

'We are not playing that game': Canadian aluminum producers in tough spot as White House swaps tariffs for quotas

As the U.S. election nears, Canada's leverage in a very political trade battle is running out

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Jean Simard, president of the Aluminum Association of Canada, says that if he's learned anything in the past few years, it's that he can't plan too far ahead.

On Monday, he was discussing the impact of the Trump Administration's 10 per cent tariff on Canadian aluminum, which had taken effect only a week earlier. By Tuesday afternoon, the Trump Administration said it would place the tariff on hold, at least until mid-November, and instead impose a quota system on Canadian aluminum. If Canadian aluminum export volumes exceed the quota thresholds — and all historical and current export volumes suggest that is likely — then the tariff would be retroactively applied.

But that wouldn't happen until at least after the November presidential election.

"The decision to put tariffs was political, and the decision to abolish tariffs was political," Simard, who is based in Montreal, told the Financial Post on Wednesday.

The quotas limit Canadian aluminum exports to between 70,000 and 83,000 tonnes of aluminum per month until December. For context, in 2019, Canadian primary aluminum exports ranged between 400,000 and 600,000 tonnes per quarter, according to a June analysis by ING Bank NGV. That equates to roughly 133,333 to 200,000 tonnes per month.

The United States Trade Representative Office said it will review monthly volumes to see if total Canadian exports exceed quota thresholds by more than five per cent, and if so, it will retroactively impose tariffs. But it said it would wait six weeks to review the volume in any given month, making mid-November the earliest time that tariffs could be re-imposed.

The U.S. also said it "will consult with the Canadian government" at the end of the year and review expected aluminum market conditions for 2021.

"Those quotas that the U.S. sets for itself, we're not going to play that game," Simard said, adding that Canadian producers would respond to market demand and completely ignore the proposed quotas.

Still, he believes the Trump Administration backed off its tariffs, even if it's temporarily, because Canada's retaliatory tariffs would have targeted U.S. products, such as washing machines and refrigerators, that are manufactured in swing states and would have damaged Trump's re-election prospects.

By that calculus, there is a limited window of time during which Canada holds greater leverage to negotiate with the Trump Administration on aluminum, which has been a continual source of irritation. Indeed, Trump imposed tariffs on Canadian aluminum for an 18-month period between 2018 and 2019, and reserved the right to do so again, depending on Canada's export volumes, when negotiating the Canada-U.S.-Mexico Free Trade agreement which took effect in July.

Nonetheless, Prime Minister Justin Trudeau and Deputy Prime Minister Chrystia Freeland have dropped the retaliatory tariffs, saying they could still be implemented in the future if the U.S. reimposes its tariff.

A source inside the government, who is close to the process and was granted anonymity to speak, said its priority was not to escalate trade tensions with the U.S.

Speaking to the press on Tuesday, Freeland said "We opposed the tariffs in the first place, and we thought they were bad for everybody."

Regardless of whether the tariffs are ever re-imposed, several economists and trade experts said that even the short-lived latest round exacted damage on Canada and the U.S., by injecting new uncertainty into North American trade, which may have already deterred investment in both countries and will linger indefinitely.

"I guess the one constant we've had on the trade front with the U.S. has been drama," said Doug Porter, chief economist at BMO Capital Markets.

He characterized the roll-back as a "reprieve" and "better than a full-on shooting war on the trade front," but unlikely to be the final episode in U.S. trade protectionism.

Porter said that he may be "slightly out of step" with other economists, but he believes there are ways that a country such as the U.S., with a large economy and the ability to influence global trade, can benefit from protectionism. Sometimes, it can encourage companies to invest in the U.S. rather than somewhere else, he said.

Nonetheless, Porter said it never made sense to apply tariffs on Canadian aluminum. The abundance of cheap hydroelectric power in Quebec and British Columbia puts U.S. smelters at a natural disadvantage, given that electricity is a major cost.

The tariff, if allowed to stand, would have raised costs in other U.S. industries, he said, pointing to the automotive sector as an example, which relies on Canadian aluminum and is already in a fragile state.

"This whole episode is just another turn of the screw in more managed trade, and less free market," he said.

Looking ahead, Porter and others say that regardless of who wins the U.S. presidential election, protectionism is on the rise.

Scott Lincicome, a lawyer and senior fellow in economic studies at the Washington, D.C.-based Cato Institute, said that the very fact that the Trump Administration imposed a tariff on Canadian aluminum under the rationale that it is a national security threat shows how much normal trade relations have been upended.

“The idea that Canada and trade with Canada represents a national security threat is I think far more radical than most people get,” said Lincicome. “Not just radical in the gauzy sense, radical in terms of what we have under the law.”

He pointed out that Canada is the original member of the U.S. National Technology and Industrial Base, a legislatively-mandated organization with a council, which is supposed to ensure that research and development takes place to protect U.S. security. Australia and the U.K. also belong to the NTIB, and Congress has directed the U.S. Department of Defence to promote integration of all member countries’ industrial and technology bases.

“These aluminum tariffs really hit home again that nothing is sacred,” said Lincicome. “It’s more than just talk, it has an effect in the sense that people were hesitant to invest in a new factory in the U.S. if they were Canadian.”

The shared border between the Canada and the U.S. ensures they will always be large trading partners, he said, but the volume may decline rather than grow in the coming years.

“I wouldn’t be surprised to see Canadians diversify (trade) more,” Lincicome said. “Maybe a few percentage points here and there instead of wholesale change. That doesn’t sound like a lot, but when you’re talking trillions, it adds up.”