

HAMILTON STEEL SUMMIT

CANADA'S TRADE RELATIONSHIP WITH THE UNITED STATES OF AMERICA TODAY

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I. THE CURRENT TRADE CLIMATE – STORMY!



STRANGER THINGS



- **The Upside Down** is a parallel universe that is habited by a monster.
- An alternate dimension, **The Upside Down** is a place that is comparable to the real world, but somehow off.
- Is Canada's trading relationship with the United States of America in "**The Upside Down**" today?
- The next few slides provide my answer.

MAKE AMERICA GREAT AGAIN





Donald J. Trump ✓

@realDonaldTrump



Our Country was built on Tariffs, and Tariffs are now leading us to great new Trade Deals - as opposed to the horrible and unfair Trade Deals that I inherited as your President. Other Countries should not be allowed to come in and steal the wealth of our great U.S.A. No longer!

11:04 AM - Aug 15, 2018

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Donald J. Trump ✓

@realDonaldTrump

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There is no political necessity to keep Canada in the new NAFTA deal. If we don't make a fair deal for the U.S. after decades of abuse, Canada will be out. Congress should not interfere w/ these negotiations or I will simply terminate NAFTA entirely & we will be far better off...

11:03 AM - 1 Sep 2018



Donald J. Trump ✓

@realDonaldTrump

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...Remember, NAFTA was one of the WORST Trade Deals ever made. The U.S. lost thousands of businesses and millions of jobs. We were far better off before NAFTA - should never have been signed. Even the Vat Tax was not accounted for. We make new deal or go back to pre-NAFTA!

11:12 AM - 1 Sep 2018

GLOBAL TRADE IS UNDER THREAT

The World Trade Organization Director General Roberto Azevedo minced no words last July about how he viewed the current global trade climate:

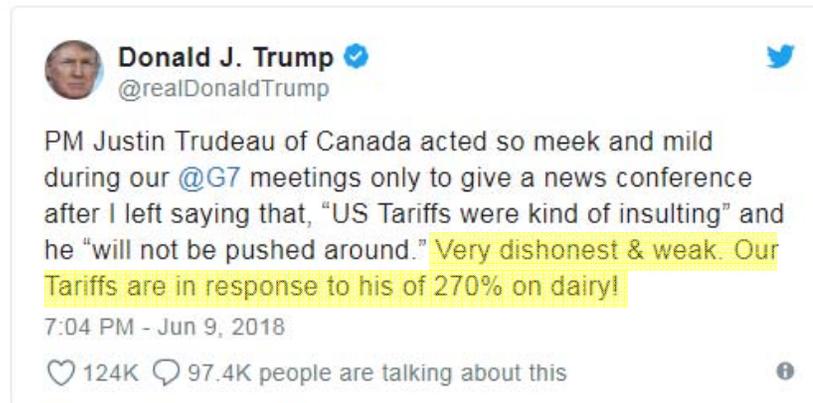
- Global trade is under threat.
- Reciprocal trade restrictions cannot be the new normal.
- The world needs the WTO more than ever - without it, we will face a future of uncertainty, trade wars, lower growth, lower salaries and diminished job opportunities everywhere.
- Contrast these warnings with what President Trump said to Bloomberg News a week ago: "If they don't shape up, I would withdraw from the WTO" which treats the USA "very badly".
- Canada as an exporting nation needs the World Trade Organization to resolve trade disputes with the USA.
- One of those WTO disputes is the 25% tariffs President Trump imposed on Canadian steel

II. WHAT ARE THE IMPLICATIONS OF CANADA'S CURRENT TRADE RELATIONSHIP WITH THE USA?

- The rules based trading system is under threat by President Trump's Administration
- President Trump does not care if he does not play by trade rules
- President Trump does not want trade rules constraining his ability to "Make America Great Again"
- President Trump dislikes free trade agreements
- President Trump's trade policy is unpredictable, erratic and no holds barred
- President Trump will do whatever he believes will "Make America Great Again" such as proclaiming that Canadian steel imports are a "national security" threat

III. THE USA'S 25% TARIFFS ON CANADIAN STEEL

- President Trump proclaimed tariffs of 25% on Canadian steel (Presidential Proclamation 9704) and 10% on Canadian aluminum (Presidential Proclamation 9705), effective June 1, 2018.
- President Trump has linked the 25% steel tariffs to a renegotiated NAFTA.



- It is an abuse of the national security power to impose 25% tariffs on steel as a bargaining chip for the NAFTA renegotiations
- Canadian steel is not a threat to the national security of the USA
- Canada has requested consultations with the USA at the World Trade Organization regarding the 25% steel tariffs
- The United States agreed to enter into consultations with Canada, but without prejudice to the US view that the measures imposed by the United States concern issues of national security not susceptible to review or capable of resolution by WTO dispute settlement and that the consultations provisions in the Agreement on Safeguards are not applicable.
- In other words, the President Trump Administration's position is that only the USA can determine whether national security is threatened, not the WTO.

IV. CANADA'S RESPONSE TO THE USA'S 25% TARIFFS ON CANADIAN STEEL

Canada has responded to the USA's 25% tariffs on steel in various ways:

- Retaliation – Surtax Orders imposing surtaxes up to \$16.6 billion on imports of steel, aluminum, and other products originating from the U.S., representing the value of 2017 Canadian steel and aluminum exports affected by the U.S. measures.
- New anti-circumvention/diversion measures
- Initiating consultations on “safeguard” actions (surtaxes, quotas)
- Financial aid

1. Canada's Surtax Orders

- The *United States Surtax Order (Steel and Aluminum)* establishes surtaxes of 25% on imports from the U.S. of steel products classified under 131 tariff items covering \$5.59 billion in imports from the U.S. in 2017, and surtaxes of 10% on imports from the U.S. of aluminum classified under 19 tariff items covering \$2.66 billion in imports from the U.S. in 2017.
- The *United States Surtax Order (Other Goods)* establishes surtaxes of 10% on imports from the U.S. of “other” products (mainly finished consumer goods) under 79 tariff items covering \$8.31 billion in imports from the U.S. in 2017.
- These countermeasures will only apply to goods originating from the U.S.A. (i.e. those goods eligible to be marked as a good of the U.S.A. in accordance with the *Determination of Country of Origin for the Purposes of Marking Goods (NAFTA Countries) Regulations*).
- The Surtax Orders will remain in place until the U.S. eliminates its 25% tariffs on Canadian steel and 10% tariffs on aluminum.
- The United States has requested consultations with Canada at the World Trade Organization regarding Canada's Surtax Orders

The Government of Canada has assessed the impact of the USA's "national security" tariffs on steel and aluminum:

- Canadian steel and aluminum producers are currently incurring significant costs and suffering serious economic harm due to the 25% and 10% tariffs imposed by the U.S. since June 1, 2018.
- Canadian producers are now at a competitive disadvantage in the U.S. market, which has led to a loss in sales and increased financial burden.
- The C.D. Howe Institute estimates that U.S. tariffs could potentially reduce Canadian steel and aluminum exports by US\$7.3 billion, which would result in a decrease in Canada's real gross domestic product of 0.1% and lead to 6,000 jobs being lost.

SURTAX RELIEF

- The Department of Finance has issued Guidelines outlining a framework and process for how it will consider remission requests for surtaxes imposed by the Surtax Orders.
- Requests for remission of surtaxes will be considered in only the following three scenarios:
 1. Situations of short supply in the domestic market, either nationally or regionally.
 2. Where there are contractual requirements existing prior to May 31, 2018 for Canadian businesses to use U.S. steel or aluminum in their products or projects.
 3. To address, on a case-by-case basis, other exceptional circumstances that could have severe adverse impacts on the Canadian economy.
- An interdepartmental committee makes recommendations to the Minister of Finance for approval.

2. Canada's Anti-Circumvention and Diversion Measures

Canada has implemented new anti-circumvention and diversion measures:

- Scope proceedings - The purpose of a scope proceeding is to establish whether certain goods fall within the scope of an existing anti-dumping and/or countervailing Order. Interested persons may request that the Canada Border Services Agency conduct a scope proceeding and the CBSA can also self-initiate a scope proceeding.
- Anti-circumvention proceedings - The purpose of an anti-circumvention investigation is to determine whether the circumvention of an existing anti-dumping and/or countervailing Order is occurring. These investigations may be initiated as a result of a complaint or self-initiated by the CBSA. If a finding of circumvention is made by the CBSA, the Canadian International Trade Tribunal will amend its Order to extend anti-dumping and/or countervailing duties to the goods whose importation was found to constitute circumvention.

V. FUTURE RISKS – 25% TARIFFS ON CANADIAN AUTOMOBILES AND AUTO PARTS

- President Trump has threatened to impose 25% tariffs on Canadian automobiles and auto parts on many occasions:



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Deal with Mexico is coming along nicely. Autoworkers and farmers must be taken care of or there will be no deal. New President of Mexico has been an absolute gentleman. Canada must wait. Their Tariffs and Trade Barriers are far too high. Will tax cars if we can't make a deal!

7:12 PM - 10 Aug 2018



Based on Justin's false statements at his news conference, and the fact that Canada is charging massive Tariffs to our U.S. farmers, workers and companies, I have instructed our U.S. Reps not to endorse the Communique as we look at Tariffs on automobiles flooding the U.S. Market!

7:03 PM - Jun 9, 2018

♥ 130K 💬 65.2K people are talking about this



- At a rally in Indiana on August 30th President Trump told the crowd:

“So we made a great deal with Mexico and as you know Canada didn’t want to do what we have to have done and after the deal was made with Mexico, Canada came along and they’re negotiating right now at the Whitehouse, at our territory and it could happen. We’ll see what happens. **And if it doesn’t happen we’ll put tariffs on the cars coming in from Canada and that will be even better”**

- In an August 30th interview about the state of the NAFTA renegotiations, President Trump reportedly told Bloomberg News reporters:

“Off the record, Canada’s working their ass off. And **every time we have a problem with a point, I just put up a picture of a Chevrolet Impala”.**

The Impala is produced at the General Motors plant in Oshawa, Ontario.

- Once again, it is an abuse of the “national security” power to threaten tariffs on automobiles as a bargaining chip in the NAFTA renegotiations

DEPARTMENT OF COMMERCE'S NATIONAL SECURITY INVESTIGATION OF IMPORTS OF AUTOMOBILES AND AUTO PARTS

- The US Department of Commerce has initiated a national security investigation of imports of automobiles and auto parts (SUVs, vans and light trucks) pursuant to section 232 of the *Trade Expansion Act of 1962*
- A Commerce Department press release stated:
 - Over 20 years, imports of passenger vehicles up from 32 % of cars sold in the US to 48%.
 - From 1990 to 2017, employment in motor vehicle production declined by 22%.
 - American owned vehicle manufacturers in US account for only 20% of global R&D in auto sector, & US auto part manufacturers account for only 7% percent in that industry.
- The alleged threats: research, development, and jobs for skilled workers in connected vehicle systems, autonomous vehicles, fuel cells, electric motors and storage, advanced manufacturing processes, and other cutting-edge technologies.
- The Commerce Secretary's report to President Trump is expected to be released prior to the USA's mid-term elections in November
- Potential remedies include: tariffs and/or quotas on automobiles and auto parts.

- Canada's Ambassador to the United States of America sent out a Tweet about the impact on the American consumer of a 25% tariff on automobiles:



David MacNaughton ✓
@AmbMacNaughton

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What is the cost of U.S. auto [#tariffs](#) to consumers? A recent consumer impact report by [@cargroup](#) shows that a 25% tariff could increase the price of a car in the U.S. by \$4,400 bit.ly/2Pu2qpF

Vehicle Type	Current Price	Price Increase	Percentage Increase
Small Car	\$12,000	\$1,600	13%
Midsize Car	\$16,000	\$2,200	14%
Large Car	\$20,000	\$2,800	14%
SUV	\$24,000	\$3,400	14%
Pickup Truck	\$28,000	\$4,000	14%

CAR @cargroup
New CAR release: Trade Briefing: Consumer Impact of Potential U.S. Section 232 Tariffs & Quotas on Imported Automobiles & Automotive Parts. Read the report: cargroup.org/publication/tr...

4:38 PM - 22 Aug 2018

THE US-MEXICO TRADE AGREEMENT

- According to Mexico's Economy Secretary Ildefonso Guajardo, Mexico and the USA agreed to a side letter that will protect some Mexican auto exports against possible "national security" tariffs
- Apparently Mexico will have duty free access to the US market for automobiles that comply with the new NAFTA rules of origin
- Mexico's duty free access for automobiles is reported to be 2.4 million vehicles or 40% above the 1.7 million cars Mexico currently exports annually to the USA
- The side letter also allows Mexico to export auto parts valued at \$90 million (USD) annually which exceeds current levels
- The new rules of origin are reported to require 75% of the value of the vehicle to originate from North America and 40%-45% of that content must be manufactured in factories that pay employees at least \$16 (USD) per hour

VI. OPPORTUNITIES TO PROTECT CANADIAN STEEL PRODUCERS

1. Antidumping/Countervailing Duty Actions

- There are numerous antidumping/countervailing duty Orders in place today protecting steel products (e.g. steel plate, pipe, reinforcing bar) from dumped and/or subsidized imports
- There are currently ongoing investigations covering corrosion-resistant steel sheet, carbon steel welded pipe, and cold-rolled steel
- Canadian steel producers need to continue to file antidumping/countervailing duty complaints with the Canada Border Services Agency to combat dumped and subsidized imports of steel products

2. Safeguard Actions

- Canada is at risk of a surge of steel imports from countries looking for a market for their steel they can no longer sell to US customers because of the U.S. 25% tariffs on steel imports
- Since the imposition of the 25% steel tariffs by the USA, steel imports into Canada have increased from other countries (e.g. India, Turkey, Mexico, and Germany)
- Recognizing the harm that diversion into Canada may cause to Canadian steel producers and workers, Finance Minister Bill Morneau announced on August 14th the Government of Canada's consultations on possible safeguard action on imports of:
 - Steel plate
 - Concrete reinforcing bar
 - Energy tubular products
 - Hot-rolled sheet
 - Pre-painted steel
 - Stainless steel wire
 - Wire rod

- The Minister of finance must decide whether any of the seven listed steel products are being imported into Canada in increased quantities and are causing or threatening to cause “serious injury” to Canadian steel producers (“serious injury” means significant overall impairment in the position of domestic producers)
- The Minister of Finance can report to the Cabinet that surtaxes should be imposed now on a temporary basis because there are “critical circumstances” requiring the provisional imposition of surtaxes
- The Minister of Finance can also request a safeguard inquiry by the Canadian International Trade Tribunal to determine if goods are being imported into Canada in such increased quantities and under such conditions as to be a principal cause of serious injury, or threaten serious injury to Canadian steel producers
- The imported goods do not need to be dumped or subsidized to be subject to safeguard measures
- Imports from NAFTA countries must be excluded from global safeguard measures unless certain condition exist (NAFTA Article 802)
- The Canadian International Trade Tribunal can recommend safeguard measures in the form of surtaxes, import quotas or tariff-rate quotas (a combination of a quota and a surtax)

3. Procurement - Buy Canadian

- Municipal, provincial and federal governments should play by the “Make America Great Again” rules – Buy Canadian
- Yes there are procurement rules to navigate but there are also Canadian steel producers to support
- Ontario passed the *Fairness In Procurement Act, 2018* which allows the Government of Ontario to respond in kind to any Buy America restrictions imposed on Ontario business opportunities to participate in an American procurement
- Ontario Regulation 117/18 retaliated against a New York State Buy American policy by mandating that a procurement contract for roads or bridges involving a supplier from New York State cannot source structural iron fabricated in New York State
- Similar legislation should be considered by other Provinces

VII. CONCLUSION

- President John F. Kennedy said this about the Canada-US relationship:

“Geography has made us neighbours. History has made us friends. Economics has made us partners. And necessity has made us allies.”
- President Obama said this about the Canada-US relationship:

“Woven together so deeply – as societies, as economies – that it’s sometimes easy to forget how truly remarkable our relationship is.”
- President Trump falsely Tweets that Prime Minister Trudeau is a liar

- The Canada-United States trading relationship has radically changed under President Trump's Administration
- It is all about "America First"
- Kudos to Foreign Affairs Minister Chrystia Freeland, Chief Negotiator Steve Verheul and his team as well as Canada's Ambassador to the USA David MacNaughton and his team
- Buckle up – the "America Alone" approach means that the USA's protectionist trade measures will continue and be with us for a while.
- The new normal is the "abnormal" – we are in **The Upside Down**.



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