September 6, 2018

The Honorable Robert Lighthizer
Ambassador
United States Trade Representative
600 17th Street NW
Washington, D.C. 20508


Dear Ambassador Lighthizer:

In response to a request from the Office of the United States Trade Representative (USTR), the American Iron and Steel Institute (AISI), on behalf of its U.S. producer members, is pleased to submit the following comments regarding the President’s proposed supplemental actions under Section 301 of the Trade Act of 1974 (Section 301) to add $200 billion worth of Chinese products to the list of items subject to a tariff of 25 percent.

AISI serves as the voice of the North American steel industry in the public policy arena and advances the case for steel in the marketplace as the preferred material of choice. The domestic iron and steel industry has a significant presence in the economy, directly accounting for 387,000 American jobs and directly and indirectly supporting nearly two million American jobs. Additionally, the iron and steel industry is a large purchaser of domestic products and inputs for the steel-making process.

For several years, China has used unfair trade practices, including those related to encouraged or forced technology transfers as a cost of doing business in the country as well as intellectual property theft, to develop its state-owned, state-managed, and state-subsidized companies. This has come at a great cost for the entire U.S. economy, including the domestic steel industry. AISI supports the administration taking action under Section 301 to address China’s unfair trade practices involving forced technology transfers, intellectual property theft and innovation policy.

The consequences of China’s infringement of intellectual property right have been severe. According to one estimate, known intellectual property theft by China has cost

While AISI supports the administration’s efforts to push China to reform its trade practices related to intellectual property theft and forced technology transfers, we respectfully submit that adding a 25 percent tariff to some of the products on the Annex to the Request for Comments may lead to unintended consequences for U.S. steel producers. As USTR fine-tunes the list of products included on the Annex, we respectfully submit that the three categories of products listed below should be removed.

1. **Refractory Products and Inputs**

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2519.90.10</td>
<td>Fused magnesia; dead-burned (sintered) magnesia</td>
</tr>
<tr>
<td>2519.90.50</td>
<td>Magnesium oxide, nesoi, whether or not pure</td>
</tr>
<tr>
<td>2606.00.00</td>
<td>Aluminum ores and concentrates</td>
</tr>
<tr>
<td>2811.22.50</td>
<td>Silicon dioxide, other than synthetic silica gel</td>
</tr>
<tr>
<td>2818.10.10</td>
<td>Artificial corundum, crude</td>
</tr>
<tr>
<td>2818.10.20</td>
<td>Aluminum oxide, other than artificial corundum</td>
</tr>
<tr>
<td>2818.20.00</td>
<td>Artificial corundum, in grains, or ground, pulverized or refined</td>
</tr>
<tr>
<td>2849.20.10</td>
<td>Silicon carbide, crude</td>
</tr>
<tr>
<td>2849.20.20</td>
<td>Silicon carbide, in grains, or ground, pulverized or refined</td>
</tr>
<tr>
<td>6902.10.10</td>
<td>Refractory bricks of magnesite, containing by weight o/50% MgO</td>
</tr>
<tr>
<td>6902.10.50</td>
<td>Refractory bricks, blocks, tiles and similar goods containing by weight o/50% MgO, CaO, or Cr2O3</td>
</tr>
</tbody>
</table>

Refractory bricks containing by weight o/50% alumina (Al2O2) or silica (SiO2) or mixtures or compounds thereof

Refractory blocks, tiles & similar goods (o/than bricks), cont. by wt. o/50% alumina (Al2O2) or silica (SiO2) or mixtures thereof

Refractory bricks, nesoi

Refractory ceramic goods (o/than of siliceous fossil meals or earths), nesoi, cont. by wt. o/50% alumina or mix. or comp. of Al2O3 & SiO3

Refractory materials are nonmetallic substances that are extremely heat resistant and are critical as the linings in furnaces, kilns and reactors. These materials maintain their structural properties at very high temperatures and have a remarkably high melting point. Steel makers need these products as, for example, they are used in the heating of a furnace to upwards of 3,000 degrees Fahrenheit.

In 2017, the United States imported more refractory products from China than any other country and more from China than the next two exporting-countries of these products, Germany and Brazil, combined. China is a large producer and exporter of these products and inputs, in part because its domestic steel production supports them.

Moreover, many manufacturers of these refractory products and inputs are located in China because large supplies of the required inputs are located there. For instance, a large source of magnesite is located in China. According to Jason Borgesi, senior director of global procurement for the Pittsburgh-based HarbisonWalker International, 60 percent of the world’s natural magnesite reserves are in China and North Korea.

While many of these products and inputs are located in China, domestic supply, especially in the case of refractory raw materials, is extremely limited and in many cases non-existent.

Given China’s outsized role in global refractory production, as well as the limited domestic supply of many of these materials, even if a 25 percent tariff were applied, U.S. refractory products and inputs users would still need Chinese production to meet demand. As a result, AISI recommends that a 25 percent tariff not be imposed on these refractory products from China.

2. Raw Materials and Ferroalloys
2841.90.40 Aluminates

7202.19.10 Ferromanganese containing by weight not more than 1 percent of carbon

8111.00.49 Unwrought manganese, nesoi

Steelmakers use ferroalloys – mixtures of iron alloys and other chemical elements – to achieve desired levels of corrosion resistance, heat resistance, tensile strength, yield strength and other qualities. The iron and steel industry is the largest consumer of ferroalloys and ferromanganese, which is used to increase strength, is the most commonly used ferroalloy by the steel industry.

China is a large exporter of both aluminate and manganese, and in the case of manganese, the U.S. annually imports more from China than from the rest of the world combined. Furthermore, manganese ore containing 20% or more manganese has not been produced in the U.S. since 1970. Because users of manganese import it and there are few countries to attain it from, last year, China accounted for 60 percent of manganese imports – and in recent years that percentage has been even higher.

Additionally, in 2012, the United States – along with the European Union and Mexico – won a case at the World Trade Organization (WTO) against China because of its export restraints on manganese and eight other raw materials related to export quotas and export duties, minimum export price, export licensing, and export quota administration.

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After the WTO’s decision, the Office of the United States Trade Representative said: “Today’s report is a tremendous victory for the United States – particularly its manufacturers and workers... Today’s decision ensures that core manufacturing industries in this country can get the materials they need to produce and compete on a level playing field.” Imposing a 25 percent tariff on Chinese manganese would undermine this victory at the WTO and make it more difficult and expensive for U.S. steelmakers and other manufacturers to attain this needed material.

3. Electrodes
8545.11.0 Carbon electrodes of a kind used for furnaces

Carbon electrodes are the main heating element in an electric arc furnace (EAF) and they are used to melt scrap. They are unique as they have both high levels of electrical conductivity and they are capable of sustaining extreme temperatures. Because they can handle the necessary electrical power – large electric arc furnaces use enough electricity to power a town of 40,000 people – and incredibly high temperatures – upwards of 3,000 degrees Celsius – they are critical for the EAF steel making process.

The domestic carbon electrodes industry has been reduced over the years, as much production has moved to China, due to both unfair trade practices as well as, for a long time, China’s nearly non-existent environmental regulations. However, more recently, China has attempted to limit air pollution, in part by reducing its production of carbon electrodes. As a result, supplies for the global market have dwindled and carbon electrodes have become difficult to source. Recently, a major Asian producer of graphite electrodes that sells globally said: “We cannot handle all inquiries due to the supply shortage. There are huge inquiries but we cannot even set a price because we don’t have the electrode to sell.”

With supply of carbon electrodes reduced, prices have significantly increased. Last year, prices soared nearly nine-fold to approximately $16,330 per ton in China, and globally, as Chinese shipments plunged, prices jumped even more, to approximately $35,000 per ton. Adding a 25 percent tariff to Chinese carbon electrodes would further drive up prices of an already very expensive product.

8 Ibid.
Conclusion

China has spent several years stealing American companies’ intellectual property and encouraging or forcing technology transfers, with extremely harmful consequences for American businesses, workers and the economy. AISI supports the administration’s efforts to push China to end these practices. However, imposing a 25 percent tariff on Chinese imports of the above products that are included on the Annex to the Request for Comments is unlikely to significantly change sourcing patterns, but would harm U.S. steel producers by increasing costs for domestic steel manufacturers, making producing steel in the U.S. more expensive, and causing manufacturing with domestic steel products to become more expensive as well. Furthermore, applying a 25 percent tariff on these products would hurt the domestic steel industry at a time when it is adding capacity, production and employment due in part to the administration’s Section 232 actions.

If the administration proceeds with 25 percent tariffs on these products, AISI believes it is critical that there be an exclusion process that allows manufacturers to make the case for special considerations.

Thank you for your commitment to addressing unfair trade practices.

Sincerely,

Thomas J. Gibson