Effects of the Steel and Aluminum Trade Tariffs on NY's 23rd Congressional District

Executive Summary

The tariffs imposed by the Trump administration are likely to have negative impacts on NY's 23rd Congressional District. Small businesses will suffer the most from the trade tariffs, as they are unable to easily control where their steel comes from. Most 23rd CD manufacturers are small businesses. The positive effects of the corporate tax cuts are being cancelled out by the increases in steel and aluminum prices.

Workers are likely to suffer; there are already reports being published regarding layoffs and losses, outside of NY, related to the steel and aluminum tariffs. And consumers are likely to begin seeing the affect of tariffs in automobile prices, as well as increased prices for canned goods, beer, and soda. Volatility in price and market strategies will continue in these and other commodities affected by trade sanctions.

Tom Reed has stated that he is not overly concerned about the trade war brewing between the U.S. and China. He acknowledged that China's threatened retaliatory tariffs on fruit and wine could hurt both the apple and wine industries in the 23rd. Nevertheless, Reed has not come out in opposition to the tariffs. Instead, he merely acknowledged that such impacts are a foreseeable consequence of seeking to reset the trade balance between China and the U.S.

You deserve a congressman who will fight tooth-and-nail against a trade policy that threatens to hurt our small businesses, cancel out the benefits of the recent tax cuts, reduce manufacturing jobs, increase prices for consumers, and directly harm two major agricultural industries in the 23rd. Tom Reed is not that congressman. Instead of fighting for the people and businesses of his District, Tom is doing nothing but taking credit for knowing that the harm was likely to happen.

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Background

The Trump tariffs are a series of tariffs imposed during the presidency of Donald Trump. In January 2018, Trump imposed tariffs on solar panels and washing machines. Then in March 2018, he imposed tariffs on steel and aluminum. Morgan Stanley estimated that Trump's tariffs on steel, aluminum, washing machines, and solar panels, as of March 2018, covered 4.1 percent of U.S. imports.

The tariff measures were poorly received by the vast majority of economists; almost 80% of 104 economists surveyed by Reuters believed that tariffs on imports of steel and aluminum would be a net harm to the U.S. economy, with the rest believing that the tariffs would have little or no effect; none of the economists surveyed believed that the tariffs would benefit the U.S. economy. Forty-five U.S. trade associations are urging the President not to impose tariffs on China, warning it would be "particularly harmful" to the U.S. economy and consumers.

On April 3, 2018 Congressman Tom Reed said that he's not overly concerned with a trade war brewing between the United States and China. During Reed's April 2nd conference call with 23rd CD area media, WRFA Radio asked the congressman for his reaction to the news that China would impose tariffs on $3 billion worth of US exports including fruit, wine, pork and steel pipes. The Chinese tariffs were a response to tariffs the President imposed last month on steel and aluminum from China and other countries.

Reed said the response by China is not unexpected. He said: "As we go down this trade agenda that is being deployed by the administration, that clearly is disruptive and wants to change the status quo of our trade position – be it with China and other trading partners, we anticipate this type of action. Bottom line is, I think people want access more to the American market and the economy that is represented in the American market and I think that will represent us well as we go through this process."

However on April 4, 2018, the Olean Times reported that: "Reed acknowledged that industries in the 23rd District are likely to be affected by the President's recent steel and aluminum tariffs and the new tariffs on Chinese goods. It could affect manufactured products and produce, such as apples and wine grown in the district."

Specifics of the Tariffs

The Trade Tariffs were imposed under the authority of little-used Section 232 of a 1962 trade law permitting sweeping restrictions to protect national security. They were imposed for several reasons per the Department of Commerce:

- Steel and aluminum are important to national security
- Imports adversely impact the economic welfare of the Steel and Aluminum industries;
- Displacement of domestic steel and aluminum by imports weakens out internal economy; and
- Global excess steel and aluminum capacity contributes to the weakening of the domestic economy.[1]

Indeed, the U.S. steel and aluminum Industries have suffered setbacks in the last 18 years. In 2000, there were 13 operating integrated steel mills in the U.S. compared with 9 mills today. With aluminum, there were 23 smelters in 2000, down to 5 in 2018.

One of the goals of the tariffs was to raise the capacity of steel mills from 75% to 80%, a sustainable number according to economists. For aluminum smelters, the current capacity is 73%, and a similar rise is the goal. This would also help re-employ the laid off 48,000 steel, and about 40,000 aluminum, U.S. workers. While no one is against the reemployment of these workers, there has been disagreement on trade tariffs from the U.S. Chamber of Commerce and many Republicans who have typically hold the opinion that free trade and open markets are good for the economy. When hearings were held on trade tariffs, there was no representation for the smaller businesses that, for a variety of reasons, have had to absorb the negative impacts of the tariffs.

Polls of the American public show that 36% of Americans do not have an opinion on the tariffs, 35% oppose them and 29% support them. Twenty-eight percent say that tariffs will be good for the overall economy, while 44% fear they will raise prices for consumers. The data that follows supports the premise that consumer prices will be raised. [2]

This report looks at the results of these trade tariffs on the economy of the NY 23rd CD. Not included in this report, but an associated concern, is what effect the Chinese tariffs on agricultural products will have on farmers in the 23rd District. Soybeans, wine, and grapes are primary crops grown in 23rd District's farms and vineyards, and each of these will be subject to tariffs from China that have been imposed as a result of the steel and aluminum tariffs.

Industry Impacts

Aluminum

Through interviews with 23rd District businesses, and data from the London Metals Exchange (LME), it was found that the aluminum markets began reacting to the rumor of tariffs in late 2017. From that point, the price of aluminum rose by 13% to its current price.[1] Because companies are locked in to certain sources of supply for various reasons, it is impossible to change to U.S. suppliers in the short term, if at all. (The small business and large business examples below explain why). There are currently five U.S. aluminum smelting operations. Starting up a deactivated smelting operation would take a year or more, so even if small businesses were able to resource to a U.S. supplier today, the capacity will not be there immediately. U.S. aluminum currently costs about 20% more than aluminum made in Asia. With the tariff at 10% on aluminum, the incentive to move to U.S. sources is low.

Example: Company A has about $5,000,000 in sales annually. They qualify as a small business. They buy their aluminum through a broker, or distributor. The distributor sources material, usually on best price, in the worldwide market. The small business is not large enough to influence this sourcing. Company A has seen a 33% rise in aluminum prices from their distributors since December, despite aluminum prices rising only 13% on the LME. It is thought that uncertainty is driving the additional charges being assessed by the distributor. Even if Company A were able to switch to Canadian steel, to avoid the tariffs, the capacity of Canadian Aluminum companies is currently consumed by the U.S. auto industry.

As a result, the small manufacturer has to either absorb the costs of the tariffs or pass them along to their customers, depending on what their market will bear. Any benefit they may have gotten from the corporate tax breaks is consumed by the increased material costs. Customers question a 33% increase in finished-good prices, when they read that the tariff is at 10%. A good response for the increased costs has not been forthcoming from distributors.

[1] As of April 4, 2018

Steel

Like Aluminum, steel prices hit an all time high in December of 2017 based on the rumors regarding tariffs. It has come down since that time, but the price differential on steel remains at 20% to 25% for U.S. vs. Chinese steel. There are currently nine operating integrated steel mills in the U.S. Like aluminum smelters, it takes a year or more to start-up a defunct steel mill.

Example: Company B is a large company with a $55,000,000 annual spend on steel. Because of DFAR (Defense Federal Acquisition Regulations System) requirements, some of Company B's spend is already in U.S. sourced steel. A large company, who is able to buy direct from the steel mills, usually has a careful process of qualifying their suppliers that can take a year or more to complete. The qualification process includes site visits to factories, and quality audits to assess processes, as well as engineering and metallurgical studies to assess how the steel performs to the company's specifications and in the company's products. Company B has long-term contracts with steel suppliers to nail down prices and avoid volatility in the day-to-day market. While the tariffs will not affect the contract prices, the tariffs are billed as surcharges. These add-ons can negate the effects of the corporate tax cuts, thus undoing the original purpose of the cuts – stimulating the economy.

While Company B can control the source of their material, the qualification process will delay the changes for a year or more. The tariffs will eventually be passed on to consumers, or will be absorbed by the business. The former is more likely.

Scrap

Steel scrap that is created by steel manufacturers is resold to scrap processors. Steel scrap is about 30% of the formula for making steel. While the scrap industry is not affected by the tariffs, the U.S. scrap prices began rising in late December, because of rumors, and then took a 10% dip in January before rising to a new high in early March. That volatility is reflective of the concern by the scrap industry about the availability of scrap during the period of the tariffs and the length of time that the tariffs will be in place. Manufacturers, both large and small, need income from scrap to help offset material costs.

Conclusions

- Small businesses will suffer the most from the trade tariffs, as they are unable to easily control where their steel comes from. Most 23rd CD manufacturers are small businesses.
- Aluminum users are feeling more volatility in their prices than the steel markets are.
- There are already reports being published regarding layoffs and losses related to the steel and aluminum tariffs, outside NY.
- Consumers are likely to begin seeing the affect of tariffs in automobile prices as well as canned goods, beer and soda.
- Any positive effects of the corporate tax cuts are lost to those manufacturers who are using steel and aluminum.
- Volatility in price and market strategies will continue in these and other commodities affected by trade sanctions

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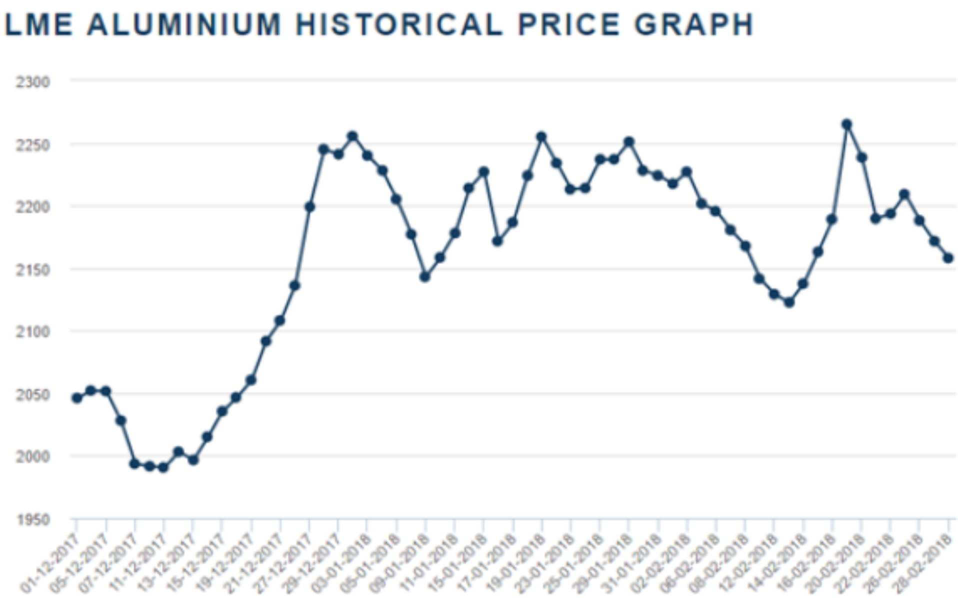
Aluminum pricing



Steel Pricing

Steel increased 18 Yuan/MT or 0.53% to 3,435 on Tuesday March 27 from 3,417 in the previous trading session. Historically, Steel reached an all time high of 4772 in December of 2017 and a record low of 1750 in February of 2016.

Scrap Pricing

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Industry Impacts

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Conclusions

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