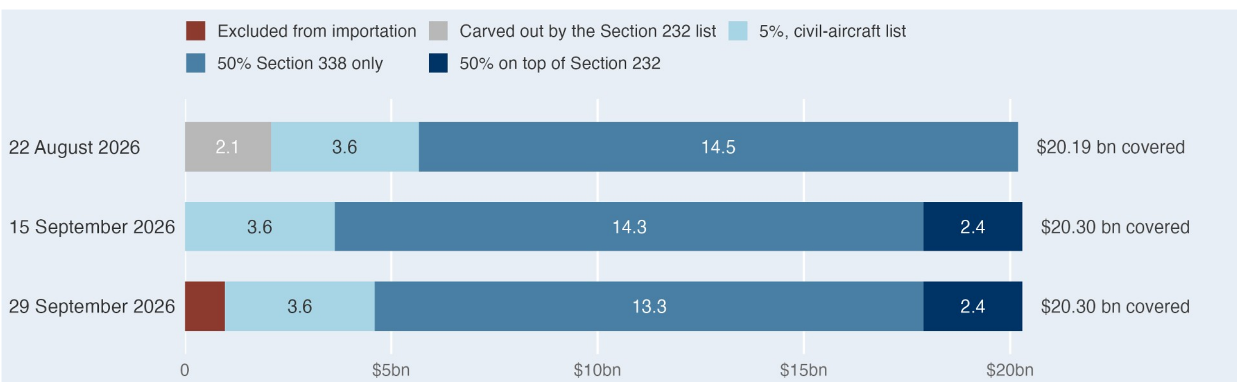
Section 338 on Canada

wider baskets, tariff stacking and the first import bans

St. Gallen Endowment for Prosperity Through Trade, 9 September 2026. How the SGEPT US Tariff Barrier Estimates implement the five proclamations of 8 September 2026. The changes are announced and not yet in force.

The three Section 338 baskets cover almost the same trade after 15 September as before, $20.30 bn of Canadian goods against $20.19 bn. What changes is how that trade is treated. The value paying the full 50% rises from $14.52 bn to $16.66 bn, because the Section 232 carve-out that sheltered $2.09 bn disappears, and $2.40 bn now pays the 50% on top of Section 232 duties. Canada's average US tariff, on 2024 import weights, moves from 7.17% to 7.50%. From 29 September the reading changes shape, because a tariff becomes a prohibition. The average import tariff on Canadian goods still eligible for import is 8.4%, and up to $0.97 bn of imports, 0.25% of Canada's exports to the United States on 2025 values, are banned entirely. Of that banned figure, $0.84 bn is banned on the face of the annexes. The remaining $0.13 bn turns on how much of one product group travels in retail packaging.

Five proclamations signed on 8 September do three things. Two of them broaden the 50% Section 338 tariff and remove selected products from it. The same two make it payable on top of Section 232 duties, which is the largest change in the package. Three more exclude 68 tariff entries from importation altogether, the first outright bans of this dispute.



Canada's three Section 338 baskets on 2025 trade values, by treatment. The banned slice on 29 September is $0.97 bn.

Date	Proclamations	Effect
22 August 2026	11046, 11047 and 11048 of 20 July	50% on three baskets: 63 alcohol, 52 dairy and 439 motor-vehicle lines. Goods in the Section 232 categories carved out.

Date	Proclamations	Effect
15 September 2026	Two scope modifications of 8 September	Alcohol basket 97 lines, motor vehicles 510, dairy unchanged at 52. Alcohol and motor-vehicle baskets pay Section 338 in addition to Section 232.
29 September 2026	Three exclusion proclamations of 8 September	68 entries excluded from importation: 53 alcohol, 14 dairy and one motorcycle line.

The proclamation titles name the three disputes the July actions answered: provincial bans on US alcoholic beverages, a dairy tariff-rate-quota rule and a motor-vehicle surtax. The product lists extend well beyond those sectors. August changed nothing in the July lists, whose three annexes match the 21 August attachment issued by US Customs and Border Protection code for code. A three-day suspension moved the start from 19 August to 22 August, the state our earlier explainer describes. The scope changes apply to goods entered, or withdrawn from warehouse, for consumption on or after 15 September. The bans apply to goods imported on or after 29 September.

Alcohol: bulk whisky and liqueurs come out, then packaged beverages are banned

Since 22 August the alcohol action has imposed 50% on listed beer, wines, spirits and other alcoholic beverages, and on the wood and paper products, grapefruit oil and hockey equipment that share its basket. From 15 September the surcharge no longer reaches liqueurs and cordials in containers exceeding four litres, nor the residual category of ‘other’ whiskies in containers exceeding four litres, which is mostly bulk Canadian whisky. Bourbon and rye are listed separately and stay in.

The same proclamation adds 34 entirely different products: 23 cheese lines, modified fats and oils ($272 m of 2025 imports), hides, leather and furskins ($8 m) and motorboats ($73 m). They pay 50% from 15 September, and none of them is banned.

From 29 September, listed alcoholic beverages move from the surcharge to an import ban. The annex marks 28 of the 53 banned entries ‘Packaged’, and covers on those lines only product in bottles, cans, boxes, kegs and similar containers. Bulk supplies of the same product stay at 50%. The test is the container the goods travel in, not its size. The other 25 entries are banned whole. Six of the banned entries are the ten-digit whisky and liqueur categories re-inserted two weeks earlier, the only codes with two September treatments.

Dairy: selected ingredients become prohibited, and cheese arrives through the other two proclamations

The original dairy action covered milk powders and concentrated milk, whey, milk-protein products, lactose, casein and related ingredients, plus molasses and non-alcoholic beer. Cheese was absent from all three original lists, although cheese market access is the stated basis of the dairy dispute. The basket itself does not change in September. It keeps its 52 lines and, alone among the three, its Section 232 carve-out.

From 29 September the dairy proclamation bans 14 listed lines: whey products (concentrates, modified, fluid and dried whey), invert molasses, cane and beet molasses, and non-alcoholic beer. These lines carried $41 m of 2025 imports, $31 m of it whey protein concentrates. The rest of the basket stays at 50% with its existing exceptions, so the ban reaches named ingredients rather than Canadian dairy at large.

From 15 September selected cheeses become newly subject to 50%: 23 lines through the alcohol modification ($17 m) and cheese other than of cow's milk through the motor-vehicle modification ($71 m). A sectoral assessment should count these as dairy even though their legal authority lies in different proclamation families.

Motor vehicles: the broad basket grows in both directions, with a narrow motorcycle ban

The original motor-vehicle action targeted a broad assortment of Canadian agricultural goods, chemicals, plastics, wood, paper, textiles, machinery, electronics, furniture and other products. It contains no motor vehicles.

From 15 September the basket gains 76 lines, $1.48 bn of 2025 imports, and loses eight. The largest additions are structural steel ($653 m), aluminium profiles, bars, rods and tubes ($440 m) and seating, furniture, mattresses and lamps ($212 m). The rest are writing, printing and drawing papers, base-metal fittings and welding materials, golf carts, passenger cars with spark-ignition engines up to 1,000 cc and larger outboard motorboats.

Removed outright are salt ($135 m), non-white Portland cement ($383 m), chemically pure sugars ($16 m), sanitary-paper stock ($118 m) and unwrought refined lead ($222 m), together $874 m. Three further lines are narrowed to a sub-category: paper household and hospital articles keep only face masks, fishing tackle keeps only rods, and electric control panels drop switchgear assemblies and switchboards, 44% of the $1.73 bn line in 2025. These changes reach the Section 338 surcharge alone. Other applicable duties can remain.

From 29 September the import ban covers one line, motorcycles with reciprocating internal-combustion engines exceeding 800 cc ($81 m). Canadian passenger cars and auto parts stay out of the annex.

The largest change is tariff stacking

Until 14 September, goods in the eight Section 232 categories of US note 51(c) to Chapter 99 of the tariff schedule (steel, aluminium, copper, autos, trucks, lumber, pharmaceuticals and semiconductors) were exempt from the Section 338 surcharge. From 15 September that carve-out survives only for the dairy basket. Both modification proclamations state that the duties 'shall apply in addition to duties imposed pursuant to section 232'.

On 2025 values, $2.40 bn of the motor-vehicle basket pays 50% on top of Section 232 from 15 September. Newly added structural steel, aluminium and small vehicles account for $1.09 bn. The rest was carved out in August: the retained part of the electric control panel line ($973 m, a Section 232 auto part at 25%) and wooden furniture ($328 m, Section 232 lumber at 25%). The civil-aircraft exception of note 51(d) and the treatment of US goods returned and repaired under Chapter 98 of the tariff schedule are unchanged. Qualifying for the US-Mexico-Canada Agreement still gives no relief, under note 51(a).

Two provisions are not modelled, and one annex reference has no referent

All three exclusion proclamations provide that goods imported before 29 September but not yet entered for consumption keep the 50% duty (clause 2), and that the 50% duty applies to any import for which the ban is invalidated (clause 9(b)). We capture neither and treat every listed line as banned from 29 September.

The dairy ban refers to a dairy scope-modification proclamation of 8 September. No such proclamation exists. The White House fact sheet counts five, and we read the reference as a drafting artefact rather than infer a further dairy-basket change.

How we model the package

The scope changes enter as dated basket membership. Each of the 110 added lines joins its basket on 15 September at 50%, the five removed lines leave, and the Section 232 carve-out narrows to dairy from that date.

An import ban has no ad valorem rate. We model it as overriding every tariff on the banned trade: no Section 338, no Section 232, no ordinary duty. The banned value leaves both the numerator and the denominator of every trade-weighted average and is reported beside it, in the form quoted at the top. We rejected two alternatives. Keeping the banned lines at 50% would show a tariff on goods that cannot enter, and keeping them in the base at 0% would read as duty-free access. No ad valorem equivalent is assigned.

A zero in a banned line's rate column is a calculation convention. It records that no duty is assessed, and a reader who took it at face value would conclude the goods enter free. Every published output therefore states the prohibited share of each line beside the rate and names it in words, as ‘import prohibited, tariff not applicable’, or as a rate that applies only to the remainder where part of the line is still admissible. Averages taken from those outputs are weighted by the value that can still be imported, with the prohibited value reported next to them.

The ‘Packaged’ limitation has no counterpart in trade data. The annex defines it as product ‘packaged in bottles, cans, boxes, kegs, or other similar direct-to-consumption containers’, which tests container type rather than container size. A keg and a bag-in-box are direct-to-consumption well above four litres. The annex marks as ‘Packaged’ exactly those subheadings whose own text leaves the container open or puts it above four litres. All 25 unmarked entries carry a two- or four-litre cap in their own description, so everything in them is already packaged for consumption and the ban reaches the whole line. No trade series records container type, and the ten-digit US import data carries no quantities from which a unit value could be read. We therefore set the banned share of each of the 28 marked entries to 1.0, an uncalibrated upper bound, and record beside each what the tariff schedule does say about its containers.

That evidence brackets the assumption. Of the $968 m banned on 2025 values, $699 m sits on lines banned whole, carrying no marking and no assumption. A further $51 m sits on marked trade the schedule itself caps at four litres, and $90 m on marked trade the schedule puts in aluminium containers, which we read as cans or kegs. The remaining $128 m, 13% of the headline, depends on the assumption: $49 m where the schedule says nothing about the container, and $79 m on two lines whose text points the other way. Those two are wine in containers over ten litres ($56 m of 2025 imports) and undenatured ethyl alcohol at 80% strength or higher for beverage purposes ($23 m), a distillery input rather than a retail format. Each of the 28 entries carries its own share and its own container evidence, so the assumption moves line by line rather than in one block.

Five lines are deleted at eight digits and re-inserted only for some of their ten-digit statistical children. Our trade data is at eight digits, so each parent keeps a retained share of its Section 338 rate, taken from ten-digit US import data from Canada published by the US International Trade Commission. The averages use 2024 shares, our trade-weight year, and the coverage figures 2025 shares.

Line	Stays in scope from 15 September	Retained share, 2024	2025
8537.10.91 electric control panels	Boards and panels, not switchgear assemblies	57%	56%
2208.30.60 whiskies other than Irish and Scotch	Bourbon, rye and other whiskies up to 4 litres, bourbon and rye over 4 litres	79%	80%
2208.70.00 liqueurs and cordials	Containers up to 4 litres	99%	99%
4818.90.00 paper household and hospital articles	Face masks	0.1%	0.2%

Line	Stays in scope from 15 September	Retained share, 2024	2025
9507.10.00 fishing rods and parts	Rods	0.1%	0.6%

The parameters we use from 15 and 29 September:

Parameter	Value	What it represents
Section 338 rate	50% on all three baskets	Unchanged from July
Basket membership from 15 September	Alcohol 97, dairy 52, motor vehicles 510 lines	Re-split parents counted once
Section 232 carve-out (note 51(c))	Dairy basket only from 15 September	Alcohol and motor-vehicle lines pay 50% on top of Section 232
Civil-aircraft share (note 51(d))	0.9, placeholder	Lines on the aircraft list pay 50% on the non-civil tenth, so 5%
Retained share on re-split lines	Table above, 2024	Multiplies the 50% rate for the five parents
Import ban from 29 September	68 annex entries, 64 eight-digit lines	Every tariff zero on the banned share, banned value out of the weights and named in the published output
Packaged share	1.0 per entry, upper bound, tunable	Banned share of each of the 28 marked alcohol entries, recorded with its container evidence
Ban ad valorem equivalent	None	Banned trade is reported as a value beside the average, never as a rate
Trade weights	2024 for averages, 2025 for coverage	Both from US import data at eight digits

Coverage barely moves, and the shift is from carve-out to stacking

Before the package the three baskets covered \$20.19 bn of the \$383.1 bn the United States imported from Canada in 2025, 5.3% of the total, on 554 annex lines. From 15 September they cover \$20.30 bn on 659 lines, almost the same trade. The \$2.09 bn the Section 232 carve-out had sheltered now pays the surcharge, and \$2.40 bn of the basket pays it on top of Section 232.

From 29 September, up to \$0.97 bn of the covered trade is banned, of which \$0.84 bn carries no packaging assumption. It comprises \$0.85 bn of alcoholic beverages, \$0.04 bn of whey, molasses and non-alcoholic beer, and \$0.08 bn of motorcycles, on 64 eight-digit lines. Trade in scope that can still be imported falls to \$19.33 bn.

State	Covered	50%	50% + 232	5%	Carved out	Banned
22 August	20.19	14.52	0	3.58	2.09	0
15 September	20.30	14.27	2.40	3.63	0	0
29 September	20.30	13.30	2.40	3.63	0	0.97

$bn, 2025 US imports from Canada. The five treatment columns sum to the covered column and match the chart above. '50%' is Section 338 alone, '50% + 232' is Section 338 on top of Section 232, '5%' is the civil-aircraft list, 'Carved out' is the note 51(c) Section 232 carve-out.

Basket	Annex lines	Covered	Banned	Still importable
Alcohol	97	1.35	0.85	0.50
Dairy	52	0.10	0.04	0.06
Motor vehicles	510	18.85	0.08	18.77
All three	659	20.30	0.97	19.33

Per basket from 29 September, $bn, 2025 values.

Our averages use 2024 import weights. Canada's trade-weighted average applied US tariff moves from 7.17% on 14 September to 7.50% on 15 September, and the average on all US imports from 11.10% to 11.14%. The Section 338 contribution to Canada's average rises from 1.82 to 2.15 percentage points. On 29 September Canada's average on tariffable trade reads 8.40%. The rise from 7.5% to 8.4% comes from the Section 232 pharmaceutical tariffs that start the same day. The ban itself lowers Canada's average, because the banned lines leave the base and the Section 338 component falls from 2.15 to 2.03 percentage points. Banned imports on 2024 weights are $1.005 bn, 0.25% of Canada's $410 bn. Pairing the average on trade still eligible for import with the banned value keeps both readings on the page.

Limitations

The packaged share is an upper bound. The 28 marked entries carried $267 m of 2025 imports, so every 0.1 reduction in the share returns about $27 m to the tariffed base at 50%. Of the banned headline, $128 m rests on that share, and $79 m of the $128 m falls on two lines whose tariff-schedule text points to bulk containers.

The civil-aircraft share of 0.9 is an uncalibrated placeholder. It keeps five newly added lines on the aircraft list at 5% rather than 50% ($30 m: aluminium tubes, flexible metal tubing with fittings and reinforced-plastic furniture), and two formerly carved-out lines, metal furniture 9403.20.00 ($366 m) and turbochargers 8414.80.05 ($25 m).

The averages use 2024 retained shares and the coverage figures 2025 shares. The in-transit and severability provisions are not modelled. Our online simulator, model-documentation server and public tariff interface still show the 22 August state.