US TARIFF AND TRADE UPDATE: TEMPORARY PAUSE ON CANADA AND MEXICO, TARIFFS ON CHINA, CHINA RETALIATION, AND WHAT'S NEXT

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US Policy and Regulatory Alert

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CANADA AND MEXICO

On 3 February 2025, the United States reached agreements with Canada and Mexico to pause tariffs on imports from those countries in exchange for actions on border security, illegal drugs, and immigration. As a result of these steps, tariffs of 25% on imports from Mexico, 10% on certain energy and critical mineral imports from Canada, and 25% on all remaining imports from Canada will be paused for 30 days, through 12:01 am ET on 4 March 2025. Retaliatory tariffs and other retaliatory measures by Canada and Mexico are also on hold through that date.

Companies and investors with interests in North America should use this pause in tariffs to review their supply chains, investments, and business plans. There is particular urgency for those companies with cross-border operations and for those dealing in energy and energy products from Canada.

CHINA AND HONG KONG

US tariffs of 10% on imports from China and Hong Kong went into effect on 4 February 2025 at 12:01 am ET. Goods that were on a vessel at a port in China or Hong Kong or in transit to the United States on a ship or plane prior to 12:01 am ET on 1 February 2025 are excluded from the additional tariffs, provided they enter the United States before 12:01 am ET on 7 March 2025. These tariffs are on top of tariffs previously imposed on imports from China under the Section 232 and Section 301 measures implemented in President Trump's first term and continued by President Biden.

In addition, upon completion of changes to US Customs and Border Protection processing procedures, the latest tariff action will end duty-free eligibility for individual shipments of goods from China and Hong Kong under the so-called “de minimis” provision of 19 USC Section 1321(a)(2)(C). That provision normally exempts from tariffs and US customs entry requirements any individual shipment imported by one person on one day having an aggregate fair retail value in the country of shipment of not more than US$800.

In response to the US tariffs, China put in place a 15% tariff on US coal and LNG and a 10% tariff on over 70 products, including crude oil, agricultural machinery, cars, and pickup trucks imported into China after 10 February 2025. China also restricted exports to the United States of metals and critical minerals like tungsten, tellurium, bismuth, molybdenum and indium.

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These latest actions underscore the importance of developing contingency plans to reduce supply chain risk and manage the impact of the tariffs and retaliatory measures on contracts, investments, and revenues. While the possibility of a pause of the tariffs on China (and China's retaliatory trade measures) cannot be ruled out entirely, based on the latest announcements from the White House and Chinese government, companies and investors should anticipate that these and other tariff and trade measures may continue to impact US-China trade for the foreseeable future.

WHAT'S NEXT

This week in Washington also saw the President and his senior trade advisors signal further actions to implement the remaining planks of the America First Trade Policy memorandum signed by President Trump on 20 January 2025. Prominent among these are potential new tariffs on imports from countries with which the United States runs persistent merchandise trade deficits (including the European Union and Vietnam) and new Section 232 and Section 301 investigations of steel, aluminum, critical minerals, and essential medicines (which foreshadow potential additional tariffs on those products). The administration and a bipartisan group in Congress have also proposed legislation that would revoke China's “most favored nation” status under US trade laws and reset normal US customs duties on imports from China to the much higher Smoot-Hawley tariff rates (e.g., 35% or more).

While the America First Trade Policy calls for reports on these and other issues to be submitted to the President by 1 April 2025, statements by President Trump and his trade advisors this week indicated that some of these reports may be largely complete and actions (including additional tariffs) may be introduced before 1 April. In a 7 February press conference, for example, President Trump indicated that he plans to announce details on actions to address US bilateral trade deficits and introduce possible “reciprocal tariffs” as early as “next week” (i.e., the week of 9-15 February 2025).

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