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# What's Next for the Trade War and Canada–U.S. Relations?

By Angelo Katsoras

Negotiations between Canada and the United States broke down late Friday. Shortly afterward, new 50% U.S. tariffs took effect on roughly $20 billion in Canadian goods. These measures are in addition to the existing U.S. tariffs on Canadian steel, aluminum, automobiles, timber, and wood products. In response, Canada announced dollar-for-dollar retaliatory tariffs slated to take effect on September 8. The dispute escalated further when President Trump announced that U.S. tariffs on cars, trucks and automotive parts imported from Canada would rise to 50% on January 1, 2027.

Prime Minister Mark Carney said that last-minute U.S. terms had made an agreement untenable. Points of contention reportedly included the treatment of medium- and heavy-duty vehicles, the exclusion of aluminum-containing products from the proposed tariff reduction, proposed limits on Canada's ability to negotiate trade agreements with other countries and measures affecting Canadian culture and language protections. However, Washington disputed this account, claiming that Canada had derailed the talks by seeking additional tariff relief for specific sectors late in the negotiations.

## What Does This Mean for Future Trade Talks?

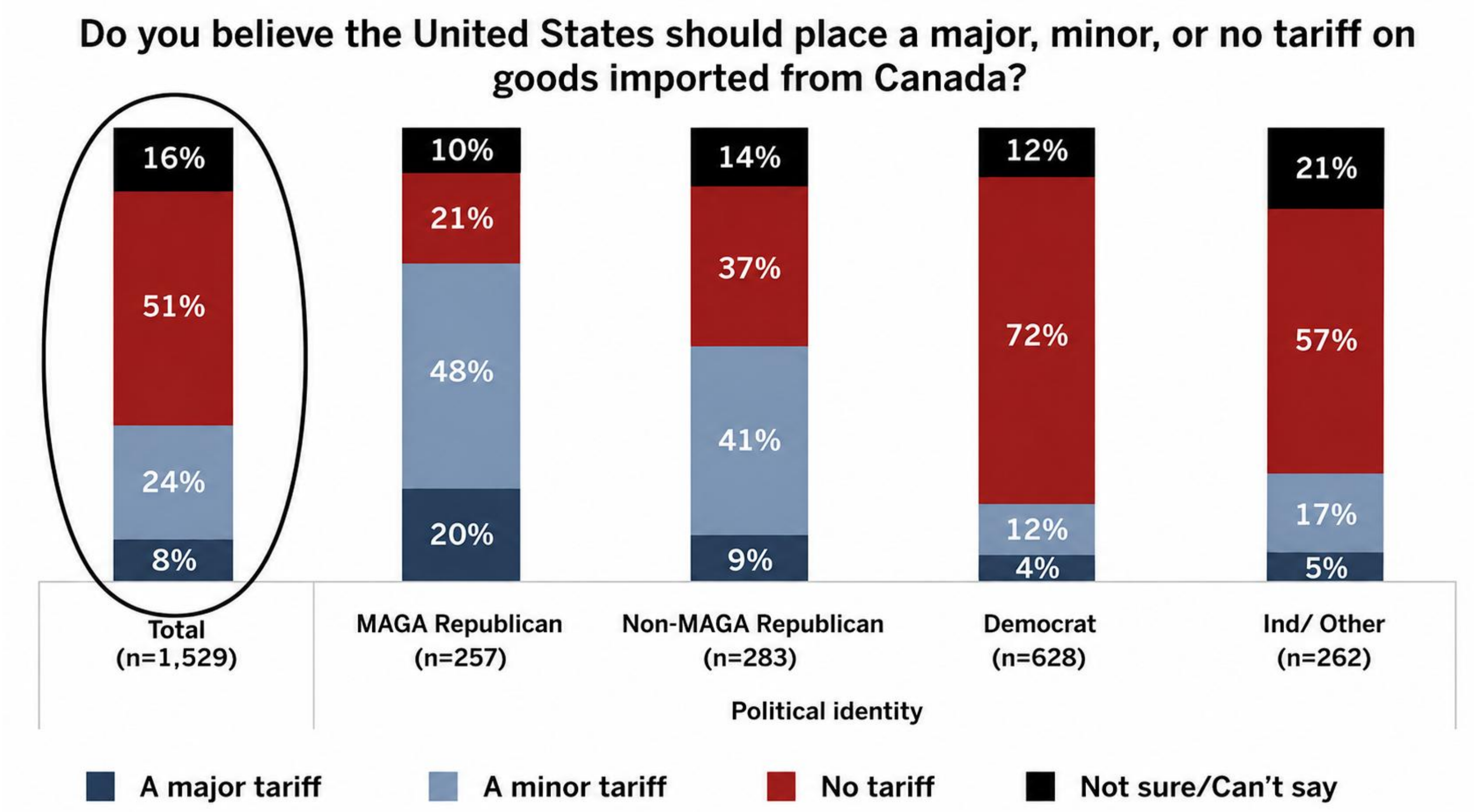
There had been hope that an interim Canada–U.S. deal would pave the way for broader USMCA negotiations, including trilateral talks with Mexico on rules of origin and closer alignment on tariffs applied to automobiles and other key industrial goods imported from outside North America. The failure to reach an interim deal could delay these broader discussions, even as Washington continues separate negotiations with Mexico.

## Could the U.S. Agree to Resume Trade Talks Soon?

Despite the latest escalation in trade tensions, there are several factors that could encourage Washington to resume talks sooner rather than later:

- Elevated U.S. Treasury yields and persistent inflationary pressures, both of which additional tariffs could push higher.
- President Trump's low approval rating ahead of the congressional midterm elections.
- Strong support among U.S. businesses for renewing the USMCA.
- Opposition from major U.S.-based industrial unions. The leaders of the United Steelworkers and the International Association of Machinists and Aerospace Workers—which together represent roughly 1.45 million members—urged Washington to reconsider tariffs on Canada and focus instead on countries engaging in more serious unfair trade practices.[1]
- The Iran conflict has resulted in higher costs and concerns about the reliability of supplies, particularly in the aluminum, steel, fertilizer and energy sectors. This should highlight the importance of reliable, low-cost access to Canadian resources.
- Limited U.S. public support for tariffs on Canada. A March 2026 Angus Reid Institute survey found that 51% of Americans favoured no tariffs on Canadian goods, while only 8% supported major tariffs.

1 "USW, IAM Urge USTR to Reconsider Canada Trade Policy," United Steelworkers, July 29, 2026.




## The Era of Ever-Freer Trade Is Likely Over

Even if Canada and the United States reach an agreement or negotiate a better one under a future administration, the broader shift away from free trade is likely to persist.

**Protectionism has bipartisan support in Washington.** Trump's second-term tariffs marked a major escalation, but the shift predates them. The Biden administration retained most of Trump's tariffs on China, raised several others, and used the Inflation Reduction Act to massively subsidize domestic production.

**Canada will face bipartisan pressure to align with the United States.** Administrations of either party are likely to expect closer Canadian alignment in sectors considered vital to North American economic and national security.

**This shift is not confined to the United States.** Protectionism, regionalized supply chains, and economic-security policies are becoming increasingly common worldwide. The European Union—with its growing use of industrial subsidies, incentives for domestic production, and trade barriers—is a case in point.

**The era of transactional trade deals.** The United States and the EU are increasingly adopting an approach long used by countries such as China and India: using access to their markets as leverage to secure tariff reductions, commitments to local production or other economic concessions. Canada could likewise offer selected countries secure supplies of strategic natural resources in exchange for improved market access for Canadian exports in other sectors.

## Bottom line

Even under the optimistic assumption that Canada–U.S. trade talks resume soon and the current dispute is resolved without further escalation, the era of steadily expanding free trade is likely over. In a more protectionist world, Canada should therefore pursue a two-track strategy: preserve as much access as possible to the U.S. market while accelerating trade diversification and strengthening domestic capacity across strategic sectors, from natural resource production and processing to manufacturing.

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