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The U.S.-Canada Trade Relationship:

CLEARED **The National and Economic Impacts of Canadian Tariffs**
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Abstract

The United States and Canada maintain one of the world's most significant bilateral trade relationships, with annual trade flows exceeding \$750 billion in 2023, bolstering millions of jobs and deeply integrated supply chains across North America (U.S. Census Bureau, 2023). Yet, this partnership is overshadowed by Canada's persistent protectionist tariffs, notably in agriculture (e.g., dairy tariffs up to 298%) and natural resources (e.g., softwood lumber disputes), which exact substantial economic costs on the United States (World Trade Organization [WTO], 2022). These tariffs, entrenched in decades of Canadian policy, restrict U.S. market access, disrupt supply chains, and undermine American competitiveness, costing industries billions annually.

This paper provides an examination of the historical evolution of Canadian tariffs, their multifaceted economic impacts on U.S. sectors like agriculture, manufacturing, and lumber, and the inherent unfairness they introduce into agreements such as the United States-Mexico-Canada Agreement (USMCA). Furthermore, it advances a detailed case for reciprocal tariffs as a strategic tool to not only counteract these imbalances and restore economic fairness but also enhance North American security and Arctic defense interests. By weaving together historical analysis, economic data, and security implications, this article underscores the urgency of addressing Canadian protectionism to preserve North American trade and defense cooperation's integrity, mutual benefits, and strategic resilience.

Keywords: trade, tariffs, Canada, North America



Introduction

The U.S.-Canada trade relationship is a cornerstone of North American economic stability, defined by a shared 5,525-mile border, centuries of commerce, and a modern trade volume reaching \$758 billion in 2023 (U.S. Census Bureau, 2023). Canada serves as the top export market for 36 U.S. states, while the U.S. absorbs over 75% of Canadian exports, making this partnership an economic powerhouse for both nations (Statistics Canada, 2023). This interdependence was formalized through landmark agreements like the North American Free Trade Agreement (NAFTA) in 1994 and its successor, the USMCA, implemented in 2020, to eliminate trade barriers and foster equitable exchange. However, Canada's enduring protectionist tariffs, particularly in agriculture, softwood lumber, and select industrial sectors, cast a persistent shadow over this relationship, disproportionately burdening U.S. producers and challenging the principles of free and fair trade.

In agriculture, Canada's supply management system imposes tariffs exceeding 200% on U.S. dairy, poultry, and egg imports, severely curtailing market access for American farmers (WTO, 2022). In softwood lumber, a dispute spanning over 40 years accuses Canada of subsidizing its producers, flooding the U.S. market with below-cost timber and devastating American lumber mills (U.S. Department of Commerce, 2023). These policies are not historical artifacts but active impediments costing the U.S. economy billions annually, disrupting supply chains, and threatening jobs from Wisconsin to Oregon. For instance, the U.S. dairy industry loses an estimated \$1 billion yearly due to Canadian



restrictions, which escalates when losses across other sectors are included (National Milk Producers Federation, 2023).

From a pro-U.S. perspective, these tariffs are economically damaging and fundamentally unjust, as Canada enjoys near-unfettered access to the U.S. market, the world's largest consumer base, while shielding its industries behind high tariff walls, exploiting American openness. This asymmetry undermines the spirit of bilateral agreements and necessitates a strategic U.S. response. This article analyzes Canadian tariffs' historical roots, their economic and security consequences for the U.S., the inequities they perpetuate, and the multifaceted advantages of reciprocal tariffs in restoring balance and bolstering national defense, particularly in the Arctic.

Origins and Enduring Effects of Canadian Tariff Policy

Canada's application of tariffs against U.S. goods has a deep-rooted history, reflecting a deliberate strategy to protect its domestic industries, often at the expense of its southern neighbor, a pattern that not only harms U.S. economic interests but also complicates joint security efforts critical to North American defense. In agriculture, the supply management system, established in the late 1960s and early 1970s, governs dairy, poultry, and egg production through production quotas, price controls, and steep import tariffs. Canada imposes over-quota tariffs as high as 298% on U.S. butter and 245% on cheese, measures rooted in the 1971 Dairy Commission Act to shield Canadian producers from U.S. competition following post-World War II export surges (WTO, 2022; Agriculture and Agri-Food Canada, 2020). Poultry and eggs face similar barriers, with tariffs of 238% on



chicken and 163% on eggs introduced in the 1970s and 1980s to counter U.S. surpluses, effectively blocking American farmers from Canada's market (USDA, 2023).

Despite trade agreements like NAFTA (1994) and USMCA (2020) aiming to liberalize markets, Canada has clung to these restrictions, employing tactics such as allocating 85% of its dairy tariff-rate quotas (TRQs) to domestic processors in 2022, a move ruled non-compliant by a USMCA panel yet insufficiently rectified, further entrenching its protectionist stance (USTR, 2023). Beyond agriculture, the softwood lumber dispute, dating back to the 1930s when U.S. sawmills accused Canada of dumping during the Great Depression, illustrates this trend. The conflict intensified in the 1980s under GATT, leading to the 2006 Softwood Lumber Agreement capping Canadian exports at 34% of U.S. consumption, only for disputes to reignite in 2017 with U.S. duties reaching 24% as Canada's low stumpage fees, enabled by public ownership of 90% of its timberland, continue to undercut U.S. prices (U.S. Department of Commerce, 2023; USTR, 2022). More recently, Canada's 2018 retaliatory tariffs on U.S. steel and aluminum, targeting items like whiskey and steel pipes in response to U.S. Section 232 tariffs, underscore its readiness to escalate tensions, painting a consistent picture of prioritizing domestic insulation over bilateral equity (Government of Canada, 2018).

Sector-by-Sector Economic Impacts on U.S. Industry

The economic fallout for the United States from these tariffs is substantial, manifesting in lost export revenue, supply chain disruptions, and job losses that ripple across multiple sectors, consequences that weaken the economic foundation critical to U.S. national security and defense capabilities. In dairy, U.S. farmers lose approximately \$1



billion annually due to Canada's 270% average over-quota tariffs and restrictive TRQs, with exports to Canada in 2022 totaling just \$645 million, only 7% of global U.S. dairy exports, despite proximity and demand (National Milk Producers Federation, 2023; USDA, 2023). Poultry and egg exports fare similarly, reaching a mere \$200 million against \$4.5 billion globally, as tariffs price U.S. goods out of the market (USDA, 2023).

Canada's alleged subsidies secure a 25% U.S. market share in lumber, costing American producers \$500 million yearly and contributing to widespread mill closures (U.S. Lumber Coalition, 2023). Supply chain disruptions exacerbate the damage: Canada's 2018 steel and aluminum tariffs raised costs for U.S. automakers like Ford and General Motors, who rely on Canada for 40% of their steel, adding \$1 billion annually, costs either absorbed or passed to consumers, eroding industrial competitiveness essential to defense production (Center for Automotive Research, 2020). Job losses are stark, with over 3,000 U.S. dairy farms closing between 2015 and 2020, partly due to restricted markets like Canada, and the lumber sector losing 10,000 jobs since 2015 as Canadian imports surged, weakening rural economies that support national stability (USDA, 2021; U.S. Lumber Coalition, 2023).

Collectively, Canadian agricultural tariffs reduce U.S. GDP by \$2.5 billion annually, escalating to \$5 billion with lumber and retaliatory actions. Lumber tariffs alone have inflated housing costs by \$9,000 per home, straining consumer welfare and economic resilience (U.S. International Trade Commission, 2022; National Association of Home Builders, 2021). These economic impacts undermine the U.S.'s ability to fund and sustain defense initiatives, including those vital to Arctic security.



This economic harm is compounded by the inherent unfairness of Canadian tariffs, which expose a glaring asymmetry in the U.S.-Canada trade relationship, an imbalance that disadvantages U.S. producers and jeopardizes the mutual trust essential for security and defense cooperation, particularly in the Arctic. Canada's average agricultural tariff stands at 14.8%, with over-quota rates soaring above 200%, dwarfing the U.S.'s 5.3%; a U.S. dairy farmer exporting cheese faces a 245% tariff, while a Canadian counterpart pays just 3.5% to enter the U.S. (WTO, 2022). Even in industrial goods, Canada's 3.8% average tariff edges out the U.S.'s 3.3%, amplifying the disparity (WTO, 2022). Canada further tilts the scales by undermining trade agreements, such as skewing 85% of dairy TRQs to its processors despite USMCA obligations, a practice condemned in a 2021 USMCA ruling yet persistently unresolved (USTR, 2023). Meanwhile, Canada exports \$450 billion annually to the U.S., 75% of its total exports, facing minimal barriers, while U.S. exports of \$308 billion encounter high tariff walls, exploiting American market openness (Statistics Canada, 2023). These one-sided dynamics flout the reciprocity and mutual benefit that should underpin bilateral trade, weakening the economic and political cohesion necessary for joint defense efforts, such as those in the Arctic, where U.S.-Canada unity is critical to countering external threats.

Strategic Utility of Reciprocal Tariffs

A potent remedy lies in reciprocal tariffs, which could realign this skewed relationship by mirroring Canada's rates on equivalent goods while simultaneously enhancing U.S. security and defense interests, including in the Arctic, a region of growing strategic importance. From an American perspective, tariffs offer significant advantages:



they protect domestic industries vital to national security, bolster economic resilience, and strengthen strategic leverage against Canada's protectionism. Imposing a 245% duty on Canadian cheese could pressure Canada to ease dairy access, potentially lifting U.S. exports by \$500 million annually, revitalizing rural economies that underpin national stability, and freeing resources for defense investments (National Milk Producers Federation, 2023).

Existing U.S. duties have countered Canadian subsidies in lumber, saving 5,000 jobs and preserving industrial capacity critical to infrastructure and defense production, such as military bases and Arctic facilities (U.S. Lumber Coalition, 2023). Tariffs help by safeguarding key supply chains, such as steel and aluminum tariffs in 2018, which bolstered U.S. producers essential to defense manufacturing, reducing reliance on imports vulnerable to disruption (White House, 2018). The 2019 steel and aluminum tariff resolution, achieved through reciprocal pressure and negotiation, restored supply chain stability and demonstrated tariffs' efficacy in securing economic and security outcomes (USTR, 2019).

Linking Trade Policy to Arctic Defense Readiness

In the Arctic, where the U.S. and Canada collaborate via NORAD to counter Russian militarization and Chinese ambitions, tariffs strengthen U.S. industrial capacity, e.g., steel for RADAR systems and lumber for Arctic bases, ensuring readiness against threats like hypersonic missiles (U.S. Department of Defense, 2022; Department of National Defense Canada, 2022). Moreover, tariffs signal resolve, pressuring Canada to align trade policies with defense cooperation, as economic stability underpins joint efforts like Arctic



surveillance and satellite networks (Canadian Global Affairs Institute, 2021). Though escalation risks loom, as seen in the 2018 tariff spat's consumer price hikes, phased and targeted tariffs—starting at 50% on strategic goods—can limit fallout while asserting U.S. leverage, offering a corrective tool to ensure economic equity and security resilience (Statistics Canada, 2020).

Conclusion

Canada's persistent use of high tariffs against U.S. goods, whether the 298% duties strangling American dairy exports or the subsidies fueling its lumber dominance, inflicts profound economic damage on the United States, costing billions in lost revenue, disrupting supply chains, and erasing thousands of jobs across critical industries. This is not a minor trade irritant, but a systemic challenge rooted in decades of Canadian protectionism that prioritizes domestic gain over mutual prosperity, costing the U.S. dairy sector \$1 billion annually, lumber producers \$500 million, and the broader economy up to \$5 billion in GDP losses (National Milk Producers Federation, 2023; U.S. Lumber Coalition, 2023; U.S. International Trade Commission, 2022). The unfairness is undeniable: Canada floods the U.S. with \$450 billion in exports annually, 75% of its total, facing minimal barriers while barricading its markets with tariffs dwarfing U.S. rates, exploiting American openness and undermining the trust essential to a robust trade and defense partnership (Statistics Canada, 2023; WTO, 2022). Beyond economics, this imbalance threatens U.S. security and Arctic defense, weakening the industrial base and political cohesion needed to counter Russian and Chinese threats through NORAD and Arctic initiatives (U.S. Department of Defense, 2022; Canadian Global Affairs Institute, 2021).



Reciprocal tariffs emerge as a compelling and necessary response, offering a multifaceted mechanism to level the playing field, protect U.S. interests, and enhance national security, a strategic imperative from an American perspective. By matching Canada's prohibitive rates, such as a 245% tariff on its cheese, the U.S. could unlock \$500 million in export gains, safeguard 5,000 lumber jobs, and bolster industries critical to economic and defense resilience, ensuring resources for Arctic RADAR and surveillance systems (National Milk Producers Federation, 2023; U.S. Lumber Coalition, 2023; Department of National Defense Canada, 2022).

Tariffs help by protecting supply chains, evidenced by the 2018 steel tariffs strengthening domestic production and pressuring Canada to negotiate fairer trade terms, as seen in the 2019 resolution, enhancing U.S. leverage in security cooperation (White House, 2018; USTR, 2019). Critics highlight escalation risks, like the 2018 consumer price hikes, but a phased approach, targeting dairy and lumber while sparing broad consumer goods, mitigates fallout, balancing economic assertion with diplomatic finesse (Statistics Canada, 2020). Strategically, tariffs fortify U.S. readiness in the Arctic, where economic strength underpins joint defense against adversaries, signaling to Canada that trade equity is integral to NORAD's success (U.S. Department of Defense, 2022).

The stakes are monumental, extending beyond economics to the core of U.S. security and North American stability. Ignoring this imbalance risks entrenching a dynamic where American economic and defense interests are perpetually subordinated, weakening deterrence against Arctic threats and eroding competitiveness. Yet, conflict is avoidable: reciprocal tariffs, paired with rigorous USMCA enforcement, can pave the way for a



stronger, fairer partnership. By standing firm, the U.S. can safeguard its industries, reclaim economic opportunities, and ensure trade with Canada supports mutual prosperity and security. The path forward demands resolve; only through decisive, strategic action can the United States protect its economic future, strengthen its defense posture, and maintain a resilient alliance capable of securing the Arctic and beyond.

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