
Trade strategy or trade war – Examining tariffs, retaliation and NAFTA

June 6, 2018

In brief

There have been significant developments on several trade issues in the past 10 days. On May 31, steel and aluminum tariffs went into effect after temporary exemptions expired for many US allies, including the EU, Canada, and Mexico, leaving only a few countries exempt and many others contemplating retaliatory tariffs on US products.

Two days earlier, the Trump Administration announced it would be moving forward with tariffs on Chinese goods under Section 301 of the Trade Act of 1974. Meanwhile, the Department of Commerce has initiated an investigation under Section 232 of the Trade Expansion Act of 1962 to determine if imports of automobiles and corresponding parts threaten to impair national security, and, if so, whether tariffs are appropriate to combat that threat.

Finally, but likely not last in US trade developments, NAFTA negotiations appear to have all but ended as Mexico and Canada react to the current steel and aluminum tariffs and the threat of Section 232 tariffs on automobiles.

In detail

Section 232 steel and aluminum tariffs – temporary exemptions expire

The US imposed 25% steel and 10% aluminum tariffs on several close allies after allowing temporary exemptions to expire. Many expected these exemptions to become permanent, as the original target of the metals tariffs was thought to be overcapacity in China, and not steel produced in

allied countries. However, only a handful of countries have escaped the tariffs by negotiating quotas for US exports; these include Australia and Argentina, which are exempt from both tariffs, as well as South Korea and Brazil, which are exempt from the steel tariffs. Canada, Mexico, and the EU have each announced that they will be imposing retaliatory tariffs on a variety of products, including steel, aluminum, and agricultural products. The US steel and aluminum tariffs have

no expiration date and will be in place for the foreseeable future.

US-China ‘trade war’ resumes

Treasury Secretary Steven Mnuchin previously had announced that a trade war with China had been ‘put on hold.’ At the same time, the Trump Administration has been moving forward with a broad set of tariffs on various goods of Chinese origin. The final list of items in scope of the

Section 301 tariffs will be published on June 15, 2018, with imposition of the 25% tariffs following shortly thereafter. China has threatened to impose 25% retaliatory tariffs on 106 US products should the Section 301 tariffs be imposed.

Section 232 automobile tariffs on the horizon?

On May 23, President Trump instructed Secretary of Commerce Wilbur Ross to initiate a Section 232 investigation into whether imports of automobiles and automotive parts into the United States threaten to impair the national security. As with the Section 301 tariffs, there will be a comment period followed by a public hearing, set to take place July 19-20. Based on the timeline of the Section 301 hearing, imposition of these tariffs could occur within a few weeks after conclusion of the comment period and hearing.

NAFTA on a backburner for now

NAFTA negotiations seem to have taken an indefinite pause. They appear unlikely to resume as long as the United States maintains tariffs on Mexican and Canadian steel and aluminum and threatens further tariffs on automobile and auto parts. Little time remains to conclude a deal before several important political deadlines, including the July 1 Mexican Presidential election, the November US congressional elections, and Canadian provincial elections.

The NAFTA negotiations already have gone beyond several ‘deadlines,’ including a ‘soft’ deadline on May 17 – the latest date that would have given Congress time to approve a new deal this year under the longest-possible timeline set forth under Trade Promotion Authority. The most recent ‘deadline’ was May 31, the date when the temporary Section 232 tariff

exemptions for Canada and Mexico were set to expire. The retaliatory tariffs threatened by Canada and Mexico combined with the new US Section 232 investigation into automobiles and parts has made it less likely that a renegotiated NAFTA can be completed and ratified this year.

The takeaway

The Trump Administration’s actions have created a volatile environment for importers and exporters, not only by imposing new tariffs on a number of imports, but also by triggering retaliatory tariffs from some of the closest US allies and its largest trading partners. All businesses with international supply chain flows need to monitor closely trade developments to assess how the new tariffs will affect their business and their investment decisions, and consider possible solutions for risk mitigation.

Let’s talk

For a deeper discussion regarding trade policy concerns and how they may affect your business, please contact us:

Customs and International Trade

Anthony Tennariello, *New York*
+1 (646) 471-4087
anthony.tennariello@us.pwc.com

Maytee Pereira, *New York*
+1 (646) 471-0810
maytee.pereira@us.pwc.com

Tax Policy Services and National Economics and Statistics

Scott McCandless, *Washington DC*
+1 (202) 748-4760
scott.mccandless@us.pwc.com

Jon Lieber, *Washington DC*
+1 (202) 312-0841
jon.lieber@pwc.com

© 2018 PricewaterhouseCoopers LLP, a Delaware limited liability partnership. All rights reserved. PwC refers to the United States member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

SOLICITATION

This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

At PwC, our purpose is to build trust in society and solve important problems. PwC is a network of firms in 158 countries with more than 236,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com/US.