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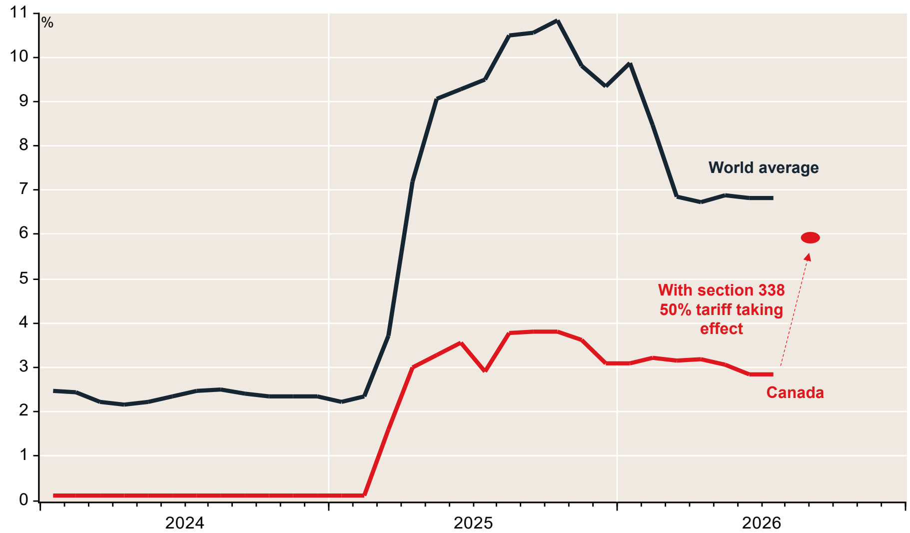
Canada-U.S. Trade: New Tariffs Raise the Stakes

By Stéfane Marion / Matthieu Arseneau

So, it was not to be - at least not for now. Canada-U.S. talks aimed at averting a new round of tariffs threatened by the White House last July broke down, and the U.S. will now impose 50% tariffs under Section 338 of the Tariff Act of 1930 on roughly 5% of imports from Canada that had previously qualified for duty-free treatment under CUSMA. As a result, the average tariff rate applied to Canadian goods would nearly double to about 6%, leaving Canada only slightly better positioned than the average U.S. trading partner (chart).

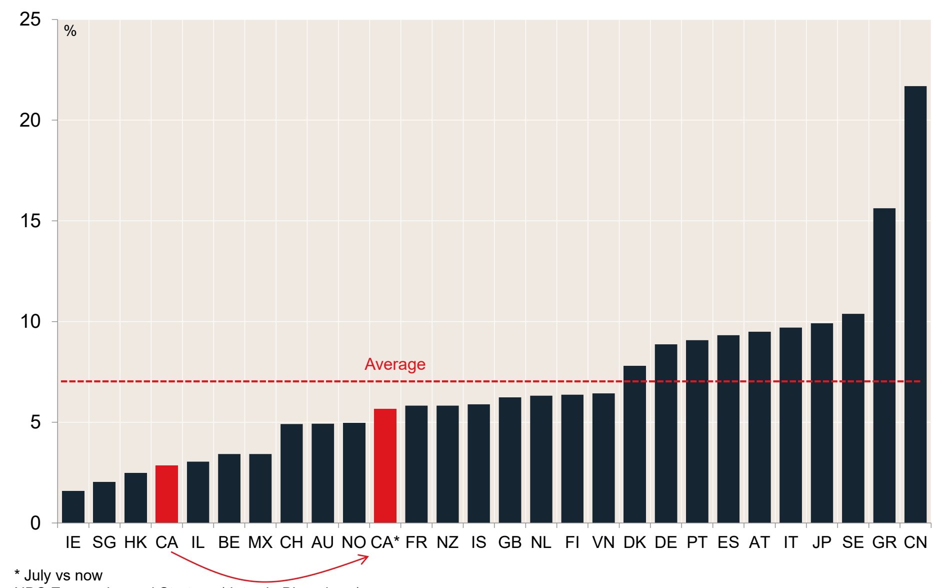
Canada: The global tariff advantage is vanishing
Average US effective tariff rate on Canada and the world



NBC calculations based on U.S. Census and Canada Trade Data Online, with latest AETR figures using May-2026 customs collections

Of course, the global average masks considerable variation across countries, with U.S. tariff rates ranging from less than 2% on Ireland to more than 20% on China. Under the new U.S. tariff regime, Canada moves from having the fourth-lowest tariff rate to one above Mexico's and much closer to those faced by G7 peers such as France and the United Kingdom (chart).

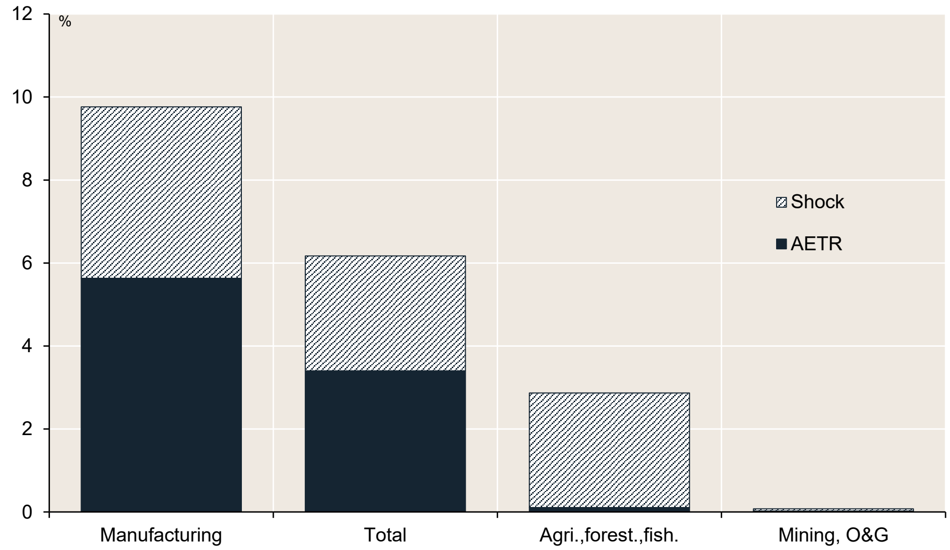
Canada: Still relatively well positioned, but losing ground
U.S. – Imposed average tariff rate by nation: Customs basis as of June



* July vs now
NBC Economics and Strategy (data via Bloomberg)

Though some may dismiss the impact of the new U.S. tariffs on the grounds that roughly 80% of Canadian exports would remain tariff-free under CUSMA, the seemingly modest macroeconomic effect should not obscure the potentially significant consequences for individual sectors and firms. For businesses directly affected, a 50% tariff could simply render their products uncompetitive in the U.S. market. Unlike a moderate tariff increase spread across a broad range of products, a prohibitive tariff concentrated in a handful of sectors can trigger a sharp drop in exports, lost market share, factory closures and weaker investment. While the average tariff rate on Canadian exports would rise to just above 6%, that figure is held down by the large share of duty-free resource exports. For manufacturing alone, the average rate would jump to roughly 10% (chart).

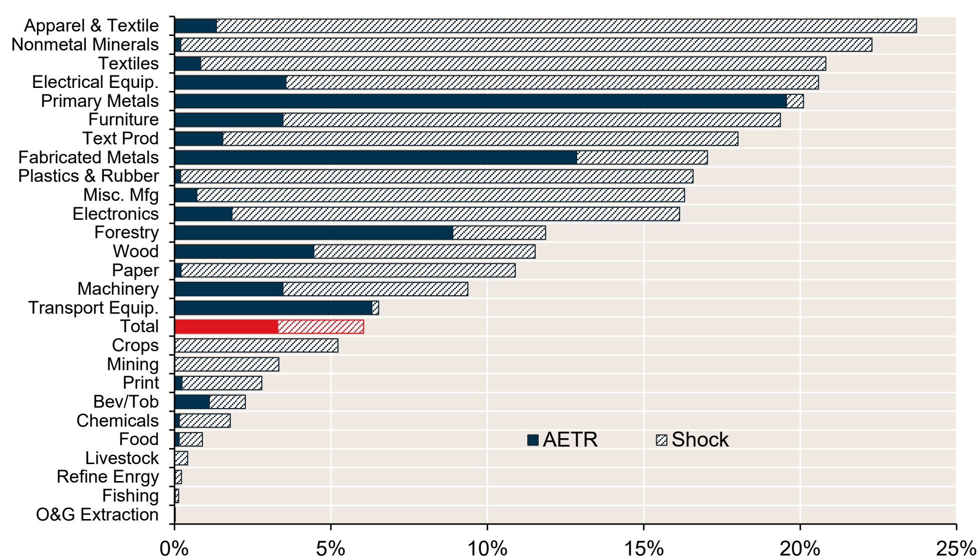
Canada: The tariff rate for the manufacturing sector could reach 10%
Average effective tariff rate on Canadian exports



NBC calculations based on U.S Census and Canada Trade Data Online, with latest AETR figures using une-2026 customs collections

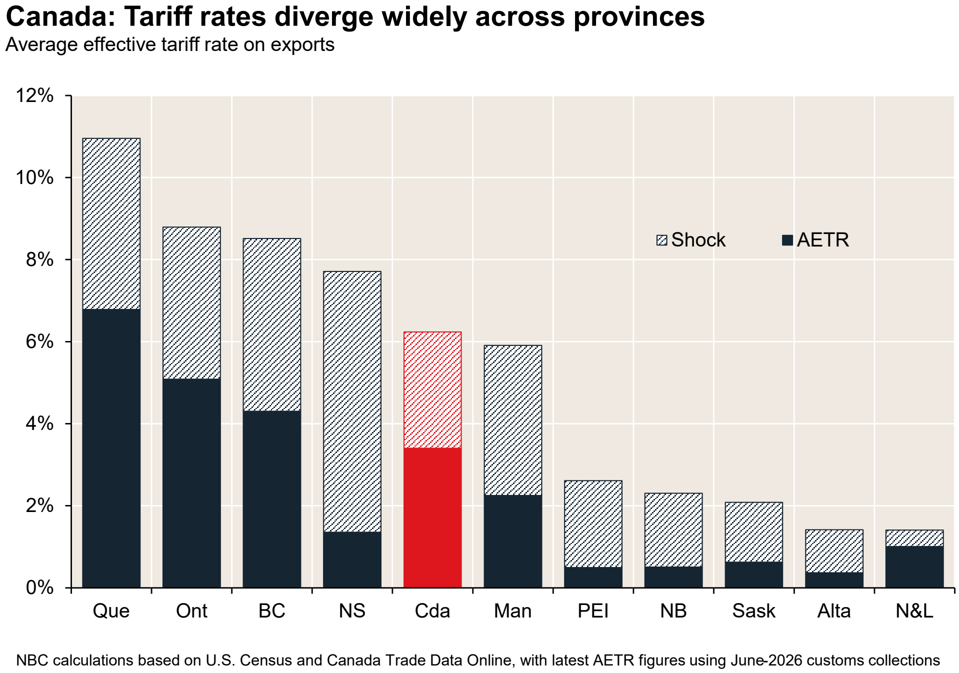
The disparities across manufacturing subsectors are even more pronounced. At present, primary metals, fabricated metal products and forestry face some of the highest tariff burdens, helping to explain their recent underperformance. Under the new measures, apparel and textiles, non-metallic minerals and electrical equipment would face even higher average tariff rates than those sectors do today (chart).

Canada: Some sectors heavily hit by a potential new round of tariffs
Average effective tariff rate on Canadian exports

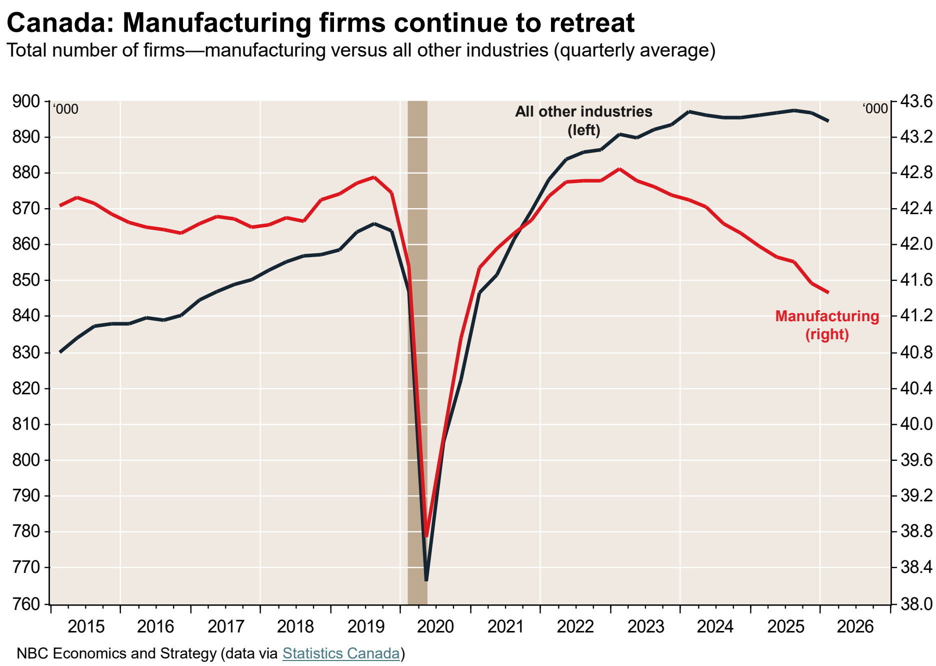


NBC calculations based on U.S Census and Canada Trade Data Online, with latest AETR figures using June-2026 customs collections

The shock would also be distributed unevenly across provinces, reflecting differences in their industrial structures (chart). Quebec and Ontario continue to face the highest average tariff rates, at roughly 11% and 9%, respectively. Relative to July levels, however, the proportional increase is larger in British Columbia, Nova Scotia and Manitoba. At the other end of the spectrum, Alberta and Newfoundland and Labrador are the least affected (chart).

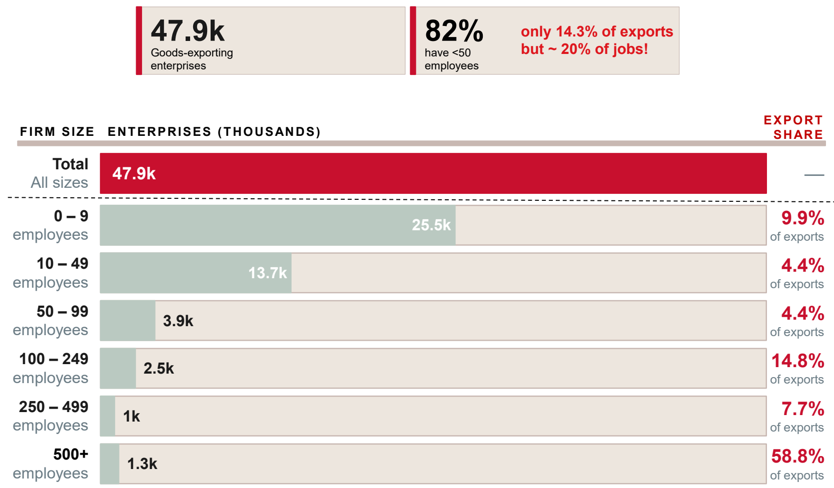


Higher tariffs are particularly unwelcome for employment at a time when Canada's manufacturing base is already under pressure. The number of active manufacturing firms continued to decline in Q1, falling to its lowest level in at least a decade outside the COVID collapse, even as firm counts across the rest of the economy remain much closer to cycle highs (chart).



That divergence matters because it highlights the gap between headline economic resilience and industrial resilience. Canada may still be generating growth elsewhere in the economy, but its trade-exposed production base is telling a more fragile story. Could trade diversification provide an offset? Statistics Canada's 2025 goods-exporter data underscore the scale challenge embedded in Ottawa's ambition to double non-U.S. exports over the next decade. Canada has nearly 48,000 goods-exporting enterprises, but 82% employ fewer than 50 workers and account for only 14.3% of total goods exports (but about 20% of export-related jobs). By contrast, firms with 500 or more employees represent only a small fraction of exporters but generate close to 60% of export value (chart).

Canada: Ottawa's diversification target has a scale problem
Canadian goods-exporting enterprises by firm size, 2025



NBC Economics and Strategy (data via Statcan tables 12-10-0094-01 and 14-10-0215-01)

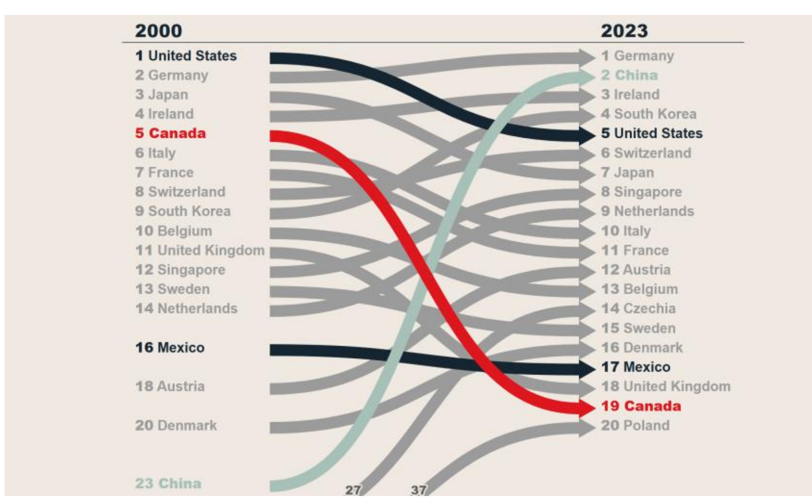
This is not a marginal complication. Diversification is not simply a matter of redirecting shipments away from the U.S. market; it requires financing, compliance capacity, distribution networks, foreign-market intelligence, currency-risk management and the ability to withstand long sales cycles before new relationships become profitable. For smaller firms, the constraint is structural: many are embedded in North American supply chains built around proximity, recurring customer relationships, integrated logistics and production specifications that are not easily replicated overseas. The irony is that Ottawa's target may be easier to meet in aggregate than in substance. Canada can raise non-U.S. export values through commodities and other scale-intensive sectors where global demand is deep and output can be redirected more readily across markets. But that path does less for the more employment-intensive parts of the export base, where supply-chain links are stickier and diversification costs proportionately higher. The resulting policy tension could be masked by headline GDP: a resource-led export pivot may improve the arithmetic of diversification even as smaller exporters face higher costs, thinner margins and a greater risk of lost capacity and employment. We estimate that 100,000 to 130,000 Canadian jobs could be at risk if the new tariffs remain in place and Ottawa and the provinces do not act to cushion the shock, potentially lifting the unemployment rate by about half a percentage point from its current 6.4% level.

Conclusion

The failure of the latest Canada-U.S. trade talks is clearly disappointing, but we take some comfort from the fact that Canadian retaliation is not expected before early September. That leaves a window for the latest U.S. tariffs to be reduced or lifted before Ottawa responds, to the benefit of North American supply chains. That restraint matters: once Canadian counter-tariffs are introduced, the White House could harden its position and respond with additional measures, increasing the risk of a broader escalation.

In the meantime, if Canada is to face a structurally higher tariff environment - even if the latest measures are ultimately scaled back - it is paramount that federal and provincial governments tackle the domestic factors that have contributed to the country's sharp deterioration in industrial competitiveness over the past two decades. Regulation, taxation and interprovincial trade barriers have all taken a toll, contributing to Canada's slide from 5th to 19th place in global competitiveness rankings. That is an uncomfortable starting point from which to confront a more protectionist global trade regime (chart).

World: Canada has suffered the largest drop in competitiveness rankings
Change in Competitive Industrial Performance (CIP) index rank: 2000 vs 2023



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