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5 Minutes for Business

Latest on Canada-U.S. Tariffs

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With the warm summer weather has come a heating up of trade tensions. Looking back six months ago, it was inconceivable the United States would deem Canadian steel and aluminum exports a threat to American national security. However, on June 1—and in the absence of any cogent justification—Canadian steel was hit with a 25% tariff and aluminum with a 10% tariff. Unfortunately, these actions necessitated a proportionate response to attempt to encourage the U.S. administration to reverse these unwarranted tariffs on Canadian exports. As we all know, these Canadian retaliatory tariffs came into effect on July 1. With this volley and counter-volley, it's worth us taking stock on what could come next and how it would impact Canadian businesses.

At time of writing, there has been relative silence from President Trump on Canada's retaliatory tariffs. The next skirmish will likely be over the U.S. Department of Commerce's investigation into whether automotive and automotive part imports to the U.S. are a risk to national security. This investigation is being conducted under the same Section 232 powers used in the steel and aluminum tariffs case. After the experience of the last few weeks, we cannot be complacent and take for granted the outcome of the Section 232 investigation for the auto sector.

There is no ambiguity that the impact of tariffs in the auto sector would be a big hit to the Canadian economy. A recent estimate by TD Economics suggested that GDP growth in 2019 could be reduced by 0.5% nationally. Furthermore, up to one in five manufacturing jobs in Ontario would be at risk.

The Section 232 on autos started near the end of May, and the Department of Commerce has 270 days to complete its report. However, the buzz in Washington is that President Trump wants this significantly accelerated so that he can announce tariffs in advance of November's mid-term elections. His recent comments seem to confirm this.

This is, of course, all before you zoom out and look at an equally bleak picture in other spots of the world. The EU and Mexico have slapped the U.S. with retaliatory tariffs, and the U.S. and China (at time of writing) look set to impose tariff and counter-tariffs on tens of billions worth of exports. Meanwhile, there continues to be a blockage on appointments to the World Trade Organization Appellate Body. If this persists, the World Trade Organization's dispute settlement mechanism, which ensures parties abide by their trade commitments, will grind to a halt.

Although the world has shifted significantly in the last 18 months, there are still things we do have control over, and that should be our focus.

First, with the Mexican presidential elections out of the way, we should re-double our efforts to secure a modernized NAFTA. Although the U.S. mid-terms are nearing, there is still a long list of issues negotiators should progress. Additionally, we need to do better at leveraging existing trade agreements. This includes trade deals already in effect with South Korea and the European Union as well as the soon-to-be-implemented deal with the remaining members of the Trans-Pacific Partnership.

Lastly, we also need to get our domestic competitiveness agenda tackled. This includes responding to the realities of the changing tax landscape south of the border and making demonstrable progress to cutting undue regulatory burdens on businesses.

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