

Trade Wars Launched With Ruses, End Runs

Outrage in Canada as U.S. Firms Sever Ties To Obey Stimulus Rules

By [Anthony Faiola and Lori Montgomery](#)

Washington Post Staff Writers

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Is this what the first trade war of the global economic crisis looks like?

Ordered by Congress to "buy American" when spending money from the \$787 billion stimulus package, the town of Peru, Ind., stunned its Canadian supplier by rejecting sewage pumps made outside of Toronto. After a Navy official spotted Canadian pipe fittings in a construction project at Camp Pendleton, Calif., they were hauled out of the ground and replaced with American versions. In recent weeks, other Canadian manufacturers doing business with U.S. state and local governments say they have been besieged with requests to sign affidavits pledging that they will only supply materials made in the USA.

Outrage spread in Canada, with the Toronto Star last week bemoaning "a plague of protectionist measures in the U.S." and Canadian companies openly fretting about having to shift jobs to the United States to meet made-in-the-USA requirements. This week, the Canadians fired back. A number of Ontario towns, with a collective population of nearly 500,000, retaliated with measures effectively barring U.S. companies from their municipal contracts -- the first shot in a larger campaign that could shut U.S. companies out of billions of dollars worth of Canadian projects.

This is not your father's trade war, a tit-for-tat over champagne or cheese. With countries worldwide desperately trying to keep and create jobs in the midst of a global recession, the spat between the United States and its normally friendly northern neighbor underscores what is emerging as the biggest threat to open commerce during the economic crisis.

Rather than merely raising taxes on imported goods -- acts that are subject to international treaties -- nations including the United States are finding creative ways to engage in protectionism through domestic policy decisions that are largely not governed by international law. Unlike a classic trade war, there is little chance of containment through, for example, arbitration at the World Trade Organization in Geneva. Additionally, such moves are more likely to have unintended consequences or even backfire on the stated desire to create domestic jobs.

Buy American

Take, for instance, Duferco Farrell Corp., a Swiss-Russian partnership that took over a previously bankrupt U.S. steel plant near Pittsburgh in the 1990s and employed 600 people there.

The new buy American provisions, the company said, are being so broadly interpreted that Duferco Farrell is on the verge of shutting down. Part of an increasingly global supply chain that seeks efficiencies by spreading production among multiple nations, it manufactures coils at its Pennsylvania plant using imported steel slabs that are generally not sold commercially in the

United States. The partially foreign production process means the company's coils do not fit the current definition of made in the USA -- a designation that the stimulus law requires for thousands of public works projects across the nation.

In recent weeks, its largest client -- a steel pipemaker located one mile down the road -- notified Duferco Farrell that it would be canceling orders. Instead, the client is buying from companies with 100 percent U.S. production to meet the new stimulus regulations. Duferco has had to furlough 80 percent of its workforce.

"You need to tell me how inhibiting business between two companies located one mile apart is going to save American jobs," said Bob Miller, Duferco Farrell's executive vice president. "I've got 600 United Steel Workers out there who are going to lose their jobs because of this. And you tell me this is good for America?"

The United States is not alone in throwing up domestic policies assailed by critics as protectionist. Britain and the Netherlands, for instance, are forcing banks receiving taxpayer bailouts to jump-start lending at home at the expense of overseas clients. French President Nicolas Sarkozy initially insisted that his nation's automakers move manufacturing jobs home in exchange for a government bailout, but backed down after outrage surged among his peers in the European Union, of which France is a central member.

But the number of measures, both proposed and enacted, from the Obama administration and Congress in recent months has raised an alarm among foreign governments, pundits and news media outlets. The buy American provisions in the stimulus package, signed into law in February, were just the beginning. Last week, Obama unveiled a series of proposals aimed at increasing taxes by nearly \$200 billion over the next decade on U.S. companies doing business abroad. At a White House event, Obama said the measures were designed to "close corporate loopholes" that permit companies to "pay lower taxes if you create a job in Bangalore, India, than if you create one in Buffalo, N.Y."

Keeping Jobs at Home

A slew of legislative proposals is also aimed at keeping jobs at home. In recent weeks, the House attached additional buy American provisions to a \$14 billion clean-water fund that provides loans to local communities and a \$6 billion program to finance environmentally friendly school construction projects.

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Other pending measures would require the federal government to buy 100,000 U.S.-made plug-in hybrid cars, mandate that the president's airplanes be made in the country by an U.S. company, and force several federal agencies, including the Pentagon and Department of Transportation, to use only domestic iron and steel.

Last month, Senate Majority Whip Richard J. Durbin (D-Ill.) introduced a measure with Sen. Charles E. Grassley (R-Iowa) to tighten rules governing the H-1B visa program for guest workers. Among its provisions: Companies seeking to import specialized workers from abroad first must make a good-faith effort to recruit U.S. citizens.

"The H-1B program was never meant to replace qualified American workers. It was meant to complement them because of a shortage of workers in specialized fields," Grassley said. "In tough economic times like we're seeing, it's even more important that we do everything possible to see that Americans are given every consideration when applying for jobs."

Buy American provisions are not new. Federal transportation projects have been required to use domestic iron and steel since 1982, and some defense contracts are limited to U.S. bidders. But the stimulus package marks the first time a buy American mandate has been broadly applied to projects across an array of federal agencies.

No one appears to be more concerned than America's largest trading partner -- Canada.

Initial concern north of the border over the buy American provisions died down after a clause, supported by the administration, was inserted in the bill clearly stating that the measure would not supersede existing U.S. trade obligations. During his Feb. 19 trip to Ottawa, Obama additionally pledged to avoid protectionism.

Creeping Protectionism

As passed, the act keeps that pledge, White House spokeswoman Jennifer Psaki said. "The president is committed to creating jobs in America and committed to global engagement with our trading partners and does not see any contradiction between those two goals," she said.

But in recent weeks as federal authorities drafted broad guidelines for implementing the law and hundreds of states and towns have begun preparing for stimulus-related projects, Canadian companies have been surprised to discover that while some federal contracts are still open to Canadian materials and equipment because of trade treaties, most of those issued by state and local governments are not.

The Government Accountability Office estimates that state or local officials will administer about \$280 billion in stimulus spending, including about \$50 billion for transportation projects. But federal authorities have determined that construction projects even partially funded with stimulus dollars must also buy American, dramatically increasing the universe of affected contracts.

As a result, John Hayward, president of Hayward Gordon, a Canadian manufacturer of pumps used in water works projects, says U.S. towns, including Peru, Ind., have told him that they can no longer buy his Canadian-made products.

"We're not China. We're not even Mexico. We have the same relative cost of labor as you do," he said. "If we have a better price, you should buy from us. That's what competition is supposed to be about."

To stay in business, Hayward is considering moving some manufacturing operations to the United States, potentially creating jobs here. That, Peru Mayor Jim Walker notes, is what the stimulus was supposed to be about.

"You're trying to get America turned around, trying to put Americans back to work," Walker said. "And if American taxpayers are paying for this, well then, Americans deserve the benefits."