

# Costing 2018 Fall Economic Statement and Off-Cycle Measures

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Contact : Nigel Wodrich  
[nigel.wodrich@parl.gc.ca](mailto:nigel.wodrich@parl.gc.ca)

Short title: Countermeasures and Remissions on Steel, Aluminum, and Other US Imports<sup>1</sup>

Description: On July 1<sup>st</sup>, 2018, the federal government imposed [countermeasures](#) (surtaxes) on C\$16.6 billion in imports of steel, aluminum, and other products from the US.

The countermeasures consist of a 25 per cent surtax on select steel products, and a 10 per cent surtax on select aluminum and other products.

The countermeasures will remain in place until the US changes or eliminates its trade-restrictive measures against Canadian steel and aluminum products.

On October 11<sup>th</sup>, 2018, the federal government issued a [remission order](#) that provides relief from surtaxes paid or payable on certain steel and aluminum products under the United States Surtax Order (Steel and Aluminum). The order is retroactive to July 1<sup>st</sup>, 2018.

The order comprised two [schedules](#):

- Schedule 1 applies to goods deemed to be in an ongoing short supply domestically. The remission order will remain in place until the US changes or eliminates its trade-restrictive measures against Canadian steel and aluminum products
- Schedule 2 applies to goods deemed to be in a temporary short supply domestically. The remission order remained in place until December 31<sup>st</sup>, 2018.

For remissions on surtaxes paid between July 1<sup>st</sup>, 2018 and October 10<sup>th</sup>, 2018, firms have two years to submit an application to the Canadian Border Services Agency (CBSA) to receive a remission *post-hoc*. Since October 11<sup>th</sup>, 2018, CBSA has operationalized the remission order by waiving the surtax on eligible goods upon importation at the border.

Of note, this cost projection does not take into account the updated remission order from December 19<sup>th</sup>, 2018.

Operating line(s): Excise taxes/duties, Custom import duties

Source Data: Statistics Canada – customized 8-digit HS code import data

Global Trade Analysis Project (GTAP) – product price and source substitution elasticities

Canada Border Services Agency (CBSA) – final evaluation report of the Revenue and Trade Management Program (2013)

Parliamentary Budget Office (PBO) – economic and fiscal outlook

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<sup>1</sup> An error in the cost projection of the proposed measure was identified post-publication. The current cost projection has been revised downward (i.e., higher revenues).

Estimation and projection method:	Bottom-up micro-accounting model, PBO's calculations
Uncertainty Assessment:	<p>PBO expects the estimates for costs before recovery (i.e. countermeasures excluding remissions) to have moderate uncertainty.</p> <p>Historical data used to estimate the value of the countermeasures are of good quality. These were projected forward using PBO's forecast for nominal import value growth. That general import growth rate may be different from the growth rate for goods subject to the countermeasures. Any discrepancy would affect the cost estimate, especially in the later years of the projection.</p> <p>PBO expects a significant behavioural response at the aggregate level. Firms affected by the countermeasures can be expected to import less of the surtaxed product, find alternative non-US sources, or both. PBO approximated those behavioural responses with elasticity parameters from the Global Trade Analysis Project (GTAP). However, GTAP parameters are derived from a static, general equilibrium analysis, and therefore may not capture dynamic, and especially short-run, behavioural responses.</p> <p>PBO estimated administrative costs with good, but somewhat dated, data from an evaluation of CBSA's Revenue and Trade Management Program. These date from 2011-12. Since then, administrative costs and revenues associated with collecting taxes and duties on imports may have diverged, potentially affecting the cost estimate.</p> <p>PBO expects the estimates for cost recovery (i.e. remissions) to have high uncertainty.</p> <p>There is no public data on the value of goods subject to the remission order. PBO developed a systematic approach to estimate the share of each surtaxed good subject to remission, based on the broadness of the qualitative description of each remitted good. However, there is no quantitative benchmark with which to validate the approach and associated assumptions; therefore, there is considerable uncertainty with these estimates.</p> <p>Finally, there is high uncertainty around the time horizon for the forecast.</p> <p>PBO assumed that the countermeasures and associated remissions will be eliminated in January 2021, under the assumption that reciprocal US measures on Canadian steel and aluminum imports will be lifted at the end of the current US administration's first term in office. The actual date is uncertain and may be sooner or later than that.</p>

### Cost of proposed measure

\$ millions	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Total cost	-985	-1,356	-1,093	-	-	-

Note: PBO assumed that the US will lift its tariffs on Canadian steel and aluminum imports at the end of the US administration's current term in office, in January 2021. The federal government has indicated that its reciprocal countermeasures and associated remissions on US steel, aluminum, and other imports would end at the same time.

## Supplementary information

	Description	Operating line	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
<b>Costs</b>								
No change in activity	Countermeasures	Custom import duties	-1,876	-2,547	-2,054	-	-	-
Behavioural response	Countermeasures	Custom import duties	632	876	706	-	-	-
Administration costs	Countermeasures	Custom import duties	3	3	3	-	-	-
<b>Total cost before recovery</b>			-1,241	-1,668	-1,345	-	-	-
<b>Cost recovery</b>								
	Remissions	Custom import duties	256	312	251	-	-	-
<b>Total cost after recovery</b>			-985	-1,356	-1,093	-	-	-

Notes: Estimates are presented on an accruals basis as would appear in the budget and public accounts.

Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.

small = cost is smaller than \$500,000

"-" = PBO does not expect a financial cost