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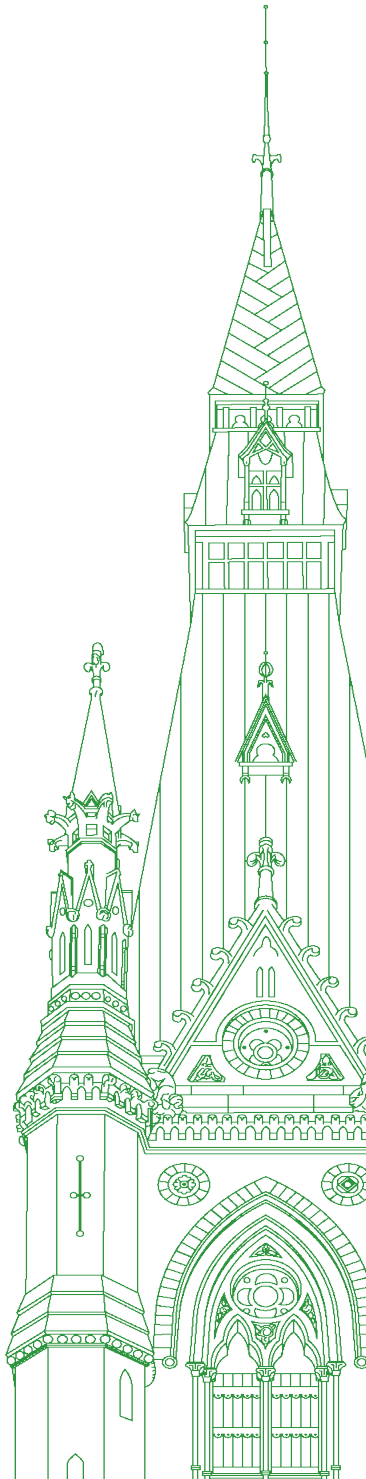
Standing Committee on Foreign Affairs and International Development

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Chair: Ahmed Hussen

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● (1710)

[*English*]

The Chair (Hon. Ahmed Hussen (York South—Weston—Etobicoke, Lib.)): I call this meeting to order.

Pursuant to Standing Order 108(2) and the motion adopted by the committee on Thursday, February 12, 2026, the committee is meeting regarding its study of the bilateral relationship between Canada and the United States of America.

I would now like to welcome our witnesses for the first hour. Dr. Trevor Tombe, professor of economics at the University of Calgary, is joining us by video conference; and, from the Canadian Federation of Independent Business, Dan Kelly, president and CEO, is joining us by video conference.

Up to five minutes will be given for opening remarks, after which we'll proceed with rounds of questions from members.

I now invite Mr. Kelly to deliver his remarks of no more than five minutes. Welcome.

Dan Kelly (President and Chief Executive Officer, Canadian Federation of Independent Business): Thank you so much. It's a pleasure to be with you all.

The impact of the trade war with the United States is significant on Canadian small businesses. Over the next little while I want to share with you a bit of what we've seen and some recommendations from small businesses on where we may go next. I did send a PowerPoint deck to the clerk. I won't go through the details, but I'll provide a few highlights over the course of the next few minutes.

A full one-third of our members, small business owners, report that they've had major negative impacts from the Canada-U.S. trade war, and that's largely driven by the broader economic uncertainty that the trade war has brought. There are a tiny few that have seen some positive impacts—I think less than 1%—but we've had a full half of small firms report some degree of negative impact from the trade war so far. That is also true for exporters and importers. They are feeling the effects of this right now.

This most recent round of U.S. tariffs has had a big impact as well. Of our members that export to the United States, a full 43% of them have fallen on the list of the section 338 tariffs that the U.S. government has imposed. A similar percentage, about half of our members that import goods from the United States, are now exposed to Canadian retaliatory tariffs. The trade impact is happening in both directions, both the U.S. tariffs on exporters and the Canadian retaliatory tariffs on importers are taking their toll on small companies.

I think that often, in trade discussions, it is thought that the impact of a trade war is primarily felt by large companies, by big resource industries and by big manufacturing plants. However, there are thousands and thousands of small firms that have been directly broadsided by the trade war with the United States, in different directions.

The median monthly cost for small business owners has been about $80,000 so far. That's quite a significant impact on a small company. We've found that nearly one in five of our members who export and about 10% of our members who import have been affected by the Canada-U.S. trade war. They are reporting that they would potentially not last more than three months if the trade war lasts that long. This, of course, was the ratcheting up in the summer of this year, when far more small and medium-sized firms were impacted.

I'll note that, during the first year of the trade war, some of the impacts were probably more broadly felt by large companies. Steel and aluminum, of course, is a big product used in thousands and thousands.... The earlier tariffs, both the U.S. and the Canadian retaliatory tariff, were taking a toll, and that hasn't gone away. Of course, we've now seen, with the new round of tariffs that came into effect over the summer, a far broader range of small firms that were affected by this.

The sad part is that many small firms report that they just cannot pass these costs on to their customers. They would lose business if they were to try to do that. About half of our members have said that they're not able to, and they are having to at least temporarily absorb the impact of the incidence of the tariff itself.

I will add that our members have been broadly supportive of some of the government's moves to walk away from the trade discussions. Most of our members have said that they support the government's walking away. They do understand the desire to put in place some retaliatory tariffs, but I have to say that it is taking its toll. Many businesses—a majority of them, two-thirds—are suggesting that Canada needs to get back to the bargaining table as quickly as is reasonably possible. Almost 30% of small firms said they are worried their business may be permanently closed if this trade war were to last over the course of the next year, so the impact is quite significant on that front.

● (1715)

In terms of what the Canadian government should do or do differently, I will say that we have been incredibly disappointed with the response of assistance to small firms. Almost all of the Government of Canada programs right now have a minimum of $1 million in sales before you're able to participate. There are thousands and thousands of small firms that are deemed too small to be helped by Canada's support programs that are delivered by regional development authorities or even the BDC. I know the government is working to consider some programs for the future. Perhaps we may see something in the new budget, but at the moment, most small businesses in Canada are ineligible for any of the supports that are offered to their larger counterparts, and we feel that this is deeply unfair and, in fact, quite insulting to Canada's small business community.

I'll close it there.

The Chair: Thank you very much.

I now invite Dr. Tombe to deliver his remarks, which are not to exceed five minutes.

Welcome.

Trevor Tombe (Professor of Economics, University of Calgary, As an Individual): Thank you, Mr. Chair and members of the committee, for the invitation.

In my opening remarks, I'm going to focus on the work that I've spent much of the past two years studying in terms of the economic implications of tariffs between Canada and the United States. I do want to say right up front that, of course, Canada's response involves many considerations: diplomatic, strategic, political and so many others. Economics is just one aspect, and reasonable people can weigh different factors differently. My aim is really just to try to explain some of the economic costs and trade-offs involved.

I'll offer three main observations. First, I think U.S. tariffs may be better understood as American domestic policy rather than as a bilateral dispute with Canada. Second, retaliation by Canada adds to Canadians' costs. Third, the effect of retaliation, particularly on U.S. policy, appears to be quite limited.

I'll start with a shock. First, it's, of course, enormous. I don't need to convince anyone of that. It is perhaps, and at moments last year was, the largest trade policy change in U.S. history—so, in 250-plus years. The average U.S. tariffs rose from about 2% in 2024 to over 30% in April 2025. Those “liberation day” tariffs did not last, but today we are at around an 11% average effective tariff levied by the United States. That's about five times the previous level.

These are broad. They affect nearly every country. I think this is a critically important point. Earlier this year, imports from China, for example, faced average rates near 30%, and Germany and Japan faced around 12% and 15% respectively. This is compared to about 8% for Canada today. The latest data from the U.S. International Trade Commission shows that 93 countries have higher average rates of tariffs applied to them than Canada. This may be less of a trade war with Canada than a fundamental change in how the United States runs its economy.

In theory, a tariff is equivalent to a domestic consumption tax plus a production subsidy of the same rate. I think that way of thinking about it is perhaps a bit more helpful in the current context. Had the U.S. simply adopted a broad-based consumption tax and a set of production subsidies, we would be viewing them very differently, and retaliation might never have come up.

That doesn't mean the costs to Canada's economy are small. They certainly hit some regions more than others. Ontario and Quebec firms, for example, face average rates roughly double the national average. Our economy might be about 2% smaller than it otherwise would have been, based on where we are relative to the Bank of Canada's projection before all of this began early last year. Now, a lot of that cost might be from uncertainty rather than the tariffs themselves, but even the PBO analysis from just a few days ago suggests that the tariffs might be contributing about 1.5% of a reduction to Canada's economy.

Let's turn to retaliation, my second point. These are taxes, and they're paid by Canadians. The round of retaliation that we levied in 2025 raised about $4 billion in federal revenue over the six months that they were in place for.

As for the latest round, beginning last month, I estimate that they may raise consumer prices by something in the order of about one-quarter of a percentage point and cost consumers about $100 million per week that they're in place. The burden is hardest on those least able to afford it. I estimate that households earning less than $30,000 may lose about half a per cent of their disposable income as a result of just the newly enacted retaliatory tariffs. That's triple the hit to those earning above $150,000.

Retaliation also raises business costs, as Dan mentioned. I estimate that machinery and equipment investment costs may be about 0.7% more expensive now as a result of the retaliation that weighs on investment and productivity.

Third—and I'll make this point quickly, as I'm getting to the end of the five minutes here—retaliation's main goal is to change U.S. behaviour. It is really difficult for a small country's tariffs to actually have meaningful economic costs on the target country—in this case, the United States. This is a challenge that all countries of Canada's size face. There are some things where we are large and where the tariff might be felt by domestic producers in the United States, but the opportunity for that is very, very limited.

● (1720)

I think our focus should really be on ensuring that economic strength and resilience are there, despite the challenges we face internationally. I'd be happy to talk about some of the potential options there in the questions.

If we think about what's going on now as just a change in U.S. domestic policy rather than as something uniquely targeted against Canada, then our response can focus more on domestic policy improvements rather than this dispute and fight back and forth with the United States.

Thank you. I look forward to your questions.

The Chair: Thank you very much for your statements.

I'll open the floor to questions, beginning with MP Mantle.

You have six minutes.

Jacob Mantle (York—Durham, CPC): Thank you, Mr. Chair.

Thank you to our witnesses for appearing and providing their valuable testimony on this important topic.

My first questions will be for Mr. Tombe.

You've written that the purpose of retaliation, as you discussed in your opening, is to change another country's behaviour. In your writing, you cited Adam Smith, saying that tariffs are sensible only if they can get the repeal of the other country's tariffs on you; otherwise, you just injure yourself. Is there any evidence that Canada's retaliation has changed U.S. behaviour, or does it fail that Adam Smith test?

● (1725)

Trevor Tombe: There's no evidence that the retaliation we've enacted has changed U.S. behaviour. Certainly, in this latest round it has resulted in a slight increase in U.S. tariffs targeting Canada. We have avoided an ever-worsening tit-for-tat, thankfully, but it is just not the case that what we've enacted adds up to enough to really move the needle economically in any way that political decision-makers south of the border will respond to.

For some context, I estimate that our largest retaliation from last year added up to something on the order of about 0.1% of GDP in some of the most heavily impacted states. Canada faces something of a trilemma. You want to have retaliation that targets goods from politically important states, goods where we're a major buyer, and goods where, from our perspective, we can easily substitute into other things. Doing all three is quite difficult. I estimate that a package that ticks all those three boxes would be roughly one-tenth the size of the full dollar-for-dollar retaliation that some have proposed in this latest round.

Jacob Mantle: Thank you for that.

On the efficacy of these countertariffs on the United States, in some of your writings you estimated it at about 0.1% of economic activity on a monthly basis for most states. Has anything the government done changed that analysis, or is it still your conclusion that Canada's economic pressure on the U.S. is really too small to be effective?

Trevor Tombe: It is just arithmetic that Canada's retaliatory tariffs are very small from the perspective of U.S. GDP. On the amounts here, we're talking tenths of a per cent of GDP in even the most heavily affected states. These are well within the margin of error of our ability to calculate GDP in the first place. It's something that could not in any way be seen as meaningful economically.

Now, as I noted at the start of my remarks, there are other considerations as well that go beyond just economics. The extent to which retaliation can help facilitate effective public relations and marketing campaigns in the States is another conversation, but economically, it's not something that has a meaningful impact on overall U.S. economic activity.

Jacob Mantle: Thank you, Mr. Tombe.

You argued in your article on what you called the “retaliation trilemma”, that it's impossible to design countertariffs that simultaneously hurt U.S. producers, are politically well targeted, and minimize damage at home. I will note that this has been the government's talking point for all these countertariffs: We're going to minimize damage at home, because we'll source from third countries, and we'll target the U.S. in ways that hurt them.

Looking at those measures, which of those three, in your opinion, has been sacrificed? What's the cost?

Trevor Tombe: That's a good question. I'm not sure I can provide a quantitative answer to it.

What is fairly clear, when I look at the retaliatory package, is that they did not follow through on full dollar-for-dollar retaliation. Governments still refer to it as dollar-for-dollar retaliation when it is about 60¢ on the dollar. I think there was some internal recognition that going forward with a full package that matched what the U.S. enacted in August would just have additional costs and consequences on the Canadian economy.

Out of the three things, it was the overall size being scaled back a bit, to about 40% smaller than would have been the case had we actually done dollar for dollar, and it was the political targeting of this. That's something where I defined it as landing largely on swing states, where changing political outcomes matter most for U.S. Senate or presidential political calculations. That's where it's not so clear that the retaliation has impacts in politically sensitive areas over others.

Jacob Mantle: Thank you.

My last question for you, Mr. Tombe, in putting that all together—the limited ability to change behaviour and the clear costs to Canada—do you think the government was wise to impose countertariffs? Do you think we should repeal them now?

● (1730)

Trevor Tombe: I guess I won't answer that direct question, in that there are non-economic considerations here as well. There are costs on Canadians and on the Canadian economy from retaliation: half a per cent off disposable income for low-income Canadians, as an example, and increasing consumer prices across the board by about a quarter of a per cent overall just for consumers, not even for businesses. It's about $100 million per week of additional costs.

Those costs might be worth paying if one is making an argument that there are non-economic objectives that these tariffs achieve. I don't know what those might be, but there may very well be such objectives. I'd say that the economic case for retaliation is thin, and one has to look at non-economic considerations if that's the route one wants to go down.

The Chair: Thank you very much.

Next, we go to MP Clark.

You have six minutes.

Braedon Clark (Sackville—Bedford—Preston, Lib.): Thank you very much, Mr. Chair.

Thank you to our witnesses for being here and for starting early and being flexible in that regard.

Mr. Kelly, I want to direct a few questions to you, if I may. Part of my riding in Nova Scotia includes the Burnside Industrial Park, which is the largest industrial park in Atlantic Canada. The vast majority of those businesses there would be categorized as SMEs, for sure.

Over the last number of weeks, obviously, I've heard from more and more businesses that are affected by the ongoing tariff and trade war. I take your point, certainly, about the fact that we often hear in the headlines about the large enterprises. Of course, that makes sense, but there are thousands of other businesses that are impacted.

Your point about the threshold is an interesting one. I'm wondering, is it as simple as lowering that threshold? In your view and the view of your membership, what would be the most effective way to get relief dollars to small businesses that don't have the capacity or the resources to pivot or to move as easily as a much larger company?

Dan Kelly: Thank you so much for the question.

Yes, we have made some suggestions to government on what could happen.

Now, for your constituency, the good news is that ACOA is the only regional development authority that is not imposing the $1-million threshold on small firms.

For some reason, we've decided that for small and medium-sized firms in Atlantic Canada, it's suitable to provide small businesses with support, but for my hometown of Winnipeg, it's absolutely prohibited that a small firm with under $1 million in sales can have any kind of relief from the tariff impact. I find that ridiculous, and it's something that I've been urging Minister Joly to change and to change quickly.

Beyond that, though, the more effective way, in our opinion, to help small firms through this is to exempt the smallest companies from some of the impacts of the tariffs. What we have suggested is that the CRA be allowed to provide a direct rebate to small firms for a portion of the U.S. tariffs they are paying or a portion of the Canadian countertariffs they are paying.

We've suggested that perhaps $50,000 U.S. or $70,000 Canadian could be directly rebated. If you can show evidence that you've actually paid the tariffs, or if you've had to adjust your prices to accommodate the tariffs—for example, discounting to your U.S. customer—then you would get that money back, and that money could be paid for by the retaliatory tariff income. I recognize that this in some ways can defeat the purpose of the tariffs themselves and of the countertariffs themselves. At the same time, exempting some of the smallest companies from the weight of it, the full weight of it, I think would be an appropriate measure.

As an example, look, the challenge for a lot of small companies is that they've done what they can to diversify. A third of our members are starting to trade more within Canada, helped by the lowering of interprovincial trade barriers. That's a good thing. A third of our members have been diversifying their trade—either suppliers or customers—in other countries outside of the United States. That's a good thing, too, and I'm hoping those relationships last beyond the current trade war, but it is impractical—in fact, I think unwise—for every Canadian business to be avoiding sales in the United States or buying from the United States. That's why we have suggested a more direct measure to do this.

Braedon Clark: Thank you, Mr. Kelly. I appreciate that.

You talked about the timing of things in your opening statement. Obviously, this is an incredibly volatile and unstable situation, so timing is a dangerous thing to speculate on in any case. Do you have any sense, from your membership, on the smaller and medium-sized enterprises...? I think you mentioned in your opening statement....

What do you think? Are we looking at six months to a year where some of these businesses...? If we are able to provide some of those supports that you've mentioned, is that the time frame, in your mind, that we're working against?

● (1735)

Dan Kelly: We've asked that question a couple of different ways.

The number of businesses that would be able to withstand, say, three months of this latest round of tariffs, which came into effect in August, and how many may be able to withstand a year of them.... As I said in my testimony, about 30% of our members said they are at significant risk of failure if the trade war continues on in its current form for a year without some degree of help. That was split into about 15% of our members—they're small business owners—who said they were at high risk of failure and 15% who said they were at modest risk of business failure as a result.

On the countertariff side, one of the challenges is that.... I understand it is very difficult, as I think Trevor described, to try to target these things absolutely properly, but there are some goods that we bring in from the United States, which are on the list of Canadian retaliatory tariffs, for which there are really no Canadian suppliers or even, in some cases, international suppliers. We're supposed to have a tariff remission process to address that, but our tariff remission process is a joke. Right now, I have small business owners who have had active files sitting in Ottawa for a year, without a single piece of any evidence to suggest that a government bureaucrat has even looked at them yet. My view is that we have two bureaucrats and a box of pencils as the tools to try to address our tariff remission process.

It is shameful that a year and a half into this trade war, that's where we are.

The Chair: Thank you very much.

We will go next to MP Brunelle-Duceppe.

[*Translation*]

Mr. Brunelle-Duceppe, you have the floor for six minutes.

Alexis Brunelle-Duceppe (Lac-Saint-Jean, BQ): Thank you, Mr. Chair.

Good morning to our witnesses.

Mr. Tombe, I do not wish to alter your statement, so please correct me if necessary. You recently suggested in a podcast that Canada simply does not have sufficient economic clout to influence the behaviour of the United States. Given our dependence on the U.S. market, what economic levers does Canada actually have at its disposal to counter trade pressures from Washington without penalizing its own businesses?

[*English*]

Trevor Tombe: That's a great question.

The main way in which tariffs can exert economic costs on a target country is by lowering the price that the exporters sell at. When you're a large buyer of something, if you put a tariff on it, think about that as a reduction in demand for that product. If demand falls, prices tend to fall as well. That's the mechanism that shifts the incidence, we say, of the tariff onto the exporters in the other country.

Given Canada's size relative to the United States, the change in demand due to a Canadian tariff, from the perspective of a U.S. producer, is so small in the overwhelming majority of cases that the price of the good we're targeting isn't going to fall. That means the incidence of the tariff is on just the Canadian buyers, whether they're direct consumers or businesses purchasing inputs and so on.

What else can Canada do to pressure the United States to change its behaviour? That involves expertise beyond economics. The economic tools we have are incredibly limited. This then turns it into a conversation of public relations, marketing, advertising, lobbying and diplomatic exchanges—things I won't comment on—but the economic tools at our disposal to exert pressure on the U.S. are extremely limited.

[*Translation*]

Alexis Brunelle-Duceppe: So, what you're telling us is that, at this stage, it's much more political than economic. You are, after all, a professor of economics, if I'm not mistaken. So you are aware of what Canadian counter-tariff measures entail and the revenue the federal government generates from them. Inevitably, when countertariff measures are imposed, they generate revenue.

Normally, in a rational world, this money would go into the federal government's coffers. Let's put aside the relationship between Canada and the United States. If these were two completely different countries and countervailing measures were in place, shouldn't this money be used to help the businesses affected by this trade war? Wouldn't that be the whole point of generating revenue?

You can answer yes or no, or you can tell us more, of course.

● (1740)

[*English*]

Trevor Tombe: That's a great question.

How the revenue is used is a separate question from whether tariffs should or shouldn't be levied in the first place. If one's goal is to raise revenue, there are more economically efficient ways to do so. Tariffs do raise revenue, but at a greater cost to the economy per dollar raised of government revenue. We can provide support to affected businesses, workers and so on using other fiscal tools. Tariffs are not necessary in order to fund that kind of support.

[*Translation*]

Alexis Brunelle-Duceppe: I understand, but there is still a great deal of revenue generated by these tariff countermeasures. In a normal world, shouldn't this revenue be channelled to certain sectors? Shouldn't the government be helping the economic sectors affected by a tariff war, rather than subsidizing, for example, industries or economic sectors that are not affected by the tariff war?

Take, for example, the oil and gas sector in Canada. At present, it is the sector most heavily subsidized by the federal government with public money, even though it is one of the few sectors not currently subject to customs duties.

I can take the example of forestry in Quebec and the rest of Canada, which is, incidentally, the largest employer in Canada compared to the energy sector. It accounts for 200,000 jobs in Canada, whilst the energy sector accounts for 192,000 jobs. In short, forestry will, I believe, receive $10 billion over 10 years under a plan that has not even been unveiled yet, whereas, for example, the oil and gas sector received $14 billion in public funds last year in the form of tax credits and grants.

Now, one may or may not have one's own views on climate change; that is beside the point. My question relates strictly to the fiscal aspect. Shouldn't we instead be using the money from tariff countermeasures to help industries affected by the trade war, rather than sending money to industries that are not affected?

[*English*]

Trevor Tombe: It's best, in my opinion, not to think about any source of government revenue as earmarked for particular and specific purposes. Tariff revenues flow into the general revenue fund like every other source of major government taxation revenues. What the government spends money on and in which sectors and in which regions, through different programs, isn't related to any of the revenue measures brought in.

We should think about whether or not we're spending appropriately or enough in different areas or, as you alluded to, perhaps spending too much in other areas, and talk directly about that. The revenues from tariffs aren't in any way earmarked for anything.

The Chair: Thank you very much.

We'll go next to MP Majumdar.

You have five minutes.

Shuvaloy Majumdar (Calgary Heritage, CPC): Thank you, Chair.

Mr. Kelly, I'll start with you. You described how it's deeply insulting that your members have been kept outside of the support package by the government and how tariff remission is particularly weak. Can you give me a picture as to who your members actually are and a sense of what scale and profile these businesses have?

Dan Kelly: Thanks so much.

We have 103,000 small and medium-sized companies as members of CFIB. They range in all sizes. The common characteristic is that they're independently owned. The majority of our members have fewer than 50 employees, but they are cross-sectoral. There are businesses where we have a fairly good chunk in manufacturing and in primary agriculture. Our largest sector is retail.

I will add, just for a second, though, that the retail impact actually has not been insignificant. One of the tariff policies the U.S. imposed was the end of their de minimis that used to allow a Canadian company to send into the United States a good of a value of up to $800 that would be tariff- and tax-free. They've scrapped that altogether, and 30% of our members have had an impact from that policy alone. There have been fairly broad impacts across the board.

Just as another point, I would say that about half of my members import from the United States and 20% of my members export to the United States, but then, of course, a huge number of businesses have been affected by the indirect effects of the trade war with the United States, and that is the economic uncertainty that this has created.

● (1745)

Shuvaloy Majumdar: It's like we've learned nothing from the last international emergency in terms of how to support the small businesses that are probably the most vulnerable to these types of big decisions that government makes.

Dan Kelly: I did want to pound my head on the table a few times. In fact, during COVID, I would say that it was better than what we're seeing in the response right now. Many of the programs have just been so poorly designed.

I understand the point of some of the government support programs, which is to try to encourage and help Canadian businesses pivot to new markets. For a lot of my members, it's the idea of saying, “Okay, you've been selling the odd truckload of goods into the United States”—which is a four-hour truck ride—“and now we want you to develop a new market in Italy and spend a bunch of money on that. We'll provide some government help along the way.” That's a pretty tall order. A lot of the work that can be done to diversify has been done.

Now, I think what we're worried about is the severing of longstanding relationships between Canadian and U.S. companies. I spoke to a Manitoba honey producer who said he sold honey into the U.S. to the same customer for 50 years, and now his honey is 50% more expensive. He's not eligible for the government support programs, either.

Shuvaloy Majumdar: That's incredible.

Professor Tombe, I want to turn to you on this. We've been hearing, to your point earlier, that somehow we are in a trade war. You'd expect that if we were on a war footing, the federal government and the Liberals would have put in support for our people with extraordinary measures to get the job done.

I appreciate your saying that's not the right way to characterize it. The better way, Professor Tombe, is to think of this as a U.S. domestic policy that Canada is reacting to. That sounds like a more mature assessment than I think many people in the media, bureaucracy and even the front benches of the government have made, and irresponsibly so.

This domestic policy that the United States is pursuing, in my mind, comes in the wake of Beijing pursuing a policy that has de-industrialized much of the west, has provided cheaper labour, has created more refining choke points for critical minerals and the technologies of the future, and has led to the theft of our intellectual property and innovation. That seems to be an adjustment that the western world is making at large.

Let me ask you, in the brief time I have left, a question in the context of U.S. domestic policy decisions. Do you believe that Washington, as the Prime Minister has said, is trying to "break us so that they can own us", or do you think that Washington is trying to lead a new set of economic arrangements for the world?

Trevor Tombe: I think neither.

It is, of course, hard to decipher what the underlying motivation is for any given choice taken by the U.S. federal government, as there are lots of competing explanations offered for tariffs. Some of them are related to, depending on the tweet one wants to look at, targeting countries to punish them for taking some decision or enacting some policy that the president may not like. Other times, the focus is on raising revenue, because they have an enormously irresponsible fiscal policy in the United States, or it's about revitalizing American manufacturing activity, particularly in response to the China shock.

There are lots of competing explanations offered for tariffs. I don't see them as targeted against Canada, because they're clearly not in the data. Tariffs are being increased on every country in the world and on their sales to the United States. Canada doesn't stand out as experiencing particularly high levels of tariffs.

The U.S. is just becoming less oriented towards trade in general. They want less of it. This, I think, is something that even crosses party lines. That's going to have negative implications for their economy and, therefore, those of other countries, like Canada, that trade a lot with them. It's not something where we're uniquely targeted.

● (1750)

The Chair: Thank you very much.

Next, we have MP Abdelhaq Sari.

You have five minutes.

[*Translation*]

Abdelhaq Sari (Bourassa, Lib.): Thank you very much, Mr. Chair.

No one here is claiming that tariffs come free of charge, of course. The real question we must ask ourselves concerns the price of inaction—what is known as the opportunity cost, the cost of doing nothing. This is truly very important. We do, after all, have two renowned professors with us.

Mr. Kelly, as you know, my speaking time is very limited, so I would ask you to give me very brief answers. On September 3, your federation published a statement indicating that a majority of small businesses support the decision to walk away from the negotiating table and impose counter-tariff measures. Your members agree with this in principle, do they not? Please answer with a yes or no.

[*English*]

Dan Kelly: They did. A majority of our members agreed with the decision to walk away—a majority that agreed that some countertariff measures are appropriate. I'll add to that only the point that for some, if your tariff impact is perhaps a small increase in the price of your snack food, then you may be all guns blazing to continue the trade fight. If your business, though, is on the line as a result of Canada's retaliatory tariffs, you might have a different reaction. There is a mix of views.

[*Translation*]

Abdelhaq Sari: We're saying the same thing. So, we agree on the strategy. If I understand correctly, the debate centres on the implementation itself.

[*English*]

Dan Kelly: I think Canadians have decided, and our government has too, that retaliatory tariffs are important and a tool that needs to be used. The second point that I've been raising is that if we're going to use retaliatory tariffs, and if we're serious about supporting businesses until such time as the trade war ends, then we have to ensure that the programs and policies that we put in place are actually designed to help them. Cutting out small firms from accessing these programs is the part that I'm most critical of.

[*Translation*]

Abdelhaq Sari: You are absolutely right. As for the adjustments you mention, we are in complete agreement. We are currently putting a strategy in place regarding implementation, and there are always adjustments to be made. If adjustments need to be made along the way, we agree that they really must be implemented and brought to the attention of the relevant department.

[*English*]

Dan Kelly: Indeed, and we've been lobbying for this for months. Unfortunately, a year and a half into the trade war, those changes have not been made.

[*Translation*]

Abdelhaq Sari: Mr. Tombe, whether it's the gross cost or the net cost, that's really important to me. You mentioned a figure of $4 billion. Does that also take into account the discounts on agricultural inputs for producers, up until 2027? You also mentioned the $7.5 billion that will be provided as support. Are you taking these amounts into account, yes or no?

[*English*]

Trevor Tombe: Partially. It accounts for the costs for businesses that are passed through to Canadian consumers, and not all costs are. The $4 billion is the consumer cost and the business costs that can be passed through, but there are costs in addition to those.

[*Translation*]

Abdelhaq Sari: That's excellent.

Please correct me if I'm wrong, Professor, but if I understand correctly, we're talking about a gross cost here. Canadians have heard figures of $4 billion mentioned on the podcast and in other media, but that isn't the actual bill to be paid, if I've understood correctly.

[*English*]

Trevor Tombe: That's right. It's too early at the moment to give you a more precise number on the larger costs, adding in not just the consumer costs but also costs for businesses that don't pass that through to Canadian consumers. It's larger than $4 billion.

Dan Kelly: I would add that of my members, only about a third are successful in fully passing on the costs of tariffs to their consumers. About 40% of our members have not been able to pass on much of those tariffs, and they're eating that right now. How long they can last in doing that is the important question.

[*Translation*]

Abdelhaq Sari: Thank you.

I have a question for both of you. Can you name a single country that has secured better negotiating terms from the U.S. administration by refraining from retaliating?

[*English*]

Dan Kelly: I'm not here to suggest that there is some magic wand that one can wave to try to make this problem go away. I've joked in the media several times that the pope would lose his patience with the U.S. government right now. In fact, I think he did.

It is incredibly challenging to figure out the right solution. Right now, we have chosen to use an approach of countertariffs. If we're going to do that, then we need to make sure that the businesses that are feeling the direct and significant impacts of that are helped until such time as this policy changes.

● (1755)

Abdelhaq Sari: Thank you so much.

The Chair: Thank you very much. You were right on time.

MP Brunelle-Duceppe, you have two and a half minutes.

[*Translation*]

Alexis Brunelle-Duceppe: Thank you, Mr. Chair.

Mr. Kelly, I believe your organization does, after all, have a Quebec branch.

Dan Kelly: Yes.

Alexis Brunelle-Duceppe: At present, everyone across Canada is affected, but Quebec and Ontario are suffering the most from the current trade war. Quebec's largest export is aluminum. Next comes the aerospace sector, followed by forestry. Do you agree with those who say that the revenue generated by the counter-tariff measures put in place by the government should be channelled to the businesses currently being hit hard by the tariff war?

There is another school of thought, as we heard earlier. Do you think that this revenue should simply go into the public coffers and not necessarily be channelled to the businesses suffering from the tariff countermeasures?

[*English*]

Dan Kelly: We've asked our members this exact question, and 90% of small firms believe that the money generated by countertariffs should be used to help businesses that are affected by the trade war. I will add this: Of those who are affected both directly and indirectly—because I would suggest that almost every Canadian business is experiencing some degree of impact, even if it is just the economic uncertainty that this has created—the top two ways that our members have suggested that governments use the countertariffs is, one, to fund some direct rebating of the tariffs in general on the smallest of companies. That's the $50,000 or $70,000 Canadian exemption that we have suggested. Secondly, we have suggested that this money be used towards a broad-based tax reduction for all small firms, especially those that are then getting some of the indirect impacts. That could be through a reduction in the small business corporate tax rate. We've suggested that be dropped from 9% to 6%.

[*Translation*]

Alexis Brunelle-Duceppe: In that case, how do you explain that the economic sector which is currently making record profits and is not subject to customs duties is the one receiving the most money—whether in the form of tax credits or subsidies, direct or indirect—from the federal government? Let's be clear, because this is public knowledge and a matter of fact: It is the oil and gas sector. How do we explain this at present, given that it is a sector which faces no U.S. tariffs and which, by that very fact, is 60% American-owned, sells 90% of its product to the Americans, faces no tariffs and is making record profits, the likes of which we have never seen before? Do you, in front of your members, wonder how it is possible for the government to act in this way?

[*English*]

Dan Kelly: We have encouraged the government to look at ensuring that small firms are thought of in the tariff relief strategy. I don't think they are right now, perhaps with the exception of Atlantic Canada.

The Quebec program is equally bad at the federal level. At the provincial level, I will say that we have heard many comments from our members that Quebec's provincial programs for tariff relief are much better at supporting businesses of all sizes than the federal programs.

The Chair: MP Duncan, you have five minutes.

Eric Duncan (Stormont—Dundas—Glengarry, CPC): Thank you, Mr. Chair.

Thank you to our witnesses for being here today. It's been enlightening here over the past while.

Mr. Kelly, I want to pick up on what you said earlier about questioning the efficiency of some of the countertariffs or the reasoning behind their being selected.

My family was in the trucking business. My father is happily retired now—but he was a long-time CFIB member, I should mention as well. An example in the transportation industry was that there was a countertariff placed on U.S.-manufactured car-hauling equipment and also some other types of trailers coming in from the U.S. that are manufacturer-based. The argument is that there's no Canadian alternative to those being purchased and, if there is, it's very limited and doesn't have the opportunity to scale up and replace that U.S. component very quickly or in time.

My question is this. Would you agree with me that this only adds to the cost in the trucking industry and transportation industry? When diesel prices are as high as they are and there's economic uncertainty, tariffs for long-haul trucking and even short-haul—this being a primary example in the sense of some of these countertariffs—are not an effective strategy, because all they're doing is driving up costs for Canadians.

● (1800)

Dan Kelly: I guess I'll respond with a couple of points.

One, to be sympathetic to the government, it is very challenging. I think Dr. Tombe shared this view as well. It is very hard to get the countertariffs right, and, especially when you have to move fast, we understand that government is going to make a few mistakes.

Where I think the government has been negligent is in addressing issues that industry has raised where there are no alternatives. If a countertariff is going to be effective, it should allow for—perhaps in an area where there are large numbers of domestic options or, at least, other international options—replacement at similar cost to some of the goods that would otherwise have been imported from the United States.

Our tariff remissions process is not working. You shouldn't have to wait a year and a half to have somebody pick up your file to determine whether that trucking part is something that should be exempted from the countertariffs. If we're in a true trade war, we should have a team, using AI, that is able to determine some of these products where there aren't a large number of Canadian alternatives. Then we should immediately eliminate the tariff treatment on those goods if we're going to use this as a policy going forward. That needs to be there. We have suggested that a small business unit be established within Finance to exempt some of these products after a convincing case can be made.

Eric Duncan: Certainly improving the service response time would be one thing, and hopefully having something to help small businesses that are under that $1-million threshold would be something the government will take into consideration and fix in order to help them. As you mentioned, you have thousands of members, and I've spoken to many in my community in eastern Ontario about that, so I appreciate your comments on that.

Another thing that I think relates to this is the PBO's assessment of the economic impact of the recent Canada-U.S. trade measures. The parliamentary budget office estimates that the trade measures introduced since early 2025 will reduce the level of Canadian real GDP by 1.4% over five years, and if the tariffs remain permanent, employment is estimated to decline by as much as 185,000 jobs.

There are some significant numbers there. The numbers in one table on the decline in business investment from the economic impact of trade measures worry me a lot. They are 3.4% in year one, and then 4.9%, 2.3%, 2.2% and 2%. As this trade war goes on without a deal and without having certainty, do you want to speak about what this does for business investment?

We're seeing those numbers, but maybe you could humanize it in terms of your members and quantify it a little bit. Everything is frozen right now. People aren't making those investments. They're not expanding their business. They're not growing. They're not buying new equipment, just from the fear of everything that's going on.

Dan Kelly: You're 100% right, and we have some pre-existing conditions in Canada that have made this a lot worse. We've had a choking level of economic uncertainty.

Even since the pandemic, it has been hard. Everybody should be celebrating every small business that's managed to last this long after all of the curveballs they've been thrown, but there are significant signs that there is an entrepreneurial drought, as we've been calling it, growing in Canada. We've had multiple quarters of shrinkage in Canada's small business community, with more business exits than business enters. Even in recessionary times, typically there are more businesses starting than ending, and that hasn't been the case for months and months.

We're really worried about this, and as my testimony indicated, it could get a whole lot worse if it continues. I deeply worry about the impact that gutting out some pretty key elements of the Canadian small business community is going to have, and this new round of U.S. tariffs and Canadian retaliatory tariffs that started in August is very much targeted at my members, small and medium-sized companies.

The Chair: Thank you.

I will go next to MP Oliphant. You have five minutes.

Hon. Robert Oliphant (Don Valley West, Lib.): Thank you, Chair, and thank you to both witnesses. The advice and thoughtfulness you both are giving us are very helpful.

To the CFIB, thank you, both for the support of your members and for your constant engagement with the government. It really is helpful. I do miss you now that the boundary has changed and you're no longer in my riding.

Dan Kelly: That's right.

Hon. Robert Oliphant: You're 17 feet outside my riding, but I still care. I care about your members, and I talk to them regularly.

We have the disadvantage here that we're not the finance committee, we're not the industry committee and we're not the trade committee, so I think we will capture much of what you have offered today and pass it on to those areas, because they have more direct ability to engage in them. However, everything both of you have said is quite helpful.

I want to ask a question that's a little more from a foreign affairs standpoint, and both of you can respond to it.

Are you perceiving this as a profound long-term structural change in the North American economy—one that will mean large, medium-sized and small businesses will need to change significantly—or are you perceiving this as a short-term issue with one administration, and if we can do some band-aid activity, we can get through to the next phase and maybe go back to at least a new normal? How are you both perceiving it, maybe one from an academic point of view and one from a practical point of view?

● (1805)

Trevor Tombe: Maybe I'll jump in here.

Much depends on what happens legally in the United States on whether or not certain acts can be changed to limit the degree of unilateral presidential discretion on raising tariffs, as currently exists now. That would create a predictability and certainty that, even if we have a change in the administration in the United States, won't exist, because at any point you could change presidents, and therefore they could again unilaterally change the conditions of international trade between them and other countries. I think the uncertainty will be here for many decades to come, so there will be lasting implications.

Second, and perhaps more importantly for Canada, is the way policy has responded, in particular as it is directed towards expanding the capacity of infrastructure and transportation, and ports in particular. Our physical ability to exchange with countries beyond North America will grow as a result of this moment, and that growth will make it cheaper and easier to trade with others. Just changing the physical infrastructure that Canada has will have lasting implications as well, although that will take time to materialize.

Dan Kelly: From my end, I don't think my crystal ball is any better than anyone else's. What I can say is that the opportunity for Canada is that this has been a wake-up call. It caused both Canadian businesses and the Government of Canada—provincial governments, as well—to focus on doing what we can to take advantage of opportunities that exist for Canadian companies around the world.

There has been a lot of momentum. As much as I've just countered that there are some businesses that are just not in a position to pivot too dramatically right now—and a lot of that has happened—I will say that we should celebrate the amount that has happened. I am hoping that we get to a new normal. I am not one who predicts that this is going to go away in the United States. Regardless of the administration, we are likely to see some potential tariffs in place for a longer period of time, and we're going to have to get used to it and adjust.

However, we do have more opportunities internationally. We have made some progress interprovincially, finally. I've been doing this for 32 years, and I've seen more momentum on interprovincial trade than at any point in my career. That is all for the good.

I am hoping that if we can get to an improved status and a deal with the United States.... I suspect that the next administration, at minimum, is going to offer a bit more stability than we have seen in the last little while, and that would be welcome. If this has caused us to then take greater advantage of interprovincial trade and other international relationships around the world, Canada could find a pathway to come out stronger.

Hon. Robert Oliphant: Thank you.

I would just say that I think it's both-and. The reality is that we have an emergency and a situation where we need to protect our businesses, and we need to be building the complete business infrastructure to capitalize in a new era.

Thank you both. We look forward to the ongoing partnership.

The Chair: I want to second that. Thank you to both witnesses for their appearances today and for their testimonies.

Colleagues, our next meeting will be on Monday, October 26.

Is it the will of the committee to adjourn the meeting?

Some hon. members: Agreed.

The Chair: The meeting is adjourned.

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