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The Saturday Night Tariff Threshing

- **The Trump administration has launched a trade war**
- **What the US did, how Canada, Mexico, China and Canadian provinces responded**
- **Next steps**

This note provides a summary of trade measures undertaken by Canada and the US on Saturday February 1st. As much of Asia returns from the Lunar New Year holiday, I suspect that there will be swift, concentrated market reactions into the Monday open with particular emphasis upon the dollar, CAD and MXN.

The Trump administration imposed punishing tariffs on Canada, Mexico and China today. Canada has already retaliated in meaningful fashion, signalling its readiness. Mexico has pledged to announce retaliatory tariff and non-tariff measures. China has said it will pursue countermeasures. Some Canadian provinces have also announced measures. What follows is a summary of developments and possible further developments.

HERE IS WHAT THE US DID BEFORE TURNING TO THE CANADIAN RETALIATION

- The US issued [this](#) Executive Order that utilized the International Emergency Economic Powers Act, the National Emergencies Act, section 604 of the Trade Act of 1974, and section 301 provisions. This is consistent with expectations about what tools would be used to create a national security rationale for imposing tariffs.
- The US is imposing 25% tariffs on all Canadian and Mexican imports except a 10% tariff on Canadian oil, electricity and natural gas, effective Tuesday February 4th.
- The US will impose a 10% extra tariff on China above current tariff levels.
- The US is revoking the de minimis exemption on Canada-US shipping which means duties will be paid on online purchases from the US by Canadians for example.
- There is a provision in the US executive order that will escalate tariffs if Canada responds. Of course there is, he doesn't want retaliation.

HERE IS WHAT THE CANADIAN GOVERNMENT HAS ANNOUNCED

- PM Trudeau held a press conference and issued [this](#) release announcing a 25% tariff on \$155 billion of US goods.
- The first tranche of 25% tariffs will apply to \$30B of US goods as of Tuesday.
- Further tariffs on \$125B of goods will be applied in 21 days to give time for Canadians to find alternatives. PM Trudeau rattled off a long list of items from alcohol, fruit and fruit juices, vegetables, clothing, appliances, furniture, materials, plastics etc etc
- The PM also said "we are considering several non tariff measures" with provinces.
- The purpose to saying this was to make it clear in response to the US threat of further retaliation that Canada would be prepared to retaliate with other measures such as higher tariffs, procurement programs, and perhaps access to critical minerals.
- Trudeau also said "we will not be pursuing measures that further divide the country" in commenting upon other possible retaliatory measures. He went on to note that no one region of the country must bear a disproportionate share of the burden of retaliation. You could infer from that a signal that regional industry measures that would affect, say, oil, potash, and uranium, may not be impacted but this is unclear nor is the list of items.
- In response to a question about recalling Parliament, Trudeau basically said today's announcements are proof they have the ability to respond. He did not answer

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directly, but read between the lines that the answer is no. This is hardly shocking as the Liberals do not yet have a chosen leader.

The PM also said he has tried to reach President Trump since inauguration but has been unsuccessful. This may be taken as a sign of the futility in negotiating with the Trump administration that was determined to take such measures regardless of Canadian attempts to appease such as a ten-figure border security package.

HERE IS WHAT PROVINCES HAVE ANNOUNCED SO FAR

- BC Premier Eby said that "it's a declaration of economic war." He announced that BC will stop buying American liquor from red states. He will direct crown corporations and government agencies to stop buying American. Eby gave full support for comprehensive tariffs by the Canadian government. He also announced that BC will expedite mining, renewable energy and natural gas projects and accelerated permit approvals on critical mining and low carbon projects.
- Ontario Premier Ford has pulled all American alcohol from the LCBO stores and restaurant catalogues.
- N.S. Premier Houston announced that the NSLC will remove all American alcohol from the United States, not just red states, limit access by American firms to provincial procurement, and double tolls on US commercial vehicles at the Cobequid Pass.
- Quebec Premier Legault said his province will penalize American firms bidding on procurement and left further measures to the PM.

Overall, I have to give credit to PM Trudeau and Team Canada. They were clearly prepared for this and did their homework. He spoke eloquently and with purpose while reaching out to both Americans and Canadians versus the divisive, anti-Canadian combative approach taken by the US administration. At issue is whether the US signature carries any value on its international agreements as it withdraws on multiple fronts and violates the CUSMA/USMCA trade agreement.

ADDITIONAL POSSIBLE IF NOT LIKELY DEVELOPMENTS MAY INCLUDE

- Canada is likely to post a formal release including lists of targeted products like it did in 2018, only much bigger.
- Watch for further possible further comments from Provincial premiers. We've heard retaliatory steps from BC and NS. Quebec's Premier said they would penalize US firms in procurement programs but left the rest to Trudeau. We have not heard specific measures from others yet.
- Watch for any further details from Mexico's Sheinbaum on potential retaliatory tariffs and non-tariff measures.
- Monitor Trump's remarks for possibly further retaliatory steps that may invite additional steps from Canada and Mexico.
- Watch for announcements on specific stimulus measures in Canada.
- Canada did not respond dollar for dollar, making the probability of BoC easing higher although deep supply chain shocks are a risk.

More reasonable elements may still exist in the US to find a way out of this but the economic consequences will be severe for both countries if it does not happen soon. Half of the population did not vote for Trump. The US aluminum industry is urging Trump to exempt Canada from tariffs. The [WSJ](#) lambasted the US administration for starting the "dumbest" trade war in history. Key players in the automotive sector are immediately warning of plant shutdowns and the cessation of production. Inflationary supply shocks are coming once again.

Unfortunately Canada-US relations have sharply deteriorated in breathtaking fashion that I certainly haven't seen in my life or 30-year career. You could hear it in the unfortunate booping of the American anthem at the Ottawa Senators hockey game. You could see it in border towns reportedly taking down the US flag. You can hear and see it in the responses of Canadian politicians of all stripes and levels of government who are unified around fully retaliating. Canada feels betrayed. Violated. Punched by its big brother for no damn good reason. The family still struggling to make ends meet faces fresh out-of-the-blue uncertainty. The household struggling with mortgage resets now faces a needless additional worry. Canada is under an unprovoked attack by a belligerent American President and subjected to unhelpful insults from folks on the periphery like Texas Republican Governor Abbott. Even groundhogs are afraid of popping their heads up today.

This is not who Canadians are. I once didn't think it was who Americans are. The Trump administration has kicked the granddaddy of all own goals. Innocent lives on both sides of the border will be affected by economic upheaval. It is vitally important to understand the true motives of the US administration that have nothing to do with fentanyl. See my Global Week Ahead for such a discussion ([here](#)).

It's time for American businesses and consumers to join their Canadian peers to make their voices loud and clear that the path chosen by this US administration is a terribly unwise one with deep ramifications for all.

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