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At the July 20-22, 2022
United States International Trade Commission
Public Hearing in Conjunction with
Investigation No. 332-591,
Economic Impact of Section 232 and 301 Tariffs on U.S. Industries

Chairman Johanson and commissioners, on behalf of the Alliance for American Manufacturing (AAM) – a non-profit, non-partisan partnership of some of America's leading manufacturers and the United Steelworkers – thank you for the opportunity to share our views regarding the Section 232 and 301 tariffs.

The domestic production of steel is necessary for our national defense requirements, critical infrastructure sectors, and other national security applications. Moreover, the sector supports nearly two million jobs and is the lifeblood of countless communities across our nation.

The Section 232 action on steel imports is successfully addressing the alarming growth trajectory of state-driven investments in steel production by countries ranging from China to its ASEAN neighbors to even some of our closest allies. Global excess capacity surged at an alarming 166 percent rate from 2000 to 2015, causing massive market disruptions. As a result, U.S. steel imports rose sharply from 2009 to 2014 and, despite relief from anti-dumping and countervailing duty orders in 2014 to 2016, imports returned to alarming levels as foreign producers found new ways to penetrate our market.

Major U.S. steel mills were shuttered or forced to reduce operations. Steelworkers and the communities in which they live experienced substantial hardship. And the loss of domestic steel production capacity put our country in a dangerous position of becoming reliant on potentially hostile countries to defend our country. Electrical steel necessary for energy transmission was reduced to a single U.S. plant and an armor plate mill that protected our Iraq and Afghanistan troops was forced to reduce operations.

The Section 232 measures successfully improved industry conditions while spurring significant investments and jobs. Adam Hersh of the Economic Policy Institute (EPI) noted in his prehearing brief that:

- Domestic steel producers have reached the 80 percent capacity utilization benchmark necessary to sustain financial viability 79 percent of the time versus just 5 percent in the previous business cycle.

- These improved financial conditions have spurred $15.7 billion in new investments, upgrades, plant expansions, and re-openings of idled facilities across at least 15 states, creating at least 3,200 direct new jobs. Just in the last year, U.S. producers reported new investments of $6.2 billion adding 6 MMT capacity.

Yet, challenges remain for domestic steel producers as the economic aftershocks the COVID-19 pandemic continue to disrupt markets, country exemptions and excessive volumes of product

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exclusions have eroded the scope of the Section 232 action, and global overcapacity remains unacceptably high.

As you examine the tariffs impact on the U.S. economy, you will undoubtedly hear outlandish claims by tariff opponents about inflation and increased costs to consumers. But the research of these entities has proven to be wildly inaccurate in the past, relying upon nonstandard economic models and based on assumptions that aren't reflective of current economic conditions. Even the ITC itself questioned the methodology of anti-tariff research during the Section 201 action from 2002 to 2003 that made exaggerated claims of job loss.

To be clear, there is no credible evidence that the Section 232 steel tariffs are a meaningful contributor to inflation or increased consumer costs. In this context, I again direct your attention to the prehearing brief of EPI's Adam Hersh, in which he notes the following:

- Analysis of the causal relationship between prices finds effects ranging from statistically zero to essentially nothing. Sec. 232 measures simply did not have a meaningful, real-world impact on prices for steel-consuming products.

- Even industries that consume large volumes of steel have many other inputs and absorb input price increases without being reflected in final prices.

- For instance, the steel content as a share of total production ranges from 1 percent in food consumed at home to 9.8 percent in the motor vehicle parts industries. In contrast, electronic components, including semiconductor chips, make up roughly 40 percent of a new car's price.

Hersh also concludes that the Section 232 tariffs have "no effect" on current inflation and that removing them would be counterproductive.

- Inflation, broadly, decelerated substantially after implementation of the tariffs in the pre-pandemic period. This is true for manufactured goods writ large, as well as for consumer prices overall, measured in the Consumer Price Index (CPI).

- Eliminating tariffs, Hersh says, would predictably result in increased production and transportation disruptions, add uncertainty costs for producers and consumers, increase the financial stress on steel industry firms, and put jobs at risk.

Until an enforceable global agreement can be reached to curtail overcapacity and state-led investments, the Section 232 action must remain in place for the sake of our economic and national security.

AAM also strongly supports the application of Section 301 tariffs to imports from China in response to Beijing's predatory and discriminatory economic practices. Despite its often-repeated empty promises on market reforms, Beijing continues these egregious activities – many of which have only worsened since the pandemic.

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Abandoning or eroding the Section 301 tariffs would discard our negotiating leverage, be the optimal outcome for President Xi, and subject U.S. producers and American workers to a flood of imports.

Rolling back Section 301 tariffs, however, would do little to nothing to address inflation, and would, instead, benefit China's Communist Party and China's manufacturing sector, which would make up the difference by increasing prices.

Barclays predicted that if "there's a complete rollback of tariffs, the maximum direct effect on US inflation is a one-time reduction of 0.3 percentage point." The analyst described the potential effect on inflation as "a drop in the bucket." A partial removal of tariffs would have an even lesser effect.

Even the Peterson Institute for International Economics found that lifting the tariffs "*could"* cut Consumer Price Index (CPI) inflation by just a quarter of a percent – or, 0.26 percent.

This view was recently echoed by a bipartisan group of U.S. Senators in a letter to President Biden, saying:

> "…the tariffs are not a driver of today's inflation. Not only do the tariffs predate the current inflation by over three years, but Chinese imports make up only 2 percent of goods included in the Consumer Price Index (CPI) and would not materially reduce inflation. Indeed, much of the inflation we are seeing relates to fuel and food—sectors that are unrelated to imports from China."

Lifting retaliatory measures before they induce reforms would be ill conceived and inherently flawed given China's continued reliance on market distorting policies, acts, and practices. U.S. companies would be subjected to a flood of imports. It is of the utmost importance to the American manufacturing sector that the United States continue pressing for reforms that address China's unreasonable and discriminatory acts, policies, and practices.

Thank you for the opportunity to share these views.

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