

Canada Section 232 at 50%

Scenario estimates for the tariff increase announced for 1 January 2027

St. Gallen Endowment for Prosperity Through Trade, 25 August 2026. Scenario analysis on the SGEPT US tariff model; not a forecast.

A 50% Section 232 tariff on Canadian cars, trucks, auto parts and steel, announced by the President for 1 January 2027, would lift Canada's trade-weighted average applied US tariff from 8.5% to 11.0% if the USMCA relief inside those actions survives, and to 15.7% if it does not. The additional duty at 2024 trade volumes is \$9.9 bn a year in the first case and \$28.1 bn in the second. The average tariff on all US imports rises by 0.3 and 0.9 percentage points respectively.

The estimates rest on one reading of the announcement. On 24 August 2026 the President posted that on 1 January 2027 "Tariffs on all Cars, Trucks, both large and small, Automotive Parts, and Steel, will be increased to 50%" for Canada, adding "Build in the U.S. and there are ZERO TARIFFS". This note treats the statement as a rate change inside the existing Section 232 actions on automobiles, auto parts, medium- and heavy-duty vehicles (MHDV) and steel, applied to Canada only, and estimates it against the tariff regime scheduled for 1 January 2027. Scenario A raises every in-scope Section 232 rate on Canadian goods to 50% and keeps the USMCA relief that exists inside those actions today: the US-content splits on finished vehicles and trucks, the exemption for qualifying parts and the Annex I-C value split. Scenario B is A with that relief cancelled, so every in-scope Canadian good pays the Section 232 duty on its full value, qualifying or not. In both scenarios the USMCA preferential tariff rate itself stays in place; the loss of that preference as well is reported as a sensitivity.

Canada has no full Section 232 exemption today; the USMCA relief is partial or parts-only

The scenarios start from Canada's current treatment under four Section 232 actions: automobiles (Proclamation 10908, in force 3 April 2025), auto parts (3 May 2025), medium- and heavy-duty vehicles (Proclamation 10984, 1 November 2025) and steel, whose product lists the metals proclamation of 2 April 2026 (in force 6 April) restructured into Annex I-A (main products and derivatives at the full rate), Annex I-B (derivatives at a reduced rate) and Annex III (derivatives under a temporary combined-rate ceiling), with Annex I-C (mobile industrial equipment) added by the proclamation of 1 June 2026 (in force 8 June). Canada's steel exemption from before 2025 lapsed on 12 March 2025, and the steel rate rose from 25% to 50% on 4 June 2025. The table gives the statutory rate and the USMCA treatment as the SGEPT model encodes them from the proclamations and the implementing guidance of US Customs and Border Protection (CBP).

Section 232 bucket	Statutory rate	USMCA exemption	Qualifying Canadian goods pay
Finished vehicles	25%	Partial	25% on non-US content only, 0% on US content, for Commerce-approved importers. With Canadian US content at 48.5%, about 12.9%.
Auto parts	25%	Yes	0%; non-qualifying parts pay 25%. No parts-content process was set up.
MHDV trucks and tractors	25%	Partial, since 6 May 2026	25% on non-US content, 0% on US content (CBP guidance CSMS #68559236). With 90% US content assumed, about 2.5%. Until 5 May 2026 the full 25% on full value.
MHDV buses	10%	No	10% regardless of USMCA status.
MHDV parts	25%	Yes	0%; non-qualifying parts pay 25%.
Steel, Annex I-A main products and derivatives	50%	No	50%.
Steel derivatives, Annex I-B	25%	No	25%.
Steel derivatives, Annex III	15% combined ceiling to 31 Dec 2027, then 25%	No	15% less the ordinary duty.
Steel, Annex I-C mobile industrial equipment	25% to 31 Dec 2027	Partial	25% on value net of US content up to a 40% allowance, so 15% once US content reaches 40%.

Metal that is US-melted and US-poured pays 10% from any origin, a content rule rather than a Canada exemption. The other Canada-facing layers do not reach these goods: the border tariff under the International Emergency Economic Powers Act (IEEPA) has been zero since the court ruling of 20 February 2026, the Section 122 surcharge lapsed on 24 July 2026, and the Section 338 baskets in force since 22 August 2026 carve out all Section 232 goods (US note 51(c)). A Canadian good inside these actions pays the ordinary tariff-schedule duty plus Section 232 and nothing else.

Canada's applied US tariff rises by 2.5 points with USMCA relief kept, by 7.2 points without it

The baseline is the regime scheduled for 1 January 2027; scenario A is the 50% rate with the USMCA relief inside Section 232 kept; scenario B is the 50% rate with that relief cancelled. Change is in percentage points.

State	Applied rate	HTS duty	S232	S301	S338	Change	Extra duty
Baseline	8.51%	0.10	6.36	0.16	1.89		
Scenario A	11.04%	0.10	8.89	0.16	1.89	+2.53	\$9.9 bn
Scenario B	15.66%	0.10	13.51	0.16	1.89	+7.15	\$28.1 bn

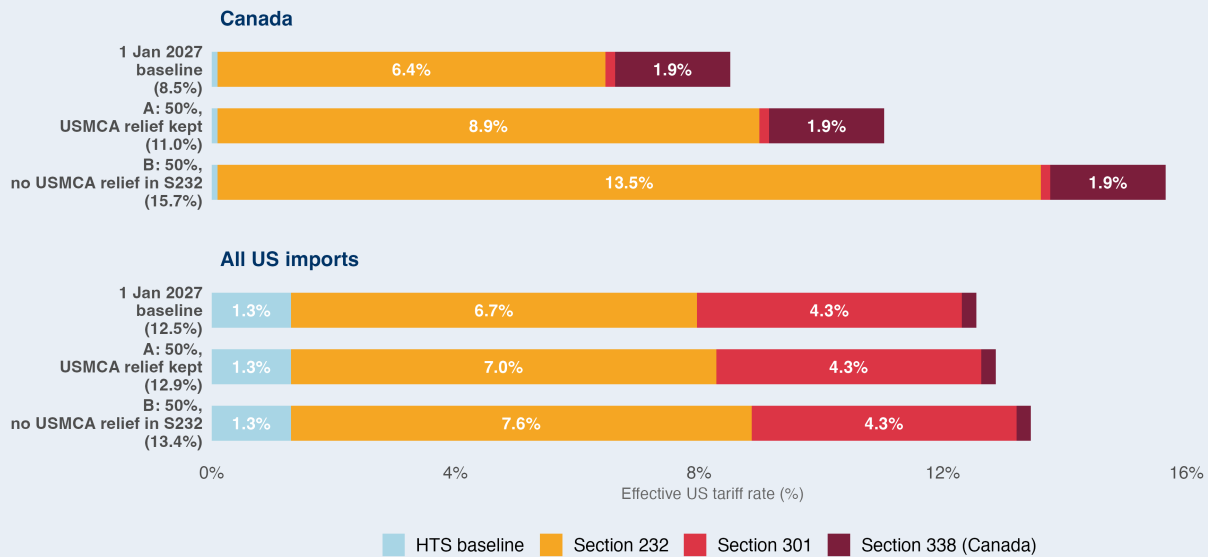
All US imports, 2024 \$3,137.5 bn:

State	Applied rate	HTS duty	S232	S301	S338	Change	Extra duty
Baseline	12.55%	1.30	6.66	4.35	0.24		
Scenario A	12.87%	1.30	6.98	4.35	0.24	+0.32	\$9.9 bn
Scenario B	13.45%	1.30	7.56	4.35	0.24	+0.90	\$28.1 bn

Trade-weighted average applied rates, USITC 2024 import weights, excluding Chapter 98 of the US tariff schedule (special-classification entries such as US goods returned). HTS duty is the ordinary tariff-schedule rate after preferences; S232, S301 and S338 are the Section 232, 301 and 338 duties; the instrument columns sum to the applied rate. Extra duty applies the change in rate to 2024 volumes.

A 50% Section 232 lifts Canada's US tariff from 8.5% to 11.0%, or 15.7% without USMCA relief

Trade-weighted US tariff by instrument on 1 January 2027, USITC 2024 import weights. Scenario A raises every in-scope Section 232 rate on Canadian vehicles, parts and steel to 50% and keeps the USMCA relief (US-content splits, parts exemption); scenario B also cancels that relief inside Section 232, with the USMCA preferential HTS rate kept. No other origin changes.



Source: Global Trade Alert; USITC 2024 imports. Scenarios after the President's post of 24 August 2026 (effective 1 January 2027).

 Global Trade Alert

Trade-weighted US tariff by instrument on 1 January 2027 under the baseline and the two scenarios, for Canada and for all US imports.

Scenario A lifts Canada's average applied US tariff from 8.51% to 11.04%, worth \$9.9 bn a year in additional duty at 2024 volumes. Scenario B takes it to 15.66%, or \$28.1 bn. At the all-origins level the same action adds 0.32 and 0.90 points, because Canada is one-eighth of US imports and the in-scope goods are \$83.5 bn, 21% of Canada's \$393.5 bn.

The 4.6 points between A and B are entirely Section 232: the HTS column is identical in the two scenarios because the USMCA preferential rate stays. Cancelling that preference as well on the in-scope goods would add a further 0.70 points for Canada (to 16.36%) and 0.09 points at the all-origins level, \$2.8 bn of duty at 2024 volumes. Light trucks account for \$1.0 bn of it (\$4.4 bn of imports at a 25% ordinary rate), cars for \$0.7 bn (\$28.0 bn at 2.5%) and auto parts for \$0.5 bn; steel adds \$0.2 bn, since most steel lines carry no ordinary duty.

Finished vehicles carry most of scenario A; vehicles and parts carry scenario B

The scope is the six Section 232 categories the model carries on Canadian tariff lines: autos, auto parts, MHDV, passenger-vehicle parts, steel main products and steel derivatives. That is 932 HS-8 lines and \$83.5 bn of 2024 imports. Aluminium, copper and lumber are not in the President's list and stay as they are. Rates below are the effective Section 232 rate, trade-weighted within the bucket, today and under each scenario; statutory rates are as in the first table.

Bucket	Imports 2024	Effective today	Scenario A	Scenario B	A extra duty	B extra duty
Finished vehicles	\$32.4 bn	13.1%	26.3%	50.0%	\$4.3 bn	\$12.0 bn
Auto parts	\$20.0 bn	3.4%	6.8%	50.0%	\$0.7 bn	\$9.3 bn
MHDV trucks and tractors	\$3.5 bn	2.7%	5.4%	50.0%	\$0.1 bn	\$1.7 bn
MHDV buses	\$1.0 bn	10.0%	50.0%	50.0%	\$0.4 bn	\$0.4 bn
MHDV parts	\$0.03 bn	3.6%	7.3%	50.0%	\$0.0 bn	\$0.0 bn
Steel main, Annex I-A	\$7.2 bn	49.6%	49.6%	49.6%	0	0
Steel derivatives, I-A	\$2.9 bn	49.6%	49.6%	49.6%	0	0
Steel derivatives, I-B	\$8.6 bn	24.0%	48.7%	48.7%	\$2.1 bn	\$2.1 bn
Steel derivatives, III	\$6.1 bn	14.6%	48.6%	48.6%	\$2.1 bn	\$2.1 bn
Steel derivatives, I-C	\$1.2 bn	15.0%	29.8%	49.6%	\$0.2 bn	\$0.4 bn
Steel derivatives, other	\$0.6 bn	24.4%	48.6%	48.6%	\$0.1 bn	\$0.1 bn
All in-scope	\$83.5 bn	16.0%	27.9%	49.7%	\$9.9 bn	\$28.1 bn

Finished vehicles carry the largest share in A: 50% on the non-US content of qualifying cars (the model puts Canadian US content at 48.5%) gives 26.3% effective against 13.1% today, and \$4.3 bn of the \$9.9 bn. Steel derivatives on the reduced annexes (I-B, III and I-C) add \$4.4 bn between them, because Annex I-B goes from 25% to 50% on the steel content, Annex III loses its 15% combined-rate ceiling and Annex I-C rises from 15% to 30% for qualifying goods. Auto parts add little in A because qualifying parts stay exempt at 86% compliance.

Scenario B falls on vehicles and parts. Finished vehicles go to 50% on full value, \$12.0 bn of extra duty; auto parts go from exempt to 50%, \$9.3 bn; trucks add \$1.7 bn. Steel adds only \$0.3 bn more than in A, because steel has no USMCA relief to lose apart from the Annex I-C value split on \$1.2 bn of mobile industrial equipment. The in-scope goods as a whole pay 50.0% applied in B against 16.3% today.

Steel main products and Annex I-A derivatives are already at 50%, so “increased to 50%” changes nothing there; the 49.6% reflects the 10% rate on the 1% of metal that is US-melted, which is kept. The Annex III ceiling and the Annex I-C regime run to 31 December 2027 for every origin; the scenarios end the ceiling for Canada on 31 December 2026 and raise the I-C base to 50%, keeping

the USMCA value split in A (50% on value net of US content up to a 40% allowance, so 30% for qualifying goods) and dropping it in B. Buses have no USMCA relief today and none in either scenario.

Three model runs at 1 January 2027, applied to Canada's in-scope tariff lines only

The estimates come from the SGEPT US tariff model at policy date 1 January 2027, on the specification used for our Brazil Section 301 and Section 338 notes: statutory tariff-schedule rates with preference weighting, Chinese Section 301 duties included, and USITC 2024 imports at the HS-8 level as trade weights, so the chart above is like for like with those notes.

The scenario rates are applied to Canada's 932 in-scope tariff lines only; every other origin and every other Canadian line stays at the 1 January 2027 baseline, and the model's origin panel confirms that no other origin moves. For scenario B the US-content splits on finished vehicles, trucks and Annex I-C equipment are switched off and the exemption for qualifying parts is removed, so each in-scope line pays the statutory Section 232 rate on its full value. The sensitivity variant additionally removes the USMCA preferential rate on the same lines, so they pay the ordinary duty as well. In every run the instrument columns sum to the applied rate on every tariff line.

The 1 January 2027 baseline is the tariff regime as scheduled for that date: the Section 232 tariffs on unmanned aircraft systems (3 September 2026), pharmaceuticals (29 September) and polysilicon (4 December) are in force, as are the Section 338 duties on Canada (22 August); IEEPA and the Section 122 surcharge are gone; the Annex III and I-C floors are still on. Canada's baseline is 8.51% against 7.46% on 22 August 2026; the difference is the pharmaceutical tariff on \$5.5 bn of Canadian exports.

Caveats

- Rates and USMCA treatments are as the model encodes them from the proclamations and CBP guidance. The US-content shares (48.5% for Canadian finished vehicles, 90% for trucks, the 40% Annex I-C allowance) are trade-weighted or inferred estimates pending Commerce approval data; USMCA compliance rates are from USITC DataWeb, July to September 2025; the 3 April 2025 start of the finished-vehicle content split is taken as given pending confirmation against CBP guidance.
- The President's post names products, not legal instruments. Reading it as a change to the existing Section 232 actions is an assumption; a new instrument (a further Section 338 finding, say) could reach different products or stack differently.
- No behavioural response: volumes are 2024 imports throughout, so the duty figures are static incidence at unchanged trade and say nothing about diversion.
- Section 338 and Section 301 are unchanged in both scenarios; Section 232 goods are carved out of the Section 338 baskets, so nothing stacks on the in-scope lines beyond the ordinary duty.