



U.S.-Canada Trade Relations

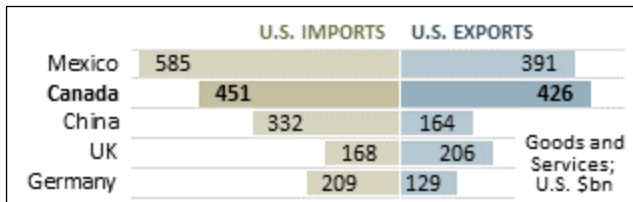
The United States and Canada have one of the largest bilateral trade relationships in the world, including highly integrated energy and automotive markets. Since 1989, U.S.-Canada trade has been governed by the U.S.-Canada Free Trade Agreement, then by the 1994 North American Free Trade Agreement (NAFTA),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

Since 2025, U.S.-Canada trade tensions have increased following the imposition of U.S. tariffs on key Canadian exports. The two countries, along with Mexico, also are scheduled to engage in a review of USMCA in July 2026, which could lead to significant changes in the agreement. Congress implemented USMCA through legislation (P.L. 116-113) and may need to approve revisions. Congress may consider whether to exercise its prerogatives related to the U.S.-Canada economic relationship, including oversight of U.S. tariffs and the USMCA joint review process.

U.S.-Canada Trade Overview

According to U.S. Bureau of Economic Analysis (BEA) data, Canada was the second-largest U.S. goods and services trade partner in 2025 (see **Figure 1**). Services trade (e.g., financial services, tourism) is particularly robust, with the United States generally running a services trade surplus with Canada.

Figure 1. Top U.S. Trade Partners (2025)



Source: CRS, with data from the U.S. Bureau of Economic Analysis, March 2026.

According to Statistics Canada data for 2025, Canada exported 73% of its goods to, and imported 46% of its goods from, the United States. Per BEA and Statistics Canada, as of 2024 (latest data available), 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 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 41% (1.1 billion barrels) in 2015 to 64% (1.4 billion barrels) in 2025.

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). In February 2026, the U.S. Supreme Court held that IEEPA does not give the President authority to impose tariffs. Subsequently, the Administration ended the IEEPA tariff

actions and imposed a 10%, 150-day “temporary import surcharge” on most U.S. imports, including from Canada, under Section 122 of the Trade Act of 1974.

Under USMCA, Canadian goods that are certified as having met product-specific rules can enter the United States largely duty-free; such goods also are largely, but not wholly, exempt from U.S. tariff actions (see **Table 1**). In 2025, the United States imposed duties on about 13% of U.S. imports from Canada (worth about \$50.5 billion total). Most Canadian goods entered duty-free, likely because goods were certified as USMCA-compliant.

Table 1. U.S. Presidential Tariffs on Canada

Authority	Canadian Goods Affected (Tariff Rates)	Exemption for USMCA-compliant goods
Sec. 122	Most goods (10%)	Yes
Sec. 232	Steel, aluminum, and copper (50%)	No
Sec. 232	Passenger vehicles and auto parts (25%); trucks (25%), buses (10%), and related parts (25%)	Yes (full exemption for parts, partial for vehicles)
Sec. 232	Timber and lumber (10%), certain wooden products (25%), certain semiconductors (25%)	No

Source: CRS, compiled from U.S. government documents, as of March 30, 2026.

In March 2025, President Trump imposed 25% tariffs on most Canadian imports (10% on energy and potash) under IEEPA, citing a national emergency at the border with Canada related to illicit fentanyl. President Trump later increased tariffs on Canadian goods to 35%. USMCA-compliant goods were exempt. These tariffs were ended following the February 2026 Supreme Court ruling.

USMCA-compliant goods are exempt from the Section 122 10% global tariffs, as are energy products and fertilizers. President Trump stated, invoking IEEPA, that he would continue to suspend duty-free treatment for all goods shipments valued at less than \$800, including from Canada (19 U.S.C. §1321(a)(2)(C), referred to as *de minimis*). This action is facing legal challenges.

In March 2026, the Office of the U.S. Trade Representative (USTR) launched an investigation into 60 partners, including Canada, regarding their “failure to impose and effectively enforce a prohibition on the importation of goods produced with forced labor” under Section 301 of the Trade Act of 1974 (19 U.S.C. §§2411–2420); depending on the outcome, this could lead to tariffs on Canadian goods.

Sectoral Tariffs. In 2025, President Trump eliminated nearly all exemptions, including for Canada, from Section 232 steel and aluminum tariffs (currently 50%). President Trump has also imposed tariffs on key Canadian sectors,

including certain copper products, certain lumber and timber products, and vehicles and auto parts.

Canadian Retaliation. Canada initially responded to U.S. IEEPA tariffs with 25% tariffs on C\$30 billion (about \$21.8 billion) worth of U.S. imports. Separately, Canadian provinces and territories announced retaliatory measures related to the sale of U.S. alcohol and government procurement. In response to U.S. sectoral tariffs, the Canadian government imposed 25% tariffs on C\$29.8 billion (about \$21.7 billion) worth of U.S. imports and 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 exempted certain sectors and companies from its retaliatory tariffs on U.S. goods. From September 2025, Canada terminated the retaliatory tariffs it imposed in response to IEEPA and some retaliatory tariffs it imposed 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. Canadian Prime Minister Mark Carney has announced policies to support the Canadian steel and lumber industries, including prioritizing the use of Canadian materials in government contracts (“Buy Canadian”).

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 in June 2025, 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. The Canadian government included a repeal of the DST in budget legislation enacted in March 2026.

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 or online streaming services (e.g., Meta, Netflix, YouTube). In June 2024, CRTC announced that it would 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 in August 2025. Some Members of Congress have proposed legislation directing USTR to investigate whether the act is unfair to U.S. firms (H.R. 8025). Congress may examine the act’s potential impacts on U.S. companies and whether it violates Canada’s commitments 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. 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.

Critical Minerals Canada is a top U.S. source of key critical minerals. The Defense Production Act (50 U.S.C. §§4501 et seq.) grants Canadian firms eligibility to receive U.S. federal funding, including for critical minerals projects in Canada. At President Trump’s direction USTR sought public comments on a potential plurilateral agreement on critical minerals trade. Canadian officials have expressed a preference for discussing critical minerals as part of overall USMCA talks rather than in a separate sectoral agreement.

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 products. 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. AD/CVDs apply on top of Section 232 tariffs on timber and lumber imports.

Issues for Congress

Congress has a constitutional role in U.S. trade policy and may consider whether to bolster or curb presidential authorities related to tariffs and trade talks. For example, the Senate-passed S.J.Res. 37 and S.J.Res. 77 and the House-passed H.J.Res. 72 would terminate the national emergency underlying the previously-imposed IEEPA tariffs on Canada. Members seeking greater oversight may direct the Administration and/or agencies such as the U.S. International Trade Commission to assess the economic impacts of U.S. tariffs and Canadian retaliatory measures. Members of Congress could consider whether and how to engage with the USMCA joint review, including seeking changes or preserving existing provisions. Congress also could codify specific U.S. tariff rates on Canada. Such action could prompt consideration about consistency with U.S. trade obligations under USMCA.

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