The potential impact of tariffs on agribusinesses

March 06, 2025

Since Donald Trump's re-election as the President of the United States, the geopolitical landscape faces the prospect of experiencing some of the most aggressive tariff policies in modern history. On March 4, 2025, President Trump imposed a 25 per cent tariff on all Canadian goods, including agricultural goods, entering the United States from Canada, a move that is expected to significantly disrupt trade between the two countries. The Canadian Government has also announced retaliatory tariffs on certain U.S. goods entering Canada. Together, the new tariffs could disrupt trade flows, increase costs, and weaken the competitiveness of Canadian goods in the United States market. Consequently, Canadian agribusinesses must proactively assess and prepare for these trade policy shifts to mitigate risks and adapt to a changing market landscape.

For more detailed insights and updates on trade tariffs and related matters, please refer to the Tariffs and Trade Resource Centre.

Canada/U.S. agribusiness relationship

The agricultural sector in North America has been a key driver of economic prosperity and food security on both sides of the border. Canada and the United States have one of the largest agricultural trade relationships globally with the United States being Canada's largest agricultural trading partner, purchasing 60.3 per cent of Canadian exports and supplying 56.8 per cent off Canadian imports. The total agricultural and agri-food trade between the United States and Canada amounts to $72.6 billion.

How could tariffs specifically impact the agribusiness sector?

Canadian agribusinesses export a wide range of commodities, including beef, grain, dairy, fertilizer and other agricultural products, to the United States. More than $100 billion worth of agriculture and agri-food products cross the Canadian border every year, with the United States importing 60 per cent of these products. Canada is the source of 20 per cent the United Sates agriculture and agri-food imports. The changes in United States tariff policies and trade policies under President Trump's administration will impact business operations, supply chains and profitability for Canadian producers and exporters in several ways:

a. **Increased costs:** In response to the U.S. tariffs, the Canadian government has implemented immediate countermeasures, including Canadian tariffs on $30 billion worth of American goods entering Canada. As a consequence, the cost of goods imported from the U.S. into Canada will increase. In addition, the U.S. tariffs will lead to increased prices for Canadian and American consumers as tariffs will drive higher costs across multiple agricultural sectors, including grains, meat, dairy, potash and fertilizer. Currently 70 per cent of Canadian goods exported to the United States are used in the production of other goods and therefore impact the price of such goods. Finally, the tariff war may cause the Canadian dollar to depreciate, which would make all imported goods more expensive, leading to higher production costs, increased pricing and reduced profit margins for agricultural businesses.
b. **Reduced profitability** : The tariffs will negatively affect the competitiveness of the North American agriculture, particularly due to the reliance on trade for essential inputs to grow food such as fertilizer. Tariffs combined with Canadian countervailing measures could create economic challenges for farmers and agri-businesses, affecting their ability to maintain profit.
c. **Reduced competitiveness** : The United States is one of Canada's largest trade partners, particularly with respect to agricultural goods like dairy, pork, beef and grains. Tariffs will make these and other Canadian agricultural products more expensive in the United States, resulting in reduced demand and forcing Canadian agribusinesses to seek alternative markets in which to do business. This can be time consuming and challenging.
d. **Increased uncertainty:** Tariffs introduce unpredictable cost increases, which could create financial strain in supply and distribution agreements.

Tariff mitigation strategies for the agribusiness sector

Agribusinesses should evaluate the impact of the March 4 tariffs on their business costs and explore strategies to reduce financial strain, such as the following:

- Investigate Canadian remission programs to offset tariff impacts and plan proactively for alternate sourcing strategies to reduce exposure to retaliatory tariffs. The Canadian Government has announced that it is launching a remission framework which may offer temporary exceptional relief from the retaliatory tariffs being imposed as part of Canada's response to the U.S. tariffs. Agribusinesses should identify and apply for any available relief.
- Conduct a comprehensive review of their agricultural supply chains by creating a detailed map of the entire supply chain, including all raw materials, processing stages, and distribution channels. This process will help to highlight key inputs for which the business relies heavily on trade with the United States.
- Consider diversifying suppliers to mitigate risks. This can be done by identifying key dependencies on specific regions or suppliers, evaluate potential alternative sourcing options in different countries and perform cost analysis of switching suppliers.
- Promote inter-provincial agricultural trade and collaboration.
- Focus on long-term resilience and strategic transformation by:
    i. Reducing cross-border dependencies through vertical integration, for example, by creating processed or packaged goods which have greater pricing flexibility than raw materials;
    ii. Building strong domestic supplier networks to ensure greater stability;

iii. Forming strategic partnerships to enhance operational scale and efficiency.

- Review and renegotiate supply and distribution contracts to incorporate tariff-related cost adjustments and risk-sharing provisions.
- Collaborate with agricultural organizations in the United States to present a united front in trade discussions. For example, the agricultural organizations such as Agriculture and Agri Food Canada and The United States Department of Agriculture (USDA) could collaborate to present a united front in trade discussions.
- Encourage active dialogue between Canadian and the United States officials at all levels of government to address agricultural trade concerns and find mutual solutions.
- Explore new markets like:
  - Southeast and South Asia as India and Southeast Asia's global agriculture and food consumption is expected to grow to over 31 per cent of global consumption within the next decade. This market will be an opportunity for Canada's agri-food processing industries, especially plant-based proteins.
  - United Arab Emirates (UAE) for agricultural products as the UAE imports about 90 per cent of its food.
- Adopt precision agriculture technologies such as variable rate technology for fertilizers and seeds to make agricultural production more efficient and effective.
- Focus on domestic presence by promoting "Made in Canada" goods. Encouraging Canadians to buy local will increase the demand for homegrown agricultural products.

Conclusion

The Trump Administration is prioritizing American industries, creating potential barriers for Canadian businesses to access the United States markets. In response, Canadian agribusinesses should explore new opportunities to reduce their reliance on U.S. trade, including, expanding domestic production and sales, exploring alternative international markets and leveraging government programs to support exporters. Strategic adaptation is critical as Canadian agribusinesses must proactively prepare for potential trade restrictions, shifting supply chains, and increasing regulatory barriers.

With the introduction of U.S. tariffs on Canadian goods, the agribusiness sector faces significant risks that could increase costs, disrupt supply chains, and reduce competitiveness. By taking proactive steps, agribusinesses can navigate the uncertain trade landscape and position themselves for long-term success in a rapidly evolving global market.

For more information on navigating these issues, please reach out to the authors or any member of our Agribusiness team. Our team is well equipped to advise you on tariff mitigation.

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