



Via email to Steel232@bis.doc.gov

PUBLIC DOCUMENT

Attn: Brad Botwin, Director, Industrial Studies,
Office of Technology Evaluation,
Bureau of Industry and Security

May 26, 2017

The Honorable Wilbur L. Ross, Jr.
Secretary
U.S. Department of Commerce
1401 Constitution Ave., NW
Washington, D.C. 20230

**Re: Section 232 National Security Investigation of Imports of Steel;
Exclusion Request for Chipper Knife Steel**

Dear Mr. Secretary:

Pursuant to the Notice Request published in the Federal Register on April 26, 2017 (82 Fed. Reg. 19205), The KnifeSource LLC ("KnifeSource") submits these written comments to respectfully request that the U.S. Department of Commerce ("Department") exclude chipper knife steel from any action the Department might recommend to the President to limit or adjust imports of steel as a result of the Department's pending Section 232 National Security Investigation.

KnifeSource encourages the Department to consider, as part of this Section 232 investigation, the likely negative consequences of import adjustments on steel consuming industries that are especially dependent on certain steel products that are not available from domestic sources. For the reasons set forth below, chipper knife steel is one such product.

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I. Chipper Knife Steel and Its Exclusion From Previous U.S. Government Steel Import Restraints.

Chipper knife steel is a special grade of alloy tool steel that is used by American knife manufacturers, like KnifeSource, to produce wood chipping knives for the lumber, sawmill, forest products and landscaping industries.

For more than 40 years, chipper knife steel, in the hot rolled bar form used to make chipper knives, has not been available from domestic tool steel manufacturers. As a result, chipper knife steel was repeatedly excluded from the import restraints imposed under Section 201 of the Trade Act of 1974, including by Presidential Proclamations to that effect by Presidents Jimmy Carter and Ronald Reagan.¹

In addition, the U.S. Congress -- after recognizing the dependence of American chipper knife manufacturers on foreign supplies of chipper knife steel -- repeatedly reduced and ultimately eliminated all import duties on chipper knife steel, at a time when duties on most other steel imports remained relatively high.²

In support of these Congressional actions, this Department submitted the following comments to the House Ways and Means Committee in June 1984 with regard to the lack of domestic production of chipper knife steel:

At the present time, there is no significant domestic production of this grade of specialty steel; therefore, it was exempted from specialty steel quotas. While capacity to produce chipper knife steel may exist in a number of domestic alloy tool steel firms, most U.S. producers favor

¹ Presidential Proclamation 4559, 43 Fed. Reg. 14433 (April 6, 1978), and Presidential Proclamation 5074, 48 Fed. Reg. 33233 (July 21, 1983).

² Public Law No. 96-609 (H.R. 5047), § 113, 94 STAT. 3557 (Dec. 28, 1980); Public Law No. 97-446 (H.R. 4566), § 142, 96 STAT. 2342 (Jan. 12, 1983), and Public Law No. 98-573 (H.R. 3398), § 126, 98 STAT. 2959 (Oct. 30, 1984).



higher-profit steels and are unwilling to produce chipper knife steel.³

The raw material supply situation facing American chipper knife manufacturers has not changed since 1984. During the past four months, KnifeSource contacted six domestic steel manufacturers in an unsuccessful effort to obtain chipper knife steel bars, which confirmed that there is no viable domestic supply of the raw material that is critical to KnifeSource's future.

II. The Future of KnifeSource, A Family-Owned Business, And Its Employees Depends Upon Continued Access to Imports of Chipper Knife Steel.

KnifeSource is a family-owned business in Fountain Inn, South Carolina. The company was established in 1999 by John E. ("Jay") Halloran and his wife Linda for their three sons, who are all employed by the company. KnifeSource employs 45 men and women, including several members of the extended Halloran families. Jay Halloran -- who has spent more than 50 years in the chipper knife industry -- invested his life savings in KnifeSource, with the long-term goal of turning the company over to his sons and his seven grandsons when he retires.

American chipper knife manufacturers face fierce competition from imports of finished foreign-made chipper knives, which enter the United States on a duty-free basis. Because of this fierce competition, American chipper knife manufacturers cannot survive unless they keep their production and raw material costs as low as possible. Indeed, because of this fierce foreign competition, there are now only two American chipper knife manufacturers, KnifeSource and Simonds International Holding, Inc., headquartered in Fitchburg, Massachusetts, whereas once there were as many as twenty such knife manufacturers.

Chipper knife steel (also known as A8 Modified tool steel) represents approximately one-half of the cost of manufacturing chipper knives. For at least several decades, there has been no domestic supply of chipper knife steel bars. Without access to

³ Letter by Commerce Department General Counsel Irving P. Margulies to the House Ways and Means Committee dated June 28, 1984.



foreign supplies of chipper knife steel, what remains of the American chipper knife industry and the jobs it provides will cease to exist. On the other hand, imports of chipper knife steel do not threaten injury to the domestic steel industry or its capacity to protect the nation's security.

III. Imposing Restraints or Otherwise Adjusting Imports of Chipper Knife Steel Would Not Improve Our Nation's Security, But Would Kill American Manufacturing Jobs.

Although KnifeSource understands that a healthy U.S. steel industry is important to our nation's security, it is critically important that the Department recognize that there are certain steel products -- particularly niche specialty steel products -- that have not been manufactured by domestic steel manufacturers for decades and in which domestic steel manufacturers have demonstrated no sustained interest.

Implicit in the President's authority under Section 232 of the Trade Expansion Act of 1962, as amended, is the authority to appropriately tailor any action taken under that Act and to exclude appropriate products from any import restraints or adjustments imposed to protect national security. As a result, any action taken as a result of this Section 232 Investigation -- in the form of import quotas, restraints or duties -- should recognize and honor previous exclusions from steel import restraints, such as the repeated exclusion of chipper knife steel from Section 201 import quotas.

Chipper knife steel imports do not threaten to impair U.S. national security. To the contrary, to the extent that chipper knife steel continues to be supplied to American chipper knife manufacturers by foreign specialty steel companies, U.S. steel mills can focus their production on grades of steel that may be critical to the nation's security and infrastructure.

On the other hand, limiting imports of chipper knife steel or imposing duties on imported chipper knife steel could destroy what remains of the American chipper knife industry. Many foreign tool steel manufacturers have subsidiaries or affiliates that can and do manufacture knives. As a result, imposing import restraints or increasing duties on chipper knife steel would encourage foreign steel producers -- particularly steel producers in Brazil, China and Japan -- to avoid those restraints and import duties by



shifting chipper knife steel raw material supplies to affiliates that would manufacture knives and sell them in the United States with a significant raw material advantage they do not now have. Thus, the ultimate consequence of interfering with foreign supplies of chipper knife steel will not be to increase domestic steel production, but to destroy another American industry.

The survival of steel-consuming firms like KnifeSource, and the jobs they provide, are also important to the economic health of our nation and, thus, its national security. Any action that puts them out of business will not advance our national security, but threaten it.

Excluding chipper knife steel from Section 232 relief would be easy to administer because chipper knife steel is already specifically defined and recognized as a distinct tool steel product in the Harmonized Tariff Schedules of the United States ("HTSUS"), with its own HTSUS tariff classifications.⁴

Chipper knife manufacturers like KnifeSource use chipper knife steel produced in bar form by tool steel bar mills. Although most chipper knife steel enters the United States under HTSUS 7228.30.40, certain wide dimensions of chipper knife steel bars (between 150 mm and 224 mm in width) are classified for Customs purposes as "flat-rolled" products, and therefore enter the United States under HTSUS Subheading 7226.91.05. KnifeSource needs access to chipper knife steel imported under both of these HTSUS Subheadings.

⁴ Chipper knife steel is classified under HTSUS Subheadings 7226.91.05 and 7228.30.40, and is defined in HTSUS Section XV Add'l U.S. Note 1(f) as follows:

Alloy tool steels which contain, in addition to iron, each of the following elements by weight in the amount specified:

- (i) not less than 0.48 nor more than 0.55 percent of carbon;
- (ii) not less than 0.2 nor more than 0.5 percent of manganese;
- (iii) not less than 0.75 nor more than 1.05 percent of silicon;
- (iv) not less than 7.25 nor more than 8.75 percent of chromium;
- (v) not less than 1.25 nor more than 1.75 percent of molybdenum;
- (vi) none, or not more than 1.75 percent of tungsten; and
- (vii) not less than 0.2 nor more than 0.55 percent of vanadium.



Therefore, KnifeSource requests an exclusion for chipper knife steel defined as follows:

Excluded from the scope of this recommendation is chipper knife steel having the following characteristics:

- Width: Not exceeding 224 mm;
- Thickness: Not exceeding 28 mm;
- Rolled on all four faces (*i.e.*, not edge-trimmed); and
- Chemical composition:

Element		C	Mn	Si	Cr	Mo	W	V
Weight %	Max.	0.55	0.50	1.05	8.75	1.75	1.75	0.55
	Min.	0.48	0.20	0.75	7.25	1.25	0.00	0.20

As indicated in footnote 4 above, the chemical description of chipper knife steel comes directly from the official definition of “chipper knife steel” set forth in the HTSUS, Section XV Add’l U.S. Note 1(f). Chipper knife steel enters the United States under the following HTSUS Subheadings: 7226.91.0500 (flat-rolled steel, including certain bars classified as “plate”), and 7228.30.4000 (bar products).

IV. Conclusion

In making its recommendations to the President, I strongly urge the Department to exclude chipper knife steel from any import adjustments, restraints or duties that the Department may recommend as necessary or appropriate to protect the nation’s security.

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If you have any questions regarding this matter, please do not hesitate to contact me directly or to reach out to my attorneys at K&L Gates in Washington, D.C., including Stacy Ettinger, Steven Hill and Glenn Reichardt. They can be reached at 202-778-9000.

Respectfully submitted,

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