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## Summary

- The US metals sector is grappling with lower demand from end users as a result of the coronavirus pandemic as well as increased Canadian aluminium imports.
- The US Administration is considering reinstating additional tariffs on Canadian aluminium imports or imposing quotas to slow flows in response to complaints from some local producers.
- Others are advocating against bringing back tariffs with the US Chamber of Commerce saying it would be “like a bad horror movie” given the importance of imports to US manufacturers.
- If tariffs were imposed, Canada would be able to retaliate but only with duties on aluminium and aluminium-containing products from the US.

## Report/Findings

1. The coronavirus pandemic has disrupted industrial manufacturing with flow-on effects for the US metals sector. Manufacturers of metals for industrial use – such as steel and aluminium – are experiencing lower demand from end-users in the automotive, oil and gas, large home appliance, and construction sectors. According to a National Association of Manufacturers survey, more than half of US manufacturers expect COVID-19 to impact their operations and 80 percent expect it will have a financial impact on their business. This impact could be prolonged with concerns that infrastructure projects will be cut back in the years ahead due to less state government tax revenue being collected during stay-at-home orders and more spending being directed to public health.
2. To date the US federal government has provided no subsidies specifically for the metals sector outside of the general COVID-19 loan and wage support programmes. However, consideration is being given to introducing additional tariffs like the 25 percent tariff on steel and 10 percent tariff on aluminium that the US placed on New Zealand and most importing countries in 2018 citing a threat to national security.
3. Specifically, US Trade Representative Robert Lighthizer told a Senate Finance Committee hearing in June that his agency was “genuinely concerned” by recent surges in imported steel and aluminium, “substantially from Canada, some from Mexico”, and was looking at ways to address it. Last year, President Donald Trump agreed to lift the extra tariffs on steel and aluminium imports from Canada and Mexico. But the US said it could raise duties again “in the event that imports of aluminium or steel products surge meaningfully beyond historic volumes of trade over a period of time”. It is understood that the US is pushing Canada to set quotas on exports of aluminium or else Washington may again impose a 10 percent tariff if consultations fail.

4. Reinstating tariffs on Canadian aluminium has the support of some business groups. The American Primary Aluminum Association (APAA) says Ottawa has announced new subsidies for the Canadian industry and restarted production of the metal. It contends that has caused US imports of Canadian aluminium to rise 80 percent and prices to fall impacting two of America's primary aluminium producers - Century Aluminum and Magnitude 7 Metals. "The behaviour of the Canadian aluminium industry ... is threatening American aluminium jobs as Canada has abused tariff relief and surged imports into the US market," APAA wrote.
  5. Groups such as the Aluminum Association, a separate group that represents both domestic and foreign companies, are opposed. They have urged President to hold off imposing tariffs, saying that the APAA is distorting the facts and overstating the issue. The Association argues that the US needs a steady source of North American metal to support hundreds of thousands of domestic aluminium industry jobs. It claims that there has not been a "meaningful surge of imports" as while the volume of US imports of unwrought aluminium from Canada are on pace to increase 14 percent this year, this would be 5 percent less than 2017 imports. "Imports of primary aluminium from Canada today are consistent with long-term trends long predating the imposition of Section 232 tariffs," they said.
  6. This position is supported by other pan-sector business groups. The US Chamber of Commerce and the National Foreign Trade Council have warned the Trump administration against re-imposing tariffs on imports of aluminium from Canada. The business groups cite the "spirit" of the US-Mexico-Canada Agreement (USMCA) which entered into effect on 1 July. "It will also hurt the most dynamic US manufacturers in sectors like autos, food products and construction, all in a vain effort to prop up inefficient domestic aluminium producers by branding Canada a national security threat."
  7. Canada has also advocated strongly against any new tariffs. Prime Minister Justin Trudeau has said the US produces "nowhere near enough" aluminium for its industrial needs so increasing the costs of necessary inputs to their manufacturing base would harm the American economy. Canada's chief USMCA negotiator Steve Verheul has publically warned that new tariffs on Canadian aluminium would allow producers from Russia and China to gain a greater market share into the US which would undermine any national security considerations.
  8. Verheul added that Canada is considering its options for responding if tariffs are imposed. Canada could respond to new tariffs by taking a case against the US in domestic courts or the World Trade Organisation. Ottawa imposed retaliatory tariffs against more than US\$12 billion in US mainly agricultural products in response to the previous US tariffs on imported steel and aluminium. Those were removed when the agreement was struck in May 2019. Verheul acknowledged that under its agreement with the US, Canada can only retaliate with duties on aluminium and aluminium-containing products. But Verheul said the aluminium-containing products category is broad.
  9. Senate Finance Committee Chair Chuck Grassley has urged the Trump administration to pursue a negotiated solution to steel and aluminium surges from Canada. Grassley told media that the issue "ought to be settled peacefully, not by our putting tariffs on, and [with] the good-faith effort of Canada".
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10. Meanwhile, on 22 June the US Supreme Court has declined to hear a challenge to President Trump's earlier decision to impose 25 percent tariffs on imported steel. The case was brought by the American Institute for International Steel (AIIS), representing importers of foreign-made steel, which argued that the Section 232 national security law of the 1962 Trade Expansion Act is an unconstitutional delegation of power by Congress to the President. The decision puts the onus on Congress to decide whether it wants to rein in the President's tariff powers.

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