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By Willa Rubin

Wizard's Tower, a brick-and-mortar store in Ottawa, sells a variety of novelty games. And it is full of magic — Magic the Gathering, that is.

The fantasy-genre, strategy-based card game accounts for 90% of the small business' sales, said Dave Tellier, the store's owner. "It's the most significant part of my business for sure."

But for the past several months, stores like Tellier's, which rely on playing card sales, have been swept up in the US-Canadian trade dispute. After the US slapped tariffs on imports of aluminum and steel, Canada fired back with counter-tariffs on a variety of US-made products — including playing cards.

When Tellier heard the news, he stockpiled a three-months supply of his store's most popular items. Then he wrote to his customers and told them the business would soon raise prices on new Magic products and restocks due to the tariffs.

"There's no other supply. It's not like we can diversify and say, we'll purchase another product," Tellier said.

The 10% tariff he now pays on playing card imports has changed his business calculus; since the tariffs took effect on July 1, customers are still spending the same amount of money, but for fewer products, Tellier said. He has been working to alleviate the tariff-imposed damage by pushing items with better margins and by boosting prices on products and events, with mixed success. "We're prepared for the long-run, I guess," Tellier said.

Months after a trade war erupted along the northern border, Canada's efforts to counter Trump's efforts are in disarray. Despite the announcement of a new North-American trade agreement, tariffs on American and Canadian goods remain in effect, and Canada's efforts to build political support for its position in the US have failed.

"Canada did the best they could on sensitive states to the companies that are dominating in those states," said Gary Hufbauer, senior fellow at the Peterson Institute of International Economics. But "you've got an administration which is very nationalistic. There are a lot of firms they don't pay much attention to, and give them a polite brush-off. That's the problematic part."

Like China and the EU, the US and Canada have had their relationship strained by tariffs. But Canada's dispute has largely fallen to the wayside, in light of Canada's small market share and the appearance of a truce with the USMCA deal. Ironically, Canada's effort now gives them less leverage to negotiate an end as USMCA ratification hangs in the air.

Canada orchestrates a political hit

Trump's anti-NAFTA rhetoric started on the campaign trail, and amplified during his first year as president. He threatened in a tweet on Aug. 27, 2017:

[EMBED TWEET] "We are in the NAFTA (worst trade deal ever made) renegotiation process with Mexico & Canada.Both being very difficult,may have to terminate?"

Then in March, President Trump slapped tariffs on foreign imports of steel and aluminum, citing Section 232 from the Trade Expansion Act of 1962. The announcement struck Canadian diplomats as thinly-veiled attempt for Trump to gain more leverage as it renegotiated NAFTA, said Maryscott Greenwood, chief executive officer of the Canadian-American Business Council. Trump announced the tariffs in March; NAFTA was set to expire on June 1.

Trump reinforced this idea a few days later in another tweet dated March 5:

[EMBED TWEET] "We have large trade deficits with Mexico and Canada. NAFTA, which is under renegotiation right now, has been a bad deal for U.S.A. Massive relocation of companies & jobs. Tariffs on Steel and Aluminum will only come off if new & fair NAFTA agreement is signed..."

In response, Canada's offices of the Prime Minister, Global Affairs, and Finance worked together and issued Canada's own tariffs to retaliate against the US.

"We felt we had no chance but to stand up and defend our workers and our industry," said a source in the Canadian government. Canada's leaders then chose to target various American-made products with "Canadian alternatives," and which were significant geographically — and thus, politically. "We want to have congressional leaders, those with the ear of the president, say that they are opposed to the tariffs," the source added.

Canada's tariffs were an effort to broaden the number of people Trump consulted on trade. "If you're not getting your way, you try to figure out how do you expand the number of voices that agree with you," said Greenwood, who was also a diplomat during the Clinton administration. "By targeting bourbon for example, that's produced in Kentucky, the idea would be: the Majority Leader of the United States Senate is from Kentucky, maybe he'll pay more attention to this if we hit him right at home. That's why they do that."

When Canada puts a tariff on American products, Canadians wind up paying the tariff when the American product crosses the border. Tariffs are meant to shift supply and demand over time as consumers look to replace foreign products with locally-manufactured ones, thus avoiding import taxes.

President Trump, however, used tariffs as a bargaining chip. By attempting to gain leverage in the NAFTA renegotiations, Trump was trying to "create pain and try and get a better trade deal for the US," said Bob Brusca, president of Fact & Opinion Economics.

Canadian leaders overlapped with other countries, like the EU and China, in their item selections. Bourbon was one common item; the drink is a critical product in Kentucky's economy, represented by Senate Majority Leader Mitch McConnell.

Yet Canada's list stands out as having items that pose fewer broad, economic risks — in part because its supply chains are closely tied with those in the US. "Other products were selected with a view to mitigating potential impacts on Canadian businesses, families, and consumers (e.g., by ensuring that alternatives can be sourced from Canadian companies or non-U.S. trade partners)," said a Minister of Finance official.

Collectively, the Canadian government has collected $597 million in surtaxes from July 1, 2018 to October 31, 2018, with 47% on steel products imported from the US, 14% on aluminum products from the US and 39% on other goods imported from the US, the official added.

John Babcock, spokesperson for Global Affairs Canada, which handles Canadian trade, wrote, "The countermeasures implemented by Canada on July 1 are a measured, perfectly reciprocal, dollar-for-dollar response to the illegal US tariffs on steel and aluminum. Canada will remove these countermeasures as soon as the US removes its illegal tariffs."

Canada's tariffs hit steel, aluminum, and an assortment of consumer goods

Canada's retaliatory tariffs targeted a hodgepodge of American products made by large companies headquartered in politically sensitive states, in an effort to pique the attention of American political leaders who could pressure the president on trade.

The Canadian government went after companies based in politically significant US states — such as Pennsylvania, Texas, and Kentucky — and targeted consumer products including chocolate, licorice, facial tissues, and playing cards.

Chocolate and licorice were swipes at Hershey's chocolate and Twizzler's, owned by the Hershey Company based in Hershey, Pennsylvania. Hillary Clinton won the Pennsylvania county including Hershey by 52%, but President Trump notably swung the state in his favor.

Hershey's was the deliberate target for these specific tariffs. Most of Hershey's sales stem from chocolate, and Hershey's sells the second-most chocolate in Canada after European-owned Nestlé.

The tariff on licorice also hits Twizzler's deliberately. The brand's next-biggest competition in the US is the American Licorice Company, which makes Red Vines and is also the next-largest licorice-producing company in the US. The private, family-owned company is headquartered in Vice President Mike Pence's home turf of Indiana. But it won't be impacted by the tariffs, as the company does not sell licorice outside of the US, and therefore won't be impacted by the tariffs, a communications officer for the American Licorice Company confirmed.

Canada is a bite-sized part of Hershey's global market; nearly 85% of its total sales are made in the US, and only 5% of Hershey's total $7.5 billion comes from Canada. "That just doesn't have an impact for the company that's going to require them to make big changes, given that [Canadian sales] are such a small piece" of Hershey's market, said Brittany Weissman, an analyst at Edward Jones following the Hershey Company.

While the tariffs are hurting Hershey's profits from Canada, the Hershey Company is large and multinational, and can find other ways to offset the increased costs. For example, since Canadian tariffs target imports, Hershey might be able to shift some of its manufacturing to Canada to avoid paying the tariff. Whether it can do that depends on how flexible the manufacturing facilities that are already in Canada can be — "is it as simple as adding or subtracting something or bringing a different mold in or do you need a completely different machine," Weissman said.

Two of Hershey's 11 total North American manufacturing facilities are in the Canadian province of Québec; the Hershey Company did not provide further detail about what is manufactured there. But Hershey's chocolate recipe is different in Canada, suggesting that it's manufactured in Canada to begin with and that some portion of Hershey's Canadian chocolate sales may not be subject to the tariffs. And because Twizzler's accounts for a sliver of Hershey's total sales in Canada, it might not be worth it to shift Twizzler's manufacturing to Canada to avert the tariff.

Half of Hershey's sales in Canada is chocolate. "Next thing you know, you're looking at $180 million" left over in a broader confectionary product group that includes Twizzler's which stand to be affected by the tariffs — a negligible amount in the context of the company, Weissman said.

Hershey's CEO Michele G. Buck acknowledged the tariffs could hurt Canadian sales in a July earnings call, shortly after they took effect on July 1, but she didn't change the company's estimates for shareholders, and still expected the company to meet its guidance and expected year-over-year growth through the end of 2018.

The Canadian tariffs "are a headwind, but it's not the only thing the company is facing," Weissman said. "There are other things making a bigger dent into [Hershey's] profitability" as it grapples with rising transportation costs, new packaging methods, and distribution through online retailers.

In a written statement, Jeff Beckman, director of corporate communications at the Hershey Company, said, "As a U.S. company that manufactures the majority of our North American products in the United States and exports a portion of those products to Canada, the retaliatory tariffs do impact the business. As a result, The Hershey Company continues to monitor the situation and hopes the United States and Canada will resolve the issue soon." The Hershey Company did not provide further comment about shifting manufacturing.

Facial tissues and toilet paper have also been hit by the tariffs. Kimberly-Clark, the American company behind Kleenex, is a Fortune-500 company based in the Dallas, Texas suburb of Irving.

Hillary Clinton won the county by 62%, though President Trump carried the state with a 9% margin. The company could not be reached for comment.

In Canada, Kimberly-Clark controls about a fifth of the tissues market, and gets about 3-4% of its total operating income from Canada. But notably, Kimberly-Clark has a paper mill in Canada, meaning it can mitigate the effects of the tariffs by shifting where products are manufactured.

"Kimberly-Clark hasn't really come out to say what impact of these tariffs have been since they were set in place," said Diana Gomes, a consumer goods analyst at Bloomberg Intelligence. But "90% of the capacity for tissue in Canada comes from Canadian companies."

The playing cards tariff is a dig at the US Playing Cards Company, a division of Newell Brands. The manufacturer of "Bicycle" playing cards is headquartered in the Cincinnati, Ohio suburb of Erlanger, Kentucky — in a firmly Republican state represented by Senate Majority Leader Mitch McConnell.

Playing cards, on the other hand, barely make a dent in Kentucky's $195 billion gross domestic product. "When people think Kentucky, they typically think about bourbon," said Kristin Davis, vice president of public affairs and communication for the Northern Kentucky Chamber of Commerce.

Omar Sharif, economist at Société Générale noted that as of 2003, the most recent publicly-accessible data, the US Playing Card Company earned $130 million in revenue. "In the grand scheme of a $20 trillion [American] economy, that's not going to hurt," he said.

Bicycle cards are the staple brand of cards used at casinos worldwide; casinos can go through hundreds of cards per day, to avoid cards from getting slightly scratched, giving one player an unfair advantage. It also means that casinos had the opportunity to stockpile their products months in advance, helping them mitigate the costs of the tariffs.

It's also possible that Canada was trying to deal another kind of hand. Resorts Trump Entertainment Resorts owned casinos worldwide, associating the president's name with the industry and giving the playing cards tariff symbolic weight, said I. Nelson Rose, an expert on the gambling industry and gaming law. (A source from Icahn Enterprises, which acquired Trump Entertainment Resorts in 2016, said it is no longer linked to the gambling industry.)

Broadly, international tariffs are hurting Newell Brands. The parent owner of the US Playing Cards Company announced that tariffs broadly would cost the corporation $100 million. But that comes as a consequence on products using steel and aluminum, not on playing cards. Newell Brands declined to comment for this story.

Robert Steurer, a press officer for Sen. McConnell, wrote, "as Senator McConnell has said repeatedly, he will continue to engage the President and the Administration directly so we can hopefully avoid a full-blown trade war and will continue to discuss this issue with constituents."

Steurer and other members of McConnell's press team did not respond to further questions and US Playing Cards Company CEO Mike Slaughter declined to comment.

It's not worth it for the targeted companies to put up a fight, given Canada's small market share. In turn, that makes congressional leaders — whose interest Canadian leaders were trying to pique — less inclined to take action, because those companies can easily offset Canada's tariffs.

"Yes, maybe [CEOs at the companies targeted] will call their senator or congressman and maybe they'll complain, but complaining is not the same as a big lobbying effort. So the result is that the Canadian measures have a limited impact in terms of changing the dynamics in Washington," said Hufbauer from the Peterson Institute for International Economics.

Canada's path forward

Despite Canada, the US, and Mexico agreeing upon an updated NAFTA — now dubbed the "USMCA" by President Trump — deal in September USMCA, the tariffs remain on a "separate track" of negotiation, Canadian Global Affairs Minister Chrystia Freeland has said. Canadian government officials have also reiterated they will levy their counter-tariffs until the US lifts its own.

At the same time, the same Canadian leadership has cited the future ratification of the USMCA as an opportunity to negotiate the end of the tariffs. Canada is now counting on American congressional leadership to bring up the tariffs before ratification. But it is unclear when, and if, the USMCA will be ratified, given Democratic resistance to a deal that President Trump negotiated.

Also, the US now has the optics of a trade deal with Canada — even though it is not yet ratified. So the US has shifted its attention towards resolving its trade war with China, which poses more significant economic damage to American companies and consumers. With the fate of NAFTA settled, the American-Canadian trade dispute has become less urgent for Americans, though that has not changed the equation for Canada.

President Trump has claimed that tariffs brought Canada and Mexico to the negotiating table. "Without tariffs, we wouldn't be talking about a deal," he said at a press conference in October.

Canadians disagree. "We were already" at the table when Trump "said he was seeking to get additional leverage," said Greenwood from the Canadian-American Business Council. "You got the deal, so it's time for the tariffs to go away and it's time for the retaliation to go away… It's bad economic policy.

For now, Canadian diplomats want the tariff issue resolved, so they can focus on other trade issues with the two nations' close partnership. "Instead of tariffs and retaliation, we should be working through a blueprint for how to cooperate economically together versus our competitors around the world," Greenwood said. "We should figure out how to do business in North America as efficiently as we can, which is what these trade agreements are supposed to be about—how do you make the neighborhood more competitive versus the globe as opposed to these tit-for-tat fights with each other."

The companies affected see the tariffs as a short-term cost that they anticipate will be resolved in the near-future, as the US and Canada approach ratifying the USMCA treaty. "We saw some encouraging news from the fact that Trump and Canada did reach an agreement on the new trade deal. That is encouraging. But then these will still have to go through US Congress," said Gomes from Bloomberg Intelligence. In the meantime, the tariffs are "a temporary cost and a temporary drag, but [companies anticipate they] should go away in the median term."

Canada's strategy to impose tariffs on non-economically-threatening goods "wasn't doomed in terms of enlisting individual US companies and their Congressional allies in opposition to Trump's steel and aluminum tariffs. But it met a tin ear in the White House," said Hufbauer from the Peterson Institute. "Canada didn't want to escalate the trade friction, and it wanted a happy ending to the NAFTA negotiations. Given those constraints, I can't see what more Canada could have done."

At the end of the day, small businesses are most likely to take the hit — especially if those smaller stores can't buy particular playing cards abroad. Tellier, owner of Wizard's Tower in Ottawa, said he understands the political precision of the tariff. But he said the company that manufactures Magic the Gathering cards is in Seattle, which "isn't even in a Republican area."

"A lot of businesses are going to get caught even though it's not specifically what the tariffs are meant for," Tellier said.

Wizard's Tower would diversify where it's getting its Magic the Gathering cards if it could. But it's American intellectual property, and it can't be made elsewhere, Tellier said. "We don't really have a choice. We have to import the product. We have to pay the tariff."