

Freedonia

US & Canada: Tariff Impact Report

July 2018



Table of Contents

- 1. Introduction..... 3**
 - Tariffs & the North American Free Trade Agreement (NAFTA) .. 3
 - Impact of the US-China Trade War 4
 - Economic & Cultural Repercussions 4
 - Looking Forward 5

- 2. Steel & Aluminum Tariffs 5**
 - Steel 5
 - Aluminum 7

- 3. US Tariffs on Canadian Goods 8**
 - Uncoated Newsprint..... 8
 - Automobiles & Parts..... 9
 - Softwood Lumber 11

- 4. Canadian Tariffs on US Goods 12**
 - Yogurt..... 12
 - Whiskey..... 13
 - Flavored & Sweetened Waters & Carbonated Soft Drinks 14
 - Beef..... 15
 - Recreational Boats 17
 - Lawn Mowers 18
 - Pesticides..... 19
 - Plastic Bags 21
 - Major Household Appliances 22
 - Paper & Paperboard 24
 - Household & Personal Care Items 25

Introduction

The Trump administration implemented hefty steel and aluminum tariffs—25% and 10%, respectively—on all US imports of these products in March 2018. Major US allies—including Canada—were initially exempt, but that changed on May 31, 2018, when the US placed unprecedented high tariffs on its northern neighbor, Mexico, and the EU.

In a break with its historical approach to trade disputes, Canada responded immediately, announcing that it would match US tariffs dollar-for-dollar based on the worth of its 2017 steel and aluminum exports to the US. Canadian retaliatory tariffs against the US took effect on July 1, 2018. In addition to equipollent taxes on steel and aluminum imports, the affected items include a laundry list of consumer goods and food and beverage products, reflecting the relatively smaller size of the Canadian economy.

Though Canada taxed additional goods largely to meet US tariffs with equal force, it chose the affected products with an eye toward gaining leverage against the US. In general, the country focused on consumer goods in an effort to strike at the heart of US consumerism in hopes economic stress will incite the public to pressure the US government to end its current tariff policies. More specifically, it sent a direct political message to important senators, congressmen, and members of the Trump administration by targeting products sourced from their states and districts.

Although the primary instigators of what some are calling a full-blown trade war, steel and aluminum were not the first Canadian goods subject to recent US tariffs, and they may not be the last. In November 2017 and January 2018, respectively, the US placed tariffs of upward of 20% on imports of Canadian-sourced softwood lumber and uncoated newsprint. The US is also considering placing a 25% tariff on automobiles and associated parts that has the potential to significantly disrupt Canada's automotive industry, as the US has historically been a major export destination for Canadian-made cars and parts.

Tariffs & the North American Free Trade Agreement (NAFTA)

This unprecedented escalation of trade tension between the US and Canada came amid ongoing renegotiations of NAFTA by its three member countries—the US, Canada, and Mexico—which began in August 2017 and have since stalled.

The timing was no coincidence. Though softwood lumber was not a topic of NAFTA Modernization negotiations, the US implemented the tariff immediately before the fifth round of talks was slated to begin, and it repeated the maneuver in March, when it explicitly stated that Canada's exemption from its steel and aluminum tariffs was conditional on the country's willingness to sign NAFTA terms that were more favorable to the US. As the implementation of its retaliatory tariffs shows, Canada is not willing to bow

to pressure to make trade concessions.

Tariffs and NAFTA renegotiations are theoretically separate entities, but they affect many of the same issues. For example, automobile trade rules were among the most prominent points of contention during NAFTA talks, and the issue could become significantly more complicated if the Trump administration green-lights a tariff on automobile imports.

Impact of the US-China Trade War

Canada has other tariff-related worries, as it could face further economic repercussions due to escalations in the US-China trade war, which Freedonia covers in more depth in *US & China: Tariff Impact Report*. Although Canada is not directly involved in this conflict, its geographic and economic positioning mean it could be caught in the crossfire:

- Much of Canadian manufacturing is at least somewhat dependent on parts sourced from China, and the majority of Canadian exports are to US markets. Even if only some components of a product manufactured in Canada are made in China, US customs officials have the authority to declare the entire product to be of Chinese origin and to tax it accordingly.
- Some of the inexpensive Chinese goods diverted from the US market due to increased tariffs will likely be bound for Canada, where they will put pricing pressure on domestic production.
- Certain Canadian industries are closely tied to their counterpart in the US, making them subject to the same pricing and performance pressures. For example, Canadian-grown soy beans—the price of which is linked to the US futures market—have already seen price decreases resulting from the trade dispute between the US and China.

However, escalating trade tensions between the world's two largest economies may also create opportunities for Canadian suppliers, who could see increased market share in China as they replace imports of US goods, particularly agricultural products. Additionally, their lower prices may entice more consumers—both in Canada and the US—to shop in Canada.

Economic & Cultural Repercussions

As a result of these tariffs, goods and services that had moved freely between Canada and the US are being restrained by protectionist policies for the first time in a generation, a development that has caused bafflement and outrage among consumers, particularly on the Canadian side of the border. Current hostilities between the US and Canada are especially alarming given that the countries have historically been strong allies with closely entwined economies, militaries, and cultures aided by the longest unguarded border in the world.

Onset of the tariffs has inspired stronger anti-American sentiment among Canadians than it

has among citizens of other affected countries such as China. A grassroots “Buy Canadian” movement has developed among Canadian consumers. Surveys show that almost all Canadians express a willingness to boycott travel to US destinations and to only purchase goods made in Canada. Further, around two-thirds have vowed to do so, though thus far there has been no change in tourism levels. Brands owned by the Trump family are under particular scrutiny. For example, Hudson Bay—Canada’s largest department store—dropped Ivanka Trump’s fashion line following the implementation of the aluminum and steel tariffs.

Looking Forward

Whether tensions will escalate or lead to eventual resolution has yet to be seen. What is clear is that price increases and economic uncertainty are present on both sides of the conflict.

Both countries have appealed the tariffs against them to the World Trade Organization (WTO). However, that organization—which is notoriously slow to make decisions—now faces a barrage of such complaints as well as a shortage of appellate judges due to President Trump’s vetoing of potential candidates for vacant positions. In the meanwhile, Canada has stated it will not escalate the situation, but it has also been clear that it will meet additional US tariffs—such as the possible 25% tax on automotive imports—with proportionate force.

Steel & Aluminum Tariffs

Steel

The US tariff imposed on steel imports from Canada in June 2018 was intended to make US steelmakers more competitive by combating the low steel prices caused by global overcapacity of steel production and to mitigate the US trade deficit in this product. Accordingly, a number of US-based steel producers announced plans to add shifts, expand production, and, in some cases, open new or mothballed facilities.

When the US announced it would apply the tariff to imports from Canada, the country took offense and retaliated with a reciprocal tariff on US steel that went into effect on July 1, 2018, and is intended to force the US to remove the similar sanction it has placed on Canada. Thus far, the Trump administration does not appear to be interested in reaching an immediate resolution to this conflict, though looming mid-term elections could change this as states affected by the retaliatory tariffs put more pressure on the federal government.

Historically, NAFTA and the proximity of the countries encouraged free and abundant trade of steel between the US and Canada, leading their supply chains to become very closely integrated. By volume, about half of all exports from US steel mills are bound for Canada, making the country the leading foreign market for US-produced steel. However,

Impact Report: US & Canada

Canada is also the leading source of steel imported to the US, with a share of about 18%.

Because the steel supply of the two countries is so entwined, the long-term outcome of the tariffs is questionable. It is possible that the US steel industry will ship less to Canada, but it is also likely that the US will import less from Canada and turn to domestic producers—who had previously been shipping more product north of the border—instead.

Additionally, the effects of the steel tariff will reach beyond the steel industry because many sectors of the economy—including construction and manufacture of transportation equipment and appliances—rely on the material. Rising prices and disrupted supply chains could cause widespread stagnation and decline among companies participating in these industries, ultimately lowering steel demand and hurting all steel suppliers—both domestic and foreign—to both markets.

Because the only clear effect of the steel tariffs is that they are likely to have large and diverse economic consequences, the Canadian government has taken several additional steps to limit the impact these surtaxes have on its overall economy:

- It is providing \$2 billion in financial support to domestic steel and aluminum industries, including through the creation of work-sharing agreements to forestall layoffs.
- Canada has temporarily changed its qualifications for health insurance to ensure workers with limited hours do not lose their coverage.

US & Canada Retaliatory Tariffs: Steel



| | | | | | | | | | |
|---|----------------------|---------|--------|-------------------|---|---------------|-------|-----------------|----------|
| <p>Entity: United States</p> <p>Tariff: 25% on all steel imports</p> <p>Effective date: May 31, 2018</p> <p>In response to: Widening US trade deficit & decline of domestic steel industry</p> <p>Selected companies impacted:</p> <table><tr><td>Omni-Lite Industries</td><td>Tenneco</td></tr><tr><td>Stelco</td><td>Tree Island Steel</td></tr></table> | Omni-Lite Industries | Tenneco | Stelco | Tree Island Steel | <p>Entity: Canada</p> <p>Tariff: 25% on steel imports from the US</p> <p>Effective date: July 1, 2018</p> <p>In response to: US tariffs on steel & aluminum imports</p> <p>Selected companies impacted:</p> <table><tr><td>American Axle</td><td>Nucor</td></tr><tr><td>Harley-Davidson</td><td>US Steel</td></tr></table> | American Axle | Nucor | Harley-Davidson | US Steel |
| Omni-Lite Industries | Tenneco | | | | | | | | |
| Stelco | Tree Island Steel | | | | | | | | |
| American Axle | Nucor | | | | | | | | |
| Harley-Davidson | US Steel | | | | | | | | |

Source: The Freedonia Group.

Aluminum

The 10% tariff the US placed on imports of aluminum products—including those from Canada—beginning in June 2018 is expected to raise prices on related imports considerably, with the hoped-for effect being ramped-up capacity utilization and employment by US manufacturers of aluminum products.

As with the tariff placed on steel, Canada considers the surtax on aluminum to be an overly aggressive measure, and has responded in kind. By placing a 10% tariff of its own on all aluminum imported from the United States, it hopes to convince the US to lift its sanction.

Although the aluminum supply chains between the US and Canada are slightly less entwined than those of steel, trade between the two countries has been significant, with the US market more heavily dependent on Canadian supply. Canada is the third largest producer of primary aluminum globally, and the US relies on imports to meet about 50% of its aluminum demand in volume terms. About half of that supply comes from Canada, meaning that the US will likely continue to import considerable amounts of aluminum from its northern neighbor in the immediate future, regardless of higher prices caused by the tariffs.

Meanwhile, only about 6% of US aluminum production in volume terms is exported, with one-third of those products bound for Canada. As a result, the US aluminum industry will likely ship less to Canada due to the tariffs, increasing the impact felt by US companies.

Industries that use aluminum as a key input include construction and the manufacture of:

- containers
- electric equipment
- fabricated metal products
- packaging
- transportation equipment

As the cost of aluminum rises in the US market, these and other industries that depend on the material will face higher initial costs and may consequently suffer stagnation or decline, lowering US aluminum demand and ultimately hurting domestic (and foreign) aluminum suppliers to the US market.

The additional steps taken by the Canadian government to mitigate the economic effects of the steel tariff also cover the aluminum industry. Thus far, the country has:

- offered \$2 billion in financial support to domestic steel and aluminum industries, including through the creation of work-sharing agreements to forestall layoffs

- temporarily changed its qualifications for health insurance to ensure workers with limited hours do not lose their coverage

US & Canada Retaliatory Tariffs: Aluminum



| | |
|--|---|
| <p>Entity: United States</p> <p>Tariff: 10% on all aluminum imports</p> <p>Effective date: May 31, 2018</p> <p>In response to: Decreased capacity utilization & employment in US aluminum products manufacturing</p> <p>Selected companies impacted:</p> <p>Alcoa Canada Rio Tinto Aluminerie Alouette</p> | <p>Entity: Canada</p> <p>Tariff: 10% on aluminum imports from the US</p> <p>Effective date: July 1, 2018</p> <p>In response to: US tariffs on steel & aluminum imports</p> <p>Selected companies impacted:</p> <p>Anheuser-Bucsh Packaging Century Aluminum General Motors</p> |
|--|---|

Source: The Freedonia Group.

US Tariffs on Canadian Goods

Uncoated Newsprint

In January 2018, the US enacted a 22.16% tariff on Canadian newsprint in response to claims by the North Pacific Paper Company (NORPAC) that subsidized Canadian newsprint was being dumped in the US at unfair prices, damaging the company’s price competitiveness.

Although the tariff was put in place to save jobs at US-based NORPAC, it has negatively impacted the wider US economy by driving up production prices for all newspaper publishers, especially those located in the Northeast and Midwest, who rely almost entirely on imported newsprint. It is unlikely that newspaper companies in these regions will be able to find a supply of newsprint at pre-tariff prices in the near future because the weight of uncoated newsprint makes it costly to ship and the majority of US-based newsprint producers are located in the West. Newspaper companies in the eastern US must either absorb the cost of the tariff or pay more in shipping to obtain the product from domestic suppliers, which are located further away than some Canadian suppliers.

Disappearing profit margins are particularly troublesome to the newspaper industry because it was already facing economic difficulties. Many companies were operating with minimal staff and thin profit margins even before the tariff came into effect. Further pricing pressure has forced multiple US newspapers, particularly smaller local and regional publishers, to cut costs by scaling back their publication operations and cutting jobs.

The tariff was imposed immediately before the sixth round of NAFTA renegotiations was scheduled to open, timing that may have been chosen to send a message to Canada. If so, it was unsuccessful, as NAFTA talks have since stalled and the country has shown no willingness to make trade concessions.

US Tariff: Uncoated Newsprint

Entity: United States

Tariff: 22.16% tariff on Canadian uncoated newsprint imports

Effective date: March 2018

In response to: Claims of unfair pricing advantages

Selected companies impacted:

- NORPAC
- Tampa Bay Times
- West Central Publishing



Source: The Freedonia Group.

Automobiles & Parts

The US is contemplating implementing a 25% tariff on automobiles, light trucks, and associated components imported from all countries—including Canada—under the same legislation it used to impose its sweeping steel and aluminum tariffs. The investigation into whether automobile imports are weakening the US economy or threatening its national security is expected to be completed in July or August 2018, though the deadline for a decision is not until February 2019. Canada has stated that, if the tariff goes into effect, it will respond with further retaliatory tariffs of its own.

A 25% tariff on automobiles would abolish the free and fluid trade that every North American motor vehicle manufacturer currently enjoys under NAFTA and severely disrupt supply chains, as many of the world’s leading motor vehicle companies invested in the creation of extensive and highly integrated North American manufacturing infrastructure to capitalize on free trade, low production costs in Mexico, and advanced manufacturing capabilities in the US and Canada following the creation of NAFTA.

As such, automotive trade between the two countries is high:

- Canada is the second leading source of motor vehicle imports to the US, trailing only Japan.
- The majority of vehicles produced in Canada are exported, and most of those exports are destined for the US market.
- The US is the leading source of Canada's automotive imports.
- Components, semi-finished goods, and fully assembled motor vehicles typically cross borders several times before they are delivered to automobile dealerships.

Though all automobile manufacturers in both the US and Canada would be affected—especially because they are already saddled with increased component costs due to the reciprocal tariffs on steel and aluminum—the impact would not be equal: Canadian motor vehicle production would suffer the greater blow, and research from the Canadian Imperial Bank of Commerce suggests it could even be cut in half.

However, because no motor vehicle is wholly manufactured in one nation and parts are sourced globally, the impact of the tariff differs among car models. In the US, prices would rise according to the percentage of a car's parts that are domestically sourced (around 60% on average), with the Jeep Wrangler—the quintessential US vehicle—the least impacted.

While Canada produces fewer motor vehicles than the US, the country does manufacture a number of popular models that are not produced by its southern neighbor, including:

- Chevrolet's Equinox
- Chrysler's 300 Series, Pacifica, and Town & Country models
- Dodge's Caravan, Challenger, and Charger models
- Cadillac's XTS
- Ford's Edge and Flex models
- GMC's Terrain
- Toyota's RAV4

Because these models are not manufactured in the US, their prices are likely to increase. If US demand for these models does not abate, suppliers may consider relocating some manufacturing to their facilities in the US to avoid paying the tariff, contributing to reductions in Canadian automobile manufacturing.

Proposed US Tariff: Automobiles & Parts

| | |
|---|--|
| Entity: United States |  |
| Tariff: 25% on imported automobiles, light trucks, & parts | |
| Effective date: To be determined | |
| In response to: Stagnating US auto production | |
| Selected companies impacted: | |
| Daimler | Honda |
| Fiat Chrysler | Linamar Corp |
| Ford | Magna International |
| General Motors | Toyota |

Honda Civic
source: www.automobiles.honda.com

Source: The Freedonia Group.

Softwood Lumber

In November 2017, the United States implemented a 20.83% tariff on Canadian softwood lumber imports (including pine, spruce, and fir), citing unfair pricing advantages caused by the Canadian government’s financial support of the Canadian lumber industry. Due to fundamental differences in the way lumber producers in each country gain access to timber and the product’s importance in all types of construction, softwood lumber has long been the subject of a trade dispute between the US and Canada. In fact, this is the seventh such tariff enacted by the US since the 1980s.

Immediately after the most recent tariff took effect, softwood lumber prices jumped. They have remained high since, as evidenced by the Random Lengths Framing Lumber Composite Price, which reached a new high in May 2018, representing an increase of about 30% over the previous year. Though prices are expected to eventually return to more sustainable levels, they have:

- boosted the profits of US lumber producers, prompting a pick up in US lumber production
- helped stave off value declines in Canadian sawmill exports, which have dropped sharply in real terms
- increased the cost of building a new home in the US by an estimated 7%, according to the National Association of Home Buyers

The lumber tariffs punish the Canadian lumber industry, which is both important to the country’s economy as a whole and highly dependent on the US market. In 2017, 75% of Canada’s lumber exports were destined for the US. However, continued high duties will likely price lumber sourced from Canada out of the US market, causing continued decreases in production until new export markets are found.

However, the lumber dependency goes both ways. Lumber demand in the US exceeds domestic supply, and thus the US has historically relied on imports of Canadian lumber—which were valued at \$6.1 billion in 2017—to meet the needs of its construction industry. As lumber prices rise, so do the costs of construction and the manufacture of such building products as flooring and cabinets. These higher costs will likely to be passed on the US consumer, who will be more likely to postpone new home purchases and lumber-intensive remodeling projects as a result.

Canada has officially challenged the duties leveled on softwood lumber through both NAFTA and the WTO, the latter of which established panels to examine the issue in March 2018. While awaiting the WTO’s decision, both the US and Canada have expressed an interest in negotiating a new agreement that would end the dispute, although little progress has been made to date.

US Tariff: Softwood Lumber

Entity: United States

Tariff: 20.83% tariff on Canadian softwood lumber imports

Effective date: November 2017

In response to: Claims of unfair pricing advantages

Selected companies negatively impacted:

- US Construction Companies & Component Manufacturers:**
Pulte, Toll Brothers, Masco, Fortune Brands Home & Security
- Canadian Lumber Companies:**
Canfor, JD Irving, Resolute Forest Products

Selected companies positively impacted:

- US Lumber Companies:**
Georgia-Pacific, Sierra Pacific Industries



source:
www.resolutefp.com

Source: The Freedonia Group.

Canadian Tariffs on US Goods

Yogurt

As part of its retaliation against steel and aluminum tariffs enacted by the US, Canada placed an additional 10% surtax—effective July 1, 2018—on yogurt imports sourced from the US. Like softwood lumber, dairy products have long been a point of contention between the US and Canada, as both have robust dairy industries. In the past, Canada allowed 332 metric tons of US-produced yogurt to enter the country duty-free each year, though any imports over that amount were subject to a hefty 247.5% surtax.

As such, this tariff is expected to cause minimal disruption to the domestic industry.

Exports of yogurt to Canada averaged around \$2.8 million between 2012 and 2017, a value equivalent to about 7% of total US yogurt exports and a negligible percent of all yogurt shipments from US manufacturers. Considering that the majority of yogurt that Canada imports from the US comes from one production facility in Wisconsin, this tariff is meant to send a political message to Paul Ryan, the Speaker of the US House of Representatives and US Representative from Wisconsin.

Canadian Retaliatory Tariff: Yogurt

Entity: Canada

Tariff: 10% additional duty on US yogurt imports

Effective date: July 1, 2018

In response to: US tariffs on steel & aluminum imports

Selected companies impacted:

- Danone
- General Mills
- Ultima Foods



Brands of Ultima

sources: www.olympicdairy.com; www.iogo.ca

Source: The Freedonia Group.

Whiskey

Canada’s 10% surtax on US-made whiskies went into effect July 1, 2018, and only impacts goods that are eligible to be marked as products of the US by NAFTA regulations, meaning exports of Scotch, Irish, and Japanese whiskies from the US to Canada are exempt. The product was chosen as part of Canada’s countermeasure to tariffs the US placed on steel and aluminum because:

- Canadian consumers can easily replace US-made whiskey with Canadian versions.
- Much US-made whiskey originates in Kentucky, a state that supported President Trump during the 2016 election and that is home to Senate Majority Leader Mitch McConnell.

Canadian whiskey (which is here used interchangeably with the Canadian spelling of “whisky”) producers will benefit from the resulting price increases of US whiskies, as the products share many of the same characteristics and are therefore largely interchangeable. For instance, both industries feature widely known and enjoyed brands, distill alcohol from fermented grain, and employ Quercus alba (better known as American white oak) in the maturation process.

Additionally, Canadian producers such as Crown Royal—which is owned by UK-based Diageo—have begun marketing whiskies featuring the same mash bill (i.e., recipe of grains

used in fermentation) as bourbon in recent years, further contributing to similarities in taste between US-made whiskies and at least some varieties produced by Canadian distillers.

Besides Crown Royal, other companies with large-scale operations in Canada include:

- Beam Suntory, which is based in the US and produces Canadian Club
- Campari Group, which is based in Italy and produces Forty Creek
- Constellation Brands, which is based in the US and produces Black Velvet

Ultimately, most of the major players in Canada’s whiskey industry are the same multinational corporations at work in the US. Though Canadian consumers may switch brands as part of their boycott of US products, they are likely to end up supporting the same companies regardless.

Thus, the impact of Canada’s whiskey tariff will be akin to a miscalculation in supply-and-demand within companies’ own production operations. The extent to which consumers substitute brands will continue to depend on brand loyalty and price sensitivity. Many people—particularly connoisseurs—have a preferred brand and will continue to purchase it regardless of price increases, which will be inevitable due to an inflexible supply caused by Canada’s mandatory three-year aging process.

Canadian Retaliatory Tariff: Whiskey

Entity: Canada

Tariff: 10% additional duty on US whiskey imports

Effective date: July 1, 2018

In response to: US tariffs on steel & aluminum imports

Selected companies impacted:

- Beam Suntory
- Campari Group
- Constellation Brands
- Crown Royal



Whiskey brands of Beam Suntory
source: www.beamsuntory.com

Source: The Freedonia Group.

Flavored & Sweetened Waters & Carbonated Soft Drinks

As part of its retaliation to US tariffs on steel and aluminum, Canada placed a 10% surtax on flavored, sweetened, and aerated “waters”—a product category that includes carbonated soft drinks—produced in the US. This duty went into effect on July 1, 2018, and does not impact waters that exclude added flavors, sugar, or other sweetening.

Since 2012, Canada has been the leading export destination for the majority (about 56%) of such products produced in the US, with the value of the exports amounting to over \$200 million per year.

This tariff is meant to have a symbolic impact on iconic US companies, including Coca-Cola and Pepsi. That being said, each of these companies maintains six manufacturing plants in Canada, and these facilities produce the majority of the products both companies sell in the country. Pepsi, for example, states that its Canadian facilities satisfy 88% of demand in that country.

In addition to major soft drink producers, US manufacturers of sparkling flavored waters that export to Canada, such as LaCroix (a subsidiary of National Beverage), will be impacted. Flavored sparkling waters, particularly those containing only natural and health-conscious ingredients, have been gaining popularity, as consumers increasingly turn away from carbonated soft drinks containing artificial flavors, artificial sweeteners, and high fructose corn syrup. Canadian competitors, such as the recently revitalized Clearly Canadian, stand to benefit as prices of US-made products rise and the Canadian public takes part in the “Buy Canadian” movement.

Canadian Retaliatory Tariff: Flavored & Sweetened Water & Carbonated Soft Drinks

Entity: Canada

Tariff: 10% additional duty on US flavored & sweetened water imports, including soft drinks

Effective date: July 1, 2018

In response to: US tariffs on steel & aluminum imports

Selected companies impacted:

| | |
|------------------|---------|
| Clearly Canadian | LaCroix |
| Coca-Cola | Pepsi |



source: www.coca-colaproductfacts.com

Source: The Freedonia Group.

Beef

On July 1, 2018, Canada began imposing a 10% tariff on imports of US beef, a decision that has met with mixed reactions from the beef industries on both sides of the border.

Detractors—including the National Cattlemen’s Beef Association (US) and Alberta Beef Producers (Canada)—believe that the move will have a negative impact on cattle farmers in both countries. Though the effects will be more immediately felt in the US, the Canadian beef industry fears fallout over the longer term, since it has long benefitted from relatively

unrestricted trade between the two countries.

However, others—even US-based organizations like R-CALF USA— support the tariff, stating that Canada’s beef market is unfair to the US. R-CALF USA goes as far as to say that the US should impose tariffs on Canadian beef as well.

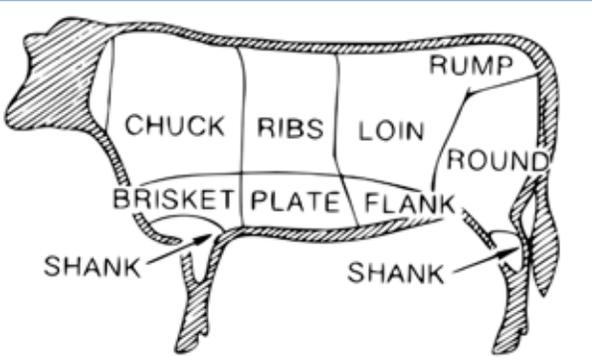
In 2017, the US exported roughly \$600 million in beef products and imported about \$1.2 billion, resulting in a trade deficit. Nevertheless, Canada only accounted for around 10% of exports. Although the country is an important trading partner for the US beef industry—particularly for farmers in states such as South Dakota, Minnesota, and Wisconsin—it is neither the largest nor the fastest growing.

Therefore, the tariff will have the greatest impact on states along US-Canada border, which will likely experience financial difficulties as demand dries up. The food industry operates on thin margins, and any tariff-induced increase in prices could force buyers in Canada to seek alternative domestic suppliers. In turn, declines in demand could cause US producers to reduce the capacity load at their processing facilities, which would cause the effects of the tariff to leak into other industries by limiting demand for upgrades on food processing and packaging equipment.

Over the longer term, the tariff could cause US beef producers to look for alternative export markets, particularly in the developing world, where meat demand is rising along with living standards. As the expanding global middle class in Asia flexes its purchasing power, consumption of beef—particularly more expensive cuts—is expected to continue to climb, offering favorable growth prospects for US beef producers who are diverting shipments from Canada.

Canadian Retaliatory Tariff: Beef

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|---|
| Entity: Canada |
| Tariff: 10% surtax on US beef imports |
| Effective date: July 1, 2018 |
| In response to: US tariffs on steel & aluminum imports |
| Selected US States impacted: Minnesota South Dakota Wisconsin |



The diagram shows a side view of a cow with various cuts of beef labeled. The cuts are: CHUCK (front shoulder), RIBS (middle back), LOIN (back), RUMP (hindquarters), BRISKET (front chest), PLATE (middle chest), FLANK (side), ROUND (hindquarters), and SHANK (legs).

Source: The Freedonia Group.

Recreational Boats

In response to steel and aluminum tariffs imposed by the US beginning in June 2018, Canada levied a surtax of 10% on imports of US-made recreational boats. The retaliatory tariff came into effect on July 1, 2018, and affects such products as:

- inflatable boats
- sailboats
- inboard and sterndrive motorboats
- outboard motorboats

Not only is Canada the largest recipient of US boating product exports, the majority of recreational boats sold in Canada—65% in 2017—are imported from the US. Because the US boat industry is closely tied to the Canadian boat market, the effects of the tariff will be felt on both sides of the border.

In the near term, Canadian consumers will face increased boat prices, causing sales to decrease and boat dealers to cancel orders. If sales remain depressed, this could cause a chain reaction for US suppliers, who may cut production due to limited export opportunities, resulting in potential job losses. However, decreased sales would also dampen Canadian boating activity, leading Canadian boat dealers and marinas to suffer similar losses.

Moreover, as there is a large lead time when ordering vessels, Canadian boat dealers are concerned they will be stuck with additional costs for orders placed prior to the implementation of the tariff but that are delivered after July 1. The NMMA Canada is requesting that, if the tariffs remain in place, a grace period be afforded to Canadian dealers so they can make appropriate ordering and pricing adjustments.

Canadian boat manufacturers stand to benefit from the tariffs imposed on US imports of recreational boats, but prospective price advantages could be limited if the retaliatory tariffs Canada also placed on US steel and aluminum disrupt supply chains. In the long term, it may be possible for other non-US boat manufacturers to fill the void, but they would first need to overcome high shipping costs, orchestrate distribution deals with Canadian dealers, and gain brand recognition among Canadian consumers.

Canadian Retaliatory Tariff: Recreational Boats

| | | |
|--|--|---|
| <p>Entity: Canada</p> <p>Tariff: 10% on inflatable boats; sailboats; inboard, sterndrive, and outboard motorboats</p> <p>Effective date: July 1, 2018</p> <p>In response to: US tariffs on steel & aluminum imports</p> <p>Selected companies impacted:</p> <ul style="list-style-type: none">Bombardier Recreational ProductsBrunswickCorrect CraftMalibu Boats |  <p>Meridian Yachts by Brunswick source: www.meridian-yachts.com</p> | <p>Platinum SE Boats by Brunswick source: www.princecraft.com</p>  |
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Source: The Freedonia Group.

Lawn Mowers

As part of Canada’s retaliation to US tariffs on aluminum and steel that went into effect beginning in June 2018, Canada implemented a 10% tariff on imports of US mowers with horizontally rotating blades on July 1, 2018.

As with many other products, the mower markets and industries of the two countries have long been interdependent. In 2016, the US supplied about half of Canadian demand for mowers and accounted for more than 80% of all Canadian imports of these products. Meanwhile, Canada is the leading destination for US mower exports, accounting for 28% in 2016. That share rose to 30% in 2017 and, based on export data through May 2018, Canada was on pace to become an even more important destination for US mower exports going forward.

However, implementation of the tariff means that US suppliers of mowers to Canada are now likely to lose some sales in the near term as their products become less price competitive and Canadian consumers call for a boycott on all US-made products. Still, the perception that mowers produced in the US are high-value, durable products may mitigate these effects as customers choose to absorb the cost of the tariff in order to purchase a quality product.

Some US-based mower manufacturers have production facilities in Canada, but those factories are currently set up to manufacture other products (e.g., utility vehicles, agriculture equipment). Though it is possible some suppliers may choose to convert a portion of their Canadian manufacturing capabilities to mower production in order to avoid paying the tariff, the switch would require significant investments of time and capital, making this possibility a long-term response, not an immediate solution.

Alternatively, Canada may turn to other countries to satisfy its mower demand. In fact, China and Mexico have historically been as important suppliers of mowers for Canada as the US. Though China accounted for only 7% of mower imports to Canada in 2014, that level had risen to 11% by 2017. Mexico has consistently accounted between 6% and 7% of Canada’s mower imports by value, but that share could grow if Canada turns to the country—which has low manufacturing costs and is a NAFTA member—to replace US supply.

Due to the large amount of mower production capacity located in the US (more than half of global totals), a widespread shift to manufacturers from other countries is not likely to happen soon.

Canadian Retaliatory Tariff: Lawn Mowers

Entity: Canada
Tariff: 10% on mowers
Effective date: July 1, 2018
In response to: US tariffs on steel & aluminum imports
Selected companies impacted:
 Briggs & Stratton
 John Deere
 Kubota

ZTrak Mower by John Deere
 source: www.deere.ca



Source: The Freedonia Group.

Pesticides

On July 1, 2018, Canada imposed a 10% tariff on certain consumer pesticide goods manufactured in the US in response to steel and aluminum tariffs the US put into effect in June of that year. The new tariffs on pesticides were opposed by both US-based organizations such as the Household & Commercial Products Association and many of their Canadian counterparts, including the Canadian Consumer Specialty Product Association.

Because of its proximity to the US and similarities in culture and climate, Canada has historically been one of the most important foreign consumers of US-produced pesticides. In 2017, Canada accounted for over 41% of US exports of insecticides, fungicides, and herbicides marketed for both the consumer and commercial markets.

Because the tariffs specifically target pesticides packaged in bags weighing 1.36 kilograms (about 3 pounds) or less, their impact will be on the consumer pesticides industry, which is

dominated by such US manufacturers as:

- Central Garden & Pet
- SC Johnson
- Scotts Miracle-Gro
- Spectrum Brands

The impact of the surtax on insecticides is expected to be the most significant because, while consumer insecticides represent a small share of the US' pesticide exports, US-manufactured consumer insecticides represent a sizable share of Canada's market. The tariffs will contribute to higher prices for Canadian consumers and potentially limit access to products that prevent the spread of insect-borne illnesses such as Lyme disease and West Nile virus. Because these tariffs took effect at the peak of summer, when many Canadians spend large amounts of time outdoors, the health impacts could be substantial.

Although the tariffs will also impact US exports of consumer herbicides and fungicides to Canada, the effects of the tariffs on these products will be less severe. Many of the consumer herbicides commonly used in the US—including glyphosate and 2,4-D—are banned for residential use in certain Canadian provinces, so demand for these products was already limited prior to implementation of the new surtax.

While US manufacturers of consumer pesticides could seek to recoup lost sales in Canada through increased marketing in other countries, there are a number of challenges they must overcome. For example, cultural differences in Europe mean that home and garden pesticide use trends there are fairly different from those in the US, and several active ingredients commonly used in the US are banned throughout the European Union. In other parts of the world, financial limitations often prompt users to turn to less expensive products, such as mosquito nets, to avoid insect pests.

Canadian Retaliatory Tariff: Pesticides

Entity: Canada

Tariff: 10% on various pesticides for the consumer market

Effective date: July 1, 2018

In response to: US tariffs on steel & aluminum imports

Selected companies impacted:

- Central Garden & Pet
- SC Johnson
- Scotts Miracle-Gro
- Spectrum Brands

OFF! Insect Repellents by SC Johnson
source: www.scjohnson.com



Source: The Freedonia Group.

Plastic Bags

As part of its retaliation to new US tariffs on steel and aluminum, Canada implemented a 10% surtax on plastic bags of US origin on July 1, 2018. The tariffs apply to plastic bags made from all plastic resins, including:

- high density polyethylene (HDPE), which is commonly used in grocery bags
- low density polyethylene (LDPE/LLDPE), which is used to manufacture such products as dry cleaning, newspaper, and household garbage bags

As with a number of other industries, trade of plastic bags between the US and Canada has been commonplace for years. In 2017, Canada was the largest export market for polyethylene plastic bags and the second largest importer of other plastic bags exported from the US, for a combined value of \$378 million. In turn, the US sourced \$474 million in plastic bags from Canada, which was the second most significant foreign supply of these products for the US in that year. Taken together, Canada was a net exporter of plastic bags with a trade surplus of \$96 million over the US, meaning that price increases caused by the tariff will likely have little impact on the Canadian consumer.

However, the tariff poses a significant negative implications for US plastic bag manufacturers, particularly those located in Texas, which produces the majority of plastic bags exported to Canada. Plastics manufacturers in Texas directly employ nearly 75,000 people, and over three billion US industries depend on their products.

Given the importance of plastic bag production to Texas’ economy and state’s political importance to the current administration, Canada’s retaliatory tariff seems targeted to send a message about the negative impacts of protectionist policies to a critical segment of US voters prior to mid-term elections in November 2018, when Texas will elect its governor, US Senator, and all 36 of its representatives to the US House.

Canadian Retaliatory Tariff: Plastic Bags

| | |
|--|--|
| <p>Entity: Canada</p> <p>Tariff: 10% on plastic bags</p> <p>Effective date: July 1, 2018</p> <p>In response to: US tariffs on steel & aluminum imports</p> <p>Selected products impacted:</p> <ul style="list-style-type: none"> Dry cleaning bags Garbage bags Grocery bags Newspaper bags |  |
|--|--|

Source: The Freedonia Group.

Major Household Appliances

In response to the aluminum and steel tariffs enacted by the US, Canada placed 10% duties on various major household appliances beginning July 1, 2018. Targeted products include:

- combined refrigerator/freezers
- dishwashers
- residential and commercial clothes washers
- major components used in the manufacture of stoves or ranges (including cooking chambers, top surface panels, door assemblies, and oven pilot burners)

Canadian production of major appliances satisfies between 25% and 33% of domestic demand in a given year, making the nation heavily reliant on imports—of which the US is a major source—to meet domestic demand.

Because the US has such a strong foothold in the Canadian appliance market, it will take some time for Canadian firms to secure a sufficient quantity of appliances from other nations. If the tariff has a similar impact as the 25% duty the US placed on its own washing machine imports in January 2018, prices on the affected appliances will rise as the additional import costs are at least partially passed on to the Canadian consumer.

Although the US is generally a significant supplier of major household appliances to Canada, its importance varies by product. As a result, Canadian firms are better positioned to seek alternative sources of combined refrigerators/freezers and stove or range parts. On the other hand, as the US is the leading source of imports for clothes washers and dishwashers, supply of these products will be impacted more significantly.

The retaliatory tariffs on major household appliances will primarily affect two companies: Whirlpool and the US-based GE Appliances division of China's Haier.

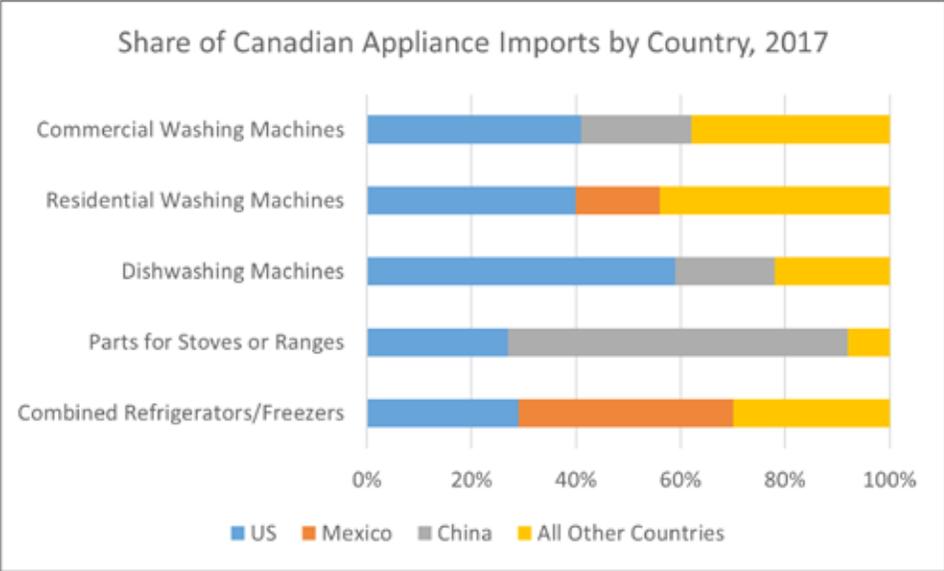
While other firms such as South Korea's LG Electronics and Samsung Electronics also have manufacturing presences in the US, they can avoid the tariff by choosing to satisfy Canadian demand with products sourced from their global manufacturing operations.

Canadian Retaliatory Tariffs: Major Household Appliances

Entity: Canada
Tariff: 10% on US imports of selected appliances & parts
Effective date: July 1, 2018
In response to: US tariffs on steel & aluminum imports
Selected companies impacted:
 GE Appliances (division of Haier Group)
 Whirlpool



source: www.whirlpool.ca



Source: The Freedonia Group.

Paper & Paperboard

Canada implemented tariffs of 10% on a number of paper and paperboard products on July 1, 2018, in retaliation to US tariffs on steel and aluminum that went into effect in June 2018. Specific products subject to the tax include those that appear on store shelves, particularly:

- toilet paper
- facial tissues
- paper towels
- tablecloths

Paper products that serve as industrial inputs, such as paperboard or bulk printing paper, are largely exempt.

The advantage of targeting these paper products is three-pronged:

- Like many of the other retaliatory tariffs Canada enacted, this surtax is focused on consumer products in an effort to muster political support against the US tariff program.
- While Canada has a trade surplus with the US in paper and board overall, it has a trade deficit in tissue and towel products.
- The countries' paper tissues and towels manufacturing industries are less integrated than its paper and paperboard industries overall, lessening the impact of the tariff on companies based in Canada.

The production of paper and paperboard is one of Canada's largest industries, and the US is one of the most important foreign markets for the resulting products. In 2017, Canada exported \$7.2 billion worth of paper and paperboard, and 85% of that went to the US. In the same year, Canada only imported \$4.4 billion worth of paper and paperboard from the US. However, it also registered a \$100 million trade deficit in paper tissues and towels. Going forward, the tariff will likely lessen this gap.

Additionally, while the North American paper and paperboard industry is highly integrated—with major US-based companies such as WestRock, Georgia-Pacific, and Graphic Packaging operating in Canada, and Canadian based companies like Cascades and Domtar manufacturing in the US—the production of tissue and towel products is more separated. In this segment, US and Canadian companies focus on their domestic markets, which means the tariff will be more likely to raise prices and injure sales of US-based suppliers.

Canadian Retaliatory Tariff: Paper & Paperboard Products

Entity: Canada

Tariff: 10% on selected US-made paper & paperboard products

Effective date: July 1, 2018

In response to: US tariffs on steel & aluminum imports

Selected companies impacted:

| | |
|-----------------|----------------|
| Cascades | Kimberly Clark |
| Domtar | WestRock |
| Georgia-Pacific | |



Brands of Kimberly Clark
source: www.kcprofessional.com

Source: The Freedonia Group.

Household & Personal Care Items

In retaliation to the tariffs placed on steel and aluminum by the US, Canada enacted tariffs of 10%—effective July 1, 2018—on a number of US products, including:

- automatic dishwasher detergents
- body washes
- hair spray
- manicure or pedicure products
- pre-shave, shaving, or after-shave products
- preparations for perfuming or deodorizing rooms, including those used during religious rites

These household and personal care items products are part of the soap, detergents, and toilet preparations manufacturing industries, which are relatively large and important sectors of the US economy.

However, US suppliers of personal care items mainly focus on serving the needs of the large US market for these products, and exports are not overly significant, representing only about 16% of the industry's shipments in 2016. Further, Canada is a relatively minor market for the these goods, as it accounted for only about 4% of those shipments. However, some products see higher levels of exports to Canada, including shaving preparations, 11% of which were bound for Canada that year.

The tariffs could result in higher prices and lower demand for US personal care items in Canada. However, manufacturers, wholesalers, and retailers might absorb some of the cost of the tariffs to limit the impact to consumers. While Canadian sales represent a relatively small portion of the US industry's total production, exports provide manufacturers with potential growth opportunities as the US market is mature. Due to its proximity to the US,

the similarities between the two countries' cultures, and the use of the English language, Canada is often an attractive market for US manufacturers of personal care items.

Canadian Retaliatory Tariff: Household & Personal Care Products

Entity: Canada

Tariff: 10% on imports of US various household & personal care products

Effective date: July 1, 2018

In response to: US tariffs on steel & aluminum imports

Selected products impacted:

- Body wash
- Dish detergent
- Hair spray
- Manicure/pedicure products

Old Spice bodywash
by Procter & Gamble
source: news.oldspice.com



Source: The Freedonia Group.



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