ATTACHMENT 1
BACKGROUNDER ON TARIFFS

Tariffs are a tax on imported goods, paid for by the person or company who has imported the goods. A government may implement tariffs to generate revenue, protect domestic industries, or deploy them as a diplomatic tool.

Tariffs are taxes that a government puts on goods coming in from a different country. Like paying sales taxes on goods purchased at a store, consumers may have to pay tariffs or duties on imported items. For those who export goods outside Canada, their international customers may have to pay tariffs on the goods they buy from Canadian producers[1].

Governments may choose to impose tariffs on imported goods for various reasons. These include:

- Generating revenues – tariffs are collected like a sales or income tax would.
- As a diplomatic tool – tariffs can influence behaviour in non-economic matters, such as in economic sanctions imposed due to participation in a war.
- Protecting domestic industries – tariffs may be employed to make imports more expensive and therefore less competitive to support an industry if freely accessible imports are perceived to be detrimental[2].

Canada and the US share one of the most integrated and beneficial trade relationships globally. Annual two-way trade amounts to more than $1.3 trillion, supporting millions of jobs on both sides of the border.

Approximately $3.6 billion worth of goods crosses the Canada-U.S. border daily, which results in an annual two-way trade of more than $1.3 trillion. There are approximately 3.7 million jobs tied to exports across both countries[3].

Ontario is a major contributor to this economic partnership. The province has a two-way trade relationship with the U.S. of nearly $450 billion annually. Ontario's exports to the U.S. support nearly one million Canadian jobs in Canada, with nearly 20,000 companies in Ontario involved in cross-border exports. Ontario's top five export and import products to the U.S. in 2023 included:[4]

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[1] Tariffs 101: What are tariffs and how do they impact international trade? Susan Redding, Export Development Canada. November 28, 2024.
[2] Tariffs 101: What are tariffs and how do they impact international trade? Susan Redding, Export Development Canada. November 28, 2024.
[3] Canada-U.S. Trade Tracker. Canadian Chamber of Commerce. January 2025.
[4] Canada-U.S. Trade Tracker. Canadian Chamber of Commerce. January 2025.

Exports	Imports
1. Vehicles and Transport ($70.2 billion)	1. Vehicles and Transport ($63.1 billion)
2. Machinery and Electrical ($30 billion)	2. Machinery and Electrical ($43.9 billion)
3. Base metals ($20.8 billion)	3. Chemicals ($23.6 billion)
4. Prepared foods and beverages ($13.8 billion)	4. Base metals ($18.3 billion)
5. Chemicals ($13.5 billion)	5. Plastics and Rubber ($15.4 billion)

According to the Canadian Chamber of Commerce's analysis, the volume of trade with the U.S. represents 41 per cent of the province's overall economy. Ontario's two-way trade value as a share of its GDP is fourth in Canada, after New Brunswick (62.4 per cent), Manitoba (44.4 per cent), and Alberta (42.2 per cent)[5].

Tariffs will impact all businesses involved in export supply chains, but the most profoundly affected are expected to be the manufacturing (inclusive of agriculture and agri-food, automotive, and building materials), construction, mineral, and energy sectors in Canada. There will also be a spin-off effect on the transportation industries, which carry goods across both borders.

Supply chains between Canada and the U.S. are deeply integrated, and many of our goods-producing or resource industries will see more profound effects because of tariffs. These include:[6]

- Manufacturing sectors:
  - Automotive is highly integrated with the U.S. market, where tariffs would increase production costs and disrupt the flow of goods.
  - Agri-food and food processing could raise the cost of goods, reducing competitiveness
  - Building materials and equipment, which require materials and inputs from an integrated supply chain
  - Machinery, electronics, and consumer goods
- Construction industries, which require building materials and products
- Critical minerals sectors, which are deeply integrated in many supply chains across different industries

Additionally, a reduction in demand for imports or exports would impact the transportation and logistics industries, which support the movement of goods.

[5] Partners in Prosperity: Exploring the Significance of Canada-U.S. Trade. Stephen Tapp and Trevor Tombe. Canadian Chamber of Commerce. October 2024.

[6] FAQs: What Canadian exporters need to know about the impact of potential U.S. tariffs. Janet Wilson, Export Development Canada. January 24, 2025.

The US economy both benefits from and contributes to Vaughan's economy.

Vaughan is located less than a couple of hours from the Canada-US border. Vaughan's proximity to major transportation networks, including 400-series highways, the Canadian National (CN) MacMillan Yard and the Canadian Pacific Kansas City (CPKC) Railway Vaughan Intermodal Terminal. Vaughan is located within a 15-minute drive to Toronto Pearson Airport, Canada's largest and busiest airport with hundreds of daily flights scheduled to the U.S.

Vaughan is home to more than 400 US-based companies with operations in the City, including the Canadian headquarters of Harley Davidson and flagship locations for KPMG and PwC. Several U.S. companies have key operations in Vaughan, including Home Depot's first Stock and Flow Campus, the Costco Distribution Centre, the FedEx Distribution Centre, a Walmart operations facility, and premier companies like Tesla, Lucid, Concord Confections, IAC, and DCL International.

The United States is the biggest investor in FDI sector-based investments in York Region and the Greater Toronto Hamilton Area (GTHA). Key states from which the area receives investment include New York, Michigan, Illinois, California, Texas, and Arkansas.

The Northeastern US is an important global economic region with key opportunities for Vaughan's business community.

The Great Lakes and St. Lawrence region generates a combined GDP of more than $6 trillion USD. Key sectors in the region include

1. **Manufacturing**: automotive, machinery, and steel production.
2. **Agriculture and agri-food processing**: including dairy, grains, and specialty crops.
3. **Shipping and Logistics**: The Great Lakes and St. Lawrence Seaway and the related rail networks facilitate cargo movement worldwide.
4. **Energy**: traditional energy sectors (like fossil fuels) and renewable energy initiatives.
5. **Finance and IT**: Financial services and information technology are growing sectors that contribute to the region's economic diversification.

To advance Vaughan's interests in the Great Lakes region, the City became a member of the GLSLCI for 2025. The GLSLCI is a bi-national organization of more than 240 municipalities committed to maintaining the region's prosperity and addressing challenges through economic, social, and environmental initiatives.

Challenges facing the Great Lakes and St. Lawrence Region include:

1. **Economic Diversification**: The region needs to diversify its economic base to reduce reliance on traditional manufacturing.
2. **Environmental Sustainability**: Balancing industrial activity with environmental protection is crucial, especially given the region's natural resources.
3. **Workforce Development**: Addressing skills gaps and preparing the workforce for future industries is a significant challenge.
4. **Aging Infrastructure**: Upgrading and maintaining infrastructure to meet modern standards requires substantial investment.
5. **Global Competition**: The region faces intense competition from other global manufacturing hubs, necessitating continuous innovation and efficiency improvements.

Tariffs would impact the automotive and food sectors, both of which have significant economic presences in Ontario and Vaughan. This is to illustrate that many of Vaughan's industries rely on steel and aluminum, while 19 local companies are direct producers of steel and aluminum that employ 1,282 people.

The automotive and food industries represent two of the largest segments of exports from Ontario the U.S., with much of this industry centered in Southwestern Ontario.[7]

Automotive

The automotive industry's deeply integrated cross-border supply chain, where parts can cross borders as many as eight times during production, will make it among the hardest hit by tariffs. The auto sector has the highest trade-to-GDP ratio—the higher the ratio, the bigger the impact of tariffs. The trade-to-GDP ratio of motor vehicle manufacturing in Canada is 1,888 percent, while automotive parts manufacturing has a ratio of 532 percent.[8]

According to multiple sources, the sector's impacts are expected to be felt almost immediately. Flavio Volpe, president of the Automotive Parts Manufacturers' Association (APMA), estimated the sector would halt within a week because of single-digit profit margins decimated by 25 percent tariffs. Protests that blocked the Windsor border between Canada and the U.S. in 2022 saw production stop in Ontario, Michigan, Texas,

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[7] ANALYSIS: Trump tariffs would hammer Ontario auto, agri-food sectors. Norman De Bono. The London Free Press. January 31, 2025.
[8] These numbers show how Trump's tariffs will hit Canada. Aimée Look. The Logic. February 1, 2025.

and Missouri within 24 hours, and cuts to production are expected again almost immediately.[9]

Nearly one-quarter of the 16 million vehicles sold in the U.S. annually would be impacted by tariffs – the automotive import market in the U.S. totalled $225 billion in 2024, which includes vehicles, parts, and components. The estimated impact of tariffs on the auto industry is $60 billion, much of which is expected to be passed on to the consumer.[10] Of all goods made in the automotive industry, 75 per cent are sold to the U.S., compared to 45 per cent of goods in all other manufacturing areas.[11]

Vaughan is home to one of the largest automotive clusters in Canada with nearly twice higher concentrations of automotive companies than the national average.

Within York Region, more than 250 automotive-related companies support 15,000 direct jobs and 34,000 sector-relevant jobs. The Region is home to Canada's largest independent automotive parts and electronics manufacturing cluster, most of which are in Vaughan.

Vaughan's automotive sector is comprised of over 660 sector-related businesses employing more than 13,600 people and features:

- more than 45 automotive parts manufacturers that employ more than 7,200.
- more than 110 motor vehicle and parts dealers that employ nearly 1,200.
- more than 125 vehicle dealers that employ more than 3,400.

Vaughan's automotive cluster is deeply integrated with the US. The local auto parts cluster will face a series of consequences related to the US-Canada tariffs.

Staff have engaged executives in the local auto parts cluster including Martinrea, Hanon Systems, Magna, Eberspaecher, Multimatic, and Litens as well as our partners with the APMA. Some companies are reporting that they rely on the US for more than eighty per cent of their market, which could impact their operations and their Vaughan-based employment numbers.

The APMA is reporting that the tariffs could result in:

- Increased production costs with some estimates suggesting that the consumer price of a vehicle will increase more than $3,000 on average.

[9] Car Prices Face $3,000 Increase as Tariffs Hit Auto Sector. Jacob Lorinc, David Welch and Amy Stillman. PMN Business – Financial Post. February 2, 2025.
[10] Car Prices Face $3,000 Increase as Tariffs Hit Auto Sector. Jacob Lorinc, David Welch and Amy Stillman. PMN Business – Financial Post. February 2, 2025.
[11] ANALYSIS: Trump tariffs would hammer Ontario auto, agri-food sectors. Norman De Bono. The London Free Press. January 31, 2025.

- Disruptions in the automotive supply chain.
- North American companies being at a competitive disadvantage to those in Europe and Asia.
- The risk of operations shutdowns and layoffs.

Food

Prepared foods and beverages are one of Ontario's top exports, totalling $13.8 billion in 2023. Many of Canada's processors rely on the U.S. market for sales, notably medium-sized companies, which target the U.S. as part of growth strategies.[12] Raw materials and intermediate goods imported from the U.S. as part of the food manufacturing value chain will likewise be impacted by retaliatory tariffs, which would further impact the cost competitiveness of the final product, especially if it was destined for the U.S. market. Food industry margins are extremely low, and tariffs would be extremely prohibitive to Canadian processors and manufacturers exporting to the U.S. market, as the additional cost would impact these companies' cost competitiveness.[13]

For example, approximately 80 per cent of fruits and vegetables in the off-season are imported from the U.S. This would impact processors, but also grocers, retailers, and restaurants, which would likely pass on price increases to consumers, which may see reduced demand.[14]

The 2025 imposition of steel and aluminum tariffs on incoming products to the US is a reimposition of 2018 tariffs and will come into effect on March 12.

Like in March 2018, the United States has imposed tariffs on incoming steel and aluminum products. However, in 2025, there is a 25 per cent tariff on both product types. In 2018, aluminum products were subject in a 10 per cent tariff.

According to the US Commerce Department, Canada is the largest source of affected products. In 2024, Canada exported more than 6M tons to the US with Brazil and Mexico following as the second and third major exporters to the US with 4.1 and 3.2M tons respectively.

The 2018 tariffs were eventually rolled back in the face of opposition from international and US-based companies.

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[12] With tariffs on the horizon, Canada's food sector urges long-term solutions. Rebecca Harris. Canadian Grocer. January 29, 2025.
[13] How Donald Trump's proposed tariffs could impact Canada's food industry. Toronto Watch, CTV News. January 22, 2025.
[14] U.S. tariffs could raise food prices, disrupt Canadian industries, warns FHCP CEO. Grocery Business. December 16, 2024.

<u>Timeline of events from 2018-2024:</u>

- **March 2018:** US announces his intent to impose twenty-five percent (25%) tariff on steel imports and a ten percent (10%) tariff on aluminum imports. They come into force June 1.
- **May 31, 2018:** Canada announces its intent to impose retaliatory tariffs on the United States.
- **June 2018:** the US Commerce Department began issuing decisions on exclusion requests, granting some while denying others. Estimates vary about how many exclusions have been requested and how many exclusion decisions Commerce has made. According to a CRS report, as of March 4, 2019, Commerce had granted 16,500 steel exclusion requests (out of about 70,000 submitted requests) and 3,000 aluminum exclusion requests (out of about 10,000).
- **July 1, 2018:** Canada's retaliatory tariffs take effect on $16.6 billion in U.S. exports to Canada, including steel, aluminum and other products from the U.S. like Florida orange juice and ketchup. The government deliberately targets products with large manufacturing bases in the states of key Republicans. Steel pipe maker Tenaris SA temporarily lays off 40 workers and reorganizes its production in Sault Ste. Marie, Ont., the first publicly-disclosed job losses in Canada resulting from the U.S. steel tariffs.
- **May 17, 2019:** the United States and Canada announce an agreement to lift tariffs on Canadian steel and aluminum, as well as Canada's retaliatory tariffs. Both governments lift their respective tariffs three days later.
- **August 2019:** Statistics Canada releases data on the impacts of tariffs on trade showing exports of both steel and aluminum to the United States falling sharply after May 2018. Steel exports fell 38 per cent in June 2018 and by May 2019 were at their lowest level in almost 10 years. Aluminum exports were on average 19 per cent lower during the year the tariffs were in place, compared to 2017. Canada's import of U.S. steel products also fell, with the monthly average value between July 2018 and May 2019 being 30.5 per cent lower than during 2017. In June 2019, after the tariffs were lifted, Canadian exports of steel products to the U.S. grew almost 16 per cent and the export of aluminum products grew 47 per cent.
- **Aug. 6, 2020:** President Donald Trump announced a plan to impose a new 10 per cent tariff on Canadian aluminum imports, taking effect on Aug. 16, 2020.
- **Sept. 15, 2020:** The United States calls off the tariffs, agreeing to withdraw current penalties before Canada's retaliatory measures take effect.
- **May 2024:** The Tax Foundation releases a report saying section 232 tariffs on steel and aluminum started by Trump in his first term — including the ones on

Canada — had a negative impact on the U.S. economy, causing an estimated 75,000 job losses.[15]

Internationally, steel and aluminum tariffs resulted in various changes in trade arrangements including:

- **Argentina**: On March 22, 2018, the President temporarily suspended section 232 tariffs. Effective June 1, 2018, annual quotas were established for U.S. imports of Argentinian steel and aluminum products (which, for 2018, took into account all Argentinian steel and aluminum products imported since January 1, 2018).
- **Australia**: On March 22, 2018, the President temporarily suspended section 232 tariffs. On May 31, 2018, the President announced that, in lieu of tariffs, to address the section 232 concerns "the United States agreed on a range of measures" with Australia. These included measures to reduce excess aluminum and steel production and capacity, "measures that will contribute to increased capacity utilization in the United States, and measures to prevent the transshipment of aluminum articles and avoid import surges."
- **Brazil**: On March 22, 2018, the President temporarily suspended section 232 tariffs. Effective June 1, 2018, annual quotas were established for U.S. imports of Brazilian steel products (which, for 2018, took into account all Brazilian steel products imported since January 1, 2018). Also on June 1, 2018, aluminum imports from Brazil became subject to the section 232 tariffs.
- **Canada and Mexico**: On March 8, 2018, the President temporarily suspended section 232 tariffs. However, he applied them to both steel and aluminum products effective June 1, 2018. The President lifted section 232 tariffs on steel and aluminum from Canada and Mexico on a "long-term basis" starting on May 20, 2019, after the United States "successfully concluded discussions with Canada and Mexico on satisfactory alternative means to address the threatened impairment of the national security posed by" imports of these products from both countries. The agreed-upon means were not specified in public statements.
- **European Union:** On March 22, 2018, the President temporarily suspended section 232 tariffs. However, negotiations did not lead to permanent suspension, and section 232 tariffs were applied to both steel and aluminum products starting on June 1, 2018.
- **South Korea:** On March 22, 2018, the President temporarily suspended section 232 tariffs. In April 30, 2018, the President announced that annual quotas were established for steel that would take effect "as soon as practicable" and would take into account all imports from South Korea since January 1, 2018. Starting on May 1, 2018, aluminum imports became subject to the section 232 tariffs.[16]

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[15] See: A timeline of Canada-U.S. tariffs on steel and aluminum, CTV News.

[16] See: Special Topic: Section 232 and 301 Trade Actions in 2018 | United States International Trade Commission