

BGOV OnPoint: National Security Tariffs

Sarah Babbage
Legislative Analyst

June 6, 2018

**Bloomberg
Government**

About This Presentation

A trade war is emerging as countries retaliate against U.S. tariffs on steel and aluminum

- Tariffs were imposed under the Section 232 procedure, which permits them for national security
- Exemptions for Canada, European Union, and Mexico ended June 1 and they announced retaliation
- Section 232 tariffs could be imposed on cars and parts as well

Bloomberg Economics estimates a trade war could reduce global GDP by 0.5 percent, or \$470 billion, annually by 2020

This presentation reviews:

- Background on steel and aluminum tariffs
- Section 232 procedures
- Ongoing car investigation
- The World Trade Organization dispute resolution process



Donald J. Trump ✓

@realDonaldTrump

The United States must, at long last, be treated fairly on Trade. If we charge a country ZERO to sell their goods, and they charge us 25, 50 or even 100 percent to sell ours, it is UNFAIR and can no longer be tolerated. That is not Free or Fair Trade, it is Stupid Trade!

1:51 PM - 2 Jun 2018

Note: GDP – Gross domestic product

Source: "[How Bad Could It Get? Counting the Cost of a Global Trade War](#)," Bloomberg Economics

©2018 BGOV LLC

New Steel and Aluminum Tariffs

President Donald Trump announced a worldwide tariff of 25 percent on steel and 10 percent on aluminum, beginning March 23 for most countries

- Commerce Department recommended 24 percent for steel and 7.7 percent for aluminum, quota system, or narrowly targeted tariffs with higher rates
- Tariff in addition to more than 160 anti-dumping/countervailing duty orders in place on steel

Defense Department recommended only targeted steel tariffs or quota

- Sought to curb Chinese overproduction but protect relations with defense allies
- Didn't want immediate action on aluminum

Argentina, Brazil, South Korea agreed to quotas and other measures instead of tariffs

- Brazil and South Korea aren't exempt from aluminum tariffs
- Australia isn't subject to tariffs or quotas

Quotas are annual limits on quantity of a good that can be imported

- Often set at level of imports from a previous year or average over time
- Tracked by Customs and Border Protection, part of the Homeland Security Department

Domestic industry opinion on the tariffs is mixed

- Supported by the American Iron and Steel Institute
- Opposed by many aluminum groups, which recommend a multilateral monitoring system

Sources: Commerce Department [investigations](#); Defense Department [memo](#); Customs and Border Protection [Entry Summary](#); [American Iron and Steel Institute](#); [Aluminum Association](#); ["Aluminum Industries Call for Global Forum and Monitoring System,"](#) Bloomberg News

Steel and Aluminum Tariffs Justification

Tariffs under Section 232 of the Trade Expansion Act of 1962 can be imposed if imports are found to threaten national security

Commerce Department investigates, in consultation with Defense Department:

- Requirements of defense and essential nondefense industries
- The quantity, quality, and availability of imports
- Imports' effect on domestic industry
- Whether reliance on such imports is causing unemployment, or loss of investment, government revenue, or skill and productive capacity

Commerce Department recommends tariff or other measures

- President makes final decision
- Businesses in U.S. can request an exemption for products not domestically available

Trump administration includes economic security in concept of national security

- Asserts U.S. should have own essential industries so it wouldn't rely on other countries for goods and skilled production labor in times of conflict. Military allies question this approach
- U.S. imported 30 percent of steel in 2017, 90 percent of aluminum in 2016

WTO Rules Allow National Security Tariffs

WTO rules have exemption for “essential security,” but it’s rarely used, and not clearly defined

Canada, EU, Mexico are bringing dispute to WTO

- Begins with 60 days of consultation between parties to try to find a solution
- Complainant can then request dispute panel, which investigates and reports on the issue
- Dispute Settlement Body adopts report as ruling
- Countries must adopt recommendations, negotiate compensation, or appeal
- If an agreement can’t be reached or isn’t implemented, retaliation can be authorized
- Process takes about one year, or 15 months if there’s an appeal

U.S. says WTO can’t adjudicate matters of national security

- It’s blocking nominees to the Appellate Body that would rule if it appealed
- It wants changes to the body

Canada also challenging tariffs under NAFTA

- Mexico may challenge them there as well

Notes: NAFTA – North American Free Trade Agreement; WTO – World Trade Organization

Sources: [General Agreement on Tariffs and Trade](#); [“Canada Launches WTO and NAFTA Cases Against U.S. Metals Tariff,”](#) Bloomberg

News; [WTO dispute settlement process](#); [“U.S. Auto Duty Treat Exploits WTO National Security Exemption,”](#) Bloomberg Law

Economic Effects of Metal Tariffs are Unclear

Administration says tariffs are working

- Companies building or reopening plants include Alcoa Corp., Century Aluminum Co., Commercial Metals Co., Nucor Corp., U.S. Steel Corp.

The Tax Foundation estimated tariff could cost almost \$9 billion

- Doesn't account for potential effects of retaliatory tariffs from trading partners (\$12.8 billion from Canada, \$3.3 billion from EU)

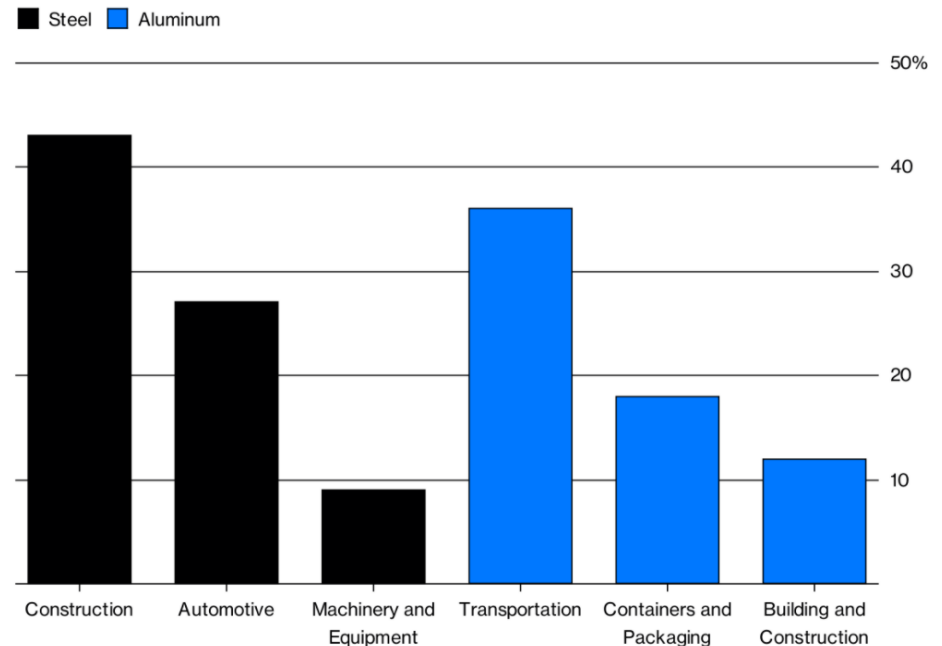
Unclear whether boost to steel and aluminum will offset hit to manufacturing

- About 142,000 Americans work in steel and 161,000 in aluminum, compared with 12.4 million in broader manufacturing

Steel and aluminum represented only 3 percent of U.S. imports last year

Where Tariffs Could Bite

These are the top industries for steel and aluminum consumption in the U.S.



Notes: Tax Foundation estimate is based on 2017 imports. Steel and manufacturing employment data is as of 2017; aluminum employment is as of 2016. Manufacturing employment data is preliminary. In graphic, transportation includes automotive and aerospace

Sources: [Peter Navarro Op-Ed](#), USA Today; Tax Foundation [analysis](#); ["Trump Hits Allies With Tariffs,"](#) Bloomberg Government; Commerce Department [investigations](#); Bureau of Labor Statistics [Current Employment Statistics](#); [Bloomberg Businessweek](#); ["How Bad Could It Get? Counting the Cost of a Global Trade War,"](#) Bloomberg Economics

Most in Congress Oppose Tariffs, Aren't Acting

Members want the administration to justify national security requirements in hearings

- Many say they support more targeted action, specifically at China

Congress has ceded most of its role in setting tariffs

- Congress can hold hearings, consult with administration, but can't decide tariff outcome

Bills in Congress would reduce executive branch power over trade, but could be vetoed

- S. 2538 would block steel and aluminum tariffs
- H.R. 5281, H.R. 5760, and S. 177 would establish congressional oversight for trade actions
- Sen. Bob Corker (R-Tenn.) wants congressional approval of tariffs, which would be retroactive, added to Senate national defense authorization legislation slated for floor consideration soon
- Republican leadership hasn't endorsed idea of addressing tariffs through legislation
- Overriding a veto requires a two-thirds vote in each chamber

Countries are imposing retaliatory tariffs on products made in Republican leaders' districts

- EU said it would target bourbon (produced in Kentucky, which Senate Majority Leader Mitch McConnell represents); Harley-Davidson Inc. motorcycles (based in Wisconsin, which House Speaker Paul Ryan represents)

Steel Tariffs Aren't New

President George W. Bush imposed tariffs on steel in March 2002 to protect domestic industry under global safeguard Section 201

- 30 percent top rate with exceptions for some countries and products
- Part of a larger strategy to revive domestic industry, which included multilateral negotiation
- Originally planned for three years, but removed in December 2003, after about 20 months

Economic effects are hard to quantify

- Quantity of imported steel decreased 20 percent in first half of 2003 while domestic production increased 4 percent. Volume of exports increased almost 60 percent
 - Analysis is complicated by several factors:
 - imports surged at start of 2002 in anticipation;
 - U.S. dollar and economic growth fell in 2003
- Studies suggest tariffs caused manufacturing job losses and small decline in GDP



A railroad steel coil car sits parked in a rail yard next to the U.S. Steel Corp. Granite City Works facility in Illinois

Note: GDP – Gross domestic product

Sources: "[The American Steel Industry: A Changing Profile](#)," Congressional Research Service; "[Lessons from 2002 Show Economic Bang from Steel Tariffs Was Tiny](#)," Bloomberg News; Photo – Luke Sharrett, Bloomberg

©2018 BGOV LLC

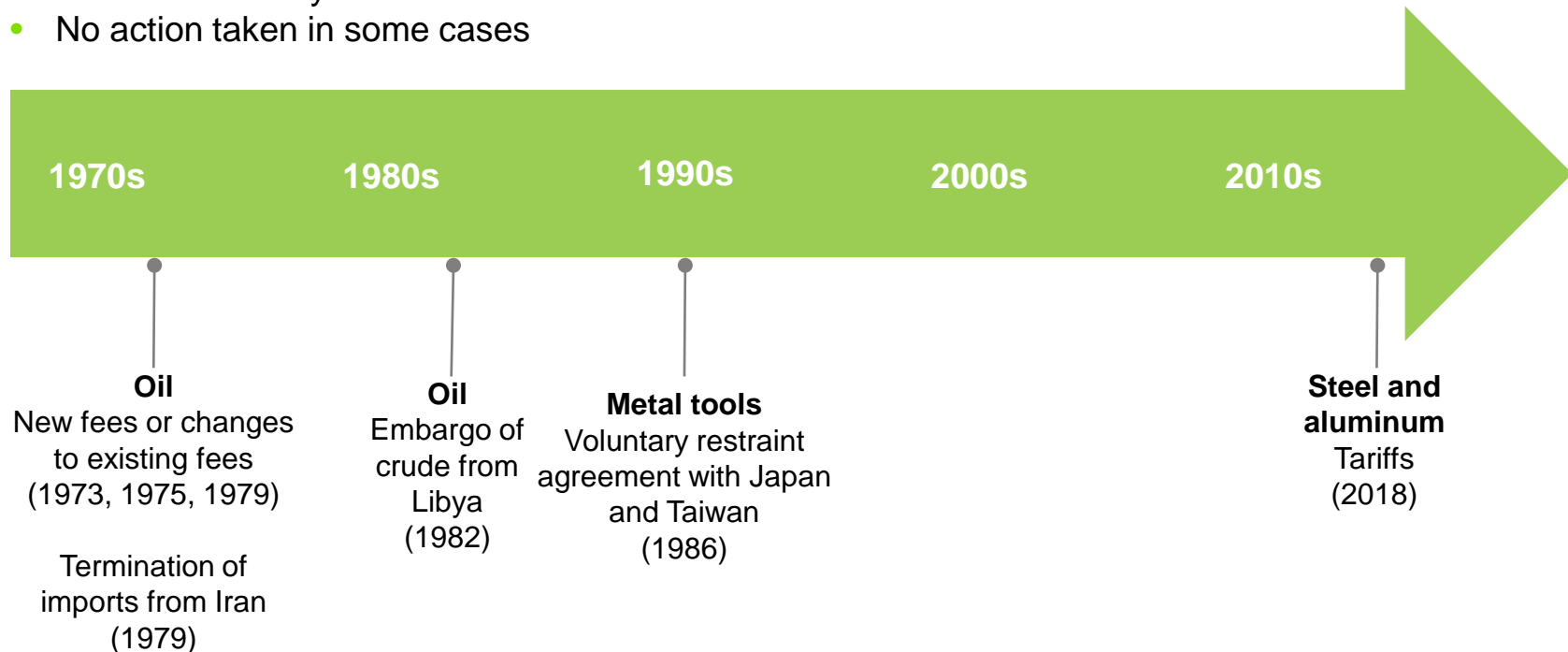
Previous National Security Trade Actions

Commerce Department infrequently finds a national security justification under Section 232

- Before 2018 there had been 26 investigations
- Eight investigations found national security threats

Positive finding has often been followed by negotiation

- Potential solutions include voluntary restraint agreements, quota system, initiatives to help domestic industry
- No action taken in some cases



Car Tariffs Could Be Down the Road

Commerce Department says imported cars may have eroded domestic industry, weakening internal economy and impairing national security

- Trump said tariff could be 25 percent

U.S. imports 48 percent of cars, according to Commerce Department

- U.S. manufacturers account for only 20 percent of global auto research and development and 7 percent of parts manufacturers

Investigation will examine cars, SUVs, vans, light trucks, and auto parts

Commerce Department has 270 days to conduct investigation (initiated May 23)

- President has 90 days after to take action

If the U.S. imposes auto tariffs, retaliatory tariffs could total \$68.2 billion on \$272.7 billion worth of U.S. goods



An employee works on a Ford Motor Co. Expedition SUV on the assembly line at the Ford Kentucky Truck Plant

Sources: Commerce Department [news release](#); Commerce Department [Section 232 Guide](#); [“U.S. Auto Duty Threat Exploits WTO National Security Exemption,”](#) Bloomberg Law; Photo – Luke Sharrett, Bloomberg

Auto Tariff Effects Would Be Wide-Ranging

Unclear tariffs would help American auto companies

- Almost 40 percent of Chevys, 20 percent of Fords sold in U.S. this year were assembled abroad

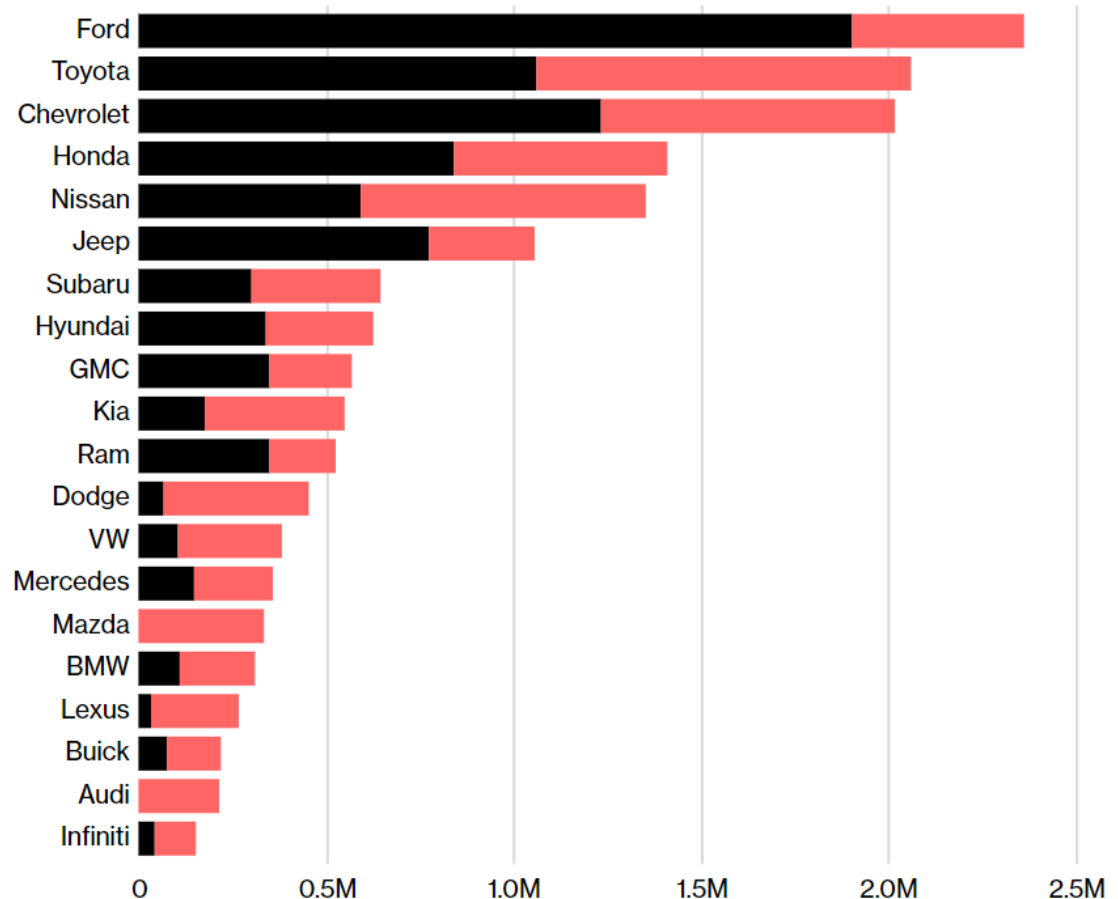
Many automakers don't want tariffs

- Auto Alliance says cars aren't a national security threat

Domestic auto manufacturing also facing higher costs from metal tariffs

Where Cars are Made

■ 2018 U.S.-built vehicle sales forecast ■ Imported vehicle sales forecast



Sources: Bloomberg News [analysis](#) of LMC Automotive data; [Auto Alliance](#); "Trump Metal Tariffs to Make Cars Costlier, Automakers Say," Bloomberg News

About the Analyst



Sarah Babbage is a legislative analyst with Bloomberg Government where she covers tax, trade, and infrastructure policy. Previously, she researched the fiscal and economic health of state governments, as well as federal fiscal policy, at the Pew Charitable Trusts. Sarah has a master's degree in Government from Georgetown University and a bachelor's degree in international development from McGill University.

sbabbage@bgov.com
+1 202 416 3142
@sarahbabbage

To contact the editor responsible:
Adam Schank at aschank@bgov.com

About Bloomberg Government

Follow us on Twitter [@BGOV](#)

Delivering news, analytics and data-driven decision tools, Bloomberg Government's digital workspace gives an intelligent edge to government affairs, federal and contracting professionals influencing government action.

For more information or a demo, visit www.bgov.com or call +1-202-416-3450.

On bgov.com

- [BGOV Trade OnPoints](#)
- [Trade Policy News on BGOV](#)
- [BGOV Bill Summaries](#)

Disclaimer

Copyright 2018 BGOV LLC.

Not for redistribution except by an authorized Bloomberg Government user, and only as expressly permitted in the Bloomberg Government terms of service. All permitted uses shall cite Bloomberg Government as a source.