Feb. 22, 2018

Open Letter to President Trump: Free Market Organizations Oppose Import Restrictions on Steel and Aluminum

Dear President Trump,

On behalf of the following organizations, we urge you not to impose tariffs or other restrictions on imported steel and aluminum pursuant to the recommendations made by Commerce Secretary Wilbur Ross under Section 232 of the Trade Expansion Act of 1962. The national security case to restrict steel and aluminum imports is thin and the toll such restrictions would take on the economy is considerable. There is no question that steel and aluminum, materials used in the production of weapons and military systems, are vital for America's military superiority. But it is not realistic to expect that foreign producers would withhold supplies in the case of a national security emergency. A close examination of our suppliers, treaties and other agreements makes clear that steel and aluminum imports do not jeopardize national security.

Many of the United States' largest suppliers of steel and aluminum are covered by free trade agreements like NAFTA and the US-Korea Free Trade Agreement, and some of our largest suppliers are covered by NATO, which requires its members to defend American security and provide assistance during emergencies. Likewise, the U.S. Defense Department has a number of tools at its disposal to receive supplies necessary for national security. Specifically, we have a number of defense-procurement memorandums of understanding with our allies, as well as "security of supply" arrangements intended to "ensure the mutual supply of defense goods and services." These bilateral agreements with allied states allow the Defense Department to "request priority delivery for DoD contracts, subcontracts or orders from companies in these countries."

The economic case for steel and aluminum tariffs or other import restrictions is also weak. First, steel and aluminum tariffs or other import restrictions would hurt downstream domestic manufacturers. According to 2015 census data, for instance, steel mills employ about 140,000 Americans and add about $36 billion to the economy, or about 0.2 percent of gross domestic product. Meanwhile, steel-consuming industries, including manufacturers who rely on steel imports, employ 6.5 million Americans and add about $1 trillion to U.S. GDP.

Raising costs on manufacturers will jeopardize far more jobs than could possibly be saved by imposing steel tariffs or other restrictions. As an example, in 2002, George W. Bush's administration acquiesced to the demands of the domestic steel industry and imposed safeguard tariffs on steel pursuant to Section 201 of the Trade Act of 1974. It is estimated that these tariffs resulted in nearly 200,000 job losses and cost nearly $4 billion in lost wages before they were withdrawn in 2003.

Similarly, according to projections from NERA Economic Consulting, while a 7 percent across-the-board tariff on primary and semi-finished aluminum would add about 1,000 jobs to the U.S. aluminum sector and increase domestic aluminum output by $850 million annually, for the manufacturing sector as a whole, employment would decline by 3,040 jobs and annual output would fall by $1.4 billion. The economy as a whole would lose 22,600 jobs and total output would fall $5.0 billion per year.

Not only would steel and aluminum tariffs or other import restrictions raise costs for domestic companies, they could ensnare unrelated domestic industries in a tit-for-tat game of foreign retaliation. After the Section 232 investigation was announced, Jean Claude Juncker, president of the European Commission, warned that the EU would retaliate in a similar fashion against new steel import restrictions imposed by the United States. Because the United States exports little steel to Europe, the EU's list of potential targets for retaliation was rife with politically sensitive exports, including bourbon, dairy and orange juice. Bourbon, for example, is one of the main exports from Kentucky, home of Senate Majority Leader Mitch McConnell, while dairy is one of the primary exports from Wisconsin, home of House Speaker Paul Ryan. In other words, steel import restrictions could trigger retaliation against unrelated products and they could cause unwanted domestic political problems for the White House.

In light of the foregoing, we urge you to reject all of the secretary's proposed restrictions on imported steel and aluminum.

Sincerely,

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