SNIPS

Section 232 Steel Tariffs: The consequences of encouraging the government to tax your customers

Why the Section 232 steel tariffs were a futile effort to save domestic steel

September 3, 2019

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Seventeen months after the U.S. imposed Section 232 tariffs on imports of steel and aluminum the initial results are becoming clear: Winners from these tariffs include: trade lawyers, consultants and job-seekers who want to work for the U.S. Commerce Department pouring over tens of thousands of steel and aluminum product exclusion requests. Losers: U.S. manufacturers who use steel and aluminum, U.S. consumers, U.S. farmers and others who face retaliatory tariffs, U.S. trading partners, and, yes, even the U.S. steel industry.

That's not the result the White House was looking for when the U.S. imposed 25 percent tariffs on imports of steel and aluminum on almost every U.S. trading partner in 2018. The tariffs were supposed to revitalize the steel industry in the U.S. and boost jobs and manufacturing. Unfortunately, evidence shows that the tariffs have had the opposite effect. Steel producers' stocks are sinking, and U.S. steel recently announced that it is idling plants in Indiana and Illinois and laying off hundreds of workers. NMLK recently announced similar layoffs in Pennsylvania.

The problem comes down to basic economics: A tariff is a tax, and if you tax an item the price of that item goes up, resulting in purchasers buying less of that item. And that's what's happening to the domestic steel industry today.

Domestic steel producers enthusiastically supported the Section 232 tariffs — thereby endorsing a tax on its customers, U.S. steel-consuming manufacturers. The tariffs caused price hikes, delivery delays and, in some cases, the outright unavailability of steel products for U.S. steel-consuming companies. These price hikes and delays occur regardless of whether the companies obtains their steel from imported or domestic sources. That's because a tariff is meant to increase the price of the commodity whether it is the imported product or the domestic product that is protected by the tariff.

There was hope that where there was no domestic supply of a steel or aluminum product, the Commerce Department's product exclusion process would help. However, the process was broken from the start. Commerce expected 4,000 product exclusions requests from U.S. manufacturers when the tariffs were imposed.

The latest figures show more than 85,000 exclusion requests and counting. The process has been riddled with errors, delays, questionable decisions and confusion. It is clearly not working as intended nor is providing a solution to the problems created by the tariffs to most steel- and aluminum- consuming companies.

When U.S. manufacturers pay more for steel than others, the price of their products goes up, leading their customers to look at sourcing those same products overseas. The basic economics are again easy to grasp.

While steel prices have come down from their peak after steel tariffs were imposed, there is still a significant price difference between what U.S. manufacturers pay for steel and the price that their global competitors pay. That is resulting in U.S. manufacturers losing business to overseas competitors.

When U.S. steel-using manufacturers don't do well, the domestic steel industry doesn't do well. That's because the domestic steel industry by and large does not export the steel that it makes — it sells it to U.S. manufacturers — those same manufacturers who are paying the cost of the 232 tariffs. The result: job creation in the domestic steel industry is minimal from the tariffs. In fact, U.S. consumers and businesses are paying an estimated $900,000 for every job "saved" or created by the Section 232 steel tariffs according to the Peterson Institute for International Economics. This study was published several months ago, and with the slowdown in the manufacturing sector, the cost per job today is likely even higher.

An earlier study by the Trade Partnership found that, as a result of the Section 232 tariffs, net jobs declined by 934,700 and that U.S. exports declined by 5.6 percent overall and exports of iron and steel dropped 42.7 percent.

Sadly, this comes as no surprise as we have been here before. The same pattern occurred in 2002, when President George W. Bush imposed tariffs on steel imports. Cutting the U.S. off from the global steel market inevitably turns our country into an island of high steel prices amid a competitive global industry since the domestic steel industry simply does not produce enough steel to meet demand.

While there hasn't been the massive job losses in steel-consuming industries as there were in 2002 because the economy is much stronger today, U.S. manufacturers are worried. One manufacturer recently stated that his company had record revenues in 2018 and zero profits because of the high price of steel caused by the tariffs.

In the end, everyone has lost. The steel-using manufacturers are the domestic steel industry's customers. When their businesses decline, so does the steel industry's business.

There should be no "us versus them" in the steel-producing and steel-consuming sectors. Neither the steel industry nor its customers should ever again encourage Washington, D.C. to impose a tax on one another. It's time for the industry to come together and encourage the U.S. to work with its global trading partners to find a long-term solutions to the over-supply issue in the global steel industry.

It's clear now that tariffs are not the answer to the domestic steel industry's woes. Instead, it's a global problem that needs a global solution.

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