



Insight

Looming Tariff Increases

TOM LEE | JULY 27, 2020

Executive Summary

- The Trump Administration has announced new tariffs on Canadian aluminum and French luxury goods that could take effect in the coming months.
- These two new tariffs combined would increase the total impact of tariffs on U.S. imports by \$7.1 billion, and annual consumer costs would increase by \$906 million as a result.
- If imposed on schedule, the tariffs could make economic recovery from the COVID-19 recession more difficult.

Introduction

The Trump Administration could reimpose tariffs on Canadian aluminum and levy new tariffs on French luxury goods within the coming months. As the global COVID-19 pandemic continues to hamper international trade, these tariffs – along with any resulting retaliation – will add new burdens to an already strained world trading system. Based upon 2019 import data, U.S. and retaliatory tariffs currently impact \$460 billion of U.S. imports and exports and cost consumers \$57 billion annually. The tariffs on Canadian aluminum and French luxury goods would increase the impact by \$7.1 billion worth of imports and increase annual consumer costs by a further \$906 million as a result.

Tariffs on Canadian Aluminum

In June 2020, there were many reports that the Trump Administration would reimpose tariffs on Canadian aluminum as early as July 1, 2020. The Trump Administration had originally imposed a 10 percent tariff on aluminum in March 2018 as part of its Section 232 actions. Then in May 2019, the United States exempted Canada, along with a handful of other countries, from the aluminum tariff. While the tariff has yet to be restarted as of July 27, the United States Trade Representative (USTR) Robert Lighthizer may announce the restart of Canadian aluminum tariffs in the coming months.

In 2018, U.S. imports of Canadian aluminum increased 0.13 percent from the previous year despite the fact that aluminum tariffs went into effect in March 2018. It was not until 2019 that U.S. imports of Canadian aluminum decreased, dropping by 18.39 percent. This delayed reaction is because it took time for businesses to reorganize supply chains in response to the original March 2018 tariffs.

These data can be found [here](#).

Estimated Impact of Restarted Tariffs on Canadian Aluminum

Based on 2019 import levels, the United States imported \$15.7 billion worth of aluminum products of which about \$5.8 billion came from Canada. The \$5.8 billion made up the bulk of the total \$7 billion aluminum imports that were exempted from tariffs in May 2019. Consumers faced \$866 million in costs from the original total of aluminum tariffs. Had Canadian aluminum imports not been exempted, the total amount of aluminum exempted from tariffs would have dropped to \$1.2 billion and consumers would have seen their costs increase by \$582 million to \$1.4 billion. A resumption of the Canadian tariffs would therefore cause such a rise in costs

now.

These data can be found [here](#).

Tariffs on French Luxury Goods

On July 10, 2020, the USTR announced it will impose a 25 percent tariff on French luxury goods starting January 2021. This levy is a result of a Section 301 investigation that concluded in December 2019 and found that the France Digital Services tax unfairly discriminates and burdens U.S. companies.

In 2018, the United States imported \$1.4 billion worth of the goods subject to the potential tariffs. This sum was a 14 percent increase from the previous year. In 2019, the import level was relatively stable, at \$1.3 billion. Based on 2019 import levels, a 25 percent tariff on those luxury goods would cost U.S. consumers an additional \$324 million.

These data can be found [here](#).

Conclusion

The Canadian aluminum and French luxury goods tariffs combined would affect an additional \$7.1 billion of U.S. imports and would increase annual U.S. consumer costs by \$906 million. These tariffs come at time when the global COVID-19 pandemic has greatly reduced international trade and induced a global recession. It remains to be seen exactly what date these tariffs would go into effect, but the message remains clear: Tariffs will reduce overall economic activity and ultimately burden the U.S. consumer.