



## **Trump's Tariffs on Aluminum Undermine the USMCA**

**Jerry Haar**

It's been just five weeks since the implementation of the United States-Mexico-Canada Agreement (USMCA) on trade, and already the Trump administration has hit its northern neighbor with the re-imposition of 10 percent tariffs on aluminum effective August 16.

Granted that under Section 232 of the Trade Expansion Act of 1964, the U.S. government does have the authority to impose tariffs when it deems import surges a threat to national security. But in this instance, the claim is debatable. (Under the USMCA, the United States had agreed to drop its 25 percent tariff on steel imports and its 10 percent tariff on aluminum imports from Canada and Mexico, imposed in 2018.)

The USMCA is an updated version of the 26-year-old North American Free Trade Agreement (NAFTA), a trillion-dollar accord that President Trump has referred to as “perhaps the worst trade deal ever made.”

Trade agreements like the USMCA are based on market opening; tariff and non-tariff barriers are based on market closing, or at least restricting the flow of goods and services. For the current administration, the latter, not the former, rules the day. Donald Trump does not call himself “Tariff Man” for nothing.

The Trump administration has so far imposed nearly \$80 billion-worth of new taxes on Americans by levying tariffs on thousands of products, which is equivalent to one of the largest tax increases in decades. These tariffs, combined with retaliatory actions taken by our trading partners, will reduce economic output, income and employment. Moreover, the negative economic effects of imposed, threatened and retaliatory tariffs threaten nearly a third of the projected long-term economic gains from the Tax Cuts and Jobs Act. For companies that depend on imported inputs to function, tariffs will raise production costs, forcing companies to raise prices to customers — a horrendous burden to overcome during a pandemic with so many businesses and consumers already suffering.

As regards to the new tariff on Canadian aluminum, some inside and outside the Trump administration fail to realize that this tax on imported aluminum harms American producers and consumers far more than Canadian exporters. Research by the Peterson Institute of International Economics finds that U.S. metal-using industries employ nearly two million workers, compared to 0.2 million for steel and aluminum production combined. The cost to American consumers and taxpayers for each aluminum or steel job preserved, courtesy of the tariff, is over \$1 million.

Note that 97 percent of U.S. jobs in the aluminum industry are in downstream production or processing. End-users like beer and soft drink companies as well as producers of automobiles, cookware, computer parts, window and bike frames, gates, fencing, sinks, power lines, iPhones and patio furniture will be seriously harmed by the tariff. Note too that imported primary aluminum from Canada is actually down from 2017 levels, as is the global demand for aluminum.

The U.S. and Canadian steel and aluminum industries are deeply integrated and underpin North American supply chains and competitiveness. We are one another's best customers, with the integrated aluminum trade valued at more than \$15 billion.

The Canadian virtues of tolerance, patience and understanding do have a limit; and as Ontario Premier Doug Ford asserted in an August 7 press conference: "Ontario will come back swinging." And they have. The Canadian government will apply tariffs on \$2.7 billion-worth of U.S. aluminum and aluminum-containing products.

NAFTA was far from a perfect agreement, so it needed to be refreshed and changed in important areas. The USMCA is not an ideal accord either, with a number of features that are troublesome and problematic. Nevertheless, as whole, it does advance trade and integration in North America.

The Trump administration's capricious imposition of tariffs on aluminum is an unwarranted unilateral action that violates the spirit of the USMCA. In Canada, we have a good neighbor to the north. Surely Canada deserves a good neighbor to its south.

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