Testimony of

David Klotz
President
Precision Metalforming Association (PMA)

Before the U.S. International Trade Commission (USITC)
Public Hearing on the Economic Impact of Section 232 and 301 Tariffs on U.S. Industries
July 20, 2022

Chairman Johansson and Members of the Commission, thank you for the opportunity to testify before you today on this important issue. My name is David Klotz. I am the president of the Precision Metalforming Association (PMA), which represents more than 900 member companies from the $137 billion metalforming industry of North America. Our member companies create precision metal products using stamping, fabricating, spinning, slide forming and roll forming technologies. We also represent suppliers of equipment, materials, and services to the industry.

While the intent of the Section 232 "national security" 25 percent tariffs on steel and 10 percent on aluminum imports was to protect domestic steel and aluminum manufacturers and strengthen supply chains, the result has been wide of the mark. American companies consuming U.S. steel and aluminum, such as PMA members, have been severely damaged by the implementation of these tariffs. Over the last four years, they have dealt with high prices, long lead times, and supply shortages, the consequence of which has been a rise in imports of their own products from overseas competitors who do not have to navigate the same tariff-induced hurdles.

American downstream manufacturers are a significant – and vital – economic pillar. In fact, steel-using manufacturers employ 68 U.S. workers for every one employed by the domestic steel industry. Steel and aluminum typically account for roughly 30-40% of these companies' manufacturing input costs, and for others, especially automotive, steel costs are 70% of the product they sell.

What matters most to U.S. manufacturers is the price difference between what they pay for steel versus what their global competitors are paying. Simply put, the Section 232 tariffs have placed U.S. manufacturers at a significant disadvantage. For example, according to the latest Steelbenchmarker report, for hot-rolled steel, U.S. manufacturers are paying $1,029 more per ton than their Chinese competitors, and $543 more than European counterparts.

The price of domestic steel has skyrocketed alongside the price of imported steel because domestic steel companies have used the protection from competition granted by the Section 232 tariffs to raise prices. This is the purpose of tariffs – to raise prices of all steel, while controlling supply. The U.S. steel industry cannot supply enough steel to meet demand, which is why imports are necessary.

Many steel imports are specialty metals and goods not produced in the U.S. to sufficient quantity or quality, or simply not available on a timely basis to meet orders. As a result, steel-using manufacturers are now seeing lead times of up to a year and a refusal to quote prices until the steel has already been shipped.

These factors have created a liquidity crisis for domestic manufacturers using steel, who need more cash to pay for high-priced steel. These costs are often financed by a line of credit from a bank, however banks are not enthusiastic about raising credit line limits when the manufacturer's profit margin is under attack from global competition that has access to steel at a cost 40% lower – or more – than for American manufacturers.

If this situation is not resolved, the steel shortages and prices in the U.S. will force some manufacturers to leave the U.S. for other countries where steel is less expensive and turn foreign made steel into products to ship back to the U.S. tariff free. Because the domestic steel industry exports very little steel, when these manufacturers close or move offshore, the domestic steel industry will also suffer.

In a member company survey conducted earlier this year, one respondent stated that, "Raw material increases are driving the cost of all products. Tariffs have been detrimental to our ability to compete with global suppliers."

Another said, "Before 2021, material was about 50% of my selling price. Since it is has increased over 100% in the past five quarters, my margins have suffered due to the lag-time in getting price adjustments approved from customers and has hampered acquiring new business."

And yet another noted, "We have lost numerous jobs where our material costs have gone up significantly, but our foreign competitors were somehow able to hold their prices."

The Section 232 tariffs are not the only cause of chaos in the steel market, nor for the broader manufacturing landscape. The COVID-19 pandemic and resulting supply chain instability has also played a role. For example, member companies supplying the automotive industry have also been hit by the slowdown in U.S. auto production due to the worldwide chip shortage. However, what the Section 232 tariffs signify is a concrete path and tangible step the government can take to relieve that burden and make an immediate, positive impact on the conditions undermining American manufacturers.

President Biden has the ability to terminate these tariffs immediately, with one stroke of the pen. Doing so would not solve all of the issues causing a steel supply disruption, but it would significantly alleviate the problem and bolster U.S. manufacturing.

On behalf of PMA member companies, I urge the Biden Administration to take action on the Section 232 tariffs, and at least terminate them for U.S. trade partners. Doing so would achieve the dual objectives of alleviating the supply shortages and price hikes in the U.S. market and help unify our partners to confront China on its trade practices in an organized, cohesive way. With Section 232 tariffs in place, the Biden Administration cannot achieve its goal of bringing our trusted trade partners together.

Thank you for your time.