods that are certified as having met product-specific rules can enter the United States largely duty-free; such goods are largely exempt from U.S. tariff actions (see **Table 1**). According to U.S. Census Bureau data, about 38% of U.S. imports from Canada by value entered the United States under USMCA in 2024. 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 good met USMCA rules. In June 2025, about 81% of U.S. imports from Canada by value entered duty-free, likely because they were certified as USMCA-compliant.

Table 1. 2025 U.S. Presidential Tariffs on Canada

Authority	Canadian Goods Affected (Tariff Rates)	Exemption for USMCA-compliant goods
IEEPA	Most goods (35%), potash and energy (10%)	Yes
Sec. 232	Steel, aluminum, and copper (50%)	No
Sec. 232	Vehicles and auto parts (25%)	Yes (partial for vehicles)

Source: CRS, compiled from U.S. government documents, as of September 2, 2025.

IEEPA. In March 2025, President Trump imposed 25% tariffs on most Canadian imports (10% on energy and potash imports) under IEEPA, citing a purported emergency at the border with Canada related to illicit fentanyl. In August 2025, President Trump increased tariffs on Canadian goods to 35%. U.S. imports of USMCA-qualifying goods from Canada remain exempt from IEEPA tariffs. Also under IEEPA, from August 29, President Trump has removed duty-free treatment for Canadian goods shipments valued at less than $800 (19 U.S.C. §1321(a)(2)(C), referred to as *de minimis*).

Sectoral Tariffs. 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 rate to 50%. In August 2025, President Trump imposed 50% tariffs on certain copper products. Canada is a key source of U.S. copper imports. USMCA-compliant steel, aluminum, copper, and related products are not exempt from Section 232 tariffs. In April 2025, President Trump imposed 25% tariffs on vehicle and auto parts imports; tariffs do not apply to USMCA-compliant auto parts or U.S. content of USMCA-compliant vehicles.

Canadian Retaliation. Canada initially responded to U.S. IEEPA tariffs with 25% tariffs on C$30 billion (about $22 billion) worth of U.S. imports. Separately, provinces and territories announced retaliatory 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 $21.6 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 tariffs at the World Trade Organization (WTO).

In April 2025, Canada announced exemptions from tariffs on U.S. imports for certain sectors and for companies operating in Canada to alleviate impacts on the Canadian economy. From September 1, Canada has terminated its retaliatory tariffs in response to IEEPA and some retaliatory tariffs in response to U.S. steel and aluminum tariffs. Canadian tariffs remain on U.S. vehicles and C$15.6 billion ($11.3 billion) worth of U.S. steel and aluminum imports.

Congress's Role. 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 tariffs and trade talks, including the scheduled 2026 USMCA joint review. For example, the Senate passed S.J.Res. 37, which would terminate the national emergency underlying the IEEPA tariffs on Canada. Some Members have proposed exempting small businesses' imports from IEEPA tariffs on Canada (S. 2383/H.R. 4899). Members seeking greater oversight may also direct the Trump Administration and/or agencies such as the U.S. International Trade Commission, Congressional Budget Office, or the Government Accountability Office to assess the economic impacts of 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. The formal recission of the DST would require parliamentary approval.

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 Online Streaming Act enables CRTC to regulate entities that broadcast through social media (e.g., Facebook) or online streaming services (e.g., Netflix, YouTube). 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 was 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 in North America. Mexico and Canada challenged the U.S. interpretation of the requirement—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 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.) grants Canadian firms eligibility to receive U.S. federal funding for critical minerals projects in Canada.

The Commerce Department has initiated Section 232 investigations into imports of processed critical minerals and trucks. These and other automotive and critical minerals supply chain issues may be key topics 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 with mixed results. 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. The Commerce Department is investigating timber and lumber imports under Section 232. Congress may consider whether to bolster, restrict, or exercise greater oversight of the executive branch's power to impose and maintain tariffs on Canadian lumber.

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