

## STEEL AND ALUMINUM TARIFFS IMPOSED

*US imposes tariffs to Mexico, Canada, and the European Union*

### CONTEXT

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On March 7, 2018, president Donald Trump moved to place a 25 percent tariff on steel and 10 percent on aluminum imports from all nations, with temporary exemptions for Canada and Mexico<sup>1</sup>. This measure was grounded on a **seldom-used law from the 1960s that was designed to protect key domestic industries deemed vital to national defense**<sup>2</sup>. It should be noted that **Canada is the largest steel and aluminum exporter to the US, while Mexico holds the fourth place in steel exports**.

This move **triggered negative reactions within the Republican Party**, with **Paul Ryan**, Speaker of the United States House of Representatives, **Gary Cohn**, former director of the National Economic Council, and **Ben Sasse**, Republican Senator for the state of Nebraska, utterly opposing the tax reform law<sup>3</sup>. Meanwhile, companies like **U.S. Steel and Century Aluminum** applauded this decision by announcing investment plans and projects to reactivate idled smelters<sup>4</sup>.

Furthermore, this measure has aggravated **tensions on NAFTA negotiations**. While the US sees this measure as a factor to push forward negotiations, **Mexico and Canada have declared that they will not yield to US pressure**.

### CURRENTLY

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On Thursday, May 31 commerce secretary, **Wilbur Ross**, **announced the imposition of a 25 percent tariff on steel and 10 percent on aluminum imports from the European Union, Canada, and Mexico**. This has triggered the following reactions:

#### Mexico

**President Enrique Peña Nieto and Canadian Prime Minister, Justin Trudeau, deeply regretted this decision and agreed to impose tariffs and countervailing measures until the US government removes its metal tariffs**. Ildefonso Guajardo, Secretary of Economy, stated that the US is **affecting a “fully integrated”** sector, which will backfire on American consumers. He also added that Trump’s intentions to send a message risk heavy retaliation.

The Mexican peso tumbled against the US dollar in face of this decision, with **dollar prices reaching an exchange rate of up to 20.58 pesos**; 30 cents higher than the previous day. Also, the main **Mexican Stock Market indicator fell 0.27%**.

⇒ As countervailing retaliation, the Mexican government announced tariffs on US products such as **flat steel, lamps, pork ham and shoulders, sausages and powdered foods, apples, grapes, cranberries, and different types of cheese**, among others<sup>5</sup>. Additionally, **these measures will last until the US lifts the imposed tariffs**.

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<sup>1</sup> <https://www.npr.org/2018/03/08/591744195/trump-expected-to-formally-order-tariffs-on-steel-aluminum-imports>

<sup>2</sup> <https://www.cnbc.com/2018/03/02/trumps-tariffs-spark-national-security-concerns.html>

<sup>3</sup> <https://www.npr.org/2018/03/05/590877835/congressional-republicans-lobby-trump-to-back-down-on-tariffs>

<sup>4</sup> <http://investor.shareholder.com/cenx/releasedetail.cfm?ReleaseID=1059365>

<sup>5</sup> <https://www.gob.mx/se/es/prensa/mexico-impondra-medidas-equivalentes-a-diversos-productos-ante-las-medidas-proteccionistas-de-ee-uu-en-acero-y-aluminio?idiom=es>

- ⇒ Secretary Guajardo informed that **Mexico will target steel products, seeking to keep domestic trade and Mexican consumers unaffected**. The Mexican Secretary of Economy explained that including select produce and agriculture products in the listed targets has an economic and politic function and product selection will be decided upon careful consideration of the political cost and impact of targeting specific US districts. This measure should “send a straightforward message about how these actions benefit no one.”<sup>6</sup>

## Canada

Justin Trudeau, Canada’s Prime Minister, denounced the tariffs as “an affront” and qualified them as “*totally unacceptable*”. He said that **for 150 years, Canada has been the US’ most steadfast ally and that it was inconceivable** to consider trade with Canada as a threat to the United States’ National Security. Premier of Ontario, Kathleen Wynne, called president Donald Trump a “bully” and declared that the imposed tariffs are “ridiculous and unjustified”.

- ⇒ Canada’s minister of Foreign Affairs, Chrystia Freeland, announced that her country will **reciprocate by imposing tariffs covering 16.6 billion Canadian dollars**, adding that this is “the strongest trade action Canada has taken in the post-war era.” Furthermore, she declared **that Canada has developed a list of US products that will be subject to tariffs** until the metal restrictions are lifted.<sup>7</sup>

## European Union

European Commissioner for Trade, Cecilia Malmström, and Jan-Claude Juncker, president of the European Commission, rejected the US’ decision. **Malmström indicated that the tariffs will generate considerable turbulence in the global market** and could lead to the disappearance of the multilateral trade system. Juncker declared that the US has left them “**no other option but to introduce a settlement dispute with the WTO and impose counterbalancing measures to a list of US products.**”

- ⇒ The European Union will introduce a settlement demand before the WTO on Friday, joining China and India, triggering the WTO’s dispute settlement mechanism over American trade penalties<sup>8</sup>.
- ⇒ Meanwhile, the EU will prepare a set of **countermeasures targeting specific US imports such as steel, orange juice, motorcycles, and whiskey**<sup>9</sup>.

## United States

**The US Dow Jones dropped 250 points, with stocks sliding 50 points more after Canada announced its countermeasures**<sup>10</sup>. Secretary of Economy, Wilbur Ross, said that they expect further negotiations with the affected countries, adding that there is still room for flexibility, as the president has better

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<sup>6</sup> [http://d2.bdtr.net/n.php?c=DF\\_MEX-F88\\_1-20180531-8801-33552-398](http://d2.bdtr.net/n.php?c=DF_MEX-F88_1-20180531-8801-33552-398)

<sup>7</sup> <https://ca.reuters.com/article/businessNews/idCAKCN1IV2TN-OCABS>

<sup>8</sup> <https://www.reuters.com/article/us-usa-trade-metals-juncker/eu-to-impose-measures-against-unacceptable-us-tariffs-juncker-idUSKCN1IW1YE>

<sup>9</sup> [https://www.washingtonpost.com/world/europe/european-leaders-plan-to-hit-back-against-trumps-steel-and-aluminum-tariffs/2018/05/31/d1a38934-56ec-416d-99cc-57e09031d667\\_story.html?noredirect=on&utm\\_term=.a9789aad984b](https://www.washingtonpost.com/world/europe/european-leaders-plan-to-hit-back-against-trumps-steel-and-aluminum-tariffs/2018/05/31/d1a38934-56ec-416d-99cc-57e09031d667_story.html?noredirect=on&utm_term=.a9789aad984b)

<sup>10</sup> <http://money.cnn.com/2018/05/31/investing/stock-market-today-dow-jones-nasdaq-steel-aluminum/index.html>

maneuvering opportunities. **Ross tried to downplay the economic implications by saying that it would amount to a decrease of “only 1 percent.”**

Senator Ben Sasse declared that one should not treat allies (Europe, Canada, and Mexico) the same way one treats opponents. He added that blanket protectionism will do the US no good and that “*Make America Great Again*” should not mean “*Make America 1929 Again*”<sup>11</sup>.

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## CONCLUSION

- Based on Ross’ declarations in which tariffs are perceived as an advantage for Trump in ongoing negotiations, **the US could use these measures to strengthen its position in NAFTA and tighten discussions over key subject matters even more** (e.g. rules of origin, automotive sector, the termination clause, seasonality in agriculture and changes to the chapter pertaining dispute settlement provisions)<sup>12</sup>.
- With elections closing in, it is very likely that the Mexican government’s response —and the intervention of presidential candidates— will be sharpened and could become deeply politicized. Even though the announced retaliations are limited to products such as lamps, pork meat, apples, and cranberries, **products like corn and fructose could become part of the agenda of opinion leaders or political actors** (e.g. Andrés Manuel López Obrador or Rocío Nahle).
- Based on previous measures applied during Felipe Calderón’s term of office, the Mexican government could apply further **retaliatory tariffs against the US, imposing tariffs on a rotating monthly selection of a list comprising 99 products that affect different sectors of the US** and increase levels of uncertainty, thus generating considerable economic and political impacts<sup>13</sup>.
- Financial analysts agree on an imminent trade war between Mexico and the US, with indefinitely stalled negotiations over NAFTA; additionally, upcoming elections will generate a sense of restlessness and financial uncertainties, **inflicting more pressure on the domestic currency, aggravating inflationary risks and reducing investments**.
- Political analysts said that, despite Trump’s decision, **imposing trade tariffs will result in a gradual increase in consumer goods prices** (e.g. canned soft drinks), **affecting American citizens**. Furthermore, this measure will represent an increase in production costs, which will, in turn, affect American SMEs.
  - It should be noted that if this measure lasts, **the pressure of the opposition will increase as US’ November midterm elections approach**.

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<sup>11</sup> <https://www.ft.com/content/1b4c56f6-64f2-11e8-a39d-4df188287fff>

<sup>12</sup> <https://www.bloomberg.com/news/articles/2018-05-31/ross-announces-u-s-imposing-steel-tariffs-on-eu-canada-mexico>

<sup>13</sup> [http://d2.bdtr.net/n.php?c=DF\\_MEX-T51-20180531-8078-32479-174](http://d2.bdtr.net/n.php?c=DF_MEX-T51-20180531-8078-32479-174)