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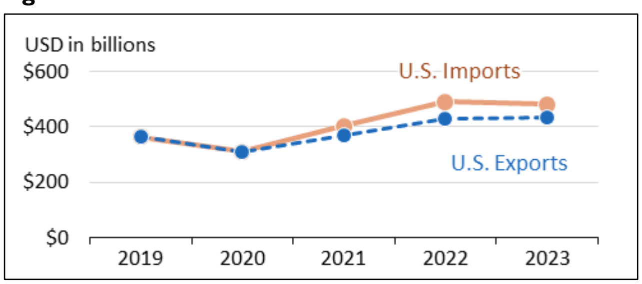
U.S.-Canada Trade Relations

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 dispute and cooperation with Canada ahead of the scheduled 2026 review of USMCA. For more on U.S.-Canada relations, see CRS Report R47620, *Canada: Background and U.S. Relations*.

U.S.-Canada Trade Overview

Canada is the top U.S. partner for trade in goods and services (see **Figure 1**). 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), the United States is the largest source of foreign direct investment (FDI) by stock in Canada ($438.8 billion), while Canada is the fourth-largest FDI source in the United States ($589.3 billion).

Figure 1. U.S.-Canada Trade in Goods and Services



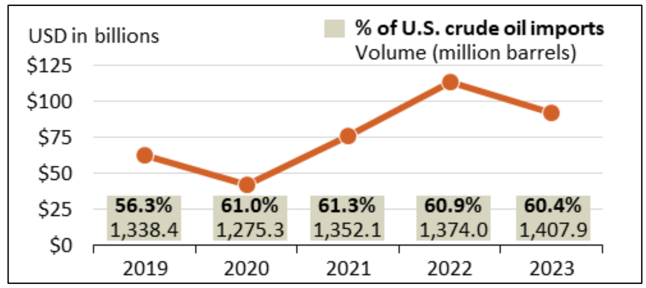
Source: CRS, with U.S. Bureau of Economic Analysis data.

Canada is the largest supplier of U.S. energy imports—including crude oil (see **Figure 2**), natural gas, and electricity—and the second-largest recipient of U.S. energy exports. Canada is a particularly valuable U.S. partner for energy security and climate objectives because of its reliable oil and gas supply, relatively low-carbon electricity grid, and shared commitments to democracy and environmental standards.

Selected Trade Issues

U.S. and Canadian officials continue to express differing views on long-standing disputes related to Canada's dairy and softwood lumber industries. Other areas of discussion include automotive issues, potential cooperation on critical minerals, and Canadian legislation regarding digital services providers, news outlets, and online content.

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.

Digital Services Tax Act. The Canadian government has proposed 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 would be retroactive to January 1, 2022. 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. companies (e.g., H.Res. 268). Prior to Canada's DST proposal, in 2019 and 2020, the Office of the U.S. Trade Representative (USTR) investigated various 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, but immediately suspended, plans for retaliatory action in the form of increased tariffs.

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. Framework members agreed to suspend new DSTs until 2024 to allow space for further negotiation. Subsequently, USTR terminated the suspended retaliatory tariffs and Section 301 DST investigations. 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 on ratification. 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. Congress is likely to be involved in U.S. implementation of any agreement. Some Members of Congress have argued that the framework plan would disproportionately impact U.S. companies and have criticized the lack of congressional involvement in framework discussions.

Canada has not yet implemented its DST; Canadian officials have indicated that they are discussing the issue with U.S. counterparts. Some U.S. industry groups have called for a Section 301 investigation if Canada enacts its DST, arguing that the DST may violate USMCA and World Trade Organization (WTO) rules. Some Members have urged USTR to make clear that it will respond swiftly if Canada enacts a DST. USTR has stated that it would assess a Canadian DST against the "same standard" as previous DST investigations.

Automotive and Critical Minerals. USMCA created stricter 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. A USMCA panel decided in favor of Mexico and Canada's position, and the final report was made public in January 2023. The three countries have stated that they are continuing to work toward a resolution.

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 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. Canada's critical minerals strategy details plans to further increase its critical minerals production in a sustainable manner and develop higher-value parts of the supply chain, such as mineral processing, battery manufacturing, and recycling. In March 2023, the United States and Canada launched a one-year 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.

Online News Act. Canada's Online News Act (Bill C-18), 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 Bill C-18. Other Members have expressed concerns that the act may unfairly target U.S. companies and violate USMCA.

Online Streaming Act. Canada's April 2023 Online Streaming Act (Bill C-11) gives the Canadian Radio-Television and Telecommunications Commission (CRTC) the power to regulate entities that broadcast through social media or online streaming services (e.g., Netflix, YouTube). The CRTC could require U.S. companies to fund and/or promote Canadian content on streaming and social media platforms in Canada. Some U.S. companies and digital content creators expressed concerns about increased costs and Canadian government control over user-generated content and social media algorithms (e.g., what content is shown and promoted to users). The Canadian government has directed the CRTC to exclude social media content creators from the regulations. CRTC is finalizing implementing regulations for the Online Streaming Act. The CRTC has stated that it is targeting "late 2024" to implement the new regulations. Congress may examine the act's potential impacts on U.S. companies and whether the legislation raises concerns under USMCA.

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. The United States won the first case in December 2021. In the second case, in November 2023, a majority of the 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 explore next steps and called for a congressional briefing. 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, the 2006 Softwood Lumber Agreement, 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 WTO, and the U.S. Court of International Trade. Congress may consider whether a new 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 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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