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U.S.-Canada Trade Relations

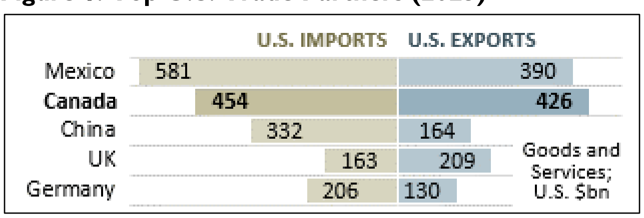
The United States and Canada have one of the largest bilateral trade relationships in the world, including highly integrated energy and automotive markets. Since 1989, U.S.-Canada trade has been governed by the U.S.-Canada Free Trade Agreement, then by the 1994 North American Free Trade Agreement (NAFTA), 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 Canadian exports. The two countries, along with Mexico, also are engaged in a review of USMCA, which could lead to significant changes in the agreement. If USMCA is not renewed, it is set to expire in 2036. Congress implemented USMCA through legislation (P.L. 116-113), and any revisions may need congressional approval. 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**). According to Statistics Canada data for 2025, Canada exported 72% of its goods to, and imported 46% of its goods from, the United States. 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, June 24, 2026.

Per BEA and Statistics Canada, as of 2025, the United States was the largest source of foreign direct investment (FDI) by stock in Canada ($488 billion), and Canada was the third-largest source of U.S. FDI ($747 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

Under USMCA, Canadian goods that are certified as having met product-specific rules can enter the United States largely duty-free; such goods also have been largely, but not wholly, exempt from U.S. tariff actions (see **Table 1**). According to U.S. Census Bureau data, in 2025, the United States imposed duties on about 15% of U.S. imports from Canada by value (about $56 billion total), with a total $10 billion in calculated duties (compared to $0.4 billion in 2024). Most Canadian goods entered duty-free, likely because goods were certified as USMCA-compliant.

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 tariffs 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 (19 U.S.C. §2132). When these tariffs expired in July 2026, the Trump Administration imposed tariffs on 60 partners, including a 10% tariff on Canadian goods. These tariffs followed an investigation by the Office of the U.S. Trade Representative (USTR) under Section 301 of the Trade Act of 1974 (19 U.S.C. §§2411-2420) into "the failure of each economy to impose and effectively enforce a prohibition on the importation of goods produced with forced labor."

Under a separate IEEPA action not affected by the February 2026 Supreme Court ruling, President Trump suspended 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.

Sectoral Tariffs. In 2025, President Trump eliminated nearly all exemptions, including for Canada, from Section 232 steel and aluminum tariffs. President Trump also has imposed global tariffs on sectors key to the Canadian economy, 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 US$22 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 US$22 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 some retaliatory tariffs. Canadian tariffs remain on U.S. vehicles and C$15.6 billion (US$11 billion) worth of U.S. steel and aluminum. The Canadian public also has engaged in an informal boycott of U.S. goods and reduced U.S. travel.

Tariffs to "Offset Canadian Discrimination." In August 2026, after the United States and Canada failed to finalize an agreement during bilateral talks, President Trump imposed 50% tariffs on certain Canadian goods to "offset Canadian discrimination" against U.S. commerce with respect to alcoholic beverages, dairy, and motor vehicles, including some abovementioned actions taken in response to U.S. tariffs. President Trump imposed tariffs under Section 338 of the Trade Act of 1930 (19 U.S.C. §1338)—the first time the United States has expressly cited this statute to impose tariffs. Canada has announced retaliatory tariffs on C$27.6 billion (US$20 billion) worth of U.S. goods starting on September 8, 2026, and financial support for domestic businesses.

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

Authority	Canadian Goods Affected (Tariff Rates)	Exemption for USMCA-Compliant Goods
Sec. 301	Most goods (10%)	Yes
Sec. 232	Steel, aluminum, and copper (50%)	No (lower tariff rate for certain products)
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
Sec. 338	Alcoholic beverages, dairy, paper and wood products, assorted other goods (50%)	No

Source: CRS, compiled from U.S. government documents, as of August 25, 2026.

USMCA Joint Review

In July 2026, Canada and Mexico announced their desire to renew USMCA; the United States declined to renew. The United States and Mexico have engaged in several bilateral negotiating rounds. Some observers have expressed concerns about the divergence in the progress of U.S. talks with Canada and Mexico given the trilateral nature of USMCA. Trump Administration officials have noted that the United States has differing issues with each country that they assert are better addressed bilaterally. Some U.S. observers assert that the review and U.S. tariffs provide an opportunity to resolve long-standing U.S.-Canada issues. Others have noted that bilateral tariff escalation may further complicate USMCA talks and increase uncertainty about the future of the agreement.

Other Selected Trade Issues

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. Other key U.S.-Canada issues include U.S. tariffs on Canadian automotive goods as well as steel and aluminum (key materials for automotive production), potential changes to automotive content rules as part of the USMCA joint review, and whether/how to harmonize approaches to investments and imports from non-USMCA countries.

Critical Minerals. Canada is a top U.S. source of 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 projects in Canada. At the President's direction, USTR is pursuing negotiations on a potential plurilateral agreement on critical minerals trade.

Dairy and Supply Management. Canada supports its dairy sector 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. Some Members assert that Canada is not fulfilling its USMCA obligations. USTR challenged Canada's dairy TRQs twice under USMCA with mixed results. In June 2025, Canada enacted legislation preventing the government from increasing dairy TRQs or reducing over-quota tariffs 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.

Digital Services. Some Members of Congress have criticized Canadian bills that regulate or require financial contributions from large digital services providers. The United States is home to several of the world's largest digital services providers, and some Members have argued that certain Canadian regulations unfairly affect U.S. companies. Since 2025, in the face of U.S. criticisms and Canadian concerns about raising costs, the Canadian government has repealed the digital services tax and taken steps to adjust the implementation of funding requirements for online streaming companies.

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 U.S.-Canada trade talks. 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 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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