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SURTAXES ON STEEL, ALUMINUM, AND OTHER GOODS: ISSUES FOR PARLIAMENTARIANS



OFFICE OF THE PARLIAMENTARY BUDGET OFFICER
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The Parliamentary Budget Officer (PBO) supports Parliament by providing economic and financial analysis for the purposes of raising the quality of parliamentary debate and promoting greater budget transparency and accountability.

To assist parliamentarians in their role to scrutinize the raising and spending of public monies, this report provides an overview of the revenues and spending measures associated with the Government of Canada's surtaxes on steel, aluminum, and other goods.

Lead Analysts:

Kristina Grinshpoon, Senior Analyst

Nigel Wodrich, Analyst

This report was prepared under the direction of:

Trevor Shaw, Director

Nancy Beauchamp, Jocelyne Scrim and Rémy Vanherweghem assisted with the preparation of the report for publication.

For further information, please contact pbo-dpb@parl.gc.ca

Yves Giroux

Parliamentary Budget Officer

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Issues for Parliamentarians

- The Government of Canada has committed to return the \$1.30 billion in surtaxes assessed on U.S. steel, aluminum, and other products to affected industries over 2018-19 to 2023-24.
- The PBO estimates that the Government will return \$105 million less than it assessed in surtaxes and related revenues over the period.
- Parliamentarians may wish to seek clarity regarding the scope of the surtax revenues committed to be returned and which industries are the intended recipients of spending measures funded by surtax revenues.

Background

On July 1st, 2018, the *United States Surtax Order (Steel and Aluminum)* and the *United States Surtax Order (Other Goods)* came into effect. Under these Orders the Government of Canada levied surtaxes on \$16.6 billion imports of selected steel, aluminium, and other goods from the United States (U.S.) (Table 1-1).

The Surtax Orders were enacted as a retaliatory response to the U.S. *Section 232* tariffs on Canadian steel and aluminium exports. The Canadian surtaxes remained in effect until May 19th, 2019, when the U.S. eliminated its *Section 232* tariffs on Canadian goods.¹

Table 1-1 Summary of the United States Surtax Orders

	Tariff Rate	Value of Imports Subject to Surtax, 2017	Number of Tariff Items Subject to Surtax	Total Assessed Surtaxes²
Steel	25%	\$5.6 billion	131	\$548 million
Aluminum	10%	\$2.7 billion	19	\$125 million
Other Goods	10%	\$8.3 billion	79	\$629 million
Total	-	\$16.6 billion	229	\$1,301 million

Sources: Department of Finance Canada³, and Canada Gazette.⁴

Notes: Assessed surtaxes are net of the amounts of surtaxes that were waived at the border pursuant to the *United States Surtax Order* (and its three subsequent orders), and the Canada Border Services Agency's Duties Relief Program.⁵ Numbers may not add up due to rounding.

In response to the U.S. tariffs and Canadian retaliatory surtaxes, the Government of Canada has made statements committing to return assessed surtaxes to the businesses and workers in the affected industries.⁶ However, none of the Government's statements comprehensively specifies:

- Which surtaxes are committed to be returned;
- What portion of surtaxes are committed to be returned; and

- Which industries are the intended recipients of the returned surtaxes.

Considering the Government of Canada's statements together, PBO assumes that the Government of Canada has committed to return all surtax revenues under both *United States Surtax Orders*. We assume that revenues are to be returned to the steel, aluminium, and manufacturing industries impacted by the U.S. *Section 232* tariffs, as well as to Canadian importers impacted by the *United States Surtax Orders*.

Budgetary summary

Over the 11 months the *United States Surtax Orders* were in effect, the Government of Canada assessed \$1.30 billion in surtaxes, and announced \$1.25 billion in spending measures in response.⁷ Overall, PBO estimates that the Government will spend \$105 million less than it is projected to collect.

Of the announced spending, only \$894 million (71 per cent) is directly targeted to affected industries. \$280 million (22 per cent) of the announced measures is incremental general funding which both affected and unaffected industries can access. The remaining \$77 million (6 per cent) funds administrative support (see Table 1-2 for a full list of the measures).⁸

General funds

Specifically, PBO considers the funding provided to the Trade Commissioner's CanExport program (\$50 million) and the funding provided to the Strategic Innovation Fund in the 2018 Fall Economic Statement (\$250 million) as general funds. Both funds can be accessed by all industries, not only the steel, aluminum, and other industries that were directly affected by the trade dispute:

1. The Trade Commissioner's CanExport program was provided with \$50 million over five years, starting in 2018-19 (of which, \$7 million went towards operating activities of the program). The program provides funding and support for Canadian businesses looking to diversify their exports. The measure was announced in light of the tariffs imposed by the U.S., but funding is also be available to other industries besides steel and aluminum. Between August 2019 and February 2020, approximately \$125,000 was provided to businesses in the steel and aluminum sectors.⁹
2. The Strategic Innovation Fund received \$500 million, over five years. Of this, \$250 million was announced in June 29, 2018 and was specifically targeted towards the steel and aluminum sectors. The remaining \$250 million was announced in the 2018 Fall Economic Statement, are funded in theory by surtax revenues, but are available to applicants in all economic sectors. As of December 31, 2019, approximately \$263 million has been provided for projects in the steel and aluminum sectors.

Table 1-2 Multi-year Budgetary Impact: United States Surtax Orders

<i>\$ millions</i>	Total projected
Projected revenues	
Assessed surtaxes, of which:	\$1,301
<i>Steel and aluminum</i>	\$673
<i>Other goods</i>	\$629
Estimated EI premium revenues	\$55
Total gross projected revenues	\$1,356
Projected expenditures	
Remissions ¹⁰	\$445
Drawback program ¹¹	\$15
Extended EI work sharing agreements (excl. admin. support)	\$21
Labour market agreement top-up	\$50
Strategic Innovation Fund	\$263
Regional Economic Growth Innovation- Steel and Aluminum ¹²	\$100
Total projected expenditures to targeted sectors	\$894
Strategic Innovation Fund	\$237
Trade Commissioner's CanExport Program (excl. admin. support)	\$43
Operating activities ¹³	\$77
Total projected expenditures	\$1,251
Multi-year budgetary impact	\$105

Source: Department of Finance Canada.¹⁴

Note: Surtax revenues were assessed in 2018-19 and 2019-20. Most of the announced expenditures are also in the same years. The remaining expenditures are projections from 2020-21 until 2023-24. All figures presented on an accrual accounting basis.

Non-budgetary items

The Government has highlighted in its support to affected sectors financing and insurance funding commitments from the Business Development Bank of Canada (BDC) and Export Development Canada (EDC) of up to \$1.7 billion.¹⁵ However, this financing and insurance is provided through BDC's and EDC's existing capital and are on commercial terms with no special eligibility criteria. Since there is no anticipated budgetary impact nor are these financial commitments incremental to the status quo, these figures are not included in our analysis.

Notes

1. Government of Canada (2018a). United States Surtax Order (Steel and Aluminum): SOR/2018-152. Canada Gazette, Part II, Volume 152, Number 14. Retrieved from <http://gazette.gc.ca/rp-pr/p2/2018/2018-07-11/html/sor-dors152-eng.html>

Government of Canada (2018b). United States Surtax Order (Other Goods): SOR/2018-153. Canada Gazette, Part II, Volume 152, Number 14. Retrieved from <http://gazette.gc.ca/rp-pr/p2/2018/2018-07-11/html/sor-dors153-eng.html>

2. The totals include all surtaxes assessed in fiscal years 2018-19 and 2019-20, when the *United States Surtax Orders* were in effect, net of the Remission Order and the Duties Relief Program.
3. The Parliamentary Budget Officer submitted Information Request IR0449 to the Minister of Finance on January 30, 2020: https://www.pbo-dpb.gc.ca/web/default/files/Documents/Info%20Requests/2020/IR0449_FC_steel_aluminum_spending_measures_allocations_ltr_e.pdf

Information was subsequently provided by the Department:

https://www.pbo-dpb.gc.ca/web/default/files/Documents/Info%20Requests/2020/IR0449_steel_aluminum_measure_response_e.pdf

4. Government of Canada (2018a) and Government of Canada (2018b).
5. *United States Surtax Remission Order*:

The *United States Surtax Remission Order* and the subsequent three amending orders provided for two ways importers could receive remissions for surtaxes paid on tariff items eligible for remission:

1. An importer could submit forms requesting refunds for the surtax paid on importations, accompanied by supporting documentation establishing that the imported goods qualify for remission.
2. An importer could have the surtaxes waived at the border at the time of importation.

The value of surtaxes waived is not available as there is no separate accounting for these amounts.

The amended Remission Order can be accessed at:

Government of Canada (2018c). United States Surtax Remission Order: SOR/2018-205. Justice Laws Website. Retrieved from <https://laws-lois.justice.gc.ca/eng/regulations/SOR-2018-205/page-1.html>

Duties Relief Program:

The Duties Relief Program allows qualified importers to not pay tariffs, if the goods will eventually be re-exported, either in the same condition or

after using, consuming or expending them in manufacturing other goods.

From July 1, 2018 to December 31, 2019, \$41.9 million of surtaxes were relieved under the program. These amounts are most likely final as relief is provided upon importation.

6. The statements are:

1. The first statement refers to government's June 29, 2018 announcement to "make available up to \$2 billion to... Canadian workers and business in the steel, aluminum and manufacturing industries".

Department of Finance Canada (2018). Fall Economic Statement 2018. Retrieved from <https://budget.gc.ca/fes-eea/2018/docs/statement-enonce/fes-eea-2018-eng.pdf#page=94>

2. The second statement refers to a September 11th, 2018 quote by Pierre-Olivier Herbert, spokesman for Finance Minister Bill Morneau, who said that, "We are committed to making sure that every dollar raised in reciprocal tariffs is given back in the form of support for affected sectors." The quote was reported by multiple news sources, for example:

Harris, Kathleen (2018). "Canada has taken in almost \$300 million from retaliatory tariffs on U.S. imports". CBC News. Retrieved from <https://www.cbc.ca/news/politics/surtax-retaliatory-trump-imports-cbsa-1.4815400>

Rachel Aiello (2018). "Canada's collected nearly \$300 million from counter-tariffs so far". CTV News. Retrieved from <https://www.ctvnews.ca/mobile/politics/canada-s-collected-nearly-300-million-from-counter-tariffs-so-far-1.4088924?cache=yes&clipId=104062?clipId=104056>

3. The third statement refers to Finance Minister Bill Morneau's testimony to the Standing Committee on International Trade on October 16th, 2018. The Minister said, "We've made a commitment to use the revenues [from surtaxes] that come in to support the industry."

House of Commons (2018). Standing Committee on Internal Trade, Evidence, Tuesday, October 16, 2018. CIIT, Number 123, 1st Session, 42nd Parliament. Retrieved from <https://www.ourcommons.ca/Content/Committee/421/CIIT/Evidence/EV10088310/CIITEV123-E.PDF#page=5>

7. Spending committed through the Employment Insurance Account for the EI work sharing agreements (\$25 million, including \$4 million in operating expenditures) and the Labour market agreement top-up (\$50 million), corresponds to an additional increase in \$55 million in EI revenues over a 5-year period (or \$75 million over 7 years). These revenues would be generated via a higher EI premium rate.

8. Most of the measures were announced in June 2018, when the Government of Canada introduced the *United States Surtax Orders*. Others were presented in the 2018 Fall Economic Statement and Budget 2019.

Global Affairs Canada (2018). Support for Canadian steel and aluminum workers and industry. Retrieved from <https://www.canada.ca/en/global-affairs/news/2018/06/support-for-canadian-steel-and-aluminum-workers-and-industry.html>

Department of Finance Canada (2018). Fall Economic Statement 2018. Retrieved from <https://budget.gc.ca/fes-eea/2018/docs/statement-enonce/fes-eea-2018-eng.pdf#page=94>

Department of Finance Canada (2019). Budget 2019. Retrieved from <https://www.budget.gc.ca/2019/docs/plan/toc-tdm-en.html>

9. The funding was announced on June 29, 2018, but data on the industry sector of applicants have only been collected since August 2019. Since then, one company operating in the steel industry applied to the program and received a contribution of \$16,350. Four small and mid-size enterprises in the aluminum sector applied for funding, of which three received contributions totalling \$108,881.
10. As of December 31, 2019, \$213 million of surtaxes had been remitted under the *United States Surtax Remission Order*. The Department of Finance estimates that up to \$445 million in total could be remitted through the Order based on 2017 import data and the scope of products eligible for remission of surtaxes.
11. The Drawback Program is also an existing deferral program administered by the Canada Border Service Agency, like the Duties Relief Program. The only difference is that the Drawback Program is only accessible to companies that have already paid surtaxes and are asking for a refund of those surtaxes.

From July 1, 2018 to December 31, 2019, over \$15.2 million of surtaxes were refunded under the Drawback Program. Claims for refunds of surtaxes continue under the Drawback program, as importers have up to 4 years from the date of release of the imported goods to make drawback claims. There are no projections for amount of surtaxes that could be refunded under this program as refunds are contingent on claims.
12. As of December 31, 2019, approximately \$33.9 million had been announced under this measure.
13. Administrative support includes:

1. \$4 million to Employment and Social Development Canada to support the "Extended EI Work Sharing Agreements" measure.
2. \$7 million to the Global Affairs to support the Trade Commissioner's CanExport Program.
3. \$66 million to the Canada Border Services Agency, Global Affairs Canada, the Canadian International Trade Tribunal, Administrative Tribunals Support Service of Canada and Finance Canada in administering several related policies, including Canada's tariff countermeasures, duties relief programming, duty remission, trade

remedy investigations and enforcements and steel import monitoring and safeguards.

14. The Parliamentary Budget Officer submitted Information Request IR0407 to the Minister of Finance on February 12, 2019: https://www.pbo-dpb.gc.ca/web/default/files/Documents/Info%20Requests/2019/IR0407_FC_Steel_Aluminum_fiscal_measures_after_FES2018_EN.pdf

Information was subsequently provided by the Department:

https://www.pbo-dpb.gc.ca/web/default/files/Documents/Info%20Requests/2019/IR0407_IR408_IR409_FC_2019-03-07_EN.pdf

The Parliamentary Budget Officer submitted Information Request IR0449 to the Minister of Finance on January 30, 2020: https://www.pbo-dpb.gc.ca/web/default/files/Documents/Info%20Requests/2020/IR0449_FC_steel_aluminum_spending_measures_allocations_ltr_e.pdf

Information was subsequently provided by the Department:

https://www.pbo-dpb.gc.ca/web/default/files/Documents/Info%20Requests/2020/IR0449_steel_aluminum_measure_response_e.pdf

Department of Finance Canada (2018). Fall Economic Statement 2018.

Retrieved from <https://budget.gc.ca/fes-eea/2018/docs/statement-enonce/fes-eea-2018-eng.pdf#page=94>

Department of Finance Canada (2019). Budget 2019. Retrieved from

<https://www.budget.gc.ca/2019/docs/plan/toc-tdm-en.html>

15. As of December 31, 2019, BDC had authorized \$666.4 million in loans, while EDC had authorized \$280 million in loans.