



**Canadian
Manufacturers &
Exporters**

**Manufacturiers et
Exportateurs du
Canada**

**Parliamentary Standing Committee on International Trade
Tuesday, June 26, 2018
11:50am to 12:50pm
Room 415, 180 Wellington Street, Ottawa, Ontario**

**Mathew Wilson
Senior Vice President, Policy and Government Relations
Canadian Manufacturers & Exporters
mathew.wilson@cme-mec.ca**

Good Morning. Thank you for inviting me to speak on behalf of Canada's 90,000 manufacturers and exporters and our association's 2,500 direct members to talk about US tariffs on Canadian steel and aluminum.

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. Through NAFTA, our industry has spent the past quarter century building a common North American market. Manufacturing is deeply integrated across the continent and relies on complex supply chains that span Canada, the US, and Mexico. Disruptions in any of these three countries risks upsetting the balance of the North American manufacturing ecosystem.

So, I will be blunt- we are very, very worried. The current tariffs on steel and aluminum, the prospect of future tariffs on auto, and the specter of a global trade war, represent an existential threat to Canadian manufacturing and to the entire Canadian economy.

CME has decided to respond to this situation as we always have- by engaging constructively with government, providing practical solutions, and relaying directly to you the thoughts of manufacturers.

We support the government's retaliatory tariffs. They are a just response to the frankly absurd and insulting premise with which the US administration levied steel and aluminum tariffs on Canada. I would say that manufacturers support the counter tariffs too and they understand the political necessity to do so.

However, they are also concerned that Canadian counter tariffs will have a major impact on their businesses, especially if the tariff fight is prolonged, or intensified. Pain will be felt, of that we have no doubt, so the question becomes: how do we alleviate that pain? This is what I would like to talk about today.

CME responded to the Government's consultation on June 15th after canvassing its members for 2 weeks. We had a very strong response rate, indicating to us that the level of concern among manufacturers is high. We would like to provide the committee with our 5 key recommendations that came out of this exercise.

Number 1: Focus on NAFTA renegotiation and concluding a deal.

It is of paramount importance that the government redouble its efforts on NAFTA and try and conclude a deal as soon as possible. NAFTA instability is the true threat to manufacturing and to the entire Canadian economy, while tariff fights are distractions designed to take our eye off the ball.

The government is right to say that tariffs and NAFTA negotiations are two separate issues- because they are. But, the reality is that the US Administration clearly doesn't care and is clearly turning up the heat on Canada and NAFTA through tariffs. The government should not fall into this trap and get bogged down in tariff fights. Concluding NAFTA ASAP should be the focus.

I would also add that CME's original submission to the NAFTA negotiations detailed principals that we believed negotiators should follow to ensure support for the integrated manufacturing sector. I would be happy to expand on these in the Q&A or with committee members afterwards.

Number 2: Exclude manufacturing inputs from retaliatory tariffs.

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. 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.

Number 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. 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.

Number 4: Develop emergency relief funds for distressed industries.

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.

Number 5: Reinvest tariff revenue into an investment support program.

If the trade dispute with the US continues for any length of time, businesses will continue to avoid investing in Canada. 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.

To sum up: 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.

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- manufacturing.

Thank you and I look forward to the discussion.