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International Trade Policy Division (U.S. 232 Retaliation Consultations),
Department of Finance
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RE: Canadian steel and aluminum counter-tariff proposals

On behalf of Canadian Manufacturers & Exporters (CME), our 2,500 direct members and the nearly 90,000 manufacturers across the country, we are writing regarding the government's consultation on Canada's proposed counter-tariffs on steel, aluminum, and US consumer good products in retaliation for the application of tariffs on Canadian steel and aluminium.

Manufacturing is the largest business sector in the country, directly accounting for 11 per cent of GDP, 67 per cent of exports, and 1.7 million employees in high wage, high skilled jobs in nearly every community across the country. Our sector is deeply integrated across the North American Free Trade Agreement (NAFTA), accounting for most of Canada's trade and is the economic driver of the region. As a result, these consultations, and the NAFTA negotiations more broadly, are of significant interest and concern to our members.

CME has publicly stated our support for the government's intended retaliation. Principally, this stems from our long-held belief that all international trade must be conducted in a free, fair, and reciprocal manner. Simply put, Canada should treat foreign companies the same way our companies are treated in foreign markets.

At the same time, CME and many of our members are deeply concerned with the recent direction of Canada-US trade relations. To manufacturers, the NAFTA is not simply about selling goods into a foreign market, rather it is the basis of the deeply integrated and interdependent North American advanced manufacturing industry. Hundreds of billions of dollars of goods, materials, technologies, and manufacturing inputs cross the border freely each year between our countries. The breakdown of this ecosystem, through the application of tariffs and counter-tariffs, represents a serious threat to the entire Canadian economy.

Because NAFTA is so critical to the business environment of manufacturers, CME has been working constructively with the government throughout the renegotiation to ensure a positive outcome. We believe that Canada should be leveraging NAFTA discussions to strengthen and grow integrated manufacturing across the region and to make it more globally competitive. And, we have been pleased that CME's input has helped shaped the government's direction in priority areas such as improving competitiveness through regulatory cooperation and border simplification, dispute resolution, government procurement, and business labour mobility.

However, the current state of discussions, and the tariff and counter-tariff proposals, has our members deeply concerned about rising input costs, loss of markets, and potentially the long-term undermining of their business environment. As such we are recommending a very cautious and pragmatic approach to retaliation, and more importantly, to the NAFTA renegotiations. Specifically, our recommendations are as follows:

1. **Focus on NAFTA renegotiation and concluding a deal.**

   CME's original submission to the NAFTA negotiations detailed four core principals that we believed negotiators should follow to ensure support for the integrated manufacturing sector. Given the current environment, the government should redouble their efforts on NAFTA negotiations. CME's recommendations should provide direction towards achieving a positive conclusion.

   The top priority stated by CME and almost every other business group in Canada and the US was to do no harm. US tariffs on steel and aluminum and Canadian retaliatory tariffs run counter to this goal. We cannot control US trade policy decisions, but Canada can control its own. US tariffs have negatively impacted our domestic steel and aluminum industries and additional and imprecise Canadian steel and aluminium tariffs will exacerbate the issue by raising prices for Canadian importers of goods made with those products.

   CME's second priority was to eliminate remaining barriers to trade, to improve operational efficiencies, to decrease the cost of doing business, and to enhance global competitiveness. As part of this process, internal trade facilitation rules, including customs processes and regulatory alignment, need to be strengthened. This should remain the focus for negotiators moving forward rather than to dwell on less important business issues which could sidetrack the negotiations.

   The third priority is to modernize and expand the agreement. This is an area where Canada can be more aggressive to move the negotiations closer to a successful conclusion. This should include expanding the NAFTA to cover sectors and products currently not covered, including highly protected Canadian sectors. We cannot let the protection of a handful of sectors undermine the competitiveness and prosperity of the entire Canadian economy.

   Finally, we must leverage NAFTA to find common solutions to trade problems with countries outside of North America. The deep level of integration in North American manufacturing requires a coordinated approach to dealing with mutual threats from the unfair trading practices of others. The US's trade problems are with other countries, not with Canada, yet we are currently caught in the middle of the fight. To move beyond this impasse, we should be working on aligning with the US, especially around unfair trade practices of foreign governments.

2. **Exclude manufacturing inputs from retaliatory tariffs.**

   As noted above, Canadian manufacturers are already facing increased costs for manufacturing inputs of steel and aluminium (which are base materials for many manufactured goods) because of the US actions. Some have suggested that Canadian companies simply change over to domestic or Asian or European suppliers. This is simply not possible for many companies. It is unrealistic to change suppliers in this manner as many of the companies have worked with suppliers to develop product specific inputs, have existing contracts, or the inputs are speciality parts which are not available from other sources. Moreover, by shifting to foreign suppliers it could change the rules of origin qualification status to sell the goods back into NAFTA or disqualify companies from meeting other government-imposed requirements, such as minimum local requirements for government procurement.

The current proposed retaliatory list includes a range of manufacturing inputs that are not readily available from Canadian sources. As such, application of the tariffs will do double injury to Canadian manufacturers through the cost of the US tariffs on inputs as well as the Canadian levied counter-tariffs. Companies can try to absorb these costs or pass them onto customers, but many companies will be unable to do either. In the short term this could mean some companies fail while other companies will attempt to withstand short term pain and begin to take steps to move production out of Canada to more cost competitive jurisdictions. Therefore, government retaliatory measures need to exclude, to the greatest extent possible, manufacturing inputs to avoid devastating repercussions to the industry and minimize disruption to manufacturing's integrated supply chains.

We suggest three actions if the government proceeds with counter tariffs:

a. Only apply them on US steel and aluminum products that can be provided by Canadian steel and aluminum manufactures;
b. All other manufacturing inputs should be excluded from the list of proposed retaliatory tariffs to minimize impacts on manufacturing; and
c. All products made from Canadian steel or aluminium in the US should be excluded from Canadian actions.

3. Introduce safeguards to protect the domestic market against third-country dumping.

The US tariffs pose not only a significant economic threat to Canadian steel and aluminum producers, and manufacturers more generally, but could also distort global flows of these primary products. Because of Canada's proximity to the US, and the size of our domestic market, steel originally intended for the US may be diverted into Canada and dumped by foreign exporters. This would mean that Canadian industry could simultaneously lose their most important market in the US and have their domestic market undermined.

To protect against this, the Canadian Government should immediately implement existing safeguard protections to ensure that Canada does not become a dumping ground for diverted steel and aluminum.

4. Develop emergency relief funds for distressed industries.

In past market distorting trade disputes, the government established funds to support distressed companies, including the ongoing softwood lumber dispute with the US. More recently, the Québec Government has announced a $100 million fund for steel and aluminum producers. The Federal Government should make available a financial compensation package for Canadian businesses negatively impacted by tariffs. This could include direct financial support, holidays from payroll and other taxes, and support for employee training.

These funds should be structured in a manner that is trade compliant to ensure Canadian products can continue to be exported to world markets.

5. Reinvest tariff revenue into an investment support program.

Businesses investment in Canada, including the manufacturing sector, has been declining for several years. Compared to its global peers, Canadian businesses are less productive, use less advanced technologies, and are growing at a much slower rate. These very issues have been recently noted by Canada's Finance Minister.

Given the current situation with the US, we believe it is critical that Canada not lose sight of these global competitiveness issues. If the trade dispute with the US continues for any length of time, businesses will continue to avoid investing in Canada. Either they will invest in other markets or withhold investment until the uncertainty ends.

Canada should consider leveraging the tariffs collected to support business reinvestment. This could be through direct investment supports that could be matched with private sector money (to de-risk technology adoption for example) or it could be done through the tax code to spur investment (such as updating the Accelerated Cost of Capital Allowance rules to match recent US changes), or in lowering corporate tax rates.

Thank you again for the opportunity to comment, and to the government for engaging with CME and its members throughout this consultation process. We hope our comments provide helpful guidance as the government makes final determinations on possible retaliation. While we understand the political need to retaliate, we believe it must be done with the utmost caution to not inflict additional economic harm on Canada and its most important and trade exposed sector.

We must re-engage in NAFTA negotiations to secure a deal as soon as possible; an imperfect NAFTA is far superior to no NAFTA and a trade war with our most important customer. If retaliation is pursued, Canada must target tariffs carefully and limit the economic impact on the integrated economy. Further, we believe that safeguards are necessary to limit steel and aluminum dumping into the Canadian market. Finally, we believe the government must act to support potentially distressed companies and establish broader and more substantial supports to spur investment in these uncertain times.

If you would like to discuss any of the above issues, please feel free to contact us at any time.

Sincerely,

Mathew Wilson
Senior Vice President, Policy & Government Relations
Canadian Manufacturers & Exporters