Intelligence MEMOS

From: Brian Livingston

To: Canadian Trade Negotiators

Date: September 2, 2025

Re: **Canada's Aluminum Production and US Tariffs**

Canada supplies more than half the aluminum available in the United States, and sells 2.8 million tonnes a year to many companies.

Disrupting those business plans, the United States imposed tariffs of 50 percent on imported aluminum, effective last June, after levying a 25-percent rate in March.

Who will effectively bear the cost of the 50-percent tariff? US importers must pay it to Washington, but they may ask Canadian and other importers to bear some of the cost in the form of reduced prices. Of course, both US importers and Canadian exporters also lose because some otherwise beneficial transactions will be cancelled as tariffs eat into profits, the so-called deadweight loss to the North American economy.

The power relationship in eating the cost of tariffs will be determined by the alternatives that each party has to the existing agreements.

The United States does not have productive capacity that could quickly and cheaply ramp up, nor many other sources to replace Canadian aluminum. In fact, US production of primary aluminum, which peaked at 4.64 million tonnes per year in 1980, had **withered** to 0.67 tonnes in 2024.

Rising electricity costs were the key reason for this decline, making the older less efficient US plants uneconomic. Aluminum has often been called electricity in a solid form because takes a huge amount of electricity (17,000 kwh/tonne) to process bauxite ore – which both Canada and the United States need to import – into aluminum. As a result, producers concentrate in areas that have a large supply of cheap electricity, such as Quebec, which accounts for more than over 90 percent of Canada's 3.3 million tonnes of production.

Another reason for the US capacity decline is that the Chinese, using cheap subsidized coal to power processing, have increased production 10-fold since 2004 and now smelt 60 percent of world supply, dwarfing Canada's 4 percent.

The US is seeking to modernize and rebuild its capacity. But the president of American aluminum producer Alcoa has **publicly questioned optimistic timelines** for creating new US smelting capacity. To illustrate, a new 0.6 million-tonne smelter planned for Oklahoma, an energy surplus jurisdiction, would be only the second built in the United States in 45 years. And its timeline is instructive: Not operational until 2030 with no electricity supply agreement in place as yet.

Securing electrical power is a growing challenge. US demand is projected to rise at 1.7 percent a year from 2020 to 2026, driven especially by new demands from data centres. This compares to essentially no changes in demand in the previous 15 years.

The bottom line: Canadian aluminum cannot be replaced rapidly. US importers will have to continue to source aluminum from Canada or reduce their own output. This translates into a poor bargaining position, meaning US importers having to bear most of the cost of the 50 percent tariff, over and above the world or Canadian price.

Ford and Alcoa, which operate smelters in Quebec for export into the United States, are both in this situation and have both said they are paying more than $100 million in tariffs.

US Treasury Secretary Scott Bessent has acknowledged the tariff pain on the US auto sector, and suggested reductions are part of the current negotiations about the overall trade relationship.

The lesson is that negotiating leverage often comes from what one sells to the other country, rather than what one buys. The strongest advocates for Canada are US importers that are paying the tariff and bearing the costs. Canadian negotiators should develop a full inventory of US importers in the same situation as Ford and Alcoa, and not only for the case of aluminum.

And there is a broader lesson: Canadian production of industrial materials and parts reinforces US manufacturing competitiveness across the board – and the large US trade surplus in finished manufactured goods with Canada. Even when the bargaining positions are not as lopsided in favour of Canada, the "deadweight loss" from tariffs means both sides are likely to lose. Canada should make sure that the conversation on aluminum feeds the broader understanding of Canada's contribution to US industrial competitiveness.

See figure on next page.

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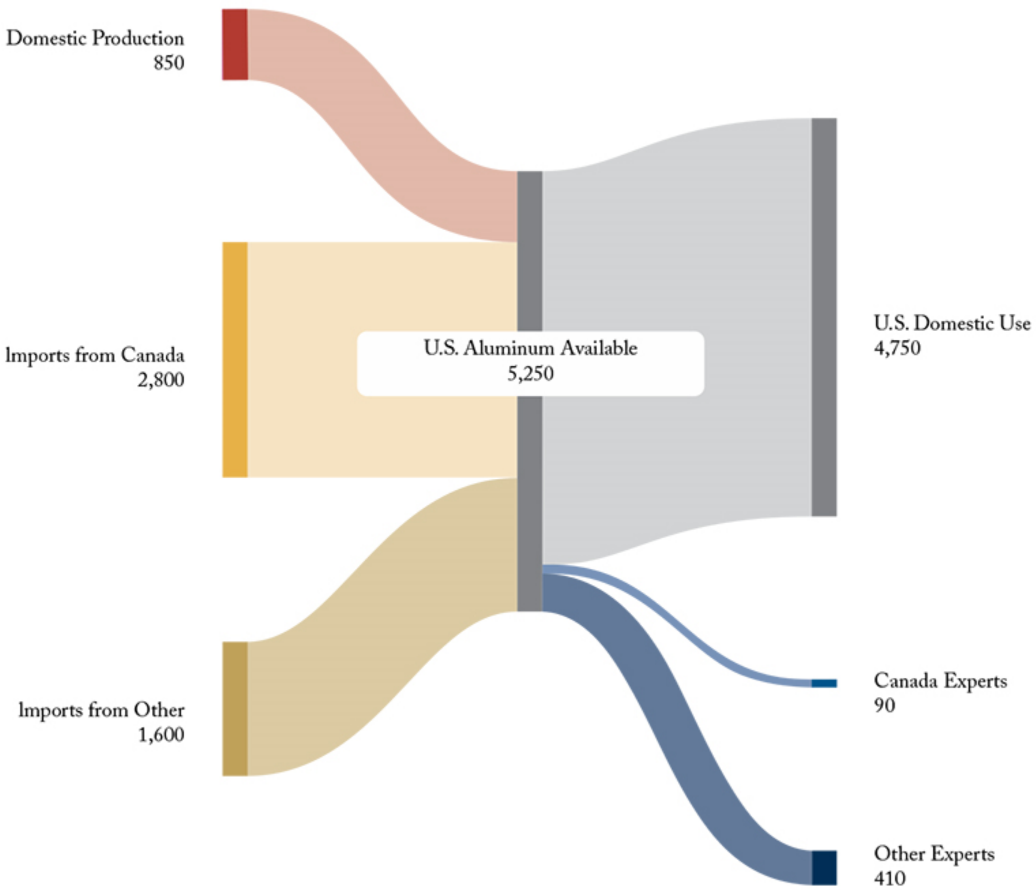
Figure:

Sources and Uses of Raw Aluminum in the United States



Source: Observatory of Economic Complexity
Note: Numbers are in thousands of tonnes of raw aluminum for 2023