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Updated July 3, 2024

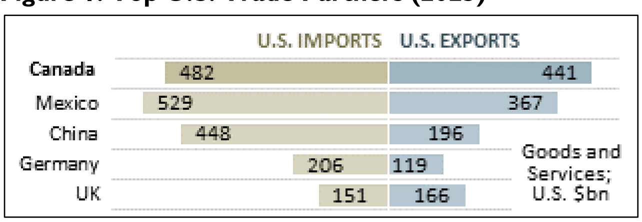
U.S.-Canada Trade Relations

The United States and Canada have one of the largest bilateral commercial relationships in the world, including a highly integrated energy and automotive market. Over the past 30 years, U.S.-Canada trade relations have been governed first by the 1989 U.S.-Canada Free Trade Agreement, then by the 1994 North American Free Trade Agreement (NAFTA), and now by the 2020 United States-Mexico-Canada Agreement (USMCA). Congress may consider the implications of current and potential areas of trade dispute and cooperation with Canada ahead of the scheduled 2026 review of USMCA.

U.S.-Canada Trade Overview

Canada is the top U.S. partner for trade in goods and services (see **Figure 1Error! Reference source not found.**). In 2023, Canada exported 78% of its goods to, and imported almost half of its goods from, the United States. As of 2022 (latest data available from the U.S. Bureau of Economic Analysis), the United States is the largest source of foreign direct investment (FDI) by stock in Canada ($438.8 billion), and Canada is the fourth-largest FDI source in the United States ($589.3 billion).

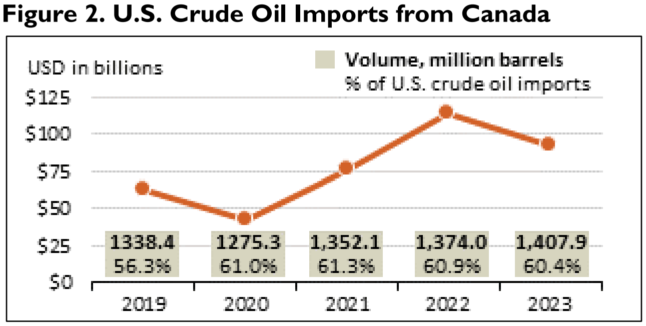
Figure 1. Top U.S. Trade Partners (2023)



Source: CRS, with U.S. Bureau of Economic Analysis data.

Canada is the largest supplier of U.S. energy imports—including crude oil (see **Figure 2Figure 2**), natural gas, and electricity—and the second-largest recipient of U.S. energy exports.

Figure 2. U.S. Crude Oil Imports from Canada



Source: CRS, with U.S. Census Bureau data, as presented by Trade Data Monitor, accessed April 2024.

Notes: Global energy prices were higher overall in 2022 due in part to market instability following Russia's invasion of Ukraine.

Selected Trade Issues

Current and potential areas of discussion between U.S. and Canadian officials include Canadian legislation regarding digital services providers, news outlets, and online content; automotive issues and potential cooperation on critical minerals; U.S. access to Canada's dairy market; and Canada's softwood lumber industry.

Digital Services Tax Act. In June 2024, the Canadian government enacted a bill into law which included a 3% digital services tax (DST) on certain revenue of large digital services providers related, for example, to online marketplaces, online advertising, social media platforms, and the sale or licensing of user data. The DST is to be retroactive to January 1, 2022. The DST is not yet in force; the Governor General of Canada is to designate a date for entry into force. The United States is home to several of the world's largest digital services providers, and some Members of Congress have expressed concerns that DSTs disproportionately impact U.S. firms (e.g., H.Res. 268).

In October 2021, members of the Organization for Economic Cooperation and Development (OECD)/G20 Inclusive Framework, including the United States and Canada, agreed on a plan to update the global tax system and develop an international digital tax framework. In July 2023, 138 out of 145 framework members agreed to hold off on imposing DSTs until at least 2025 to allow for additional progress. Canada was an exception, stating that it would not support a DST moratorium without a "firm and binding" implementation timeline for the agreement. U.S. officials have stated that additional discussions are needed before the United States signs the framework agreement. Some Members of Congress have argued that the framework plan would disproportionately impact U.S. companies and have criticized what they view as the Administration's lack of adequate consultation with Congress. Some Members have noted that a global framework could provide more stability for U.S. firms as opposed to the implementation of DSTs by individual countries. Congress may face consideration of legislation for an agreement to be implemented (see CRS In Focus IF11874, *International Tax Proposals Addressing Profit Shifting: Pillars 1 and 2*).

Canadian officials have indicated that they are discussing the DST with U.S. counterparts. The Office of the U.S. Trade Representative (USTR) previously investigated other countries' DSTs under Title III of the Trade Act of 1974 (19 U.S.C. §§2411-2420), commonly referred to as "Section 301." USTR found these DSTs to be discriminatory towards U.S. companies and announced, and then immediately suspended, plans for retaliatory action in the form of increased tariffs. Following the October 2021 OECD/G20 Inclusive Framework announcement, USTR terminated the tariffs and investigations. In response to

Canada's DST, some Members and U.S. industry groups have urged USTR to initiate consultations under USMCA and/or a Section 301 investigation. USTR has stated that it would assess a Canadian DST against the "same standard" as the abovementioned DST investigations.

Online News Act. Canada's Online News Act, which went into effect on December 19, 2023, allows Canadian news outlets to collectively bargain with digital platforms (e.g., Google, Meta) regarding payments for the use of news content. The act also establishes a mandatory arbitration framework in the event that news outlets and digital platforms cannot reach a payment agreement. The Canadian government contends that the act ensures fair sharing of revenue (e.g., from digital advertising) between news outlets and digital platforms. Some U.S. companies have negotiated payment agreements with the Canadian government, while others have stopped displaying news content through their platforms in Canada. Some Members of Congress have introduced legislation (e.g., S. 1094) similar to the Online News Act. Other Members have expressed concerns that the Online News Act may unfairly target U.S. companies and violate USMCA.

Online Streaming Act. The Canadian Radio-Television and Telecommunications Commission (CRTC) requires television and radio companies operating in Canada to fund and broadcast a certain percentage of Canadian content. Canada's April 2023 Online Streaming Act gives the CRTC the power to regulate entities that broadcast through social media (e.g., Facebook) or online streaming services (e.g., Netflix, YouTube). The CRTC has stated that it is targeting "late 2025" to implement a new regulatory framework for Canadian content requirements. Some Members of Congress have expressed concerns about the act's implementation and potential discrimination towards U.S. companies and creators. In June 2024, the CRTC released proposed regulations and announced that it will require online streaming services with annual revenues of CAD $25 million (USD $18 million) or more to contribute towards or directly fund Canadian content. The CRTC stated that it expects this funding requirement to take effect on September 1, 2024. U.S. industry groups have criticized the measure as discriminatory towards foreign firms, while some Canadian observers argue that funding requirements apply to companies in Canada regardless of nationality. Congress may examine the act's potential impacts on U.S. companies and whether it raises concerns under USMCA.

Automotive and Critical Minerals. USMCA contains various North American content requirements for duty-free automotive trade (referred to as "rules of origin"). Mexico and Canada challenged the U.S. interpretation of the rules of origin—the United States argued for a stricter approach to calculating North American content, while Mexico and Canada argued that the three parties had agreed to a more flexible interpretation to help North American producers meet the content requirements. In December 2022, a USMCA panel decided in favor of Mexico and Canada's position, and the decision cannot be appealed. The three countries have stated that they are continuing to work toward a resolution. The three countries may potentially discuss the automotive rules of origin during the scheduled 2026 review of USMCA.

The electric vehicle (EV) tax credit in P.L. 117-169, known as the Inflation Reduction Act of 2022 (IRA), also contains North American requirements for EV and battery manufacturing. The EV tax credit also requires a certain percentage of critical minerals to be sourced from the United States or its free trade agreement partners, including Canada. Canada is a top source for U.S. imports of key critical mineral inputs for EV batteries. In March 2023, the United States and Canada launched an Energy Transformation Task Force and a Joint Action Plan on Critical Minerals Collaboration to promote an integrated approach towards critical supply chains, including EVs, batteries, and critical minerals. Canada is also a member of the U.S.-led Minerals Security Partnership, which encourages public and private sector coordination on critical minerals investments.

Congress may continue to monitor the implementation and economic impacts of the USMCA automotive rules of origin and the IRA EV tax credit, and U.S.-Canada cooperation on critical supply chains.

Dairy and Supply Management. Canada supports its dairy, poultry, and egg sectors by limiting production, setting prices, and restricting imports ("supply management"). Under USMCA, Canada committed to provide greater access for U.S. dairy exports through 14 U.S.-specific tariff-rate quotas (TRQs), which allow specified quantities to be imported into Canada at preferential duty rates. USTR has challenged Canada's dairy TRQs twice under USMCA. In the first case, in December 2021, a USMCA panel ruled in favor of the United States. In the second case, in November 2023, a USMCA panel ruled in favor of Canada. U.S. officials and some Members of Congress expressed disappointment in the decision, which cannot be appealed. Some Members have urged USTR to continue to pursue improved U.S. access to Canada's dairy market. At the same time, some Members have called on USTR to pursue new U.S. dairy market access opportunities in other countries.

Softwood Lumber. The United States and Canada have had a decades-long dispute over trade in softwood lumber—primarily used in residential construction, remodeling, and repair. The last agreement governing U.S.-Canada softwood lumber trade expired in October 2015. Since the agreement's expiration, the United States has imposed antidumping (AD) and countervailing duties (CVD) on imports of Canadian softwood lumber. Canada has filed challenges against the AD/CVD duties through NAFTA, USMCA, the World Trade Organization (WTO), and the U.S. Court of International Trade. Congress may consider whether a new softwood lumber agreement is necessary and how a potential agreement might impact U.S. producers. Congress may also consider the economic impacts of lumber duties on U.S. consumers.

Issues for Congress

Congress may be interested in monitoring USMCA implementation—including the scheduled 2026 USMCA joint review—and Canada's compliance with USMCA commitments. Congress may also consider whether or not to engage with Canada at the congressional/parliamentary level to discuss pathways to address bilateral irritants and deepen cooperation in key supply chains.

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