TORONTO REGION BOARD OF TRADE

BY THE NUMBERS

The Canada-US Relationship

Context:

Recently, US President-elect Donald Trump declared a 25% tariff on all products entering the US from Canada and Mexico commencing on January 20, 2025, if specific action is not taken by both Canada and Mexico, with a particular focus on border security. This decision is a stark escalation in trade tensions and signals a critical need for Canada to address vulnerabilities in its economic policies and its relationship with the US.

- Canada and the US share one of the most integrated and beneficial trade relationships globally. Trade between the two nations amounts to over $950 billion annually, supporting millions of jobs on both sides of the border.
- The automotive sector exemplifies this shared prosperity, with parts crossing the Canada-US border up to eight times before final assembly.

The stated rationale for the tariffs ties them to immigration and drug trafficking concerns. Mr. Trump has framed these economic measures as tools to coerce action on broader social and border security challenges. This rhetoric is consistent with his first presidency but now comes with an expanded focus on social issues. This development underscores longstanding critiques of Canada's approach to US relations in which US stakeholders, including business leaders, have raised concerns about Canada's lack of urgency in addressing shared challenges. Canada's high cost business environment leaves it particularly vulnerable to tariffs, highlighting the necessity for investing in productivity-enhancing technologies and streamlining regulatory frameworks.

THE BOARD'S RECOMMENDED STRATEGIC ACTIONS

1. Engage Early and United:

- A proactive "Team Canada" approach is essential. Efforts must begin immediately to engage allies and influencers within the US aligned with Mr. Trump.
- A cohesive, central message that Canada is committed to addressing bilateral concerns can help strengthen our position.

2. Prioritize Key Areas:

- Energy and Natural Resources: Accelerate critical mineral projects and pipeline initiatives to align with US strategic priorities.
- Security Collaboration: Increase investments in Arctic defense and border security.
- Policy Coordination: Avoid unnecessary trade conflicts, such as the current issue with the digital services tax, by aligning better with multinational norms.

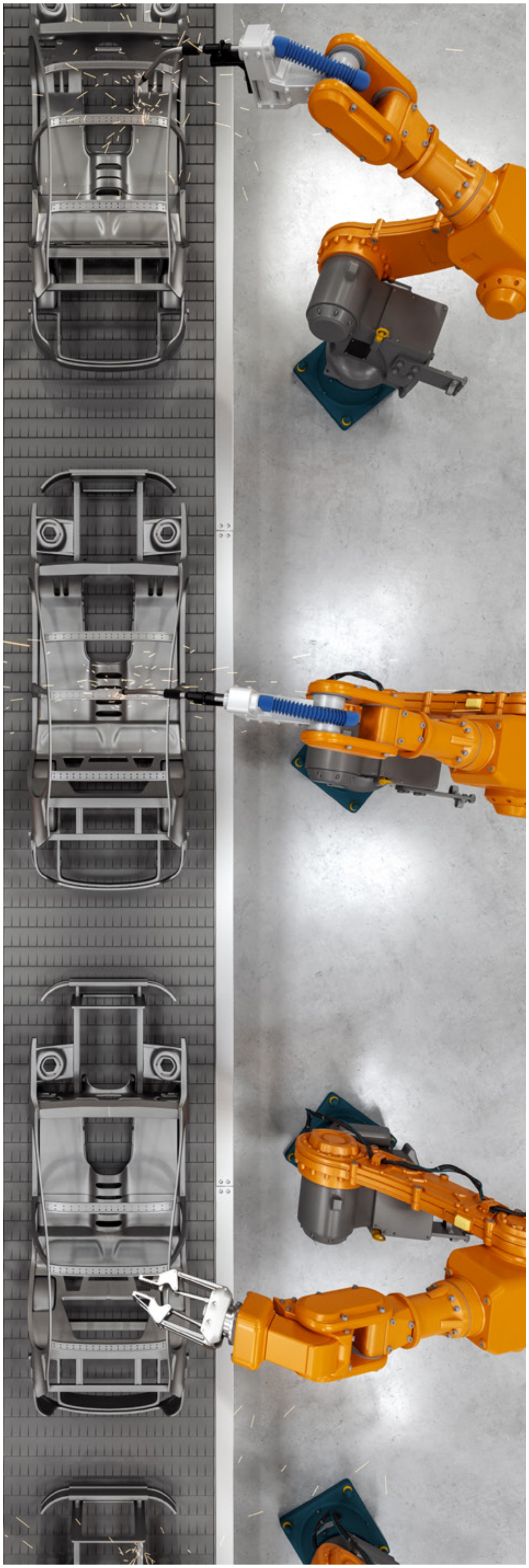
3. Boost Productivity:

- Canadian businesses must urgently adopt productivity-enhancing technology and innovation to remain competitive. Our Business Council of Toronto agenda has been banging this drum for over a year and now is the time for more urgent action. Government support in this area will likely be necessary to drive rapid change.

Building on the key talking points on cross border trade, available publicly on the Board's website **(key facts)**, below is a deeper dive outlining pertinent facts and risks to be considered by region's businesses and key sectors.

KEY FACTS:

- Total trilateral merchandise trade between Canada, the US, and Mexico hit **$1.93 trillion** in 2023.
- Ontario – US trade alone is valued at around **$500 billion** annually.
- If Ontario were a country, it would be the **US's third-largest trading partner** — a testament to our mutual reliance.
- In 2023, **82% of Ontario's exports went straight to the US**, and **roughly 77% of Canada's**.
- According to the province, in 2023, Ontario was the **top export destination** for 17 US states.
- Every day, over **$320 million** in goods flow across the Ambassador Bridge between Windsor and Detroit.
- Since CUSMA came into effect in 2020, trade in North America has increased by **47%**.



Automotive:

- In 2023, Canada, Mexico, and the US produced over **16 million cars** (17.28% of the world's total).
- Combined, Ontario and Michigan are responsible for approximately **22%** of North America's automotive output.
- Parts cross the border up to **eight times** before a car rolls off the line, underscoring how tightly our manufacturing sectors are woven.
- Automakers and suppliers are the US's largest manufacturing sector, historically responsible for **3 – 3.5 percent of the country's GDP**.
- **2023 estimates** show that the US share in the total Canadian automotive import market stands at approximately 62%.
- The auto industry is one of Canada's largest manufacturing sectors and a major driver of the Canadian economy, according to the Canadian Vehicle Manufacturers' Association. It contributes **$18 billion** to the country's GDP, employs **128,000 Canadians** and is responsible for a total of 550,000 direct and indirect jobs. Vehicles are the second largest Canadian export by value at **$51 billion** in 2023 of which 93% was exported to the US.

CONSIDERATIONS
The US will likely want to bring the issue of how originating auto parts were calculated and what qualifies as a regional value content (RVC) back to the table in 2026.

Steel and Aluminum:

- Canada's aluminum and steel sectors support over **130,000 jobs** across the country.

- Ontario is at the heart of Canada's primary metal manufacturing, **representing over half of the industry's employment** in the country.

- Ontario is a leading producer of steel in Canada, with major production facilities located in cities like **Hamilton** and **Sault Ste. Marie**.

- The **US is the primary export market** for Ontario's steel and aluminum, accounting for a significant portion of Canada's overall exports.

CONSIDERATIONS

In 2018, the US imposed tariffs of **25% on Canadian steel and 10% on aluminum** under Section 232 of the Trade Expansion Act, citing national security concerns. Although these tariffs were lifted in 2019, the potential for future tariffs remains a risk, impacting Ontario's manufacturers and creating market uncertainty. In response to the Section 232 tariffs, Canada imposed **retaliatory tariffs** on various US products, affecting Ontario-based manufacturers. Should similar tariffs be reintroduced, the sector could experience disrupted supply chains and higher production costs. While CUSMA removed many trade barriers, it does not eliminate the risk of tariffs under **national security provisions**. The agreement has **yet to fully secure** the sector against future trade disputes, leaving Ontario's steel and aluminum producers vulnerable to unexpected tariff actions.

Agriculture and Agri-Food:

In 2023, the **agriculture and agri-food sector** generated $150 billion, around 7 percent of Canada's GDP. This sector employed 2.3 million people – 1 in 9 jobs in Canada.

Ontario's agri-food exports to the US totaled **CAD 21.6 billion in 2023**, making the US the largest market for Ontario's agricultural products.

Major **exports** include grain products, meat products, and processed foods.

CONSIDERATIONS
The US has contested Canada's allocation of dairy tariff-rate quotas (TRQs), arguing that Canada's practices limit American access to the Canadian market. This has led to **formal dispute settlement consultations** and panel proceedings under CUSMA. The Agreement grants the US increased access to Canada's dairy, poultry, and egg markets, which may reduce market share for Ontario producers. To mitigate these impacts, in 2022 the Canadian government committed **over $1.7 billion** in compensation to affected sectors.

Critical Minerals:

Ontario has approximately **130 early exploration projects** targeting critical minerals and an additional 16 advanced-stage projects. In 2020, exploration companies spent a total of **$206 million** on critical minerals exploration projects in the province.

In 2022, Ontario **produced $13.5 billion** in critical minerals, accounting for **22%** of Canada's total mineral production value.

In 2022, Ontario was responsible for a third of Canada's copper production, 45% of its nickel production, and 77% of its Platinum Group Elements (PGE) production, by value.

Ontario is a net exporter of 9 critical minerals (Cobalt, Indium, Nickel, Niobium, PGE, Selenium, Tellurium, Uranium, Zinc).

The US is dependent on foreign supply chains for many minerals and has a federal strategy to ensure secure and reliable supplies.

CONSIDERATIONS

The first Trump administration demonstrated a willingness to tackle the critical minerals supply chain. In 2017, Trump's administration released a **strategy** to focus on domestic supply of critical minerals in order to minimize supply chain disruptions. As well, in 2020, Trump issued an **executive order** declaring a national emergency due to the "threat posed by [the US] reliance on critical minerals, in processed or unprocessed form, from foreign adversaries", with the order focusing on US dependence on China for critical minerals. The second Trump administration has threatened tariffs, which could increase costs for US manufacturers relying on critical minerals, potentially reducing demand and disrupting the integrated supply chains between Ontario and US industries.

Energy & Climate:

- The United States passed the **Inflation Reduction Act (IRA)** in August 2022, which included a 30% Investment Tax Credit (ITC) for clean energy projects and provisions for clean hydrogen, electric vehicles (EVs), and domestic manufacturing support.
- Canada **responded** by introducing a range of matching investment tax credits including a 30% Clean Technology ITC.
- Trump has **pledged** to dismantle all unspent funds under the IRA, **roll back** proposed greenhouse gas emission limits that aim for about 64% of new vehicles to be electric by 2032, and impose a **200% tariff** on vehicles imported from Mexico. This would negatively impact US competitiveness and benefit Canadian production.

CONSIDERATIONS
There will likely be lobbying efforts from within Trump's circle to retain the beneficial aspects of the IRA, despite his public condemnation.

Natural Resources:

US Energy Information Administration (EIA) forecasts that for the full year of 2024, US crude oil production will average **13.2 million barrels of oil per day**, compared to **11.3 million barrels per day (bpd) in 2020** – a 2 million bpd increase. This represents a consistent upward trend that is expected to continue, and may accelerate under a Trump administration, given **pledges** made to cut energy prices in half.

Canadian oil production is expected to total between 5.2 – 5.4 million bpd in 2024, primarily due to the completion of the Trans Mountain Pipeline expansion, followed by oil production growth slowing to approximately 2% in 2025, **according to TD Economics**.

According to TD, the US is importing record quantities of Canadian oil, with Canada accounting for **60%** of US crude imports in 2023.

Between 2013 and 2023, crude oil **imports** from Canada to the US have grown an average of 4% per year. In July 2024, imports of crude oil from Canada to the US hit a **record 4.3 million bpd**.

The Canadian government unveiled **draft regulations** that will impose a greenhouse gas cap on the oil and gas sector that limits emissions to 35 per cent below 2019 levels.

CONSIDERATIONS

The divergence in production trajectories between the US and Canada could influence global oil markets and economic dynamics, particularly affecting Canada's natural resource sector. While the US may benefit from increased production and potential energy price reductions, Canada could face challenges related to market share and revenue from oil exports which could negatively impact GDP. On the other hand, Trump's pledge to revive the Keystone XL pipeline could create opportunities to increase bi-lateral energy exports.