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July 8, 2022

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Lisa R. Barton
Secretary
U.S. International Trade Commission
500 E Street, S.W.
Washington, D.C. 20436

Re: <u>Economic Impact of Section 232 and 301 Tariffs on U.S. Industries, USITC Inv. No. 332-591: American Metals Supply Chain Institute Prehearing Statement</u>

Dear Secretary Barton:

On behalf of American Metals Supply Chain Institute ("AMSCI") and in accordance with the U.S. International Trade Commission's ("Commission") notice of investigation and scheduling of a public hearing,[1] we hereby submit our prehearing statement in the above-referenced proceeding.

[1] *See Economic Impact of Section 232 and 301 Tariffs on U.S. Industries*, 87 Fed. Reg. 28,035 (U.S. Int'l Trade Comm'n May 10, 2022).

Please contact the undersigned if you have any questions regarding this matter.

Sincerely,

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Brady W. Mills
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CERTIFICATION

I, Donald B. Cameron, of Morris, Manning & Martin LLP, certify that: (1) I have read the attached submission; (2) the information contained therein is accurate and complete to the best of my knowledge; and (3) the confidential business information contained in this submission is not available to the public in substantially similar form.

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DISTRICT OF COLUMBIA NOTARY PUBLIC DONNA JENINE MILLER My Comm. Exp. Aug 31, 2023

DISTRICT OF COLUMBIA: ss-

Sworn to and subscribed before me this 8th day of July 2022, in the District of Columbia in the United States of America.

Donna J. Miller
Notary Public

My Commission Expires
August 31, 2023

BEFORE THE UNITED STATES
INTERNATIONAL TRADE COMMISSION
WASHINGTON, D.C.

PUBLIC DOCUMENT

Inv. No. 332-591

Economic Impact of Section 232 and 301 Tariffs on U.S. Industries

PREHEARING STATEMENT ON BEHALF OF THE AMERICAN METALS SUPPLY CHAIN INSTITUTE

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July 8, 2022

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INTERNATIONAL TRADE COMMISSION
WASHINGTON, D.C.

Economic Impact of Section 232 and 301 Tariffs on U.S. Industries

PREHEARING STATEMENT ON BEHALF OF
THE AMERICAN METALS SUPPLY CHAIN INSTITUTE

I. Introduction and Summary of Comments

The American Metals Supply Chain Institute ("AMSCI") appreciates the opportunity to comment on the U.S. International Trade Commission's ("the Commission") Section 332 Investigation regarding the Economic Impact of Section 232 and 301 Tariffs on U.S. Industries.[1] It is important for the Commission to consider these comments made by AMSCI, an organization which has frontline experience with the impacts of Section 232 and Section 301 tariffs, both of which continue to negatively impact downstream industries on top of unprecedented supply chain challenges.[2] As the only trade association representing the entire supply chain in the United States for steel, aluminum, and other metals, AMSCI is able to provide the Commission with unique insights regarding the extraordinary impact that section 232 and section 301 tariffs have had on U.S. industries. AMSCI's mission is to support policies and practices that strengthen the metals supply chain, thereby boosting the economy and enhancing the livelihoods of the men and women who earn their living in it. From this unique perspective,

[1] *Economic Impact of Section 232 and 301 Tariffs on U.S. Industries*, 87 Fed. Reg. 28,035 (U.S. Int'l Trade Comm'n May 10, 2022).

[2] Peter S. Goodman, "How the Supply Chain Broke, and Why It Won't Be Fixed Anytime Soon," *New York Times* (Oct. 22, 2021).

we respectfully request that the Commission take these comments into consideration when preparing its report to Congress.

Section 232 and Section 301 tariffs have had a significant negative impact on AMSCI's members and on millions of workers in downstream U.S. industries that consume steel and aluminum in the manufacture of value-added products in the United States. As the Commission accepts comments on section 232 and section 301 tariffs, AMSCI believes that a reduction or removal of the tariffs is required to shore up the metals supply chain for U.S. manufacturers and workers. This belief is supported by Section 232 and Section 301 tariffs' effects on (1) a rising domestic inflation crisis, (2) downstream consumers of steel and aluminum, (3) increased unemployment in the manufacturing sector, and (4) offshoring of manufacturing operations. These factors affect not only the manufacturing sector but also the average American consumer, making the removal of Section 232 and Section 301 tariffs of the upmost importance. Finally, to the extent that some domestic steel producers invested in new and upgraded capacity, those investments have been made and have resulted in a more competitive industry that has no need for further protection.

II. Section 232 and Section Tariffs Have Put Domestic Downstream Manufacturers at a Disadvantage Relative to Foreign Competition

Any benefits of section 232 and section 301 provided to domestic steel and aluminum manufacturers have been substantially outweighed by the negative impacts felt by downstream steel and aluminum consuming industries. Indeed, the majority of the cost of the tariffs have been passed onto U.S. importers and consumers.[3] U.S. Customs and Border Protection reports

[3] Kadee Russ and Lydia Cox, "Steel Tariffs and U.S. Jobs Revisited," *Econofact* (Feb. 6, 2020); Mary Amiti, Stephen J. Redding, and David E. Weinstein, "Who's Paying for the US Tariffs? A Longer-Term Perspective," 110 AM. ECON. ASS'N PAPERS & PROC. 541 (May 2020).

that as of June 8, 2022, U.S. importers have paid $3.1 billion in section 232 tariffs on aluminum, $10.7 billion in section 232 tariffs on steel, and nearly $142 billion in section 301 tariffs on imports from China.[4] This staggering tariff burden has adversely affected consumers and downstream industries, and is contributing to rising inflation that threatens the domestic economy.

With regards to the aluminum tariffs, a recent study indicated that the beverage industry has paid over $1.4 billion of the section 232 tariffs on aluminum.[5] This is an industry that supports more than 2 million jobs and pumps more than $331 billion into the U.S. economy.[6] Similarly, with regards to the steel industry, there are more than 12 million jobs in industries that use steel in their production process with nearly 2 million of these jobs in industries that use steel intensively.[7] These steel intensive industries include auto parts and motorcycle manufacturers, household appliances, farm machinery, mining and oil extraction and construction machinery, batteries, and military vehicles.[8] A study prepared by the Federal Reserve Board of Governors estimated that the section 232 aluminum and steel tariffs increased input costs and led to 0.6 percent fewer jobs in the manufacturing sector.[9] This equates to around 75,000 fewer jobs in the manufacturing sector, which is directly attributable to the imposition of section 232 tariffs.[10]

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[4] U.S. CUSTOMS & BORDER PROT., TRADE STATISTICS (June 8, 2022).

[5] The Editorial Board, "Of Trade War and Prices," *The Wall Street Journal* (Apr. 13, 2022); Rachael Watson, "Of Trade War and Prices," *Grand Rapids Business Journal* (June 10, 2022).

[6] *Id.*

[7] Lydia Cox and Katheryn Russ, "Steel tariffs hurt manufacturers downstream, data shows," *PBS* (Feb. 7, 2020).

[8] *Id.*

[9] *Id.*

[10] *Id.*

Although domestic steel prices are trending lower as of April 2022, domestic steel prices are still drastically higher than global prices. This, in turn, has negative effects on downstream steel and aluminum consuming industries and for the broader U.S. economy. From January 2021 to June 2022, the U.S.-European difference in hot-rolled steel price per metric ton has increased by $119.[11] Alongside enduring the higher price of steel, U.S. manufacturers struggle to obtain enough steel due to reduced availability and demand outpacing supply. The Wall Street Journal reported that major metal pipe consumers are facing lead times as far as nine months out.[12] Reuters similarly reported that steel that used to be delivered in two months now takes between three and four months to be delivered, with steel mills not allowing requests for additional purchases.[13] To maintain production, many manufacturers must accept nonstandard metal sizes, increased prices, and imports.[14] Furthermore, many U.S. manufacturers who are paying a higher price for steel are small and medium-sized businesses that operate on small margins to begin with and do not have the ability to fully pass on price increases to their customers.[15] Therefore, these manufacturers cannot easily pass the increased cost onto their final goods prices because they run the risk of losing their customer base, thereby facing a disadvantage against foreign competition who pay lower steel prices in the global market.[16] When these costs are not passed

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[11] SteelBenchmarker™ Report #388.

[12] Austen Hufford, "High Steel Prices Have Manufacturers Scrounging for Supplies," *The Wall Street Journal* (Sep. 15, 2021).

[13] Rajesh Kumar Singh, "U.S. manufacturers grapple with steel shortages, soaring prices," *Reuters* (Feb. 23, 2021).

[14] Austen Hufford, "High Steel Prices Have Manufacturers Scrounging for Supplies," *The Wall Street Journal* (Sep. 15, 2021).

[15] Christine A. McDaniel and Veronique de Rugy, "The Downstream Costs of Trade Remedy Regulations," *Mercatus Center*. (June 2018).

[16] Kadee Russ and Lydia Cox, "Steel Tariffs and U.S. Jobs Revisited," *Econofact* (Feb. 6, 2020).

onto consumers, the businesses must manage the costs internally through laying off employees, investing less, or cutting back in other methods.[17] As discussed below, these effects have proven to negatively impact domestic downstream manufacturers.

For example, the St. Louis Dispatch reported that the largest U.S. nail manufacturer, Mid-Continent Nail, saw sales drop 60 percent due to an inability for domestic steelmakers to supply all the previously-foreign-supplied steel the company requires and the difficulty in receiving an approved exclusion request. Because the steel tariffs affected the price of the manufacturer's nails, many consumers turned to cheaper, imported derivative products that were not affected by Section 232.[18] The New York Times similarly reported that CP Industries, a Pennsylvania-based vessel manufacturer, could only domestically acquire one-fifth of its needed steel, which was delivered in random lengths. This increased processing costs by around 16 percent to accommodate the required additional milling, cutting, and testing. ProPublica reported that Eccotemp, a South Carolina water heater manufacturer, struggled to receive exclusions for its intermediate products only available in China, resulting in hundreds of thousands of dollars in duties and diminishing profit margins.[19] These examples are proof of a larger trend in which tariffs raise the costs of materials for manufacturers, resulting in higher prices of manufactured goods and ultimately reduced output.

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[17] Christine A. McDaniel and Veronique de Rugy, "The Downstream Costs of Trade Remedy Regulations," Mercatus Center (June 2018).

[18] David Nicklaus, "Missouri nail maker wins tariff exemption and begins planning a comeback," *St. Louis Post-Dispatch* (Apr. 5, 2019).

[19] Lydia DePillis, "How Trump's Trade War Is Making Lobbyists Rich And Slamming Small Businesses," *ProPublica* (Jan. 6, 2020).

III. Section 232 and Section 301 Tariffs Contribute to Economic Uncertainty and Rising Inflation.

Section 232 and Section 301 also inhibit economic growth by stunting economic activity and investment. Section 232 and 301's tariff policies created uncertainty in trade policy after years of limited volatility, resulting in reduced investment, consumption, and economic activity. The Congressional Research Service found that tariffs alter price signals, which may lead to "less efficient consumption and production patterns," thereby stunting economic growth.[20] According to a study by the Board of Governors of the Federal Reserve System, uncertainty in trade policy following the implementation of Trump-era tariffs rose to levels unseen since the 1970s and that higher expected tariffs and further uncertainty about future tariffs deterred investment. The study speculated that the increase in trade policy uncertainty may have resulted in a reduction in U.S. investment by 1 percent or more in 2018.[21]

Even more immediate has been the rise of inflation, which threatens the prosperity of millions of workers, consumers, and those on fixed incomes. As of May 2022, the Consumer Price Index increased 8.6 percent over the previous 12 months, making May 2022's increase the largest 12-month increase since December 1981.[22] A study by the American Action Forum found that section 232 and section 301 tariffs increased consumer costs annually by $51 billion, based on 2021 import levels.[23] These costs, along with a general rise in consumer prices, would

[20] "Escalating U.S. Tariffs: Affected Trade," *Congressional Research Service*. (Jan. 29, 2020).

[21] Dario Caldara, Matteo Iacoviello, Patrick Molligo, Andrea Prestipino, and Andrea Raffo, "The Economic Effects of Trade Policy Uncertainty," International Finance Discussion Papers 1256 (September 2019).

[22] Press Release, U.S. Bureau of Labor Statistics, Consumer Price Index – May 2022 (June 10, 2022).

[23] Tom Lee and Jacqueline Varas, "The Total Cost of U.S. Tariffs," *American Action Forum*, (May 10, 2022).

reduce the average American household income by $1,277.[24] Furthermore, the Tax Foundation estimates that the remaining tariffs in effect will reduce long run GDP by 0.22 percent.[25] A recent report by the Peterson Institute for International Economics describes the tangible, positive effects tariff relief would have. According to a WSJ editorial discussing the report, imports "contribute to 12 percent of the CPI," and a share of those lower costs "would quickly reach consumers through lower prices at retail outlets."[26]

The inflationary impact of the tariffs is not limited to consumer goods. Nonresidential construction input prices have increased 21 percent from April 2021 to April 2022. Officials from construction industry groups like the Associated General Contractors of America say that the best way to keep costs from rising even more is "…to allow contractors to buy materials from the widest possible range of suppliers and to eliminate measures that artificially inflate the cost of products" like inflexible tariffs and overly restrictive regulations.[27] Considering the negative effects that these tariffs have on both economic growth and domestic inflation, Reuters reported in May 2022 that U.S. Treasury Secretary Janet Yellen believes reducing tariffs are "worth considering" for their "desirable effects" regarding domestic inflation.[28]

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[24] "Escalating U.S. Tariffs: Affected Trade," *Congressional Research Service* (Jan. 29, 2020).

[25] Erica York, "Tracking the Economic Impact of U.S. Tariffs and Retaliatory Actions," *Tax Foundation*, (Apr. 1, 2022).

[26] The Editorial Board, "Cut Tariffs to help Inflation and Ukraine," *The Wall Street Journal* (18 April 2022).

[27] *See* AGCA press release "Wide Range of Costs Rise at Double-Digit Rates, Led by 86 Percent Jump in Price Index for Diesel Fuel, 45 Percent for Aluminum Mill Shapes, 32 Percent for Architectural Coatings, and 30 Percent for Plastics," (May 12, 2022).

[28] Trevor Hunnicutt and David Lawder, "U.S. Treasury's Yellen and trade czar Tai at odds over China tariffs," *Reuters* (May 17, 2022).

Increased global competition contributes to lower prices for domestic goods. PIIE reported that removing Section 232, Section 301, and Canadian softwood lumber tariffs would provide a one-time reduction in CPI inflation in the United States by 1.3 percentage points from the base level. While 1.3 percent may seem immaterial with the CPI reaching 8.6 percent, this inflation reduction would save the average American household $797 annually.[29]

IV. <u>Section 232 Negatively Affects Employment in Downstream Industries and Has Not Produced Enough Jobs in the Steel and Aluminum Producing Industries to Compensate.</u>

The steel and aluminum consuming industries employ an excess of 20 million workers in the United States.[30] As of March 2021, 3,200 new steelmaking jobs were created,[31] significantly less than the estimated 8,700 jobs to be created from the section 232 tariffs.[32] Furthermore, some of the initial job creation from the section 232 tariffs appears to be short lived as U.S. steel producers have continued to shut down facilities. Last month, U.S. Steel announced that it is in talks to permanently close its two blast furnaces at its Granite City Works facility.[33] This is the same facility that then-President Trump described as having been "saved" by the section 232 tariffs. However, while section 232 tariffs remain in place and continue to cause more

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[29] Gary Clyde Hufbauer, Megan Hogan, and Yilin Wang, "For Inflation Relief, the United States Should Look to Trade Liberalization," *PIIE* (Mar. 2022).

[30]Kadee Russ and Lydia Cox, "Steel Tariffs and U.S. Jobs Revisited," Econofact (Feb. 6, 2020) (finding that there are more than 12 million jobs in industries that use steel in their production process); Frank Fuhrig, "Quick Reads: A Bad Deal for American Industry" *The Bridge* (Aug. 7, 2020) (finding that there are nearly 10 7 million jobs in major aluminum consuming industries).

[31]Adam S. Hersh and Robert E. Scott, "Why Global Steel Surpluses Warrant U.S. Section 232 Import Measures," *Economic Policy Institute* (Mar. 24, 2021).

[32] Gary Clyde Hufbauer and Euijin Jung, "Steel Profits Gain, but Steel Users Pay, under Trump's Protectionism," *PIIE* (Dec. 20, 2018).

[33] Andrea Bossi and Joe Deaux, "U.S. Steel Plant Trump 'Saved' Slated to End Steelmaking Forever," *Bloomberg* (June 28, 2022).

destruction to downstream industries, the very facilities that were claimed to be saved by these tariffs are now closing. But what is really demonstrated by the closing of Granite City again is that the tariffs propped up an otherwise obsolete facility. To what end? Meanwhile, even before the COVID-19 pandemic disrupted the global economy, steel mills began cutting workers' hours, laying off employees, and closing mills.[34] For example, in late 2019, U.S. Steel also announced its intention to "indefinitely idle a significant portion" of its iron and steelmaking operations near Detroit, leaving 1,500 people without jobs due to the intended closure.[35]

PBS reported that the steelmaking industry only employs fewer than 200,000 people and is becoming increasingly automated because of technological innovation. Job loss will inevitably continue in the raw material industry, making any potential gains received from the tariffs very limited.[36] Likewise, the aluminum producing industry employs 60,200 people, compared to the 10.7 million jobs in the aluminum consuming industry.[37] PIIE projected that downstream industries would pay an additional $5.6 billion for domestic steel after the tariffs, equating that for every additional job created in the steelmaking industry, steel users were projected to pay $650,000 in the associated rising costs.[38] Overall, studies have estimated that the Section 232 tariffs have resulted in 75,000 fewer manufacturing jobs than in the tariffs' absence; this number

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[34] Don Lee, "Trump's steel tariffs were supposed to save the industry. They made things worse," *Los Angeles Times* (Oct. 29, 2019).

[35] Richard McDonough, "The cause and effect of steel tariffs" (March 2020).

[36] Bani Sapra and Paul Wiseman, "Why Trump tariffs haven't revitalized American steelmakers," *PBS* (Nov. 4, 2019).

[37] Frank Fuhrig, "Quick Reads: A Bad Deal for American Industry" The Bridge (Aug. 7, 2020).

[38] Gary Clyde Hufbauer and Euijin Jung, "Steel Profits Gain, but Steel Users Pay, under Trump's Protectionism," *PIIE* (Dec. 20, 2018).

does not account for additional job loss among U.S. exporters.[39] Some studies suggest that the job loss in the manufacturing industry might exceed the total number of workers in the steel and aluminum producing industries.[40] Unusually, manufacturers are now hiring additional employees outside of the manufacturing context – supply chain employees. The Wall Street Journal reported that alongside accepting nonstandard metal sizes and increased prices, manufacturers were beginning to bulk up their supply-chain teams. These supply-chain employees help to track delayed orders, monitor price increases, among other supply-chain issues[41] due to the increasingly difficult navigation of the current supply chain.[42]

V. <u>The Continued Imposition of Section 232 Tariffs Will Lead to More Offshoring and Less Manufacturing in the United States.</u>

With the increased cost of steel and the difficulty in receiving an exclusion or securing enough domestic steel, many manufacturers sought alternatives to the tariffs, resulting in consideration or completion of moving operations outside of the U.S. Noting that U.S. exports became less competitive in foreign markets and that exports in industries targeted by the tariffs declined, the Congressional Research Service found that some U.S. manufacturers began shifting production outside of the U.S. to avoid the tariffs.[43] The Los Angeles Times reported that Tramontina, a cookware manufacturer based in Wisconsin, closed its domestic plant, resulting in

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[39] Kadee Russ and Lydia Cox, "Steel Tariffs and U.S. Jobs Revisited," *Econofact* (Feb. 6, 2020).

[40] Veronique de Rugy, "The Trump Tariffs Will Cost Americans Jobs," *New York Times* (Mar. 5, 2018).

[41] Austen Hufford, "High Steel Prices Have Manufacturers Scrounging for Supplies," *The Wall Street Journal* (Sept. 15, 2021).

[42] Peter S. Goodman, "How the Supply Chain Broke, and Why It Won't Be Fixed Anytime Soon," *New York Times* (Oct. 22, 2021).

[43]"Escalating U.S. Tariffs: Affected Trade," *Congressional Research Service* (Jan. 29, 2020).

the loss of 145 manufacturing jobs.[44] Similar stories of plant closures and offshoring were reported in other news outlets, including in Business Insider, who reported that Stack-On Products, an Illinois-based storage manufacturing company, moved its plants to Mexico, laying off 153 workers in the process.[45] The Los Angeles Times reported that even the American icon, Harley-Davidson, sought and received EU approval to shift its manufacturing outside the U.S. because the company's operating income fell 26% in one quarter due to the tariffs eroding profits.[46] These tariffs change the overall calculus in deciding whether more manufacturers will make the economic decision to outsource or keep production in the United States.

VI. Industry Investment And Restructuring

There is no question that some domestic steel producers-invested in new facilities. As the Commission Staff have noted in the pending Sunset Review of the antidumping and countervailing duty orders CORE from Taiwan and other countries, the domestic steel industry's capital expenditures have increased significantly, particularly starting after 2018. Total capital expenditures increased from $346 million in 2016 to $421 million and $605 million in 2017 and 2018 respectively, and then jumped to nearly $1 billion in 2019, and $1.4 billion and $1.2 billion in 2020 and 2021, respectively.[47] *See* the graph below.

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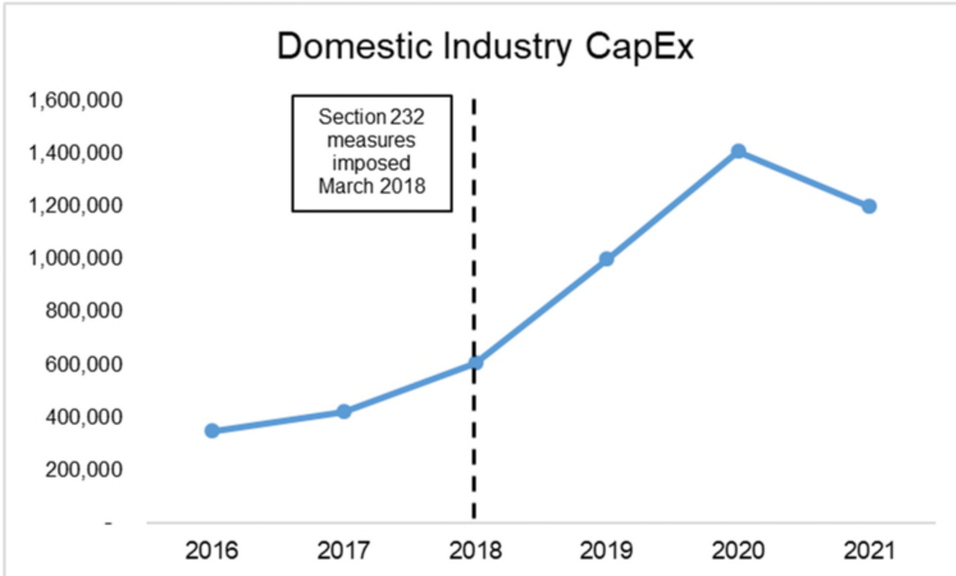
[44] Don Lee, "Manufacturing is now officially in recession, despite Trump's vow to boost industry," *Los Angeles Times* (Oct. 11, 2019).

[45] Bob Bryan, "A Chicago-area manufacturer is laying off 153 workers and moving to Mexico partly because of Trump's tariffs," *Business Insider* (Aug. 15, 2018).

[46] Bloomberg, "Harley-Davidson gets EU approval for plan to dodge $100-million tariff hit," *Los Angeles Times* (July 23, 2019).

[47] *See* Memorandum from Nannette Christ, Office of Investigations Director, to the Comm'n, "Investigation Nos. 701-TA-534-537 and 731-TA-1274-1278 (Review): Certain Corrosion-Resistant Steel Products From China, India, Italy, South Korea, And Taiwan—Staff Report" at III-51, Table C-1 (U.S. Int'l Trade Comm'n June 21, 2022).



Source: CORE Final Staff Report at Table C-1.

These significantly increased levels of capital expenditures corresponded with increased productivity levels.[48] Domestic producers have already reaped record profits as a result. Nucor CEO Leon Topalian recently stated that Nucor's second reporting period ending in June 2022 was "…on course to yield a record quarterly profit" driven by large increases in demand from "booming construction and heavy equipment industries, and slowly expanding automotive production."[49] Steel Dynamics and Cleveland-Cliffs are also seeing large increases in sales in spite of higher prices for raw materials as customers rebuild depleted inventories.

The structural changes in the industry have changed the U.S. market in a fundamental way. Those structural advantages will remain regardless of any future changes in market conditions – *i.e.*, the industry results in 2021 were not an accident and are not temporary. And as

[48] *Id.* at Tables III-14 and C-1.

[49] Bob Tita, "Rebounding Demand, Rising Prices Boost U.S. Steelmakers' Profits," *Wall Street Journal* (April 22, 2022).

a result, further relief is unnecessary and would be counterproductive for the reasons detailed in the preceding sections.

VII. Conclusion

Based on the foregoing, AMSCI respectfully requests that the Commission take into account the significant adverse impacts that section 232 and section 301 tariffs have had on U.S. industries in its report.

Respectfully submitted,

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