

Trump drops steel and aluminum tariffs, clearing path for USMCA

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The United States will lift tariffs on Canadian steel and aluminum by Victoria Day, clearing a key obstacle to the ratification of the new North American free trade pact and ending a year-long dispute between Ottawa and Washington.

The deal, forged during high-level meetings this week, will fully repeal the levies of 25 per cent on steel and 10 per cent on aluminum without imposing quotas to limit the amount Canadian producers can export into the U.S. market. Canadian officials said Mexico had agreed to a similar deal with the U.S.

Canada and Mexico will reciprocate by removing the retaliatory tariffs they imposed on U.S. imports — including punitive levies on American agricultural products that have inflicted pain in the farm states that supported U.S. President Donald Trump's 2016 election.

“There was no one breakthrough moment, it was just a lot of steady conversations ... lots of conversations with the president over the past weeks,” Prime Minister Justin Trudeau said during a press conference with Foreign Minister Chrystia Freeland and Finance Minister Bill Morneau at Stelco Inc. in Hamilton. “An understanding as well that these tariffs were harming workers and consumers on both sides of the border.”

For Trump, lifting the tariffs clears the way for the ratification of the new NAFTA — officially known as the United States-Mexico-Canada Agreement (USMCA). It comes as separate talks for a bilateral trade deal between the U.S. and China have soured. Lawmakers from both the Republican and Democrat parties have said the revamped NAFTA won't be considered with the tariffs in place. Canada and Mexico also refused to ratify the agreement as long as the levies remained.

Time is running out to get the trilateral pact passed by the U.S. Congress with analysts indicating legislation must be put before lawmakers by July or risk being pushed onto the backburner by the 2020 U.S. presidential elections. Even with the tariffs removed, the deal will face a steep climb to ratification in the U.S. as Congressional Democrats demand changes on a range of labour and pharmaceutical provisions.

“I think this is all USMCA related, Trump wants to get it done,” said Simon Lester, a trade policy analyst at Washington's Cato Institute. “I'd say this is a rare piece of good news on the trade front. It's not a complete and total win for trade liberalization but it's better than I expected.”

Amid an escalating tariff war with China in which Beijing has targeted U.S. agricultural goods, the removal of Canada and Mexico's retaliatory tariffs will also relieve some of the pressure on U.S. farmers. While Canada's retaliation to the U.S. tariffs focused on specific products such as maple syrup, Kentucky bourbon and ketchup, Mexico took specific aim at U.S. pork and other agricultural imports. The measures depressed prices and left American farmers with a glut of unsold goods.

The U.S. is also delaying the imposition of potential auto tariffs as part of its trade talks with Japan and the European Union — a move that will at least temporarily thwart further potential retaliatory measures from those parties.

“Trump needed to take some steam off of farm country,” said Dan Uzcjo, an Ohio-based trade lawyer with Dickinson Wright, who has been tracking the situation for clients. “He was facing a lot of pressure to do that and it looks like the farmers won out.”

The deal announced Friday will establish a process for monitoring the aluminum and steel trade in which any country may treat products made with steel that is melted and poured in North America as distinct from those that are not. Depending on what shape those rules take, that could mean headaches for companies that import specialty steel from outside the NAFTA region to process it into other products, Uzcjo said.

“There's no question this is good news for the North American steel industry, but any consumer that sources specialty steel from overseas will need to be very vigilant about how these rules develop,” Uzcjo said. “I'm concerned for our companies that source steel legitimately from overseas. Truly the devil will be in the details for them.”

The countries will create measures to prevent imports of unfairly dumped or subsidized steel and aluminum, as well as the passage of such products into the US market through Canada and Mexico. The U.S. will retain the right to impose levies of a maximum of 25 per cent on steel and 10 per cent on aluminum should a sudden surge in imports that is “meaningfully above” historic volumes occurs. Those tariffs will be limited to the specific product that experienced the surge.

“So there's no tariffs or quotas right now, but there is this possibility that if there's a surge in imports, the U.S. gets upset and wants to impose tariffs,” Lester said. “There is that threat of course but we had to worry about that anyway. They were already in a position to do that.”

Trump extended the tariffs on steel and aluminum to Canada and Mexico on June 1. Though he initially tied their removal to the successful renegotiation of NAFTA, the tariffs remained after the pact was signed last fall.

“Canada and Mexico will be the only two countries in the world with unrestricted access to the U.S. market,” said Jean Simard, president of the Aluminum Association of Canada. “So we're very happy about that. And anything that protects the trade corridor is fine with us.”

The Canadian Steel Producers Association called the lifting of the tariffs “the best outcome for our producers, our workers and the highly integrated marketplace between Canada and the US.”

The removal of tariffs is unlikely to have much impact on Canadian economic growth given the relatively small share of companies that rely on steel and aluminum, CIBC economists Benjamin Tal and Katherine Judge said in a note.

“The main impact from today’s news will be the improvement in sentiment towards trade with the US, something that has been holding back business investment for the past year,” Tal and Judge wrote.