CAPITOL HILL BRIEFING: The Effects of Section 232 Tariffs on U.S. Industry and USMCA

WHAT: The Section 232 tariffs on aluminum and steel have been in place for over six months and strain on U.S. industry is starting to show. Hear from companies and industries affected by the tariffs themselves – and from those affected by retaliatory tariffs put in place by countries like Mexico and Canada. Already, American exports and imports worth over $13 billion have been hit by tariffs as a result of Section 232 – just across the U.S., Mexico and Canada. That number rises by $500 million a week. It is vital to American workers and companies that the U.S. provide quota-free tariff exemptions to Canada and Mexico as part of the final U.S.-Mexico-Canada Agreement (USMCA).

Learn from manufacturers, farmers and end customers how the tariffs hit home from them – and how Congress can help U.S. competitiveness.

WHO:
- Michael Dykes, CEO, International Dairy Foods Association
- Jennifer Thomas, Vice President, Federal Government Affairs, Alliance of Automobile Manufacturers
- Buddy Stemple, CEO Constellium Ravenswood, West Virginia – Aluminum Association Member
- Brandon Skall, CEO & Co-Founder, D.C. Brau – Brewers Association member
- Catherine Boland, Vice President, Legislative Affairs, Motor Equipment Manufacturers Association

Moderated by Kris Denzel, Senior Director, International Policy, U.S. Chamber of Commerce, and hosted by Heidi Brock, President & CEO of the Aluminum Association.

WHEN: Tuesday, November 27
10:00 am – 11:00 am ET

WHERE: Dirksen Senate Office Building, Room SDG-11
Opening Remarks
Heidi Brock
President & CEO, The Aluminum Association

Good morning, everyone. I am Heidi Brock, president and CEO of The Aluminum Association. I would like to thank you all for joining us this morning for a panel discussion on the Section 232 tariffs and the effects on U.S. industry.

The Section 232 tariffs on aluminum and steel have been in place for less than seven months, yet strain on U.S. industry is already starting to show. And it’s not just on my industry. Joining me today are companies and industries also being affected – either by the tariffs themselves or from the retaliatory tariffs put in place by our shared border allies. We want to brief you this morning on what we believe Congress can do to help U.S. competitiveness.

As a result of the Section 232 tariffs, American exports and imports worth over $13 billion have been hit by tariffs just within North America. And that number rises by $500 million later this week. That’s why we believe it is vital to American workers and companies that the U.S. provide quota-free tariff exemptions to Canada and Mexico as part of the USMCA. The USMCA cannot work as intended while 232 tariffs are in place.

Take a look at aluminum. Our industry jobs have grown 3.5% over five years despite global trade challenges and a significant drop in employment in primary aluminum smelting. We experienced record-high demand last year, and the industry has announced more than $2.6 billion in investments and expansions in recent years.

But all of this is at risk. The Section 232 tariffs are causing uncertainty for many aluminum companies in the U.S. – and uncertainty for our customers.

Fully 97 percent of domestic aluminum industry jobs are in mid-and-downstream production and processing. By artificially raising input prices and constraining metal supply, tariffs and quotas risk harming demand, growth and investment in the United States.

Our industry needs a steady source of primary aluminum from trading partners who play by the rules. The aluminum industry in the United States simply does not make nearly enough primary metal domestically to support the record demand for aluminum we enjoy today. Even at full capacity, the U.S. could produce less than half of all the primary aluminum we need.

To address the fundamental challenge to the domestic aluminum industry, the focus needs to be on China, not Canada.

Across-the-board tariffs are not addressing the problem of China’s illegally subsidized aluminum overcapacity. We have seen very little evidence that the Section 232 tariffs are impacting behavior in China, which continues to illegally subsidize its aluminum industry.
China’s aluminum capacity has grown by 73 percent over the past five years, and an additional eight percent just this year, despite the Trump administration’s tariff regime. In fact, there is some evidence that the tariffs may actually be helping Chinese aluminum producers to enter new markets by increasing China’s price advantage over aluminum produced in North America.

The Section 232 tariffs present a number of issues to the aluminum industry. But we are not alone. You’ll soon hear from leaders in the dairy, beer, auto and aluminum industry leaders on what we believe Congress can do to help U.S. competitiveness.
Good morning. Thank you for the opportunity to be here with you today, and thanks to everyone for your interest in our industry. I am Buddy Stemple, Chief Executive Officer of Constellium Rolled Products in Ravenswood, West Virginia. I have held that position for approximately four and a half years. I began my career in the aluminum industry nearly 40 years ago, and started as an intern in Ravenswood, the plant that I am now heading.

Constellium is a downstream aluminum leader, designing and manufacturing products mostly for the aerospace, automotive, packaging and defense markets.

With 12,000 employees, we generate over $5 billion in revenue, the U.S. representing around 40% of our business. We consider the US to be one of our key markets, and it is today our most promising growth market. This is why we have heavily invested in the US: in the last five years, we invested over $1.8 billion in our U.S. plants. In Ravenswood alone, we invested $170 million over the last five years.

We have a large industrial presence with plants in West Virginia, Alabama, Michigan, Kentucky and Georgia. In Ravenswood, we have more than 1,500 employees and we are a significant contributor to the local community.

Our plant in Ravenswood supplies aerospace plates as well as advanced alloys for military aircraft and armored vehicles. Our assets are critical to make the largest plates needed for military aircrafts such as the Boeing C-17 Globemaster transporter and jet fighters, including the F-16, and the new F-35 Joint Strike Fighter.

We also supply common alloy sheets to manufacturers of truck trailers and pleasure boats. This was a declining market for us until the Administration decided to tackle the critical issue of subsided Chinese common alloy sheet with an unfair trade investigation, and I would like to thank the Administration for its leadership in enforcing rules-based trade, and in addressing the growing issue of Chinese unfair trade practices.

I firmly believe that we have an Administration in the U.S. that has expressed its commitment and desire for a strong and growing domestic aluminum industry. We very much share that objective and appreciate the Administration’s efforts into maintaining a healthy U.S. aluminum industry.

But we must make sure that in attempting to protect the U.S. industry, we don’t take actions that could inadvertently harm it instead.
And the Section 232 tariffs, which imposes a 10 percent tariff on virtually all aluminum and aluminum product entering the United States – not just from China but from all countries – is the wrong solution to a real problem. While well-intentioned, the tariffs are making the U.S. aluminum industry, including Ravenswood, less competitive on the world stage.

Here’s why. The aluminum industry in the United States simply does not make nearly enough primary metal domestically to support the record demand for aluminum we enjoy today. The U.S. consumes between 5 and 6 million metric tons of primary aluminum each year but has less than 2 million metric tons of total primary smelting capacity. Even if we brought all of our U.S.-based smelters back on line tomorrow, we would not have nearly enough primary aluminum capacity to satisfy the growing domestic demand.

The bulk of the difference is made up through by Canadian imports. This is why we believe that all countries – including Canada, but also the European Union– that play by the rules and operate as market economies should receive quota-free exemptions from the current 232 tariffs.

The signing of President Trump’s U.S.-Mexico-Canada Agreement (USMCA) presents a perfect opportunity to remove trade barriers in North America. To achieve our shared goal of a U.S. aluminum industry that continues to grow and invest, we are urging the President to remove the 232 tariffs as part of the USMCA Agreement.

We are also concerned of the unintended consequences of the current product exclusion process from the 232 tariffs. In particular, we are deeply concerned about a number of large-volume requests that have been granted and that will likely distort the U.S. aluminum market.

Requests for massive volumes of common alloy aluminum sheet have been approved, even though some of these imports are coming from China. In particular, the approval of exclusion requests by Ta Chen International now allow for import of more than 1 billion pounds of Chinese common alloy sheet - a substantial share of the U.S. market for common alloy products.

The exclusion was granted less than one year after the Administration launched its self-initiated unfair trade case on imports of common alloy aluminum sheet from China that I was referring to.

Ironically, while these large exclusions are granted for products that could be produced by U.S. manufacturers, we are still waiting for an approval of our exclusion request for Airware®, a niche and proprietary product that is not available in the U.S. and is being used for defense application.

We strongly urge the Commerce Department to evaluate all exclusion requests – including those for which no objections are filed – to ensure that the volumes requested are proportional to the U.S. market, and that they do not include products coming from China.
To conclude, now would be the perfect time to call the President and his Administration, to request that aluminum tariffs and quotas on key trading partners be removed, and to ask him to lead a coalition of nations toward a negotiated solution that addresses Chinese aluminum overcapacity once and for all.
Good morning. My name is Michael Dykes. I am the CEO and President of the International Dairy Foods Association. IDFA represents the nation’s dairy manufacturing and marketing industry, which supports nearly 3 million jobs and has an overall economic impact of more than $628 billion. IDFA members range from multinational organizations to single-plant companies.

Together they represent approximately 90 percent of the milk, cultured products, cheese, ice cream and frozen desserts produced and marketed in the United States and sold throughout the world.

Mexico is an indispensable partner for the U.S. dairy industry, thanks to the market access achieved in NAFTA. Mexico imported more than $1.3 billion of U.S. dairy products and ingredients in 2017 compared to only $250 million in 1993 before NAFTA. U.S. dairy exports to Mexico now account for one quarter of total dairy exports supporting nearly 30,000 American jobs.

Mexico is our number one cheese market. Last year, U.S. cheese makers benefited from a 75 percent market share selling over $391 million of cheese to Mexico. Unfortunately, U.S. cheese is on the list of products now subject to a 25 percent tariff in retaliation for U.S. tariffs on steel and aluminum imports. We’ve seen sales decline 10 percent for cheese in July, August and September due to the tariffs. The export data is two months behind but we expect that trend to continue throughout the rest of the year.

Losing the Mexican market will only open opportunities for our competitors. For instance, the European Union will use this opportunity in the wake of their recently concluded free trade agreement with Mexico to gain market share. Allowing Mexico’s cheese tariffs to remain in place will greatly assist the EU in a market where the U.S. has long been the leading supplier.

I’d be remiss if I also didn’t mention China and the Section 301 tariffs. China was the third largest export market for the U.S. dairy industry last year. In 2017, U.S. dairy exports totaled $538 million compared to only $154 million ten years prior. After U.S. dairy product manufacturers and marketers invested years developing opportunities in China, it became the leading market for U.S. whey and was a growing customer for U.S. cheese. Unfortunately, the 25 percent retaliatory tariffs China placed on U.S. whey and cheese in response to the tariffs the U.S. placed on Chinese products due to the Section 301 investigation are derailing those efforts.

In July and August 2018, the first months with the retaliatory tariffs in place, U.S. whey exports declined 28 percent year-over-year. Similarly, to the case of U.S. whey exports, U.S. cheese exports declined 46 percent in July and August 2018 year-over-year. Both the Section 232 and
the Section 301 retaliatory tariffs are costing the U.S. dairy industry millions in sales, market share and jobs.

Overall, my members are very pleased that the USMCA negotiations are complete and Mexico remains a duty-free market but until the Section 232 tariffs are lifted, U.S. dairy’s access to the Mexican market is at risk. We hope that a deal is reached between Mexico and the U.S., and an announcement is made when the USMCA is signed later this week. Until then, the U.S. dairy industry cannot fully benefit from the USMCA.