Canada Announces Surtaxes in Response to U.S. Tariffs

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Many Canadian importers and exporters face punitive new tariffs that will start as early as June 1, 2018. The United States recently announced that it will impose a 25% tariff on steel and a 10% tariff on aluminum imports that will apply on a wide range of products imported into the United States from Canada, Mexico and the European Union. In response to the new tariffs, Canada has announced its own countermeasures to impose surtaxes on imports of steel, aluminum and other various products that will take effect July 1, 2018.

Because these new tariffs will increase the costs of raw materials and inputs used in production supply chains, they will negatively affect industries that depend heavily on steel and aluminum products, such as the automotive, heavy machinery and home appliance industries, among others. Companies affected by this change should take action to quickly assess the effect of these new tariffs and explore strategies that may help minimize their impact. Companies may also want to consider making a submission to Canada’s Department of Finance on the new surtaxes, which it is accepting until June 15, 2018.

Background
The United States imposed tariffs on global steel and aluminum imports on March 8, 2018. Argentina, Australia, Brazil and South Korea, negotiated permanent exemptions under restrictive conditions including quota limits. Although imports from Canada, Mexico, and the European Union were provisionally exempted from these tariffs, those exemptions expire as of June 1, 2018.

Canada introduces trade countermeasures

In response to the new U.S. tariffs, Canada announced that it intends to launch dispute settlement proceedings under both NAFTA and the WTO. In addition, Canada said it will impose 10% and 25% surtaxes or similar trade-restrictive countermeasures on imports of steel, aluminum and other products originating in the United States (estimated to impact up to C$16.6 billion of goods, the value of the 2017 Canadian exports affected by the U.S. measures). Canada said that its countermeasures will take effect on July 1, 2018, following a 15-day
consultation with stakeholders, and will remain in place until the United States eliminates its tariffs against Canada. The Canadian surtaxes will affect more than 125 products originating from the United States including, among others, specific types of:

- Coffee
- Prepared meals
- Pizza
- Chocolate
- Condiments
- Toiletries
- Beer kegs
- Whiskies
- Household items
- Motorboats.

Mexico and the European Union also announced retaliatory tariff measures. Like Canada, the European Union has also vowed to proceed with a complaint to the WTO.

**KPMG observations — Take action now**

Companies that will be affected by these measures should assess the impact of the new tariffs on their imported goods and consider ways to mitigate the impact of these changes. Specifically, companies may want to undertake an impact analysis in order to potentially support a submission to Finance on the proposed countermeasures. In addition, such an analysis may help support a request for exclusions of the tariffs on specific products.

In addition, affected companies may also want to take action to:

- Explore strategies to minimize the impact of the tariffs (for example, can tariff classifications be engineered to qualify for lower duties?)
- Consider other strategies to lower the base upon which additional tariffs will be applied (such as U.S. First-Sale-for-Export, unbundling non-dutiable elements from the price paid for imported goods)
- Review and analyze whether contractual documentation with suppliers and customers is flexible enough to deal with trade related uncertainties.

**We can help**

KPMG’s Trade & Customs team are well-positioned to help you analyze the impact of trade-related measures and strategize the most effective ways to minimize the effects on your business. Please contact a KPMG’s Trade & Customs professional in Canada:
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