



Policy Advisory Note:

Canada has a One Month Reprieve on US Tariffs. What Should Agri-food do with it?

Al Mussell, Douglas Hedley, and Ted Bilyea

February, 2025

In dramatic fashion, the US announced tariffs of 25 percent on Canada (10 percent on energy resources) on February 1st, 2025 to come in force February 4th; by late evening of February 1st Canada announced that it was preparing to retaliate against the US with 25 percent tariffs on an initial list of products on February 4th, with a longer list to come later in the month. Calls between President Trump and Mexican President Sheinbaum, and later between President Trump and Prime Minister Trudeau on February 3rd, have generated a reprieve of 30 days for both countries as the US considers progress on issues triggering the tariff threat- border security and fentanyl.

But what is the value of this reprieve? Is it only to forestall the implementation of the US tariffs that are inevitable? Will the threat of tariffs on Canada be credibly removed, if Canada has satisfied the US concerns? What other possibilities exist for Canada-US trade relations in 30 days' time?

This advisory note considers what could occur following the month's reprieve, and how the Canadian agri-food sector could use this time.

What are the US Objectives?

Without a clear understanding of US objectives relative to tariffs with Canada, the thirty-day reprieve really just places Canada in limbo. The rationale for the reprieve is to examine compliance with, or satisfaction of, US concerns with its northern border. It is possible that, provided that Canada has demonstrated adequate response and adjustment to US requests, the tariffs could be taken off the table, and removed from further discussion. Or the tariff possibility could remain, pending periodic or ongoing performance monitoring of the border measures.

Policy Advisory Notes are non-commissioned, independent perspectives on issues in agri-food

Agri-Food Economic Systems 5225 7th Line RR#4 Rockwood, Ontario N0B 2K0 (519) 827-6239

www.agrifoodecon.ca

Or, conversely, the border issues raised with Canada by the US may actually be a pretense, with other objectives actually in mind:

- The new US administration may perceive that merely the prospect of material tariffs being suddenly enacted is sufficient to keep Canada off-balance, inhibiting investment and encouraging re-shoring of industries from Canada to the US- with no serious intent of actually implementing the tariffs.
- The tariffs may actually be more about financing the federal government in the US, and the intent to make permanent and further reduce tax cuts expiring in late 2025. In other words, the tariffs are needed to replace income tax revenues as these are being lowered.
- Mr. Trump may have endorsed, and is beginning to act upon, a bold set of actions designed to upend the global balance of payments and currency exchange rates, with the goal of retaining the US dollar as the reserve currency, but at exchange rates that would make US manufacturing exports more competitive, facilitating re-shoring. Sizeable US tariffs against other countries could facilitate this global reset.
- The initial tariff discussion related essentially to uniform tariffs country-by-country. But the idea of reciprocal tariffs has been discussed, and after April 1st and the completion of trade policy reviews by the Department of Commerce and other agencies, the US will be better positioned to pursue trade matters on a product basis. This could be a prelude to Mr. Trump taking action on existing US trade irritants- such as Canadian dairy and Mexican fresh fruits and vegetables- as well as new targets for tariffs and trade disputes. The current country-by-country tariffs contemplated by the US could serve to soften up its counterparts in product-specific tariff discussions, and perhaps force settlement on terms favorable to the US.
- There is a scheduled review of CUSMA/USMCA in 2025 with renewal discussions in 2026. Recent action questions the US commitment to this agreement, but it is possible that the tariffs and the current reprieve is designed to condition and intimidate Canada and Mexico in advance of these renewal discussions.
- On any given day, Mr. Trump may be considering an amalgam of these considerations, or focusing on just one of them (but which one?).

The job of negotiation is difficult enough when one trusts their counterpart, when a lot is riding on the relationship and outcome, and when what the counterpart wants is fairly clear. Then the discussion can turn to mutual problem solving, within the guardrails comprised of each party's national interests- integrative negotiating.

But in a matter of a few short weeks, the US under the new administration has committed some egregious breaches of trust against its closest allies, including Canada, putting at risk many years of accumulated goodwill. With this acknowledged, a second potent challenge is that the current US trade agenda is not clear.

Much of trade policy (but not all) is potentially win-win. If Canada understands the focused US agenda, it could find ways to help advance it, within the breadth of Canadian interests. But, Mr. Trump is not known for seeing trade as win-win, and prefers arrangements in which he can claim a win at the expense of his counterpart (i.e. win-lose). So, instead, we must consider defensive measures mindful of how we minimize our “loss”, or provide Mr. Trump with his “win” at least cost to Canada, within a broader win-win approach. A win for Canada may simply be retaining what we have now.

In establishing and managing bilateral relations, if one’s counterpart is trusted, reliable, and rational, there are some liberties that can be taken, fewer resources required, and the requirement for multiple redundant strategies for engagement greatly reduced. Only weeks into this second Trump presidency, literally all of these conditions have been violated. Acknowledging the weight of the Canada-US relationship, this is of great importance and urgency. We have one month until something happens, maybe- what will we do with our time?

Understand the Canadian Interest

In a trade negotiation (or a trade war) what matters is not just the vulnerabilities of the other side- it is also the vulnerabilities and opportunities of your side with respect to your counterpart. We need to understand ourselves.

However, a common approach is to focus on the vulnerabilities of a counterpart and target those in retaliation. For example, if the members of a legislature coming up for election can be identified and the key industries located in their constituencies determined, targeting the products of those key industries with retaliation provides leverage. This is accompanied by engagement with regional governments to remind them of the benefits from trade and the value of partnership.

This approach is centered on the opponent, rather than integrated in a country’s interest and strategy; in fact, it is a tactic, rather than a strategy. It also presents an awkwardness in dealing with the domestic parties disaffected by the trade retaliation who face higher prices they must pay- it is just their bad luck that their suppliers were located in the wrong place.

Understanding one’s interest is broader than this. It balances what we want and what we don’t want from a counterpart, and relates them to our internal strengths and weaknesses. For example, generally speaking, we want export access- but in some cases there are alternative and maybe better export markets. or third-country exporters that are competitors, or lack of scale, that de-emphasize the significance of export access. In other cases, we have individual processing plants that require a specific export volume in order to be viable. Alternatively, there may be critical imports obtained from the counterpart without which our costs would greatly increase, or some products that are no longer feasible without imported inputs.

Understanding these details entails much more work than figuring who is up for election where, and who/where has had a large Canadian export business that can be reminded of such. Interests

go right down to into the internal and external details of individual industries and companies. It cannot be skipped.

Maximum Intelligence

Because there is a range of plausible objectives, undisclosed, that the US may be pursuing with Canada at a given time, Canada must prepare for each prospective US objective. This entails much greater information collection, delineation of scenarios, and formulation of approaches and responses than would typically be the case.

Moreover, the doctrine under which US trade and agri-food policy has been conducted has changed, or will. Many of the people that have been engaged as career officials in the USTR, USDA, EPA, FDA, and other US government agencies that Canadian government officials and agri-food organizations have worked with have left, or will be moving on, replaced by people with less experience in the agency or with agri-food, and are in positions due more to perceived loyalty to the new administration. The implication is that greater effort will be required to obtain good information, independently validate it, and greater preparation for interaction will be required than has previously existed.

More Resources Required

The above suggests much greater preparation on behalf of companies, industries, and governments to document their interests, assessment of the potential objectives of the US, collection of information, and liaison with US agencies. This will take people resources, time, financial resources, focus, and urgency.

Governments can facilitate this, and agri-food industries should demand it. The communique of the FPT Agriculture Ministers' call on February 7th was underwhelming in this regard.¹ The call discussed the importance of the integration in North American agri-food supply chains, regional issues, internal trade within Canada and buying Canadian, expansion of international relationships, and business risk management programming in the context of the Canada-United States trading relationship.

What was missing from this dialogue is an indication of the deep significance and urgency of the fluid situation in Canada-US relations, and preparation for extraordinary measures or sweeping policy changes that could be required. Canadian agri-food is heavily premised on international rules-based trade, especially with the US. When this is suddenly a fluid situation, one would expect a tone of concern, recognition new and vastly greater risks, and a commitment to support Canadian agri-food industries with whatever policy tools are required, come what may. That seems not to have been evident from the call.

¹ <https://www.canada.ca/en/agriculture-agri-food/news/2025/02/federal-provincial-and-territorial-ministers-of-agriculture-meet-to-discuss-canada-united-states-trading-relationship.html>

Conclusion: 30-day Agenda

Prudence dictates that we assume that, in less than 30 days, the US tariffs against Canada will be back on the table, with a rationale that may or not reveal the next pretext that the US may use at the end of the current 30 days- or another 30 days thereafter. In the lead up, agri-food businesses, industry associations, and governments will have an opportunity to assess their risks, position themselves, and comment on retaliation and broader Canadian strategy. But as it is an extraordinary time, the effort required will be extraordinary and compressed into a very short time.

- Organizations- agri-food businesses, industries, and ministries of agriculture- need to use this time to understand themselves very deeply and realistically to identify their interests with respect to the US.
- Preparation will be paramount. As a rule of thumb, take whatever level of preparation thought to be sufficient and double it- so as to be prepared for a situation in flux, and the fog of war.
- Some firms and organizations have the resources they need for this; others will be pressed. Governments can offer exceptional support to facilitate preparation.

A Team Canada approach is a term used widely now, which means different things to different people. As it is applied here, it means preparation by the breadth of players in the agri-food sector individually, so that we can quickly and durably come up with a consensus to feed into the Canadian position and strategy, and provide guidance for adjustment as situations move in flux.

This should be our urgent task prior to early March 2025. But it will be the important work begun within the 30 days that will need to serve, and needs stand up, for four years or more of what could amount to extreme risk. We need all hands-on deck, now.