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Office of Technology Evaluation
Bureau of Industry and Security
U.S. Department of Commerce
1401 Constitution Avenue, NW
Room 1093
Washington, DC 20230

Submitted via e-mail

RE: Notice of Request for Public Comments and Public Hearing on Section 232 National Security Investigation of Imports of Steel

The Industrial Fasteners Institute (IFI) appreciates the opportunity to submit these comments on the Department of Commerce's Section 232 National Security investigation on steel. IFI represents approximately 85% of fastener production capacity in North America, and there are few, if any, products used in the pursuit of national security that do not contain fasteners. These comments provide background on the fastener industry and our concerns with the potential impacts on downstream steel consumers from any trade actions that may result from the Section 232 steel investigation.

Background on the Fastener Industry

In 2015, the U.S. fastener industry accounted for $13.4 billion (of a $69.6 billion global market), and is projected to grow +2.6% per year to roughly $15 billion by 2020. In the U.S., the fastener industry employs approximately 42,000 people at about 850 different manufacturing facilities. Individual companies range in size from around $10 million in sales to several companies with more than $1 billion in sales. Many of these companies are family-owned, small to mid-sized businesses. The industry runs the gamut from basic metalworking manufacturing to highly automated facilities producing products with complex designs and engineering. Many fasteners are proprietary designs covered by one or more patents.

The fastener industry is critical to all segments of our manufacturing industrial base, including the defense industry. Not a single military or commercial aircraft or their power plants can be assembled without exotic materials and geometrically sophisticated fastener components. In the aerospace market, U.S. fasteners are the world standard: it is estimated that over 92% of aerospace fasteners worldwide are produced by IFI member companies. All automotive vehicles require many fasteners in their power train, structural assembly, steering, braking and control mechanisms, including electronics. Bridges, buildings, appliances, heavy trucks, off-road vehicles, consumer and military electronics, power generation, electrical grid, water and sewer infrastructure, oil and gas exploration and production, mining, rail, shipbuilding, medical products or almost any other segment you can name – all use fasteners and lots of them.

IFI's Concerns with the 232 Investigation on Steel

Fastener manufacturing is a major consumer of metals, including steel. Since fasteners can be made anywhere in the world, the U.S. industry is dependent on access to adequate supplies of globally priced raw materials such

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as steel to remain globally competitive. IFI wholeheartedly supports our steel supplier members and needs them to remain healthy. We also support addressing the overcapacity issues in the steel sector in China through negotiations with China.

Ideally, fastener manufacturers purchase their raw materials as close to the fastener manufacturing operation as possible, because metals are heavy, bulky and expensive to ship long distances. That requires a healthy, competitive domestic metal-producing industry, able to provide the necessary raw materials at globally competitive prices. However, even with a healthy domestic industry, history has shown that fastener manufacturers must sometimes import raw material because the particular types of steel needed are not available in the **quantities, quality or form** required. (Fasteners are made out of round form, not sheet, flat or bar products.) By some accounts, the U.S. steel industry is able to produce only about 70 percent of the total steel consumed in the U.S.

Trade policies and global economic conditions over the past several decades have produced repeated “boom and bust” scenarios for U.S. metals producers. Developing countries such as China, in an effort to expand their manufacturing economies through exports and with heavy government subsidization, have dramatically increased their metals production capacities, particularly in the steel industry. This excess capacity has in turn led to increased shipments of metals from abroad, which understandably causes U.S. metals producers to seek relief under U.S. trade remedy laws. Unfortunately, this often leads to the foreign country turning to exports of downstream products like fasteners.

No one disputes that unfair trade exists, and that trade remedy laws can be a useful tool to combat it when it occurs. However, while the trade remedy laws can provide some protection for domestic metals producers, they are a double-edged sword for downstream users such as fastener manufacturers, who may be negatively impacted by higher raw material costs and may not be able to fully utilize the trade remedy laws themselves. In particular, downstream users of products subject to trade remedies have no standing under U.S. law to participate in the process that may lead to the imposition of duties on those products. In addition, these downstream users are likely to be smaller companies who do not have the financial resources to pursue trade cases, which can cost millions of dollars to fully prosecute.

The fastener industry has experienced this scenario many times, where efforts to protect a basic raw material segment of the economy create unintended consequences throughout the rest of the economy. The most recent example occurred in 2002, when President Bush, at the urging of the U.S. steel industry concerned about a surge of imports, imposed 30% tariffs on nearly all imported steel under a Global Safeguard action. The impact on steel consuming industries was immediate and devastating. The evidence of harm to the broad economy grew quickly, leading President Bush to terminate the Global Safeguard order after only eighteen months instead of the full three years, but by then 1.3 million manufacturing jobs in steel consuming and related industries had been lost.

The fastener industry not only understands the need to ensure that the U.S. has the necessary industrial capacity to provide for our national defense needs, we are a vital part of that very capacity. To be frank, steel is a commodity until somebody makes it into a part/end item. We are concerned that the proposed 232 investigation will not give proper consideration to the importance of downstream industries to that industrial capacity. Fasteners are integral to most defense products, including ships, aircraft, weapons and transportation equipment. In recognition of the unique contributions of fasteners to defense products, Department of Defense procurement rules regarding domestic purchases of specialty metals contain specific provisions covering fasteners. Our most sophisticated weapons systems, such as the “stealth” aircraft, utilize specially designed fasteners incorporated into the design as part of the ”stealth” characteristics of the aircraft, and controlled under the export controls regulations.

Any action taken under this 232 investigation to help the domestic steel industry must by definition create pricing power for the industry. However, unless crafted very carefully, those same actions will almost certainly cause higher domestic and global prices for the consumers of steel, including fastener manufacturers. That is likely to cause increased imports of downstream products such as fasteners, which would threaten the health of the U.S. fastener industry and thereby harm national security.

On behalf of the U.S. fastener industry, IFI urges the Department to carefully consider all impacts of any potential actions taken pursuant to this investigation, and to avoid any actions that would harm the competitive position of downstream industries such as fastener manufacturing.

Conclusion

In conclusion, IFI would like to emphasize that the “steel market” is not monolithic—that is, all steel is not the same. As you heard during the May 24, 2017 public hearing on this investigation, different steel-consuming industries need different kinds of steel in different forms and qualities, and all steel producers do not produce all types of steel. Further, the U.S. steel industry cannot supply all of the steel needed by U.S. steel-consuming industries no matter the state of the global steel market. Thus, broad trade remedies such as section 232 actions that affect all steel of all kinds may produce temporary relief for a small number of steel producers, but they are blunt instruments that may also have unintended negative consequences on steel consumers necessary to national security. IFI urges the Department to carefully consider the global nature of manufacturing supply chains and the downstream impacts of broad trade enforcement tools or approaches affecting the availability and price of steel. Any such actions could adversely affect the global competitiveness of the U.S. fastener industry.

Specifically, we would make the following points:

- The AD/CVD system already in place provides producers with nearly unfettered access to trade relief with no input from users of the product. There is a current case on wire rod from numerous countries.
- Claims that the AD/CVD system does not work because of circumvention should be relieved under new statutes recently passed to address this problem.
- Claims that importers bypass the AD/CVD system by simply importing product further down the supply chain are absolutely correct. It is not just semi-finished steel that gets imported, it is the fasteners themselves.
- We agree with other commenters at the public hearing that Canada should be excluded from any 232 action. We also recommend that Mexico be excluded as our other NAFTA partner.
- Chrome-Moly Aircraft Steel 4130 Condition D and Condition F needed to make certain aerospace fasteners should be excluded from any 232 action. It is very difficult to source in the U.S. in the quantities needed for aerospace fastener manufacturers, who must also comply with domestic sourcing requirments under the Department of Defense specialty metals requirements.
- In the event the Department decides to undertake broad actions with a process for parties to request an exclusion for steel not made in the U.S. in the quantity, quality or form needed for U.S. manufacturers, IFI strongly urges the Department to ensure the exclusion process contains appropriate review mechanisms to ensure the exclusion applicant is able to order the steel it needs prior to declining the exclusion.

IFI appreciates the opportunity to submit comments about this critical issue. As we mentioned in our May 12 letter requesting a meeting with the Department on behalf of several steel consuming industry associations, we stand ready to meet with Secretary Ross and yourself to discuss these important issues. In the meantime, please contact Jennifer Reid, IFI’s Washington Representative, at 202-393-8524 or jreid@thelaurinbakergroup.com if we can be of further assistance.

Sincerely,

Rob Harris
Managing Director