



U.S. Announces New Reciprocal Tariffs: Canada and Mexico Largely Spared

By Stefane Marion / Matthieu Arseneau

The U.S. administration today announced the implementation of so-called *reciprocal tariffs*, which will vary by country—ranging from a minimum of 10% to a maximum of 49%. These tariffs do not apply to steel, aluminum, or vehicles and parts, which are already subject to a separate 25% tariff.

Canada and Mexico: Exceptions and Continuing Measures

For Mexico and Canada, existing IEEPA (International Emergency Economic Powers Act) orders related to fentanyl and migration remain in effect. Under these orders:

- USMCA-compliant goods remain tariff-free (0%).
- Non-USMCA-compliant goods face a 25% tariff.
- Non-USMCA-compliant energy and potash are subject to a 10% tariff.

If the IEEPA orders are lifted, USMCA-compliant goods would continue to receive preferential treatment, while non-compliant goods would face a uniform 12% reciprocal tariff.

Key Takeaways

While today's announcement is undoubtedly bad news for the global economy, Canada and Mexico, as USMCA partners, were largely spared from the new tariff list. Furthermore, tariffs imposed for border security-related issues may eventually be replaced by the 12% reciprocal tariff on non-compliant goods.

Notably:

- 40% of Canadian exports are already USMCA-compliant, and this figure could potentially double following the completion of compliance recognition processes.
- As a result, Canada's exposure to new tariffs remains relatively limited, primarily affecting steel, aluminum, and the automotive sector.
- For motor vehicles that meet USMCA criteria, a 25% tariff will apply to the value of non-U.S.-produced components, beginning April 3.
- For automotive parts, tariffs begin May 3. However, USMCA-compliant parts will be exempt until a yet-to-be-announced later date. Given the complexity of North American supply chains, it is uncertain whether this exemption may eventually be revoked.
- Importantly, USMCA-compliant energy exports—Canada's largest export category to the U.S.—remain tariff-free.

While it is impossible to calculate an exact figure—given the unknown share of USMCA-compliant versus non-compliant goods by product category, as well as the proportion of U.S.-made components in Canadian-assembled vehicles—we estimate that, under the current measures, the effective trade-weighted tariff rate on Canadian exports remains below 5%.

However, this short-term relief may be fleeting. The breadth and severity of tariffs imposed on other countries significantly heighten the risk of stagflation in the United States and raise the likelihood of a global economic slowdown or recession.

Unless the U.S. administration reverses course, the Canadian economy remains on track for a noticeable deceleration throughout the remainder of 2025.



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