April 9, 2018

The Honorable Ron Johnson
Chairman, Senate on Homeland Security
   and Governmental Affairs
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

Thank you for your letter on behalf of the Committee on Homeland Security and Governmental Affairs (Committee) requesting information from the Department of Commerce regarding the imposition of Section 232 tariffs on steel and aluminum. I appreciate your support for all American workers and consumers, and I note your concerns regarding the tariffs. I apologize that this response has been so slow in coming. In the future, rest assured that you will receive a more prompt reply.

As an initial matter, as you are aware, on March 22, the President amended his March 8 proclamations to announce the imposition of a 25% tariff on steel imports and a 10% tariff on aluminum imports from all countries except Canada, Mexico, Australia, Argentina, Brazil, South Korea, and the member countries of the European Union, effective March 23.

You request information about modeling and analyses conducted by the Department in support of the steel and aluminum tariffs that the President imposed. The Department's analyses are set forth in the report entitled "The Effect of Imports of Steel on the National Security," dated January 11, 2018 (Steel Report), in Section V, and in the report entitled "The Effect of Imports of Aluminum on the National Security," dated January 17, 2018 (Aluminum Report), in Section VI. The Department conducted a baseline analysis that estimates the impact of imposing a 25% tariff on imports of iron and steel products from all partners. There is no appropriate model that can target the steel (or aluminum) industry specifically, so the Department used the Global Trade Analysis Project (GTAP) model for the steel investigation. The GTAP model uses the "metals" sector, of which steel is a major portion. As aluminum accounts for a much smaller portion of the metals sector, the Department determined that use of the GTAP model was inappropriate for the aluminum investigation. The Department therefore used a partial equilibrium analysis to estimate the impact of an aluminum tariff on aluminum imports.

You also request data on tonnage and percentage of foreign steel and aluminum in the U.S. market. The enclosed tables (Tables 1 and 2) provide current information on tonnage and percentage of foreign steel and aluminum in the U.S. market.

The Committee also requests information supporting the national security justification for the steel and aluminum tariffs. That information can be found in the Steel Report and the Aluminum Report, respectively. The national security justification for the steel tariff is set forth in the Steel Report at Section V.A., entitled "Steel is Important to U.S. National Security." Section V.A.5 of the Steel Report, entitled "Steel Consumed in Critical Industries," addresses the amount of steel used and required for national security purposes. The national security justification for the aluminum tariff is set forth in the Aluminum Report at Section VI.A., entitled "Aluminum is Essential to U.S. National Security." Section VI.A.2 of the Aluminum Report, entitled "Aluminum is Required for U.S. Critical Infrastructure," addresses the amount of aluminum used and required for national security purposes.

I would also like to address several points in your letter regarding job losses, economic impacts, and potential country reactions to the steel and aluminum tariffs. I agree that we must be mindful of how policy initiatives impact jobs. It is important to note, however, that the President imposed these tariffs to protect the national security as defined by Congress in section 232. The Secretary of Defense concurred with Commerce's conclusion that imports of steel and aluminum threaten to impair the national security.

I also disagree with the notion that the 2002 steel tariff is an appropriate analog. Two conditions existed then that are not present now. The country was in a recession from March to November 2001, just before the George W. Bush Administration put the tariffs into effect in March of 2002. More importantly, productivity in the durable goods manufacturing industry increased 25% from 2001 to 2004, which brackets the March 2002 to December 2003 period the tariffs were in effect. It is therefore no surprise that the durable goods industry experienced a decrease in employment of 14% over that period as companies became more efficient. Indeed, worker wages and hours worked increased in the durable goods industry over that same period as employees who remained shared in the productivity gains. Employment actually decreased more in the steel-producing industries than in the durable goods industry from 2001 to 2004 (a combined 18% decline as opposed to a 14% decline) due to consolidations and productivity gains, notwithstanding a 10% increase in steel production over that same period. The International Trade Commission's 2005 report on the impact of the 2002 steel tariff confirms as much, and it cites both the 2001 recession and increased productivity in its discussion of the steel tariff and impacts on employment.[1]

I also do not believe that the economic impact in the form of higher input costs will be as dramatic as many claim. As I have explained in the past, there are approximately 1.3 ounces of steel in a can of soup. A 25% steel tariff would raise the cost of a can of soup by less than a penny. The cost impact of a 10% aluminum tariff on a can of soda is comparable.

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[1] *See* Steel: Evaluation of the Effectiveness of Import Relief, U.S. International Trade Commission Publication 3797 (Sep. 2005) at III-11 to III-14 (available at https://www.usitc.gov/publications/safeguards/pub3797.pdf) (viewed 04/08/2018)

The price of an automobile will rise by approximately 1%. These cost impacts will be minimal relative to the overall size of the U.S. economy.

The enclosed five charts further illustrate that steel and aluminum prices have historically had little impact on the production of autos and recreational vehicles or on housing starts. In general, it appears that steel and aluminum prices are lowest when downstream demand is weakest and are highest either concurrent with, or slightly before, when downstream demand is highest and production peaks. Thus, downstream demand appears to drive steel and aluminum price rather than steel and aluminum price changes driving downstream demand. The charts highlight the extreme volatility of steel and aluminum prices. The cyclical swings of steel and aluminum prices are high relative to the tariffs.

Other factors will also mitigate the impact of the tariffs. The exclusions the President authorized will further reduce the impact of the tariffs on specific companies. In addition, in my experience, foreign producers will likely absorb some of the tariffs, so the entire cost of the tariff is not likely to be passed on to downstream customers. This split of costs is even documented in the first court challenge filed against the tariffs, where emails submitted by the plaintiff in an unsuccessful bid for a temporary restraining order showed that customers expected to split the tariff cost with the foreign producer. Even with the tariffs, U.S. steel and aluminum producers will have unused capacity and will need to compete aggressively for incremental business.

Finally, you raise concerns about retaliatory actions. Again, as I noted, the tariffs imposed under Section 232 were imposed for national security purposes. But broader U.S. trade policy is structured to encourage meaningful and constructive dialogue with other countries that are willing to negotiate mutually beneficial deals with the United States. We expected the imposition of tariffs to encourage joint action with our allies and other nations to address global excess production. The recently announced agreement with the Republic of Korea, through which Korea agreed to joint efforts to address China's excess production and also to limit its own steel exports and increase auto imports from the United States, is an example of how countries can work cooperatively with the United States on alternative actions to address the threat to national security posed by excess global production and their exports of steel or aluminum. In fact, the Republic of Korea committed to restricting its steel exports to the U.S. to 70% of its 2015-2017 three-year average, which equates to a 1.13 million ton annual reduction. The European Union has also expressed interest in working with the United States to address the issue of excess production, and discussions are continuing on appropriate alternative means to address the threat posed by their exports of steel to our national security.

Thank you again for your attention to these important issues. If you have any further concerns or questions, please have your staff contact Michael Platt, Jr., Assistant Secretary for Legislative and Intergovernmental Affairs, at (202) 482-3663.

Sincerely,
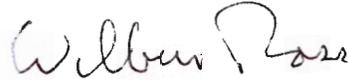
Wilbur Ross

Enclosures

1. United States (Consumption/Domestic) Import Statistics – Steel Commodity
2. United States (Consumption/Domestic) Import Statistics – Aluminum Commodity
3. Auto production and aluminum prices
4. Auto production and steel prices
5. Housing starts and steel price variations
6. RV unit shipment and steel prices
7. RV unit shipments and aluminum prices

Table 1: United States (Consumption/Domestic) Import Statistics - Steel
Commodity: Steel (232 scope), in metric tons

Partner Country	Total U.S. Imports	Percent of Total U.S. Imports	Percent of Total U.S. Demand (est)
World	34,678,452	100.0%	32.4%
Canada	5,782,330	16.7%	5.4%
Brazil	4,674,808	13.5%	4.4%
Korea South	3,412,860	9.8%	3.2%
Mexico	3,167,142	9.1%	3.0%
Russia	2,866,704	8.3%	2.7%
Turkey	1,987,636	5.7%	1.9%
Japan	1,728,615	5.0%	1.6%
Germany	1,383,025	4.0%	1.3%
Taiwan	1,130,307	3.3%	1.1%
China	763,036	2.2%	0.7%
India	753,388	2.2%	0.7%
Vietnam	679,129	2.0%	0.6%
Netherlands	636,900	1.8%	0.6%
Italy	502,472	1.4%	0.5%
Thailand	410,275	1.2%	0.4%
Spain	405,690	1.2%	0.4%
United Kingdom	351,045	1.0%	0.3%
South Africa	331,049	1.0%	0.3%
Sweden	302,598	0.9%	0.3%
Australia	281,879	0.8%	0.3%
United Arab Emirates	273,620	0.8%	0.3%
France	272,775	0.8%	0.3%
Austria	267,875	0.8%	0.3%
Ukraine	241,285	0.7%	0.2%
Argentina	211,465	0.6%	0.2%
Luxembourg	206,548	0.6%	0.2%
Egypt	173,313	0.5%	0.2%
Portugal	133,055	0.4%	0.1%
Belgium	130,445	0.4%	0.1%
Czech Republic	125,079	0.4%	0.1%
Malaysia	96,246	0.3%	0.1%
Romania	76,144	0.2%	0.1%
Saudi Arabia	74,784	0.2%	0.1%
Finland	67,477	0.2%	0.1%
Philippines	63,009	0.2%	0.1%
Slovakia	52,903	0.2%	0.0%

Belarus	51,151	0.1%	0.0%
Greece	49,846	0.1%	0.0%
Peru	48,512	0.1%	0.0%
New Zealand	46,418	0.1%	0.0%
Indonesia	45,762	0.1%	0.0%
Oman	43,885	0.1%	0.0%
Colombia	43,438	0.1%	0.0%
Costa Rica	41,011	0.1%	0.0%
Dominican Republic	38,088	0.1%	0.0%
Serbia	36,424	0.1%	0.0%
Guatemala	31,351	0.1%	0.0%
Slovenia	31,070	0.1%	0.0%
Morocco	30,454	0.1%	0.0%
Pakistan	25,708	0.1%	0.0%
Denmark	22,809	0.1%	0.0%
Switzerland	16,893	0.0%	0.0%
Macedonia	12,363	0.0%	0.0%
Norway	11,335	0.0%	0.0%
Poland	8,917	0.0%	0.0%
Kazakhstan	5,904	0.0%	0.0%
Chile	5,095	0.0%	0.0%
Venezuela	4,001	0.0%	0.0%
Bahrain	3,650	0.0%	0.0%
Honduras	1,822	0.0%	0.0%
El Salvador	1,524	0.0%	0.0%
Hong Kong	1,349	0.0%	0.0%
Ireland	558	0.0%	0.0%
Singapore	473	0.0%	0.0%
Tunisia	463	0.0%	0.0%
Myanmar	363	0.0%	0.0%
Hungary	245	0.0%	0.0%
Ecuador	241	0.0%	0.0%
Bulgaria	121	0.0%	0.0%
Jordan	105	0.0%	0.0%
Trinidad & Tobago	88	0.0%	0.0%
Cambodia	34	0.0%	0.0%
Latvia	19	0.0%	0.0%
Israel	18	0.0%	0.0%
Panama	13	0.0%	0.0%
Estonia	11	0.0%	0.0%
Bahamas	2	0.0%	0.0%

Croatia	2	0.0%	0.0%
Guyana	2	0.0%	0.0%
Georgia	2	0.0%	0.0%
Sri Lanka	1	0.0%	0.0%
Seychelles	1	0.0%	0.0%
Lithuania	0	0.0%	0.0%
Angola	0	0.0%	0.0%
Liechtenstein	0	0.0%	0.0%
Kenya	0	0.0%	0.0%
Macau	0	0.0%	0.0%
Iraq	0	0.0%	0.0%
Nicaragua	0	0.0%	0.0%
Niger	0	0.0%	0.0%
Nigeria	0	0.0%	0.0%
Nauru	0	0.0%	0.0%
Mozambique	0	0.0%	0.0%
Mauritania	0	0.0%	0.0%
Moldova	0	0.0%	0.0%
Algeria	0	0.0%	0.0%
Curacao	0	0.0%	0.0%
Cyprus	0	0.0%	0.0%
Iceland	0	0.0%	0.0%
Sierra Leone	0	0.0%	0.0%
Qatar	0	0.0%	0.0%
Suriname	0	0.0%	0.0%
Sao Tome & Principe	0	0.0%	0.0%
Tokelau	0	0.0%	0.0%
Tanzania	0	0.0%	0.0%

Sources: United States Department of Commerce, Bureau of the Census; American Iron and Steel Institute. Calculations based on industry and trade data.

Table 2: United States (Consumption/Domestic) Import Statistics - Aluminum Commodity: Aluminum (232 scope), in metric tons			
Data for Updated 2017			
Partner Country	Total Imports	Percent of Total Imports	Percent of Total U.S. Demand (est)
World	6,867,373	100.0%	51.9%
Canada	2,913,655	42.4%	22.0%
Russia	743,735	10.8%	5.6%
China	641,062	9.3%	4.8%
United Arab Emirates	638,493	9.3%	4.8%
Argentina	264,072	3.8%	2.0%
Bahrain	246,796	3.6%	1.9%
India	171,517	2.5%	1.3%
South Africa	159,332	2.3%	1.2%
Qatar	118,028	1.7%	0.9%
Australia	101,517	1.5%	0.8%
Venezuela	91,926	1.3%	0.7%
Indonesia	79,988	1.2%	0.6%
Mexico	70,044	1.0%	0.5%
Saudi Arabia	68,088	1.0%	0.5%
Germany	58,871	0.9%	0.4%
Brazil	54,032	0.8%	0.4%
France	43,315	0.6%	0.3%
Oman	42,492	0.6%	0.3%
Hong Kong	37,491	0.5%	0.3%
Austria	36,203	0.5%	0.3%
Korea South	34,103	0.5%	0.3%
Japan	31,960	0.5%	0.2%
Vietnam	26,751	0.4%	0.2%
Greece	20,664	0.3%	0.2%
Italy	17,459	0.3%	0.1%
Turkey	15,790	0.2%	0.1%
Armenia	13,914	0.2%	0.1%
Thailand	11,468	0.2%	0.1%
Spain	11,265	0.2%	0.1%
Belgium	10,702	0.2%	0.1%
Malaysia	9,765	0.1%	0.1%
Sweden	9,616	0.1%	0.1%
United Kingdom	8,980	0.1%	0.1%
Colombia	8,286	0.1%	0.1%
Taiwan	8,271	0.1%	0.1%

Netherlands	8,128	0.1%	0.1%
Ecuador	5,506	0.1%	0.0%
New Zealand	4,566	0.1%	0.0%
Israel	3,664	0.1%	0.0%
Romania	3,444	0.1%	0.0%
Switzerland	3,416	0.0%	0.0%
Dominican Republic	2,728	0.0%	0.0%
Slovenia	2,416	0.0%	0.0%
Czech Republic	2,278	0.0%	0.0%
Costa Rica	2,143	0.0%	0.0%
Norway	1,909	0.0%	0.0%
Denmark	982	0.0%	0.0%
Poland	856	0.0%	0.0%
Ukraine	841	0.0%	0.0%
Iceland	779	0.0%	0.0%
Mozambique	777	0.0%	0.0%
Philippines	559	0.0%	0.0%
Singapore	511	0.0%	0.0%
Luxembourg	365	0.0%	0.0%
Portugal	332	0.0%	0.0%
El Salvador	299	0.0%	0.0%
Kazakhstan	165	0.0%	0.0%
Egypt	163	0.0%	0.0%
Hungary	159	0.0%	0.0%
Tunisia	126	0.0%	0.0%
Bulgaria	102	0.0%	0.0%
Ireland	67	0.0%	0.0%
Finland	63	0.0%	0.0%
Azerbaijan	60	0.0%	0.0%
Slovakia	55	0.0%	0.0%
Panama	55	0.0%	0.0%
Lithuania	34	0.0%	0.0%
Belarus	25	0.0%	0.0%
St. Kitts & Nevis	21	0.0%	0.0%
Guatemala	20	0.0%	0.0%
Croatia	19	0.0%	0.0%
Nigeria	17	0.0%	0.0%
Bosnia & Herzegovina	16	0.0%	0.0%
Antigua & Barbuda	13	0.0%	0.0%
Pakistan	12	0.0%	0.0%
Peru	8	0.0%	0.0%

Uzbekistan	8	0.0%	0.0%
Honduras	7	0.0%	0.0%
Serbia	4	0.0%	0.0%
Sierra Leone	2	0.0%	0.0%
Chile	1	0.0%	0.0%
Jordan	1	0.0%	0.0%
Macedonia	1	0.0%	0.0%
Andorra	0	0.0%	0.0%
Uruguay	0	0.0%	0.0%
Lebanon	0	0.0%	0.0%
Niger	0	0.0%	0.0%
Kenya	0	0.0%	0.0%
Malta	0	0.0%	0.0%
Albania	0	0.0%	0.0%
Liechtenstein	0	0.0%	0.0%
Senegal	0	0.0%	0.0%
Samoa (Western)	0	0.0%	0.0%
Seychelles	0	0.0%	0.0%
Sint Maarten	0	0.0%	0.0%
Reunion	0	0.0%	0.0%
Mauritius	0	0.0%	0.0%
Montenegro	0	0.0%	0.0%
Morocco	0	0.0%	0.0%
Nepal	0	0.0%	0.0%
New Caledonia	0	0.0%	0.0%
Nicaragua	0	0.0%	0.0%
Paraguay	0	0.0%	0.0%
Vatican City State	0	0.0%	0.0%
Virgin Islands (British)	0	0.0%	0.0%
Sri Lanka	0	0.0%	0.0%
Swaziland	0	0.0%	0.0%
Syria	0	0.0%	0.0%
Tajikistan	0	0.0%	0.0%
Togo	0	0.0%	0.0%
Tokelau	0	0.0%	0.0%
Trinidad & Tobago	0	0.0%	0.0%
Macau	0	0.0%	0.0%
Kuwait	0	0.0%	0.0%
Kyrgyzstan	0	0.0%	0.0%
Latvia	0	0.0%	0.0%
Gambia	0	0.0%	0.0%

Georgia	0	0.0%	0.0%
Haiti	0	0.0%	0.0%
Estonia	0	0.0%	0.0%
Ethiopia	0	0.0%	0.0%
Afghanistan	0	0.0%	0.0%
Bahamas	0	0.0%	0.0%
Bolivia	0	0.0%	0.0%
Aruba	0	0.0%	0.0%
Bangladesh	0	0.0%	0.0%
Cocos (Keeling) Islands	0	0.0%	0.0%
Cambodia	0	0.0%	0.0%
Cameroon	0	0.0%	0.0%
Brunei Darussalam	0	0.0%	0.0%
Curacao	0	0.0%	0.0%
Cyprus	0	0.0%	0.0%

Source: United States Department of Commerce, Bureau of the Census.

Autos Production and Aluminum Prices
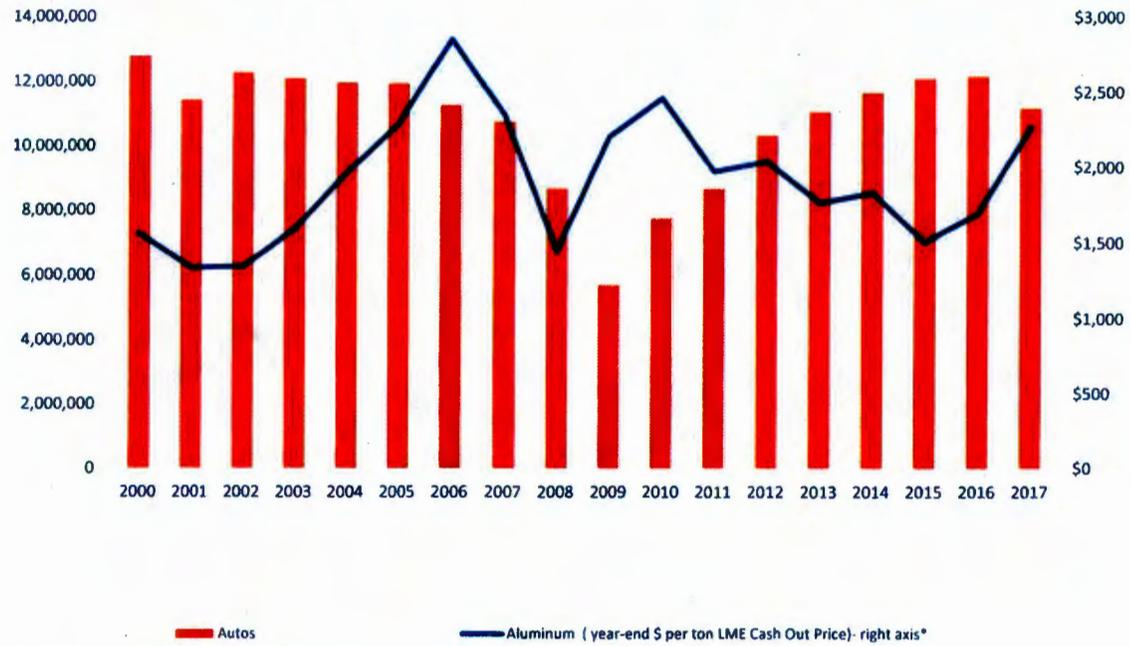

Source: Wards Automotive, Aluminum Extrusion Council (prices)

Autos Production and Steel (hot rolled coil prices)

Legend: Autos — US domestic hot rolled steel coil price
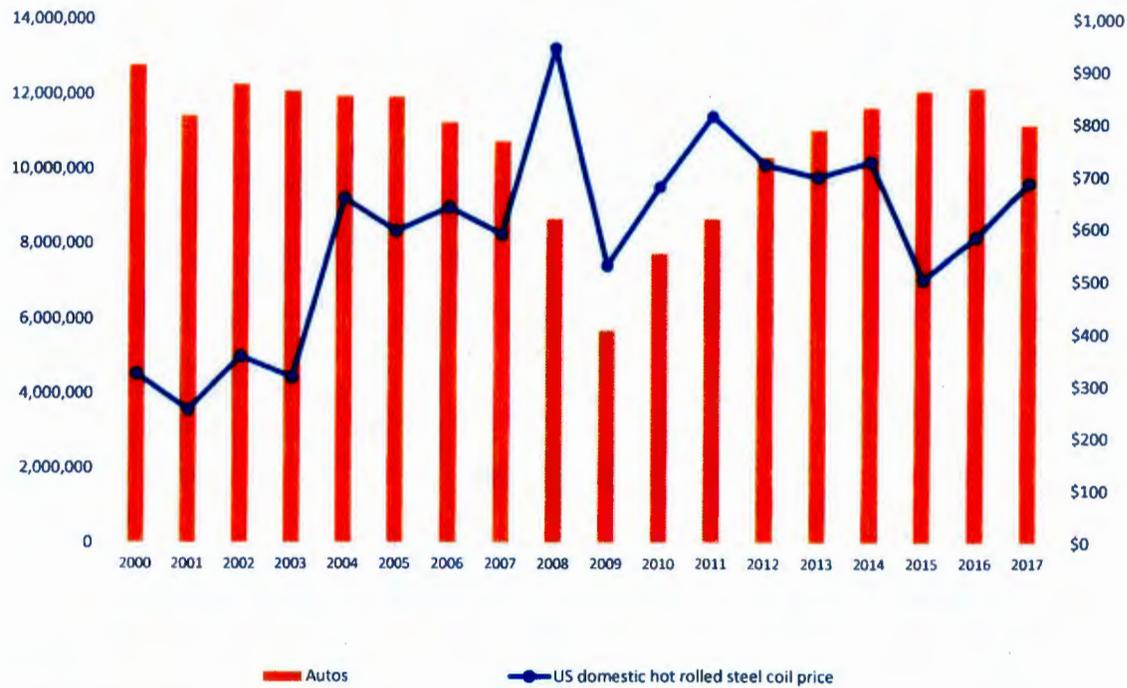
Source: SBB for steel price, Wards Automotive, which includes autos, trucks, and heavy duty trucks (passenger vehicles for autos)

Housing Starts and Steel Price Variations
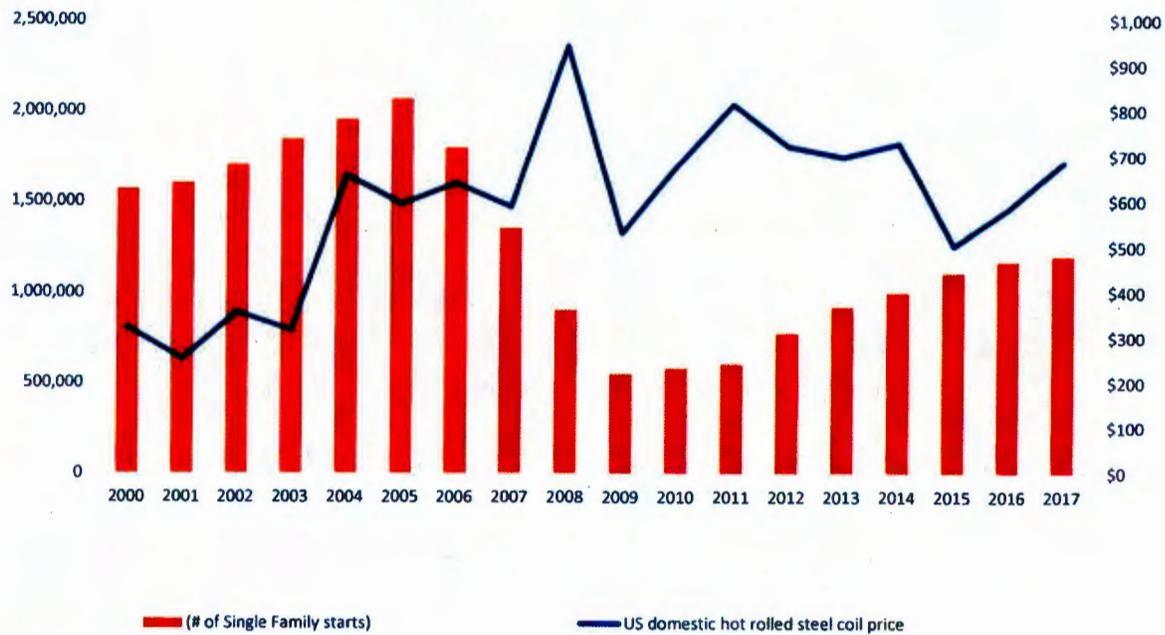
Legend: ■ (# of Single Family starts)   ▬ US domestic hot rolled steel coil price

RV Unit Shipment and Steel Prices

Legend: RV Unit Shipments (000) | US domestic hot rolled steel coil price (right axis)
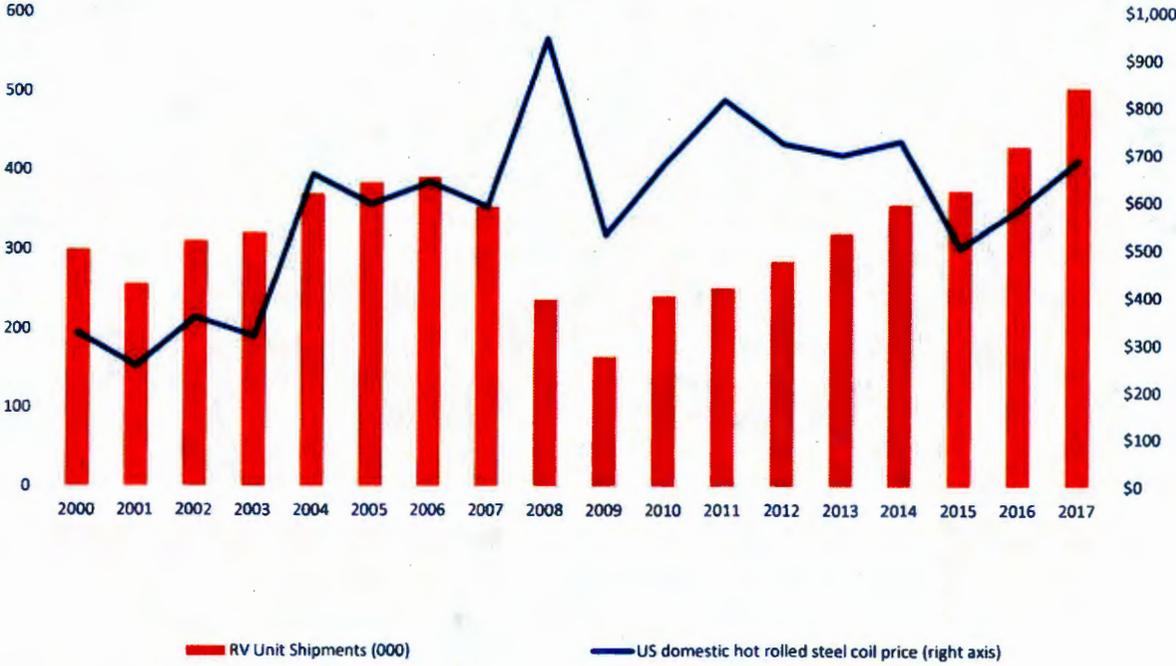
Source: SBB for steel price and RVIA.org

RV Unit Shipments And Aluminum Prices

RV Unit Shipments (000)

Aluminum (year-end $ per ton LME Cash Out Price)*
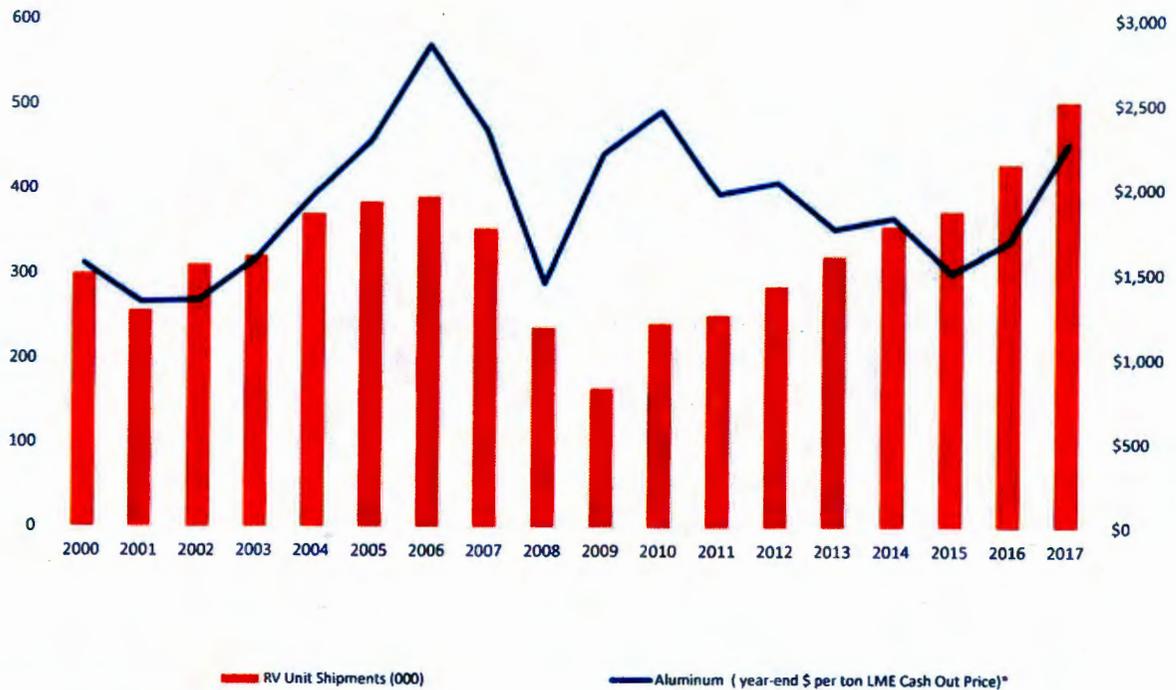
Source: RV Shipments RVIA.org , Aluminum Extrusion Council (prices)