

Recent contacts between Washington and Ottawa have raised the possibility of relief from the tariffs that have disrupted one of the world's largest bilateral trading relationships since mid-2025. President Donald Trump and Prime Minister Mark Carney spoke by phone on October 21. Commerce Secretary Howard Lutnick and Canadian Trade Minister Dominic LeBlanc have held regular discussions focused on Section 232 duties covering Canadian steel and automobiles. U.S. officials, including National Economic Council Director Kevin Hassett, have described the talks as "very close." Canadian sources, by contrast, characterize the exchanges as informal, note "limited progress," and emphasize that key elements remain unresolved. As one official put it, the two sides are "not on the verge of an agreement." The divergence is not merely rhetorical. It reflects structural mismatches in objectives, domestic political constraints, and the unfinished business of the USMCA review that make a broad, durable settlement unlikely in the near term.

The scale of the relationship underscores both the cost of the current impasse and the difficulty of resolving it. According to the Office of the U.S. Trade Representative, U.S. goods and services trade with Canada totaled an estimated \$872.3 billion in 2025, a 4.6 percent decline from the prior year. Goods trade alone reached roughly \$715.5 billion, with U.S. exports to Canada at \$333.6 billion and imports from Canada at \$381.9 billion, producing a goods deficit of \$48.3 billion. Canada continues to send approximately 72 percent of its goods exports to the United States. Before the 2025 tariff escalation, more than 99 percent of bilateral merchandise trade moved duty-free under the United States-Mexico-Canada Agreement (USMCA). That architecture has been eroded by sector-specific measures that now apply regardless of USMCA origin status.

U.S.–Canada Goods Trade Contracted in 2025, but the Relationship Remains Enormous

2024



\$349.9B

Exports

\$411.9B

Imports

2025

\$336.5B

Exports

\$383.0B

Imports

Trade Balance

2024: -\$62.0B 2025: -\$46.5B Narrowed by \$15.5B

Goods trade fell in both directions in 2025 (exports -3.8%, imports -7.0%), yet total two-way goods flow still exceeded \$719 billion. The narrower deficit reflects faster import decline rather than any structural rebalancing.

Source: U.S. Census Bureau, Trade in Goods with Canada (nominal, not seasonally adjusted); USTR Canada trade summary.

The damage is concentrated but severe. Canadian steel shipments to the United States, which previously accounted for roughly 90 percent of the sector's exports, fell by about 60 percent in 2025 after the Section 232 rate rose to 50 percent, according to the Canadian Steel Producers Association. Domestic producers have partially offset the loss by capturing a larger share of the Canadian market—rising from 41 percent to 51 percent of steel use—but the adjustment has been uneven, with plant idling and layoffs at major facilities. Automobile trade shows parallel strain. Canadian finished-vehicle exports to the United States are down more than 10 percent. The U.S.-built share of new-vehicle sales in Canada declined to 28.4 percent in the first half of 2026 from 35.4 percent a year earlier. Softwood lumber continues to face combined antidumping and countervailing duties of 24.75 percent plus a separate 10

percent Section 232 tariff. Section 338 measures of 50 percent still cover roughly \$20 billion in Canadian goods, matched by Canadian countermeasures of comparable scope. These figures explain why officials are talking again; they also illustrate why limited de-escalation on specific products does not equate to a comprehensive bargain.

The August 2026 collapse of formal negotiations provides the most relevant precedent. Talks advanced to a near-final stage before breaking down over last-minute demands, including treatment of medium- and heavy-duty trucks important to Canadian assembly plants. The United States then imposed the Section 338 duties, and Canada retaliated. Current discussions focus primarily on possible relief from the Section 232 steel and auto tariffs, with Trump having threatened to raise the auto rate from 25 percent to 50 percent beginning January 1, 2027. Canadian officials maintain that their bottom lines have not shifted: meaningful tariff relief on steel, aluminum, and autos is required, and any agreement must serve Canadian interests. U.S. sources indicate that Washington continues to seek further concessions. The gap between these positions has not closed simply because the frequency of conversations has increased.

Two enduring structural issues complicate any broader resolution. The first is Canada's supply-management system for dairy, poultry, and eggs. Production quotas, administered pricing, and over-quota tariffs of roughly 200 to 300 percent have long been treated as politically sacrosanct, particularly in Quebec. Under the USMCA, the United States obtained phased tariff-free access equivalent to roughly 3.5 to 3.9 percent of the Canadian dairy market; U.S. dairy exports to Canada stood at about \$1.3 billion in 2025. Washington has repeatedly argued that the system restricts access and has cited it among the justifications for Section 338 actions. Ottawa has consistently described core elements of supply management as non-negotiable. Even if the current talks produce limited tariff relief elsewhere, dairy remains a high-friction residual dispute whose resolution would require concessions that Canadian governments have historically been unwilling to make.

U.S. Dairy Exports to Canada Nearly Doubled Since 2020—Yet Access Remains Tightly Capped



2020

\$736M

2025

\$1.31B

+78% growth (2020–2025)

Canada is now the #2 U.S. dairy product export market after Mexico.

Access still limited

USMCA tariff-free quotas cover only ~3.5–3.9% of the Canadian market; over-quota tariffs remain 200–300%.

The United States already runs a large dairy surplus with Canada and has secured steady growth under existing USMCA access. Further meaningful expansion would require Canada to reopen supply management—an issue that has repeatedly blocked broader trade deals.

Source: USDA Foreign Agricultural Service, Dairy Products export data; industry summaries citing FAS figures. Quota details from USMCA schedules.

The second structural constraint is the USMCA itself. On July 1, 2026, the United States declined to renew the agreement for an additional 16-year term, stating that it would not extend the pact “in its current form.” The decision activated the annual review mechanism under Article 34.7. The agreement remains fully in force through its scheduled expiration on July 1, 2036, and the three parties may still confirm a 16-year extension at any time. In practice, however, the United States has pursued bilateral tracks and has floated tighter automotive rules of origin—raising the regional value content threshold from the current 75 percent toward 82 percent and, in some discussions, adding a country-specific U.S. content requirement. Such changes would raise costs across an already integrated North American supply chain and risk diverting production outside the region. Canada and Mexico preferred a longer extension; the shift to annual reviews creates a standing venue for further demands while leaving firms facing prolonged uncertainty.

Domestic politics reinforce the distance between talking and concluding. With U.S. midterm elections on November 3, tariffs have become a liability for Republican candidates in border states, and Trump's approval has hovered near 32 percent. Some product-specific adjustments have already been made for political reasons. Yet midterm pressure is a temporary incentive. Canada's governing coalition faces its own constraints: auto and steel employment in Ontario, dairy producers in Quebec, and a public that has supported retaliatory measures. Carney has stated that Canada will wait for a deal that meets its interests rather than accept unfavorable terms. These incentives do not align for rapid, comprehensive concessions.

The recent intensification of contacts is therefore best understood as risk management rather than the closing stage of a negotiation. Limited relief on Section 232 measures remains possible, particularly if it serves short-term political or sectoral interests on both sides. A broader settlement that addresses dairy access, automotive rules of origin, the overhang of the USMCA review process, and the mutual application of high tariffs is not in prospect. The data on trade volumes, sectoral declines, and the documented gap between official assessments all point to the same conclusion: conversations have resumed, but the structural conditions that produced the August collapse have not been removed. Any agreement that emerges is likely to be narrow, provisional, and subject to further testing under the annual USMCA review process.