

Precision Metalforming Association
216-901-8800



National Tooling & Machining Association
800-248-6862

www.metalworkingadvocate.org

May 31, 2017

Mr. Brad Botwin
Director, Industrial Studies
Office of Technology Evaluation
Bureau of Industry and Security
U.S. Department of Commerce

via e-mail: Steel232@bis.doc.gov

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

Dear Mr. Botwin:

Thank you for the opportunity to submit these comments on behalf of the National Tooling and Machining Association and Precision Metalforming Association concerning the Section 232 National Security Investigation of Imports of Steel. The strength and health of the domestic U.S. steel industry is critical to the success of our nearly 3,000 member companies, who are among the largest industrial steel consumers in the country. On their behalf, we ask that you not impose unilateral tariffs or import quotas on steel. The administration has the authority to take a deliberative approach in the investigation to further study the impact on our nation's security and economy and to exclude certain products in short supply, not available at all or on a timely basis, and are specialty metals for which no alternative readily exists.

Our members are small and medium-sized manufacturers averaging roughly 50 employees and are typically classified under the North American Industrial Classification System (NAICS) as 332 (Fabricated Metal Product Manufacturing) and 333 (Machinery Manufacturing). These classifications combined include 80,000 manufacturing establishments with 2.6 million employees. The vast majority of our members do not buy steel directly from the mills but from service centers.

The National Tooling and Machining Association's 1,400 member companies design and manufacture special tools, dies, jigs, fixtures, gages, special machines and precision-machined parts. Some firms specialize in experimental research and development work as well as rapid prototyping. Many NTMA members are privately owned small businesses, yet the industry generates sales in excess of \$40 billion a year.

The Precision Metalforming Association is the full-service trade association representing the \$137-billion metalforming industry of North America—the industry that creates precision metal products using stamping, fabricating, spinning, slide forming and roll forming technologies, and other value-added processes. Its nearly 900 member companies also include suppliers of equipment, materials and services to the industry.

Ours is a highly automated, high-skill industry, however, our highest operating expense is often purchasing raw materials – steel or other flat-rolled metal, which amounts to 50-70% of costs. The tools, dies and stampings manufactured by our members, in many cases, are simply formed or shaped metal, still maintaining the characteristics of the original raw materials. This results in a ripple effect throughout downstream industries such as ours who heavily rely on stable raw materials pricing and sources.

Impact of Duties, Tariffs and Unilateral Action on Small Manufacturers

When we experience significant price increases in steel as we did as a result of the government-imposed 201 steel tariffs, small businesses are placed in a squeeze. Thousands of metal stamping companies went out of business as a direct result of the 30 percent increase on their raw material pricing that they could not pass along to their much larger customer. As middle-market manufacturers, our members typically cannot renegotiate supplier contracts and are often on a fixed price buy program where their customer, particularly those in automotive, agree to only pay a set price for steel, regardless of the actual market cost.

Over the past decade, our members have found their foreign competitors often supplying metal components, assemblies or finished products cheaper than the cost of our raw material alone. This clearly puts small American manufacturers at a disadvantage, and seriously restricts our export opportunities. It is essential that our industry has access to globally competitive supplies of steel. Our associations have repeatedly called on China and other nations to cease using State Owned Enterprises (SOEs) to illegally subsidize their industries, which provide cheap and subsidized steel to our competitors. In preparation for the 232 comments, PMA and NTMA conducted a targeted survey in which a member company in Tennessee summed this situation well, saying, “We compete with Chinese manufacturers who purchase steel for significantly less than we do. Any action that raises the cost of U.S.-made steel will result in lost sales, reduced profits, and ultimately fewer employees.”

In addition, the U.S. International Trade Commission and Department of Commerce reversed more than three decades of policy by lifting the exemption on tool steel when imposing duties on cut-to-length plate steel. In some cases, our members now face upwards of 200% tariff on imports of the only type of raw material U.S. manufacturers can use to make tooling and dies.

As we saw in the tool and die steel case, the administration can take a targeted approach rather than unilateral action and even self-initiate cases where merited. This will avoid another 201 style situation that risked 12 million steel-consuming jobs while imposing protections for less than 200,000. U.S. trade policy for the past two decades has simply shifted the injury from one industry to another without considering the impact on the broader economy and the defense industrial supply chain.

We have approached policymakers and domestic steel producers in the past asking their consideration to expand the scope of their duties to cover downstream products such as those manufactured by our members who often see a similar level of injury. During the Steel 201 days and throughout the subsequent cases applying duties, we continue to see finished stampings and tooling entering into the country using the very materials subject to tariffs in their raw material form. As mentioned earlier, many of the products our members manufacture, are nearly chemically identical to the subject material.

In the 232 survey, one defense supplier in Michigan responded, "Tariffs will increase the cost of steel. These increases cannot be absorbed and must be passed on." Another from Ohio stated, "A steel tariff will cause the same problem it did in 2001. Rather than modernize procedures, streamline processes, improve the product, or expand market share, the domestic producers will immediately raise their prices to match foreign steel. This will cause another slowdown in manufacturing just like the tariffs in 2001 did."

In referring to the flood of AD/CVD cases at the ITC the past few years, a Wisconsin-based business said, "the recent duties are resulting in the excess material consisting of steel, aluminum, and stainless going to Canada and Mexico on an increasing basis - and they are then adding the value (stamping, forming, etc.) and shipping the components into the U.S. - so the value-added jobs are being affected."

Reasons to Import Steel: No/Low Domestic Capacity; Delivery Delays; Specialty Metals

In a January 2017 NTMA and PMA survey with 122 respondents, on average, each reported that 20 percent of steel they buy is imported for their operations. Only 13 percent stated they imported no steel and another 13 percent rely on imports for more than 50 percent of their supply. Even for those who do not import any raw materials, they rely on globally priced and available steel to meet defense customers' needs. Any disruption or price increases has a ripple effect throughout the supply chain and jeopardizes our nation's downstream manufacturers.

Metalworking manufacturers report a number of reasons for importing raw materials, but most are devoid of price considerations. Typically reasons range from specialty metal not manufactured in the U.S., leaded steel no longer produced for EPA-related reasons, short supply, and most often, longer lead times for delivery. Defense and aerospace suppliers especially rely on specialty metals whose characteristics are required for their end use whether for fighter jets at high speeds, lightweight munitions or water-based naval capabilities.

One Midwestern company who responded to the 232 survey specifically mentioned Bohler W360 steel saying, "the specialty steel that we buy overseas is only because it is not offered by a U.S. company." This is constantly a challenge for our members particularly for steel manufactured in Western European nations such as Germany, Switzerland, Italy and the Netherlands, among others. For generations, these manufacturers have produced specialty metals for specific machines intended for specific industries. While a U.S. steel manufacturer might claim they can manufacture a certain product, they still lack the chemical characteristics and often the quality needed. And, as any business owner will explain, they cannot plan based on ability to produce only actual production counts.

Today, our members succeed by providing “just in time” delivery of goods and cannot afford two- and three-week delays or they will surely lose the business to a foreign competitor and put jobs at risk across the U.S. A defense supplier in New England who has numerous DFAR and other requirements added, “American mills/producers are always a priority to support Domestic products but the reality is sometimes certain sizes or alloys are WEEKS out and therefore foreign sources can support earlier needs.”

Two-thirds of those who responded to the 232 survey cited a difference of “several weeks” in delays in securing U.S.-made steel vs. foreign-produced in the 232 survey. Delays in delivery are a major concern across our membership as we noted in our November 21, 2016 pre-hearing brief to the ITC in the tool steel case. The few real producers of tool steel there are in the United States—Carpenter Technologies Corporation, Crucible, Ellwood, Finkl Steel, Niagara Specialty Metals, and Universal Stainless—do not produce anything close to sufficient quantities or the full range of tool steel grades and types required by the U.S. tooling, machining and metalforming industries. Our associations account for well over \$177 billion in annual sales, roughly 20 times the size of the entire U.S. cut-to-length steel plate market. Each of our members responding to inquiries involving that investigation stated they preferred a U.S. source but struggle to secure the quantity they need in a timely fashion. One Indiana tool and die maker with 11 service centers from which they source steel still faces at least a one-week delay difference in securing domestic steel when foreign-made is readily available. The U.S. Government overturned 35 years of precedent in this case and we hope it does not take similar steps on a broader level resulting from this 232 investigation.

Our members face few options when told they must wait several weeks for the steel they need in order to keep manufacturing parts and making payroll. Especially in times of national and economic uncertainty, disruptions in the domestic supply chain could undermine our Armed Forces.

We believe that should the administration move forward with unilateral action and impose tariffs or import quotas, it should provide consideration for changed circumstances and in cases of short supply. While defense producers regularly attest they have the capacity to manufacture the steel we need, manufacturers cannot book contracts based on capacity but on concrete and reasonable delivery times.

Specific Exclusion Requests

Should the administration chose to take unilateral action, we ask that you exclude steel products critical to our national and economic security and in short/no supply from domestic sources. While the public focuses much of its attention on China, our members rely on globally priced and readily available steel from a number of countries in Asia including Japan, Thailand and Vietnam. In addition, some specialty metals are only manufactured in certain European nations such as the Netherlands, Germany, Switzerland, and Italy, among others.

As previously mentioned, the administration has the authority to take a targeted approach to any action resulting from the 232 investigation and has a number of options available including targeting only certain products from specific countries. A one size fits all approach will slow our economy at the very time the president targets significant growth.

While only a partial list, the below are some examples cited by our members in the 232 survey as critical to their manufacturing operations and requiring import due in part to short or no supply: 310 Stainless steel; 436 Stainless steel; thin gauge stainless; Hot Rolled HSLA 060; Dievar Bohler W360; High quality drawing quality steel - 18ga up to 1/4" drawing quality steel; Cut to length plate (tool and die steel).

Incomplete Trade Data Provides an Incomplete Picture of the Impact of Tariffs

A long standing challenge to downstream steel consuming industries and policymakers who aim to assist these smaller companies is the government does not collect data on imports and exports of most steel containing products outside automotive. Most downstream middle market manufacturers provide value added services on products that are exported, and often, illegally imported. However, North American Industrial Classification System (NAICS) Codes do not in many cases have corresponding Harmonized Tariff Schedule (HTS) numbers, which the government uses to track imports and exports. Without an HTS code, industries and government policymakers cannot make informed decisions about the domestic marketplace and activity of downstream suppliers and their foreign competitors, nor can they determine how domestic manufacturing sectors are performing relative to global markets and the effect of particular unfair trade practices on their performance. An overhaul of the trade data collection and reporting system at Commerce, Customs, and at the WTO, is critical to assisting the government in determining the full impact of tariffs and import quotas that will lead to more imports of finished products.

We believe the Department should review the NAICS codes and ensure each six-digit NAICS industry with more than 10,000 employees has a corresponding HTS code so that both policymakers and manufacturers have the data they need to make informed policy and business decisions. If the government has the import data, it could make better decisions involving the entire defense industrial supply chain and even assist in trade enforcement actions on behalf of small and medium sized downstream companies. In the current environment, most metalworking manufacturers lack the ability to even seek a trade remedy without concrete data proving injury, which they can see in their day to day operations but cannot prove without HTS codes.

Conclusion

The U.S. cannot protect its citizens at home and interests abroad without a robust domestic steel industry and healthy industrial steel consumers who manufacture machine tools and parts for all branches of the military. No plane can fly, no ship can sail, and no weapon can fire without products manufactured by our members. However, because we do not sell a finished product but a downstream good, we are replaceable in the supply chain and offered no protection or recourse from unfair competition. When the price of our raw materials increase, even if we can pass those costs along, the finished product is now more expensive resulting in a whole segment of the supply chain being replaced by a cheaper foreign supplier.

Our industries know very well that current U.S. trade law creates a system of clear winners and losers. The 201 Steel tariffs costs tens of thousands of jobs across industries suffering from a 30% price increase overnight. However, we also know the benefits of a targeted approach to a larger problem.

Three decades ago, President Ronald Reagan negotiated and President George H.W. Bush extended voluntary restraint agreements with Japan and Taiwan from 1987 through 1993 to assist in revitalizing the U.S. machine tool industry. While then known as the National Machine Tool Association, many of our members participated in the 232 investigation, which resulted in the Reagan administration's action.

In taking a targeted approach, President Ronald Reagan recognized the importance of the machine tool industry to our nation's economy and national security when he sought the agreements. We ask that you continue that legacy by supporting the American tool and die makers, metalstamper, and American manufacturers by not taking unilateral action imposing tariffs or quotas on steel imports.

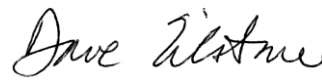
The defense industrial base would not exist without the millions of workers our industries represent. Our nation's manufacturers need stability and globally priced and readily available steel to remain competitive and help protect our nation.

Thank you for your consideration of these comments and as indicated in a May 12 letter, we stand ready to meet with Secretary of Commerce Ross to discuss this in further detail and answer any questions the administration may have.

Sincerely,



Roy Hardy
PMA President



Dave Tilstone
NTMA President