

Consultation on Tariff Countermeasure

3M Canada Comments

Canadian company/industry association name, address, telephone number, and contact person.

3M Canada Company, 300 Tartan Dr, London, ON, N5V 4M9
Elise Maheu – Director of Government Affairs, 613-290-1460

Relevant eight-digit tariff item(s) and description of the goods of particular interest.
3506.01 – Products suitable for use as glues or adhesives, put up for retail sales as glues or adhesives, not exceeding a net weight of 1kg

Reasons for the expressed support for, or concern with, the proposed countermeasures, including detailed information substantiating any expected beneficial or adverse impact.

Introduction

3M Canada believes the inclusion of the above tariff categories for adhesives will significantly impact advanced manufacturing, particularly aerospace, transportation sectors, metal working and general industrial. These adhesives are largely industrial and are made to meet very strict specifications that are outlined by customers. They are purpose-made for limited uses and as a result, are not easily substituted. Further, these products are predominantly manufactured in the United States and rely on integrated Canada-US supply chains. These tariffs will result in additional costs to the industrial sectors that will be passed along to end users affecting their competitive position. The unintended consequences of including adhesives to the tariff categories will also result in potential delays or shortages resulting from a limited availability of alternative specialty adhesives and the time intensive process of developing new products.

Adhesives Background

In 2010, the Canadian adhesives and sealants industry had shipments of \$470 million and employed 1470 people in 66 establishments. Canadian exports of adhesives and sealants have grown from 8 per cent of industry shipments in 1990 to 29 per cent in 2009. Canadian imports have also increased significantly during this period and by 2009 captured 59 per cent of total domestic consumption. This growth in two-way trade reflects rationalization and specialization of the adhesive and sealant industry in North America, and clearly demonstrates our reliance on American manufacturers. ¹

According to the 2012-2015 North American market study for adhesives and sealants with a global overview ³, the market share of consumer products in the Canadian adhesive markets would be in the range of 8.6 per cent where the remaining markets are all in industrial (Paper, Board and Related, Transportation, Footwear and Leather, Building Construction Civil Engineer and Craftsmen, Woodworking and Joinery, and Assembly Production). When excluding typical bulk applications, the consumer market

share of adhesives can be estimated not to exceed 12.5 per cent. As such the 3506.01 tariffs is by large an industrial tariff.

The automotive market demonstrates the diversity of adhesive and sealant applications, as they are used in everything from interior upholstery to metal and glass work. Further, increased use of polymer composites will lead to greater adhesive consumption in the future. Even in conventional metal construction, specialized adhesives usage is expected to increase to overcome the problems of corrosion and vibration noise associated with mechanical fasteners and spot welding. The aerospace industry is also using large amounts of adhesives and sealants for essentially the same reasons as the automotive industry.

Innovations around the development of new adhesives have been largely driven by a market demand for increased sustainability. Adhesives and sealants are enabling technologies to support industries focused on reducing the weight of vehicles and sealing buildings for energy efficiency. These technologies also support solar and wind energy as well as light rail systems by allowing for bonding of new-age composite materials. These initiatives are part of the reason sales of adhesives and sealants are forecast to grow three per cent in North America over the next three years. 2

About 3M Canada

3M Canada was established in 1951 as one of the parent company's first international subsidiaries. With a head office in London, Ontario for over 60 years, 3M Canada employs more than 1800 people across the country including at manufacturing facilities in London, Brockville, Mississauga and Perth in Ontario, and Morden, Manitoba. Half of 3M Canada's sales are generated by our nine Canadian manufacturing facilities. The great majority of which (close to 80 per cent) are exported to the United States.

Specialty Adhesives in Canadian Manufacturing Markets

3M Canada is an important adhesive supplier to Canadian manufacturers across multiple industries. With over 200 products, our industrial business groups are significantly affected by the government's retaliatory measures. We are concerned about the potential impact on our Canadian customers and the resulting impact to Canadian competitiveness in key areas of the economy. Some primary examples of markets that are impacted by the proposed retaliatory tariffs include Manufacturing, Transportation Manufacturers (Aerospace, Buses, Automotive, Rail, Specialty Vehicle), Metalworking and General Industrial.

3M's Adhesive products under 1 kg are high strength structural adhesives used in the manufacturing process. Not intended for retail use, nor packaged in compliance with the Canadian Consumer Packaged Goods guidelines, these are used to bond surfaces together. Due to the technical benefits and performance levels of these adhesives, adhesive is utilized to provide similar or higher bond strength when compared to spot welding. These are not used in bulk applications. As such, these adhesives are

packaged in small format cartridges and containers (less than 1 kg). Many companies acquire these products in small packages (under 1kg) to avoid waste of the adhesive by providing workers with sufficient quantities for each stage of the process.

Specialty Adhesives Markets Impact

These adhesives are not easily substituted as there are few (if any) alternatives. Developing new products would also be very cost prohibitive as they require a long specification cycle, ranging from 6-18 months from product concept, to prototyping, and finally to the manufacturing phase by engineers employed by Canadian manufacturers. As an example, 3M has developed specialized products specifically for major Canadian manufacturers in the aerospace industry that had to undergo rigorous testing and trials prior to use.

To our knowledge, those high strength structural adhesives are sold by a handful of companies who typically manufacture these products in the United States. In addition, if there were substitutes, replacing these adhesives would require the products to be re-engineered and tested to meet key standards requirements incurring significant financial burdens and creating major production delays.

The tariffs imposed on the 3M products will require a price increase to the market reflecting the higher cost. . The impact will be an increased cost to manufacturers and an increase of cost for finished goods and end users. This could result in literally thousands of consumer products being impacted, including major transportation vehicles like automobiles, trains and planes.

For instance, the aerospace industry is very competitive and Canadian suppliers compete with manufacturers globally. Their bill of material prices can't be increased and they are not in a position to absorb price increases, meaning the time and cost to requalify technologies will result in production delays and increased costs that would put them at a disadvantage to their prime competitors.

These tariffs will also have a negative effect on the Canadian automotive collision repair industry with no foreseeable upside. The affected products used in the collision repair process are specified by the automotive Original Equipment Manufacturers (OEM) to properly repair a vehicle after a collision. These products are for industrial use only. To our knowledge, all adhesives, coatings and sealants specified by the OEMs are imported from the United States. The impact will be an end-user cost increase resulting in price increase from insurance providers that are passed on to the consumers.

Recommendation - It is our understanding that the Government of Canada's intention was not to adversely impact the manufacturing industry or the overall Canadian economy. However, including this adhesive tariff number to the list of tariffs creates significant cost increases to advanced manufacturing sectors such as aerospace, transportation, manufacturing and automotive aftermarket and could result in

increased consumer prices, decreased competitive position of Canadian manufacturers and potential product shortages.

Therefore, 3M Canada recommends that the Government of Canada consider exempting all adhesives in the 3506.01 category from the countermeasures tariffs list. This would be the simplest remediation and would avoid the filing of hundreds of product specific exemptions that would be onerous on both industry and the government. Alternatively, the Government of Canada could include a provision that exempts all industrial users from this tariff to avoid a negative impact on manufacturing.

¹ <https://www.ic.gc.ca/eic/site/chemicals-chimiques.nsf/eng/bt01165.html>

² <http://www.canpaint.com/adhesives-sealants-industry-p>

³ 2012-2015 North American market study for adhesives and sealants with a global overview – The Adhesive and Sealant Council Inc. – Table 5 - Estimated 2012 North American Adhesives Market by Country – DPNA International Inc.