CANACERO • Cámara Nacional de la Industria del Hierro y del Acero

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BY EMAIL

Mr. Brad Botwin
Director, Industrial Studies, Office of Technology and Evaluation
Bureau of Industry and Security
U.S. Department of Commerce
Room 1093
1401 Constitution Avenue, NW
Washington, DC 20230

Comments in Section 232 National Security Investigation of Steel Products

Dear Director Botwin:

The Mexican Iron and Steel Industry Chamber -- CANACERO by its Spanish acronym -- provides these comments in relation to the U.S. Government's Section 232 National Security Investigation of Steel products.

CANACERO, a Mexican steel industry association created in 1949, represents the interests of its steel industry members on a wide range of industry and policy matters. CANACERO currently represents 55 steel producers and manufacturers, accounting for 98 per cent of Mexico's steel industry. It is the Mexican equivalent of the American Iron and Steel Industry association in the United States, and the Canadian Steel Producers Association in Canada.

1. Introduction

CANACERO and its members are part of the highly-integrated North American steel industry and market. This integration did not occur by coincidence or accident: the producers in Mexico, the United States, and Canada, assisted by our governments, created an integrated industry and market, which has benefited the NAFTA producers and consumers. The integrated industry also helps the NAFTA countries, and increases both regional and national security.

It is in this capacity as participants and partners in an integrated industry and market that we provide these comments on the U.S. Government's Section 232 investigation. Our message is simple: whatever steps may be taken for the sake of the national security as a result of this proceeding, the United States should preserve and do no harm to the integrated North American market that we have all built together.

We address below the following points: 1) the creation and extent of the integrated industry and market; 2) the factors considered in a Section 232 investigation; 3) the application of those factors to the integrated North American industry and market; and 4) CANACERO's recommendations for consideration by the U.S. Government in this proceeding.

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2. An Integrated North American Steel Market

The integration of the North American steel industry was a conscious decision of the three NAFTA governments and their steel industries. The NAFTA itself reflected the desire from the private sector to integrate, establishing ambition tariff reductions throughout the steel sector in all three countries.

The integration launched by the NAFTA went beyond tariff reductions. There were institutional changes reflecting the desire to integrate. The American Iron and Steel Institute formed within its organization the North American Steel Council with the mission of "growing North American steel and manufacturing supply chains, through policies that increase NAFTA steel consumption and support growth of intra-NAFTA trade in steel and manufactured goods."

Among those policies is the concern with the effects of unfair trade on the North American market. For example, in December 2002, the three NAFTA Governments issued a "Joint Statement of NAFTA Governments: Commitment To Take Action To Address Practices That Distort Steel Markets."[1] The document reflected the joint position of the NAFTA governments and their increasingly integrated industries on such issues as overcapacity and government intervention into the steel markets. The NAFTA Governments urged support for the OECD High Level Process on Steel which aimed to remove these distortions from the international steel market. Finally, the Joint Statement announced the three Governments' decision to create the North American Steel Trade Committee (NASTC) to coordinate government and industry actions to jointly enhance the conditions for continued growth and prosperity for steel in the region. The NAFTA Governments announced these joint activities "in recognition of the importance of maintaining an open steel market within North America."[2]

The NASTC process continues to this day, bringing together both government and industry representatives from the three countries to discuss policy initiatives important to the competitiveness and growth of the NAFTA steel industry. The NASTC agenda covers objectives of strategic importance to the North American market, as well as medium- and long-term matters, and specific matters related to trade, transport, environmental, customs, and energy issues. The current agenda includes the unresolved issues identified in the 2002 Joint Statement – overcapacity and government intervention into steel markets, which have led to increased market share for imports and unsustainably low prices. The agenda also includes alignment, as much as possible, on increased enforcement to avoid fraud and circumvention of trade laws. These are common problems facing the integrated NAFTA market, and region's producers and governments continue to work on these issues through the NASTC.

There is no doubt that the organizational and formal structure developed by the three North American governments and their industries was important in setting the stage for integration. It is equally clear that the integration achieved by the industry and market is real. The numbers do not lie.

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[1] *See,* http://www.ita.doc.gov/media/PressReleases/december2002/joint_statement_121902.html (last visited 26 May 2017)(herein "Joint Statement of NAFTA Governments").

[2] *Id.*

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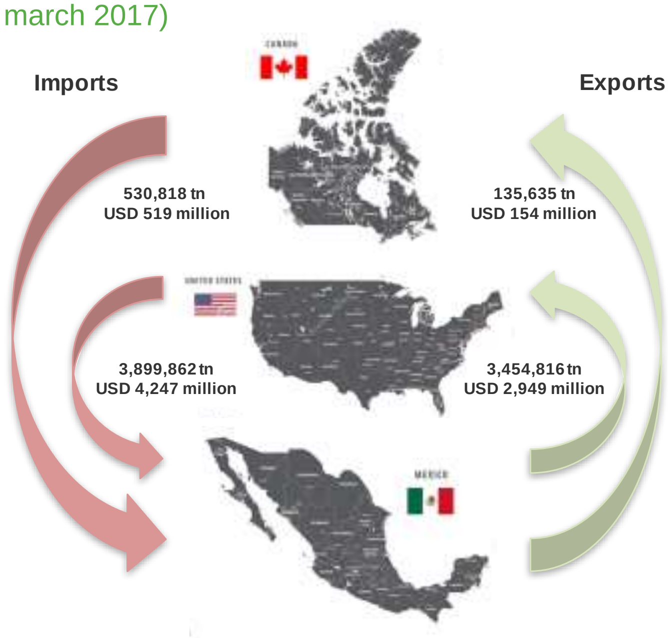
Since NAFTA entered into force, trade in steel products between NAFTA countries has more than doubled, increasing by 117.2 percent. Today the vast majority of all steel exports from Canada, Mexico, and the United States are destined to other NAFTA country markets:

- 97 percent of Canadian steel exports are to the United States and Mexico,
- 90 percent of U.S. steel exports are to Canada and Mexico, and
- 76 percent of Mexican steel exports are to Canada and the United States.

Combined, 88 percent of all North American steel exports are within the region, making tariff-free trade within North America critical to the industry's success.

The following diagram shows the steel trade flow for the most recent four quarters from the perspective of Mexico:

All steel products (basic, semi and finished)
(april 2016 - march 2017)



Source: Canacero with data from General Customs Administration of Mexico
Annualized from april 2016 to march 2017

As can be seen, Mexico has a trade deficit with both the United States and Canada. Looking below the surface, we find that:

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- The United States has enjoyed a trade surplus exceeding 1 million tons of finished steel products in each year since 2012, and the trend is continuing through the first quarter of 2017;[3]
- Exports from the United States represent the largest source of imported finished steel products into Mexico, accounting for over 30 percent of total imports. This result is due, in part, to the integration efforts and the common policy approach of vigilantly protecting the Mexican market from unfair trade.[4]
- In addition to this trade surplus in finished products, the United States enjoys a large and consistent surplus with Mexico in the trade of raw materials for steel making, including iron ore and coal. The surplus has been consistently in the range of 5 – 6 million tons for the most significant raw materials (iron ore, coal, coke, scrap, and reusable steel).[5]

Simply put, Mexico is the U.S. steel industry's biggest customer. Of course, the steel products flowing north and south of the national borders are in different forms and subject to a significant degree of processing in different locations. The trade flows that have emerged in the wake of NAFTA, however, were neither stipulated by the treaty nor planned by any committee. Rather the trade flows are the result of the market, as producers in all three countries organize their productive processes efficiently in a way that best meets their customer demands.

In summary, we can say that the framework for an integrated steel industry and market put forward by the United States, Mexican, and Canadian governments, together with their respective steel industries, and enabled by the NAFTA, has been successful in creating a highly integrated regional market. The result is robust intraregional trade and a stable, reliable, and diversified regional steel market. The market continues to face threats, but they are threats that come from the outside, not from within.

3. Considerations for a Section 232 Investigation

CANACERO understands that the purpose of this Section 232 investigation of steel products, reduced to its core, is to determine whether steel imports threaten to impair the national security of the United States.[6] If the investigation leads to an affirmative finding, and if the President concurs, the President must "determine the nature and duration of the action that… must be taken to adjust imports of the article and its derivatives so that such imports will not threaten to impair the national security."[7]

[3] Statistics from General Customs Administration of Mexico, prepared by CANACERO.

[4] Statistics from General Customs Administration of Mexico, prepared by CANACERO.

[5] Statistics from General Customs Administration of Mexico, prepared by CANACERO.

[6] *See* 19 U.S.C. § 1862(b)(3)(A).

[7] 19 U.S.C. § 1862(c)(1)(A).

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The investigation must address three central issues: (1) What constitutes "national security"; (2) What "effects of imports" should be considered; and (3) When do those imports "threaten to impair" the national security? In the 232 investigation of iron ore and semi-finished steel, the Commerce Department indicated that the standard would be met where imports of the product at issue threaten to impair U.S. national security either:

- "by fostering U.S. dependence on unreliable or unsafe imports"; or
- "by fundamentally threatening the ability of U.S. domestic industries to satisfy national security needs."[8]

These are the standards that apply to this investigation of steel products.

4. Steel Shipments Within the NAFTA Region Strengthen National Security

CANACERO does not presume to advise the United States Government on the meaning of national security for the United States. Others will offer their opinions, and it is likely that many definitions will be offered in this investigation.

However, CANACERO submits that the evaluation of the effects of steel imports must take into consideration the integrated industry and market that the NAFTA governments and industry have built over the last 22 years. The integrated nature of the market described above is directly relevant to the statutory requirements: the NAFTA regional market is not the source of "unreliable or unsafe imports," and the integrated industry is in a better – not worse – position to satisfy the national security needs of the NAFTA countries, including the United States.

An integrated market is a more reliable market. As noted above, the high levels of integration within the North American steel market is best understood as a result of planning and market demand. North American steel producers have adapted to the integration over the last 22 years, and so have their customers. Steel consumers located in the United States have come to rely on steel from the three NAFTA countries, and they rely on the steel being available to move throughout the integrated market. The result is a robust market in which steel supply does not depend on any one company or source, but rather is offered to customers in a competitive, well-functioning market. This reliability enhances the national security of all three NAFTA countries, including the United States.

The NAFTA steel producers also continue to work together, and with their Governments, on resolving the problems that affect the integrated NAFTA market. The problems identified in the 2002 Joint Statement of the NAFTA Governments – global steel overcapacity and government intervention – remain unresolved, and in fact have gotten worse. The NAFTA industry and the NAFTA Governments continue to work on these problems actively because they are problems that affect the integrated NAFTA market, not only the countries individually. Mexico is the U.S. Steel industry's largest customer. If the Mexican industry is left to

[8] *See*, U.S. Commerce Department, *The Effect of Imports of Iron Ore and Semi-finished Steel on the National Security* (2001), at 6 – 7.

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suffer alone the effects of overcapacity and government intervention, the U.S. industry can be expected to lose an important export market. The common interests of the steel industries in the United States, Mexico, and Canada and the high level of integration of the North American market require common action to address these problems. Common action is inconsistent with the notion of considering Mexican or Canadian imports to somehow threaten the national security of the United States.
Finally, our three countries are about to embark on a process of renegotiating NAFTA. The steel industries of the United States, Canada and Mexico are already working together to ensure that the renegotiation process deepens integration of the NAFTA steel industry and market. We will keep working together and with our Governments through the North American Steel Trade Committee throughout this process, and we will continue jointly to address the threats to the health of our industries that originate from outside the region. We are confident that the result will be a stronger North American steel industry, which is in the national security interests of the United States and the other NAFTA countries.

5. Recommendations and Conclusion

On the basis of the above, if the Department decides to grant relief under Section 232, CANACERO respectfully recommends that any relief proposed by the Department should exclude all NAFTA trade. The reliable, integrated NAFTA market is a source of strength and security, not of weakness or threat.

Respectfully submitted,

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President
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