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Trump Government Exempts Mexico, Canada from Steel, Aluminum Tariffs

by Carlos Navarro

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Mexico and Canada received a reprieve from US President Donald Trump's decision, made known in early March, to impose tariffs on steel and aluminum imports. Canada accounts for 16% of US steel imports, while Mexico's share is about 9%. Trump eventually moved to exempt Mexico and Canada from the taxes, at least for now.

Trump, however, did not discount the possibility that he could impose the tariffs on the two countries—partners with the US on the North American Free Trade Agreement (NAFTA)—if the ongoing NAFTA negotiations prove unsatisfactory for his administration. "We're going to hold off the tariff on those two countries to see whether we can make the deal on NAFTA," the president said at a signing ceremony to enact the tariffs, which amount to a 25% levy on steel and 10% on aluminum.

Mixed results for seventh round of NAFTA talks

The president's announcements came on March 5, at the conclusion of the seventh round of NAFTA talks, which US Trade Representative Robert Lighthizer described as mixed. In comments to reporters at the conclusion of the talks in Mexico City, Lighthizer said it was regrettable that negotiators had only managed to complete discussions on three of the areas under review.

At the same press conference, Mexico's Economy Secretary Ildefonso Guajardo, who is leading his country's negotiating team, offered a more positive spin on the talks, saying that the three countries had reached agreement on several areas. NAFTA negotiators have had difficulty finding common ground because of the US insistence on including protectionist measures, which the Trump government says would reduce a trade deficit with Mexico and Canada ([SourceMex, Aug. 23, 2017, Oct. 18, 2017, Jan. 31, 2018](#)).

The three countries are scheduled to resume negotiations in early April, probably in Washington, DC. To expedite the process, a series of working meetings involving cabinet officers will be conducted before the eighth round of talks, Guajardo said.

According to Guajardo, the three countries would like to conclude the negotiations as soon as possible to avoid the presidential and congressional elections in Mexico in July and the US mid-term congressional elections in November.

The seventh round of negotiations occurred in an atmosphere of tension between the US and Mexico. Trump had intended to travel south of the border before the talks to meet with Mexican President Enrique Peña Nieto, but the meeting was canceled abruptly following a telephone conversation between the two leaders to discuss the agenda ([SourceMex, Feb. 21, 2018](#)). According to sources, Peña Nieto angered Trump when he urged the US president to make a statement asserting that the US would not force Mexico to pay for construction and expansion of a wall along the US-Mexico border.

“The NAFTA talks looked promising until last week, when Donald Trump exploded over the phone at Mexican President Enrique Peña Nieto about the border wall,” columnist David A. Andelman wrote on CNN.com “Both presidents stood firm on their positions; Peña Nieto said Mexico won’t pay for the wall, while Trump insisted that it would, culminating in, as one Mexican official told TheWashington Post, Trump losing his temper.”

Instead of traveling to Mexico, Trump sent a delegation led by his son-in-law, Jared Kushner, who brought a message to the Mexican president. “Kushner’s hasty visit came in an atmosphere of high tension,” columnist Raymundo Riva Palacio wrote in the daily business newspaper El Financiero. “In the two-and-half weeks before the visit, NAFTA negotiators met in an atmosphere of conflict. The situation was aggravated by the announcement that the US would impose tariffs on all imports of steel and aluminum.”

The tensions with Mexico and Canada were eased somewhat when Trump decided to exclude the two countries from the tariffs.

Industry chambers concerned

Before the exclusion of Mexico and Canada, strong protests came from industry groups and government entities. In Mexico, the steel and iron industry chamber (Cámara Nacional de la Industria del Hierro y el Acero, CANACERO) urged President Enrique Peña Nieto’s administration to develop a strategy to take parallel and immediate trade actions against the US if the tariffs were imposed.

CANACERO officials pointed out that a tariff against Mexico would be unjustified, because the US has attained a trade surplus on steel trade of US\$3.6 billion with Mexico during the past two years. US steel exports to Mexico increased from about US\$6.2 billion in 2008 to US\$9.8 billion in 2017.

CANACERO officials also took issue with the notion that the small amount of steel exported by Mexico to its NAFTA partner would represent a national security threat to the US. In enacting the tariffs, Trump cited Section 232 of the Trade Expansion Act, which gives the executive branch the ability to conduct investigations to determine the effects of imports on national security.

“Mexico must not be included in a resolution related to Section 232, because [its steel industry] does not pose any risk to the national security of the US,” CANACERO said. “In fact, we are one industry that does not receive any subsidies from the Mexican government, and we do not contribute to the global oversupply of steel.”

Mexico’s aluminum industry chamber (Cámara Nacional de la Industria del Aluminio, CANALUM) offered the same argument, pointing out that Mexico has a trade deficit in aluminum with the US. “The US had a surplus of US\$2.8 billion in aluminum with Mexico in 2017,” CANALUM, citing data from the US Census Bureau, said before the Trump government announced that Mexico and Canada would be excluded from the tariffs. “A trade war would affect the production chains in both countries.”

The new tariffs would have represented a major blow to Canada, which is the top exporter of steel and aluminum to the US. Canada exported a combined US\$15 billion worth of steel and aluminum to the US in 2017.

The Canadian government was ready to retaliate if the US had not made the exemptions. "Should restrictions be imposed on Canadian steel and aluminum products, Canada will take responsive measures to defend its trade interests and workers," Trade Minister Chrystia Freeland told reporters.

Canadian industry sources would like to eliminate the threat of tariffs entirely. "The goal remains to get a full exemption, and we shall employ ourselves over the next weeks, together with our Canadian and Quebec governments and our US allies, to find a pathway toward a full and permanent exemption," said Jean Simard, president and CEO of the Aluminum Association of Canada.

US protectionist tendencies cause concern

Observers point out, however, that the US administration's policies are probably going to trend more toward protectionism, particularly because of the departure of aides like economic adviser Gary Kohn, an advocate of free trade who resigned after Trump announced the new tariffs. The president will now have the full attention of aides like trade adviser Peter Navarro, who supports extreme protectionist measures. "We anticipate a new protectionist tendency from the Trump government," columnist Luis Miguel González wrote in the daily business newspaper *El Economista*. "You do not need a crystal ball to predict this. The first clue is the rise of the ideologue Peter Navarro, who is staunchly against free trade."

For Mexico, protectionist moves represent a great risk, González said.

"Until now, the rhetoric of the US leader has had very little effect on economic flows. However, this situation could change soon, given Trump's obsession with trade deficits."

According to González, the trends in US-Mexico trade since Trump took office could prompt the US president to take more direct actions against Mexico, particularly when dealing with the automotive sector. In 2017, Mexico registered a trade surplus of almost US\$70.8 billion with the US, up by almost 13% from 2016. The tendency has continued into 2018, with Mexican exports of automotive products in February approaching 276 million vehicles, an increase of 11% from the same month in 2017.

"How will Trump process these statistics on automotive trade? During his first year in office, he took a prudent stance and preferred to focus on the relocation of investments back to the US," González said in reference to Trump's boasting about persuading US automakers like Ford to move to US territory ([SourceMex, Jan. 11, 2017](#), and [Feb. 22, 2017](#)). "Don't be surprised if Trump now hammers the Mexico-US trade balance like a piñata."

However, other observers had a more positive view, suggesting that the US president is very interested in reaching an accord with Mexico and Canada on NAFTA.

"The exemption of tariffs on steel and aluminum for Mexico and Canada is a sign of that interest," columnist Enrique Quintana wrote in *El Financiero*.

Quintana suggested that Navarro, the trade adviser, was the one who suggested the exemptions for the NAFTA neighbors as an incentive to conclude the NAFTA negotiations. "Navarro does have a clear protectionist vocation," Quintana said. "However, his demon is China. In the past, he has suggested that a good trade relation with Mexico and Canada could help the US deal with China."

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