STEEL IMPORT SURGE THREATENS U.S. NATIONAL SECURITY

In times of crisis, our nation’s security rests on a military armed with the technology, weapons systems, and equipment needed to defend American lives and interests. In the midst of an unprecedented and dangerous steel import crisis, our nation’s military and political leaders must act now to maintain a strong steel sector—as it is critical to the defense of our nation. It would be a grave mistake if the United States were to become dependent on potentially hostile foreign governments for its steel needs.

INTRODUCTION

Steel is an essential material for America’s national security infrastructure. It is used in the construction of everything from ships, tanks, and armaments to bridges, and energy infrastructure. The health of the sector is inextricably linked to our freedom and independence.

Yet, an overlooked threat to U.S. national security is emerging in the form of massive oversupply, or overcapacity, of steel on the world market. For years, foreign governments have fueled massive expansions in their steel sectors with substantial government direction and support. The largest steel companies in China, for example, are state-owned and their increases in production have had little to do with real market forces. This growing global overcapacity of steel is now causing plant closures and layoffs here at home as a flood of dumped and subsidized foreign steel products enter our market at record levels.
This alarming import surge poses unprecedented threats to the long-term viability of our steel sector, which is vital to our military, preparedness, and disaster response needs. In turn, surging steel imports also pose new national security vulnerabilities. Put simply, if the United States’ ability to produce steel is compromised, it will be forced to rely on potentially hostile or uncooperative foreign governments to support its military, preparedness, and disaster response needs.

In the face of heavily subsidized, underpriced steel products flooding our market from China, Russia, and other potentially hostile trading partners, we must act quickly, taking decisive actions to preserve a strong domestic steel industry. Our leaders in Washington should use all available legal and legislative tools to safeguard American-made steel, ensuring the industry will remain a strong and ready foundation for our national security.

This paper includes a specific set of recommendations for policymakers, including: 1) Proactive use of our trade enforcement laws; 2) Securing binding commitments from our trading partners to reduce global overcapacity; 3) Maintaining China’s nonmarket economy status; 4) Implementing rules to counter anticompetitive behavior of state-owned entities; and 5) Domestic content sourcing policies in government procurement.

The time to act is now—to head off destructive dependencies on foreign suppliers before they occur. It is in our national security interests to promptly and aggressively address the steel import crisis.

THE STEEL IMPORT THREAT

Continued imports of subsidized foreign steel erode the U.S. steel industry’s position as a fundamental building block of America’s national security infrastructure.

Potential geostrategic rivals, notably China, are practicing a 21st century form of mercantilist economic warfare in the steel sector, pushing U.S. steel manufacturers, and their domestic supply chains, to the brink of irreparable damage. Plant closures, mass layoffs, and the loss of key technology and manufacturing know-how are sure to follow unless we act.

Moreover, with the loss of U.S. steelmaking capabilities comes a dangerous dependence on these same potentially hostile foreign governments to supply the steel products necessary to equip our military, respond to disasters, and modernize our increasingly fragile infrastructure.

As Senator Carl Levin, then-Chairman of the Senate Armed Services Committee, reminded us in the months after 9/11: “Our weapons are made of steel... We go to war with what you make.” This is no less true today than it was in 2002.
Senior leaders in our government, uniformed services, and industry continue to sound the alarm about the potential national security threats that arise from loss of domestic control over steel supplies and other manufactured goods:

“Self-reliance has always been an American virtue and the key to our nation’s success and prosperity. Manufacturing is important for job creation and a strong economy, and it’s also essential for our national security.”

– Scott Paul, President of the Alliance for American Manufacturing, May 2013

“A strong and viable domestic steel industry is critical to America’s national defense, national economic security, and homeland security. Virtually every military platform is dependent on U.S.-produced steels and specialty metals.”

– American Iron & Steel Institute, January 12, 2007

“We do not build a steel plant in an emergency… we rely on it.”

– Mario Longhi, President and CEO, United States Steel Corporation, March 26, 2015

“I believe that our country was a leader this past century in global conflicts because we out-produced our enemies... A strong industrial base leads to a strong defense.”

– U.S. Representative Pete Visclosky (D-IN), Vice Chair of the Congressional Steel Caucus and Ranking Democrat on the House Defense Appropriations Subcommittee, March 17, 2016

“America’s national security relies on too many foreign products incorporated into too many American weapons systems. A foreign-based supply chain for America’s military does two things, both bad. First, it makes America’s defense systems vulnerable, which puts America’s national security at unnecessary risk. Second, it weakens America’s economy, thereby undermining family incomes and America’s ability to pay for national security.”

– U.S. Representative Mo Brooks (R-AL), May 2013

“Steel is an important jobs issue; it is also an important national security issue.”

– President George W. Bush, August 26, 2001

“The U.S. steel industry uniquely supports our defense industrial base because only our domestic steel producers will immediately prioritize U.S. defense needs in a crisis.”

China’s largely state-owned steel industry uses predatory trade practices in violation of our fair trade laws, undercutting our domestic steel industry. China’s top steel producers, largely controlled by the communist regime in Beijing, are flooding international markets with subsidized steel. If the current trend continues, in the long-term the United States will end up reliant on Chinese steel producers—and by extension the Chinese government—for the steel needed to equip our armed forces or to quickly rebuild after a catastrophic event.

- The global market for steel in 2015 was at 700 million tons overcapacity. This—combined with state-owned foreign manufacturers that are willing to sell at a loss in the short term to gain market share in the long term—drives domestic companies out of business.

- China’s largely state-owned steel plants produce 400 million tons more steel per year than the Chinese domestic market demands. Rather than cutting back production, China exports its excess steel production to the U.S. and European markets at below-market prices—known as “dumping.”

- Dumped Chinese steel drives prices down, making it difficult for U.S. producers to compete. In 2015, China pushed over 100 million tons of steel onto the international market—more than what the entire U.S. industry produces annually. As demand drops and foreign supplies of below-cost steel increase, U.S. domestic production declines.

- The situation has become so economically toxic that many U.S. companies have been forced to idle factories, lay off workers, and permanently lose their skilled workforces.

As the backbone of our defense industrial base, and a foundation of our military readiness, steel is used in a broad range of military applications, ranging from aircraft carriers to nuclear submarines to tanks and armored vehicles. Virtually every military platform is dependent to some degree on steel and specialty metals.

Despite technological advances in materials, notably composites and ceramics, steel remains irreplaceable to the U.S. military. From nuclear-powered submarines to aircraft carriers, and from main battle tanks to mine-resistant vehicles, steel shields our nation and the lives of our fighting men and women. These are just a few examples:

- Every Abrams tank needs 22 tons of steel plate, meaning the roughly 8,500 Abrams produced have required a dependable source for 187,000 tons of high-quality steel plate.
U.S. Army and Marine tactical vehicles, including the Joint Light Tactical Vehicle being fielded to replace and complement the HMMWV (Humvee), use steel plating and advanced ceramics to protect their crews from ballistic and blast damage, including from improvised explosive devices (IEDs).

The steel for Nimitz-class aircraft carriers must be able to withstand the impact of a 27-ton, F-18 Hornet aircraft landing on the deck at 150 miles an hour, shield a ship’s crew from radiation generated by onboard nuclear reactors, and survive the impact of shells and other projectiles. To achieve this extraordinary stability and versatility, each carrier requires 50,000 tons of steel plate.

The control cables on almost all aircraft, including fighter jets and military transport aircraft, are made from steel wire rope. These highly sophisticated machines could not remain in controlled flight without steel wire rope.

Everyday Americans clearly see the connection between the threats to America’s steel industry and our ability to equip our military and quickly respond to catastrophic disasters.

According to polling conducted in 2016 by the Tarrance Group for several steel associations:

- Voters overwhelmingly (86%) say that the American steel industry is critical to national security.
- And, 92% are concerned that “America’s national security could be compromised if foreign imports continue to cripple the American steel industry… [forcing the U.S.] to rely on foreign steel...”

“Standing behind every soldier, sailor, airman or Marine is a proud group of American workers and companies building the platforms and weapon systems essential to our national defense.”
– U.S. Senator Christopher Murphy (D-CT), May 2013

Steel is an essential building block in our nation’s infrastructure, ranging from public works to energy production. These critical components of our modern society and economic well-being rely on high-quality American steel.

- Economic security is a vital component of national security. Just as steel contributes to the strength of our military, it provides strength to our economy.
- From energy production and transmission; to transportation infrastructure including bridges, highways, airports, and railroads; to public safety infrastructure such as water treatment; to construction of hospitals, schools, industrial plants, and commercial buildings; steel is both a fundamental building block of our economy and an engine for good-paying jobs for more than one million Americans.
- For every direct steelmaking job, the industry supports seven jobs in other economic sectors.
“America’s industrial base is a critical component of our force structure, and the production of ships and advanced weapons systems with parts manufactured here in this country is the best guarantee that our Navy will continue to dominate the seas.”

– Jamie Barnett, Rear Admiral, USN (Ret) and Former Deputy Commander, Navy Expeditionary Combat Command, May 2013

Relying on foreign steel becomes a critical concern when the U.S. needs to increase military production in order to meet the demands of a current or impending conflict. Moreover, a reliable domestic steel production capability is vital for our critical homeland infrastructure.

- History demonstrates that domestic producers have been consistently willing to do what needs to be done to meet the often unique needs of our armed forces without delay. On the other hand, reliance on unsettled foreign economies—or worse, strategic competitors—results in uncertain supply for critical national requirements, especially in a crisis.

- America’s self-reliance is the envy of the world and America’s steelmakers will always be at the ready. Just as domestic steel manufacturers transformed their operations to innovate and equip our fighting forces throughout World War II, America’s domestic steelmakers responded to the urgent need for steel armor plate to increase production of Mine-Resistant Ambush-Protected vehicles to protect troops from IEDs in the Middle East.

- Without a domestic production capability, the United States would risk reliable steel supply for vital homeland infrastructure in a crisis or in the aftermath of a catastrophe, such as an earthquake or hurricane. Steel is essential to our infrastructure, including bridges, pipelines, rail networks, airport runways, electric generators, and transmission towers, as well as commercial, industrial, and municipal construction.

- In an increasingly unsafe world, a strong steel sector ensures resiliency and the ability to quickly respond to the acts of both state and non-state actors, including terrorism.

- The result of loss of our domestic production capability would be reduced security preparedness in the face of higher costs, uncertain supply, quality concerns, and extended construction schedules.

To support the U.S. defense industrial base and our ability to respond to disasters, we must pursue all available means to maintain a healthy steel sector, eliminate global overcapacity, and stop the import crisis.

- We must head off dependencies on foreign suppliers before they occur. Rebuilding our domestic steel industry in a crisis remains an unrealistic option that risks supply of one of our most important strategic materials at a time we need it most.

- It is vital that we identify and promptly address the vulnerabilities created by the current import surge crisis before we lose our steel manufacturing capability—including the skilled workforce that is its backbone—especially to our most dangerous long-term strategic competitors like China and Russia.
RECOMMENDATIONS

Critical action items for policymakers include, but are not limited to, the following options:

- **Trade Enforcement.** More proactive enforcement of U.S. trade remedy laws before mass layoffs and plant closures occur.
  - Provide resources necessary for the Department of Commerce to expedite trade cases.
  - Fully utilize the tools provided in both the *Leveling the Playing Field Act* and the *Trade Facilitation and Trade Enforcement Act* to ensure that trade enforcement is efficient, strong, and not circumvented after the fact.

- **Safeguard Actions.** White House consideration and implementation of more extraordinary measures to stop the flow of devastating import surges that threaten our economy and U.S. national security, including, if appropriate, self-initiation of Section 232 (national security) or 201 (quotas) trade cases by the White House.

- **Global Overcapacity.** Secure binding commitments from foreign countries to reduce their steelmaking overcapacity through bilateral and multilateral meetings like the Strategic and Economic Dialogue, U.S.-China Joint Commission on Commerce and Trade, Organization for Economic and Cooperation and Development, and World Trade Organization meetings.
  - Work with Mexico, Canada, the European Union, and others to press countries with large steelmaking overcapacity to make needed reforms.
  - If countries like China refuse to cooperate, impose broad-based import restraints to prevent further damage to our economy.

- **China’s NME Status.** Maintain China’s non-market economy (NME) status until its government makes reforms that loosen its grip over the Chinese economy. Loosening of this designation would severely undercut U.S. antidumping law, adding to the import surge and resulting in additional job losses and plant closures.

- **SOEs.** Develop and implement enforceable rules to ensure that state-owned entities (SOEs) operate based on commercial considerations. Meaningful disciplines are necessary to deter and, if necessary, counter anticompetitive behavior.

- **Buy America.** Strengthen federal and state domestic sourcing preferences to ensure that U.S. tax dollars are used to procure high-quality American-made steel and manufactured goods.
