



Canada threatens not to ratify USMCA until U.S. ends steel, aluminum tariffs

Adrian Morrow

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Canada is threatening to not ratify the renegotiated North American free-trade pact if U.S. President Donald Trump doesn't first remove steel and aluminum tariffs, in a bid to restart serious talks over the punitive duties.

Canadian officials have been privately delivering this warning to their U.S. counterparts and members of Congress for several weeks, said government sources with knowledge of the discussions, before Transport Minister Marc Garneau went public with a version of the message on Sunday.

The move is designed to use Canada's last opportunity to leverage the new United States-Mexico-Canada Agreement (USMCA) – one of Mr. Trump's priority policies – to put pressure on the White House into ending its trade war with Ottawa.

Mr. Trump on Monday seemed to acknowledge Canadian ratification of the USMCA was on his mind. "They have to get it approved also. We have to get it approved. Let's see what happens," he said at the White House.

The United States offered to lift the steel and aluminium tariffs last fall if Canada agreed to quotas on the metals that would have cut exports by as much as 20 per cent, Canadian government and U.S. industry sources said. Canada balked.

Currently, there are no detailed negotiations happening on the tariffs, Canadian officials with knowledge of the file said. In the limited discussions that have occurred, Canada has stuck to its position that it will not agree to quotas, the sources said.

Privately, however, both sides are evincing more willingness to compromise.

One Canadian source said Ottawa would accept quotas if they were set far higher than current exports, leaving enough room to grow until a less protectionist U.S. administration replaces Mr. Trump's. That strategy was used last year to lift the U.S. threat of tariffs on autos imported from Canada.

A U.S. industry source, meanwhile, said American officials have accepted that they will not get Canada to agree to a quota level that would cut exports, and are instead willing to consider a quota either at or slightly above current export levels.

The Globe and Mail granted the sources anonymity to speak freely on sensitive details of the confidential discussions.

In an effort to get talks going, Canadians have been quietly telling U.S. officials and members of Congress – including U.S. Trade Representative Robert Lighthizer and Chuck Grassley, chair of the Senate committee that oversees trade – since January that the Trudeau government might not table the deal for ratification in Parliament if the metals tariffs are still in place, because it would be too politically unpopular.

Mr. Garneau used a Sunday panel with Larry Kudlow, Mr. Trump's chief economic adviser, at a Washington meeting of state governors to deliver the warning openly.

“This will present us with real challenges as we begin the process of ratification in Canada, and I don't know if we're going to get there,” he said. “If the tariffs on steel and aluminum are removed, Canada will move expeditiously towards ratification of the USMCA.”

Mr. Kudlow said he “got the message loud and clear” and that the two countries were “in heavy negotiations” on the tariffs. David MacNaughton, Canada's ambassador to the United States, said three days earlier that he believed the two sides would reach a deal “in the next few weeks.”

Sources in Canadian government and industry, however, said subsequently that recent tariff discussions have been fairly broad and have not reached the point of detailed negotiations.

It is also unclear how serious Canada is about enforcing its threat. Last fall, Canadian officials warned the United States that Prime Minister Justin Trudeau would refuse to attend the November USMCA signing ceremony if the tariffs remained in place – instead dispatching a lower-ranking official to sign on Canada's behalf and deny Mr. Trump his photo opportunity – but Mr. Trudeau ultimately ended up signing anyway.

Trade lawyer Daniel Ujczko said ratification is Canada's last opportunity to put pressure on Mr. Trump. “If Canada's going to use its only piece of leverage, it's now ... you have to know when to play your cards,” said Mr. Ujczko of Dickinson Wright.

Some trade-supporting congressional Republicans are helping Canada's case. Both Mr. Grassley and Representative Kevin Brady, the top GOP member of the House committee that covers trade, have said Congress will not consider USMCA ratification if the tariffs remain.

Whether they will enforce this threat is an open question. Congressional Republicans have tried to rein in Mr. Trump's protectionist impulses before, only to back down. Last spring, for instance, GOP leaders refused to allow a vote on a Republican bill that would have curbed Mr. Trump's ability to levy tariffs.

“I'm pretty pessimistic about this,” said Inu Manak, a trade expert at the libertarian Cato Institute. “I don't really think this is the hill they're going to die on.”