CANADIAN MANUFACTURERS & EXPORTERS

MANUFACTURIERS & EXPORTATEURS DU CANADA

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International Trade Policy Division
Department of Finance Canada
90 Elgin Street
Ottawa, Ontario
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Re: CME's comments on the Government of Canada's notice of intent to impose surtaxes on Chinese steel and aluminum in response to unfair Chinese trade practices

On behalf of Canadian Manufacturers & Exporters (CME) and our member companies from across Canada, we welcome the opportunity to respond to the Government of Canada's notice of intent to impose surtaxes on Chinese steel and aluminum in response to unfair Chinese trade practices.

The manufacturing sector is a key pillar of Canada's economy, playing a crucial role in creating jobs, fostering innovation, and driving economic growth. However, many Canadian manufacturers face significant challenges from unfair competition and structural overcapacity in China, driven by substantial, state-directed support that far exceeds levels seen in other countries. Areas of particular concern include the electric vehicle (EV), steel, and aluminum sectors. China's actions risk undermining the significant efforts by the Government of Canada to establish a robust domestic EV supply chain, support the transition to a low-carbon economy, stimulate economic growth, and create high-quality jobs.

Indeed, the coming century will be shaped by how Canadian industry transitions to a low-carbon economy amid the geopolitical realignment of global supply chains and the reindustrialization of North America. Strengthening Canada's manufacturing competitiveness, deepening partnerships with key allies and supply chain partners – particularly the United States –will require a series of complex and strategic policy decisions.

CME supports efforts to protect Canada's steel and aluminum industries from China's state-directed overcapacity, ensuring they can compete fairly in domestic, regional, and global markets. With the United States and Mexico having already implemented similar measures, it is crucial for Canada to align with its North American partners and take decisive action against the challenges posed by China's state-backed support for its steel and aluminum industries.

However, it is important to be clear-eyed about the short-and medium-term impacts of a 25 per cent tariff on Chinese steel and aluminum products, as this could place many Canadian manufacturers that rely on these materials at a competitive disadvantage compared to some non-North American rivals. We estimate that the initial list of goods subject to surtaxes will impose millions of dollars in additional costs on manufacturers. In an already high-cost business environment, this may require some manufacturers to make difficult decisions about the sustainability of their current operations in Canada.

While we support leveling the playing field for domestic steel and aluminum manufacturers, we believe the government must adopt a flexible approach to support Canadian manufacturers that transform these metals into finished products. This flexibility should include an exemption process that will allow Canada to adapt to unintended consequences and protect Canadian jobs.

There will be instances where the surtaxes will promote the import of finished steel products from China at prices lower than those of Canadian-made goods. This will affect certain Canadian manufacturers that produce meter sockets, metallic electrical boxes, and ground plates (HS codes 7326.90.90.90, 8536.69.00.90, and 8536.90.00), as well as those that produce hydraulic and telescopic cylinders used for shipbuilding and mobile crane construction (HS codes 8412.21.0075 and 8412.21.0045). As the government implements these surtaxes, new HS codes may need to be added to protect local manufacturers that transform these metals into finished products.

Amid the ongoing global economic realignment, the federal government has the opportunity to raise awareness of goods and materials manufactured in Canada.

As such, CME presents the following recommendations for your consideration as the government finalizes Canada's approach to surtaxes on Chinese steel and aluminum:

1. **Flexible policy and tariff management:** Given the tight timelines, the government must maintain flexibility in implementing and adjusting tariffs to minimize sectoral impacts. It should establish an ongoing process for manufacturers to apply for exemptions or other accommodations to account for changing market conditions and to mitigate unintended consequences that could undermine the global competitiveness of Canadian manufacturers and their workers. The goal of any exemption (and related economic development efforts) should be to prevent the immediate loss of production mandates, while allowing time for domestic and North American manufacturing sources to be identified or developed.

An adaptable approach to tariff management can also help prevent circumvention. For instance, in consultation with industry, the government could consider extending tariffs across Chapter 76 of the HS code or adding melt-and-pour requirements for products subject to surtaxes. These measures may be necessary to prevent circumvention and strengthen the long-term effectiveness of these policies.

2. **Invest tariff proceeds in measures to support supply chain transition for Canadian manufacturers:** Many Canadian manufacturers, particularly small and medium-sized enterprises, will face significant costs and disruptions as they seek to adjust their supply chains to surtaxes and shift to North American or other non-Chinese suppliers. We recommend the government reinvest tariff proceeds into targeted support for these manufacturers, helping them decouple their supply chains from China.

3. **Promote Canadian-made products:** The implementation of surtaxes creates an opportunity for the federal government to raise awareness within the business community about goods and materials manufactured in Canada that may have previously been overlooked by domestic companies in favour of foreign alternatives. We encourage the government to leverage regional development agencies to enhance and expand existing programs such as Ontario Made and Manufactured Right Here in Newfoundland and Labrador, and to launch a new promotional campaign under the "Made in Canada" banner. This initiative would foster more business-to-business connections, supporting manufacturers as they adapt to the trend of onshoring production. Such a campaign could help companies realign their supply chains to new global realities, while also delivering substantial economic benefits through reshoring the production of essential goods.

4. **Consider exemptions, delayed implementation or other transitional measures for specialized steel and aluminum products that could harm Canada's manufacturing capacity in the short and medium term.** Based on feedback from our manufacturing members, specific products that warrant attention include:

   - **Coupling stock (HS Code 7304.29.00.79):** This highly specialized product is not produced in Canada, making its importation essential. Both the Canada Border

Services Agency (CBSA) and the Canadian International Trade Tribunal (CITT) have excluded coupling stock after decades of review and investigations. The proposed surtax contradicts these informed findings, threatening Canada's domestic manufacturing capacity and jobs.

- **Clad aluminum alloys and cold reduced stainless steel (HS Codes 7606.12.00.20 and 7220.20):** These materials are critical to automotive and EV component production, and North American supply chains are currently unable to meet demand. Canadian Tier 2 and 3 automotive suppliers rely on imported materials for production. Further trade actions on finished goods, including Chinese steel and aluminum, may be required to avoid displacement of Canadian manufacturing activity, though this step would require further consultation.

- **Aerospace-grade aluminum alloy plates and sheets (HS codes 7606.12.00 and 7606.92.00):** Surtaxes on these goods will increase the cost or producing aircraft in Canada, further straining the industry in an already highly competitive global market.

- **Stainless Steel Products (HS Codes 7219-23.00, 7219.24.00, 7219.31.00, 7219.32.00, 7219.33.00, 7219.34.00):** Canada's capacity to produce high-quality stainless steel in large volumes is extremely limited, making imports crucial for key industries. Surtaxes on these products will adversely affect these industries, with long-term impacts on the economy.

- **Aluminum coils (HS Codes 7606.12.00.20, 7606.92.00.00, 7607.11.00.20):** These specialized materials, particularly cladded aluminum coils, are essential for many manufactured processes like brazing in radiator production. As these materials are not produced in Canada, domestic sourcing is impossible. Canadian beverage producers will also incur significant costs due to the lack of aluminum can sheet mills in Canada, with supplier qualification taking 8 to 12 months. Across the 7606 HS codes, multiple manufacturers have indicated that the surtax will pose significant challenges and, in some cases, lead to the direct loss of Canadian production and jobs.

CME would be open to convening groups of concerned members for officials to address the technical considerations required for implementation of the federal policy response to unfair Chinese trade practices. Please contact us for further assistance on this or any other issue.

Sincerely,

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Canadian Manufacturers & Exporters