# Linamar Memo to Shareholders:
# RE: US Administration Enacted 25% Tariffs on Canada and Mexico

March 4, 2025

Dear Shareholder,

As threatened over the past few months, the US administration has imposed a tariff on all goods coming from Canada and Mexico into the US at a rate of 25%, energy from Canada will be tariffed at 10%.

Canada has imposed retaliatory tariffs of 25% on a basket of US goods, mainly consumer goods, effective today as well. The goods targeted are in general those Canadians and Canadian businesses have alternative sources for, in Canada or some other country than the US, or are those the government believes we could do without for a period of time.

Mexico is also expected to announce retaliatory tariffs this weekend.

**Key Message:**

1) Tariffs went in place today on product shipping between Canada, Mexico and the US
2) For the time being production is continuing per the 2025 plan
3) Tariffs are paid by the importer of record, which in the majority of cases is our customer, American companies, meaning the impact of these tariffs will be felt most keenly by American companies and American workers which is unfortunate in this already difficult economic time
4) It is our hope that the level of pain inflicted by the tariffs on consumers and markets will result in the tariffs being short lived.

**What are the Implications to Linamar**

Mobility

The automotive industry is highly integrated across our 3 countries of Canada, Mexico and the US.

Our customers, the automakers, are the importers of record for substantially all of our parts.

**This means our customers will have to pay the 25% tariff, not Linamar.**

We do have some products our US plants buy from Canadian and Mexican suppliers which will be subject to tariff. We are working closely with our customers in that regard to mitigate or eliminate the cost implication to us of the tariffs.

The cost to our customers will start to become enormous of course. Our parts are highly engineered products requiring months of testing and validation before they can be assembled into a vehicle which means our customers cannot simply switch to another source. This means our customers will be faced with paying these tariffs for months, even longer should they continue.

It remains to be seen how long our customers will continue to ask us to ship product from our Canadian and Mexican facilities. **For the time being we have not been instructed to stop producing or shipping.** We will react to each individual customer needs and inventory situations as required. If our customers ask us to stop shipping, we will need to make a decision around when and if to continue producing which of course will have an impact on our sales temporarily.

In our opinion, our customers will not be able to avoid these tariffs, they will not be able to afford to absorb them, we will not absorb them nor will other suppliers, and consumers will not pay drastically more for a vehicle. It is our expectation that customers will in fact choose to stop producing quite quickly until tariffs are lifted and put pressure on the US administration to reverse their tariff decision, at least for the automotive industry considering the millions of jobs impacted, the vast majority of which are in the US.

<u>Industrial Business</u>
For our industrial businesses, Skyjack, MacDon, Salford and Bourgault, we have been working for months to put inventory of product into the US for sale to customers in the region tariff free.

**We expect inventory levels warehoused in the US could allow us to continue to shipping to customers tariff-free for a temporary period of time.**

In addition, all of our industrial businesses have strong markets in Canada and growing markets internationally, including Europe, South America and Australia. We will of course continue to produce for those markets.

Each business will react to their individual situations with respect to inventory levels in the US, demand in the US, demand outside of the US and expected duration of the tariff situation. There is of course a chance at some point, depending on the length of time the tariffs are in place, that we will need to stop producing which will of course have an impact on our sales temporarily. **For the time being our production is continuing per our 2025 plan in our industrial businesses.**

<u>Additional Tariffs</u>
Compounding today's news is the plan of the US Administration to impose tariffs of 25% on all steel and aluminum products starting on March 12th. It is not clear at this point if products incorporating steel and aluminum will be included in these tariffs. We are assuming that our finished and semi-finished products will not be subject to these additional tariffs at this time.

**These 25% tariffs will be additive to the tariffs announced today, ie any steel and aluminum products will have a tariff of 50% levied against them should these tariffs be imposed next week.**

Clearly, this will significantly exacerbate an already very negative situation for American companies who will now need to pay 50% more for products, some of which, again, they cannot easily resource locally. Some steel and aluminum can of course be purchased from American mills however capacity is limited, takes years and billions of dollars of investment to expand, and some types of steel and aluminum are simply not available in the US at all meaning American companies will be forced to pay tariffs for the foreseeable future. This will also impact millions of American jobs as companies simply won't be able to continue production.

In terms of the impact to us of the additional metal tariffs we currently expect minimal direct impact. We have metal market pass throughs on fluctuations of metal pricing for all of our automotive contracts. For our industrial businesses we import very little steel and aluminum into our US operations, and on the supply side it is our understanding that the majority of steel and aluminum going into supplier products purchased in the US are coming from US sources, meaning minimal impact overall. If any supplier does incur tariffs we will deal with the situations on a case by case basis.

**Overall, we do not expect a direct material impact from the imposition of steel and aluminum tariffs on March 12th if they are in fact imposed.**

The bigger impact will come from the knock-on impact from our American customers who may find the additional 25% just too much on top of the initial tariffs announced today to continue production.

There has also been some suggestion of tariffs of 25% imposed on European goods imported into the US at some point. We have very little product shipping from Europe to the US and again, the cost of the tariffs would be borne by the importer of record which would be our customer, meaning very little impact to us. We do have some European suppliers supplying our US sites, again we would deal with those circumstances with our customers on a case-by-case basis in order to mitigate or eliminate the cost implications to us of the tariffs if they are imposed.

<u>What We are Doing</u>
We have an immediate action plan under way to deal with the situation.

This includes
- Regular communication with our customers, employees and shareholders
- Scenario planning on cost implications for impacted purchased product to identify alternatives where possible
- Identifying new products and markets we could pivot to to continue to grow and sell
- Developing tactical strategies to mitigate risk

<u>What we are Not Doing</u>
It is important in this timeframe to not panic, not get emotional and instead simply deal with the facts and the situation in a calm and rational way.

We are NOT contemplating closing facilities in tariff affected countries and shifting production to the US. Tariffs can be implemented one day and removed the next, they are a short-term tactic. We make important decisions such as where to manufacture based on long-term fundamentals like availability of talent, bench strength, supply chain availability and costs in a region. Not something as short-term as a tariff.

We will keep you updated on developments to this situation.

We have always said "**tough times don't last, tough teams do**. Linamar has proven to be one **tough team."**

Best,

Linda Hasenfratz Jim Jarrell

Addendum: Please find attached a handy fact sheet with regards to trade, vital in these times of misinformation and emotion. The facts are the facts and are what should drive our decisions not emotion or hearsay.

# ADDENDUM:  Trade Fact Sheet

Broad Trade Observations:

- The overall export to import ratio for the US and Canada is 85%, **the most equally balanced trade among the US's 10 largest trading partners**.  The relatively small deficit of 15% of US exports represents just 5.2% of Americas global trade deficit of $1.16 trillion.
    - The $61 billion dollar trade deficit with Canada represented by the 15% gap is entirely due to energy trade; having energy supplied by a trusted neighbour is a good thing
        - US buys ~ $94 billion more energy from us than we sell to them (they export $12 billion, import $106 billion)
    - **Excluding energy the US runs a trade surplus on goods with Canada, they ship more to us than we do to them**
- **The overall export to import ratio for the US and Mexico is 66%, the second most equally balanced trade among the US's 10 largest trading partners.**  The deficit of 33% of US exports represents just 14.6% of America's global trade deficit.
- It is an interesting observation that the countries with the 2 highest ratios of US Exports to Imports globally, those with the most balanced trade, are the countries the US operates in a long time, thriving, free trade agreement with: NAFTA.  And a slightly illogical idea that the US might impose 25% tariffs on the countries they have the MOST balanced trade with when the rest of the world enjoys dramatically more imports into the US than is exported to them and are levied a tariff of just 2.5%.

# Canada is the top export market for 36 U.S. states, and Mexico for six.

December 4, 2024 Ed Gresser

## FACT: Canada is the top export market for 36 U.S. states, and Mexico for six.

**THE NUMBERS: Top export markets for U.S. states, 2023 –**

| | | |
|---|---|---|
| Canada | 36 | – listed below* |
| Mexico | 6 | – Arizona, California, Kansas, New Mexico, Oregon, Texas |
| China | 3 | – Alaska, Louisiana, Washington |
| United Kingdom | 2 | – Utah and D.C. |
| Netherlands | 1 | – Puerto Rico |
| Japan | 1 | – Hawaii |
| Belgium | 1 | – Massachusetts |

** Arkansas, Colorado, Connecticut, Delaware, Florida, Idaho, Illinois, Indiana, Iowa, Kentucky, Maine, Maryland, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New York, North Carolina, North Dakota, Ohio, Oklahoma, Pennsylvania, Rhode Island, South Dakota, Tennessee, Vermont, Virginia, West Virginia, Wyoming.*

***Data***: Canada and Mexico buy about a third of all American exported goods. Canada is the top export market for 36 U.S. states and Mexico for another six, including the four border states Texas, Arizona, New Mexico, and California. By one measure, New Mexico is most reliant of all states on Mexican customers, who buy $3.5 billion — 70% — of their $5 billion in total overseas sales. By another, it's Texas, whose massive $130 billion in exports to Mexico is 5% of state GDP, even before adding the $36 billion in Texan sales to Canada. North Dakota meanwhile relies most heavily on Canada – 82% of $8.8 billion in worldwide exports of wheat, oil, farm machinery, etc. — with Maine, Michigan, and West Virginia all around 50%. To give the overall picture, U.S. export data in 2023 looked like this:

| U.S. Export Sector | To World | To Canada/Mexico | Canada/Mexico share |
|---|---|---|---|
| All goods | $2.018 trillion | $678 billion | 33.6% |
| Manufacturing | $1.601 trillion | $594 billion | 37.5% |
| Agriculture | $174 billion | $56 billion | 32.2% |
| Energy & metal ores | $351 billion | $81 billion | 23.1% |

A big tariff on incoming goods from Canada and Mexico would have three basic effects. The most direct would be higher U.S. prices, especially in the energy, car, appliance, and food industries that make up the largest share of North American trade. Mexico, for example, is the U.S.' largest source of winter vegetables and fruit, supplying grocery stores this past February with 188,640 tons of tomatoes, 128,330 tons of peppers, 106,460 tons of avocadoes, 44,440 tons of lemons and limes, and other fresh produced valued at $2.25 billion — along with TV sets, cars, and home appliances, plus more cars, the largest single stream of energy imports, beef, cooking oil, and beer from Canada. The second and third effects are less direct but predictable: American exporting factories, labs, farms, ranches, and mines with Canadian and Mexican customers would (a) risk retaliation in kind, and (b) lose customers as Mexican and Canadian firms reliant on U.S. goods go bankrupt or lose out to competitors elsewhere in the world. Some illustrative examples:

## U.S. Trade Deficit: Canada is Really NOT the Issue

**Douglas Porter, CFA,** Chief Economist
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While the title may seem incredibly obvious, it is worth pounding home the point yet again, as the incoming President seems determined to apply *"serious"* tariffs on Canada. Per U.S. figures, over the past 12 months to November, the total U.S. goods trade deficit was US$1.16 trillion, of which Canada accounted for all of 5% (a bilateral gap of US$61 billion). Among major trading partners, that only ranks as the eighth-largest imbalance—even as Canada is the #1 U.S. export destination. And, the Canadian surplus is entirely due to energy trade.

Also note the right-hand column, which considers the ratio of U.S. exports to imports. Its global ratio is 0.64, while with Canada the ratio is 0.85—by far the highest tally (or the most equally balanced trade) among the 10 largest trading partners. Mexico is second "best" among this group at 0.66.

A couple sidenotes:

1) The combined shortfall with Mexico and Vietnam, the two most obvious beneficiaries of trade diversion from China, is now precisely the same as that with China ($292 billion).

2) The export/import ratio with Vietnam is not a typo! The U.S. deficit with that nation has quadrupled in the past 8 years, as production has aggressively shifted there from China.

| | *With* | US Trade Deficit (US$ bill, 12-mo sum) | US Exports/Imports (ratio) |
|---|---|---|---|
| 1 | China | 292 | 0.33 |
| 2 | Euro Area | 200 | 0.63 |
| 3 | Mexico | 170 | 0.66 |
| 4 | Vietnam | 122 | 0.09 |
| 5 | Taiwan | 70 | 0.38 |
| 6 | Japan | 68 | 0.54 |
| 7 | S Korea | 65 | 0.50 |
| 8 | **Canada** | **61** | **0.85** |
| 9 | India | 45 | 0.48 |
| 10 | Thailand | 45 | 0.28 |
| | World | 1163 | 0.64 |

Auto Specific:

- We have had free trade in the auto sector between Canada and the US since 1965, expanded to include Mexico with NAFTA in 1992, and have built a thriving highly integrated automotive industry around that premise employing millions of workers across the 3 countries with by far the largest employment in the US
  - US 4.5 million workers
  - Mexico 3 million workers
  - Canada 500,000 workers
- The export to import ratio for the auto industry for the US and Canada is 96.3% -- an almost perfect balance
  - $82B from Canada to Us
  - $79B from US to Canada
- Auto parts are highly engineered products requiring extensive testing and validation before inclusion in a vehicle assembly plan. Auto parts cannot be rapidly resourced to alternative suppliers meaning they would be subject to tariffs if imposed for an extended period of time
- Imposing tariffs on auto parts or vehicles crossing borders inside NA would create enormous additional cost to purchase a vehicle for Americans, Canadians and Mexicans which could lead to lower demand, lower production and layoffs in all 3 countries, the US losing the most jobs as it has the highest percentage of jobs
- Vehicles Unit Sales 2024
  - US 15.9M
  - Canada 1.8M

        - Half come from US
    - Mexico 1.5M
        - 119,000 come from US, 21,000 from Canada
- Vehicle Production 2025 estimated
    - US 9.9M
    - Canada 1.2M
        - Approx. 60-70% export to US
        - 75% of Canadian built vehicles are also tooled up in US
    - Mexico 4.0M
        - Approx. 80-90% export to US
        - Approx. 85% Mexican built vehicles are only tooled up in Mexico