Disruption And Opportunity: Impact Of U.S. Tariffs On Canadian Energy And Natural Resources

There has been broad political consensus in Canada on the value of free trade since the 1988 “free trade election”. That same political consensus in the United States appears to have fallen apart. Today Canada faces substantial and unpredictable tariffs from the U.S., its largest trading partner, unprecedented in recent decades. That has triggered a trade war between Canada and the United States. Energy and natural resources are key industries viewed as a strategic advantage to Canada in this circumstance.

While U.S. tariffs and Canadian retaliatory measures are expected to be disruptive in the near-term, they also present a long-term opportunity for energy and natural resources companies. Today it appears that all levels of government in Canada, and many industrial sectors, are aligned on the need to respond to U.S. tariffs by better integrating Canada as a market, better connecting Canada to other trading partners, and asserting Canadian sovereignty. That will require priority investment in energy, mining and other natural resource projects, and the infrastructure that enables them.

A quick recap: U.S. tariffs

Since March 4, President Trump has threatened, imposed, and adjusted a variety of tariffs against Canada.

1. **Tariffs on Canadian goods.** 25% on all goods, 10% on "energy" and "energy resources", including critical minerals.
2. **"Pause" on some tariffs.** Tariffs on CUSMA/USMCA-compliant goods are paused until April 2, requiring exporters to prove compliance with rules of origin under the treaty.
3. **Tariffs on aluminum and steel.** 25% worldwide, stacking with other tariffs. Non-compliant Canadian aluminum faces 35%, steel 50%.
4. **Automotive tariffs**. On April 3, a 25% tariff on automobiles and certain auto parts will enter into force. At this time, auto parts that are compliant with CUSMA/USMCA are exempt from tariffs until a process is established to apply the tariff exclusively to the value of the non-U.S. content of the parts. Vehicles that qualify for preferential treatment under CUSMA/USMCA may be subject to a reduced tariff, applied only to the non-U.S. content of the vehicle.
5. **What's next.** On April 2, the U.S. is expected impose worldwide reciprocal tariffs as part of an expansive global trade policy. Each country will receive a flat tariff rate based on U.S. views of its trade barriers. Negotiations may follow before implementation.

Canada's response

1. **Retaliatory tariffs.** To date, Canada has imposed retaliatory tariffs in response to U.S. tariffs, including tariffs on $30 billion of U.S. goods, and tariffs on $29.8 billion of U.S. steel, aluminum and industrial goods.

2. **Provincial and local action**. Various provinces and local governments are also planning to prioritize Canadian suppliers and exclude U.S. suppliers from government contracts. Some provincial liquor control boards have stopped purchasing and selling U.S. products.
3. **Energy dynamics.** With multiple provinces providing the U.S. with electricity, and Alberta supplying oil, energy and energy resources have been flagged as a tool in Canada's toolbox. On March 10, Ontario Premier Doug Ford announced a 25% levy on all electricity exports to the U.S. in response to U.S. tariffs, indicating that an outright prohibition on electricity exports was not off the table. The next day, this levy was paused after the Premier spoke with U.S. Commerce Secretary Howard Lutnick and agreed to meet to discuss.

Near-term disruption

The imposition of U.S. tariffs and Canadian retaliatory measures are likely to be disruptive in the near-term, as companies work to understand and adjust to ever-changing circumstances. Companies in the energy and natural resources sector are reviewing key contracts with suppliers and customers to analyze responsibility for bearing tariff costs, and may consider force majeure or other relief measures if they are bound to agreements that have become uneconomic.

Companies in these industries will also want to understand the impact of tariffs, not just on the goods that they produce and export, but also on the equipment and other goods that they need to operate their businesses. Companies may want to consider alternative non-U.S. based suppliers, or seek remissions from Canada's retaliatory tariffs in respect of goods imported from the U.S. Remissions are granted by Canada on a case-by-case basis.

Energy and natural resources companies will also need to be prepared for the possibility that the goods that they produce may be used by Canada as leverage in the trade war. That may take a variety of forms, including export taxes or export bans to the United States. It is too soon to tell what will unfold, but companies able to position themselves with diverse customers in Canada and other non-U.S. markets will likely be in a stronger position to weather near-term disruptions.

Long-term opportunity

While U.S. tariffs and Canadian retaliatory measures are likely to be disruptive in the near-term, they also present long-term opportunities, including for energy and natural resources companies and for a stronger, better-connected Canadian economy. Today it appears that all levels of government in Canada, and many industrial sectors, are aligned on the need to respond to U.S. tariffs by better integrating Canada as a market, better connecting Canada to other trading partners, and asserting Canadian sovereignty.

That will require priority investment in energy, mining and other natural resource projects, and the infrastructure that enables them. For example, making inter-provincial transportation of goods and people more efficient is top of mind. The need to develop East-West oil and natural gas pipelines is now being discussed. Advancing development of critical minerals projects is seen as a strategic objective. Better connecting the North to the rest of Canada advances both economic and sovereignty aims. And various levels of government are discussing how current (very slow) approvals processes for these projects may be made more efficient. Doing so will be key to enabling Canada to realize the long-term benefits of this opportunity.

Beyond infrastructure, eliminating other barriers to internal trade will also be important to seizing the moment and advancing the energy and natural resources economy efficiently. As just one example, currently there are more than 600 professional credentialing bodies across Canada. They often impose different certification requirements for individuals practicing the same profession, and often do not adopt mutual recognition of other provinces' certifications. This issue limits inter-provincial labour mobility and correspondingly increases costs. Addressing inter-provincial barriers to trade would enable necessary project work to be undertaken as efficiently as possible, ultimately making more of this necessary work viable.

Conclusion

While much remains uncertain about the current trade war, aligned action across levels of Canadian government, industry and the business community will continue to be critical to address the challenges of near-term disruption—and to make strategic investments that will enable long-term prosperity.

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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