CLIENT ALERTS & INSIGHTS

UPDATE: Trump Tariffs on Mexico, Canada, China - Supply Chain Impact and Strategies

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This article was originally published on February 2, 2025. It has been updated to reflect changes from additional Presidential Actions. Ten additional Executive Orders released between February 3, 2025, and March 6, 2025. A subsequent Fact Sheet was published on March 6, 2025.

United States supply chains are fast at work responding to the ever-changing trade landscape. A degree of clarity is emerging in this dynamic situation. This article provides a summary of actions to date, the sequence of events for those developments, and most importantly meaningful ways that domestic United States importers are protecting their relationships and commercial interests in this environment.

Timeline of Key Events To Date -

- On February 1st the White House initially issued a Fact Sheet and three Executive Orders describing the Administration policy for each of the top three trading partners.
- On February 3rd two additional Executive Orders instituted a pause on the implementation of tariffs on products imported from Canada and Mexico until March 4th.
- A February 7th Executive Order temporarily reinstated duty-free de minimis treatment on low value shipments for goods imported from China. A March 2nd Executive Order reinstated the same for goods imported from Mexico and Canada.
- A March 3rd Executive Order increased tariffs imposed on products imported from China.
- On March 6th the White House issued an additional Fact Sheet and two Executive Orders revising the Administration's policy for trade with Mexico and Canada for duty-free goods under the United States-Canada-Mexico Agreement (“USMCA”).

Key Provisions of White House Actions Known or Expected To Date -

- Tariffs will not be imposed on products imported from Canada and Mexico that qualify for preferential treatment under the United States-Canada-Mexico Agreement (“USMCA”). Official White House publications do not set an expiration date on the exemption of goods qualifying for USMCA preferential treatment. However, in a Truth Social post, President Trump explained that the exemption on USMCA qualifying goods imported from Mexico is set until April 2nd.

- Products imported from Canada and Mexico that do not qualify for USMCA preference will bear a 25% duty for entry into the United States. Energy and energy resources from Canada will bear a lower 10% duty. Potash from Mexico and Canada will bear a lower 10% duty. All products imported from China will bear an additional 20% duty for entry into the United States.
- Application of duties on products imported from China began on February 4, 2025. Goods in transit prior to February 1, 2025, are excluded from the new tariffs together with a few other operational exceptions.
- Application of the duties on all products imported from Canada and Mexico began on March 4, 2025. The exemption on goods that qualify for USMCA preferential treatment began on March 7, 2025, and is not retroactive. A 25% duty is still owed on goods imported from Canada into the US between March 4th and March 6th.
- Duty-free de minimis treatment of low-value shipments will at some point become unavailable for goods covered by these duties. Cessation of the duty-free de minimis treatment for goods imported from Mexico, Canada, and China is paused indefinitely until Commerce establishes systems to collect tariff revenue.
- No exclusion process will be available for domestic importers.
- No drawback will be available for duties paid under these actions.
- Any retaliation from our trading partners will be met with higher duty rates or expanded scope at the President's discretion.

How Supply Chains Attempted to Prepare - These are the first formal written announcements of the President's intentions following the America First Trade Policy memorandum signed on Inauguration Day. Our team has been advising clients on this departure from 30 years of North American trade since the President's comments during Thanksgiving Week of 2024. See our "Trump Tariffs - 2025 Expectations, Facts, and Options" bulletin here:

Trump Tariffs - 2025 Expectations, Facts, and Options

China Supply Chain Impact - Domestic importers have responded to higher duties on imports from China since the Trump '45 Administration. The Biden Administration continued and even expanded those increased tariffs. Our recent publications on those developments are available here:

New China Tariffs January 1 - Biden Administration's Section 301 Modifications Effective at Start of 2025

China Tariffs - New Section 301 Customs Duties Effective September 27, 2024

Action Items for New China Tariffs

Immediate Next Steps for New China Tariffs

Some importers with sourcing relationships in China have already weathered near- and long-term cost negotiations due to landed cost volatility. Many importers also began strategic procurement tours throughout Southeast Asia and elsewhere beginning in 2018. Prior sole-source relationships in

China for some supply chains grew into global relationships with many suppliers and manufacturers. Supplier diversity was understood as an effective means to mitigating tariff, logistics, and other geopolitical risk challenges. North America was a beneficiary of those “friendshore” and “nearshore” trends until now. China also implemented its own set of retaliatory tariffs on United States origin items falling within key sectors set to begin on March 10, 2025. Chicken, wheat, corn, and cotton commodities from the US will bear an additional 15% duty. Sorghum, soybeans, pork, beef, aquatic products, fruits, vegetables and dairy products will bear an additional 10% duty.

Canada and Mexico Supply Chain Impact - The USMCA (formerly NAFTA) was an achievement of the Trump ’45 Administration that maintained continental free trade. The new agreement was ratified by each country’s legislature to continue the three decades of investment and trade growth. USMCA was set for review next year in 2026. President Trump’s Trade Policy memorandum called for internal United States review of relevant USMCA trade factors followed by a report of findings in April 2025. Now, many of those foundational understandings between our first and second greatest trading partners are called into question. Canada and Mexico have forecasted for some time that they will meet any tariff action with proportionate tariff increases on United States items entering their commerce. Canada imposed 25% retaliatory tariffs on a list of United States import into the country that became effective on March 4th. The first list includes goods such as orange juice, apparel, appliances, and spirits. Canada also announces a second round of retaliatory tariffs subject to a 21-day comment period prior to implementation. Mexico announced that it will execute on a “Plan B” retaliation strategy. Details on Mexico’s strategy are forthcoming.

Business and Legal Strategy Going Forward - We are counseling clients through immediate near-term strategies: (1) contingency planning with foreign suppliers, (2) updating as necessary written procurement and sale terms, (3) reviewing current terms for the availability of flexibility in performance obligations, (4) confirming correctness of tariff classification and duty applicability, and (5) identifying any commercial risk where committed production or sales will be loss-generating or are inherently inelastic. Long-term planning necessarily involves examining production and commercial relationships for adjustment.

The greatest challenge at this stage is how the one-time safe harbor for price volatility, North America, is now on the high-risk side of the geopolitical spectrum alongside China. The toolbox of options of course includes increasing supplier diversity by sourcing alternate producers for finished goods and raw materials. Domestic sourcing may be the best option even if it is presently unavailable for many supply chains. Retaliation by our trading partners may also necessitate exploring customer diversity options on a global basis.

One simple truth is that domestic United States importers and industry appear to be entering a volatile and higher cost operating environment. There remain plenty of known unknowns right now such as the duration of these actions, the degree and nature of foreign retaliation, whether the President will escalate these rates, and whether any legal challenges will be successful.

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