



Chairman's Commentary

March 17, 2025

Tariff Tensions

We've had trade issues with the United States before and they were resolved by sitting down and negotiating a treaty. The last of which was the United States - Mexico - Canada Agreement (USMCA), negotiated by the current President Trump. The agreement was designed to eliminate most levies on trade between the three countries. This time, the trade issue, if there is one, is more vitriolic. Canadians don't feel they are being treated fairly and it's become confrontational. Politicians want to appear strong and threaten retaliation, which then amps up everyone's emotions. However, most of the Americans that I know are sympathetic to our issue and don't support their government's treatment of Canada.

I like what John F Kennedy said when he addressed the Canadian Parliament in 1963. "Geography has made us neighbours. History has made us friends. Economics has made us partners. And, necessity has made us allies. Those whom nature hath so joined together, let no man put asunder". He understood how geography and shared values united us.

So, if there is a problem, let's define it, turn down the rhetoric, look at the facts and get it solved.

How Did We Get Here?

The tariffs are being imposed under the International Emergency Powers Act, which gives the President the authority to impose tariffs to address a national emergency. In this case, the emergency being addressed is “The extraordinary threat posed by illegal aliens and drugs, including deadly fentanyl, constitutes a national emergency”. We think this is the excuse, but not the reason. According to the US Drug Enforcement Administration’s most recent assessment, fentanyl from Canada is not seen as a major drug trafficking threat. It is estimated that only 1% of fentanyl crossing the US borders comes from Canada. Furthermore, the Council on Foreign Relations concludes that “Canada plays virtually no role in the US fentanyl influx”. As for illegal immigration, according to the US Customs and Border Protection statistics, the number of migrants apprehended by the US border patrol after entering into the U.S. from Canada has dropped to the lowest point since 2022.

The Trade Deficit

From the perspective of facts, there is a lot of misinformation floating around and no constructive dialogue can take place without both sides agreeing to what is reality. The remainder of this piece tries to lay out those facts. As best as possible, I’ve tried to use US Government sources, but there will be minor inconsistencies in the presentation of the data. For starters Canada and the US calculate the trade balance differently and exchange rates sometimes distort reconciling the numbers. Nonetheless, you’ll get the message.

Let’s start with the overall trade deficit and some clarification in terms. You hear about the ‘trade deficit’ and the ‘merchandise trade deficit’. They are not interchangeable. The merchandise trade balance just includes stuff. The overall trade balance includes services. The US generally runs a merchandising trade deficit with most countries but a trade surplus on services.

In 2024 the US ran a \$45 billion trade deficit with Canada, about 4% of their overall deficit. By country we rank ninth on size of deficit.

US Trade Deficit (2022)

China	\$295bn	Germany	\$85bn
Mexico	\$172bn	Taiwan	\$74bn
Vietnam	\$124bn	Japan	\$69bn
Ireland	\$87bn	S. Korea	\$66bn
		Canada	\$63bn

If you break this deficit down by products, energy (oil, natural gas & electricity) amount to about \$166 bn. Excluding oil and gas, the US runs a significant trade surplus with Canada.

In 2023, exports to Canada amounted to \$354.4 bn US\$. Canada was the largest buyer in the world of US goods accounting for about 17.3% of total US goods exports. In other words, the US sells more goods to Canada than to any other country in the world. More than to China, Japan, France and the UK combined. Canada and the US are each others largest trading partners. The two countries have the world’s most comprehensive trading relationship. Furthermore, the trade is highly integrated. Roughly 70% of Canadian goods going to the US are used in the production of other goods. Trade in the auto sector is roughly balanced. Clearly, this is an area where Canada punches over its weight and where we do have some leverage at the negotiations table. Retaliatory tariffs on these goods only raise the price to Canadians, but substitution might be a more subtle way of getting our message across.

As for oil, Canada exports about 4 million barrels per day. It is heavy oil used by their refiners but trades at about a \$15 discount to light sweet. Conversely, the US exports approximately the same amount, but at full price. Furthermore, tariffs on our oil disadvantage us to our competitors. Who might those be? Well, the other major exporters of heavy crude would be Venezuela and Russia.

Tourism, ie snowbirds, also make a contribution to the US economy. In Florida there are about one million Canadians that spend up to six months in the state and contribute approximately \$6.5bn to its economy. In Arizona, roughly 975,000 visit the state with about 100,000 being residents and contributing about \$1.4bn to their GDP.

There is also the issue of existing tariffs, and yes, we do have some. But so does the US, most notably on lumber, a dispute which is before the World Free Trade Organization. But most all goods move tariff free or with restrictions that were negotiated under the USMCA. A Canadian tariff on dairy products of 200%+ is frequently brought up. It is true, however, it was covered under the USMCA and provides the US with a quota only over which does the tariff apply. To date, the US has never reached the quota, and consequently, has never experienced a tariff on dairy. One might further consider the fact that the US also has a tariff on dairy imports plus a number of other agricultural products plus fish and sea food, newsprint and others.

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I might be getting a little defensive, but Canadian companies employ about 900,000 workers in the US and nearly 8 million jobs are tied to trade with Canada. Furthermore, some 34 states sell more goods to Canada than to any other foreign country. Additionally, we hold about \$329 bn in US government bonds making us their 5th largest financier.

Nonetheless, Canada is the little guy in this argument. Approximately 75% of our exports go to the US while only 18% of US exports come to Canada. Trade makes up 67% of our GDP but only 24% of the United States GDP.

The claim that Canada is being subsidized to \$200bn per year is hard to reconcile. First, a trade deficit is not a subsidy. The party running the deficit is getting goods for the expenditure. One could rationalize that the US is subsidizing our national defence, which for most Canadians is a national embarrassment. However, getting Canada to 3% of GDP would only amount to \$45 bn USD.

When you look at the facts, Canadians don't feel we have taken advantage of our relationship with our neighbour, especially when you consider how much out of line other countries are. The fentanyl and immigration issues are a red herring, in our opinion, to evoke tariffs. But what is to be accomplished in trade. The deficit is closing even while President Trump is advocating for the return of the Keystone pipeline which would only aggravate the trade imbalance. Is this a beat them into submission attempt to gain access to Canadian resources or even annexing the country? Which in the face of Canadian Nationalism is something we might want to reconsider.

We're not going to out threaten the Americans and we don't have the economic clout to go toe to toe. I'm not one to roll over, but let's not go to a gun fight with only a knife. Maybe we can out think them? After hearing Lee Pollock, a known Churchill historian and born Canadian, I was taken by the logic of his argument. We know Trump is a negotiator. So, let's take him up on that trait. He's offered us one statehood, but we have eleven provinces. And that's where we should start. No way with one state, we want eleven and be prepared to be negotiated down to five or six. Think about that, if we could come away with six we would get 12 seats out of 112 in the Senate, over 10%. Teaming up with the Democrats would give us a clear majority and certainly make us a powerful swing block voter. Furthermore, we'd probably get more than 50 votes in the Electoral College giving us the sway to elect the next President of the US. Throw in convertibility of the dollar one for one and this could go down as the biggest reverse take over in history.

Sorry for that brief diversion, maybe that's too far out of the box thinking, but the reality is we're going to have to negotiate our way out of this dilemma. Threats are unrealistic. Although they would inflict some pain to both sides, especially with a vindictive opponent who views any retribution as an excuse to double down on the punishment. The ultimate solution may be that we suck it up, take the hit and reorient our commerce toward friendlier nations such as Europe, while finding new buyers of our resources. I don't think most Americans want to see us turn them a cold shoulder. Although these are strategies that I think are worth pursuing, I wouldn't give up on our relationship with America.

Right now we're frustrated because the criticism we suffer doesn't make any sense and consequently we don't know how to go about resolving it. It's manifesting itself in emotional outbursts and name calling. Time will reveal a lot, but in the meantime, I would reflect back on what Kennedy said, we are united by geography and shared values. That hasn't changed.

Gerald Connor

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