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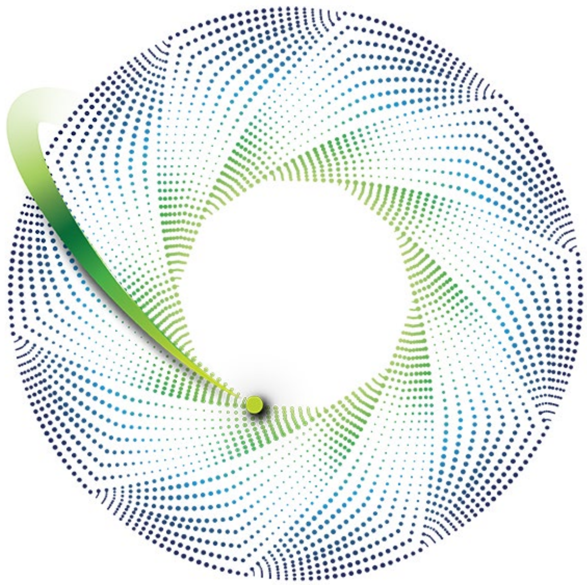

# Canadian Tax & Legal Alert

## US proposes additional 50% tariffs on select Canadian products

August 12, 2026

### Overview

On July 20, 2026, the President of the United States signed three Proclamations imposing an additional 50% ad valorem tariff on specified Canadian-origin goods under Section 338 of the US Tariff Act of 1930 (Section 338). Tariffs issued under this section of law require 30-days notice, which yields an expected effective time and date of 12:01 a.m. Eastern Time on August 19, 2026. According to the Office of the US Trade Representative, these tariffs will cover roughly US$20 billion in annual Canadian exports, which is approximately 5% of Canadian exports to the US.

Each Proclamation responds to what the US Administration characterizes as Canada's discriminatory treatment of US commerce in a specific sector:

- Imposing Additional Duties to Offset Canadian Discrimination Against the Commerce of the United States with Respect to Dairy
- Imposing Additional Duties to Offset Canadian Discrimination Against the Commerce of the United States with Respect to Alcoholic Beverages
- Imposing Additional Duties to Offset Canadian Discrimination Against the Commerce of the United States with Respect to Motor Vehicles

This marks the first use of Section 338, a long-dormant statutory authority established in 1930 that permits the President, with 30-days notice, to impose additional duties of up to 50% to offset foreign discrimination against US commerce.

## What is covered

Each Proclamation contains its own Annex I (implementation details and exceptions) and Annex II (specific Harmonized Tariff Schedule of the United States (HTSUS) classifications).

Importantly, the affected product lists include a broad range of goods, such as wine, cement, hockey sticks, wood and paper products, plastics, industrial and commercial machinery, furniture, lighting, textiles, and electrical equipment, among others.

Energy, potash, fish, critical minerals, goods already subject to Section 232 duties, and civil aircraft covered under the World Trade Organization's Agreement on Trade in Civil Aircraft are excluded under Section 338 duties.

Goods that qualify as originating under the Canada-US-Mexico Agreement (CUSMA) are not exempted from the section 338 measures. All applicable tariff measures should be evaluated for exemptions and/or potential stacking.

## Interaction with new Section 301 forced-labor tariffs

The proposed Section 338 tariffs are the latest addition to an increasingly complex US tariff landscape. These tariffs follow closely on the expiration of a 10% Section 122 tariff on July 23, 2026, as well as the implementation of a new US Section 301 tariff regime addressing the alleged failure of certain trading partners to impose and effectively enforce prohibitions on imports produced with forced labor. These Section 301 tariffs, effective since July 24, 2026, impose additional duties ranging from 10% to 12.5% on imports made in 60 economies, including Canada, which is generally subject to a 10% rate under this regime.

These Section 301 forced-labor measures contain a number of general and country-specific exceptions. Among other exclusions, qualifying CUSMA-originating goods imported from Canada are exempt from the Canadian Section 301 measures, and goods already subject to Section 232 tariffs are generally excluded from the new Section 301 duties, among other exclusions.

Certain jurisdictions, including the European Union, Japan, South Korea, Switzerland, and Taiwan, are also subject to special "combined-rate" treatment under which the Section 301 measures operate by reference to the applicable Most-Favored-Nation duty rate. Accordingly, duty impacts can vary substantially by product, country of origin, and tariff treatment.

For Canadian exporters and US importers, the key issue is not any single tariff measure, but the cumulative impact of multiple overlapping tariffs that can apply in the absence of a stacking exemption. Businesses should carefully assess the interaction between the newly announced Section 338 tariffs, the Section 301 forced-labor tariffs, existing Section 232 tariffs, and any other applicable customs duties and fees. Depending on the product and sourcing structure, the eligibility for CUSMA preference to be applied, and the stacking provisions, tariff exposure may differ significantly across supply chains and trade lanes.

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The introduction of these measures underscores the importance of validating tariff classification, origin, valuation, and supply-chain configuration on a holistic basis rather than evaluating each tariff action in isolation. Companies should consider modelling landed-cost impacts under various scenarios and reassessing sourcing, production, and distribution arrangements where material duty exposure exists.

## Key considerations for Canadian exporters and US importers

- **Another layer in an increasingly complex tariff environment.** The Section 338 duties would be implemented through newly created tariffs rather than increasing existing tariff measures. Depending on the product, importers may already be assessing exposure to Section 301 forced-labor duties, Section 232 duties, ordinary customs duties, and other import charges, making a holistic review of tariff exposure increasingly important.
- **A 50% ad valorem impact.** The additional section 338 duties are applied on top of any existing duties, taxes, fees, and other charges applicable at importation (the Proclamations expressly exclude goods already subject to Section 232 duties).
- **CUSMA qualification does not exempt covered goods.** Unlike most prior tariff measures (other than Section 232 measures), Canadian-origin goods that qualify for preferential treatment under CUSMA are subject to the Section 338 duties. Origin compliance, which has been the principal shield for many exporters since early 2025, does not protect covered products from the Section 338 duties. This contrasts with certain recent tariff measures, including the new Section 301 forced-labor tariffs, where qualifying CUSMA-originating goods may remain exempt.
- **Foreign Trade Zone (FTZ) treatment.** As with prior tariff measures, covered goods admitted into a US FTZ on or after the effective date would be required to be admitted under "privileged foreign status," locking in the duty rate at the time of admission.
- **Duration is uncertain.** While the Section 338 measures are intended to go into effect on August 19, 2026, and may be subject to change prior to going into force, these measures are not time-limited and will remain in place unless modified, suspended, or terminated by subsequent presidential action. It is not yet clear how the covered product list was developed, whether the statute will withstand judicial scrutiny, or whether an exclusion or exemption process will be introduced. We will provide further updates as relevant information becomes available.

## Economic impact

Third-party estimates indicate that roughly 5.3% of Canadian exports to the US will be affected by the newly announced Section 338 tariffs, while a 50% duty applied to approximately US$20 billion of goods equates to roughly 0.03% of US gross domestic product.

## Actions to consider

Many of the mitigation strategies we set out in our earlier report on North American trade relations continue to apply and should be revisited in light of the Section 338 measures. See our prior publication, [Tariffs and North American trade relations: risks and strategies], for a broader discussion.

Priority near-term actions include:

- **Confirming exposure** by mapping shipments against Annex II of each Proclamation and evaluating the interaction of Section 338 duties with any other applicable tariff measures, including Section 301 and Section 232 duties;

- **Validating HTSUS classification, country of origin, and eligibility for any available exemptions or preferential treatment,** while also reviewing customs valuation (including transfer pricing and first-sale opportunities);
- **Assessing pricing and contractual arrangements,** including allocation of duty cost, Incoterms, and pass-through provisions between related and unrelated parties;
- **Considering alternative intercompany operating models/arrangements and transaction flows,** keeping in mind collateral tax issues;
- **Evaluating supply chain measures** such as advance shipment ahead of the effective date, inventory positioning, FTZ strategies, and evaluating production footprint and related strategies. Notably, whereas prior tariff measures made Canadian origin advantageous—given CUSMA exemptions and Canada's generally more favorable tariff treatment—the Section 338 duties apply regardless of CUSMA qualification, so Canadian origin may no longer minimize the tariff impact. Companies should reassess where value is added and, where feasible for globally oriented supply chains, consider whether shipping into the US from a third country is preferable, reinforcing the need for supply chain flexibility in these volatile times; and
- **Monitoring Canadian countermeasures and any US exclusion or amendment processes** that may emerge, along with the anticipated legal challenges to the Section 338 authority.

## How can Deloitte help you?

Deloitte's professionals can help you understand how these new tariffs may impact your business.

If you have any questions on any of the above or want to learn more, please reach out to your Deloitte advisor or any of the Deloitte advisors noted on this alert.

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