TRIPLE HELIX

The Impact of the Trade War on Defence

by Dani Belo and Joshua Hayes

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POLICY PERSPECTIVE

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In this rapidly changing global environment, what we consider to be a security threat is also evolving. Western leaders have for many years been slow to recognize the emerging threat that is China's dominance in critical minerals, thus making it a threat to both energy security and also national security. Recent efforts undertaken by the United States, Canada, and other Western leaders both cooperatively and separately have attempted to take the issue more seriously. Policymakers should recognize the enormous risks of failing to coordinate a concrete plan for critical minerals, but also see the enormous opportunity.

However, the early days of the second Trump administration have raised serious questions regarding the trustworthiness of business partnerships with the U.S., both current and future ones. In February 2025, President Donald Trump announced the imposition of a 25 percent tariff on all imports from Canada, with a reduced rate of 10 percent specifically for energy resources, which includes critical minerals. This move has raised concerns about the potential impact on the critical minerals supply chain between the two countries. Canada is a significant supplier of essential minerals such as uranium and nickel to the U.S., and the increased costs due to these tariffs could disrupt industries reliant on these materials, including defence, manufacturing, and energy sectors.

The potential economic and security implications are severe, but just the threat of them has done great damage to Canadian-U.S. relations. It is unclear if or when various tariffs may be put into place, but the effects in the long term will be a reluctance to engage in further partnerships. This would have devastating consequences for the future of the critical minerals supply chain. Tariffs in action would harm the U.S.'s efforts to stabilize its domestic defence, manufacturing, and energy base. Ramping up the cost of importing these minerals from Canada would significantly de-incentivize efforts to accelerate critical projects that rely on these minerals (Aviation Week). Actions like these will only serve to further the needs of China and put Canada, the United States, and other allies even further behind in the race to secure dominance in critical minerals. A short-sighted policy decision such as this would have long-term repercussions.

China stands to benefit significantly from the growing rift between the U.S. and Canada over tariffs on critical minerals. As tensions strain one of America's most reliable trade partnerships, China can position itself as a more attractive and stable supplier of these essential resources, further entrenching its dominance in the global critical minerals supply chain. By leveraging its existing control over mineral extraction and processing, China could exploit the uncertainty caused by U.S. protectionist policies to expand its influence in North American and global markets. Additionally, reduced U.S.-Canada cooperation would slow efforts to build a resilient supply chain independent of China, making Western industries—from defence to energy and high-tech manufacturing—increasingly reliant on Beijing. This dependence would grant China greater leverage in geopolitical negotiations and economic strategies, allowing it to dictate terms that weaken U.S. economic and strategic interests. Ultimately, such a rift plays directly into China's long-term goal of consolidating its role as the world's leading supplier of critical minerals while undermining Western efforts to establish resource security.

The protection of critical resources supply chains is fundamental to maintaining national defence capabilities for both the U.S and Canada, as these supply chains support the production of essential military technologies, weapons systems, and defence infrastructure. Critical minerals such as rare earth elements, lithium, and cobalt are vital for the manufacturing of components in advanced defence systems, including precision-guided munitions, fighter jets, and secure communication networks.[1] Any disruption to these supply chains—whether through cyberattacks, political manipulation, logistical vulnerabilities, or trade policy disputes—could critically impact defence readiness and military operational capacity. For example, a shortage of these materials could delay weapons manufacturing, escalate production costs, and restrict a nation's strategic autonomy in times of crisis.[2]

The high concentration of processing facilities for critical minerals in countries with divergent geopolitical interests, such as China, poses further risks, as these countries may leverage control over resources to influence defence supply lines during tensions.[3] To counteract these developments, policymakers across the transatlantic security community realized that they must secure and diversify supply chains through measures like strategic stockpiling, resilient sourcing strategies, and robust cybersecurity protocols to shield critical infrastructure from threats.[4] Furthermore, collaborative partnerships with trusted allies for supply chain diversification have gained traction, fostering a defence-focused approach to mineral security and reducing risks associated with supply chain dependencies.[5] With these issues becoming increasingly at the forefront of international relations, the transatlantic security community's defence capacity has become vulnerable.

Canada's Natural Resources Supply Chain Policy

Canada's growing recognition of critical minerals as a national security priority has led to several domestic initiatives to secure its supply chains, responding to global risks associated with foreign dependencies, especially on China. The 2021 release of Canada's *Critical Minerals Strategy* laid the groundwork for strengthening critical mineral production, processing, and research

[1] James P. Mills and Patrick McNulty, "Critical Minerals and Military Technology: Securing Supply Chains for Defense." *Defense and Resource Studies* 78, no. 2 (2020), 391-405; Nedal T. Nassar et al, "Evaluating the Vulnerabilities of Defense-Related Mineral Supply Chains." *Minerals and Defense Applications* 15 no. 3 (2020): 233-256.
[2] Eugene Gholz and Harvey M. Sapolsky, "The Threats to Defense-Related Mineral Supply Chains." *Journal of Strategic Studies* 44, no. 5 (2021), 719-739; Guillaume Pitron and Tanguy Delebecque, "The Strategic Imperative of Critical Minerals in Modern Warfare." *Military Minerals and Resources* 16, no. 1 (2021), 25-42.
[3] Marc Humphries, "Critical Minerals and National Defense: Risks and Policy Implications." *Resources Policy* 63 (2019), 101472; Paul Noonan and Philip Landis, "Critical Mineral Supply Chains and Geopolitical Risks to National Defense." *International Journal of Security Studies* 34, no. 1 (2022), 87-102.
[4] Roderick G. Eggert, G. James Mills, and Kimberly N. Mapes, "Securing the Supply Chain for Critical Minerals Essential for National Defense," *Defense Policy Studies* 9 no. 3, (2021), 245-260; T. E. Graedel and P. Nuss, "The Criticality of Metals and Defense Infrastructure," *Resources, Conservation, and Recycling* 162 (2021), 105062; Nabeel A. Mancheri et al., "Meeting the Critical Mineral Needs of Defense Industries." *Journal of Materials Supply Chain Management* 27 no. 4 (2019), 55-75.
[5] Wayne Morrison et al. "Strategic Partnerships for Securing Critical Minerals in the Defense Sector." *Journal of International Security* 12, no. 3 (2020), 112-128; Javier Bustamante and Robert Knudson, "Critical Minerals Security: Implications for Defense Supply Chains." *Strategic Materials Journal* 14 no. 2 (2021), 189-203.

infrastructure within the country. This strategy emphasizes the importance of lithium, cobalt, and rare earth elements—vital for energy transition technologies, electric vehicle batteries, and defence applications. By aiming to increase the domestic supply of these materials, Canada is working to diminish the leverage of foreign actors in essential sectors, prioritizing resources critical to both economic and security interests.

One major move has been Canada's $3.8 billion investment, as announced in the 2022 federal budget, specifically allocated for the development of critical mineral projects. This investment is meant to streamline mining projects and increase production through targeted subsidies and support for exploration activities across northern regions, which contain untapped reserves of nickel, lithium, and other critical minerals. For example, the support for the Frontier Lithium project in Ontario—a source of battery-grade lithium—demonstrates Canada's commitment to securing a local lithium supply. Federal funding has also been directed to the Saskatchewan Research Council's rare earth processing facility, which, once operational, will be the first of its kind in Canada. These initiatives underscore Canada's focus on expanding its mineral capabilities to meet the increasing demand for domestically sourced materials. Even though Canada has also recognized the importance of supply chain security in the natural resources sector with its own policies, much work remains to be done in this regard – especially when coordinating with Ottawa's largest trading partner.

Canada-U.S. Security Coordination Efforts

First, it should be stated that there has clearly been an effort to remedy the enormous strategic advantage that China currently has with critical minerals. Recent landmark legislation in the U.S. including the *Inflation Reduction Act* has attempted to level the playing field by incentivizing the processing of critical minerals but also using those same minerals to manufacture batteries that could be used in things such as electric vehicles made in the U.S. The law could have enormous climate benefits, but it was also written strategically to enhance the nation's critical minerals supply chain. While the implementation of the law is just underway, there are encouraging signs. However, the above Act is a supplement to pre-existing collaborative efforts to secure North American critical resources chains.

The Canada-U.S. Joint Action Plan on Critical Minerals Collaboration, launched in 2020, marks a strategic initiative to strengthen North America's critical minerals supply chain and reduce dependency on non-allied sources. This plan was developed in response to growing global demand for minerals essential for advanced technologies, from electric vehicles and renewable energy systems to defence and telecommunications. Under the Joint Action Plan, Canada and the United States have committed to increasing exploration, extraction, and processing capacities within their borders, recognizing each other as reliable partners for sourcing and securing critical minerals. Key areas of focus include collaborative research and development projects, joint resource assessments, and mapping efforts to identify and quantify untapped mineral deposits. By facilitating cross-border investment and reducing regulatory hurdles for mineral development,

the plan promotes a secure, resilient, and environmentally responsible supply chain. Additionally, the plan aims to harmonize environmental and social governance (ESG) standards for mining practices, encouraging sustainable production methods that benefit both economies. As part of this effort, both nations have also engaged with private sector stakeholders to encourage partnerships that expand domestic processing capabilities, reinforcing North American leadership in the global critical minerals sector.

Current Gaps in Supply Chain Security

The Canada-U.S. Joint Action Plan on Critical Minerals Collaboration marks an essential step in fortifying the North American supply chain for critical minerals; however, it faces significant implementation challenges. A key issue is the lengthy permitting and regulatory environment in both countries, which can delay projects for years despite the plan's intentions to streamline processes. For instance, regulatory overlap between provincial and federal jurisdictions in Canada can extend approval times, impeding rapid project development. Although the plan aims to address these barriers, substantial regulatory reform has been slow, limiting its capacity to enhance exploration and production capabilities. These procedural delays risk undermining the plan's objective of establishing a resilient mineral supply chain within North America.

Moreover, North America lacks sufficient processing infrastructure for critical minerals, a phase currently dominated by China. Although the action plan encourages infrastructure development, the high capital requirements and logistical hurdles make progress in this area difficult. This gap hampers the region's ability to process minerals domestically, forcing reliance on foreign facilities. Building processing plants requires substantial private-sector investment, which remains limited due to the lack of comprehensive incentives and policy support within the framework of the action plan. Without focused efforts to attract and retain processing investments, the action plan's long-term goals of supply chain security and autonomy are unlikely to materialize quickly.

Funding inconsistency further impedes the action plan's effectiveness, as critical mineral projects often lack steady financial backing. While Canada's 2022 budget dedicated $3.8 billion to critical minerals, such support remains vulnerable to changing political priorities, as do recent efforts in the United States, which could destabilize project momentum. The absence of a dedicated funding mechanism within the plan limits its sustainability, risking underfunded projects and delayed timelines. This inconsistency in funding undermines the ability to prioritize mineral exploration and processing, ultimately weakening the plan's potential to address North American mineral needs comprehensively.

Another flaw in the action plan lies in coordination challenges between Canada and the United States, specifically regarding environmental, labor, and safety regulations. Both countries operate under different regulatory systems, complicating efforts to create a seamless supply chain. Although the plan promotes collaboration, it lacks a clear pathway to unify environmental, social, and governance (ESG) standards across jurisdictions, which could deter investors seeking clarity and regulatory stability. These regulatory discrepancies make operational efficiency difficult to

achieve, limiting the action plan's effectiveness in establishing a reliable cross-border minerals strategy.

Finally, the plan has drawn criticism for its limited engagement with Indigenous and local communities, particularly in Canada, where many critical mineral resources are located on Indigenous lands. Canadian law mandates extensive consultation processes, yet the plan does not fully address the need for meaningful engagement and benefit-sharing with Indigenous stakeholders, who are concerned about the environmental and social impact of mining projects. Without structured community inclusion and clear benefit-sharing mechanisms, local opposition could lead to further project delays and public resistance, weakening the overall impact of the action plan. Addressing these challenges is critical to fulfilling the plan's vision of a resilient North American critical minerals supply chain.

Canada has been cited by experts as being particularly slow to greenlight more projects whether they be O&G but also mining and critical minerals. The U.S. has similar problems on a larger scale. Both oil and gas projects as well as clean energy and mining projects have suffered from the red tape that creates barriers to more energy and minerals. Recently, legislators have stepped up their efforts to pass permitting reform. A recent piece of bipartisan legislation seems to accomplish some of what both sides want, meaning more of a streamlined process for both oil and gas projects but also clean energy projects. Additionally, the bill contains some provisions to mine permitting which are essential changes that must be implemented to address this security issue. Policies such as these are common sense and would ideally be implemented by leaders of all Western nations.

Coordinating an Allied Natural Resources Security Policy

To counter China's dominance in the industry, new strategic partnerships must be formed. A popular and upcoming idea is to expand the Five Eyes intelligence and security alliance of the U.S., Canada, U.K., Australia, and New Zealand to include critical minerals security. There is already precedent for cooperation among members as the U.S. has recently stepped up its cooperation with Canada and inked a separate deal with Australia. A recent report proposed Five Eyes cooperation with Greenland to manage critical minerals there.

Another important step Western partners must take, most notably the U.S. and Canada is enacting permitting reform. The aforementioned *Inflation Reduction Act* in the U.S. which unlocked hundreds of billions in incentives to build clean energy has been looked to as a favourable development in the push towards critical minerals and other countries are considering doing the same. However, at the same time, hindrances to permitting in the U.S. and Canada prevent this from being even more successful. Even with more access to capital in starting these projects, businesses must go through well-intentioned but long-drawn-out procedures that drag out projects. Now that Western leaders have clearly realized the importance of a sound critical minerals and energy security policy, they must also address hindrances to implementing such a policy.

Recent years have seen progress in the realization of this problem. Policymakers are finally becoming aware of the issue of energy security specifically with critical minerals. Of the around 50 critical minerals deemed critical by the U.S. Department of Interior, 20 are sourced entirely from China. This is not a reliable security strategy, but roadblocks remain. To achieve success in ramping up the production of critical minerals, Western leaders must continue taking the approach of incentivizing the production of these minerals locally, working with intelligence partners to treat this as a security issue, and immediately taking steps to make the mining of these critical minerals more feasible and a priority. Even though Canada has recognized the importance of supply chain security in the natural resources sector, much work remains to be done in this regard – especially when coordinating with Ottawa's largest trading partner.

In response to the Trump administration's looming imposition of sanctions, Canada would be wise to emphasize this in its negotiations with the U.S. At the very least, any tariffs put into effect, as counterproductive as they may be, should exempt critical minerals and other energy sources. Canada should also consider playing hardball with these resources and make clear how much the U.S. depends on cooperation in these matters. This is apparent in emerging reports about what Canada's potential response would be. One potential response is to go after the newly minted billionaire bureaucrat Elon Musk, who is in close proximity to President Trump at DOGE. Ontario Premier Doug Ford announced that his province would be taking steps to end its contract with Musk's Starlink in response to the tariffs. Musk's companies, such as Tesla, mostly rely on minerals from China, meaning he could be a potential beneficiary of tariffs placed on Canadian goods such as critical minerals. Scrutiny into such conflicts of interest may be used as leverage to stall any further policies that undermine the security of Canadian-American critical natural resources supply chains.

Looking ahead, the ability to secure critical resources supply chains will have to rely on a broader policy coordination effort through the Five Eyes intelligence alliance. Traditionally focused on intelligence-sharing related to national security threats, the Five Eyes alliance now sees the importance of including critical minerals in its scope due to the geopolitical risks posed by heavy reliance on China for mineral processing. Canada's initiative to bring resource security to the forefront of the Five Eyes' agenda reflects a recognition that mineral supply chains underpin essential industries, including technology, defence, and energy, which are vital for economic stability and national security. This expanded focus on resource security includes data-sharing protocols to monitor supply chain stability, joint risk assessments, and coordinated responses to potential disruptions that could emerge from political conflicts or market manipulations.

The incorporation of critical minerals into the Five Eyes alliance opens up several promising opportunities for Canada and its partners. Firstly, collaborative resource mapping and geospatial data analysis would allow member countries to identify and prioritize untapped critical mineral reserves within their borders, reducing dependency on non-allied countries. Canada, which has an abundance of minerals like cobalt, nickel, and rare earth elements, could play a central role by providing allies access to its resources under secure and mutually beneficial terms. Secondly, this alliance could promote shared research and development efforts to advance processing technologies, a key bottleneck in the current supply chain dominated by China. The potential to

pool resources and expertise across the Five Eyes nations could accelerate the development of domestic processing infrastructure, enabling the allies to process raw minerals within their own territories or within the trusted alliance network.

Additionally, expanding the alliance's mandate to include critical minerals presents an opportunity to establish shared ESG (environmental, social, and governance) standards for mining and processing activities across member countries. A unified approach to sustainable and ethical resource management would attract investment, boost public support, and provide a competitive advantage by positioning allied countries as leaders in responsible mineral production. This coordinated ESG approach could also enable the Five Eyes alliance to set global standards for the industry, encouraging transparency and accountability in mineral supply chains worldwide. By reducing environmental risks and promoting ethical sourcing, this approach would address concerns over human rights abuses and ecological impacts often associated with mineral extraction in other regions.

Looking ahead, the Five Eyes can also explore expanding resource security dialogues to involve allied nations beyond the core members, potentially including European and Asian partners concerned about critical mineral dependencies. Expanding the alliance's framework to include resource security would not only enhance resilience but also help deter economic coercion. For example, countries like Japan and South Korea, heavily reliant on minerals from China, could benefit from participation in a broader critical minerals partnership that complements existing trade and security alliances. By creating an international network of trusted supply chains, the Five Eyes alliance could reduce the impact of political tensions on mineral access and ensure stable, diversified sources for these essential resources.

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