

An evolving trade relationship: What's next for businesses operating on both sides of the Canada-US border?

January 7, 2026



Recent developments and immediate impacts

The Canada-US trade relationship, long recognized for its stability and integration, is currently experiencing a period of adjustments. Recent developments, including changes in trade negotiation status and US tariff measures, have introduced new considerations for Canadian businesses operating across the border. These actions reflect evolving policy priorities and underscore the importance of monitoring ongoing developments.

Recent policy changes have resulted in increased tariffs on several Canadian imports, now reaching as high as **50% on Canadian steel, aluminum, and copper,¹ 25% on automobiles,² 35% on non-CUSMA-compliant goods,³ 25% on heavy trucks and 10% on buses,⁴ and an extra 10% on softwood lumber⁵ (over and above anti-dumping and countervail duties)** with some measures stacking alongside others. Canada has also announced changes to the countermeasures imposed in response to the US tariff regime, as well as new measures aimed at protecting, strengthening, and transforming Canada's strategic industries.⁶ These adjustments highlight the need for Canadian businesses to remain agile and informed as trade conditions evolve.



1. On March 12, 2025, the US imposed a global tariff under Section 232 of the Trade Expansion Act of 1962 of 25% on steel and aluminum imports, including from Canada. On June 4, 2025, the US increased its tariffs on steel and aluminum imports to 50% and expanded the scope to include additional derivative products. On August 1, 2025, the US also imposed a global tariff of 50% on imports of semi-finished copper products and derivatives, including from Canada.
2. On April 3, 2025, the US imposed a global tariff under Section 232 of 25% on imports of automobiles and light trucks, including from Canada.
3. On March 4, 2025, the US imposed tariffs under the International Emergency Economic Powers Act (IEEPA) of 25% on goods imported from Canada. As of March 7, 2025, a tariff exemption applies for Canada-United States-Mexico Agreement (CUSMA)-compliant goods subject to these tariffs. On August 1, 2025, this 25% tariff increased to 35%.
4. On November 1, 2025, the US imposed global tariffs under Section 232 of 25% on imports of medium- and heavy-duty vehicles (trucks) and their parts and a global tariff of 10% on buses.
5. On October 14, 2025, the US imposed a global tariff under Section 232 of 10% on softwood timber (logs) and lumber.
6. On September 5, 2025, Prime Minister Carney [announced new measures](#) to protect, build, and transform Canadian strategic industries.



Why it matters

Recent changes in trade policy reflect a dynamic North American trade environment. For Canadian businesses, the economic consequences are immediate and multifaceted, affecting competitiveness, investment decisions, and long-standing cross-border supply chains.

The data in **Figure 1** (below) highlights how these new tariffs are reshaping market dynamics with the United States. Although overall US effective tariff rates have risen sharply, **Canadian exporters continue to fare well** compared to Mexico, G7 countries and China as a result of exemptions for **CUSMA-compliant goods**. This limited insulation, however, underscores Canada's heavy reliance on preferential access to the US market—a buffer that could erode quickly if CUSMA's provisions are challenged.

Against this backdrop, three interrelated pressures have emerged:

- **Trade disruption:** The breakdown in Canada-US trade negotiations and the imposition of new US tariffs are already constraining key Canadian export sectors, notably **automotive, forestry, and energy**. For example, auto plants in Ontario are reporting reduced shifts and delayed investments,⁷ while lumber mills in British Columbia and Quebec face production cuts⁸ amid restricted US market access.
- **Supply chain uncertainty:** Canadian manufacturers dependent on US components face lengthening lead times, rising costs, and stalled joint projects, particularly in **clean energy and advanced manufacturing**.⁹ Agricultural exporters are also grappling with compliance hurdles and unpredictable border conditions, eroding confidence in future planning.
- **Political risk:** Recent trade measures have introduced new variables for Canadian businesses, prompting a more cautious approach to investment and supply chain planning. Many businesses are taking a “wait and see” approach with respect to important investments. This evolving environment challenges three decades of North American economic integration and complicates investment decisions at a time when long-term supply chain commitments are critical.

Together, these pressures highlight the fragility of **Canada's short-term insulation under CUSMA**.

7. Desjardins, “Shifting Gears: Ontario's Manufacturing Sector amid Tariff Turmoil,” April 23, 2025.

8. CBC News, “Why a lack of access to timber is leading to B.C. mill closures, job losses,” November 24, 2025; Fédération des producteurs forestiers du Québec, “Baisse de 16 % de la production de bois d’œuvre québécoise au premier trimestre,” June 16, 2025.

9. RSM Canada, “U.S. tariffs expose vulnerability of Canada’s manufacturing sector,” March 11, 2025.

10. Farm Credit Canada, “Can Canadian agriculture handle trade and supply chain disruptions?,” June 11, 2025.

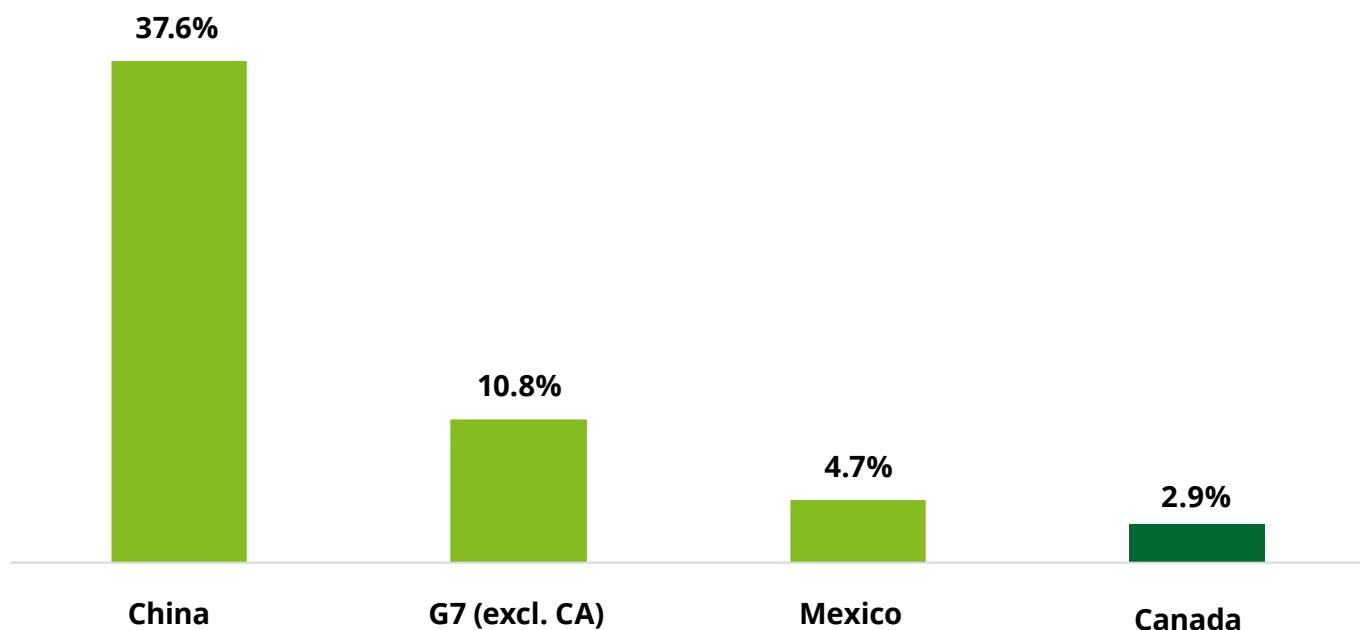
Visual insight 1: Tariff pressures and CUSMA exemptions

Despite heightened US tariffs across multiple sectors, and notwithstanding the fact sectoral specific tariffs are generally not alleviated for CUSMA-compliant goods, Canadian exporters have, thus far, fared comparatively well in our view due to **CUSMA compliance exemptions**. This underscores the continued importance of the agreement's framework, even amid ongoing turbulence.

Figure 1 – Canada has fared well on the tariff front compared to Mexico, G7 countries and China due to special provisions for goods compliant with CUSMA.

US effective tariffs rates, select regions, July 2025

monthly tariff revenue as a percentage of imports



Sources: US International Trade Data Commission; Deloitte.



Strategic perspective: What Canadian businesses should do

In light of evolving trade conditions, Canadian businesses are encouraged to prioritize resilience, foresight, and adaptability in their strategic planning. Companies should:

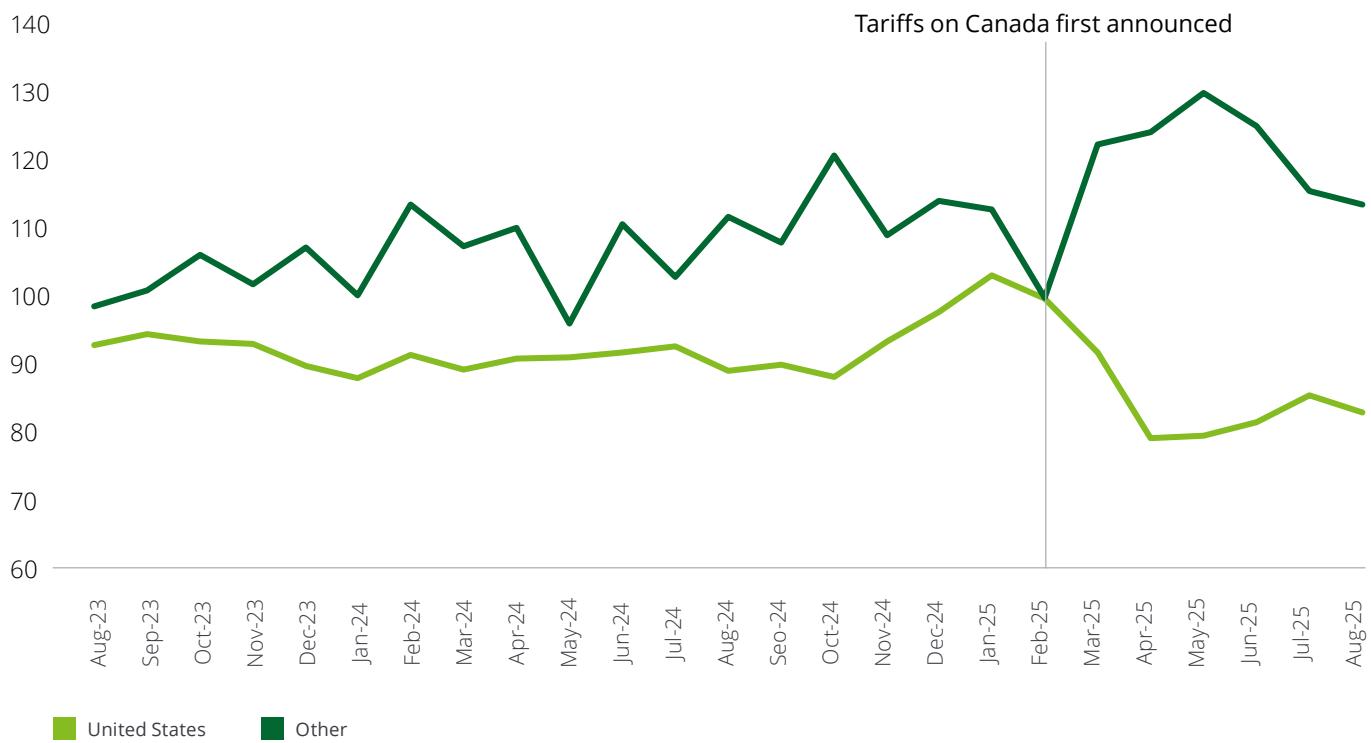
- **Monitor trade and policy developments continuously:** Establish internal systems or procedures to track tariff measures, US policy announcements, and bilateral negotiations in real time. Use scenario planning to evaluate potential impacts on pricing, competitiveness, and market access.
- **Assess supply chain exposure and build flexibility:** Conduct comprehensive supply chain audits to identify dependencies on US inputs, impact of recent changes to Canadian countermeasures and other measures to protect strategic industries, logistics bottlenecks, and single-supplier risks. Explore diversification, nearshoring, or dual-sourcing strategies to strengthen operational resilience. **Figure 2** below indicates that Canadian exporters have already started to respond by expanding shipments to non-US markets; however, **Figure 3** illustrates that sustaining this momentum will be difficult given the high volume of Canadian exports to the US, and particularly for products facing sectoral tariffs (see **Figure 4**).
- **Engage proactively with policymakers and industry associations:** Maintain open channels with Canadian federal and provincial governments, as well as key industry groups, to advocate for predictable, harmonized trade rules and to contribute sector-level insights ahead of the 2026 CUSMA review.
- **Evaluate CUSMA reliance and compliance exposure:** Conduct a detailed review of supply chains and product classifications to identify where operations depend most on CUSMA preferences. Assess potential vulnerabilities if rules of origin are tightened or if the agreement were significantly modified and develop contingency strategies accordingly.



Visual insight 2: Export diversification—Promise and limits

Figure 2 – Despite the CUSMA carve-out, Canadian exporters have looked increasingly to markets other than the US.

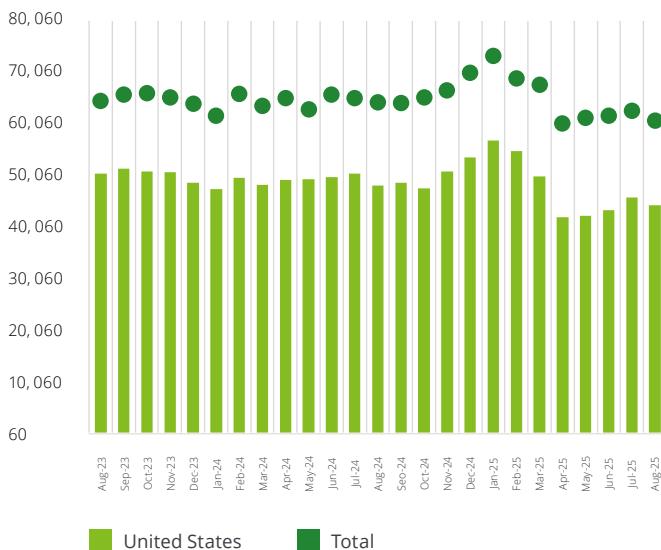
Exports to the US and other countries, seasonally adjusted, balance of payments basis, February 2025 = 100



Source: Statistics Canada; Deloitte

Figure 3 – With so much of Canada's exports heading south to the US, sustaining this diversification push could be challenging.

Exports to the US and other countries, seasonally adjusted, balance of payments basis, millions of Canadian dollars



Exports to the US as a share of total exports, seasonally adjusted, balance of payments basis, %



Source: Statistics Canada; Deloitte.

Figure 4 – This is especially true for products facing sectoral tariffs in the US.

Domestic exports to the US, by \$ and %, select products

Product	July 2024		July 2025	
	Exports to the US ('000s of CAD\$)	Exports to the US (%)	Exports to the US ('000s of CAD\$)	Exports to the US (%)
Iron and steel	\$851,717	86%	\$573,613	88%
Articles of iron and steel	\$601,001	95%	\$336,984	89%
Aluminum and articles thereof	\$1,400,687	86%	\$819,503	85%
Motor vehicles	\$4,664,988	92%	\$4,804,026	91%

Source: Statistics Canada; Deloitte.

Note: HS72: Iron and steel, HS73: Articles of iron and steel, HS76: Aluminum and articles thereof, HS87: motor vehicles.



Looking ahead: The 2026 CUSMA/USMCA review

The upcoming 2026 CUSMA/USMCA review, scheduled for July 1, 2026, remains a key milestone for North American trade. The agreement continues to provide a framework for stability and predictability for Canadian businesses, and they should remain attentive to any potential change.

What questions should companies be asking themselves to prepare in advance of the renegotiation of this agreement?

- **Contingency planning for renegotiation outcomes:** Companies should prepare for a range of renegotiation outcomes and be prepared to implement with short lead times.
- **Sectoral exposure and vulnerability mapping:** Which sectors are most sensitive to changes in tariff treatment, rules of origin, or compliance requirements? How can these risks be anticipated and mitigated?
- **Rules of origin and supply chain implications:** How might stricter or revised rules of origin reshape sourcing decisions, production strategies, and cross-border integration? Which product flows/supply chains are most reliant on CUSMA preferences, and where are vulnerabilities concentrated?
- **CUSMA's labour and environmental provisions:** Are upcoming labour, environmental, or digital trade provisions likely to alter compliance costs or operational models? How prepared is the business to adapt to evolving non-tariff requirements?
- **Dispute resolution and enforcement mechanisms:** Companies should understand their operations for a range of dispute resolution processes, including those outlined in CUSMA.

Further beyond Canadian business, Canadian policy makers should also be considering Canada's **long-term competitiveness and diversification and the following questions:** How might CUSMA influence Canada's broader trade strategy? Could reliance on the US market hinder diversification efforts, and what role should other bilateral and multilateral agreements play in reducing systemic exposure?

By addressing these questions proactively, Canadian businesses and policymakers can move from a reactive stance toward a **strategic, forward-looking approach**, positioning themselves to navigate both short-term disruptions and long-term structural shifts in North American trade.



Conclusion

The Canada-US trade partnership continues to be defined by deep supply-chain integration, shared interests, and long-term mutual dependence. By staying informed and adaptable, Canadian businesses can navigate current challenges and position themselves for ongoing success.

Contacts:

Jakub Uziak

Partner

Email: juziak@deloitte.ca

Lisa Zajko

Partner

Email: ljajko@deloitte.ca

Jim Kilpatrick

Partner

Email: jimkilpatrick@deloitte.ca

Ryan Ernst

Partner

Email: rernst@deloitte.ca

Deloitte.

About Deloitte Canada

At Deloitte, our Purpose is to make an impact that matters. We exist to inspire and help our people, organizations, communities, and countries to thrive by building a better future. Our work underpins a prosperous society where people can find meaning and opportunity. It builds consumer and business confidence, empowers organizations to find imaginative ways of deploying capital, enables fair, trusted, and functioning social and economic institutions, and allows our friends, families, and communities to enjoy the quality of life that comes with a sustainable future. And as the largest Canadian-owned and operated professional services firm in our country, we are proud to work alongside our clients to make a positive impact for all Canadians.

Deloitte provides industry-leading consulting, tax and legal, financial advisory, audit and assurance, and risk advisory services to nearly 90% of the Fortune Global 500® and thousands of private companies. We bring together world-class capabilities, insights, and services to address clients' most complex business challenges.

Deloitte LLP, an Ontario limited liability partnership, is the Canadian member firm of Deloitte Touche Tohmatsu Limited. Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

To learn more about Deloitte Canada, please connect with us on [LinkedIn](#), [X](#), [Instagram](#), or [Facebook](#).

This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte shall not be responsible for any loss sustained by any person who relies on this publication alone.