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BEFORE THE U.S. INTERNATIONAL TRADE COMMISSION (USITC)
FOR THE PUBLIC HEARING ON THE ECONOMIC IMPACT OF SECTION 232 AND 301 TARIFFS ON U.S. INDUSTRIES
JULY 20, 2022

Chairman Johanson and Members of the Commission, my name is Dan Walker. I'm the Managing Director of the Industrial Fasteners Institute, a trade association which represents approximately 85% of fastener production capacity in North America. We at IFI appreciate the opportunity to testify today on the economic impact of the tariffs imposed on imports of steel and aluminum under Section 232 on fastener manufacturers. Because the 232 statute does not provide for any end dates or midterm reviews like other trade statutes, IFI and other steel consumers have advocated for this study for some time, and we hope it ultimately leads to the removal of the 232 tariffs.

Let me start with the conclusion: The fastener industry has suffered negative economic consequences since the 2018 imposition of the Section 232 tariffs. IFI and other steel-consuming industries predicted this outcome when the tariffs were being considered, and sadly we were right.

By way of background, the U.S. fastener industry employs approximately 42,000 people working at roughly 850 different manufacturing facilities. Individual companies range in size, but many of them are family-owned, small to mid-sized businesses. Raw material costs are 50 to 60% of the cost of a fastener.

The fastener industry is critical to all segments of the U.S. manufacturing industrial base, including the defense industry. Not a single military or commercial aircraft or their power plants can be assembled without metals like steel and aluminum and geometrically sophisticated fastener components. In the aerospace market, U.S. fasteners are the world standard: it is estimated that more than 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. The irony is that the Section 232 tariffs were supposed to protect U.S. national security, but they ultimately harmed the downstream U.S. companies who are vital to the supply chain that supports our nation's defense infrastructure, such as fastener manufacturers.

Since 2018, IFI members have reported that the 232 tariffs caused significant increases in **<u>domestic</u>** raw material prices, while pushing out lead times substantially, and they were losing business as a result. The fastener business is highly competitive and price sensitive. U.S. fastener manufacturers are often pitted against global producers of fasteners and must constantly compete to gain or retain business. When U.S. steel prices are 40 to 50 percent higher than the global average, U.S. fastener manufacturers struggle to remain competitive. Our industry's customers do not have to accept price increases from domestic suppliers when they can simply buy the fasteners from a foreign source that can purchase steel at global prices.

Fastener manufacturers would always prefer to purchase their raw materials as close to their fastener manufacturing operations as possible, because metals are heavy, bulky and expensive to ship long distances. If the type of steel needed is not available in the quantity, quality or form required for fastener manufacturing, then imports are required. Fasteners are made from <u>round form</u>, not sheet or flat products, and customers often must qualify the raw material provider.

I said fastener manufacturers and other steel consuming industries predicted the negative economic consequences of the 232 tariffs prior to their imposition. We were not clairvoyant, but we had seen this movie before. There is a long history of the U.S. government placing restrictions, whether tariffs or quotas, on imports of basic raw materials such as steel in an effort to help U.S. metals producers. In every case, while the tariffs or quotas may have provided some short-term relief for metals producers, they did so at the expense of the downstream consumers of those metals. For example, we know that economic studies of the Section 201 Safeguard tariffs imposed in 2001 showed a loss of more than 1 million jobs in the downstream steel-consuming industries in the 18 months they were in place. Consequently, those tariffs were removed early.

Here's what we know about the 232 tariffs: According to a 2019 study authored by economists from the New York Federal Reserve, Princeton University, and Columbia University, the Section 232 steel and aluminum tariffs, in aggregate, cost U.S. companies and consumers the equivalent of $3 billion a month in additional taxes. It also found that "the entire incidence of the tariffs fell on domestic consumers…with no impact so far on the prices received by foreign exporters."[1] Both Ford and General Motors disclosed in late 2018 that these tariffs had cost them $1 billion each – approximately $700 for each vehicle they produced in North America. Ford and GM's input costs rose despite already predominantly using U.S.-sourced metals. [2]

By May of 2021, the Bureau of Labor Statistics reported a temporary increase of 4,800 steel industry jobs in the United States since 2018, for a total of 143,000 jobs. Not only

[1] Amiti, Mary, Stephen J. Redding, and David Weinstein, "The Impact of the 2018 Trade War on U.S. Prices and Welfare," Princeton University Discussion Paper Series, March 2, 2019. Online at: http://www.princeton.edu/~reddings/papers/CEPR-DP13564.pdf

[2] *U.S. Consumer and Economic Impacts of US Automotive Trade Policies*. Center for Automotive Research. February 2019.

were those 4,800 additional jobs not directly attributable to the Section 232 tariffs, they are dwarfed by the over 6 million American manufacturing jobs at risk in steel-and aluminum-using industries.

By the time the 232 tariffs had been in place for 18 months, it was clear that they were impacting the manufacturing sector. The Institute for Supply Management's key manufacturing index fell to 47.8% in September 2019, the lowest reading since 2009. Price fluctuation, delivery delays and uncertainty caused by the tariffs were contributing factors to a slowdown in the manufacturing sector before we ever got to the negative economic effects of the pandemic.

By mid-2019, there were press reports that the 232 tariffs created or "saved" 1,800 jobs in the domestic steel sector since they were put in place in 2018. A Peterson Institute for International Economics report found that consumers and businesses were paying an estimated $900,000 for every job "saved" or created by the Section 232 steel tariffs.

IFI members continue to report that supply chain disruptions in the steel industry prevent them from filling customers' orders on time or at a competitive cost. U.S. manufacturers are at a significant disadvantage when competing with companies overseas who pay less for steel. The combination of high steel prices and very long lead times has resulted in our members losing long-time customers to overseas competitors, primarily in Korea and Taiwan. These customer relationships took years to develop, and once business is lost overseas, it rarely comes back.

I must also comment on the negative economic consequences of the broken 232 exclusion process. This process is supposed to allow companies to obtain exclusions to the tariffs if the product they need is not available in the U.S. in the quantities, quality or form needed. However, the process has been broken from the start. It is lengthy and cumbersome and regardless of the numerous comments provided to the Commerce Department on ways to improve the process, it continues to favor domestic steel producers over steel consumers regardless of whether the producers actually produce the product in question. Even when a company is granted an exclusion, the process can take so long to complete that the company who is granted the exclusion cannot get their refunds processed before the Customs process requires their accounts to be liquidated. In one example, an IFI member lost out on $4.5 million it was owed in refunds due to a granted exclusion because of the processing delays.

In closing, I'll restate my conclusion from earlier in my testimony: The Section 232 tariffs have caused and continue to have severe negative economic impacts on the U.S. fastener manufacturing industry.

Thank you for your time.