

Impact of Steel and Aluminum Tariffs on Windsor-Essex, Ontario

The Canada-U.S. trading relationship is by far the largest and most valuable in the world. This bi-national partnership is the foundation of the Canadian, Ontario and 39 state economies. From a local perspective, the secure, efficient, effective and safe movement of goods, services and people is of the utmost importance in the Windsor-Essex Region, arguably more so than anywhere else in Canada.

The decision by the U.S. Government to impose a 25% tariff on steel and a 10% tariff on aluminum imports from Canada, coupled with the Canadian government's retaliatory measures, have unquestionably had a negative effect on the Canadian economy and particularly on the economy of Windsor-Essex, Ontario. Should the U.S. President use Section 232 national security power of the *Trade Expansion Act* of 1962 (19 U.S.C. 1862) to impose a 25% tariff on assembled automobiles and a 10% tariff on auto parts, the effect on Ontario and Canada would be significant but the impact on Windsor-Essex would be devastating.

Site of the first automotive plant in Canada, Windsor-Essex continues to have a large automotive presence, including being home to FCA's Windsor Assembly Plant, the largest manufacturing workplace in Canada. In addition to FCA, Ford Motor Company of Canada's two engine plants, and a host of Tier 1 parts suppliers, Windsor-Essex has the largest machine, tool, die and mold (MTDM) cluster in the country. In fact, one-third of all industrial mold manufacturers in Ontario and almost one-quarter of those in Canada are located in Windsor-Essex.ⁱ

Consider some additional facts about the Windsor-Essex Region that highlight its integration with the U.S. economy and the impact that tariffs will have in disrupting one of North America's most important trade corridors:

- Manufacturing is deeply integrated and relies on complex supply chains that span Canada, the U.S., and Mexico. As an example, automotive parts cross the border an average of seven times before vehicles are fully assembled;
- Windsor-Essex boasts an industry profile of more than 1000 manufacturers,ⁱⁱ \$4.3 billion in annual GDP in manufacturing (32% of the region's total GDP),ⁱⁱⁱ 90-plus auto and parts manufacturers and more than 250 machine, tool, die and mold manufacturers,^{iv} all part of an integrated global value chain;
- Windsor-Essex has a significant auto cluster including OEMs (FCA and Ford) and many large Tier 1 suppliers (both domestic and foreign) such as Magna, ZF-TRW, Flex-N-Gate, TR-QSS, Linamar, Dakkota Integrated Systems, HBPO, ElringKlinger, Gates Corporation, A.P. Plasman, NARMCO, Kautex Textron, AGS and many more; and
- Three of the five North America's largest mold-making companies are based in Windsor-Essex.^v All use steel as a major input and all export to the U.S.

Trade flow between Canada and U.S. relies on companies that use steel and aluminum. The imposition of steel and aluminum tariffs has already had an immediate impact on the Windsor-Essex Region's automotive supply chain and its economy.

The MTDM cluster employs more than 7,500 people^{vi} in Windsor-Essex. This cluster represents more than one-third of Canadian MTDM employment, estimated to be 20,000 in 2016.^{vii} While a few large MTDM manufacturers employ hundreds of people, the majority have fewer than 50 employees and are not able to weather economic shocks like the sudden imposition of tariffs.^{viii}

During the past decades of free trade between Canada and the U.S., most Windsor-Essex manufacturers have utilized both Canadian and U.S. steel suppliers. There are six major steel sources for the mold industry in North America, two of which are in the U.S. These companies have attempted to identify mitigation efforts, such as the U.S. companies moving much of their stock into Canada, or the Canadian companies seeking to add capacity within Canadian borders. Nonetheless, these measures are not sustainable and will lead to increased costs because supply is low or unavailable and transport costs will likely increase. Most Windsor-Essex companies have little ability to pass these costs on to their customers who have been continually requiring suppliers to cut prices. Increased wait times for Canadian steel will also cause a lengthening in the delivery of completed molds. Particular types of steel required by the MTDM industry are not available in Canada or are in very short supply. Additionally, MTDM and stamping companies, among others, must sometimes use steel supplied by their U.S. customers, thus having to incur duties when the steel comes into Canada for processing.

Moreover, if tariffs are applied to exports of automobiles and parts to the U.S., in addition to the current steel and aluminum tariffs, the impact on the Windsor-Essex region would dwarf even the 2008-2009 recession. The FCA Windsor Assembly Plant directly employs more than 6,000 people and Ford Motor Company's Windsor Engine Plant and Essex Engine Plant together employ 2,330 people. Including parts suppliers, the total Windsor-Essex automotive workforce is close to 13,000 people.^{ix} Windsor-Essex employment in the two industries (MTDM and automotive) together is approximately 20,500, representing 11.5% of the employed workforce. The total annual income of these direct employees is roughly \$1.3 billion, much of which is spent in the community.^x The Center for Automotive Research determined that the employment multiplier effect for OEM jobs was 7.6 and for automotive parts manufacturing it was 4.7.^{xi} Applying these numbers in Windsor-Essex shows that the total number of direct, indirect and induced jobs in the region related to automotive OEMs and suppliers (including MTDM) is 120,507. Almost two-thirds of the Windsor-Essex workforce of 195,090 is related in some way to these industries.^{xii} The outcome of the ongoing U.S. Department of Commerce's National Security Investigation on Imports of Automobiles, including Cars, SUVs, Vans and Light Trucks, and Automotive Parts is therefore of grave concern to residents, industry and stakeholders in this region, province and country.

Local consultations also highlighted the impact of the new tariffs on a specialized group of service providers – custom brokers. This group, authorized under section 32 of the *Customs Act*, are also affected. For example, brokers manage all Canadian duty payments on their clients' behalf and later recoup the charges. In the past, much of their clients' shipments crossed the border duty free but now these payments can be in excess of \$100,000 per month for a single account, which impacts some brokers' cash flow. Windsor-Essex has a high concentration of customs brokers due to our location at the busiest commercial border crossing between Canada and the U.S.

The impact of the steel and aluminum tariffs, along with the retaliatory measures combined with the possibility that the U.S. may impose tariffs on automobiles and automotive parts have caused Windsor-Essex stakeholders to come together to support the companies, families and communities. This submission is an example of our collaboration. It has been prepared with input from: WindsorEssex Economic Development Corporation; Windsor-Essex Regional Chamber of Commerce; Workforce WindsorEssex; St. Clair College; University of Windsor; Ontario Ministry of Economic Development, Job Creation and Trade; BDC; and all municipalities in the Windsor-Essex region.

This submission also received direct input from local companies most affected by the tariffs. Recently the Canadian Association of Mold Makers (CAMP) hosted an event focused on the impact of steel and aluminum tariffs as well as the possible impact of automotive tariffs. Over 250 people attended the event. A subsequent survey of attendees and other companies showed that respondents purchased anywhere from 10% to 99% of their steel and from 50% to 100% of their aluminum purchases from the U.S. in 2017. One company alone purchased \$25 million of steel from the U.S. last year.

The Windsor-Essex region will be affected more negatively than the rest of the province or country. But no one wins in this trade war. A recent report by TD Economics states: "Given the concentration of the auto sector, Ontario bears the brunt of the impact, with growth reduced by as much as two percentage points. Significant job losses also occur – up to 1 in 5 Ontario manufacturing jobs could be at risk."^{xiii} Again, those are only the direct jobs.

Windsor-Essex has recovered most of the manufacturing jobs lost during the 2008-2009 recession and local GDP is increasing. The unemployment rate, which for years was the highest of any Census Metropolitan Area in Canada, is now one of the lowest rates in the country. Automotive parts producers and MTDM companies are busy and many have been expanding. Vacant industrial space has become a rarity. FCA recently invested over \$2 billion in the Windsor Assembly Plant and hired more than 1,200 new employees.^{xiv} In 2017, Ford Motor Company of Canada announced a \$1.2 billion investment in Windsor operations.^{xv} Both companies are or will be building innovative new products at their Windsor facilities. The advent of new and anticipated tariffs puts these gains at risk.

As organizations that support continued prosperity in Windsor-Essex, we acknowledge and appreciate that the Government of Canada is developing and enhancing support programs for industries affected by these tariffs. We anticipate that there will be similar support available if U.S. tariffs and Canadian reciprocal tariffs on assembled automobiles and auto parts are implemented. These supports can be enhanced to help additional Canadian businesses by adopting the following recommendations:

- Support needs to be provided to all enterprises (small to large and across the manufacturing value chain) that are seriously affected by the imposition of tariffs and retaliatory measures. To illustrate:
 - Companies in the Metalworking Machinery Manufacturing NAICS code which includes industrial mold, die, fixture and gauge manufacturers have not always had the same access to support programs as automotive assembly and parts manufacturers, although integral to the auto industry. As an example, the additional \$800M funding envelope allocated by the Business Development Bank of Canada does not include the 3335 NAICS codes (i.e., 333511 and 333519) which represent such a large cluster in Windsor-Essex. Please note, the local office of BDC is working with local stakeholders to address the omission and will continue to support clients in this sector;
 - Support for enterprises to invest in innovation practices or improve productivity are limited to very large projects through the Strategic Innovation Fund and are not easily available to support smaller companies;
- Processing of all requests for remission of surtaxes or access to the duty deferral programs needs to be done expeditiously. A wait of six months or more would seriously impede the operations of small and medium-sized companies on which our community depends; and
- Information on programs and services needs to be clear and consistent. The Government of Canada should consider re-allocating resources to better support Canadian companies seeking information or requests to process duty deferral programs or remissions.

We thank the members of the Standing Committee on International Trade for conducting this review. It is of great importance to the Windsor-Essex Region that the Government of Canada maintains a focus on supporting fair trade, with a priority on finalizing a renewed NAFTA. We implore the Government of Canada to work towards the removal of these new trade barriers on both sides of the border. Help us continue on our path of economic recovery.

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- ⁱ Statistics Canada. (2017, June). Canadian Business Patterns.
- ⁱⁱ Ibid.
- ⁱⁱⁱ Conference Board of Canada. (2018, June). Metropolitan data.
- ^{iv} Statistics Canada. (2017, June). Canadian Business Patterns.
- ^v *Plastics News*. (2017, October). *Rankings Database of North American Plastics Mold and Tool Makers*. Retrieved from www.plasticsnews.com/rankings/mold-toolmakers
- ^{vi} EMSI Analyst. (2018, April). *Industry Table, All Industries in Essex, Emsi Q3 2017 Data Set*.
- ^{vii} Automotive Parts Manufacturers Association. (2017, April 3). *Canadian Supplier Footprint, USA/Mexico*. Retrieved from <https://apma.ca/canadian-supplier-footprint-usamexico/>
- ^{viii} Statistics Canada. (2017, June). Canadian Business Patterns.
- ^{ix} EMSI Analyst. (2018, April). *Industry Table, All Industries in Essex, Emsi Q3 2017 Data Set*.
- ^x Ibid.
- ^{xi} Hill, Kim. (2015, January). *Contribution of the Automotive Industry to the Economies of All Fifty States and the United States*. Center for Automotive Research.
- ^{xii} Statistics Canada. 2016 Census.
- ^{xiii} TD Economics. (2018, June 18). *Potential U.S. Auto Tariffs: Canadian Scenario Analysis*.
- ^{xiv} Ontario Government. (2016, June 15). *Ontario Partners with FCA Canada to Build the Chrysler Pacifica Hybrid -- the World's First Plug-in Hybrid Electric Minivan*.
- ^{xv} The Windsor Star. (2017, March 30). *Ford's \$1.B2 investment to provide work for generations to come*.