Research

The Cost of Steel and Aluminum Tariffs on Canada, Mexico, and the European Union

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EXECUTIVE SUMMARY

- The Trump Administration announced that national security tariffs on steel and aluminum will extend to Canada, Mexico, and the European Union.
- This announcement significantly increases the impact of the administration’s steel and aluminum tariffs, which originally applied to $17.5 billion of U.S. imports. With our closest allies now included, the tariffs will affect $39.8 billion (roughly 86 percent) of U.S. steel and aluminum imports.
- AAF estimates that, in total, national security tariffs on steel and aluminum will increase the amount consumers are expected to spend by $7.5 billion per year. Consumer costs will increase further after retaliation from the EU, Mexico, and Canada takes effect.

ANALYSIS

Today, the Department of Commerce announced that the United States will place steel and aluminum tariffs on Canada, Mexico, and the European Union (EU). This announcement comes after these countries were previously granted temporary exemptions. After a Section 232 investigation into the national security threat of steel and aluminum imports, the president placed a broad 25 percent tariff on imported steel and 10 percent tariff on imported aluminum.

The first round of steel and aluminum tariffs went into effect on March 23, but at this point President Trump exempted Argentina, Australia, Brazil, Canada, Mexico, the EU, and South Korea. Previous American Action Forum research found that this exemption excluded $28.9 billion, or 62.3 percent, of U.S. steel and aluminum imports from the tariffs. As a result, the exemptions saved U.S. consumers $5.8 billion of would-be increased costs.

Following today’s announcement, tariffs on the EU, Canada, and Mexico will go into effect on June 1. These tariffs will increase costs for all individuals and companies that use imported steel and aluminum. It is also triggering retaliation from our allies: Mexico pledged to retaliate against U.S. exports, while Canada announced tariffs on $12.8 billion of U.S. goods and the EU announced tariffs on $7.5 billion of U.S. goods.

The economic impact of the new tariffs is displayed below. This analysis assumes that 100 percent of the cost of the tariffs will be passed on to consumers and uses 2017 data on import levels from the U.S. Census Bureau.

Table 1: Additional Consumer Costs from Section 232 Tariffs on Canada, Mexico, and the EU

	Steel Imports	Aluminum Imports	Steel and Aluminum Imports
Import Levels	$13.7 B	$8.6 B	$22.2 B
Percent of Total Imports	47.1%	49.2%	47.9%
Additional Consumer Costs	$3.4 B	$855.4 M	**$4.3 B**

Almost half of all U.S. steel and aluminum imports come from Canada, Mexico, and the EU. As a direct result of including these nations in the tariffs, consumers can expect steel and aluminum prices to rise by an additional $4.3 billion annually.

The only exemptions that still remain are for Argentina, Australia, Brazil, and South Korea. South Korea gained a permanent exemption in April after agreeing to new U.S. import quotas on Korean steel and concluding renegotiation of the U.S.-Korea Trade Agreement (KORUS). The Trump Administration announced additional long-term exemptions today after the United States reached quota agreements on steel with Australia, Argentina, and Brazil, as well as additional agreements on aluminum with Australia and Argentina.

With the above nations exempted, the national security tariffs will apply to nearly $40 billion of U.S. steel and aluminum imports starting tomorrow. This total represents about 81 percent of steel imports and 94 percent of aluminum imports. Altogether, the tariffs will apply to roughly 86 percent of imported steel and aluminum and can be expected to raise aggregate consumer costs by $7.5 billion. These results are displayed in Table 2 below.

Table 2: Total Costs of Section 232 Tariffs

	Steel Imports	Aluminum Imports	Steel and Aluminum Imports
Import Levels	$23.4 B	$16.4 B	$39.8 B
Percent of Total Imports	80.5%	94.2%	85.6%
Additional Consumer Costs	$5.8 B	$1.6 B	**$7.5 B**

Extending steel and aluminum tariffs to Canada, Mexico, and the EU significantly increased their impact. As a result, Americans will face higher prices for consumer goods, and businesses will face higher costs for intermediate inputs. In addition, the United States will face increased tensions with our closest allies at a time when important trade negotiations, such as the North American Free Trade Agreement (NAFTA), are underway.