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July 31, 2018

Sent via email: CIIT@parl.gc.ca

Clerk of the Standing Committee on International Trade
House of Commons
131 Queen Street, Room 6-18
Ottawa, ON K1A 0A6

Subject: Comments regarding the impact of tariffs on the Canada-United States trade relationship and to Canadian importers and exporters

Dear Sir/Madame:

I.E.Canada, the Canadian Association of Importers and Exporters appreciates the opportunity to provide comments to the House of Commons Standing Committee on International Trade with regards to the impact of tariffs on the Canada-United States trade relationship and to Canadian importers and exporters.

For over 85 years, I.E.Canada has been the leading voice of the Canadian trade community. Our membership, which is located across Canada, is comprised of importers and exporters, including manufacturers, wholesalers, distributors and retailers, from a broad range of industries, as well as service providers. Our aim is to advance the interests of Canada and Canadian companies in the international trade arena and to ensure that Canadian importers and exporters have the appropriate Canadian legislative, regulatory and policy tools in place needed to succeed globally.

Canada's imposition of retaliatory tariffs on imports of a broad range of U.S. goods to Canada, as well as the possibility of the imposition of even more surtaxes should the U.S. follow through on its threat to apply tariffs to the auto sector, has and will have an impact on many I.E.Canada members.

The imposition of the surtaxes on certain goods not only impacts I.E.Canada members, but also their clients, increasing already high levels of uncertainty, risking employment and investments, and driving up costs for low and middle income Canadian consumers.

While I.E.Canada strongly supports Canadian government efforts to secure an indefinite exemption from U.S. tariffs, a number our members have already been directly impacted by the countermeasures, and anticipate longer term impacts to themselves and their employees, with a cascading effect on their clients, service partners, and ultimately to low to middle income Canadian consumers.

The current retaliatory measures have been undertaken in order to encourage the U.S. to indefinitely drop their tariffs as quickly as possible to minimize their impacts to Canada. However, trade wars do not benefit any party and we encourage and support Canada's efforts to collaboratively identify and implement non-tariff solutions to challenges with our trade partners. Of the utmost importance is a fast and positive conclusion of the NAFTA re-negotiation. This would be of immediate benefit to Canadian businesses and would provide Canadian businesses with the level of certainty and stability needed to make future business and investment decisions.

The fact is, all of the factors which have contributed to strong trade in the North American market since the implementation of the North American Free Trade Agreement (NAFTA) almost a quarter century ago, are in many respects, the same factors that contribute to the pain our members feel from the imposition of the countermeasures. Many Canadian companies are entirely dependent upon the United States for many of the same reasons argued during the last year's NAFTA re-negotiations, e.g. given our geographic proximity to our largest trading partner, highly integrated supply chains have evolved between related companies, who collaborate to competitively supply goods and services in the North American market.

Because of NAFTA and the close integration of supply chains throughout North America, it is very challenging to shift supplies on short notice. Many Canadian companies are obligated to make inter-company purchases from their U.S. parent companies, based on contractual, economical, and logistical factors that cannot be modified at all or in some cases with significant penalties or only with a prior period of extended notice.

In the retail world it is common for items to be purchased at least six months before their importation. It is extremely difficult to shift these purchases to other countries that may not have the production and/or raw material to produce the required goods. Additionally, many of the products covered under the countermeasures are not available at all in Canada; in some cases where they might be, the volumes required to stock Canadian stores shelves are not available and the supply chain changes that must be made in order to obtain them from outside Canada or the U.S. can take months to set up.

Some supply agreements between Canadian importers and their clients lock them into defined prices that cannot be changed without a specified period of notice, a sizeable penalty, or loss of contract and business. In cases of Canadian exclusive distributorships for U.S. product, contracts stipulate products purchased must be those of certain suppliers alone.

In many industry sectors there is no manufacturing or assembly capacity in Canada for certain products. Some Canadian manufacturers require inputs and components which are specially designed for the products they manufacture. These are only produced in the United States, and the competitiveness of these Canadian manufacturers would be negatively affected if the supply were disrupted due not only to significant cost increases, but also to delays in attempting to have unique inputs produced elsewhere. There are also many products that are integrated with parts and manufacturing in the U.S. and Canada. For example, tomatoes are imported from the U.S. into Canada for canning, and there are insufficient tomatoes in Canada to meet market requirements.

In many instances, Canadian companies cannot turn around production and delivery cycles while awaiting a new source of materials, if one can be found. Business and contracts are lost. The competitiveness of Canadian exporters' manufactured products will be diminished where Canadian manufacturing operations are challenged with sourcing equivalent Canadian or non-North American manufacturing inputs or U.S. origin inputs at higher prices.

Another impact of the countermeasures is the possible reduction in the number of services Canadian businesses employ, for example: transport carriers, third-party logistics firms, and inspection and laboratory services, to name but a few. Canadian importers of goods whose clients require after-market service anticipate impacts from any countermeasures that may require downsizing of their own or contracted Canadian service technicians, possibly even requiring U.S. technicians to come to Canada to perform required service.

It is worth noting that Canada's small to medium sized enterprises (including importers and/or their clients) may not survive the higher costs and business disruptions arising from the imposition of countermeasures. Our member's conservative projections of the monthly monetary impacts of the countermeasures total in the multimillions. This will ultimately result in Canadian businesses making tough investment decisions, and potentially even about their ability to remain in business.

In an earlier submission to Department of Finance, I.E.Canada presented a list of recommendations and suggestions to the Government that we felt would lessen the burden of Canadian importers and exporters faced with the new tariff regime. Many of these were incorporated into the original surtax order, and we would like to commend both the Department of Finance and Canada Border Services Agency (CBSA) for their efforts to listen to the concerns of Canadian businesses. That said, there are still areas that can be addressed that could reduce the impact of the current tariff regime.

Canadian businesses are already working under the strain and uncertainty of many factors beyond the countermeasures (i.e. increased costs and changes relative to energy, labour, tax and other regulatory environments); could the Government of Canada create incentives or make changes to the business environment to stabilize and encourage Canadian businesses so they remain and thrive in Canada instead of being lured to relocate in the United States? If the Canadian business environment were

sufficiently competitive and attractive, it may even encourage U.S. headquartered companies to relocate to Canada and export manufactured goods back to the United States.

Along the same line of thinking, the beneficial access Canada's new free trade agreement with Europe (CETA) provides to businesses is an added attraction to existing NAFTA benefits. Similarly, if Canada could fast-track ratification and implementation (and encourage the same of its partners) of the recently signed Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), this would increase supply and export diversification opportunities for Canadian companies. We could also try speeding up the development of our free trade agreements with MERCOSUR and the Pacific Alliance.

Technical and non-technical barriers to entry to Canada should be reviewed in an effort to ease the efforts of Canadian companies to adjust their supply chains and sourcing to other countries in lieu of U.S. supply. An additional non-technical barrier to assist Canada could include the promotion of Canadian products and services (e.g. tourism) to help incent Canadians to support Canadian businesses.

Finally, Canada should ensure continued coordination of our retaliatory efforts with our allies and other affected countries through participation and support of multilateral institutions such as the World Trade Organization.

In conclusion, I.E.Canada members recognize the critical importance of the Government of Canada standing up on the international stage to ensure our citizens, businesses, and economy do not unduly suffer from the unjust imposition of U.S. tariffs on imports of steel and aluminum products from Canada. Though we support Canada's efforts to have the U.S. permanently remove these tariffs, many of our members will be seriously impacted by Canada's proposed countermeasures. We strongly encourage alternative methods to import tariffs be considered to sway the U.S. to drop their import tariffs.

I.E.Canada is grateful for the opportunity to present our views on this important matter. If there are any questions about this submission or should additional information be required, please do not hesitate to contact the undersigned by email at jsutton@iecanada.com or at (416) 595-5333 ext. 240.

Sincerely,



James Sutton

Executive Director

I.E.Canada, the Canadian Association of Importers & Exporters