

Senator: Tariffs complicate USMCA prospects

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As the Trump administration has publicized few details about the progress of trilateral talks to drop Section 232 tariffs on Canada and Mexico, Sen. Rob Portman, R-Ohio, on Tuesday warned that leaving the measures in place would not give the Trump administration leverage for pushing the U.S.-Mexico Canada Agreement (USMCA) through Congress.

“I don’t think it helps with regard to leveraging Congress,” Portman told reporters after giving remarks on trade at The Heritage Foundation in Washington, D.C. “It may have the opposite effect, because the notion is, ‘OK, now we’ve reached this agreement, painstaking as it was,’ and some [lawmakers] were involved as a go-between, trying to help USTR get to that agreement, and now we’re being asked to vote on it.”

Portman added that he and other senators are hoping the U.S. will lift Section 232 tariffs on steel and aluminum from Canada and Mexico, after the NAFTA renegotiation concluded Sept. 30. President Donald Trump during a press conference on Oct. 1 said he wanted to keep the tariffs in place “until such time as we can do something that would be different — like quotas, perhaps.” Speaking alongside Trump, U.S. Trade Representative Robert Lighthizer added that U.S. officials were engaging in talks with Canada and Mexico, with the hope “to preserve the effect of our program and still take care of their needs.”

Portman recalled during a recent meeting with senators that Lighthizer didn’t specifically say whether Canada and Mexico would have to agree to quotas for the U.S. to lift the tariffs, or whether it was a U.S. priority to get tariffs lifted before a planned trilateral USMCA signing ceremony at the end of November.

But Portman noted that other countries, including South Korea and Brazil, agreed to quotas as a compromise to avoid Section 232 tariffs.

However, Lighthizer told senators he was “optimistic” about resolving tariff issues with Mexico and Canada, said Portman, who is a former USTR and current member of the Senate Finance Committee, which will be responsible for marking up legislation to enact USMCA.

The Office of the U.S. Trade Representative didn’t respond to an email from *American Shipper*. Portman stopped short of saying he would oppose USMCA legislation if tariffs weren’t lifted by the time it reaches Congress, but added that he’s “not eager” to vote for the pact if the measures are left in place.

Trump has shown a willingness to use trade talks as leverage for securing concessions for other national interests.

Signed Sept. 24, the revamped Korea-U.S. Free Trade Agreement had been pending since officials reached a deal in principle in March, as Trump sought to strengthen South Korea's alignment with the U.S. for denuclearization talks with North Korea.

Trump also has tied NAFTA to the issue of illegal immigration to the U.S. through Mexico, most recently in a tweet last Thursday.

“The assault on our country at our Southern Border, including the Criminal elements and DRUGS pouring in, is far more important to me, as President, than Trade or the USMCA,”

Trump tweeted. “Hopefully Mexico will stop this onslaught at their Northern Border.”

It's possible that the Trump administration is leaving the tariffs in place to push Congress to pass USMCA or to gain leverage toward some other goal, according to Simon Lester, associate director of the libertarian Cato Institute's Herbert A. Stiefel Center for Trade Policy Studies.

But it's also possible that the Trump administration simply likes tariffs and wants to keep them in place as long as possible, at least until Canada and Mexico agree to quotas, Lester said during an interview with *American Shipper*.

“Those are all possibilities,” Lester said. “It's hard to know which one, and it depends on which member of the Trump administration you're talking about. They might have different personal views as to the purpose of the tariffs.”

Douglas Holtz-Eakin, president of American Action Forum, a center-right think tank, pointed to the USMCA/Section 232 situation as an indication that the Trump administration isn't merely using tariffs as strategic negotiation tools and is earnestly aiming to change production patterns and to onshore supply chains.

“They sure don't seem to be interested in dropping these things very quickly,” Holtz-Eakin said of the tariffs.

He said USMCA has more trade barriers than NAFTA.

Many NAFTA supporters have expressed concern about several USMCA provisions, including a stricter regional value content for automobiles, weakened investor-state dispute settlement provisions and a sunset clause whereby governments will meet six years after the pact's entry into force to determine whether to renew USMCA past a 16-year expiration date.

American Shipper reported that representatives from several key sectors last week endorsed congressional passage of USMCA.

On the other hand, Holtz-Eakin said the tariffs could complicate efforts to secure passage.

“The trouble is there are no clean coalitions that are going to be for this,” he said. “There'll be some people, traditionally, like the labor unions, they're going to like this. But traditional Republican free traders aren't going to like this, and not all the Democrats are going to support Trump's trade deals. As a matter of politics, they're going to oppose him. So it's hard to put it all together.”

Some labor groups, including AFL-CIO and Teamsters, have been generally supportive of the Section 232 global tariffs on steel and aluminum. But United Steelworkers (USW), which represents workers in both the U.S. and Canada, has opposed the Section 232 tariffs on Canada. USW has not taken a position on Section 232 tariffs on Mexico.

As the Trump administration leaves the tariffs in place on its NAFTA partners, presumptively to secure quota agreements, sizable swaths of industry, Congress and the Canadian and Mexican governments, and some in labor unions, oppose the tariffs.

A spokesman for the Mexican Economy Ministry noted in an email that Mexican Economy Secretary Ildefonso Guajardo on Tuesday said Mexican negotiations with the U.S. on Section 232 would take into account the position of the Mexican steel and aluminum industry, which has been open to negotiating quotas with the U.S.

But, according to an email from a Canadian government spokesman, Canada doesn't seem as warm about the idea of accepting quotas in lieu of tariffs.

Asked whether Canada could agree to quotas as part of any deal with the U.S., the spokesman pointed to statements made by Canadian Ambassador to the U.S. David MacNaughton to Politico last week that no quotas or tariffs is "our position" and "a position we've taken consistently."

In a Thursday interview with the Canadian newspaper *Windsor Star*, MacNaughton said, "Pressure is building within the U.S. to get the tariffs removed," and noted that several groups oppose them, including auto manufacturers, part suppliers and farmers. "I've been calling the (Trump) administration and Congress to say, 'Remove the tariffs and we'll remove ours,'" MacNaughton said in that interview.

After the U.S. on June 1 slapped tariffs on about \$3 billion worth of Canadian steel and aluminum and another \$3 billion worth of Mexican steel and aluminum in annual import values, Canada retaliated to the tune of about \$12 billion in yearly U.S. imports, imposing tariffs on several goods including metals and agricultural commodities, while Mexico retaliated against more than \$3 billion worth of U.S. imports, targeting similar types of goods as Canada. Those retaliatory measures remain in place.

Center for Strategic and International Studies Scholl Chair in International Business Bill Reinsch said he doesn't believe there is any "larger plan" to leaving the tariffs in place against Canada and Mexico other than to negotiate quotas, as the Trump administration continues to seek "managed trade" in steel with U.S. trading partners.

Countries want to see exports expand year to year, so if the U.S. is trying to get Canada to agree to a quota capping steel and aluminum exports at 2017 levels, the Trump administration could be facing friction, Reinsch said.

"Most countries want to have some growth built in" for quotas, he said. "I can see why [Canada] wouldn't be very excited about it."