

May 31, 2017

Brad Botwin  
Director of Industrial Studies  
Office of Technology Evaluation  
Bureau of Industry and Security  
U.S. Department of Commerce  
Washington, DC  
1401 Constitution Avenue, NW  
Washington, D.C. 20230

*RE: Public Comments on the Section 232 National Security Investigation of Imports of Steel*

Dear Director Botwin:

On behalf of the Alliance for American Manufacturing (AAM), representing both American workers and U.S. producers, I thank you for the opportunity to share our views on the impact of steel imports on our national and economic security.

**About the Alliance for American Manufacturing (AAM).**

AAM is a non-profit, non-partisan partnership formed in 2007 by some of America's leading manufacturers and the United Steelworkers. Our mission is to strengthen American manufacturing and create new private-sector jobs through smart public policies. We believe that an innovative and growing manufacturing base is vital to America's economic and national security, as well as to providing good jobs for future generations. AAM achieves its mission through research, public education, advocacy, strategic communications, and coalition building around the issues that matter most to America's manufacturers and workers.

**Introduction**

AAM strongly supports the Section 232 investigation and encourages the administration to take aggressive steps to safeguard our domestic steel industry. In the midst of an unprecedented and dangerous global steelmaking overcapacity crisis, our nation's military and political leaders must act now to maintain a strong steel sector – as it is critical to the defense of our nation and our economic security. It would be a grave mistake if the United States were to become dependent on the unpredictable decision-making of foreign governments for its steel needs – some of which are potentially hostile to our economic and national security interests.

- AAM urges the use of all available tools to safeguard American-made steel, ensuring the industry will remain a strong and ready foundation for our economic and national security. In doing so, it is important to include a comprehensive range of steel products that are used in both traditional defense applications and in America's critical infrastructure. This includes roads, bridges, tunnels, rail networks, electrical systems and transformers, and water systems.

- AAM also urges you to ensure that your actions safeguard steelmaking processes throughout the supply chain. This should include the critical melting processes of iron and steel-making where the bulk of employment and capital investment occurs. According to SteelOnTheNet.com, a semi-finished steel slab constitutes roughly 90 percent of the cost of a finished hot-rolled steel product.

### **U.S. Must Avoid Becoming Reliant on Foreign Suppliers for National Security Infrastructure.**

Steel is an essential material for America's national security infrastructure. It is used in the construction of everything from ships, tanks, and armaments to bridges, rail systems, our electrical grid, and energy infrastructure. The health of the sector is inextricably linked to our freedom and independence. Put simply, if the United States' ability to produce steel is compromised, it will be forced to rely on potentially hostile or uncooperative foreign governments to equip its military and support its military, preparedness, and disaster response needs. This would be a grave mistake.

Since China's 2001 entry into the World Trade Organization (WTO), we have seen the steady erosion of domestic steelmaking capacity. In 2000, the U.S. steel industry produced 112.2 million metric tons (mmt) of raw steel.<sup>1</sup> By 2016, output was down to 87.9 mmt. Furthermore, in each of the nine years leading up to 2001 (when the Section 201 investigation occurred), capacity utilization was above the 80 percent threshold – a general benchmark level for profitability. This is critical because profits provide the resources necessary for the steel sector to invest in the research and development and capital equipment purchases that keeps our steel industry cutting edge, and able to deliver the technologically advanced steel products that help keep our warfighters safe. Last year, capacity utilization averaged only 70.8 percent.

This erosion of steel production, and the low rates of capacity utilization, are a result of massive global overcapacity in the steel sector. Since 2000, China has added 990 mmt of steel capacity, roughly equivalent to 75 percent of all new capacity additions during this period.<sup>2</sup> This is an increase of over 660 percent, at the same time that producers in the United States were reducing capacity. Repeated promises by the Chinese government to reign in its overcapacity have not resulted in any meaningful results. In fact, Chinese production actually increased 36 mmt in 2016.<sup>3</sup>

While traditional trade remedy measures have slowed the bleeding, these overcapacity trends are unsustainable and require solutions. As we will explain in further detail below, it is critical that we maintain a commercially vibrant steel sector to secure our economic and national security.

### **U.S. Military Needs.**

Virtually every military platform is dependent to some degree on steel and specialty metals. Just as domestic steel manufacturers transformed their operations to innovate and equip our fighting

---

<sup>1</sup> United States Department of Commerce. (2001). *The Effect of Imports of Iron Ore and Semi-Finished Steel on the National Security*. Washington, D.C. Retrieved from [www.bis.doc.gov](http://www.bis.doc.gov).

<sup>2</sup> Brun, L., *Overcapacity in Steel: China's Role in a Global Problem* (Duke University Center on Globalization, Governance & Competitiveness, August 2016). Retrieved from <http://www.americanmanufacturing.org>.

<sup>3</sup> Wong, E. (2017, February 16). Greenpeace Links Beijing's Air Pollution Surge to Steel Factories. *The New York Times*. Retrieved from [www.nytimes.com](http://www.nytimes.com).

forces throughout World War II, America's domestic steelmakers responded to the urgent need for steel armor plate to increase production of Mine-Resistant Ambush-Protected (MRAP) vehicles to protect troops from improvised explosive devices (IEDs) in the Middle East.

The 2016 AAM report, *Steel Import Surge Threatens U.S. National Security*, quantifies the use of steel in some of our military's most critical platforms. Abrams tanks, for instance, require 22 tons of steel plate each.<sup>4</sup> Multiplied across the 8,500 Abrams tanks that have been provided to the military, this has required 187,000 tons of reliable, high-quality steel. This report also highlights the importance of steel to our Navy:

"The steel for Nimitz-class aircraft carriers must be able to withstand the impact of a 27-ton, F-18 Hornet aircraft landing on the deck at 150 miles an hour, shield a ship's crew from radiation generated by onboard nuclear reactors, and survive the impact of shells and other projectiles. To achieve this extraordinary stability and versatility, each carrier requires 50,000 tons of steel plate."<sup>5</sup>

But it is not only the amount of steel being used in these platforms that is important, it is the quality and the reliability of its sources. A prime example is the ramp up of MRAP production in 2007 in response to the threat facing our warfighters from the heavy use of IEDs by insurgents. Between June of 2007 and December of 2007, MRAP production soared from 82 vehicles per month to 1,300 per month.<sup>6</sup> Then-Secretary of Defense Robert Gates credited MRAP vehicles with saving "thousands and thousands of lives."<sup>7</sup> The U.S. military was able to accelerate production because domestic producers were ready to meet demand and because others were able to make the necessary investments to begin armor plate production. Further, by having a healthy stock of domestic producers, the U.S. military is able to use rated orders to bump militarily important products to the front of the line at domestic production facilities. If we had to source this steel from mills outside the U.S., even from allies, we would not have this tool at our disposal. This gives our military increased flexibility and improves the responsiveness of our defense industrial base to the changing demands of our warfighters.

Finally, although foreign governments will surely point out that only 3 percent of U.S. production is currently used for national defense and homeland security, the commercial viability of domestic steel producers is vital to ensuring they can continue to make the costly investments necessary to develop steel that can withstand the demanding applications it is used for in our military platforms. Further, this figure masks specific vulnerabilities in our defense supply chain.<sup>8</sup> For instance, there is now only one steel producer in the U.S. making the high-grade steel necessary for our Virginia-Class nuclear-powered submarines.<sup>9</sup> We cannot afford to lose the capacity to make such critical components, or we risk being unable to adequately equip our warfighters, and thus jeopardize national security, in times of crisis.

---

<sup>4</sup> Alliance for American Manufacturing. (2016). *Steel Import Surge Threatens U.S. National Security*. Retrieved from [www.americanmanufacturing.org](http://www.americanmanufacturing.org).

<sup>5</sup> *ibid*

<sup>6</sup> Adams, John. *Remaking American Security: Supply Chain Vulnerabilities & National Security Risks Across the U.S. Defense Industrial Base* (Alliance for American Manufacturing, May 2013). Retrieved from [www.americanmanufacturing.org](http://www.americanmanufacturing.org).

<sup>7</sup> *ibid*

<sup>8</sup> American Iron and Steel Institute. (2016). *Profile 2016*. Retrieved from [www.steel.org](http://www.steel.org).

<sup>9</sup> Pete, J. (2016, May 22). Local steel used in Navy ships. *The Northwest Indiana Times*. Retrieved from [www.nwitimes.com](http://www.nwitimes.com).

### **Domestic Preparedness and Homeland Security.**

Without a strong domestic production capability, the U.S. would risk not having the reliable steel supply that is vital to homeland infrastructure in a crisis or in the aftermath of a catastrophe, such as an earthquake or hurricane. Steel is essential to our infrastructure, including bridges, pipelines, rail networks, airport runways, electric generators and transmission towers, commercial, industrial, and municipal construction.

*Preparing for 21<sup>st</sup> Century Risks*, a 2012 report authored by former Governor and Homeland Security Secretary Tom Ridge highlighting the critical role our domestic manufacturing base plays in emergency preparedness, notes that in the wake of Hurricane Katrina, 80 – 90 percent of infrastructure services were wiped out in the most affected areas of Louisiana and Mississippi.<sup>10</sup> As the region rebuilt, a surge of imported Chinese wallboard was used to help meet demand, being used in as many as 100,000 construction projects. Unfortunately, there were multiple quality issues, as the drywall gave off sulfide gases, eroding electrical wires, air conditioning coils and plumbing systems. This led to expensive rebuilds and numerous health complaints.<sup>11</sup> Although this was largely private sector construction, it is not difficult to see how dangerous it would be to grow reliant on foreign steel for our public infrastructure needs.

The import crisis not only weakens our entire steel industry, it also has stretched our ability to make certain essential products to the breaking point. Without action, the U.S. is at risk of letting a startling lack of redundancy in key steel product areas turn into complete incapacity. For instance, there is now only one manufacturer of the high-end grain-oriented electrical steel essential to maintain and expand our energy grid. As Roger Newport, CEO of this producer, AK Steel, pointed out before the Congressional Steel Caucus on March 29, 2017:

“AK Steel is now the only producer of electrical steel in the United States – a product that is necessary for transmission and distribution transformers for all types of energy – including solar, nuclear, wind, natural gas – across our country.”<sup>12</sup>

But this wasn't always the case. There were once multiple manufacturers of this product, but due to imports and the inability of our trade remedy measures to address the scope of this crisis, other producers have closed or exited the market. Newport continues:

“...the market has rapidly deteriorated in part due to the loss of the grain-oriented electrical steel (GOES) trade case in 2014, as the ITC determined the domestic steel industry was not injured, a determination we believe was wrong. As a result of these poor market conditions, the only other U.S. producer of electrical steel permanently shut down its electrical steel facilities and exited the market last year. In 2016, grain-oriented electrical steel imports surged 80% over 2014 and unfortunately, this rising import trend

---

<sup>10</sup> Ridge, Tom, Stephan, Robert. *Preparing for 21<sup>st</sup> Century Risks: Revitalizing American Manufacturing to Protect, Respond and Recover* (Alliance for American Manufacturing, July 2012). Retrieved from [www.americanmanufacturing.org](http://www.americanmanufacturing.org).

<sup>11</sup> *ibid*

<sup>12</sup> Congressional Steel Caucus Hearing. *America Rebounding: Steel in 2017 and Beyond*. 115<sup>th</sup> Congress. (2017) (Testimony of Roger Newport, Chief Executive Officer, AK Steel Corporation). Retrieved from [www.steel.org](http://www.steel.org).

is continuing and we expect the U.S. electrical steel market to be under attack for the foreseeable future.”<sup>13</sup>

Former Homeland Security Secretary Janet Napolitano has also raised concerns about our capacity to respond to natural disasters. In the wake of Superstorm Sandy, Secretary Napolitano called attention to what the loss of domestic manufacturing capabilities meant for the United States’ ability to tackle that crisis effectively:

“I’ll give you a good example: transformers. You know, utilities use these big transformers to supply power. They are all made overseas. We have lost any domestic production whatsoever. And they’re big and they’re really expensive and they take a long time to move...After Sandy, we needed transformers and that whole process, I think, fed into some of the delay in getting the lights turned back on. That’s just one example that we run into...”<sup>14</sup>

Energy independence has long been considered integral to our national and economic security. But right as we are poised to capitalize on developments in natural gas exploration and renewable energy, we are at risk of jeopardizing this newfound security. According to the Committee on Pipe and Tube Imports, imports now constitute over 50 percent of the market for oil country tubular goods.<sup>15</sup> This is unsustainable and has led to layoffs and idled plants across the country. We cannot enjoy the security abundant natural gas and oil provide if at the same time we are losing the physical capacity and human capital necessary to make the very pipelines that transport these fuels.

### **Economic Security.**

Economic security is a critical piece of our national security. Not only does steel strengthen the military platforms it is used in and the numerous infrastructure projects it makes possible, but it also supports jobs for over a million Americans. But steel as an engine for middle-class jobs is at risk. For years, foreign governments like China have fueled massive expansions in their steel sectors with substantial government direction and support. The largest steel companies in China are state-owned and their increases in production have had little to do with real market forces. This growing global overcapacity of steel has already forced domestic plant closures and layoffs. Global steelmaking overcapacity presents unprecedented threats to the long-term viability of our steel sector, which is vital to our military, preparedness, and disaster response needs.

The impact of the mercantilist policies pursued by other nations, and China in particular, is well documented. A 2014 Massachusetts Institute of Technology paper calculated that between 2 and 2.4 million jobs were lost due to imports from China between 1999 and 2011.<sup>16</sup> A report by the Economic Policy Institute (EPI) put this figure even higher, estimating that as many as 3.4 million jobs were lost between 2001 to 2015 due to rapid growth in our trade deficit with China,

---

<sup>13</sup> *ibid*

<sup>14</sup> Alliance for American Manufacturing. (2013, March 4). “Getting the lights turned back on”—homeland security concerns from two DHS Chiefs. [Blog Post]. Retrieved from [www.americanmanufacturing.org](http://www.americanmanufacturing.org).

<sup>15</sup> Congressional Steel Caucus Hearing. *America Rebounding: Steel in 2017 and Beyond*. 115<sup>th</sup> Congress. (2017) (Testimony of Edward Vore, Vice Chairman of the Committee on Pipe and Tube Imports).

<sup>16</sup> Acemoglu, D., et al. *Import Competition and the Great Employment Sag of the 2000s* (MIT, August 2014).



nearly three-fourths of which were in manufacturing.<sup>17</sup> EPI also found that these imports, and the resulting job losses, had ripple effects throughout the economy, lowering wages for millions of Americans. In the ten-year period from 2001 to 2011, they calculate that imports from low wage countries depressed cumulative wages of non-college graduates by \$180 billion a year.<sup>18</sup>

This phenomenon is all too present in our domestic steel industry. In 2000, the iron and steel industry directly employed over 210,000 workers.<sup>19</sup> Since then we have lost a third of this high-skilled workforce, dropping to just over 140,000.<sup>20</sup> This most recent import surge has put thousands of workers out of a job since January of 2015. At its peak, over 19,000 workers in the industry were either unemployed or facing layoff notices.<sup>21</sup> The impact of these layoffs on our economic security go far beyond the direct jobs impacted. The steel industry supports over a million jobs because of its robust multiplier effect; by some estimates as many as 7 jobs are supported by each steel job.<sup>22</sup> Steel's long supply chain supports equipment manufacturers, iron ore, limestone and coal miners, the shipping industry, and service providers. The high wages skilled steelworkers receive and spend on goods and services further support their local economies. When the steel industry suffers, America's economic security is eroded.

According to the most recent figures from the American Iron and Steel Institute, capacity utilization thus far this year is averaging 74.1 percent.<sup>23</sup> As mentioned earlier, steel mills need to run at 80 percent of capacity in order to be profitable. This is an essential prerequisite for the investments our steel sector needs to make to remain competitive and provide high-quality materials to our warfighters, for our infrastructure needs, and to their commercial clients. The manufacturing sector is responsible for three-fourths of all private sector research and development.<sup>24</sup> But steel companies cannot invest in this critical area if they are unable to generate profits. This also jeopardizes steel producers' ability to invest in capital equipment and to retain the skilled workforce necessary to make the technologically-advanced steel needed for modern applications.

But if we are able to address the unfair trade practices swamping our steel industry, while reinvesting in our critical infrastructure, we can not only return these mills to profitability, we can put thousands of unemployed steelworkers back to work, and grow millions of additional jobs.

### **Voters Understand the Link Between Manufacturing and National Security**

In polling conducted immediately after the 2016 election, 70 percent of voters thought "a strong manufacturing sector is important to our military security." Voters who supported President

---

<sup>17</sup> Scott, Robert. *Growth in U.S.-China trade deficit between 2001 and 2015 cost 3.4 million jobs* (Economic Policy Institute, January 2017). Retrieved from [www.epi.org](http://www.epi.org).

<sup>18</sup> *ibid*

<sup>19</sup> U.S. Department of Labor, Bureau of Labor Statistics. (2017). Data retrieved from [www.bls.gov](http://www.bls.gov) using NAICS codes 3311 and 3312.

<sup>20</sup> *ibid*

<sup>21</sup> United Steelworkers Union. (2016). *USW Confirms USDOC Final Duties on Cold-Rolled Steel*. [Press Release]. Retrieved from [www.usw.org](http://www.usw.org).

<sup>22</sup> American Iron and Steel Institute. *The American Steel Industry – A Job Engine*. [Fact Sheet]. Retrieved from [www.steel.org](http://www.steel.org).

<sup>23</sup> American Iron and Steel Institute. (2017). *This Week's Raw Steel Production*. [Press Release]. Retrieved from [www.steel.org](http://www.steel.org).

<sup>24</sup> National Association of Manufacturers. *Top 20 Facts About Manufacturing*. [Fact Sheet]. Retrieved from [www.nam.org](http://www.nam.org).

Trump believed this even more strongly, with 81 percent of voters believing military security is an important reason to maintain a robust domestic manufacturing base.<sup>25</sup>

**Aggressive Action Necessary.**

AAM urges the use of all available tools to safeguard American-made steel, ensuring the industry will remain a strong and ready foundation for our economic and national security.

Individual trade enforcement actions are important and can certainly help mitigate some of the damage caused by unfair trade practices. But the magnitude of this problem calls for bolder action. Since 2007, when Chinese planning documents first acknowledged the overcapacity in its steel sector, China has added over 550 million metric tons of capacity, more than six times total U.S. production in 2016.<sup>26</sup> Further, despite the slew of antidumping and countervailing duty cases against China, production continues apace and fears of increased transshipment, whereby Chinese steel is essentially laundered in third party countries, are growing. A trade case is already being brought against Vietnam for this practice.<sup>27</sup>

To truly address the severity of this crisis requires a comprehensive solution. If China will not act to rein in its massive overcapacity, the U.S. has no choice but to augment its traditional trade remedy measures with a more far-reaching response.

**Conclusion**

AAM strongly supports the Section 232 investigation and encourages the administration to take aggressive steps to safeguard our domestic steel industry. In the midst of an unprecedented and dangerous global steelmaking overcapacity crisis, our nation's military and political leaders must act now to maintain a strong steel sector – as it is critical to the defense of our nation and our economic security. It would be a grave mistake if the United States were to become dependent on the unpredictable decision-making of foreign governments for its steel needs – some of which are potentially hostile to our security interests. AAM urges the use of all available tools to safeguard American-made steel, ensuring the industry will remain a strong and ready foundation for our economic and national security.

Sincerely,



Scott N. Paul  
President  
Alliance for American Manufacturing

---

<sup>25</sup> Alliance for American Manufacturing. (2016). *Findings From A National Survey of 1,200 General Election Voters*, November 2016. [Data Set]. The Mellman Group, Inc. & North Star Opinion Research. Retrieved from [www.americanmanufacturing.org](http://www.americanmanufacturing.org).

<sup>26</sup> Brun, L., *Overcapacity in Steel: China's Role in a Global Problem* (Duke University Center on Globalization, Governance & Competitiveness, August 2016). Retrieved from <http://www.americanmanufacturing.org>.

<sup>27</sup> Miller, J. (2016, November 7). *Commerce Department Launches Probes Into Chinese Steelmakers*. The Wall Street Journal. Retrieved from [www.wsj.com](http://www.wsj.com).