MEMORANDUM

To: Industrial Users of Steel and Aluminum
From: The Franklin Partnership
Date: February 19, 2018
RE: Government Recommends Tariffs on Aluminum and Steel

Overview
On Friday, February 16, the U.S. Commerce Department recommended the President take steps to impose tariffs and restrict imports of steel and primary, semi-finished aluminum and aluminum castings and forgings. The steel tariffs recommended could apply at 24% on all imports from all countries or 53% tariff rates on twelve nations. Commerce recommended at least a 7.7% tariff rate on all aluminum imports or a 23.6% rate on products from China, Hong Kong, Russia, Venezuela and Vietnam. In both instances, the government stated that all of those options will lead to steel and aluminum producers increasing their capacity utilization rates to 80%, the level at which Commerce believes the industries need to reach to sustain adequate profitability. President Trump has until April 11 to decide whether to take action on steel and April 19 for his decision on aluminum.

Report Findings
In April 2017, President Trump directed the Secretary of Commerce to conduct two separate investigations into the impact of imported steel and aluminum on U.S. national security and to recommend action to protect those domestic industries. Commerce Secretary Wilbur Ross send his recommendations to the White House in mid-January, triggering a legal requirement that the President decide what action to take by April 11 for steel and April 19 on aluminum.

These potential actions are tariffs that the government would impose in addition to the existing 169 antidumping and countervailing duty orders in place on steel, of which 29 are against China, and another 25 remain ongoing open investigations. In addition, as of February 15, 2018, the U.S. had two antidumping and countervailing duty orders in place on aluminum, both against China, with four ongoing investigations also against China pending.

While both reports state the challenges faced by both U.S. aluminum and steel producers, the steel report appears “to go through the motions,” though the aluminum data provided has a stronger connection directly to national security citing specific military applications. The report stated aluminum imports rose to 90% of total demand for primary aluminum, up from 66% in 2012 as U.S. primary aluminum production in 2016 dropped to about half of 2015 levels. Commerce believes taking their recommended action will help U.S. smelters increasing their production to 80%, from their current 43 percent of capacity level. In the downstream aluminum sectors of bars, rods, plates, sheets, foil, wire, tubes and pipes, imports rose 33 percent from 1.2 million metric tons in 2013 to 1.6 million metric tons in 2016. The aluminum report also found that only one of the five remaining smelters produces high-purity aluminum required for defense aerospace applications, including for F-18, F-35, and C-17 aircraft leaving the only other high-volume producers of high-purity aluminum located in the UAE and China.
Industrial users of steel and aluminum have long argued that tariffs only on the raw material will simply shift the injury and lead to increased imports of more finished products that contain foreign steel and aluminum, all imported duty-free. Commerce appears to agree with this argument on aluminum, stating, “a quota or tariff on downstream products is also necessary because global overcapacity, coupled with industrial policies that promote exports of downstream products, have had a negative impact on the U.S. primary aluminum industry through reduced demand for inputs from downstream companies, as well as directly on the downstream companies which face increased import penetration in many aluminum product sectors.”

However, on steel, Commerce found that domestic producers already operate at 73% utilization rates, below the 80% government target but not nearly to the same levels of aluminum. The steel 232 report relies on selective data, even “finding” that steel employment dropped 35% since 1998, however, they ignore the fact that all manufacturing employment is down 30% in the same time period. It also states that steel imports increased at double digit rates over the first ten months of 2017 but fails to mention the import surge was a direct result of the 232 Investigation being launched and the potential imposition of tariffs.

**Steel 232 Report Recommendations**
Currently, imports account for 30% of steel consumed in the U.S., goal is to reduce those levels by 37%, or 13.3 million metric tons, through reduction in imports of: flat, long, semi-finished, pipe and tube, and stainless steel. The Government believes that all three of the following possible recommended actions below will reduce imports by 37 percent and increase capacity utilization to 80% from the current 73%:

1. A global tariff of at least 24% on all steel imports from all countries; or  
2. At least a 53% tariff on all imports from 12 countries (Brazil, China, Costa Rica, Egypt, India, Malaysia, Republic of Korea, Russia, South Africa, Thailand, Turkey, Vietnam) with a quota by product on steel imports from all other countries equal to 100% of their 2017 exports to U.S.; or  
3. Quota on all steel from all countries equal to 63% of each country’s 2017 exports to the U.S.

**Aluminum 232 Report Recommendations**
The Commerce Department took a different approach on aluminum, using a broad scope that includes aluminum castings (HTS Code 7616.99.51.60), forgings; plate; sheet, strip, and foil (flat rolled products); wire; bars, rods and profiles; tubes and pipes; tube and pipe fittings. The government believes that each of the three proposals will raise production of aluminum from the present 48% average capacity to 80%:

1. A tariff of at least 7.7% on all aluminum exports from all countries; or  
2. A tariff of 23.6% on all products from China, Hong Kong, Russia, Venezuela and Vietnam. All the other countries would be subject to quotas equal to 100% of their 2017 exports to the U.S.; or  
3. A quota on all imports from all countries equal to a max of 86.7% of their 2017 exports to U.S.

**Exclusion of Covered Products**
The Commerce Department did agree with downstream industrial users and recommends an appeal process by which affected U.S. parties could seek an exclusion from the tariff or quota imposed. The Secretary would grant exclusions based on a demonstrated: (1) lack of sufficient U.S. production capacity of comparable products; or (2) specific national security based considerations. This appeal process would include a public comment period on each exclusion request and be completed within 90 days of an application filing. The Commerce Department will determine the duration and scope of the exclusion and will consider whether the quota or tariff for the remaining products needs adjusting to increase U.S. steel and aluminum capacity utilization to the 8% target. Should the President exclude countries from the tariffs or take lesser action, the report states then he should adjust the tariff rate upwards on the remaining countries to still achieve the stated goals for both aluminum and steel.
IV. PRODUCT SCOPE OF THE INVESTIGATION\textsuperscript{28, 29}

For this report, the product scope covers steel mill products (“steel”) which are defined at the Harmonized System (“HS”) 6-digit level as: 720610 through 721650, 721699 through 730110, 730210, 730240 through 730290, and 730410 through 730690, including any subsequent revisions to these HS codes. The following discontinued HS codes have been included for purposes of reporting historical data (prior to 2007): 722520, 722693, 722694, 722910, 730410, 730421, 730610, 730620, and 730660.

These steel products are all produced by U.S. steel companies and support various applications across the defense, critical infrastructure, and commercial sectors. Generally, these products fall into one of the following five product categories (including but not limited to):

(1) Carbon and Alloy Flat Product (Flat Products): Produced by rolling semi-finished steel through varying sets of rolls. Includes sheets, strips, and plates.

Flat products are covered under the following 6-digit HS codes: 720810, 720825, 720826, 720827, 720836, 720837, 720838, 720839, 720840, 720851, 720852, 720853, 720854, 720890, 720915, 720916, 720917, 720918, 720925, 720926, 720927, 720928, 720990, 721011, 721012, 721020, 721030, 721041, 721049, 721050, 721061, 721069, 721070, 721090, 721113, 721114, 721119, 721123, 721129, 721190, 721210, 721220, 721230, 721240, 721250, 721260, 722511, 722519, 722530, 722540, 722550, 722591, 722592, 722599, 722611, 722619, 722691, 722692, 722693, 722694, 722699

(2) Carbon and Alloy Long Products (Long Products): Steel products that fall outside the flat products category. Includes bars, rails, rods, and beams.

Long products are covered under the following 6-digit HS codes: 721310, 721320, 721391, 721399, 721410, 721420, 721430, 721491, 721499,

\textsuperscript{28} The scope includes steel products.
\textsuperscript{29} Note that import data for steel products includes what are believed to be very small amounts of iron as well as steel, both of which are included in the HS codes covered in the scope.
(3) Carbon and Alloy Pipe and Tube Products (Pipe and Tube Products): Either seamless or welded pipe and tube products. Some of these products may include stainless as well as alloy other than stainless.

Pipe and Tube products are covered under the following 6-digit HS codes:
730410, 730419, 730421, 730423, 730429, 730431, 730439, 730451, 730459, 730490, 730511, 730512, 730519, 730520, 730531, 730539, 730590, 730610, 730619, 730620, 730629, 730630, 730650, 730660, 730661, 730669, 730690

(4) Carbon and Alloy Semi-finished Products (Semi-finished Products): The initial, intermediate solid forms of molten steel, to be re-heated and further forged, rolled, shaped, or otherwise worked into finished steel products. Includes blooms, billets, slabs, ingots, and steel for castings.

Semi-finished products are covered under the following 6-digit HS codes:
720610, 720690, 720711, 720712, 720719, 720720, 722410, 722490

(5) Stainless Products: Steel products, in flat-rolled, long, pipe and tube, and semi-finished forms, containing at minimum 10.5 percent chromium and, by weight, 1.2 percent or less of carbon, offering better corrosion resistance than other steel.

Stainless steel products are covered under the following 6-digit HS codes:
721810, 721891, 721899, 721911, 721912, 721913, 721914, 721921, 721922, 721923, 721924, 721931, 721932, 721933, 721934, 721935, 721990, 722011, 722012, 722020, 722090, 722100, 722211, 722219, 722220, 722230, 722240, 722300, 730411, 730422, 730424, 730441, 730449, 730611, 730621, 730640
IV. PRODUCT SCOPE OF THE INVESTIGATION

For this report, aluminum is defined at the Harmonized Tariff Schedule (HTS) 4-digit level. The HTS codes covered by this report are listed in Table 2. In addition, two HTS codes at the ten digit level are included, covering aluminum castings and forgings.

<table>
<thead>
<tr>
<th>HTS Code</th>
<th>Description</th>
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<tbody>
<tr>
<td>7601</td>
<td>Unwrought aluminum</td>
</tr>
<tr>
<td>7604</td>
<td>Aluminum bars, rods and profiles</td>
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<tr>
<td>7605</td>
<td>Aluminum wire</td>
</tr>
<tr>
<td>7606</td>
<td>Aluminum plates, sheets, and strip, of a thickness exceeding 0.2mm*</td>
</tr>
<tr>
<td>7607</td>
<td>Aluminum foil (whether or not printed, or backed with paper, paperboard, plastics or similar backing materials) of a thickness (excluding any backing) not exceeding 0.2mm</td>
</tr>
<tr>
<td>7608</td>
<td>Aluminum tubes and pipes</td>
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<tr>
<td>7609</td>
<td>Aluminum tube and pipe fittings</td>
</tr>
<tr>
<td>7616.99.51.60</td>
<td>Other articles of aluminum: castings</td>
</tr>
<tr>
<td>7616.99.51.70</td>
<td>Other articles of aluminum: forgings</td>
</tr>
</tbody>
</table>

*Note: This category includes can sheet for aluminum can packaging.

Source: U.S. International Trade Commission

The scope of this investigation does not include bauxite or alumina, which are feedstocks for production of primary (unwrought) aluminum. Also excluded from analysis are aluminum waste and scrap (HTS 7602) and aluminum powders and flakes (HTS 7603) as these represent different industrial sectors.