Trump Administration moves to restrict imports of steel and aluminum

March 13, 2018

In brief

President Trump signed proclamations imposing tariffs on imports of steel and aluminum on March 8 that are set to take effect on March 23.

The tariffs apply across the board, although there is an indefinite exemption for Canada (representing 5.8 billion metric tons in steel imports in 2017) and Mexico (representing 3.2 billion metric tons in steel imports in 2017) due to their 'shared commitment' to each other's national security, efforts to address 'excess' steel capacity, and the economic integration between the three countries. The indefinite exemption for Canada and Mexico also has been tied in public statements by Administration officials to ongoing negotiations surrounding the North American Free Trade Agreement (NAFTA). Other countries with a 'security relationship' with the United States can apply for exemptions. Barring Congressional intervention, the tariffs will be in place until the President lifts them.

The President exercised powers granted to him under Section 232 of the Trade Expansion Act of 1962. Section 232 allows the President unilaterally, without Congressional approval, to 'adjust the imports' of an article that is 'being imported into the United States in such quantities or under such circumstances as to threaten to impair the national security.' Such a finding must be made by the US Department of Commerce in coordination with the Department of Defense.

The Commerce Department under Secretary Wilbur Ross examined steel and aluminum imports in this context beginning in April 2017 and released a report in February 2018 that found that the 'quantities and circumstances' of steel and aluminum imports threatened to impair US national security. Imports represent roughly 30% of the finished and semi-finished steel market in 2017 and 90% of the primary aluminum market.

Secretary Ross recommended three options for each good in response: a broadly applied, low-rate tariff on imports of steel and aluminum, a narrowly applied high-rate tariff on the two commodities, and a strict quota on all imports of each good. President Trump has chosen the broad based, lower-rate tariffs of 25% against steel and 10% on aluminum.

In detail

Policy and legal uncertainty

Assuming these tariffs are imposed on March 23 as announced, they are likely to face legal challenges. Although the World Trade Organization (WTO) does allow for trade barriers to protect national security, challengers may argue that the Commerce Department has not sufficiently established that raw metals imports threaten US national security. Comments by the President and his advisors that these tariffs will be economically beneficial for certain sectors of the United States may help to undermine the case that these tariffs are being implemented for national security reasons.

As a result, although the tariffs may be imposed in the short run, they may not be long lasting.

Economic impacts

The direct economic impact of steel and aluminum tariffs would appear to be small. On the one hand, steel imports in 2017 totaled $29 billion, less than two-tenths of 1% of US GDP. However, US steel-consuming industries, including construction, fabrication, and manufacturing represent approximately 80 times as many jobs as US steel-producing industries, meaning that even if the tariffs revive the domestic steel industry, increased costs to consumers or the movement of the much larger steel-consuming industries overseas risks net loss of US jobs as a result of the tariffs. Analysis of similar tariffs on steel imposed by the Bush administration in 2002 suggests that those led to net job losses; a study by the International Trade Commission found overall small but negative effects on output.

Over time, tradable sectors such as manufacturing may find that it is more economical to move production to a foreign jurisdiction like Canada, where steel inputs are not subject to the tariff, and then export finished goods tariff-free into the United States. Non-tradable sectors such as construction, which consumes 40% of steel in the US, will be unable to avoid the tariffs, which will mean an increase in building costs for steel-heavy commercial and infrastructure projects, and a possible slow-down in these sectors. Domestic steel producers have welcomed the tariffs, with one company announcing it will reopen an Illinois plant that had been idle and adding 500 jobs as a result.

Foreign retaliation

US trading partners have already indicated they are prepared to retaliate against the United States should President Trump move ahead with these tariffs. The European Union in particular has threatened to bring a case against the US tariffs to the WTO for adjudication, and the EU also has prepared a list of products manufactured in the states or districts of Congressional leaders that could be subject to retaliation should it come to that point. Given that the administration has already exempted close allies like Canada, further exemptions potentially for European countries, especially NATO allies, seem quite possible.

Future outlook

Other trade actions loom. President Trump in August 2017 ordered the US Trade Representative (USTR) to begin an investigation into whether China has violated US intellectual property rights in a way that is 'unreasonable or discriminatory.' Under Section 301 of the Trade Act of 1974, the President may impose retaliatory sanctions against China if USTR concludes that there are violations that 'burden or restrict' US commerce. Sanctions could include tariffs on imports from China or restrictions on Chinese nationals' ability to acquire or own certain US business interests.

The Trump Administration has said that one of its trade policy goals is to reduce the US trade deficit with China and has asked China for help in reducing the bilateral deficit by $100 billion. The US bilateral trade deficit with China reached $375 billion last year, an all-time record. What actions the Chinese might take towards this goal are unclear. Though it has been an explicit goal of the Chinese government to reduce widely-acknowledged overcapacity in certain state-supported industries, the US desire for a reduced bilateral trade deficit conflicts with Chinese domestic political goals of sustained economic growth and stability. And although China has built a competitive edge in the world economy through state sponsorship of export industries, US trade deficits are the result of negative national savings that allows the country as a whole to consume more than it produces. This attracts investment into the US but also creates large trade imbalances that, from an economic perspective, are not self-evidently harmful.

On the same day President Trump signed the tariff proclamation, 11 nations signed a renewed Trans Pacific Partnership (TPP) agreement. President Trump withdrew the US from the completed 12-country TPP agreement negotiated by the Obama administration as one of his very first acts as president. The remaining 11 TPP signatories include Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. One rationale for the TPP was to counterbalance Chinese influence in the Asia-Pacific region, but a TPP that includes Asian and North and South American countries but not the US or China may create a regional trading force that ends up offsetting the influence of both of the region's two largest economies.

Congressional outlook

Trade Promotion Authority (TPA), a measure that allows trade deals to move through Congress quickly and without amendment, remains in force until July 1, 2018. President Trump is authorized to request an extension from Congress through July 1, 2021. An extension of TPA would be helpful for getting a renegotiated NAFTA to be ratified by Congress. President Trump and his US Trade Representative, Robert Lighthizer, have indicated their intent to request the three-year extension, and the formal extension request must be made by April 1, 2018. If Congress does nothing, the extension is passed into law, but Congress can choose to pass a resolution of disapproval that would deny the President his extension.

The TPA extension could therefore end up being a referendum on Trump's trade policies so far, which face skepticism among the Republicans in charge of both chambers of Congress. President Trump will be relying on the pro-trade Chairmen of the House Ways and Means and Senate Finance Committee to not move a resolution of disapproval of the TPA extension through their committees, thereby granting him the extension by right.

The takeaway

Although ostensibly targeted at Chinese overcapacity, the steel and aluminum tariffs announced this week as applied will impact many other countries and domestic industries. The intent may in part be to encourage other countries to seek to increase pressure on China, but in the short term, the result may be that sympathetic countries otherwise allied with the US on global trade issues instead seek to impose retaliatory trade measures against US exports. Businesses in sectors that could be considered politically sensitive, and practical to target, could be targets, with agricultural interests and some key manufacturing brands at the top of the prospective list. Canada and Mexico will enjoy a reprieve, at least so long as NAFTA negotiations continue, but US businesses exporting to other countries need to pay close attention to developments and international reactions to the tariff measures.

Let's talk

For a deeper discussion of how this might affect your business, please contact:

Tax Policy Services and National Economics and Statistics

Scott McCandless, Washington, DC
Principal, Tax Policy Services
scott.mccandless@pwc.com
(202) 312-7686

Jon Lieber, Washington, DC
Principal, National Economics and Statistics
jon.lieber@pwc.com
(202) 312-0841

Don Carlson, Washington, DC
Managing Director, Tax Policy Services
donald.g.carlson@pwc.com
(202) 414-1385

Customs and International Trade

Anthony Tennariello, New York
Partner, Customs and International Trade
anthony.tennariello@pwc.com
(646) 471-4087

Maytee Pereira, New York
Managing Director, Customs and International Trade
maytee.pereira@pwc.com
(646) 471-0810

Mathew Mermigousis, Chicago
Director, Custom and International Trade
mathew.mermigousis@pwc.com
(312) 660-9555

Additional references

https://www.whitehouse.gov/presidential-actions/presidential-proclamation-adjusting-imports-steel-united-states/

https://www.law.cornell.edu/uscode/text/19/1862

https://www.commerce.gov/news/press-releases/2018/02/secretary-ross-releases-steel-and-aluminum-232-reports-coordination

https://ustr.gov/about-us/policy-offices/press-office/press-releases/2017/august/ustr-announces-initiation-section