

The Maritime Executive

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The Art of the Transit Deal: Canada Holds Trump Card on Great Lakes Trade



The separate seaway navigation channel (left) near Montreal (public domain)

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US President Donald Trump has imposed a 25% tariff on Canadian Goods entering the USA. Canada holds a trump card in that the economy of several American states benefit from trade carried aboard ships that sail through Canada, between the Atlantic Ocean.

Introduction

Prior to taking the oath of office, then president-elect Donald Trump commented on the trade imbalance between the United States and both Canada and Mexico. He seeks to remedy the situation by imposing a 25% tariff on imports that enter the USA from both Mexico and Canada, America's largest foreign supplier of oil. He has also suggested that Canada and Greenland become American states and has even proposed to take back the Panama Canal due to high transit tariffs. Trump's tariffs will reduce the volume of freight that moves from Canada into the USA.

The tariffs would likely reduce the value of the Canadian dollar against the American dollar, raising the price of American goods in Canadian markets. Canadian markets would likely seek identical goods from alternative overseas suppliers, in turn reducing the volume of freight that would move north from the USA into Canada. During an earlier era, international cross-border cooperation between the USA and Canada resulted in the construction of the St. Lawrence Seaway and an international hydroelectric power dam. Ocean-going ships gained access to the Upper Great Lakes and the power dam provided electricity to both nations.

Canadian Energy Exports

Canada is America's largest foreign supplier of oil and natural gas, both of which might be subject to a tariff of 10%. Some 85% of electric power imported into the USA comes from Canada. During winter month overnight hours and as a result of excess winter time generation of nuclear electric power, the Province of Ontario has actually paid American utilities with energy storage capacity, to take delivery of their excess electric power. The northeastern USA is dependant on hydroelectric power from Quebec, that in turn provides energy to operate high-speed passenger trains between Boston and New York City.

American refineries import Canadian oil that they process into transportation fuel. A tariff on that oil would translate into higher fuel prices in several regions across the USA, in turn raising domestic transportation costs. Americans who live in the northeastern region and who own battery-electric cars, consume electric power from Canada when they recharge their vehicles during the overnight hours. The cumulative effect of Trump's tariffs on Canadian imports into the USA would reduce cross-border trade as well as reduce the number of trucks and shorten trains that cross the border each day.

Transportation Sector

Trump's tariffs have the potential to increase fuel costs while reducing market demand for cross-border railway and truck transportation, in turn reducing earnings for the America commercial transportation sector. During his first term in office, President Trump committed to rebuilding the navigation locks at the east end of Lake Superior. He recognized the monetary value of domestic maritime transportation and its contribution to the economic strength of multiple states. A segment of the American economy located around the Great Lakes depends on a waterway that passes through Canada, to export their productive output to foreign overseas markets.

The St. Lawrence Seaway is of economic value to American exporters located around and near the Upper Great Lakes. If President Trump seeks to bypass the Gulf of St. Lawrence and the St. Lawrence River while exporting to overseas markets, he would need to rebuild the Erie Canal to transit much larger vessels between Buffalo NY and Port of Newark. In addition, he would need to extend navigation locks along the Upper Mississippi River to handle larger barge tows.

Transit via USA

Trucks and trains travel through the USA carrying trade between Mexico and Canada. If border officials reject paperwork pertaining to shipments, a tariff has potential to impact trade passing through the USA, delaying shipments and possibly even requiring payment of import taxes. The alternative would be to transfer trade moving between Mexico and Canada from truck and rail to maritime transportation and air freight. Western Canadian agricultural producers export bulk carried inside shipping containers that are loaded aboard ships that sail from Port of Duluth to overseas ports.

The manner in which US Customs officials interpret Trump's tariff on Canadian goods entering the USA would determine whether Western Canadian producers would be able to continue exporting dry bulk inside containers shipped via Port of Duluth. Overseas customers prefer delivery inside containers. Unlike Duluth, the Port of Thunder Bay in Canada exclusively exports agricultural dry bulk being loaded directly into bulk carrier ships. Ships sailing from Port of Duluth to overseas destinations presently pass through a Canadian navigable waterway located downstream of the international hydroelectric power dam on the St. Lawrence Seaway.

The Art of the Transit Deal

In the event that Trump's tariff impedes trade between Mexico and Canada that passes through the USA, Canada could seek to negotiate the art of the transit deal with the Trump administration. If Mexico – Canada trade cannot through pass the USA via road and/or rail, Canada could respond by impeding overseas bound American trade that originates from around the Great Lakes region and especially if Canadian producers cannot export via Duluth. While he has suggested "taking back the Panama Canal", taking full control over the navigable waterway between the Atlantic Ocean and Great Lakes would be problematic.

Canada could suggest that Trump make America great again by developing the Erie Canal to transit much larger waterway vessels, also extend the length of the navigation locks along the northern sections of the Mississippi River to transit extended length barge tows. Such action would create employment for Americans and American businesses, as Trump said he would do during his campaign for office. When proposing tariffs, Trump publicly stated about Canada that "America does not need their oil or their wood". Would he be willing to state that America does not need Canada's inland waterway?

Smuggling Trade

During the 1920s era of prohibition, the smuggling trade carried a plentiful supply of booze from Canada into the USA. Tariffs represent a subtle form of prohibition which in turn makes smuggling lucrative. Over a period of decades, wild animals and farm animals have regularly walked across the US – Canada border, with farm animals being sent back. Trump's tariffs could result in remuneration being sent back. Over the decades, the smuggling trade has proven to be quite innovative and ingenious as to how they have been able to transport goods across international borders.

Conclusions

President Trump's initiative to rectify America's trade imbalance with its trading partners by imposing tariffs on goods entering the USA, has the potential to impact the freight transportation sector, provoke political retaliation and promote smuggling. Tariff issues that reduce shipping between the Upper Great Lakes and the Atlantic Ocean via the Canadian waterway would likely require the Trump administration to redevelop and upgrade American inland waterways.

The opinions expressed herein are the author's and not necessarily those of The Maritime Executive.