

A Shock To Ontario's Electricity Export Tax



As we have previously written about [here](#), there is suggestion that Ontario's electricity export tax (the "export tax") may lack constitutional authority to be imposed as a retaliatory measure to the United States' ("US") recent tariffs on Canadian goods. Despite its questionable legality, Premier Ford imposed the export tax on March 10, 2025. [In response](#), President Trump indicated the US would increase its tariffs on Canadian steel and aluminum to 50 percent on March 12, 2025, which prompted Premier Ford to suspend the export tax shortly thereafter.

In this instance, it appears that Premier Ford's export tax was a bad idea, much like we suggested [here](#) concerning Canada's second round of retaliatory tariffs. Accordingly, it might make little sense – both in economic theory and practical terms – to "enflame" the situation further with retaliatory measures when the US is an economic giant whose response can cripple the Canadian economy.

The Suspended Export Tax

Premier Ford imposed the export tax through a [ministerial directive](#) (the "Directive") to Ontario's Independent Electricity System Operator ("IESO"). To implement the Directive, Ontario also enacted a [new regulation](#) (O. Reg 25/25) under the *Electricity Act, 1998* (the "Act"), enabling IESO to implement "urgent" market rule amendments to respond

to US tariffs under [section 34](#) of the Act.

The Directive allowed IESO to implement an initial export tax of \$10 per megawatt-hour, which is equivalent to 25 percent of the average value of electricity. The Directive also granted expansive powers to IESO, providing that the export tax “[could] be adjusted, at any time and to any level” and would “remain in place until the threat of tariffs is eliminated for good.”

The Problem With The Export Tax

The expansive nature of the export tax, along with its intended targeting of several large US states, such as Michigan and New York, proved to be a real bad idea. Not only did it threaten the energy supply to US homes during a cold winter month, it did so shortly after President Trump – the “competitor” with the stronger economic hand in this dispute – agreed to provide Canada an olive branch by extending the moratorium on his tariffs.

In attempting to impose this export tax and follow suit with the federal government’s retaliatory measures, Ontario’s government jeopardized the tariff moratorium period and risked the imposition of higher US tariffs which could cripple the Canadian economy.

Unilateral Trade Liberalization – The Better Strategy

Should the provincial and federal governments of Canada persist with their ill-advised strategy of retaliation, Canadians can expect further tariffs from President Trump.

A better approach would be to pursue *unilateral trade liberalization*, which is grounded in the [economic theory of “comparative advantage”](#). Unilateral free trade would help Canadian businesses diversify away from US markets and become more globally competitive. A [recent report](#) by the Montreal Economic Institute also estimates that *unilateral trade*

liberalization would expand Canada's gross domestic product and cause price levels to fall.

Ontario has suspended its electricity export tax after President Trump vowed to impose tariffs in response. Retaliating against the US remains a bad idea.

Takeaways

A peaceful end to Canada's current trade war with the US may be possible, but such a result is unlikely to be achieved through a strategy of retaliation. Such an approach appears at odds with economic theory, and runs the risk of inciting a damaging response from the "competitor" with the stronger hand.

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The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

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