

U.S. trade threats put chill on investment in Canada

By Barrie McKenna and Adrian Morrow
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U.S. President Donald Trump's threat to punish countries such as Canada that don't "treat us right" is compounding the unease hanging over the country's export-dependent economy.

A growing list of real, threatened and imagined dangers is putting a chill on investment in this country. For starters, there is the continuing uncertainty over the fate of the North American free-trade agreement, a new U.S. advantage in business tax rates and much more aggressive enforcement of U.S. trade laws.

The weight of all that uncertainty is causing companies to "sit on their hands" or invest elsewhere, said Dennis Darby, president and CEO of Canadian Manufacturers & Exporters, a trade association.

"We're running our manufacturing output at 85 per cent capacity, which is the point where you would normally add capacity," Mr. Darby explained. "In laymen's terms, we have a 10-year-old Chevy and we're driving the doors off of it. We're not buying new tires or changing the valves. And when we do invest, even the most successful Canadian companies are putting that next dollar of investment in the United States."

On Tuesday, the U.S. Commerce Department announced that it has launched an investigation into alleged dumping of large diameter welded pipe in the U.S. market by Canada and five other countries. The Trump administration has now launched nearly 100 trade cases since taking office – several of them targeting imports from Canada. The case follows a string of earlier U.S. complaints involving Canadian lumber, newsprint, solar panels and aircraft, and the Trump administration is contemplating duties on imported steel and aluminum.

A day after complaining that "Canada does not treat us right," Mr. Trump on Tuesday repeated a call to penalize countries he says are mistreating the U.S.

"I say we should have reciprocal taxes," he told a trade roundtable with members of Congress at the White House. "We have countries that are taking advantage of us."

Mr. Trump continued: "They're charging us massive tariffs for us to sell our product into those countries. And when they sell to us: Zero. We charge them zero. We're like the stupid people and I don't like to have that any more."

He also slammed Canada over trade disputes involving softwood lumber and ultrafiltered milk. "Canada has treated us very unfairly on timber and lumber. And not easy on Wisconsin [dairy] farmers."

Ottawa is currently fighting Washington at the World Trade Organization and NAFTA tribunals after the U.S. imposed punitive duties on softwood imports from Canada. The ultrafiltered milk issue saw Canada's dairy cartel system drop its prices on a cheese-making ingredient, squeezing U.S. imports out of the Canadian market and leaving Wisconsin farmers scrambling last spring to find other buyers for their milk.

Wisconsin Senator Ron Johnson, a Republican, sang NAFTA's praises, saying "trade works very well for Wisconsin." He also said that, given the U.S.'s current low unemployment, "it makes no sense" to bring back some of the industrial businesses that Mr. Trump is vowing to bring back from other countries.

Several members of Congress urged Mr. Trump to exercise caution in bringing the

hammer down on other countries. Senator Lamar Alexander of Tennessee, also a Republican, said imposing tariffs on steel would hurt the auto and other manufacturing sectors: “There are 10 times as many people in the steel-using industry than steel-making,” he cautioned.

It’s not just Mr. Trump’s rhetoric that worries analysts and, increasingly, politicians.

Toronto-Dominion Bank warned in a report Tuesday that the combination of recent U.S. tax cuts and the mounting NAFTA uncertainty could lead to a “slow bleed” of investment from Canada to the United States. Recent U.S. tax cuts have turned what had been a Canadian competitive advantage into a liability, according to TD. The marginal effective tax rate on investment in the United States is now 18.8 per cent versus 20.3 per cent in Canada, including federal and local taxes. As recently as 2016 Canada had an eight-percentage-point edge over the United States.

“We don’t expect to see a near-term exodus in investment to the U.S. from Canada,” TD said. “However, the recent significant change in the landscape is more likely to manifest in the form of a longer-term bleed in capital flows to south of the border. A greater difficulty in attracting and retaining investment in Canada would weigh on the country’s longer-term growth prospects.”

Bank of Nova Scotia has factored in a penalty of 0.2 of a percentage point into its 2018 growth forecast for Canada due to “this prolonged period of uncertainty about the future of NAFTA.”

Thomas Bollyky, a former U.S. trade negotiator, said Mr. Trump’s reference to “reciprocal” taxes is revelatory of his mindset – that he believes the U.S. must import and export an equal amount. But he said there is no indication that any sort of new tax on imports is going to happen. Congress, which already passed a massive tax package in December, would have to approve of any such tax. And Mr. Trump did not include any such measure in his budget released Monday.

“There is nothing to suggest that it’s in the works immediately,” Prof. Bollyky, who teaches law at Georgetown University, said in an interview.

Columbus, Ohio-based trade lawyer Daniel Ujcz said he believed Mr. Trump is using “reciprocal taxes” as a shorthand to refer to all of the U.S. government’s trade actions: In addition to its punitive duties on a raft of products from around the world – including Canadian softwood – the United States is also mulling imposing import restrictions on Chinese steel and aluminum. “It definitely creates uncertainty, especially when people hear ‘reciprocal tax’ and think ‘wasn’t that thing put to bed?’” he said. “At the same time, I think it’s driving investment into the United States.”

Foreign Minister Chrystia Freeland is making a trip to Washington Wednesday, meeting with Commerce Secretary Wilbur Ross and senators Sherrod Brown and Bob Corker. Ms. Freeland did not appear to be scheduled to meet with U.S. trade czar Robert Lighthizer, with whom she has regularly sparred both in public and at the negotiating table.