International Trade Economic Analysis - Canadian Aluminum Tariff

Article Title: US reinstates 10% tariff on certain Canadian aluminium imports

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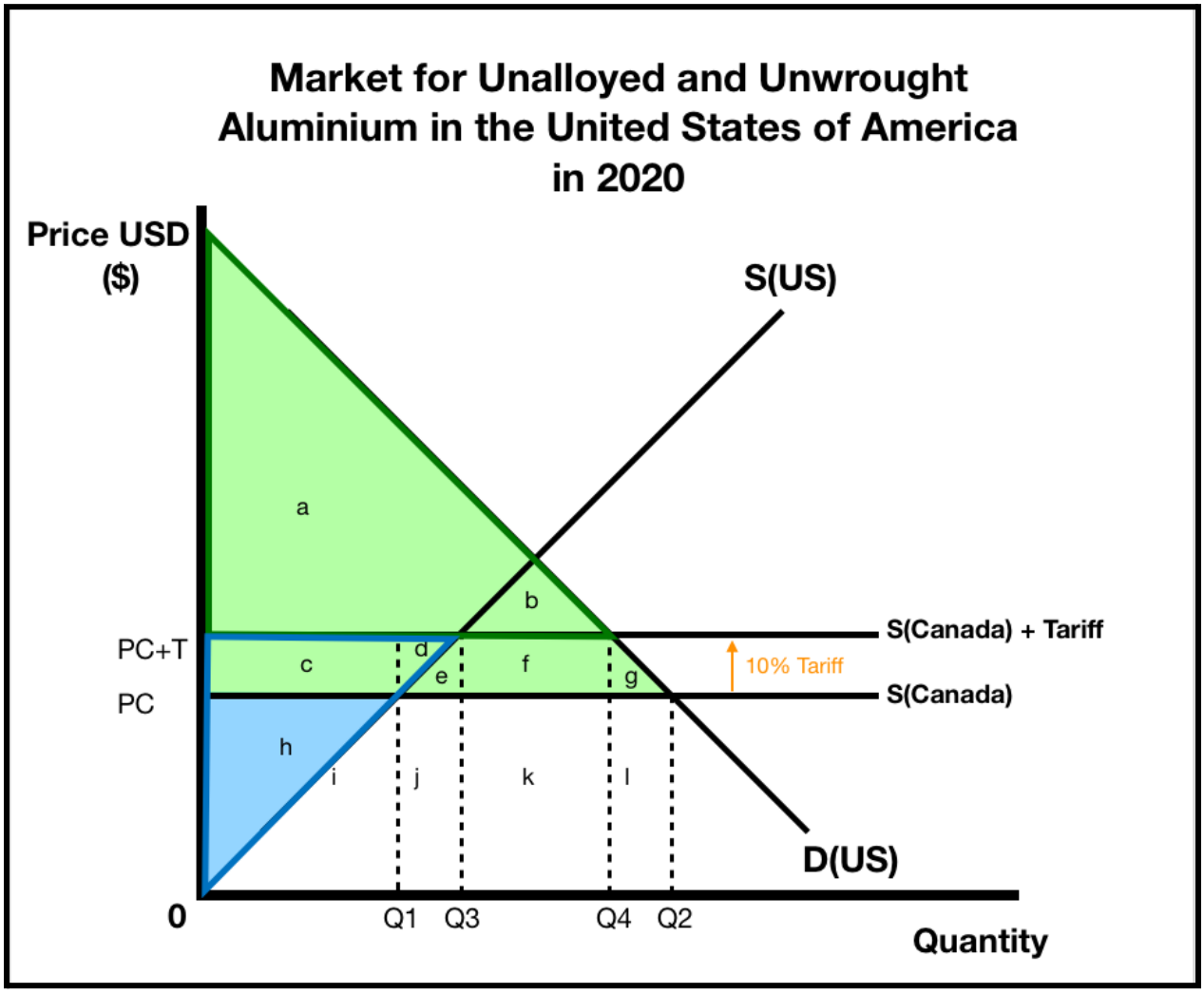
Commentary:

Question: To what extent will different stakeholders in the US be impacted by the reimposition of the 10% tariff on unalloyed and unwrought aluminium placed on Canadian imports?

The Trump administration's plans to reimpose a 10% tariff on Unalloyed and Unwrought Aluminium (UUA) from Canada just weeks after their new free trade agreement: the United States-Mexico-Canada Agreement (USMCA).



The graph above represents the Market for Unalloyed and Unwrought Aluminium in the United States of America in 2020 (MUUAUS). The MUUAUS was operating at PC,Q2 after the USMCA was passed. Just weeks after this passing, the Trump Administration decided to reinstate a 10% tariff on Canadian UUA due to the alleged “surge” of Canadian aluminum exports as Canada seems to have a comparative advantage in the production of UUA. Before the tariff was placed, 0Q2 quantity of UUA was being demanded at a price of PC, where domestic production supplied 0Q1 of this Quantity Demanded (QD) and where exports (from Canada) supplied Q1Q2. After the placement

of the tariff S(Canada) shifts up by 10%, causing the price increase from PC to PC+T, therefore due to the law of demand, total QD contracts from 0Q2 to 0Q4. Domestic (US) producers increase their production to 0Q3 causing their revenue to increase from h+i to c+d+e+h+i+j. Canadian producers supply the rest which is now Q3Q4, meaning they receive a price of PC+T, but are required to pay a tariff to the US government. Therefore, causing their revenue to fall from j+k+l to only k. The US government receives tariff revenue of f.

The Canadian deputy prime minister claims that these “unwarranted and unacceptable” tariffs will cause “dollar-for-dollar countermeasures”, escalating trade tensions between Canada and the US potentially creating new trade wars and disputes over the newly agreed USMCA, as revenue for Canadian producers falls. These countermeasures could be problematic for both the US and Canada, as an incident like this occurred in 2018, which caused retaliatory duties of C$16.6bn of US goods, harming US industries. Trump claims that these tariffs were necessary, as they threaten national security, but the actual implications of these tariffs could harm the US economy more than they help it.

These tariffs cause a decrease in Consumer Surplus (CS) which is indicated by the reduction in area from a+b+c+d+e+f+g to area a+b. Furthermore, since Q4Q2 quantity of UUA is not demanded, consumers keep the amount I that they would have spent on UUA, but there is a loss of CS equivalent to g because the UUA is not purchased anymore, therefore, there is Dead-Weight Loss (DWL) of welfare in terms of CS. This is a negative consequence of the implementation of these tariffs as many domestic manufacturers which convert UUA into “sheets, foil and plate” are dependent upon a “reliable source of raw aluminium” (which is what Canada was supplying prior to the tariff). Without the reliability of these manufacturers raw ingredients, their business confidence may decrease which could hinder their production, which would then negatively impact other downstream-industries in the US economy, such as automobile industries, as they are heavily reliant upon processed aluminium potentially causing a decrease in economic growth and an increase in unemployment.

These tariffs are “the last thing Canadian and American workers need” at this time of “a global pandemic and economic crisis” according to Freeland as it could lead to structural unemployment as the costs rise from PC to PC+T could cause these manufacturers to fire excess laborers. Due to the low factor mobility of these labourers, the type of unemployment is structural. These tariffs also harm the macroeconomy (in terms of economic growth) of the US as there is less Consumption (C) of UUA in the US, and since C is a direct component of AD, it causes an inward shift of AD.

Seemingly, the only benefit to these tariffs is that producers of UUA in the US will increase production to Q3 at an increased price of PC+T, meaning they receive increased revenue due to their increased Producer Surplus (PS). Their PS has increased from h to c+d+h. However, it is likely that there aren’t many companies in the US that can benefit from this increased PS as refining alumina into UUA requires an abundance of energy and is usually done in countries which subsidies their industry

such as Canada. This also explains why area e represents DWL in the form of a loss of world efficiency, as US producers are needing to use more of the world's resources to produce UUA than are necessary.