Philip K. Bell
President

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21st Century Steelmakers

Comments of the

Steel Manufacturers Association (SMA)

on the

U.S. Department of Commerce Section 232 Investigation Regarding the Effects on the National Security of Imports of Steel

May 31, 2017

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

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

Subject: Section 232 National Security Investigation of Imports of Steel

Dear Mr. Botwin,

The Steel Manufacturers Association ("SMA") appreciates the opportunity to respond to the Department of Commerce's (the "Department's") request for comment in conjunction with its ongoing investigation to determine the national security effects of steel imports, initiated under section 232 of the Trade Expansion Act of 1962, as amended (19 U.S.C. 1862).

Steel plays a vital role in the national defense and is an indispensable component of the nation's critical infrastructure and its overall economic wellbeing. Unfortunately, persistent unfair trade practices by foreign governments and steel producers continue to put the health of the domestic steel industry at great risk. On behalf of our member companies and workers, the SMA greatly appreciates the Department's efforts to review the challenges facing the U.S. steel industry as a result of unfairly-traded imports and the associated national security implications, and to take appropriate action if warranted.

About the Steel Manufacturers Association

The SMA is the voice of U.S. steelmakers that rely on electric arc furnace (EAF) steel manufacturing technology, which is the dominant steelmaking technology used in America. SMA is our country's largest steel industry trade association – based on the actual number of steel producing members and the amount of steelmaking capacity represented. SMA's membership contains a variety of steel producers, including some of the nation's largest steelmakers and employers.

As "21st Century Steelmakers" our members utilize post-consumer recycled ferrous scrap as their principal feedstock, turning this waste into world-class steel. SMA's members account for more than 75 percent of domestic steelmaking capacity, directly employing more than 60,000 workers across North America, and indirectly supporting over 420,000 additional jobs.

Steel's Role in Our National Security

It is imperative to our national security that the United States have a strong, viable domestic steel industry with sufficient productive capacity to meet both defense and commercial needs. We cannot rely on foreign steel producers to arm and protect our military forces and to rebuild and maintain the nation's critical infrastructure. Unfortunately, however, the domestic steel industry is under constant and increasing pressure from unfairly-traded imports that threatens to weaken, if not eviscerate, the U.S. industry and its ability to meet both military and civilian needs.

Steel is absolutely critical to a strong national defense. It is the armor plate that protects our tanks and combat vehicles. It is the backbone of our aircraft carriers and submarines. But beyond its direct defense applications, steel is also an engine of economic activity and employment that is of critical importance to the United States. Steel connects our energy grid and utilities, powering our homes and businesses. Steel constructs the pipelines that deliver our abundant natural resources to consumers, empowering our competitiveness. Steel gives strength to the cars, trains and ships that carry our commerce to market over the highways, bridges, rail and waterways that are built with steel. In short, steel is a ubiquitous and indispensable component of the nation's critical infrastructure and its economic wellbeing.

As a result, it is imperative that the Department's analysis of the impact of steel imports on our national security take into account the importance that commercial markets – and, in particular, our critical infrastructure – play in the vitality of the domestic steel industry and its ability to serve as a ready defense industrial base. Against tremendous headwinds, our companies and workers are doing their best to maintain the production capabilities our nation requires. World-leading innovations and applications developed by SMA's member companies are born out of necessity as the industry confronts ever increasing global economic challenges. Should it reach a breaking point and be forced to cede those critical investments in technology, manpower, infrastructure, and raw materials production, our industry will be nearly impossible to rebuild. If we don't maintain healthy commercial markets now, our world class steel producers may not be able to meet future needs – commercial or military. And while there is currently no shortage of foreign steel to take its place, it is not hard to imagine a situation where another nation chooses to exert geopolitical pressure by restricting exports to the United States.

The Effect of Imports on the Domestic Steel Industry

Foreign Imports Weaken Domestic Capacity Utilization

Imports of steel present an existential threat to the American steel industry. The volumes of imported steel today have impaired demand for U.S.-produced steel, forced reductions in domestic production and productive capacity and diminished returns on capital investments. U.S. steelmaking production capacity utilization has hovered under 75 percent for many years. We believe capacity utilization of 85 percent is necessary to allow steelmakers to:

- Ensure double digit return on capital employed;
- Operate at full employment levels;
- Make necessary capital investments;
- Invest in research and development; and
- Efficiently operate both the "hot end" (steelmaking) and "cold end" (steel finishing) of finished steel production.

Not since before the 2007 global economic downturn has SMA members' capacity utilization come close the 85 percent level (*See Exhibit 1*).

The ability of SMA's members to meet episodic yet critical national defense requirements, and to improve and make necessary capital investments for tomorrow, depends entirely on today's demand for U.S.-produced steel.

Unfair Trade Practices Drive Global Overcapacity

SMA members are the safest, most productive and most sustainable steelmakers in the world. SMA embraces the open markets of the United States and supports continued free and fair trade, knowing we can compete with anyone on a level and fair playing field. The openness of the U.S. markets, however, should not be extended to illegally traded, dumped and subsidized steel.

Over the last decade, global steelmaking capacity has grown at an unprecedented rate. The world's steel consumption, however, has not kept pace, contributing to a large and increasing gap between global capacity and demand. Now estimated to be more than 800 million tons, this excess capacity – much of it propped up by illegal subsidies by foreign governments, and much of it finding its way to the open markets of the U.S. – strains the profitability of even the most efficient producers (*See Exhibits 2 and 3*). And, just as quickly as we pursue trade cases against the offending producers and product lines, these foreign producers are able to find new ways to circumvent our trade laws.

A major challenge for the domestic steel industry is the persistence of state-owned enterprises (SOEs) in foreign nations, which continue to dominate domestic production and cause significant price distortions. In China, for instance, nine out of ten of the largest steel producers are state-owned. These producers are propped up by a variety of market interventions, including preferential loans and credit, tax breaks, debt-for-equity swaps, direct cash grants and other capital infusions, and low- or no-cost land use, to name a few – in addition to preferential access to and pricing for raw materials and inputs. Further, their home governments often intervene to prevent the closure of excess and inefficient capacity. Such unfair subsidies are a major contributing factor to excess global capacity.

The effect of global overcapacity has been, quite simply, to flood the U.S. market, typically unlawfully, with unfairly-priced imported steel. Over the course of 2014 and 2015, import penetration reached historic levels, which it continues to approximate today (*See Exhibit 4*).

Economic Impact of Overcapacity and Import Market Penetration

Import market penetration has come at a great price to the U.S. steel industry and the U.S. economy. From January 2015 through the end of 2016, steel industry employment in the U.S. declined by 14,400 workers (*See Exhibit 5*). Multiple U.S. facilities remain idled or operate with significantly reduced work forces. Because each steel industry job supports an additional seven jobs throughout the supply chain, the impact is far greater.

As the domestic steel industry has been weakened, tax revenues have been lost and our national security impaired. Using an estimated nationwide average annual steelworker income of $61,465, SMA estimates that the U.S. Federal Government forgoes – on average – $13,207 in federal income taxes for each steelworker job lost to unfairly-traded imported foreign steel. For each 1.5 million tons of steel imported into the United States, the Federal Government will forego an estimated $9,000,000 in personal income tax revenue. As applied to the 14,400 jobs lost since 2015, the Federal government has lost an estimated $190,000,000 in personal income tax revenues. This estimate, notably, does not include other lost tax revenues, including corporate taxes or lost excise tax revenues – such as those applied to highway motor fuels taxes and heavy vehicles and their tires – which help finance the nation's investments in critical surface transportation infrastructure.

With hundreds of millions of dollars in lost federal personal income tax revenue alone, the effects are being felt at the local, state and national level – while foreign producers continue to dedicate vast government resources to support their steel industries and promote exports to our market.

Effect of Steel Imports on Downstream Markets

While our statement is focused on raw steel production, it is also important to recognize that there are important downstream steel product markets that face similar global economic challenges and competition from unfairly-traded imports. Such challenges further undermine domestic steel production by damaging our commercial customer base – in addition to jeopardizing other critical infrastructure production capabilities. The freight rail industry provides an important illustrative example. Notably, the Department of Homeland Security has deemed the U.S. rail sector part of the nation's critical infrastructure. Freight rail transports not only military freight and industrial products, but also nuclear materials and other hazardous chemicals that can only be safely and effectively transported by rail. With approximately 140,000 miles of rail across the country, our freight rail system provides vital connections between American cities and every military base in the nation.

Unfortunately, much as the domestic steel industry faces threats from illegally-traded imports, so too does the freight rail industry. The Chinese government continues to invest massively in its domestic rail sector and in third country markets, including the United States. The dominant player in the Chinese industry is the government-owned China Railroad Rolling Stock Corporation (CRRC), which – like SOEs in the steel sector – receives numerous government supports and benefits that allow it to invest heavily without regard to market forces. Instead, the primary goal is increased market share and displacement of foreign production competition. The U.S. transit rail sector has already seen major facility and workforce reductions, with more on the horizon as China continues to invest in the U.S. market; China's growing market share in the rail transit sector can easily encompass the freight rail sector.

And, as the CRRC increases its presence in the United States, it is creating more opportunities to export unfairly-traded steel products into our market. It is estimated that domestic freight rail manufacturing consumes approximately 100 million tons of steel per year. Chinese-controlled freight rail production in the United States can easily rely on Chinese steel producers – and their hundreds of millions of tons in excess steel capacity – to meet its needs with imported steel freight rail parts largely exempt from most existing trade remedies. Domestic freight rail producers and their component suppliers may soon be squeezed out by unfairly-traded imports, causing job losses and other economic damage, threatening a major component of our critical infrastructure, and further exacerbating the challenges facing the domestic steel industry.

Conclusion

SMA commends ongoing diplomatic efforts to rationally reduce global steel production capacity. While the United States may need to act unilaterally to ensure its steel producers and their workers and customers are not driven out of business by unfairly-traded imports, it is our hope that other like-minded countries that believe in free and fair markets and the rule of law will join us in these efforts to reduce overcapacity. We also believe that the 232 process should serve as a catalyst to explore creative and meaningful remedies that deal with underselling, overcapacity and other market distortions that impact our entire supply chain. Finally, to the extent downstream steel product lines which contribute to our national defense and critical infrastructure – such as freight rail – are threatened, we hope remedies would also be considered to alleviate the international trade challenges they face.

We commend the Administration for taking this important step and we stand ready to work with you to find ways to address these illegal steel imports and the threats they pose to our national security.

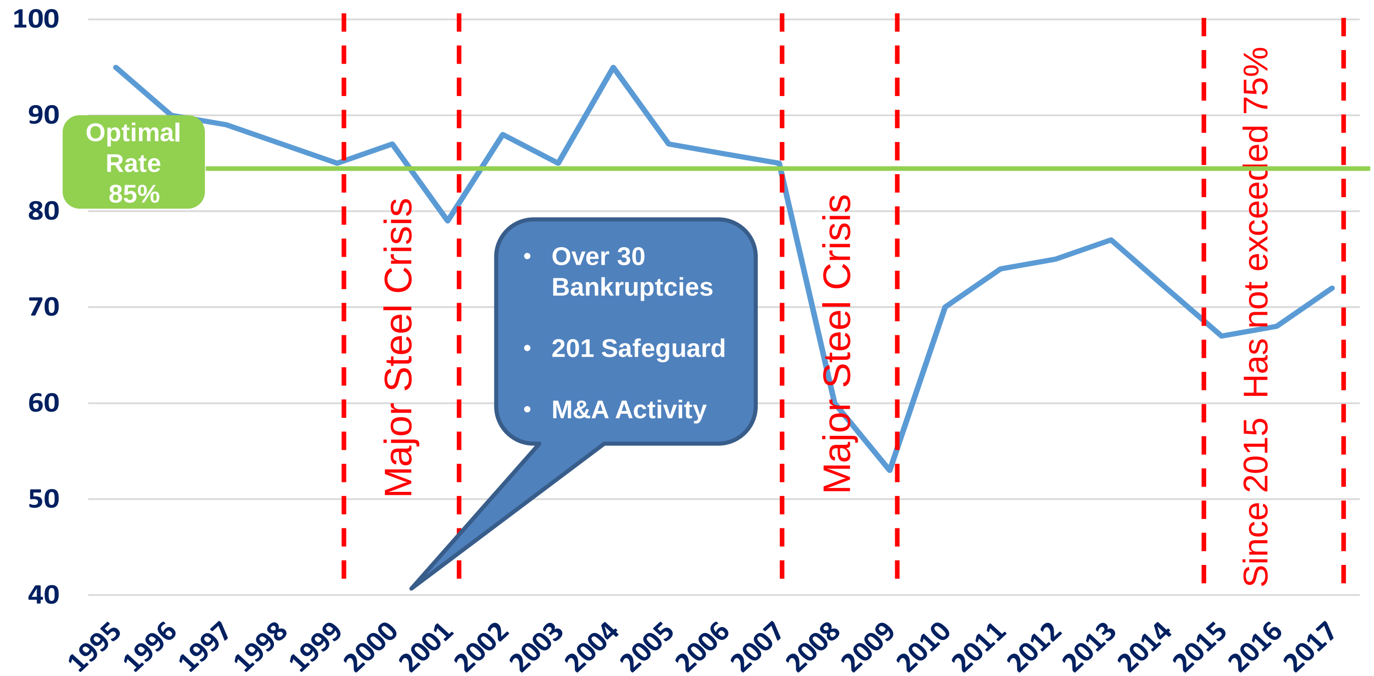
Sincerely,

Philip K. Bell

Philip K. Bell
President

EXHIBIT 1

U.S. Capacity Utilization

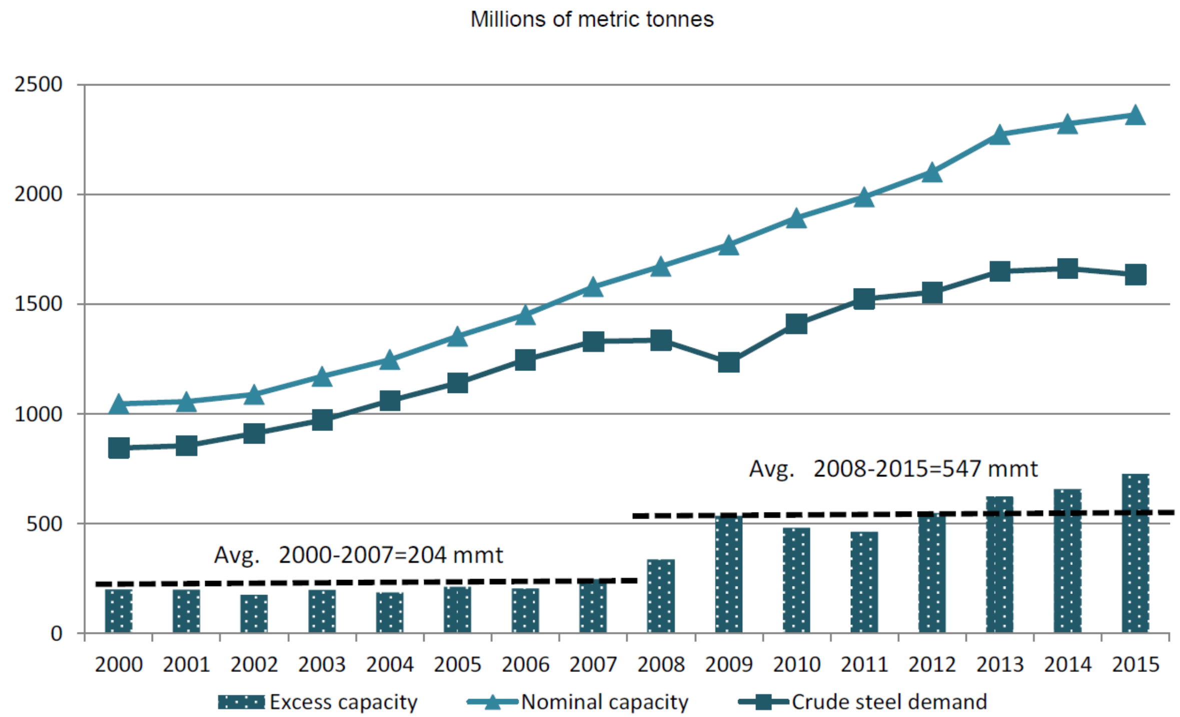


Source: AISI, SMA, AMM, Platts, McKinsey

EXHIBIT 2

Global Overcapacity

Nominal Steel Capacity Exceeded Demand by 700 mmt in 2015



Sources: OECD, World Steel Association

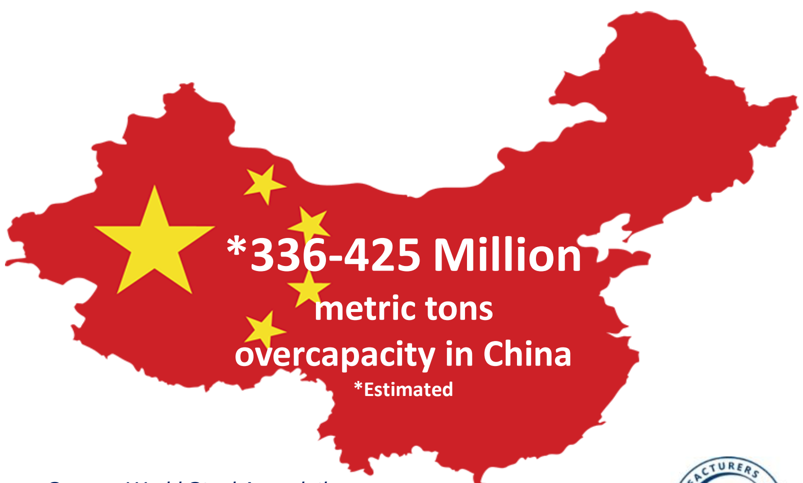
EXHIBIT 3

Global Overcapacity

***800M**

metric tons of excess global steel capacity

***Estimated**

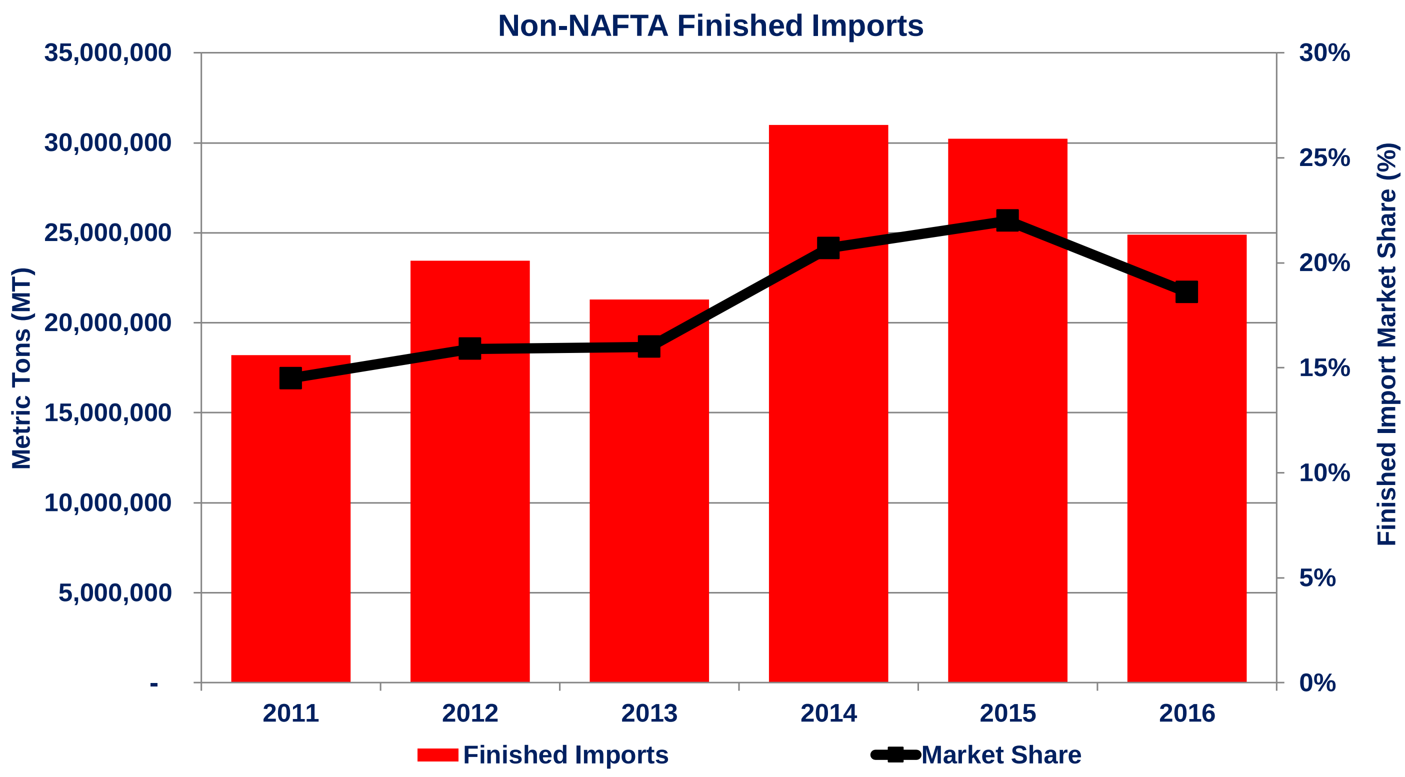


- Chinese Iron and Steel Association (CISA) estimates that 2016 exports again exceeded100mmt – more that the entire domestic production of the U.S.

Source: World Steel Association

EXHIBIT 4

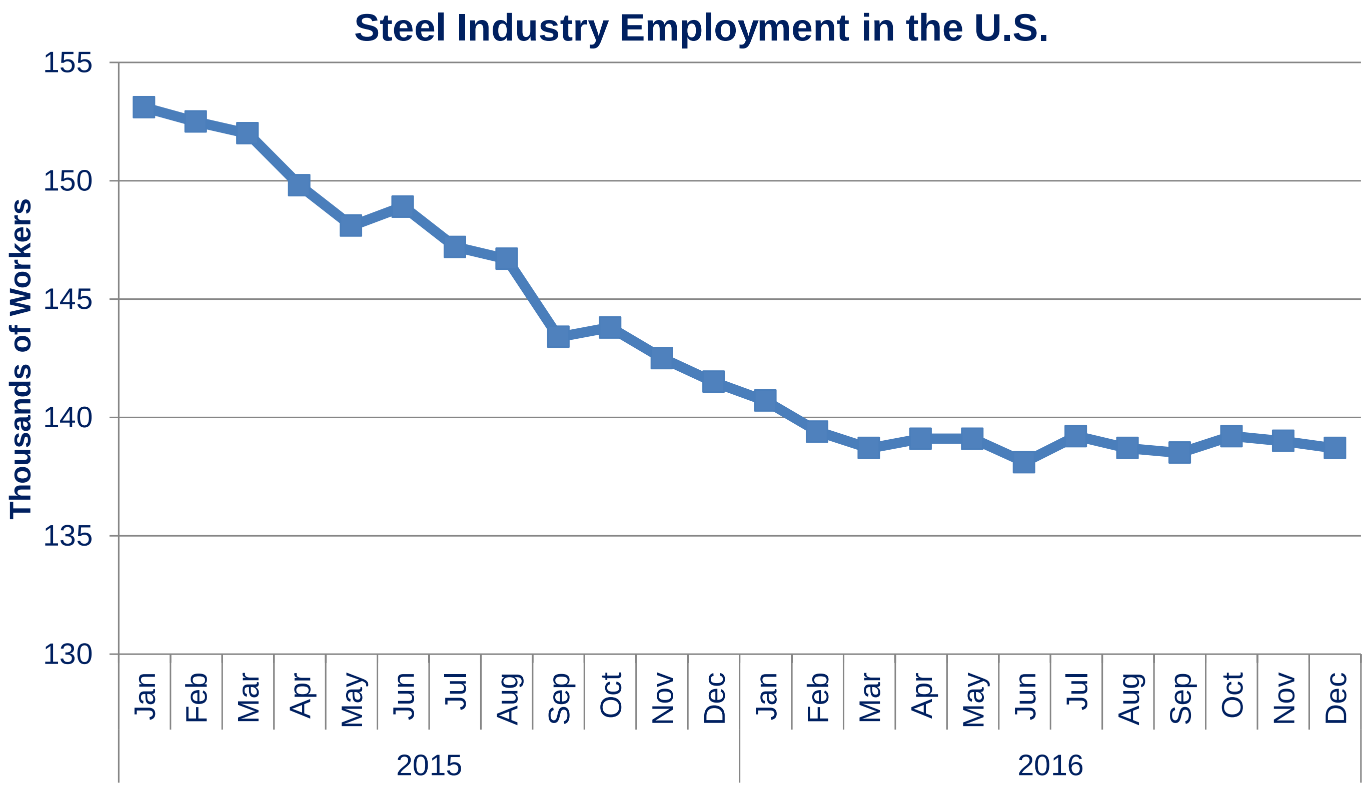
Offshore Finished Imports Continue to Capture Significant Market Share in NAFTA Region



Source: U.S. Census Bureau, AISI, SMA, Statistics Canada, Canacero

EXHIBIT 5

Steel Industry Employment in the U.S. Continues to Decline



Source: U.S. Bureau of Labor Statistics