

January 13, 2025

The Right Honorable Justin P.J. Trudeau, P.C., MP
Prime Minister of Canada
Prime Minister's Office
80 Wellington Street
Ottawa, ON K1A 0A2

Subject: Canadian small businesses need bold, united action on U.S. tariff threat

Dear Prime Minister:

As you know, the Canadian Federation of Independent Business (CFIB) is a not-for-profit, non-partisan organization representing the interests of 100,000 small- and medium-sized enterprises (SMEs) across Canada. As you meet with the Council of the Federation this week, we want to share the growing concerns of small businesses regarding the impact of potential U.S. tariffs on their business and the Canadian economy.

State of Canadian Small Business

The possibility that the President-elect will follow through on his tariff threats, combined with the lack of clarity around Canada's united response, has heightened concerns. A 25% tariff on Canadian goods would pose significant harm to the Canadian economy. CFIB's Business Barometer®, which is based on 12-month forward expectations for business performance, dropped three points to 56.4 as of December. This decline reflects the combined challenges of U.S. tariff threats, uncertainty stemming from the recently announced temporary GST holiday, disruptions caused by the Canada Post strike, and lower consumer demand. Together, these factors have created a "perfect storm," reversing the upward trend in business optimism observed in recent months.

Importance of Trade with the U.S.

The U.S. is Canada's largest trading partner, accounting for approximately 77.2% of Canadian exports and 58.8% of Canada's total import.¹ Based on our membership, almost half (47%) of Canadian small business owners import from the U.S., and 16% export.² It is important to note that this number does not take into account the many businesses that may not directly trade with the U.S. but rely on suppliers who do, and they are equally concerned about the potential fallout from any disruptions in Canada-U.S. trade. This bilateral trade relationship is essential to the success of many small- and medium-sized firms in both countries.

¹ Statistics Canada, Canada's international trade and investment country fact sheet, August 2024.
<https://www150.statcan.gc.ca/n1/pub/71-607-x/71-607-x2020001-eng.htm>

² CFIB, Your Voice December 2024 Survey, Dec. 5-29, 2024, n=1,898.

In a recent survey, 82% of Canadian SMEs indicated that they expect to be affected in some way by the U.S. tariffs and potential retaliatory Canadian tariffs. Over two-thirds of businesses (69%) reported that tariffs would lead to increased operational costs, with 65% stating they would need to raise prices to offset the impact. Additionally, businesses expect to face limited inventory or product availability (36%), and many will need to find alternative markets or suppliers (33%) if tariffs are imposed. Nearly 1 in 6 small businesses (17%) also fear they may need to reduce their staff as a result [see Figure 1]. These disruptions would exacerbate affordability issues, negatively impacting productivity and employment across the country.³

Figure 1

How would a 25% U.S. tariff on Canadian products, followed by potential Canadian retaliatory tariffs, impact your business? (Select all that apply).



Priorities for Government Action

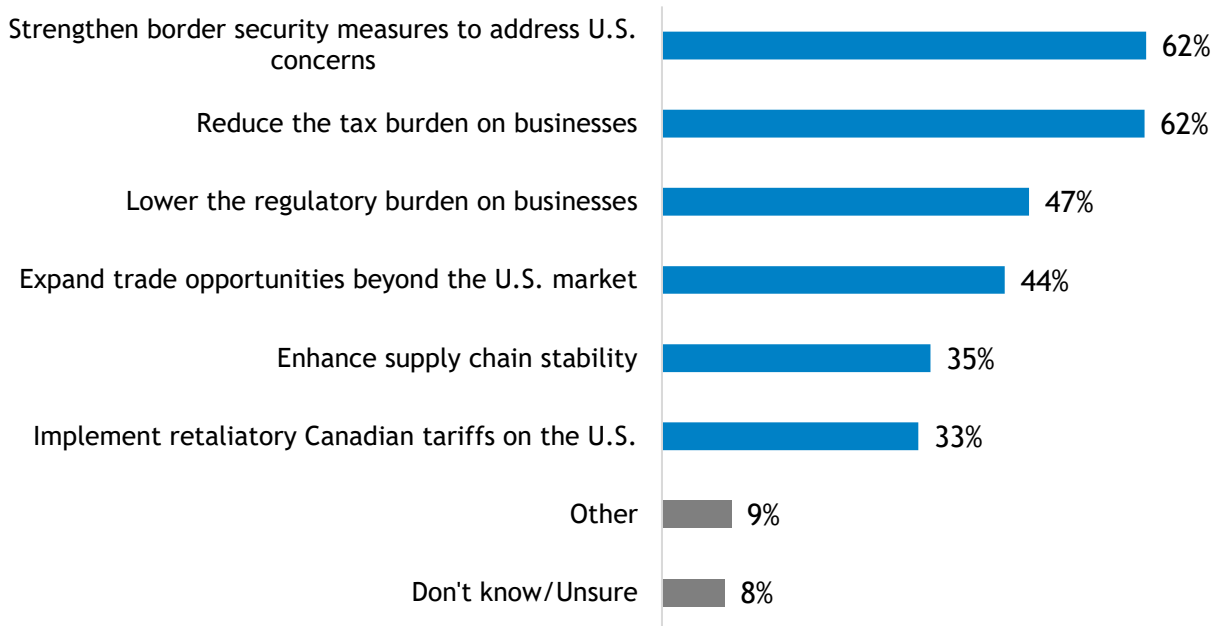
When asked about which potential actions the government should prioritize, the most widely supported measures were strengthening the border (62%) and reducing the tax burden on businesses (62%). Other supported measures include, lowering the regulatory burden on businesses (47%), expanding trade opportunities beyond the U.S. market (44%), and enhancing supply chain stability (35%) [see Figure 2].⁴

³ CFIB, Your Voice December 2024 Survey, Dec. 5-29, 2024, n=1,898.

⁴ Ibid.

Figure 2

What actions should Canada's governments take to address the impact of a potential U.S. tariff on Canadian goods? (Select all that apply).



Small businesses need our governments to work together and present a united front to ensure security, economic growth, and a business environment that is conducive to small business success. We are pleased to see you meet with the Council of the Federation to focus on Canada's response to the US threats. However, we would urge you and your provincial counterparts to also look at ways to mitigate some of the impacts of US trade actions by **reviewing Canada's tax regime and regulatory policies to ensure that SMEs can remain competitive.**

A critical part of this effort involves taking quick and bold action on interprovincial trade, tearing down barriers so that small businesses can more easily move their goods and people within Canada. Research suggests that removing these barriers would provide a GDP boost of \$200 billion per year, or \$5,100 per person.⁵

CFIB recommends that governments move quickly to adopt a mutual recognition agreement encompassing all federal, provincial and territorial regulatory measures that impose requirements on the sale or use of all goods and services. In a true economic union, standards met in one province should be recognized by all others.

⁵ Trevor Tombe and Ryan Manucha. Liberalizing internal trade through mutual recognition: A legal and economic analysis, September 20, 2022. Macdonald-Laurier Institute Paper. https://www.trevortombe.com/publication/mli_trade/. Accessed: June 14, 2024.

Thank you for your attention. On behalf of our members, we kindly ask that you raise these issues at the Council of the Federation meeting and engage in meaningful dialogue with your provincial and territorial counterparts to address them. Should you have any questions or wish to discuss these matters further, please do not hesitate to contact us.

Sincerely,



Dan Kelly
President, CEO and Chair



Corinne Pohlmann
Executive Vice-President, Advocacy

CC: The Honourable Dominic LeBlanc, Minister of Finance and Intergovernmental Affairs

The Honourable Anita Anand, Minister of Transport and Internal Trade