

**COMMENTS BY THE GOVERNMENT OF CANADA  
TO THE BUREAU OF INDUSTRY AND SECURITY, OFFICE OF TECHNOLOGY  
EVALUATION, U.S. DEPARTMENT OF COMMERCE**

**REQUEST FOR COMMENTS:  
NATIONAL SECURITY INVESTIGATION UNDER SECTION 232(B)  
OF THE TRADE EXPANSION ACT (1962) OF IMPORTS OF ALUMINUM**

**Submitted by:  
The Government of Canada  
June 20, 2017**

## **INTRODUCTION**

The Government of Canada welcomes the opportunity to provide the following comments on the Department of Commerce's ("the Department" ) investigation under section 232(b) of the Trade Expansion Act (1962), into the effects of aluminum imports on the national security of the United States.

Canada acknowledges the United States' right to take appropriate action in defending its national security, recognizing that a government has a fundamental responsibility to ensure the security of its citizens. Any actions taken should be justified in accordance with the specific elements and conditions set out in the National Security Exception (NSE) provisions in the trade agreements. It is Canada's view that there should be a very clear and direct link between any proposed trade restrictions and the specific national security concern set out in the NSE provision.

Canada is also of the view that there should be no concern about aluminum imports from Canada having potential national security impacts on the United States. Based on our longstanding security cooperation on so many fronts, Canada is a dependable ally in supporting American security objectives. This submission will demonstrate that aluminum imported from Canada does not undermine U.S. national security--in fact it strengthens it--and that aluminum trade between Canada and the United States is mutually beneficial for both countries.

## **COMPLEMENTARY TRADE, MUTUAL SUPPLY CHAINS**

Canada and the U.S. share a highly integrated aluminum market with combined trade of more than USD\$9.7 billion annually. Canada has long been an important and secure supplier to American manufacturers, contributing 2.3 million tons of unwrought aluminum and billions of dollars in semi-finished products (2016) to American manufacturers responsible for nearly USD\$186 billion in economic activity. Canadian raw aluminum exports support more than 160,000 US workers who transform and

process unwrought aluminum into products bound for both domestic and export markets, USD\$2.6 billion of which is exported to Canada alone.

These trade flows between our two nations, and the resulting exports abroad, are a high functioning and integral part of our secure and globally competitive North American supply chain. From seminal advancements in aircraft and rocket technology to modern applications in the automotive industry, for more than a century Canadian and American aluminium enterprises have worked to sustain the North American market, sharing benefits on both sides of the border. Given aluminum's increasing importance in the future economy of advanced manufacturing, including aerospace and defense, information technology, modern energy infrastructure and light weight vehicles, the North American market is well placed to compete with the world.

### **Aluminum and the Defence Sector**

Aluminum is used in several aspects of defence manufacturing sector, particularly in the aerospace industry. It is not only found in the construction of weapon platform structures but also throughout the supply chain for components such as aircraft bulkhead, equipment racks and mounting systems like radars, missile bodies, ammunition casings, turbo-diesel engines, lightweight armour and explosives. Some of these products, or aspects of them, are produced in Canada.

Canada, as part of an integrated North American defence industrial base, is a secure supplier of aluminum as a material, but also provides advanced technologies and systems that boost North American defense capabilities. The Canadian aluminum sector plays a major role in the North American defense supply chains, particularly in the support of innovative solutions for the aerospace and defence electronics industry. This includes involvement in aircraft, helicopters, missiles, rockets and space technologies that use aluminum as an input. Aluminum's light-weight properties, greater flexibility in terms of its metallurgical qualities as well as being typically more serviceable (e.g. faster and easier repairs and parts replacement) makes it an ideal

material for military applications and a key industrial sector for the North American economy.

## **COMMON CHALLENGES**

Canadian and American aluminum producers have been challenged in recent years by two global trends: global excess aluminum capacity and unfair trade practices (dumped and subsidized imports). The resulting global market imbalances and volatility have created uncertainty in the aluminum industry for over a decade and have undermined the North American marketplace. Since the early 2000s Chinese capacity has grown precipitously from 10% to 53% of the world's total aluminum capacity. These massive capital expenditures and subsequent increases in production have consistently been out of step with market demand, causing disruptive volatility in commodity markets while undermining North American free market producers. Distorted trade, resulting from subsidies and state ownership policies that seek to maintain employment by divesting excess production to global markets, has continued to undermine the profitability of American and Canadian firms collectively. Further to this, Canada has requested to join World Trade Organization consultations in a proceeding requested by the United States to question subsidies to producers of primary aluminum (DS519: *China – Subsidies to Producers of Primary Aluminum*), noting Canada's concerns with Chinese subsidies to aluminum producers that are alleged to have significant market impacts.

Fundamental issues remain to be resolved regarding excess capacity and trade fairness, forming a persistent challenge our nations must face. Canada stands ready to continue its work with the United States to address the issue of global overcapacity and unfair trade. Canada has submitted with the United States, as well as the European Union, a communication to the WTO Committee on Subsidies and Countervailing Measures highlighting the problem of subsidies leading to excess capacity, specifically mentioning industry sectors such as aluminum. Further, Canada and the United States pledged to combat trade-distorting practices with our G7 partners in the G7 Taormina leaders' communiqué issued on May 27, 2017:

*“We push for the removal of all trade-distorting practices – including dumping, discriminatory non-tariff barriers, forced technology transfers, subsidies and other support by governments and related institutions that distort markets – so as to foster a truly level playing field. We commit to further strengthening our cooperation and to working with our partners in order to address global excess capacity in the steel, aluminum and other key industrial sectors and to avoid its emergence in other areas. In this sense, we view with concern market-distorting measures targeted at promoting key technologies.”*

## **NATIONAL SECURITY**

Canada and the United States are essential partners in one another’s national security. Our bilateral cooperation in foreign relations, defence relations, defence industrial cooperation, public safety, public health and energy are longstanding and codified by many bilateral agreements and arrangements that touch on every element of national security. Based on our longstanding security cooperation on so many fronts, any Section 232 investigation must conclude that Canada, including its Canadian aluminum industry, is a dependable ally in supporting American security objectives.

Prior investigations have reached the same conclusion. Dating back as far as 1953, National Security Council investigations have concluded that reliance on Canadian sources of aluminum “...is in consonance with the long standing plan of the United States and Canada to share their resources in time of war on a continental rather than on a national basis”. (<https://history.state.gov/historicaldocuments/frus1952-54v01p2/d54>). More recently, a 2001 Section 232 investigation on iron ore and semi-finished steel also concluded that Canada was a “safe” foreign supplier and a reliable trading partner for security purposes.

## **Interdependent Defence Industrial Base**

Canada-United States cooperation on defence industrial base issues initially took shape in response to the mutual threat posed to North America by communist nations following World War II. Our joint response to this threat led to significant military integration, one aspect of which was industrial cooperation. This response recognized the two countries' strategic interests, the interdependency of the two countries' security interests, and the advantages of economic integration across the Canada-US border. Today, our two countries share the most integrated defense industrial base in the world, a unique situation that has greatly contributed to our shared security and economic prosperity. Over several decades, an extensive and formalized pattern of defence material cooperation has evolved between Canada and the United States – during that time, our defence departments entered into agreements that remain fundamental to the relationship today. These include:

- Statement of Principles for Economic Cooperation (1950): The Statement involved an exchange of notes on defence industrial mobilization and agreement that “the economic efforts of the two countries are coordinated for the common defence and that the production and resources of both countries be used for the best combined results.” This includes; requirements, production and procurement, coordinated supplies, the free exchange, where feasible, of technical knowledge and productive skills, the removal of barriers that impeded the bilateral flow of goods essential for the common defence effort, and consultation concerning any resulting financial or foreign exchange problems. These principles remain valid today.
- Defence Production Sharing Agreement (DPSA 1956): The next significant step came with the conclusion of the DPSA in 1956, and a set of associated arrangements in the following four years, especially 1959-60. In the United States the agreements (including the DPSA) were established under National Security Directive 5822 in 1958 and were approved by President Eisenhower in December of that year. The production sharing aspects were transmitted to the Department of Defense, and the

overall defence production program was authorized by DOD Directive 2035.1 (Defence Economic Cooperation with Canada) in 1960.

- North American Technology and Industrial Base Organization: At the 1985 Shamrock Summit, President Reagan and Prime Minister Mulroney pledged to work to reduce barriers and to stimulate the two-way flow of defense goods, and establish a free exchange of technology, knowledge, and skill involved in defense production. This led to the establishment in 1987 of the North American Defense Industrial Base Organization, which focused on the combined capacity and capability of our defense industrial bases to support military requirements. In 1992, the organization broadened its focus to include technology issues and its name changed to the North American Technology and Industrial Base Organization.
- U.S. National Technology and Industrial Base (NTIB): In 1993, Canada was included in the NTIB and in fact was the only country recognized as a part of the U.S. industrial base until 2016, when the United Kingdom and Australia were added. The NTIB is defined in U.S. legislation as “the persons and organizations that are engaged in research, development, production, integration, services, or information technology activities conducted within the United States, the United Kingdom of Great Britain and Northern Ireland, Australia, and Canada.” U.S. law further stipulates that the Secretary of Defense must take into account Canada when completing an annual assessment of the national technology and industrial base (10 U.S.C. 2505). Canadian industry is an important part of an integrated North American industrial base, as under the NTIB, Canadian persons and organizations are considered as part of the U.S. Department of Defense’s industrial base analysis, programs, policies and planning.

Further, in its Committee Report on the National Defense Authorization Act for FY 2016, the House Armed Services Committee highlighted the “Importance of the North American Defense Industrial Base”:

*The committee acknowledges the vital role played by the defense industrial base in supporting the Armed Forces of the United States, noting that a cost effective, healthy base that is responsive to U.S. military requirements is essential to achieving U.S. national security objectives. The committee further notes that in light of robust trade relations, a shared interest in the defense of North America, and responsibilities as the only North American allies within the North Atlantic Treaty Organization, both the United States and Canada benefit from the North American Defense Industrial Base relationship.*

*Therefore, the committee is supportive of the strong, integrated, and widely dispersed industrial base in North America reflecting the economical use of research, development, and production resources, as laid out in the Department of Defense Instruction 2035.01 dated February 27, 2006. As stated in that instruction, “the Department of Defense shall maintain and strengthen defense cooperation with Canada” and “recognizes the differences in capabilities and capacities of the defense-oriented industries in the two countries” with the understanding that “the policy is based on the recognition that the United States and Canada have a mutual interest in the defense of North America” (emphasis added).*

An example of this longstanding cooperation between Canada and the United States is Natural Resources Canada’s Departmental Emergency Management Plan for Non-Fuel Mineral and Metal Commodities and Production Shortages Support. This plan clearly stipulates that in the event of such a shortage in a civil emergency, Natural Resource Canada will notify pre-identified contact points within the United States Defence Logistics Agency and the Defence National Stockpile Centre of a civil emergency and to request their assistance and offer Canada’s assistance in securing access to critical raw materials.

Our close defence industrial base cooperation ensures our security of supply, helps avoid the duplication of efforts, increases interoperability, and provides a surge production capacity – which in turn all contribute to our respective national security. In



times of war and in national emergencies Canada has been a secure and in the future, would continue to be a secure and trusted source of procurement.

## **CONCLUSION**

Canada appreciates the Department's willingness to receive public comments on this matter. The Canada-U.S. economic, defense, and security relationships detailed in this submission demonstrate that Canada is a key security and defense partner of the United States and that open aluminum trade with Canada benefits the U.S. economy and its national security. Canada looks forward to continuing to work with the United States in addressing the common challenges faced by our aluminum industries in relation to global excess aluminum capacity and unfair trade practices.

In conducting this Section 232(b) investigation, Canada trusts that the Department will recognize our mutually beneficial trade and security relationships and find that aluminum imports from Canada do not threaten to impair U.S. national security. On the contrary, open aluminum trade with Canada strengthens U.S. national security.