What’s Next for the Sec. 232 Tariffs on Steel and Aluminum? | U.S. Chamber of Commerce

U.S. CHAMBER OF COMMERCE (Feb. 4, 2021)

What’s Next for the Sec. 232 Tariffs on Steel and Aluminum?

By John Murphy

One knotty issue awaiting action by the Biden administration will be the fate of the Section 232 tariffs and quotas on steel and aluminum imports. Imposed in 2018, the duties raised prices on key inputs for U.S. manufacturers, elicited painful retaliation from abroad, and produced new tensions with important allies.

The Chamber is advocating for the Biden administration to end these tariffs and quotas. Doing so would not only ease the burden of tariffs and counter-tariffs borne by U.S. manufacturers and farmers, it would spur economic growth at a time when it’s badly needed. It would also enhance the administration’s ability to work cooperatively with allies to address shared concerns globally.

What is the scope of the Sec. 232 tariffs?

Introduced in two waves—in March and July of 2018—the U.S. Section 232 tariffs of 25% on steel and 10% on aluminum were applied to metal imports from nearly every country in the world. Argentina, Brazil, and South Korea agreed to quotas instead of tariffs; uniquely, Australia got a full exemption. Only in the case of Canada and Mexico have they been dropped (in May 2019). It isn’t clear what’s going on with the UAE.

What does the Sec. 232 statute do?

Section 232 of the Trade Expansion Act of 1962 allows the president to use authority delegated by the Congress to impose tariffs or quotas when it is determined that imports “threaten to impair the national security.” Its use does not require a determination of injury, nor does its use imply the goods are being traded unfairly (i.e., dumped or subsidized).
Who really pays the tariffs?

Tariffs are a tax on imported goods paid by the importer of record; in other words, Americans pay American tariffs. Research by the Federal Reserve Bank of New York has affirmed that—generally speaking—the tariffs imposed by the Trump administration “continue to be almost entirely borne by U.S. firms and consumers.”

However, the same study found that “tariffs have caused foreign exporters of steel to substantially lower their prices into the US market.” As a result, steel producers in the EU,

South Korea, Japan, and elsewhere bore part of the cost. Nonetheless, the researchers noted this is "bad news for workers hoping that steel tariffs will bring back jobs. Indeed, the fact that foreign steel producers have lowered their prices in response to US tariffs may help explain why US steel production rose by only 2 percent per year between the third quarter of 2017 and the third quarter of 2019 despite 25 percent steel tariffs."

Didn't the tariffs help the steel and aluminum industries?

The tariffs and quotas did cause domestic metal prices to rise over the second half of 2018. However, as trade analyst Scott Lincicome recently summarized:

"Steel industry stocks actually tanked in late 2018 and early 2019, and steel companies were laying off workers and curtailing investments by the end of 2019. As I wrote in these pages a few weeks ago, the story was similar for U.S. aluminum producers… In fact, the Trump administration itself has quietly admitted—when extending the tariffs to downstream 'derivative' products in early 2020—that they hadn't increased and stabilized the industries' capacity utilization. As one *Los Angeles Times* story put it, 'Trump's steel tariffs were supposed to save the industry. They made things worse.'"

Wasn't the harm to other U.S. industries minor?

Not really. Along with other U.S. tariffs, the Section 232 tariffs and quotas contributed to the U.S. manufacturing recession of 2019, when factory output contracted for three quarters. This manufacturing recession struck even though consumer demand was robust, tax cuts were taking hold, and interest rates were low. Wages for U.S. manufacturing workers fell in 2019 even as average wages for all workers rose. Manufacturing strongholds such as Michigan, Wisconsin, and Pennsylvania saw net manufacturing job losses. All of this preceded the pandemic.

While higher metal prices benefited producers for a time, U.S. workers employed in manufacturing industries that depend on steel as an input outnumber those in steel production by approximately 45-to-1, and those much larger industries were harmed by higher costs and reduced competitiveness. Some U.S. auto manufacturers reported new tariff costs in the range of $1 billion.

How did other countries respond?

Unsurprisingly, NATO countries and other allies took offense at the contention that their metals pose a threat to U.S. national security. They responded with retaliatory duties on an estimated $43 billion of U.S. exports (a figure that fell by about half when the United States ended the tariffs on Canada and Mexico in May 2019).

Foreign duties targeted U.S. export products in a manner intended to maximize U.S. economic and political pain. Bourbon from Kentucky, motorcycles from Wisconsin, and dairy products from a wide range of states were subjected to new foreign duties, and U.S. workers, farmers, and businesses saw their foreign sales take a hit.

<u>Aren't these tariffs necessary to address unfairly trade goods?</u>

No, the only lawful use of Section 232 is to address imports that "threaten to impair the national security." Different U.S. statutes authorize trade remedies to address unfairly traded goods: These anti-dumping and countervailing duties (AD/CVDs) are applied to dumped or subsidized imports. They are used extensively in the steel and aluminum sectors. How extensively? According to the U.S. International Trade Commission, the United States as of February 2021 had <u>in place</u> 555 AD/CVD orders on a widely variety of steel products imported from a total of 47 countries. By far the largest number (206) was imposed on Chinese steel products. The duty rates for these orders often soar into the triple digits. Former Commerce Secretary Wilbur Ross tweeted in August that the Trump administration oversaw a 267% increase in trade remedy use relative to the preceding administration.
In other words, the United States has been acting to address unfairly traded steel and aluminum imports not with Section 232 — which is the wrong tool — but with trade remedies, and it is doing so very aggressively.

<u>Doesn't the state of global metals markets require these tariffs?</u>

While action to address the challenges facing global steel and aluminum markets may have merit, it's been widely recognized for years that the problem afflicting global steel and aluminum markets is <u>overcapacity in China</u>. U.S. tariffs and quotas on metals from countries such as Britain, Germany, Japan, and Korea are beside the point.

Over the past decade the role of state-owned and state-directed enterprises has expanded in China, and its investment in steel and aluminum production has ballooned beyond what the Chinese market—or global markets—can bear.

However, due to the extensive AD/CVD duties applied to imports of steel from China as described above, <u>China is not a "top 10" source</u> of U.S. steel imports. China's exports to the United States account for less than 2% of U.S. steel imports (and imports account for 25% of consumption).

<u>Don't these tariffs provide the U.S. with useful negotiating leverage?</u>

There's no evidence of this. When the Trump administration did engage in negotiations with foreign governments over the Section 232 tariffs, it rarely did so to advance any objective unrelated to steel or aluminum. Trump administration talks with foreign governments about the tariffs focused on the relative merits of tariffs or quotas and debates over import baselines.

There's no truth to assertions that the tariffs helped make USMCA happen. With Canada and Mexico, the tariffs were dropped in May 2019 only when it became obvious they were blocking moves to finalize the United States-Mexico-Canada Agreement (USMCA). Members of Congress of both parties pressed the White House repeatedly to drop the tariffs for this reason.

If not Sec. 232 tariffs, what should be done?

As noted, the fundamental challenge facing global steel and aluminum markets lies in China's substantial overcapacity—which the Section 232 tariffs and quotas do little to address.

For context, U.S. production accounted for more than 75% of domestic steel consumption in 2019, and a large majority of U.S. demand for aluminum is met by domestic and Canadian production. After an early 2020 recession-related swoon in metals productions, U.S. steel and aluminum producers are faring well today as prices have risen with the manufacturing recovery and as hopes rise for a big infrastructure package.

**Among the steps the Biden administration should consider to a
ddress the overcapacity problem is reinvigorating the Global Forum on Steel Excess Capacity. It was created by the G20 and Organization of Economic Cooperation and Development (OECD) in 2016 to tackle this problem. While it offers no panacea, the Trump administration did not prioritize it; the Biden team should certainly seek to leverage this multilateral approach.**

Enhanced monitoring to guard against circumvention is another tactic the Biden administration may consider. In September 2020, the Department of Commerce took steps to modernize the Steel Import Monitoring and Analysis (SIMA) system, which allows officials to "more readily identify transshipment and circumvention involving steel imports." A similar system for aluminum was set up shortly thereafter. Regular consultations with the governments of Canada and Mexico under the USMCA can also help ensure that metals from China aren't transshipped into North America.

***

The Biden administration should terminate the Section 232 tariffs and quotas and reject further "national security" trade threats against America's allies. Not only have these tariffs and quotas missed their intended target and instead hit close U.S. allies and partners, U.S. workers, farmers, and companies have paid a steep price for their use. It's time to change course.