PRESS RELEASE

United States–Canada: behind the new 50% tariffs, Washington is sparing the sectors on which it depends

New York, July 30, 2026 – On July 20th, the White House announced new 50% U.S. tariffs on $20bn-worth of imports from Canada, representing approximately 5.2% of total Canadian exports to the United States, scheduled to enter into force on August 19, 2026. While the announced tariff rate is exceptionally high, the measures remain narrowly targeted and largely spare the sectors on which the United States remains most dependent.

Key figures:

- 50% – level of the new US tariffs
- 5.2% – proportion of Canadian exports to the United States affected
- 63% – proportion of Canadian crude oil in US oil imports

Exemptions highlight critical U.S. dependencies

Though the rate applied to the targeted goods is very high, the scope is narrow. The US has deliberately excluded commodities for which it has critical supply chain exposures: crude oil (63% of U.S. imports) and natural gas (close to 99%), potash fertilizer (81%), zinc (62%), nickel (58%) and lead (47%) and various critical minerals.

Despite being the world's top fossil fuel producer, the US remains heavily reliant on Canadian crude for parts of its refining system. Tariffing these flows would likely push up gasoline prices in the US.

Likewise, potash fertilizer is a core agricultural input for major U.S. crops (corn, soybeans, wheat, cotton, fruits & vegetables). Canada possesses approximately 1.1 billion of potash reserves, roughly one-third of the global total, compared with about 220 million in the United States.

Finally, at a time when the U.S. is seeking to reduce its dependence on China for critical minerals, maintaining and expanding trade with Canada is essential for EV battery production, defense, energy and high-end machine tools.

Tariffing the visible, not the vital

By contrast, the targeted products account for only a small share of bilateral trade and are largely replaceable.

Notably, several targeted products, such as dairy, wine and hockey equipment, are highly visible symbols of Canadian industry, increasing the political visibility of the measures despite their limited macroeconomic significance. The White House argues that the measures are intended to respond to allegedly discriminatory Canadian treatment of U.S. automobiles (which do not see any additional duties under this S.338 action), alcohol and dairy products, as well as the tariffs Canada imposed last year in retaliation to early 2025 US tariffs (most of which have already been revoked). This is the rationale for invoking Section 338, which authorizes action against countries deemed to discriminate against U.S. commerce. This is the first tariff package to invoke Section 338 of the 1930 Tariff Act as a legal basis. Therefore, its legal sustainability is uncertain and will be tested in court, as was the case for the now-defunct IEEPA tariffs currently being reimbursed.

Tariffs as a negotiating tool

It is hard to see what Canada can realistically offer that would appease the US. Most of the retaliatory tariffs cited as justification have already been removed since September 2025, limiting Ottawa's room for additional concessions. Conversely, the US will push hard on liberalizing access to Canada's dairy market. Here, provincial politics will make it hard for PM Carney to compromise, with October elections approaching in Quebec (the center of the dairy industry).

If there is enough progress in bilateral talks over the coming weeks, the 30-day grace period may be extended, or the tariffs may be scrapped altogether. However, the Canadian government is preparing retaliation, and the U.S. is unlikely to back down without concessions.

Therefore, our working assumption is that these Section 338 tariffs will go into effect on August 19, without major destabilizing effects for either economy. If implemented, they would apply to an estimated 1.6% of Canadian GDP and 0.03% of US GDP, raising Canada's effective tariff rate from 3.1% to 5.3%, still below the global average of 6.5%. Targeted industries will be hurt, but the broader economy should absorb the shock.

"The measure illustrates Washington's desire to increase pressure on Ottawa whilst limiting the risks to its own supply chains. The most strategic sectors remain largely unaffected, suggesting a negotiating strategy rather than a fundamental challenge to North American economic integration." – Marcos Carias, economist for North America.

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