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US Tariffs on Canada and Mexico Take Effect Amid Trade Policy Shifts

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- Post Election Analysis

Update: On March 6, President Trump announced that the tariffs on USMCA-compliant goods from both Mexico and Canada are on hold until April 2.

During the 2024 presidential campaign, Donald Trump repeatedly promised to impose tariffs on imports from Canada, Mexico, and China. This was widely viewed as a negotiating tactic, especially concerning Canada and Mexico, the United States' largest trading partners with whom he had secured a new trade deal in his first term, the United States-Mexico-Canada Agreement (USMCA), which is up for review next year.

On February 1, the president put an end to discussions about his willingness to impose the tariffs when he used the powers of the International Emergency Economic Powers Act, the National Emergencies Act, and the Trade Act of 1974 to **impose** an additional 25% tariff on all goods from Canada and Mexico and an additional 10% tariff on goods from China. Energy imports from Canada were limited to an additional 10% tariff. The tariffs do not apply to personal communications, donated articles, informational materials, and transactions ordinarily incident to travel.

The new additional tariffs for Canada and Mexico were to go into effect on February 4, but following talks with Canadian Prime Minister Justin Trudeau and Mexican President Claudia Sheinbaum, those new tariffs were paused for one month for additional negotiation, especially on mitigating the flow of fentanyl and other drugs into the US, while the Chinese tariffs went into effect on that date. China has said it intends to file a claim against the United States at the World Trade Organization.

On February 27, the president said that Canada and Mexico had not taken sufficient steps to stop the flow of drugs across the border, and that, as a result, the tariffs on the two countries would go into effect on Tuesday, March 4. He said he was also imposing an additional 10% tariff on Chinese goods.

In **response**, Canada announced 25% tariffs on C$155 billion in US goods, with C$30 billion effective March 4, 2025 and the remaining C$125 billion in 21 days. President Trump's executive order stated that should Canada retaliate against the United States, he may increase or expand the scope of the duties.

Mexico's president has stated that she will announce any retaliatory tariffs on March 9 following discussions with the Trump administration this week, while China has responded by imposing tariffs ranging from 10% to 15% on certain agricultural products.

Key Takeaways

- The tariffs apply to products that enter the US or are taken out of a warehouse for consumption starting at 12:01 am on March 4. However, goods that were already on their final way to the US before 12:01 am on the date of implementation will be exempt from the tariffs.
- Goods that are subject to the new tariffs and that are entered into a US foreign trade zone (FTZ) after 12:01 am on March 4 will only be admitted under "privileged foreign status." When these goods are later brought into the US for consumption, they will be charged the duty rates based on their classification at the time they were admitted into the FTZ.
- The president's initial executive action stopped the use of the Section 321 *de minimis* entry process, meaning that shipments that would normally qualify for this process would now face the applicable tariffs and higher customs filing fees. Read more on this below.
- There will be no refunds or reimbursements, also known as drawbacks, of duties collected on goods that are later exported or destroyed.

Although we may learn more in later technical annexes, the executive orders do not reference changes to how goods imported under temporary importation under bond (TIB) programs will be addressed. In the first Trump administration's tariffs, importers were allowed to continue using TIB, but with a bonded amount that reflected the higher duty rate.

US Customs and Border Protection (CBP) is expected to issue detailed instructions on how importers should certify goods that are exempt due to being in transit after receiving guidance from the president. Because the timeline for implementation is tight, importers may need to pay the tariffs before they receive the full instructions from the government.

President Reimposes Tariffs on Aluminum and Steel

On February 10, the president signed proclamations to close loopholes and exemptions on tariffs for steel and aluminum imports, saying the measures were intended to protect the US steel and aluminum industries from unfair trade practices and global overproduction. The tariffs are reinstated at 25% for steel and aluminum imports, with reforms that include eliminating alternative agreements, enforcing strict "melted and poured" standards, extending tariffs to downstream products, and cracking down on misclassification and evasion.

Previously, certain countries — including Canada and Mexico — had been granted exemptions, which allowed China and other nations with excess capacity to bypass the tariffs, undermining their effectiveness.

A White House **fact sheet** states that the renewed Section 232 tariffs on steel and aluminum will help fulfill the program's original goal of revitalizing the US steel and aluminum industries, aiming for a sustainable capacity utilization of at least 80%.

Read more about the steel and aluminum tariffs in the **ML Strategies Insights Center**.

Other Trade Actions Underway by the Administration

In addition to stating that by early April, he intends to impose a 25% tariff on automobiles, pharmaceuticals, lumber, and semiconductors, the president has taken other steps, largely through executive orders, to support his "America First" trade policy:

- The Commerce Department is investigating the causes and implications of the US trade deficit and will recommend measures, such as tariffs, to address them.
- The Commerce Department, Treasury Department, and Homeland Security Department are exploring the feasibility of creating a new External Revenue Service to manage the collection of tariffs.
- The US Trade Representative is examining global trade practices the administration views as unfair and will make recommendations to address them.
- The Treasury Department will investigate the currency practices of the United States' major trading partners and recommend steps to address any alleged currency manipulation.
- The Commerce Department will assess, and possibly revise, antidumping and countervailing duty (AD/CVD) laws and procedures to improve enforcement.
- The Commerce Department and State Department will review export controls and address any existing loopholes.

As noted above, the president has also used his executive authority to end the "de minimis" rule, which had allowed duty-free imports under $800, widely used in US–Canada and US–Mexico cross-border trade, to combat illegal drug shipments from China. However, the sudden policy change caused major disruptions at US ports, including a backlog of more than a million packages at JFK Airport. With only three days' notice before enforcement, logistics systems struggled to adapt, resulting in widespread delays. Ultimately, the policy was paused due to the difficulties in its implementation and enforcement. The president has tasked the Commerce Department with finding a way to implement this policy effectively.

Next Steps for Stakeholders & How ML Strategies Can Help

There are several steps businesses can take to potentially minimize or mitigate exposure to certain tariffs, including supply chain diversification, reengineering products for more favorable tariff treatment, and using specially designated facilities like Foreign Trade Zones and bonded warehouses.

In addition to those approaches, ML Strategies can assist on the ground in Washington, DC, for parties wishing to engage at the federal level. We regularly work with clients to engage with their congressional delegations on a wide range of public policy issues. We also have relationships with members and staff at the congressional committees focused on trade policy, including the Senate Finance Subcommittee on

International Trade, Customs, and Global Competitiveness, as well as the House Ways and Means Subcommittee on Trade. We also have strong ties to key officials in the Trump administration, including senior officials at the Department of Commerce, Office of the US Trade Representative, and the Foreign Service.

During the first Trump administration, which also took an aggressive posture in using tariffs, ML Strategies worked with numerous companies looking to mitigate their exposure to the new duties. A key component of that effort was supporting our clients during the tariff exemption and exclusion process. It is not yet known whether this latest round of tariffs will include such a process, but interested parties should be prepared to quickly participate in such a process if it is announced.

Regardless of the status of an exclusion process, we strongly encourage interested parties to immediately engage with their congressional delegations on the impact of tariffs, especially with Republican members of congress from US northern border states as well as states with industries that will be hardest hit by the tariffs, such as those dependent upon the auto industry or agriculture.

Advocacy with relevant offices within the executive branch is also key.

Conclusion

With Donald Trump's return to the White House and a Republican-controlled Congress, US trade policy faces a pivotal challenge. With ambitious goals for reshoring manufacturing, expanding tariffs, and securing bilateral trade deals, the administration will face both opportunities and obstacles.

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