



WHAT NOW?

Trump Tariffs: What's Signal and What's Noise

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¹ <https://www.cbc.ca/radio/thecurrent/thursday-january-9-2025-episode-transcript-17427377>

Trump's 'we-have-no-idea-how-much' across the board tariffs are either the biggest economic disaster to befall Canada, the opening salvo in a re-imagining of Canada-U.S. relations since the war of 1812 (which we won, by the way) or just a New Yorker's negotiating stunt. And after the first day in office we still don't know, which isn't surprising from a president who weaponizes uncertainty. How do we separate the signal from the noise coming from a very noisy source? Well, Mr. Trump, you have our attention – so Now What?

The following What Now? policy brief is an edited and expanded annotation of a conversation between Carlo Dade, Director of the Canada West Foundation's Trade and Trade Infrastructure Centre, and Matt Galloway, host of CBC's The Current that was originally broadcast on January 9, 2025.¹

The annotated and expanded answers include content from CWF interviews with Andrew Chang for CBC's About That show. We thank the Current and CBC News for the questions that framed this policy brief.

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MG: When Donald Trump threatens to use economic force against this country, what do you think that means?

Carlo Dade: Donald Trump is a New York real estate shark. For those of us who grew up in the era and area from which Trump emerged, the urban Northeast U.S. of the 70s, we're familiar with this language, these badgering negotiating techniques. Nothing's off the table when you're negotiating, including talking about someone's mother, which Trump has done publicly,² about the mother of the sitting Prime Minister of Canada.

This is not a small point or a simple anecdote. As juvenile and irrelevant as this may seem, it is a signal in the noise that comes from Trump and is symptomatic of the types of signals that will come from a Trump administration to which we have to pay attention. It's also the type of signal that Canadians keep missing because it seems so trivial. The purpose of the statement about annexing Canada is to throw the person with whom you are negotiating off balance and gain advantage. If it works, you keep at it. That is the lesson we are struggling to learn here. Beyond the anecdote, this point is not just about Trump. It is a *modus operandi* for a wide swath of the U.S. from New York to Texas and for people that we will see, front and centre, in a second Trump administration – think Fox News talking head as opposed to retired four-star general. This language, though, is not too distant from what we've dealt with in the past with the U.S. From President Lyndon Johnson grabbing Prime Minister Pierre Trudeau by the lapels and shaking him, to former U.S. Treasury Secretary under Nixon, John Connolly of Texas, saying about his across the board ten per cent tariffs, "My view is that the foreigners are out to screw us and therefore, it's our job to screw them first."³

That was only 54 years ago.

Rather than taking the tweet at face value and making assumptions about what will follow there needs to be a series of questions, a test, for every tweet.

MG: How do you understand what Trump and his incoming administration are trying to achieve with threats like this? And it's not just the threats of we're going to take over your country. It's, again, that idea of economic force and the tariffs that many people believe will be imposed.

Carlo Dade: On tariffs, there is a large consensus by analysts, including CWF, that the question on tariffs is not if but when and for how long they'll last. To understand why this is the case and what to expect; you have to do the work. You can't simply take the easy path, which is to take a tweet and give it the same weight as a formal, researched and structured policy proposal. Rather than taking the tweet at face value and making assumptions about what will follow there needs to be a series of questions, a test, for every tweet. For example, is there a chain that links it back to serious policy work done by the America First community – the think tanks like the America First Policy Institute, the American Compass and the 50 other think tanks that contributed to Project 2025? Is the tweet even possible given U.S. regulation, legislation, division of powers and government resources and capacity?

You can't take the tweets at face value. You have to do the work to analyze if Trump's tweet is tied to the reality of the administration and exercise of power in the U.S., which seems like common sense and something that would naturally occur, until you look at how Canada has been responding to Donald Trump's tweets, including the 51st state nonsense.

² <https://www.politico.com/news/2024/09/13/trump-trudeau-castro-conspiracy-00179118>

³ <https://www.washingtonpost.com/archive/opinions/1993/06/17/big-john-the-comeback-kid/10c7cabf-f53f-4b4a-8adc-9d4fa9e117b3/>

His association with facts is loose. Donald Trump isn't the type of person who's going to stay up at night reading a policy brief or backgrounder. He's worse than Ronald Reagan.

MG: So, do you think Trump is freelancing when he says the U.S. doesn't need things that are made in this country, we'll just make the cars in the United States?

Carlo Dade: Exactly. His association with facts is loose. Donald Trump isn't the type of person who's going to stay up at night reading a policy brief or backgrounder. He's worse than Ronald Reagan. At least Reagan would watch videos and get the basic facts. With Trump, you're not even getting that.

MG: The expert group (on Canada-U.S. relations, of which Dade and CWF CEO Gary Mar are members) put out a statement. In part, it says the trade wars are a bit like nuclear conflicts. Everyone loses. If these tariffs are coming, what impact would they have in this country?

Carlo Dade: It depends on the nature of the tariffs, and it depends on their duration. We have certainty about neither. The economic modelling that's been done takes a worst-case scenario: tariffs that last longer than a year and that cover all sectors. Back in 1971, under the Nixon shocks, we had ten per cent tariffs. But oil, gas and energy were excluded for technical reasons on the U.S. side. With the current proposed tariffs, we still don't know what the rate will be, and we don't know what specific sectors will be exempted. There was an article in The Washington Post that reported tariffs would be limited to certain sectors and then Trump immediately pushed back.

We also don't know how long the tariffs will last. The Smoot-Hawley tariffs of 1930 lasted five years with incredible damage (exacerbating inflation and contributing to the Depression). But the Nixon shock tariffs lasted barely five months. So, there's a lot of uncertainty before we can tell what sort of damage we're going to have.

MG: The CBC is reporting that Canada is considering retaliatory tariffs on everything, from steel and toilets, flowers from Florida, orange juice. What should we be thinking about in this country if, as you say, it's not if but when these tariffs are imposed?

Carlo Dade: The important question is exactly what the tariffs are: what sector, are they economy-wide, and how long? If it's the four-month period of the Nixon shock tariffs, then we need to look at things like compensation to help companies survive. Under this scenario, tariffs become a game of attrition with the Americans. Who can suffer economic damage the longest before caving in? The tariff work done by think tanks in the America First movement in preparation for a second Trump administration clearly acknowledges that their proposed tariffs will cause economic harm to the U.S. and to those the movement purports to want to help. What seems like a contradiction – tariffs to help that actually harm – is not. It is instead short-term pain for long-term gain, a movement of jobs back to the U.S. The key component of this rationale, though, is the first part – pain that is short-term.

If this analysis is correct, then the most important, the most immediate challenge is to prepare Canadians to survive short-term tariffs. As much time as has been spent in Washington, D.C. and Mar-a-Lago, more time needs to be spent in Canada working with businesses and community economic associations to figure out how to survive short-term tariffs. For more see: *Canada still woefully unprepared for a trade war with the U.S.*⁴

Tariffs become a game of attrition with the Americans. Who can suffer economic damage the longest before caving in?

⁴ <https://cwf.ca/research/publications/op-ed-canada-still-woefully-unprepared-for-a-trade-war-with-the-u-s/>

87%

of U.S. potash imports come from Canada. If the Americans want to grow crops to feed the population, they need potash.

But for effective retaliation? I'm not sure there is any. Despite what Donald Trump has said, the Americans do need some things from Canada. More than energy, potash is a needed product that has no substitute.⁵ If the Americans want to grow crops to feed the population, they need potash. Over the past five years, the U.S. has imported, on average, 92 per cent of the potash it uses. Of this amount, 87 per cent came from Canada (Saskatchewan) last year and nine per cent from Russia, not exactly a friend or trusted trade partner. Trump may not think that the U.S. needs anything from Canada, but a farmer in Iowa or Nebraska who knows that they cannot grow crops without potash and that close to 90 per cent of the potash in the U.S. comes from Canada will have a different opinion.

MG: So, do you look at withholding that? I mean, Doug Ford, the premier of Ontario, has talked about withholding power supplies to the United States as well. To a lot of people, those seem like extreme steps, but is that what you have to consider?

Carlo Dade: Well, a second and more important calculation in thinking about withholding potash is the potential damage to the Canadian and especially the Saskatchewan economies. We only need look at what happened to canola farmers last year when China retaliated for the 100 per cent tariff on EVs. Potash accounted for roughly one-fifth of Saskatchewan's exports to the U.S., a figure that equates to about six per cent of the province's GDP last year. Companies, businesses, workers, government and communities would have to be compensated. Also, threatening the Americans is never a good idea, especially for a country stuck next door to them. Instead of threatening, maybe just remind the Americans. Again, this is a game of subtleties as well. So, a potential conversation, especially with administration officials and supporters linked to, or based in, agricultural communities, could be, "look, you know, planting season is just around the corner, and you know you can't grow much without potash, and you know where 90 per cent of your potash comes from..." and just leave it there. We're not saying we're going to impose a tariff. We're just pointing

out that, you know, you're exposed as well. The threat is implicit. Do we want to "threaten" the Americans with starvation or just have them worry about the possibility on their own? Also, Canada has a global brand and reputation for feeding the world. We are one of the few major food and energy exporters who have not embargoed the export of these commodities in the modern era. We want to be careful not to damage that reputation. Finally, if the tariffs are short-term, we do not want to incur long-term damage to the relationship. The Americans can survive inflicting that damage on Canada, not the other way around.

MG: Just before I let you go, do you think this changes the relationship, the material nature of the relationship between Canada and the United States, the closest trading partners, closest allies, what have you? Is that undermined in these comments, not even the action, but in the comments by Donald Trump, do you think?

Carlo Dade: In Washington, D.C., yes. At the state and provincial level, no. We are deeply, deeply integrated with the Americans at the state and provincial level. We're members of U.S. state legislative working groups. Premiers have a standing invitation to go to, for example, the national governors meeting, Western governors, and Midwest governors meeting. When you leave Washington and Ottawa, there is a deeper level of integration. And again, as with the Nixon shocks, times change, situations change, and we always seem to get back to a meeting with the Americans. It's not the meeting we want, but at least it's a meeting we can survive and live with.

MG: There may be some potholes on the road before that destination is reached.

Carlo Dade: Very bad potholes. Ontario-sized potholes.

MG: Ontario-sized potholes. Carlo, we'll leave it there. Thank you.

⁵ <https://www.retagriculture.com/2024/11/canadian-potash-production-is-a-critically-strategic-asset-for-the-u-s-corn-farmer/>

A few last thoughts

In the theme of the CBC interviews as ‘explainers’ and our response of separating the signal from the noise of Trump’s tweets, we thought, ‘what else have we missed?’ In answer to that, we added a few last thoughts offering an explanation of how tariffs will come into force and how missing the signal in the noise of Trump’s tweets about Canada, Mexico, and tariffs has obscured a critical point that should have been, and should influence, our response going forward.

On tariffs, an even clearer and more important example of separating signal from noise is found in Canada’s varied responses to Trump’s tweets on fentanyl and illegal border crossings as a complaint that may trigger action.

There are two important lessons here.

First, this tactic of ‘threatening tariffs to prompt action’ was used by Trump in his first term in office. In May 2019, then-President Trump threatened to impose an escalating tariff on Mexican imports to the U.S. if that country did not do more to combat a surge of Central American migrants travelling through the country to seek asylum in the United States. Just days later, the threat was called off before it could be implemented. Unlike the 2018 tariffs on Canadian steel and aluminum, the threatened tariffs against Mexico invoked a different piece of legislation that gives a president much broader power to take economic and trade actions normally reserved for Congress.

The 2018 steel and aluminum tariffs focused on a single set of specific complaints about specific products. In this type of situation, taking specific action to address American complaints makes sense. The tariff action taken by Trump required an investigation by a federal agency to identify specific issues as the basis for imposing tariffs. This has not been the case with Trump’s current threats of tariffs based on complaints about fentanyl and irregular border crossings, which have not been accompanied by specific,

actionable complaints or requests as was the case with steel and aluminum tariffs. “Fix the border” and “Stop fentanyl,” while important and serious, are simply too broad and vague to be actionable. Canada is and has been engaged in working with the U.S. and, in some cases like fentanyl, in tri-partied working groups. Trump’s demands are a setup for continually moving goalposts, not a path to negotiation and resolution.

The lesson here may be that it is more important to rush to seek clarity than to seek appeasement.

The second lesson is more subtle – the complaints made by a U.S. president may have nothing to do with the tariffs being threatened.

A bit of history is needed to explain this point.

At the start of his second term, Trump is now seeking broader power to impose tariffs. Instead of specific complaints about specific products, the President is seeking a renegotiation of overall trade terms between the U.S. and its trade partners, including Canada. In other words, this is not our traditional fight over the-issue-of -the-week: softwood, beef, steel, etc. Thinking about steel and aluminum tariffs, a specific fight over a specific issue, is of little use in preparing for what’s coming in Trump’s second term, which is in large part a reprisal of what U.S. President Nixon did in 1971 when he imposed a universal tariff on imports to the U.S. as part of a successful attempt by the U.S. to reset global trade rules to rebalance trade. The rules on how a president gains the power to do what Nixon did have changed, but the bottom line is that to gain the authority held by Congress to impose tariffs, a president needs to declare a national emergency under the National Emergencies Act (NEA) and then invoke the International Economic Emergency Powers Act (IEEPA). These two acts are the updated versions of the “Trading with the Enemy Act” used by President Nixon.

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Key points about the NEA and IEEPA

- Under the National Emergencies Act, a president declares a national emergency under his own authority.
- With each national emergency declaration, the president can invoke the International Emergency Economic Powers Act (IEEPA), which grants authority to take extraordinary measures to manage aspects of foreign trade. Though the act does not explicitly mention tariffs, there is widespread consensus that a president can use the act to invoke tariffs. It is unlikely that the current Supreme Court, which has adopted a broad interpretation of presidential prerogative, would rule otherwise.
- The declaration of an emergency and the implementation of tariffs could happen almost instantly, as a president is only required to notify Congress and publish notice in the Federal Register. With President Nixon, Canadians awoke on a Monday morning in August to discover that import surcharges had been imposed the night before.
- Tariffs and emergencies can last as long as the President sees fit. The average life span of an emergency under the revised NEA/IEEPA process is a decade.
- Congress must review the emergency declarations at regular intervals and can rescind a national emergency and tariffs. However, this can only be done through an extremely difficult-to-execute joint resolution in both houses. Since 1979, when the NEA and IEEPA were created, there have been 69 national emergencies that have invoked the IEEPA.⁶ None were challenged by Congress until 2023, and no challenges have been successful.

If Trump needs to declare a (new) national emergency to gain tariff power, fentanyl and illegal border crossings make the perfect pretence. Canada and Mexico, through their responses to Trump's tweets about the border, have confirmed and validated the President's assertions, making the case for him in essence. Rather than preventing the imposition of tariffs, rushing to buy helicopters and sending sheriffs to the border may make imposition even easier.

Once again, we've been played.

In this case, fentanyl and illegal border crossings are the noise. The technical requirements of NEA and IEEPA are the signal.

The ability to distinguish between the signal and noise is going to be critical in dealing with the second Trump administration. Given government policy and media coverage in response to Trump so far, knowledge appears to clearly be lacking.

Bottom line, we need to know exactly what we're dealing with and not respond to vague tweets. Whatever the Americans do will be constrained by existing laws and regulations. Responding with specifics on what we will do before we know exactly what the Americans can and will do only tips our hand and gives them information to use against us.

⁶ Christopher A. Casey, Jennifer K. Elsea. "The International Emergency Economic Powers Act: Origins, Evolution and Use (R45618 – Version 14)." Library of Congress – Law Library, Summary. <https://crsreports.congress.gov/product/details?prodcode=R45618>

FOR FURTHER READING:

- Tariffs on Canada are a betrayal of the America First movement's promise to U.S. workers – Carlo Dade, Jan. 20, 2025
- Canada still woefully unprepared for a trade war with the U.S. – Carlo Dade, Jan. 20, 2025
- North America Brief 22 | Trump's tweet, Canada's response plus Project 2025 deep dive – Carlo Dade, Dec. 2024
- North America Brief 21 | The Trump global tariff threat – Carlo Dade, Oct. 2024
- Canada-first response to Donald Trump – Perrin Beatty, Gary Mar, Carlo Dade, et.al, Jan. 2025