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BY E-MAIL STEEL232@BIS.DOC.GOV

Mr. Brad Botwin
Director, Industrial Studies
Office of Technology Evaluation
Bureau of Industry and Security
U.S. Department of Commerce
1401 Constitution Avenue, N.W., Room 1093
Washington, DC 20230

Re: Section 232 National Security Investigation of Imports of Steel: Comments of Ivaco Rolling Mills LP

Dear Mr. Botwin:

On behalf of Ivaco Rolling Mills LP ("Ivaco"), we submit the following written comments to the Bureau of Industry and Security ("BIS"), in connection with its national security investigation of imports of steel, pursuant to section 232 of the Trade Expansion Act of 1962, as amended, 19 U.S.C. § 1862. These comments are timely submitted in accordance with BIS' Federal Register notice, 82 Fed. Reg. 19,205.

I. Background on Ivaco

Ivaco is a Canadian producer of steel billets and a producer/exporter of hot-rolled carbon and alloy steel wire rod. Ivaco is owned by The Heico Companies, LLC ("Heico"), a U.S.-based holding company located in Chicago, Illinois, with a diversified portfolio of over 35 businesses involved in manufacturing, construction, and industrial services. Among the metal processing businesses owned by Heico are several U.S.-based manufacturers of wire and wire-related products: Davis Wire Corporation ("Davis Wire"), with manufacturing facilities located in Kent, Washington and Irwindale, California; National Standard Company ("National Standard"), with manufacturing facilities located in Niles, Michigan and Stillwater, Oklahoma, and National Strand located in Houston, Texas.

II. The Impact of Canadian Imports of Steel Wire Rod on the Economic Welfare of the U.S. Steel Industry

As a Canadian producer and exporter of steel wire rod, Ivaco takes no position on U.S. production and capacity needed for steel to meet projected U.S. national defense requirements, or the effects of global steel imports in general on U.S. national security. However, Ivaco believes that if the President determines that current levels of "imports" of "steel" in general threaten U.S. national security, it is important for the President to recognize differences in the U.S. steel market among various broad categories of steel products, and distinguish between the impact of steel imports from Canada on the U.S. market and imports from other countries generally.

A. The Integrated Nature of the U.S. and Canadian Steel Markets Generally

First and foremost, the President should consider tailoring any import restraints for national security purposes in a manner that takes into account the unique role of Canadian imports in the U.S. market. In particular, U.S. and Canadian markets are integrated in general with respect to steel products used for the automotive market. Historically, the major U.S. automakers have manufactured automobiles on both sides of the Canadian border. As part of the integration of the U.S. and Canadian auto market, substantial quantities of steel for automotive use have also flowed across both sides of the border. For example, Canada has long imported more corrosion-resistant steel from the United States than the United States has imported from Canada.[1]

Also, it should be noted that Canada's steel labor markets are more integrated with the U.S. market than offshore suppliers, since the same United Steelworkers union that represents workers in most U.S. mills also represents Canadian steel workers. Significantly, during the Section 232 hearing, United Steelworkers of America ("USW") President Leo Gerard pointed out that "the Steelworkers are a binational union with significant membership on both sides of the US-Canadian border."[2] He also noted that the United States has a trade surplus in steel with Canada. For this and other reasons, the USW urged that "Canada is the only country that should be exempted from any potential action in the steel sector."[3]

In a sunset review of antidumping duty orders on corrosion-resistant steel from Canada and several other countries, the U.S. International Trade Commission ("ITC") explained the integrated nature of the market. The ITC found as follows:

> Automotive producers and auto parts suppliers perceive the United States and Canada as a unified market for production and sourcing decisions, while they view other

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[1] *Certain Carbon Steel Products From Australia, Belgium, Brazil, Canada, Finland, France, Germany, Japan, Korea, Mexico, Poland, Romania, Spain, Sweden, Taiwan, and the United Kingdom*, Inv. Nos. AA-1921-197 (Second Review); 701-TA-319, 320, 325-327, 348, and 350 (Second Review); and 731-TA_573, 574, 576, 578, 582-587, 612, and 614-618 (Second Review), USITC Pub. 3899, v.1 (Jan. 2007), at 112.

[2] Testimony of Leo W. Gerard, International President, United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Services Workers International Union (USW) Regarding the Section 232 National Security Investigation of Imports of Steel (May 24, 2017), at 6.

[3] *Id.*

> subject producers as "offshore." North American mills, including those located in Canada, are significantly better positioned than the other subject country producers to economically satisfy the just-in-time delivery requirements of the auto and auto parts companies.[4]

The ITC concluded as follows:

> The fact that Canada is a net importer of corrosion-resistant steel demonstrates that the market for corrosion-resistant steel in Canada is healthy, and attractive to both Canadian and U.S. steel producers, and the two-way nature of the market further corroborates Canadian respondents' arguments that auto makers operate as if there is an integrated North American auto market.[5]

As a result of this integration, the ITC concluded that imports of corrosion-resistant steel from Canada should be considered separately from imports from the numerous other reviewed countries.[6]

In a press briefing by steel industry executives just before the May 24, 2017 hearing on Section 232, Peter Campo, the incoming chairman of the Steel Manufacturers Association and President for Gerdau Long Steel North America, commented that imports from Canada (and Mexico) are the "least of our troubles" and import restrictions against NAFTA countries are not "our first choice."[7]

As a result, when the President considers possible import restriction options for curing any national security concerns that he may find with respect to steel, he should take care to make sure that global import relief does not impair the two-way flow of steel in the North American auto market, and therefore the President should not impose any import restrictions pursuant to Section 232 that would inhibit the cross-border flow of steel products, such a steel wire rod.

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[4] *Id.*

[5] *Id.*

[6] *Id.* at 111-12.

[7] "Steel Industry Executives Hope 232 Investigation Will be 'Catalyst" to Remedy Supply Chain," World Trade Online (May 24, 2017).

B. The Integrated U.S.-Canada Markets With Respect to Wire Rod

In the case of carbon and alloy steel wire rod from Canada, Ivaco believes that Canadian imports are fairly traded and complement U.S. production, and do not harm the economic welfare of the U.S. steel industry.

There are several structural reasons why Canadian imports of steel in general, and in particular steel wire rod, play a more positive role in the U.S. market place than offshore sources, and therefore should be treated differently than other imports in evaluating the national security implications of steel imports.

First, as discussed above with respect to steel generally, for geographical reasons most U.S. purchasers consider Canadian imports functionally to be part of the domestic industry, while imports from other countries are considered "offshore" and are viewed differently. Canadian producers export steel wire rod to the United States almost on a daily basis via truck and rail, typically in quantities ranging from 20 to 40 tons. In contrast, "offshore" suppliers typically deliver boatloads of wire rod (usually 15,000 to 20,000 tons are on a boat). U.S. purchasers of Canadian wire rod typically can purchase wire rod two to three weeks ahead of time, whereas they must plan many months in advance for importations of offshore rod. This means that for "offshore" rod, the importer or the downstream customer must incur significant costs to warehouse bulk imports for a long period of time. In contrast, Canadian imports, in smaller truckload quantities, can be delivered on a "just-in-time" basis. This key difference—the ability to make smaller, just-in-time deliveries—adds to the integration of Canadian imports within the overall North American market. It also means that while boatload-size imports from offshore suppliers are likely to have a disruptive effect on the U.S. market and jeopardize the welfare of the U.S. steel industry, Canadian imports have a more benign effect, and effectively serve as reserve U.S. producer capacity.

Moreover, the U.S. and Canadian industries are substantially integrated in terms of ownership. Wire rod is the major input for a wide range of wire products. Ivaco's parent company, Heico, owns substantial wire production assets in the United States. Both Davis Wire and National Standard purchase the large majority of their wire rod needs from U.S. wire rod manufacturers, but they also purchase some quantities from Ivaco. Heico also owns other substantial U.S. assets contributing to the U.S. steel industry (and potentially national defense), including National Strand Products LP, in Heico's Metal Processing Group, and several other U.S. construction, aviation, and engineering companies. The other major Canadian producer of steel wire rod is ArcelorMittal Long Products Canada, which is affiliated with ArcelorMittal USA, the U.S. assets of the world's leading steel and mining company. Again, this demonstrates the integrated nature of the U.S. and Canadian markets for steel wire rod.

For the above reasons, in considering the impact of imports of carbon and alloy steel wire rod on U.S. national security, BIS should view Canadian producers and Canadian imports with a different lens than offshore imports. Unlike offshore imports, Canadian producers are closely integrated with the U.S. market. The supply lines of U.S. wire drawers can be and are substantially linked with both U.S. and Canadian wire rod producers, in order to execute just-in-time deliveries. Through this integration, Canadian imports serve as an enhancement to stability in the overall U.S. market, in contrast with offshore imports, which often can have a destabilizing effect on the U.S. industry, and thus potentially endanger the U.S. defense base.

C. Findings in ITC Proceedings Regarding Steel Wire Rod

The structure and economic health of the U.S. steel wire rod industry has been examined over an extended period through a series of investigations by the ITC. The last time that the ITC examined in detail the economic impact of Canadian imports of steel wire rod was in a 2008 "sunset" review of antidumping duty orders on carbon and steel wire rod from Brazil, Canada, Indonesia, Mexico, Moldova, Trinidad and Tobago, and Ukraine.[8] In the 2008 sunset review, the ITC determined that revocation of the antidumping duty order on steel wire rod from Canada would *not* be likely to lead to continuation or recurrence of material injury to the U.S. industry, but that revocation of the antidumping duty orders against the six other countries *would* be likely to lead to continuation or recurrence of material injury to the U.S. industry.[9]

In its opinion in the 2008 sunset review, the ITC concluded imports of steel wire rod from Canada compete in the U.S. market under "different conditions of competition" than imports from the other subject countries in the sunset review.[10] The ITC pointed to several differences in imports from Canada vis-à-vis imports from the other countries, but of particular relevance to this Section 232 investigation is that imports from Canada sold in the U.S. market at prices generally *higher* than U.S. producers' prices, as opposed to imports from the other subject countries, all of which generally *undersold* U.S. producers' prices.[11] In fact, in the 2008 sunset review, the ITC found that the Canadian product was priced higher than the U.S. product in 117 of 188 quarterly comparisons.[12] The ITC also found that most imports from Canada consisted of special grades,

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[8] *See generally Carbon and Certain Alloy Steel Wire Rod from Brazil, Canada, Indonesia, Mexico, Moldova, Trinidad and Tobago, and Ukraine*, Inv. Nos. 701-TA-417 and 731-TA-953, 954, 957-959, 961, and 962 (Review), USITC Pub. 4014 (June 2008).

[9] *Id.* at 1.

[10] *Id.* at 18.

[11] *Id.*

[12] *Id.* at 39.

specifically "cold heading quality" and "welding quality" wire rod.[13] The ITC concluded that imports from the other subject countries competed with each other and with domestic producers in the U.S. market in the more fungible "industrial quality" grades. In contrast, the ITC found that Canadian producers "heavily participate" in the U.S. market in "more specialized products" that are unavailable from imports in other countries.[14] Finally, the ITC determined that Canadian wire rod producers suffered from much less overcapacity than wire rod producers in the other subject countries.[15] As a result of a lack of adverse volume, price effects, and adverse impact, the ITC concluded that revocation of the antidumping duty order against Canada was *not* likely to lead to continuation or recurrence of material injury to the U.S. industry.[16]

Subsequent ITC investigations also underscore the fact that Canadian imports serve primarily a complementary, national security enhancing function in the U.S. market. In 2014, the ITC conducted preliminary and final injury investigations of steel wire rod from China. In the preliminary investigation, one Commissioner noted that that non-subject imports of steel wire rod from Canada were sold in the U.S. market at higher prices than wire rod originating either in China or the United States.[17] In the final phase investigation of wire rod from China, the ITC again examined wire rod prices of non-subject Canadian imports, and again concluded that the Canadian imports sold at a higher price than the U.S. product in the great majority of instances.[18]

III. Conclusion

Based on the above analysis, Ivaco believes that if the President determines that steel is being imported in such quantities or under such circumstances as to threaten to impair the national security, the President should implement import adjustment measures that take into account the special role of Canadian steel imports. These Canadian imports complement U.S.-produced wire rod in a manner that is distinct from offshore imports.

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[13] *Id.* at 18.

[14] *Id.* at 18-19.

[15] *Id.* at 18.

[16] *Id.* at 40.

[17] *Carbon and Certain Alloy Steel Wire Rod from China*, Inv. Nos. 701-TA-512 and 731-TA-1248 (Prelim.), USITC Pub. 4458 (March 2014), at 21 n.126.

[18] *Carbon and Certain Alloy Steel Wire Rod from China*, Inv. Nos. 701-TA-512 and 731-TA-1248 (Final), USITC Pub. 4509 (Jan. 2015), Table D-5.

As such, if the President imposes import restrictions, he should exempt Canadian imports of steel wire rod from any such import restrictions.

Respectfully submitted,

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