US and Canada "at war" over trade

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Canadian prime minister Mark Carney has declared that Canada is "at war" with the United States on trade following the collapse of several weeks of talks with the Trump administration over its move to impose a 50 percent tariff on $20 billion worth of Canadian goods, representing 5 percent of $380 billion of Canadian exports to the US.

The attack on the US's closest trading partner is significant in that it invoked for the first time a provision of the 1930 Tariff Act, otherwise known as the Smoot-Hawley Act, which played such a destructive role in the trade wars of the 1930s.

Up until the end of last week, the talks between the US and Canada appeared to be headed for an agreement. The tariffs had been initially set to go into effect on August 19, but US president Trump announced a three-day delay saying the two countries had a deal "subject to the finalisation of the documents."

But it appears that there was considerable devil in the detail because on Saturday the negotiations collapsed as both sides flung accusations against each other and sought to boost their respective nationalist agendas.

Carney announced he had suspended the discussions because the US side had introduced last-minute changes which were "unfair, uneconomic and called into question the reliability of any deal." This was followed by a speech in which he said Canada was "at war" with the US over trade.

"You're at war when you're attacked, and we got attacked," he told reporters.

Carney indicated that the last-minute changes demanded by the US included efforts to push back on efforts to have more Canadian content in online streaming services, including in French, an official language in Canada.

Carney said the Canadian side had recognised that America had changed and that "sometimes, its signature is written in pencil."

"We cannot accept what they offered and we will not give what they asked. We were not prepared to compromise Canada's sovereignty or undermine our key industries."

He said the US had "miscalculated" on Canada's resolve and it would respond, "dollar for dollar" against the US and, draping himself in the flag, said it would retaliate "to protect our workers and businesses."

There are also political calculations at work here. Carney has built his support, since taking over from former prime minister Justin Trudeau, by presenting himself as the most determined defender of Canadian national interests against the Trump administration.

Significantly, he received strong support from Doug Ford, the hard-right Tory premier of Ontario, the centre of Canadian industry, who gave full support to Carney's "strong response."

"As we fight to protect Canadian sovereignty and economic security, everything needs to be on the table. Ontario is ready to do its part," he posted on X.

In his response posted on social media, Trump indirectly revived his earlier insistence that if Canada wanted to avoid US tariffs, then it should become the 51st state.

He said that Canada wanted the "benefits of being a state, without being one!!! They have also charged our great farmers, for many years, massive amounts of Tariffs. No more!!!"

This is an indication that the conflict goes beyond the 500 or so products on which the 50 percent tariffs are to be charged. The list already covers a wage range of products including building materials, dairy products, clothing and alcohol.

The US tariffs came into effect from midnight on Saturday. The Canadian tariffs, which have yet to be announced, will be imposed from September 8. Carney indicated they would cover "steel, dairy, appliances, agricultural equipment, pulp and paper, electronics."

In conditions of rising inflation in the US, boosted by the effects of the Iran war and the growing turbulence in the financial system, evidenced by the bond market selloff, the new Trump tariffs have drawn domestic opposition.

The *Wall Street Journal*, which expresses the interests of sections of US capital more inclined to a "free market" agenda to promote their interests, has continued to label the tariffs against Canada and Mexico as "the dumbest trade war in history," drawing attention to the use of the 1930 Tariff Act.

Expressing the views of some section of the Republican party, not directly aligned with the MAGA constituency, Trump's first-term vice-president Mike Pence told CNN, "the last thing we need right now, as our economy is getting back on its feet is a trade war with Canada."

Democratic governors in states bordering Canada voiced their opposition. Governor Gretchen Whitmer of Michigan, the state most closely integrated with Canada via the auto industry, said her state was "uniquely impacted."

"Companies—especially our auto manufacturers—face the difficult decision of laying off workers or passing costs onto their customers."

The senior vice-president for the Americas department of the US Chamber of Commerce, Neil Herrington, urged Canadian negotiators to return to the table and make a trade deal. "The alternative," he said, "is an escalating cycle of tariffs that will raise costs and impede economic growth."

Business Roundtable chief executive Joshua Bolten warned that "the new tariffs and retaliation risk raising costs for American businesses and families, disrupting vital supply chains and straining the important economic relationship between the United States and Canada."

And in a somewhat unusual move, given that members of the Federal Reserve generally steer clear of commenting directly on administration policy, Neel Kashkari, the president of the Minneapolis Fed, told CBS News on Sunday, "The longer there's back and forth on the trade front, just like the longer there's back and forth in the conflict of Iran, the imprint and inflation end up being extended and delayed."

In other words, unless these two issues are settled, inflation will remain elevated, the Fed will not lower interest rates and may even raise them. The war against Iran and the trade war are interconnected in that they are components of the desperate drive by the Trump administration to overcome the decline of American imperialism both by economic warfare and military means.

The eruption of this conflict goes beyond the issue of Canadian trade. It has global implications.

The tariffs were invoked under Section 338 of the Smoot-Hawley Act. This provision, which has never before been invoked by any US president, provides that he can impose tariffs on countries that discriminate against the "commerce of the United States directly or indirectly."

In April 2025, Trump initiated a trade war against the rest of the world with his so-called "reciprocal tariffs." But after being collected, these tariffs were struck down by the Supreme Court earlier this year, resulting in the Treasury having to repay around $160 billion to US corporations—exposing the lie of the administration that they were paid for by foreign governments and corporations.

Since then, the administration has been casting about for other means of imposing tariffs, notably under the 1974 Trade Act. But this is a cumbersome and somewhat lengthy procedure, and the administration would like to be able to rapidly impose tariffs at will as Trump sought to do.

The use of Section 338, as was noted when it was invoked, may well be a trial run for its wider application as the administration deepens its economic warfare against the rest of the world.