TARIFF REFORM COALITION (TRC) BRIEFING PAPER:
Why Recent Tariff Increases Harm our Economy

TRC Strongly Supports the Rollback of Section 232 and Section 301 Tariffs

TRC represents thousands of businesses across the United States that have faced substantial harm from the increased global import tariffs inherited from the Trump Administration -- namely the Section 232 tariffs imposed on steel and aluminum imports and the Section 301 tariffs on imports from China. Today these dramatic tariff increases are inflicting a significant cost on U.S. companies and workers because of both higher input prices and foreign retaliation against our exports. They place American manufacturers, distributors, farmers and ranchers at a disadvantage against foreign competitors and cause ongoing uncertainty for thousands of American businesses and workers already struggling with the economic downturn caused by the COVID-19 pandemic. They have been particularly harmful to small businesses, which are least able to afford the higher costs and complexity they impose.

The following summary describes the damage caused to our businesses and to the American economy generally. Following the summary, TRC offers recommendations for policymakers to address these adverse effects.

Damage to Downstream Industries from Increased Tariffs

Section 232 Tariffs

TRC member companies are living proof of the self-defeating effects of the Section 232 tariffs. The previous Administration attempted to justify the steep tariff hikes on these two essential input products as "vital for our national security," claiming that they would restore America's manufacturing might. In reality, however, they have had precisely the opposite effect. Here are the facts supporting that conclusion:

- The tariffs have significantly increased production costs for many of America's biggest industries, such as motor vehicles and parts, recreational vehicles, construction, equipment, home appliances, agriculture, food products and energy, as well as a number of smaller but vital industries such as plumbing supplies and printing. Domestic steel prices, for example, have increased 160% since August of last year and are now 68% higher than the global market price -- which means even with the 25% tariff it is cheaper to import.[1]
- In addition to record high prices for both domestic and imported steel, lead times for the delivery of steel have grown from 4-6 weeks just a few months ago to 12-16 weeks currently. Manufacturers are having a difficult time finding steel at any price, reporting that mills are unable to even provide quotes because of a lack of supply. There are a number of issues at play that are causing disruptions in steel supply, including the Section 232 steel tariffs, COVID-19 related shutdowns by domestic producers, certain mills exiting complete lines of product and US mills adjusting furnace up-time / down-

[1] Singh, Rajesh Kumar. "U.S. manufacturers grapple with steel shortages, soaring prices," Thomson Reuters, 23 Feb. 2021, https://www.reuters.com/article/us-usa-economy-steel-insight/u-s-manufacturers-grapple-with-steel-shortages-soaring-prices-idUSKBN2AN0YQ.

time. This inability to obtain steel at a competitive price and when it's needed further increases the risk of U.S. manufacturers losing business, resulting in job losses.

- Taken together, steel and aluminum-consuming downstream industries are more than 40 times greater than the steel and aluminum producing sectors in terms of both output and employment. Yet the impacts on this wide swath of critical industries -- employing over 6.5 million Americans -- were never fully considered by the Trump Administration in its original investigation. In fact, the tariffs cover a far wider range of steel and aluminum imports than would be required to address any legitimate defense or security needs, which consume less than 3% of our total output.
- These higher costs on two key upstream products have rippled throughout the entire economy. Three years after their imposition, job losses and reduced competitiveness in downstream sectors have far outweighed any short-term benefits the steel and aluminum industries may have received. A Federal Reserve Board of Governors study[2] has found that the tariff increases have actually resulted in about 75,000 fewer jobs in total[3] than would have been the case without the increases. Compare this with the 1,000 new steel-producing jobs reported in Department of Commerce data. Another study by the Peterson Institute of International Economics found that every job saved or created as a result of the steel tariffs costs U.S. consumers and businesses $900,000.[4]
- Much of that impact has fallen on small and medium-sized manufacturers who make products such as nuts and bolts, plumbing supplies and construction materials. These smaller businesses in particular are less able to absorb the increased input costs or to navigate the expensive and complex system for obtaining short-supply exclusions for their imported inputs.
- There is also a less visible but real impact on consumers further downstream, not just the ultimate consumers who make essential purchases such as autos, home appliances and groceries, but, very importantly, the thousands of small merchants who sell the steel and aluminum containing goods -- hardware or plumbing supply stores, auto dealers, homebuilders, appliance retailers and grocery stores.
- Taken together, the adverse impacts on all of these sectors -- from big manufacturers to small and medium-size businesses and to main street retailers -- have far outweighed the limited benefits of the tariffs to our overall national security.

<u>Section 301 Tariffs</u>

The Section 301 tariffs on a wide array of imports from China have further increased production costs for many of the same industries impacted by the Section 232 actions, as well as industries not subject to the Section 232 tariffs. TRC fully recognizes the importance of challenging China's unfair practices and policies, yet it is clear that higher tariffs alone, hastily imposed without careful analysis, have been ineffective in prompting China to reform its practices while causing serious economic harm to U.S. companies in the market. The following points support this conclusion:

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[2] Flaaen, Aaron, and Justin Pierce (2019). "Disentangling the Effects of the 2018-2019 Tariffs on a Globally Connected U.S. Manufacturing Sector," Finance and Economics Discussion Series 2019-086. Washington: Board of Governors of the Federal Reserve System, https://doi.org/10.17016/FEDS.2019.086.

[3] Cox, Lydia, and Kadee Russ. "Steel Tariffs and U.S. Jobs Revisited." Econofact, 6 Feb. 2020, econofact.org/steel-tariffs-and-u-s-jobs-revisited.

[4] Hufbauer, Gary Clyde, and Euijin Jung. "The High Taxpayer Cost of 'Saving' US Jobs through 'Made in America.'" Peterson Institute of International Economics, 5 Aug. 2020, www.piie.com/blogs/trade-and-investment-policy-watch/high-taxpayer-cost-saving-us-jobs-through-made-america.

- Although Section 301 permits the use of tariffs to address unfair trade practices, Congress intended this as limited authority to obtain foreign compliance in changing practices found to be unreasonable or unjustified, not as a means to alter overall tariff rates long-term.
- In this case, the volume of U.S. imports subject to tariffs is over $300 billion annually, more than six times the $50 billion value of trade damage found by the office of the U.S. Trade Representative (USTR) in its Section 301 investigation. Initially, the 301 findings that justified the use of tariff authority covered China's unfair acts, policies, and practices related to technology transfer, intellectual property, and innovation. The level and type of trade coverage affected by tariffs was calculated to address these issues. However, as both sides escalated their actions, the process ended up imposing further waves of tariffs on many kinds of goods that had nothing to do with the problems identified and no relation to the estimate of U.S. trade damage being caused by those problems.
- Moreover, the prior Administration imposed these increases without any objective assessment of the costs and benefits of these precipitous and steep tariff increases on a much broader range of products than originally envisioned. It is also clear from the record that concerns raised by affected industries or consumers were given little weight.
- U.S. manufacturers and farmers, as well as our retail sector and ultimate consumers, have had to absorb the costs of higher tariffs. Cumulatively, these tariffs have added over $80 billion in costs to our economy.[5]

Damage to U.S. Exports Caused by Foreign Retaliation and Weakening of Global Trade Rules

Compounding the higher import costs to our domestic industries and consumers are the adverse effects of all of these recent tariff increases on the competitiveness of our exports and the certainty that international trade rules would protect that competitiveness. The damage has been three-fold:

- First, as described earlier, U.S. manufacturers and farmers have seen their domestic production costs increase while their foreign competitors have benefitted by paying lower world prices for their steel, aluminum and other inputs. This has substantially reduced our global competitiveness for many key export sectors.
- Second, foreign retaliation by our trading partners has further damaged export competitiveness. Despite assurances from the Trump Administration that we would not see much foreign retaliation, most other countries affected by our actions have imposed equivalent tariffs on U.S. exports. This has not only been true for China, but for many of our closest traditional trading partners who have historically shared our support for open and fair trade, including Europe, Japan, Canada and Latin America. The retaliation has not just hit downstream consumers of steel and aluminum, but industries as wide-ranging as wine and distilled spirits, seafood products and textiles.
- Third, the decision to break with past precedents and use the World Trade Organization (WTO) national security exception so broadly to justify our Section 232 actions has had adverse consequences for our leadership in the WTO, making it more difficult to gain cooperation from our allies in pushing China and other countries towards reform of WTO rules and fairer world trade. Mistrust of U.S. commitments to the existing rules has never been higher. The Section 301 tariffs may further complicate our efforts to show leadership, as China will undoubtedly use WTO rulings to suggest that the U.S. cannot

[5] Trade Statistics. U.S. Customs and Border Protection, 3 Mar. 2021, www.cbp.gov/newsroom/stats/trade.

be trusted to abide by future agreements, thereby seeking to undermine our legitimate reform agenda.

These cumulative impacts -- higher production costs, the retaliatory actions already taken against our exports and the loss of U.S. leadership in reforming world trade rules -- are placing at risk the growth in exports and jobs for some of our most competitive sectors, including agriculture, aircraft, autos, machinery and equipment, IT and electronics, pharmaceuticals, plastics and chemicals. Absent a major shift in policy away from such heavy reliance on trade wars and tariffs, we will experience ongoing headwinds against our exports in all these sectors.

Overall Damage to Economic Growth from High Tariffs

As the U.S. economy struggles with the economic consequences of the pandemic, it is important to remember that trade is a critical ingredient of U.S. economic success: more than 40 million American jobs depend on world trade; one out of every three acres of American agriculture is grown for export; and our manufacturing sector and technology-based industries lead the world in innovation.

A Moody's Analytics study found that in 2019 the trade war with China had already cost the U.S. economy nearly 300,000 jobs and about .7% of real gross domestic product (GDP), or about $150 billion in GDP.[6] The uncertainty caused by the tariffs has led to deferred investments as well as hiring and wage decreases with businesses unsure about the cost of inputs and exports.

U.S. manufacturers and farmers rely on large quantities of steel and aluminum to construct new facilities, and these new investments create new jobs and support numerous downstream industries across the U.S. With steel and aluminum prices at a record high and steel production capacity limits, many businesses are delaying or cancelling these investment projects and the associated hiring of workers.

As American businesses and workers struggle with the effects of the pandemic, this is the worst possible time to turn inward and continue maintaining high trade barriers, including Section 232 and Section 301 tariffs. The U.S. has made great strides in strengthening exports over the last two decades, growing our goods exports to more than $1.5 trillion annually. That growth is already declining, and further erosion risks losing the millions of high-paying, high skill jobs that are critical to our 21st Century competitiveness. As productivity improves, we simply cannot produce millions of new jobs in manufacturing and other key industries if we lack secure foreign markets and lose our access to the 95% of the world's consumers who live beyond our borders.

[6] Zandi, Mark, et al. "Trade War Chicken: The Tariffs and the Damage Done." Moody's Analytics, Sept. 2019, www.moodysanalytics.com/-/media/article/2019/trade-war-chicken.pdf.

TARIFF REFORM COALITION (TRC) RECOMMENDATIONS

1. The Section 232 tariffs on steel and aluminum should be removed as soon as possible. There are ample authorities under other trade laws, recognized as legitimate under WTO agreements if properly applied, to address problems of steel and aluminum subsidies or global overcapacity in a way that would minimize adverse impacts on the majority of U.S. companies and workers.

2. It is clear that we need to address specific issues relating to China's many unfair trade policies that prevent our companies and exports from competing on a level playing field. However, the past Administration's heavy use of tariffs should be reassessed and other approaches considered. In its strategic review of China policy, the Administration should perform a complete assessment of the costs of the 301 actions both in the past and on an ongoing basis, setting metrics for what the continued 301 tariffs are supposed to accomplish, and making those assessments transparent to stakeholders.

3. TRC asks Members of Congress to consult with the industries and farmers affected by tariffs and requests that the major committees of jurisdiction schedule public hearings so that all interested parties can be heard. Congress has Constitutional authority to regulate foreign commerce and we believe it is vital that Congress and the public understand the effects that these measures are having on our economy and on companies across our country. Congress needs to provide oversight regarding the purpose of the existing Section 232 and Section 301 tariffs, whether they are achieving their objectives and at what cost to the stakeholders involved, and when they can be removed. Congress and the President need to work more cooperatively to achieve the proper balance between trade concerns and other national priorities.

4. While TRC does not believe that having an exclusions process is an adequate substitute for removal of the tariffs, the Section 232 and Section 301 exclusion processes do provide some relief to affected industries. However, as currently structured, they do not provide adequate opportunities to obtain exclusions. We urge the Department of Commerce and USTR to review the existing processes, in consultation with stakeholders, and strongly consider revising the existing procedures to provide for a more fair and transparent process for parties involved in the exclusions process. Both agencies should issue Federal Register notices that provide transparent and clear explanations for all denials of exclusion requests. Specifically, we request that USTR immediately reinstate the Section 301 exclusions which expired on December 31, 2020 so as to allow time for a discussion with the Administration as to why those exclusions should be extended and, additionally, to open up new opportunities to request exclusions. Further, we urge the Department of Commerce to review the recently issued Office of Inspector General (OIG) report about the Section 232 exclusions process and to take expeditious action consistent with the recommendations in that report.

TARIFF REFORM COALITION (TRC) MEMBERS

Air-Conditioning, Heating, and Refrigeration Institute
American Association of Exporters and Importers
American Automotive Policy Council
American Beverage Association
American Chemistry Council
American International Automobile Dealers Association
American Petroleum Institute
Associated Equipment Distributors
Associated General Contractors of America
Association of American Publishers
Association of Equipment Manufacturers (AEM)
Auto Care Association
Autos Drive America
Beer Institute
Border Trade Alliance
Coalition of American Metal Manufacturers and Users
Consumer Technology Association
Experiential Designers and Producers Association
Farmers for Free Trade
Flexible Packaging Association
Hands on Science Partnership
Independent Petroleum Association of America
Industrial Diamond Association of America
National Council of Farmer Cooperatives
National Foreign Trade Council
National Marine Manufacturers Association
National Pork Producers Council
National Retail Federation
North American Association of Food Equipment Manufacturers
Outdoor Industry Association
Pet Food Institute
Precision Metalforming Association
PRINTING United Alliance
RV Industry Association
Specialty Equipment Market Association (SEMA)
Truck & Engine Manufacturers Association (EMA)
United States Fashion Industry Association