



U.S.-Canada Trade: Steel and Aluminum Tariffs Result in Broad-Based Canadian Retaliation

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- On May 31, 2018, the United States announced that, as of June 1, Canada will no longer enjoy an exemption from the U.S. steel and aluminum tariffs that were announced on March 1.
- In response, Canada challenged the U.S. tariffs at the World Trade Organization (WTO) and under the North American Free Trade Agreement (NAFTA), while immediately announcing retaliatory tariffs (to be effective as of July 1) on certain U.S. iron and steel products, as well as tariffs on selected U.S. consumer products.

In summary:

- As of June 1, certain Canadian aluminum and steel products imported into the U.S. are subject to 25% and 10% tariffs, respectively.
- As of July 1, Canadian countermeasures will apply not only to U.S. industry metals (specifically, a 25% tariff on iron and steel), but also to a broad range of consumer products and aluminum (at a 10% rate).
- Canadian buyers/importers should immediately review their imports and identify whether any goods will be affected by the Canadian countermeasures.
- WTO and NAFTA disputes, as well as the ongoing NAFTA renegotiations, may also impact this trade conflict going forward.

Canada's Retaliatory Tariffs

On March 1, 2018, the U.S. announced a 25% and 10% import tariffs on certain steel and aluminum products imported to the U.S. While these tariffs applied to most countries, Canada was initially exempt. As noted above, this exemption ended on June 1, 2018. In response, Canada announced that it would impose similar countermeasures against its southern neighbour.

Rationale

The retaliatory Canadian tariffs are intended to account for up to C\$16.6 billion and should come into force as of July 1, 2018. They are based on the value of the 2017 Canadian exports that would have been affected by the tariffs and will stay in effect until the U.S. lifts its measures against Canadian products. The Government of Canada also indicated that it is considering whether additional measures may be required.

Scope

The Canadian Department of Finance provided a detailed list of goods originating from the U.S. that will be subject to the retaliatory tariffs. While Canada's countermeasures mainly apply to goods associated with the aluminum and steel industry (i.e., pipes, coils, rods, etc.), the Canadian government also targeted various consumer products to counteract the tremendous burden the U.S. measures impose. Some of these products, such as motorboats, orange juice, sleeping bags, mattresses, playing cards, yoghurt, pizza, maple syrup, liquorice candy, ketchup, soya sauce (among others) have nothing to do with the metal industry. Canada is believed to have focused on these consumer products primarily for political reasons.

For an exhaustive list of all U.S. goods that fall under Canada's retaliatory tariff, please consult the Government of Canada's [press release](#).

Canada's WTO and NAFTA Challenges

Following the European Union, Canada filed a challenge to the U.S. tariffs with the WTO on June 1, 2018, claiming that the U.S. measures violate trade rules and American trade obligations. The U.S. is justifying its actions on national security grounds, an approach that Canada strongly disputes.

Canada is also addressing the U.S. tariffs through the dispute settlement provisions in Chapter 20 of NAFTA. However, as NAFTA is currently in a renegotiation phase, it remains to be seen how effective this approach will be. If NAFTA is successfully renegotiated, the U.S. Government's national security concerns will presumably be resolved.

Next Steps for Canadian Importers and U.S. Exporters

Although Canada has announced significant retaliatory actions against the U.S. tariffs, for the time being only Canadian exports to the U.S. will be subject to these tariffs. There will certainly be ramifications for businesses and consumers of industry metals, but the wide scope of the Canadian countermeasures should impact many U.S. exporters as well as Canadian consumers across the map.

- **Canadian buyers and importers** that will be affected by Canada's countermeasures, should provide Global Affairs Canada with written comments no later than June 15, 2018.
- **U.S. exporters** may also make some lobbying efforts against the U.S. measures that would render the Canadian countermeasures unnecessary.

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