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New U.S. Tariffs on Mexico, Canada and China Take Effect – Retaliatory Measures Escalate Trade Tensions

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This week consisted of many developments surrounding President Trump's tariff policy. On March 4, his sweeping new tariffs took effect, significantly altering the trade landscape for businesses engaged in international commerce. Those new tariffs consist of:

- A 25% tariff on Mexican and Canadian imports into the U.S. that took effect on midnight after a one-month extension imposed by President Trump.
- A 10% tariff exception on imports of Canadian energy products.
- An additional 10% tariff on certain Chinese goods, on top of the existing 10% tariff, effectively doubling duties on Chinese imports into the U.S.

The implementation of President Trump's tariff agenda and the foreign policy responses to it have been dynamic and constantly evolving. On March 5, President Trump announced he would pause the 25% tariff for automobile imports from Mexico and Canada that are compliant under the U.S.-Mexico-Canada Agreement (USMCA) for 30 days. This development resulted from continued lobbying efforts from the automobile industry. On March 6, President Trump announced a 30-day pause on the 25% tariff imposed on Canada and Mexico imports, but only for those compliant with the USCMA. President Trump also reduced the tariff on Canadian potash not included in the USMCA to 10% from 25%. These modifications are effective with respect to goods entered for consumption or withdrawn from warehouse for consumption on or after March 7, 2025. The pause will remain in effect until April 2, the date the Trump administration has consistently stated it will impose reciprocal tariffs on all trading partners. It is reported that this pause will affect 50% of Mexican imports and 38% Canadian imports that are USMCA compliant. However, about 40% of imports from Canada and Mexico that were not USMCA compliant were not subject to a tariff.

Executive Order 14194 ("Imposing Duties to Address the Situation At Our Southern Border"), as amended by Executive Order 14198 ("Progress on the Situation at Our Southern Border") and subsequently amended by the March 2, 2025 Executive Order "Amendment to Duties to Address the Situation At Our Southern Border", which implement these tariffs, do not include any mechanism for exceptions or exclusions, meaning all covered imports will be subject to the new tariffs without relief options. Previous tariff policies have been implemented through statutes like section 301 of the Trade Act of 1974, which imposed tariffs on China for purposes of its unfair

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trade practices. The current tariff provisions invoke the International Emergency Economic Powers Act (IEEPA), which has been broadly interpreted to authorize the president to regulate international commerce to address an unusual or extraordinary threat if the president declares an emergency to address such a threat. This distinction is important because it allows the president to declare the emergency at any point, for the duration that the threat continues, without any congressional approval. The administration has justified the implementation of these tariffs by asserting that these countries have not done enough to curb fentanyl and other drug smuggling, as well as illegal immigration at the northern and southern borders, which poses a threat to the U.S.

These measures have triggered immediate responses from Canada, Mexico and China, escalating trade tensions and creating significant challenges for companies reliant on cross-border supply chains.

China's Response

In response to the new U.S. tariffs against China, China's Ministry of Finance has imposed 15% tariffs on imports of American chicken, wheat, corn, and cotton, along with 10% tariffs on soybeans, pork, fruit, beef, dairy products and other food items. Reporting has suggested China's Ministry of Commerce would sanction 15 U.S. companies, prohibiting them from importing/exporting Chinese products or making new investments in China or Chinese entities, unless granted special government permission. However, these actions remain unclear. China has also filed a complaint with the World Trade Organization, arguing that the U.S. tariffs violate global free trade rules.

Canada's Response

Canada had implemented a 25% tariff on $107 billion in U.S. goods, rolling out in two phases. Phase one, with immediate impact, included $20.6 billion in U.S. imports, targeting 1,256 products such as alcohol, meat, milk, certain fruits, coffee, beauty products, household goods, paper, and construction materials. Phase two includes an addition $86.4 billion in goods facing tariffs that will be announced over the next 21 days. Earlier this week, Ontario Premier Doug Ford reiterated that he would cut off electricity flows to New York, Michigan, and Minnesota. As a response to the recent pause by President Trump, Canada agreed to suspend only the implementation of phase two of its tariffs until April 2.

Mexico's Response

Initially, Mexican President Claudia Sheinbaum denounced the tariffs by confirming that Mexico would impose retaliatory tariffs, with details expected to be announced on March 9. This may change based on recent developments. However, if Mexico proceeds with any retaliatory tariffs, based on past patterns, such as Mexico's 2018 retaliatory tariffs on U.S. goods, new tariffs could range from 5% to 20% on various agricultural products and manufactured goods. President Sheinbaum has emphasized that the goal is not to escalate into a full economic confrontation, but to defend Mexico's interest, suggesting a strategic selection of goods that could pressure the U.S. without severely disrupting bilateral trade.

President Trump's State of the Union Response

Immediately before the State of the Union speech, Commerce Secretary Howard Lutnick commented that the U.S. could compromise with Canada and Mexico just one day after imposing the new tariffs. The compromise resulted

in the 25% tariff pause for automobile imports referenced above. The most recent pause on Mexico imports is a result of a conversation scheduled Thursday between Presidents Sheinbaum and Trump. Even with these new developments, the administration's tone seems to indicate that it may not budge from its use of tariffs to press on its "America First" policy stance.

Tariffs will continue to be President Trump's first line of trade defense, as in his speech he said they are "a little disturbance" and doubled down on beginning a reciprocal tariffs program on April 2, 2025. President Trump nodded to other trade issues, including technology investments in artificial intelligence and the creation of semiconductor chip plants in the U.S., as well as the incentives to encourage the production of automobiles in the U.S. An overall takeaway from President Trump's speech is that products should be made in America, if not, "you will pay a tariff, and in some cases a rather large one."

Continuous Whiplash

President Trump intends to utilize the power of the tariff as a negotiation tactic to promote his "America First" policy agenda. This tactic will lead to continued whiplash for importers and exporters. For those reasons, there will be continuous developments in the trade and tariff space as this administration utilizes these economic powers.

- A 25% tariff on steel and aluminum imports effective on March 12.
- A potential 25% tariff on automobiles, semiconductors, and pharmaceutical products slated for April 2.
- Reciprocal tariffs to be implemented by April 2 to eliminate the U.S. trade deficit with countries having non-reciprocal trading agreements. India is currently working to avoid reciprocal tariffs, but President Trump's speech nodded to an application of these tariffs across the board.
- A possible tariff on external agriculture products to go into effect on April 2. No further details have been disclosed.
- Current ongoing investigation to impose tariffs on copper imports with a recommendation due by late November.

The actions by President Trump may seem to signal that his threats to the European Union could come to fruition and the region may be next on the tariff crusade. Those actions may be different from what is occurring with Canada and Mexico. However, President Trump's goal is to eliminate America's trade imbalance. He campaigned on a promise of implementing a universal baseline tariff, which he will likely push forward through the implementation of reciprocal tariffs.

This alert is intended as a guide only and is not a substitute for specific legal or tax advice. Things are rapidly changing by the day and hour, and our Tariff Task Force will do its best to provide timely and relevant updates as things progress. Please don't hesitate to reach out to us with questions.

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