

Automotive and Trade Implications of new 2018 Steel and Aluminum Tariffs

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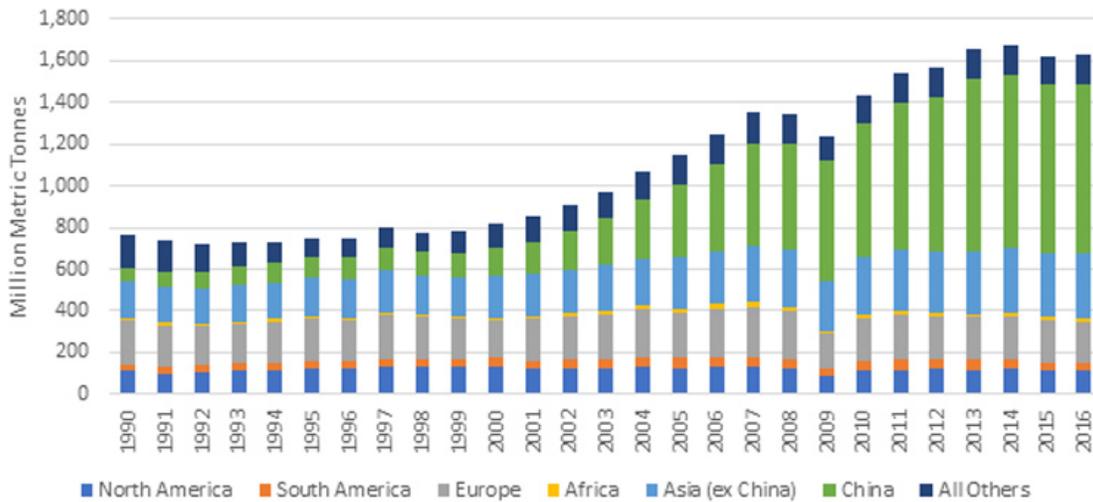


On 1 March 2018, President Trump announced a 25 percent tariff on imported steel and a 10 percent tariff on imported aluminum from all U.S. trading partners. These tariffs are based on an investigation by the U.S. Department of Commerce into the effects of steel and aluminum imports on U.S. national security under Section 232 of the Trade Expansion Act of 1962, as amended (19 U.S.C. § 1862). The announced tariffs exceed the 24.7 percent and 7.7 percent tariffs recommended by the Commerce Department as an outcome of its investigation. The President's decision to impose these tariffs will have broad ramifications for the U.S. automotive industry.

Section 232 comes into play when trade poses a national security threat, such as when the United States is dependent on national-defense-critical commodities or goods from a potentially hostile nation. This trade provision was last used in 1986

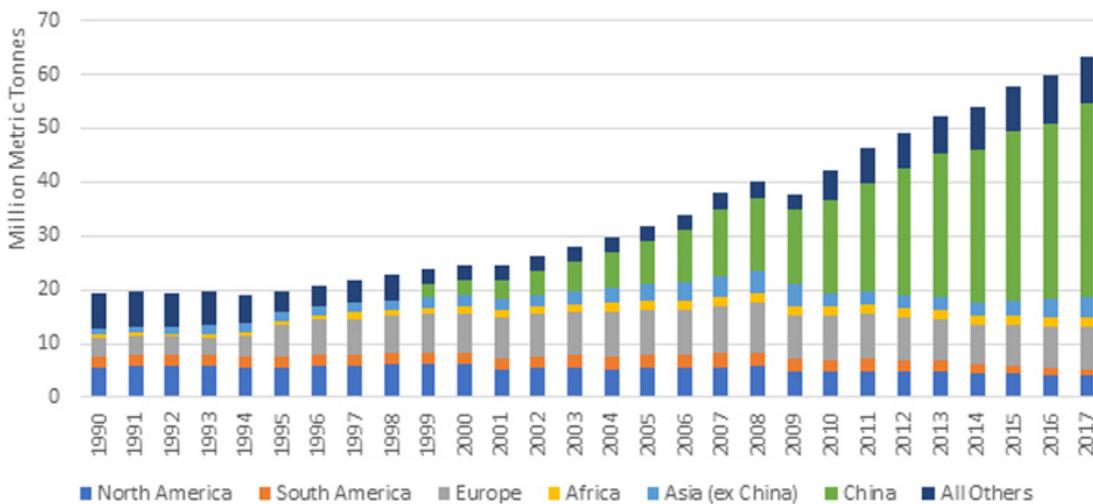
There is global overcapacity in both aluminum and steel production, primarily driven by expanded steel and aluminum production capacity in China since 2000, as shown in Figure 1 and Figure 2. Prices are down, and U.S. production has fallen

Figure 1: World Crude Steel Production by Region, 1990-2016



Source: (World Steel Association, 2018)

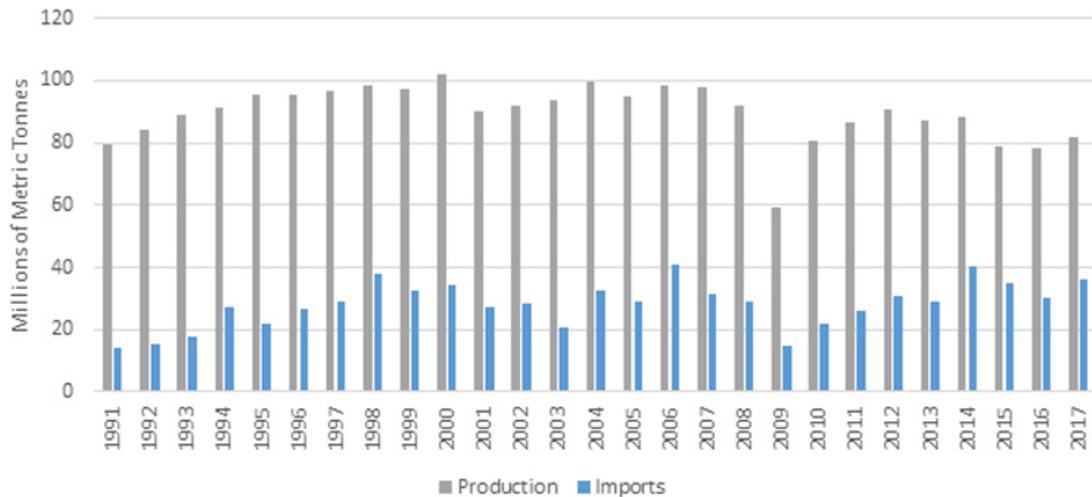
Figure 2: World Aluminum Production by Region, 1990-2017



Source: (International Aluminum Institute, 2018)

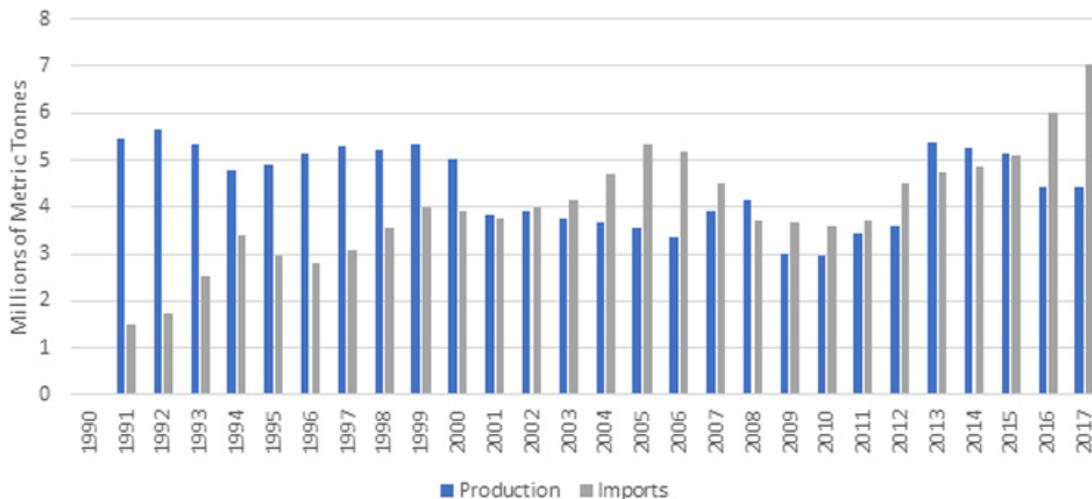
Imports increased in the post-2009 recovery, with steel imports comprising roughly 45 percent of U.S. steel and steel mill product production in 2017, and aluminum imports comprising 160 percent of U.S. aluminum production that same year.

Figure 3: U.S. Steel Production and Steel Mill Product Imports, 1991-2017



Source: (U.S. Geological Survey, 2018)

Figure 4: U.S. Aluminum Production and Imports, 1991-2017



Source: (U.S. Geological Survey, 2018)

This trade action will help the steel and aluminum producing industries by boosting prices and will harm steel-consuming industries. Note that there are 3.5 times as

industries than those employed in primary metals production in the United States, and many other industries also use steel and aluminum as production inputs beyond these two sectors.

The impact on automotive and parts production will be significant, but the magnitude of the action is not yet known. Some key points to consider:

- The process allows for companies to petition to exclude certain types or grades of material that are not available in sufficient quantities from U.S. producers. The Commerce Department investigations suggested that the Commerce Department will readjust tariffs after granting any exclusions. If that happens, tariffs will go higher for the remaining types and grades of material than the 25 percent on steel and 10 percent on aluminum that the President announced.
- Even if companies buy their steel or aluminum from domestic sources, the metals producers may import some or all of their inputs and will face higher prices for those materials such as scrap steel and aluminum.
- Automakers and suppliers purchase raw materials such as steel and aluminum under long-term contracts, and usually a price fluctuation over a specific period will trigger a renegotiation. However, tariffs do not fit under this type of trigger.
- The Commerce Department announced it would launch the steel and aluminum 232 in early 2017, so steel and aluminum consumers have known that a trade action was possible, and may have already adjusted their purchasing footprint to reduce risks as much as possible.
- Other countries will react to the U.S. trade action, and the retaliatory measures may include challenges at the World Trade Organization or tariffs on unrelated U.S. exports. This type of retaliation is, after all, the reason we have a 25 percent tariff on imported pickup trucks and cargo vans but call it the “chicken tax.”
- The new steel and aluminum tariffs will likely have a chilling effect on the ongoing NAFTA renegotiation. Canada and Mexico are both among the top five exporters of steel to the U.S. market, and Canada also ranks as the top exporter of unwrought, bar, and sheet aluminum to the U.S. market. The tariff actions apply to all countries, and therefore Canadian and Mexican industries will be affected.

Automotive consumers would buy fewer vehicles if prices were to rise at a rate commensurate with materials cost share and the tariff impact. The U.S. automotive

time in five years—and used vehicle prices are at a 10-year low. With consumer credit slowing, and auto loan defaults rising, manufacturers may not have much room to recoup the raw materials cost increases they will face as a result of this

process plays out and U.S. trading partners react to these trade protections.

Center for Automotive
Research
3005 Boardwalk, Suite 200
Ann Arbor, MI 48108
Phone: 734.662.1287 |
Fax: 734.662.5736
info@cargroup.org



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