Evolving US-Canada Relations: Economic Impacts of Tariffs and Crude Oil Production

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Abstract

The United States and Canada have long shared a strong economic bond, with the U.S. serving as a primary importer of Canadian crude oil. However, in 2025, the Trump administration announced the implementation of a 25 per cent tariff on all imports from Canada and Mexico, citing concerns over illegal immigration and drug trafficking. This policy redefined America's trade relations, presenting significant challenges to Canada's economy and raising critical questions about the future of the US-Canada partnership.

In the fourth quarter of 2024, Canada's economy showed steady growth, with GDP increasing by approximately 2.5 percent. The business sector performed strongly in September and October, while retail sales exceeded expectations, growing by 4.4 per cent year-over-year. CPI inflation continued to decline, leading to expectations of a modest trajectory for rate cuts in 2025. Private investment is projected to accelerate in the upcoming year, further strengthening the economic prospects. However, the 25 percent U.S. tariffs on Canadian imports, set to take effect in February 2025, have sparked widespread concerns. Approximately 40 per cent of Canadian firms anticipate significant negative impacts, while one-third remain uncertain. These tariffs are expected to drive inflation, posing challenges to businesses and consumers, and potentially reshaping Canada's economic outlook.

Canada's trade landscape remained resilient in late 2024, with exports growing by 2.2 per cent and imports by 1.8 per cent in November. Goods exports were driven by higher prices, while imports experienced broad-based volume gains. Notably, exports to the U.S. rose by 6.8 per cent, widening Canada's goods surplus with its largest trading partner to 8.2 billion Canadian dollars.

The oil and gas sector, contributing 5 per cent to Canada's GDP, is a cornerstone of the economy. Nearly 98 per cent of Canadian crude oil is exported to the U.S., accounting for over 1 million barrels per day and 60 per cent of U.S. oil imports. Investments in projects like the Trans Mountain Expansion and LNG Canada are enabling access to global markets, decreasing reliance on U.S. buyers.

Despite this strong trade bond, evolving U.S. tariff policies under the 2025 administration have introduced uncertainty. Canada is responding by diversifying markets to ensure economic stability while navigating the complexities of its relationship with the U.S.

The Bank of Canada's November 2024 consultations highlight the growing momentum in Canada's oil and gas sector, driven by the Trans Mountain Expansion (TMX) pipeline and LNG Canada's Phase 1. These projects provide Canadian crude access to global markets, including China, the world's largest importer of crude oil. However, competition with established suppliers like Russia, Saudi Arabia, and Iraq presents challenges. Russia, in particular, dominates due to discounted prices linked to sanctions, posing hurdles for Canada's market share expansion.Apart from this, Canada faces significant challenges in sustaining its economy amid evolving dynamics. On January 6, 2025, Prime Minister Justin Trudeau's resignation introduced short-term political instability during a critical period. Environmental concerns also mount as Alberta, producing 95 per cent of Canada's oil, faces backlash over pollution linked to crude oil expansion, conflicting with the nation's climate goals. Additionally, the global push for clean energy, with over 5,500 GW of renewable capacity expected by 2030, intensifies competition. The U.S. has also ramped up its crude oil and renewable energy production, further pressuring Canada to balance economic growth with environmental and market demands. This multifaceted situation underscores the delicate balancing act required to secure Canada's economic future.

In conclusion, Canada stands at a critical juncture in its economic journey. While diversifying markets and expanding energy exports provide growth potential, challenges such as political instability, environmental concerns, and global competition require strategic responses. This research highlights the important aspects of these critical situations, shedding light on the crude oil trade concerns of Canada and the complexities of balancing economic growth with sustainability in an evolving global landscape.

Keywords:US-Canada relation, Economic Impact, Trade Policies,Crude Oil Exports, Energy Sectors,Trade diversification,Political Relations and Instability,Trade Diversification,Global Market Competition,Climate Change Challenges

1 Introduction

One of the most prominent partnerships in history, bordering on both sides of the US northern region is Canada. The bond they share is not just economic but strategic as well which began with the Jay Treaty of 1794, allowing movement across the borders which subsequently increased trade. Both countries came together again in 1854 with the Reciprocity Treaty for protection and enhanced economic engagement, however when it was terminated later on, Canada strived for more economic focus which benefitted them in the long term.[7]

In the later years, as industrialization hit, the Auto Pact accelerated the growth of both countries by combining the North American automobile industry. This helped integrate the two economies from the Canada-U.S Free Trade Agreement all the way to NAFTA in 1994, which was later changed in 2020 to USMCA, removing trade boundaries and promoting economic development. [7]

Trade was not the only reason for the collaboration between Canada and the United States. Forming alliances through NATO and NORAD to boost the defense of America, and talking about famed infrastructure sharing, the two countries have built a strong rapport over the years. It can be seen worldwide as the longest border in the world allows seamless development on both sides of the border.

From the very beginning, trade has been dying to get a foothold in U.S.-Canada relations, stimulating prosperity and development. Canada and the USA are partners in one of the world's strongest trading alliances. The two countries trade billions of dollars worth of goods and services, everyday. This partnership covers a wide variety of sectors, indicating a sophisticated supplier network.[7][9]

The energy industry is one of the most relevant ones, with Canada notably being the top foreign crude oil vendor for the United States. Canada's daily exports are more than 1 million barrels, which makes up about 60 percent of U.S. imports.[4] Natural gas and electricity are also important as they are supplied through cross border pipelines and power lines, which guarantees North American energy security.[1][3][2]

The automotive industry has contributed heavily to both US and Canada since the Auto Pact of (1965), further strengthened by the NAFTA agreement of 1994 and the USMCA in 2020. The industry is so integrated that after the cross border auto parts and vehicles are used as raw materials. This generates employment opportunities in both nations.[7]

Canada sells its fish, pork, Canola, and wheat, along with other agricultural products, while buying fresh fruits and processed food from the US. Additionally, both countries cooperate in technology and manufacturing, particularly in aerospace, machinery, and electronics. This, too, is quite important.[9][2]

In addition to goods, trade in services has expanded, including financial, professional, and information technology services which have become important in the economic structures of the two countries. The combination of supply chains, capital investments, and movement of people reflects the high level of interdependence between the US and Canada.[1]

Following the outcome of the 2024 United States Presidential elections, Donald Trump reverted to his protectionist policies by adding new tariffs to Canadian steel and aluminum in January 2025. [13]This action represented a notable continuation in trade conflicts that had begun during Trump's first term in 2018. The 2025 tariffs aimed at sustaining American manufacturing and self-sufficiency and decreasing foreign imports, especially steel and aluminum, which were claimed to be essential for national security. Trump's reasoning was that trade regulations and correction of imbalances was necessary for the national security of the country, thus, deciding to fall back to Section 232 of the Trade Expansion Act.[10]

Trade with Canada faced numerous economic hurdles like tariffs on steel and aluminum or automotive parts. From an economic standpoint, there is enhanced worry regarding the level of production expected and the volatility of supply chains across the border.[10]

In response, the Canadian government implemented counter-tariffs on select U.S. goods, targeting agricultural products and steel, among other items. Canada's approach also included strengthening its trade relations with China and the European Union, working to reduce the economic dependence on the U.S. and mitigate the effects of the tariffs. These retaliatory actions demonstrated Canada's resolve to protect its economic interests while diversifying its trading relationships to face the new economic reality.[17]

The crude oil sector is one of the most directly affected by the new tariffs that the U.S. imposed in January 2025.[4] Canada is the largest foreign supplier of crude oil to the U.S., with more than 1 million barrels per day exported, making it a critical component of the U.S. energy supply chain. Although crude oil is not a direct target of the tariffs, the spillover impact can still influence the pricing and demand. In fact, if the U.S. refiners, with increasing costs due to the tariffs, go elsewhere, then the reliability of Canada's crude oil exports is undermined.[2][3]

In addition to this, the energy-related infrastructure linking Canada and the United States is highly interlinked. Exportation of crude oil is done through pipeline infrastructure. Any disturbance perceived via tariffs on the movement of crude oil from Canada into the U.S. would therefore increase transportation costs or delays in trade. This would undermine Canada's capacity to remain a major supplier of energy to the U.S. markets.[4]

The market dynamics operate under further pressure due to global competition, namely Russia, Saudi Arabia, and Iraq, [23]who constantly supply crude oil to global markets inclusive of the U.S. Given the advancements in production technologies, the U.S. is trying to wean off foreign oil, which leaves Canada facing the additional threat of possible reductions in global crude demand for Canadian crude, rendering its oil industry outlook hopeless.[18]

Evidently, as energy production from the United States continues to expand[18], additional competition with Canadian crude oil should increase and subsequently exert additional pressure on Canadian prices should this pressure on Canadian prices reduce Canadian crude oil's long-standing ability to sustain current levels of export. It is, therefore, imperative that Canada navigate such changes in the directional flow of trade with great caution.

Canada's crude oil production is mostly centered in the Alberta oil sands, which provide the majority of its output, continuing its dominant role in supplying crude oil to the United States. Suncor Energy, Cenovus Energy, Canadian Natural Resources, and Imperial Oil are some of Canada's largest producers. By spearheading the extraction and export of crude oil, these businesses establish Canada as a major force in the world energy market. The Bank of Canada highlighted the nation's oil and gas industry's increasing momentum in its 2024 outlook, citing initiatives like LNG Canada's Phase 1 and the Trans Mountain Expansion (TMX) pipeline as key drivers. These programs seek to increase manufacturing capacity and make it easier to access international markets, particularly in Asia. The TMX pipeline's completion will.[12] [1][3]

This strategic expansion is crucial for reducing the effects of any changes in U.S. trade policies, especially tariffs, while also enhancing Canada's competitiveness in the global energy market. Gaining better access to Asian markets will contribute to stabilizing Canada's energy sector and supporting long-term growth.

Nonetheless, the growth of Canada's crude oil industry encounters significant hurdles, particularly due to rising environmental concerns among Canadians. As crude oil production increases, particularly in Alberta's oil sands, opposition from environmental groups and local communities is intensifying. These groups contend that the environmental repercussions of expanding oil extraction—such as deforestation, water usage, and greenhouse gas emissions—threaten Canada's climate objectives. The environmental damage linked to oil sands development has sparked widespread protests, particularly from indigenous communities worried about the effects on their lands and water resources.[19][20][21]

In addition to that, there are tensions regarding Canada's role in climate change mitigation and the dirty energy transition. Increased pressure is being placed on reducing fossil fuel usage, while the world is moving towards renewable energy sources like solar power, wind energy, and hydropower. According to the IEA report, released in early 2024, global renewable energy demand will spiral upward in the coming years, forcing a faster track away from crude oil. Although crude oil demand remains flat in the short term, fossil fuels' long-term future presents a very uncertain canvas as national governments and industries around the world ramp up efforts toward reaching their climate targets.

These factors aggravate the crude oil export growth from Canada. With increasing demand for cleaner energy, Canadian oil producers are increasingly finding themselves in a position of needing to balance economic concerns with sustainability, energy policymakers have got to find ways to interface this delicate transition to ensure energy independence fairly.[19]

The expansion of Canada's crude oil exports is encountering increasing challenges in the current economic climate. Although crude oil plays a vital role in Canada's GDP, the U.S. tariffs imposed in 2025 create uncertainty, especially for the energy sector. Canada experienced a 3.2 percent economic growth in Q4 2024, largely fueled by retail and investment sectors, but the oil industry remains vulnerable to tariffs and fluctuating market conditions, which is a significant concern.[1]

Moreover, the resignation of Prime Minister Justin Trudeau in January 2025 adds to the complexity, bringing political instability at a crucial time. This political change, along with Canada's ongoing shift towards cleaner energy, creates a challenging environment for maintaining crude oil exports and ensuring overall economic stability. As global demand for renewable energy rises, Canada faces the task of balancing its dependence on fossil fuels with its climate objectives while navigating changing trade relations and domestic issues.[15]

In conclusion, the evolving trade dynamics between the U.S. and Canada have significantly influenced Canada's economic landscape, particularly in the context of crude oil exports. Historically, the two countries shared a strong economic bond, with trade and energy sectors forming the backbone of their relations. Nonetheless, tariffs on 2025 U.S. imposition of U.S. trade measures to Canadian products such as crude oil place newcomers in the Canadian economy. While Canada is wrestling with political upheaval, including the departure of Prime Minister Justin Trudeau, the country is left to find the balance between economic expansion and environmental needs in a world moving toward cleaner energy. Looking ahead, Canada needs to broaden its current markets and improve its domestic policy in order to lessen the effects and provide long-term economic resilience under evolving global circumstances.

2 Literature review

2.1 US-Canada Relation over the years

Since 1987, the United States and Canada have maintained a strong and cooperative trade relationship,shaped by various keys of agreement and economic policies. In the year 1987, Canada-Us Free Trade Agreement(CUSFTA) was signed with major key elements being-elimination of tariffs,reduction of non-tariff barriers;it also addressed trade in services and also included dispute settlement mechanism for the fair. It was brought into force on January 1,1989 and further set the foundation for deeper economic integration.

This was later superseded by North American Free Trade Agreement(NAFTA) in the year 1994,incorporating Mexico and creating one of the largest free trade zones in the world. This agreement played a crucial role in boosting trade flows,increasing market access,and fostering economic growth between Canada and US.[7]

In addition to trade, Canada and the U.S. have established strong connections in energy, security, and foreign policy. Canada stands as the largest supplier of crude oil to the U.S., making energy exports a vital part of their economic relationship. Furthermore, defense partnerships like the North American Aerospace Defense Command (NORAD) have bolstered their security cooperation, contributing to regional stability.[14]

The relationship has experienced occasional tensions, especially regarding trade disputes. A notable conflict occurred in the early 2000s concerning softwood lumber exports, when the U.S. imposed duties on Canadian lumber, claiming unfair subsidies. This led to the Softwood Lumber Agreement (SLA) in 2006, which aimed to settle trade disagreements. Additionally, disputes over dairy and agricultural policies have created friction, particularly during the NAFTA renegotiation that culminated in the United States-Mexico-Canada Agreement (USMCA) in 2020. The USMCA brought updates to digital trade, labor laws, and environmental regulations, while also imposing stricter quotas on Canada's dairy industry, highlighting the ongoing complexities of their economic relationship.[7]

United States-Mexico-Canada Agreement(USMCA) which was further replaced by NAFTA in the year 2020 was one of the largest free trade agreements in the world, generating nearly 2 trillion US dollar in trade-leading to economic growth and helping to raise the standard of living in all 3 countries i.e US, Canada and Mexico.

Canada and the U.S. have the longest undefended border in the world, which has traditionally made it easier for trade and people to move between the two countries. However, the COVID-19 pandemic in 2020 put a strain on this openness, resulting in temporary border closures and economic slowdowns. Although trade between the two nations stayed robust, the pandemic exposed weaknesses in supply chains, especially in industries such as automobiles and pharmaceuticals.

The relationship has faced its share of challenges. Trade disputes have sometimes put a strain on ties, especially in areas such as softwood lumber and dairy products. For example, conflicts over softwood lumber have resulted in lengthy negotiations and the implementation of tariffs, highlighting the complexities involved in the trade relationship.

After Donald Trump winning the presidential election in the year 2024,recent developments have seen the introduction of U.S. tariffs on Canadian exports in February 2025, escalating tensions between the two countries. The U.S. administration, led by President Donald Trump, declared a 25 per cent tariff on all Canadian exports, with the exception of oil and energy products, which will face a 10 per cent tariff. These tariffs are aimed at tackling issues related to illegal immigration and the trafficking of fentanyl into the United States.[13]

In response, the Canadian government has initiated weekly briefings with industry stakeholders to address the changing economic relationship with the U.S. These sessions are designed to offer clarity and assistance to Canadian businesses impacted by the new trade measures.

Political dynamics have also significantly influenced U.S.-Canada relations. The resignation of Canadian Prime Minister Justin Trudeau in January 2025 has ushered in a phase of political transition. Trudeau pointed to internal party challenges and growing public dissatisfaction as reasons for his decision to resign.[15][16]

As both nations navigate these changes, the lasting partnership between the United States and Canada stands as a testament to their common values and shared economic interests. Although challenges remain, the foundation of their relationship is rooted in a history of collaboration, positioning it well to adapt to future developments.

2.2 Canadian Economy

The Canadian economy showed resilience against global uncertainties and achieved a real GDP growth of approximately 2.25 per cent in 2024. Robust consumer spending and recovery in the services sector drove this growth. The Bank of Canada maintained its inflation target at 2 per cent throughout the year; by the end of the year, inflation had moderated sufficiently to align closely with that target, reflecting effective monetary policies.[1]

The labor market showed signs of improvement, with the unemployment rate dropping to 6.6 per cent in January 2025, down from 6.7 per cent in December 2024. This decrease was accompanied by a net gain of 76,000 jobs, suggesting a strengthening employment landscape.[1]

On the fiscal side, Canada continued its disciplined approach, achieving a general government deficit-to-GDP ratio of 2 per cent in 2024, the lowest among G7 nations, alongside Germany. This careful fiscal management helped create a more stable economic environment.[24]

In the economic forecast for 2025, the outlook appears to be cautiously optimistic. The Bank of Canada expects economic growth to gradually pick up to a figure around 2.25 per cent for the year, supported by buoyancy given that interest rates, in effect, are somewhat lower. It being felt that this would hike spending by consumers and investors alike. Inflation is posit to continue at about 2 per cent, given constant energy prices and core inflation.[1]

However, several problems might hinder this optimistic path. The global economy continues to show a great deal of uncertainty; potential risks from international trade tenses and geopolitical events cannot be ruled out. While the labour market is improving, the unemployment rate in Canada remains well above prepandemic levels, thereby leaving room for further improvement. Similarly, relatively high household debt levels may also raise risks if economic conditions are to deteriorate.

In response to these challenges, the Bank of Canada has been making adjustments to its monetary policy. In 2024, the central bank carried out a series of interest rate cuts, totaling five reductions over the year, aimed at boosting economic activity. As we move into early 2025, further rate cuts are not expected, but the bank is staying alert and ready to adapt to changing economic conditions.[25]

In summary, while the Canadian economy saw significant progress in 2024, navigating the road ahead in 2025 will require careful management of both domestic and international issues. Ongoing prudent fiscal management, flexible monetary policies, and initiatives to enhance the labor market will be crucial for sustaining economic growth and ensuring stability.

2.3 Crude Oil : Production, Export and Import

Canada's oil and gas industry plays a crucial role in the national economy, contributing roughly 5 per cent to the country's Gross Domestic Product (GDP). This sector has shown consistent growth in recent years, standing out among others. A large share of Canada's crude oil production is found in the western provinces, with Alberta at the forefront, producing around 82.4 per cent of the nation's total output. Together, Western Canada is responsible for about 94 per cent of the country's overall oil production.[26]

When it comes to trade, Canada sends nearly 98 per cent of its crude oil to the United States, making it a key supplier for the U.S. market. This represents about 60 per cent of all U.S. crude oil imports, highlighting the strong interdependence between the two countries in the energy sector. [4]

To boost its crude oil export capacity, Canada has been looking into several expansion initiatives. However, these efforts encounter considerable challenges, such as environmental issues, regulatory obstacles, and resistance from Indigenous communities and environmental organizations. These factors have resulted in delays and higher costs for pipeline projects, making the country's expansion plans more complicated.[19]

A significant case is the Trans Mountain Pipeline, which was built in 1953 and was initially owned by Kinder Morgan. This pipeline is the only one that transports oil from Alberta to the West Coast. Acknowledging the need for increased capacity, Kinder Morgan, a prominent energy infrastructure firm in North America, proposed an expansion project to enhance the pipeline's capacity. Despite its vast experience in managing pipelines and storage facilities throughout the continent, Kinder Morgan faced considerable opposition due to environmental risks and concerns from Indigenous communities. These obstacles ultimately resulted in the company selling the Trans Mountain Pipeline and its expansion project to the Canadian government in 2018 for 4.5 billion Canadian Dollar, allowing the government to take direct control of the project's complexities.[12]

In summary, Canada's oil and gas industry is vital to the national economy, but attempts to increase crude oil production and export capacity face considerable obstacles. Policymakers and industry stakeholders must navigate the intricate task of balancing economic growth with environmental care and social responsibility.

2.4 Global Relations

In its efforts to increase trade outside of the United States, Canada is actively looking for new markets, especially in Asia and Europe, for the export of crude oil. The nation wants to lessen its dependency on a single trading partner while enhancing its standing in the global energy market as the Trans Mountain Expansion (TMX) pipeline comes online and initiatives like LNG Canada move forward.

Exports to China, India, Japan, and South Korea are now more feasible thanks to the completion of the TMX pipeline, which has made it possible for Canadian petroleum to reach Pacific markets.[1] Although there is still fierce rivalry from Saudi Arabia, Iraq, and Russia, this expansion has potential because China is the world's largest importer of crude oil.[23] Canada finds it challenging to establish a solid presence in China as a result of the dominance of Russian oil, which is offered at reduced prices because of sanctions. At the same time, one of Canada's biggest liquefied natural gas projects, LNG Canada, is expected to increase Canada's market share in Asia.[1] In this transition, countries that depend significantly on LNG imports, such as South Korea and Japan, may become important allies.

As part of its long-term plan to maintain economic resilience while negotiating changing geopolitical environments, Canada is working to create a more balanced global trade network.

2.5 Changing Demand: Shift Towards Cleaner Energy and Environmental Concerns

The emphasis on sustainability by governments and businesses is speeding up the global transition to cleaner energy. Wind, solar, and hydrogen are examples of sustainable energy sources that are becoming more popular as climate worries grow. In an effort to lower carbon emissions, many nations—including Canada—are funding green programs. It is unclear, nevertheless, how this shift would affect the demand for crude oil.[19]

Even though there is a growing need for greener energy, crude oil is still the most important fuel for the manufacturing, petrochemical, and transportation sectors. History demonstrates that fossil fuels continue to be essential even in the transition to alternate energy sources. The demand for coal, for example, has increased recently due to worries about energy security, despite efforts to phase it out. The future demand for crude oil may be unclear due to a similar trend.[27]

Emissions in Canada are mostly caused by the production of crude oil, mostly from Alberta.[4]Environmental organizations and Native American communities have voiced opposition to the growth of oil sands, pointing to greenhouse gas emissions, water pollution, and deforestation. Because of its effects on the environment, the Trans Mountain Expansion project has encountered resistance despite its economic advantages. Growing internal opposition to reliance on fossil fuels is reflected in these rallies, which are pressuring the government to enact stronger laws and set more sustainable objectives.[19][21]

Achieving a balance between environmental responsibility and economic growth will be essential as Canada moves through this transition. The demand for crude oil will change over time in response to global energy shifts, governmental decisions, and technological developments.

3 Methodology

3.1 Research Design

This research explains the present condition of Canada and its relationship with the United States due to the 25 per cent tariff which are to be taxed by the United States under Donald Trump's presidency.This research adopts a qualitative and analytical approach to examine the impact of U.S. tariffs on Canada,with a particular focus on crude oil trade.

This study is based on secondary data sources,including government reports,trade statistics,economic outlooks, and industry analyses.

3.2 Data Collection Method

The majority of the secondary data used in this study comes from: Bank of Canada,Statistics Canadaand International Energy agency (IEA) reports for trade and economic information; announcements from the U.S. administration and the Canadian government regarding trade and tariffs.

Industry reports on environmental issues,exports and crude oil output.Articles from the news and professional opinions about economic and political events,such as Justin Trudeau's resignation.

3.3 Data Analysis Techniques

3.3.1 Comparative Analysis:

Looks at U.S.-Canada trade trends both before and after the tariff was put in place.

3.3.2 Trend analysis:

Looks at past and future exports, production of crude oil, and the world's energy needs.

3.3.3 Impact Assessment:

Examines the effects of environmental issues and tariffs on the Canadian economy,with a focus on the energy industry.

3.4 Scope and Limitation

3.4.1 Scope:

The study covers US-Canada trade relations, tariff policies, crude oil production and exports,and economic and environmental challenges faced by Canada.

3.4.2 Limitations:

Since the data relies on secondary sources, it may not fully capture real-time changes in trade policies or market conditions.

3.5 Ethical Considerations

There are no ethical concerns about participant privacy because the study is based on data that is publicly available. To guarantee accuracy and objectivity, information is sourced from reputable and validated organizations.

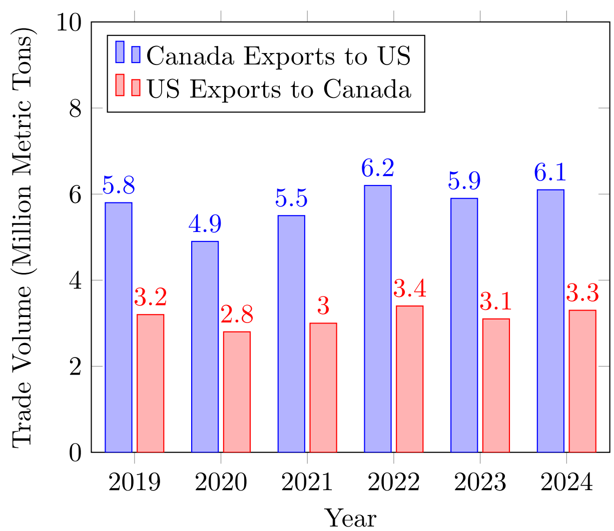
4 Result

4.1 Impact of Tariff

Both Canadian and American sectors were greatly impacted by the 25 per cent tariff that the US placed on imports of steel and aluminium in February 2025. Canada,[13] a significant supplier of these metals to the United States, was confronted with urgent difficulties. The Canadian Steel Producers Association voiced their concerns, pointing out that the two countries' yearly steel trade of 20 billion U.S. dollars demonstrated how tightly interconnected the North American steel industry was. They cautioned that these taxes would result in significant disruptions and financial difficulties for workers, companies, and their families.[11][28]

Canada responded by enacting retaliatory tariffs that affected steel and aluminum products in two stages, levying 25 per cent levies on U.S. imports totaling up to 155 billion U.S. dollars. Although this action increased trade tensions, it was intended to safeguard Canadian businesses.[17]

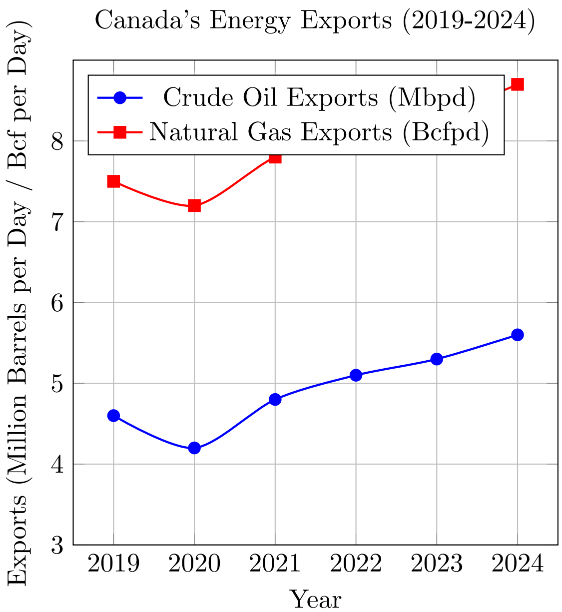
Initially, domestic steelmakers in the United States gained, as seen by stock increases for businesses like as Cleveland-Cliffs, Nucor Corp., United States Steel, and Steel Dynamics. However, rising input costs increased manufacturing costs and consumer prices for industries like aerospace, construction, and automotive that depend on imported metals. In the end, these tariffs caused economic strain and increased costs for U.S. and Canadian firms and consumers by upsetting the intricately linked supply networks.[29]



The above figure shows the trade volume between both the countries before tariff. As tariffs lead to reduction in the quantity of goods traded, therefore it will be affecting both the countries economically.

4.2 Energy Sector of Canada

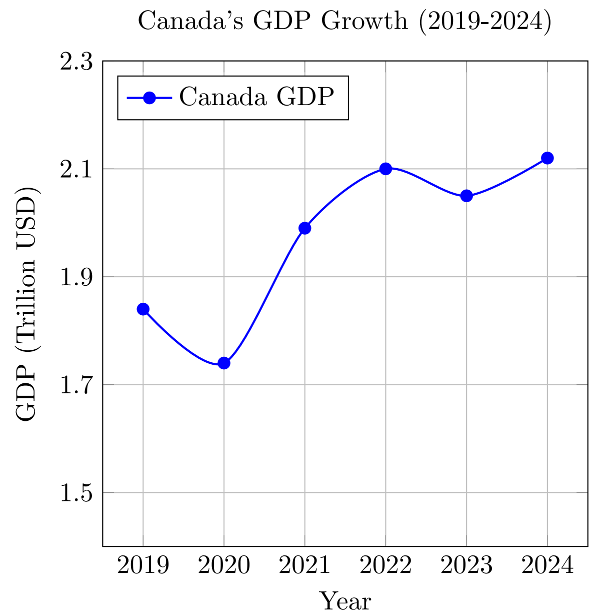
Despite targeting steel and aluminium, the 2025 U.S. tariffs had an indirect impact on Canada's crude oil trade. Since the United States receives 98 per cent of Canada's crude oil exports, steel tariffs raised pipeline prices and caused delays in projects like Enbridge's Line 3 Replacement and the Trans Mountain Expansion. This led to supply chain disruptions by limiting Canada's capacity to transport oil effectively.



Canada responded by stepping up its efforts to increase exports to China, India, and Japan.[1] The above graph shows the crude oil export of Canada.As many challenges are faced by the TMX project and the effect of tariffs, the data on crude oil trade is expected to be a different figure.The United States persisted in using Canadian petroleum, especially higher grades, for its refineries in spite of the tensions. However, added costs and uncertainty reduced Canadian producers' profit margins, raising concerns over long-term trade stability.[3]

4.3 Economic Impact

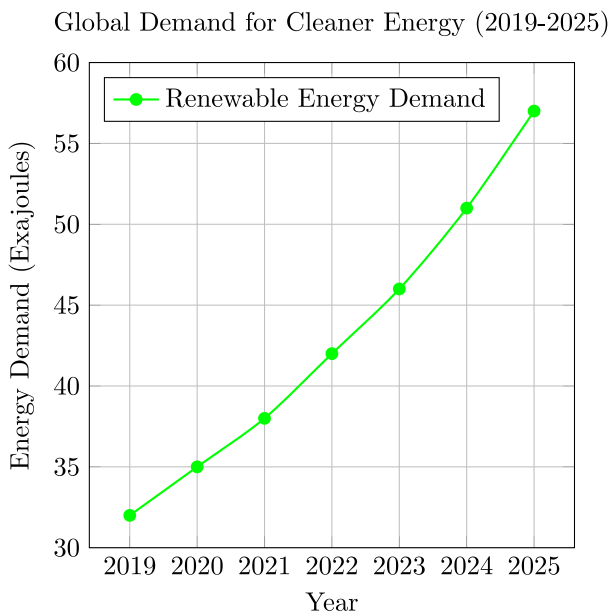
Canada's economy was somewhat but significantly impacted by the disruptions in the crude oil trade and U.S. tariffs. Business confidence and investment decisions were impacted by rising energy costs and trade relations uncertainties. According to the Bank of Canada's 2024–25 projection, robust private investment and consumer spending propelled the country's GDP growth to 3.2 per cent in Q4 2024. Forecasts, however, indicated a slower start to 2025, with companies expecting sustained inflationary pressures and modest rate reduction.[1][6]



Even though Canada's economy still relied heavily on crude oil exports, long-term threats were presented by pipeline infrastructure issues and changing global demand. Although the nation's attempts to diversify its trading partners outside of the United States were intended to reduce vulnerabilities, geopolitical unpredictability nonetheless influenced its economic course.

4.4 Environmental Challenges Faced by Crude Oil Production

Approximately 4.9 million barrels of crude oil are produced daily in Canada, with Alberta accounting for 95 per cent of total production.[4] However, the industry is under pressure due to worldwide initiatives to switch to cleaner energy and growing environmental concerns.[19] Protests against oil expansion have becoming more intense, especially because of oil sands pollutants. Long-term threats to the demand for crude oil come from the growing use of renewable energy sources and more stringent climate regulations in important economies. Crude oil is still necessary, but as the globe moves towards sustainability, the business faces uncertainty.



5 Discussion

The United States' imposition of tariffs on Canadian steel and aluminium had a profound impact on the economy, influencing more than simply the metals industry. This decision was mainly taken to expand the domestic industry.This section looks at the tariffs' wider effects. We can gain a better understanding of how trade limitations affected Canada's economic stability and long-term growth potential by examining these issues.

5.1 Economic Growth

According to Bank of Canada projections, inflation will stay near the 2 per cent target while economic growth will increase to about 1.8 per cent in 2025 and 2026. New oil and gas transportation capacity as well as the strength of the U.S. economy are expected to sustain this expansion.

5.2 Trade Dynamics

The recent reinstatement and increase of U.S. tariffs to 25 per cent on steel and aluminum imports, effective March 12, 2025, are expected to have significant implications for Canadian exporters. These tariffs may lead to increased costs for U.S. manufacturers and reduced demand for Canadian metals, potentially prompting Canadian companies to seek alternative markets or adjust their operations.[8]

5.3 Employment Trends

Trade interruptions and a decline in productivity compared to the United States have caused difficulties for the Canadian labour market. However, conditions are predicted to improve by late 2025 due to stabilisation efforts and planned economic recovery. Potential new trade deals and monetary policy relaxation may help boost economic stability and job growth even further.

5.4 Inflation and Monetary Policy

Compared to a large portion of the world, Canada has had better inflation performance. Interest rate cuts may be restricted in 2025 after the Bank of Canada lowered rates five times in 2024. The current lower lending rates, however, are anticipated to boost residential investments and expenditure, so promoting economic expansion.[1]

5.5 Diversification Effort

In reaction to the trade uncertainties and tariffs, Canadian companies are probably going to step up their efforts to expand their export markets outside of the United

States.[1] The dangers associated with a strong reliance on one trading partner could be reduced by investigating opportunities in Europe, Asia, and other regions. However, this shift can present logistical difficulties and necessitate some time to build new trading connections.[23]

6 Conclusion

In addition to the metals industry, the introduction of U.S. tariffs on Canadian steel and aluminium has had a substantial impact on employment, crude oil, and trade dynamics in general. Being Canada's biggest trading partner, the United States has a significant influence on the country's economic stability. Long-standing trade partnerships were upset by the tariffs, which also raised manufacturing costs, delayed infrastructure projects, and compelled Canada to look for new markets.

Tariffs caused retaliatory actions and increased export costs, which immediately hurt the steel and aluminium industries. Industries that depended on these metals, including construction and automotive, incurred increased operating costs, and Canadian manufacturers battled with dwindling demand. The sector's long-term viability nevertheless hinged on market diversification and changes to trade policy, even while the government offered short-term respite.

Crude oil was not specifically targeted, but there were significant indirect impacts. Costlier steel caused major pipeline projects to be delayed, which limited Canada's capacity to move oil effectively. When crude oil exports encountered logistical and geopolitical difficulties, the energy sector—which accounts for around 5 per cent of Canada's GDP—suffered setbacks. Even with initiatives to increase commerce with China, India, and Japan, a significant dependence on imports from the United States persisted.

The tariffs also had an impact on the labour market, especially in the manufacturing and energy sectors. Uncertainty over employment resulted from steel industry layoffs and postponed infrastructure spending. According to the Bank of Canada's 2025 economic forecasts, employment will stabilise with new trade agreements and investment-friendly policies, indicating a gradual recovery. But there are still worries about the unpredictability of the labour market. When considering the Canadian economy as a whole, tariffs had an impact on GDP swings and inflationary pressures. Even if the Bank of Canada projects 1.8 per cent GDP growth in 2025, investment in important industries and effective trade diversification are necessary for economic resilience. Although growth and spending have been stimulated by lower interest rates, long-term stability necessitates a calculated approach to international commerce.

In conclusion, aggressive trade policies, diversification initiatives, and economic resilience have positioned Canada's economy for recovery despite the difficulties caused by U.S. tariffs. Long-term development and stability in the post-tariff environment will depend on strategic policymaking, even though there are still many unknowns, especially in the energy and trade debates.

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