June 9, 2020

The Honorable Wilbur L. Ross  
Secretary  
U.S. Department of Commerce  
1401 Constitution Avenue NW  
Washington, DC 20230

RE: Comments on Section 232 National Security Investigation on Imports of  
Laminations for Stacked Cores for Incorporation into Transformers, Stacked  
Cores for Incorporation into Transformers, Wound Cores for Incorporation into  
Transformers, Electrical Transformers, and Transformer Regulators  
(Docket Number BIS-2020-0015)

Dear Secretary Ross:

In response to a request from the U.S. Department of Commerce, the American Iron and Steel Institute (AISI), on behalf of its U.S. producer member companies, is pleased to submit the following comments regarding the newly-initiated Section 232 national security investigation on imports of laminations for stacked cores for incorporation into transformers, stacked cores for incorporation into transformers, wound cores for incorporation into transformers, electrical transformers, and transformer regulators.

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. AISI also plays a lead role in the development and application of new steels and steelmaking technology. AISI is comprised of producer member companies, including both integrated and electric arc furnace steelmakers, and approximately 120 associate members who are suppliers to or customers of the domestic steel industry.

I. Introduction

A strong and viable domestic steel industry is critical to America’s national defense, national economic security and homeland security. The U.S. Department of Commerce recognized the importance of steel to U.S. national security in its January 2018 report on the effect of steel imports on national security, which led to the imposition of tariffs and quotas under Section 232 of the Trade Expansion Act of 1962, as amended, beginning in March 2018. The report viewed the application of national security to include not only
national defense requirements by the U.S. Department of Defense, but also to encompass “U.S. critical infrastructure sectors including transportation systems, the electric power grid, water systems, and energy generation systems.”

In particular, the critical infrastructure underlying our nation’s electric power grid requires access to a reliable domestic supply of grain-oriented electrical steel (GOES) for the production of the lamination and cores of electrical transformers that are covered by this investigation. Given the close relationship between GOES and the lamination and transformer cores made primarily from GOES, AISI believes that the following information related to trade in GOES is highly relevant to this investigation.

II. History of Unfair Trade in Electrical Steel

Unfairly-traded imports of GOES have plagued the U.S. market for much of the past decade. In September 2013, the then two domestic GOES producers, AK Steel Corporation (now a wholly-owned subsidiary of Cleveland-Cliffs Inc.) and Allegheny Ludlum (Allegheny Technologies Incorporated, or ATI), along with the United Steelworkers union, filed antidumping (AD) and countervailing duty (CVD) petitions with the U.S. Department of Commerce (DOC) and U.S. International Trade Commission (ITC) on imports of unfairly-traded GOES from seven countries. The AD petitions covered seven countries (China, Czech Republic, Germany, Japan, Poland, Russia and South Korea), while the CVD petition covered China.

A year-long investigation by DOC ultimately determined that large volumes of imports of GOES from the seven countries were being dumped into the U.S. market and assigned dumping margins as high as 242 percent. DOC also found significant subsidies provided by the Chinese government to its steelmakers and assigned a subsidy rate of 128 percent on imports from China. However, despite these affirmative findings of unfair trade by DOC, the ITC issued negative injury determinations in those investigations, and as a result, no remedial duties were put in place to combat the unfair trade practices of foreign steelmakers.

The ITC’s surprising negative determination opened the door to further surges in unfairly traded GOES imports and further injury to the U.S. steel industry. From 2014 to 2017, imports of GOES increased by 257 percent, from 20,723 net tons in 2014, to

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3 Id.
73,945 net tons in 2017. In late 2016, ATI announced that it would fully exit the electrical steel market, leaving only one electrical steel producer in the United States to produce these critically-important applications: AK Steel Corporation.

III. Section 232 Investigation on Steel Imports

The 2017-18 Section 232 investigation on steel imports looked broadly at imports of steel products from all countries, and ultimately recommended comprehensive relief for the U.S. industry, in light of multiple surges in imports in the years preceding the investigation and repeated instances of transshipment and circumvention and evasion of U.S. AD/CVD laws. The final report issued by DOC in January 2018 concluded that steel in general, and grain-oriented electrical steel in particular, is critical to U.S. national security. The report specifically noted that “[w]ithout an assured domestic supply of [electrical steel] products, the United States cannot be certain that it can effectively respond to large power disruptions affecting civilian populations, critical infrastructure, and U.S. defense industrial production capabilities in a timely manner.” Indeed, electrical steel is integral not only for the upkeep of the U.S. electrical grid, but it is also an input in sophisticated weaponry used by the U.S. Department of Defense, in both the Patriot and Hellfire missile programs.

While GOES imports declined by 60 percent from 2017 to 2019 following the imposition of Section 232 tariffs in March 2017, imports of GOES significantly increased in the months prior to the relief going into effect. While South Korea eventually received a quota based on its average annual export levels to the U.S. from 2015 to 2017, during the first four months in 2018, prior to the implementation of the quota, the United States imported 25,126 net tons of GOES, more than the combined volume of imports from Korea over the five years from 2012-2016. In fact, the GOES imports for just the first four months in 2018 were 21 percent greater than all Korean GOES imports from 2017 combined. In addition, the leading exporter of GOES to the United States in 2017 was Japan, with imports of 28,156 net tons in 2017, an increase of 146 percent over 2016 levels.

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4 USITC Dataweb, “HTS Codes 7225.11 and 7226.11,” last accessed June 1, 2020.
7 Id.
8 USITC Dataweb, “HTS Codes 7225.11 and 7226.11,” last accessed June 1, 2020.
9 Id.
10 Id.
IV. Efforts to Circumvent Section 232 Tariffs on GOES

While the Section 232 tariffs did have positive effects for the U.S. GOES industry by restricting the volume of dumped imports of GOES into the United States, foreign exporters and their customers soon took actions to circumvent the tariffs. For example, imports of GOES into Canada and Mexico from outside North America totaled 180,919 net tons in 2019,\(^1\) well above their estimated combined annual domestic consumption level of 116,000 net tons,\(^2\) as U.S.-based transformer manufacturers began shifting more of their production of laminations and cores to these other markets where GOES imports could be purchased without paying the Section 232 tariffs. Laminations and transformer cores made of cut, stacked and/or wound GOES, which are classified as a different product than GOES under the harmonized tariff schedule (HTS), could then be imported into the United States tariff-free, thus circumventing the steel Section 232 relief.

Indeed, U.S. imports of laminations and transformer cores from Canada and Mexico have increased during this same time period. On a value basis, U.S. imports of laminations and cores from Canada and Mexico doubled from 2016 to 2019, with imports from Canada valued at $110 million in 2019, up from $62 million in 2016 and imports from Mexico valued at $85 million in 2019, more than doubling from $33 million in 2016.\(^3\) These significant increases in the value of imports from 2016 to 2019 cannot be explained by any increase in the price of GOES, as the average unit value of U.S. imports of GOES declined from 2016 to 2019 by 17 percent.\(^4\)

Given the lamination and cores market in Canada and Mexico are relatively stable and there are no known GOES producers in either country, the increase in production of transformers and cores in these countries has been largely intended for the U.S. market. Approximately 95 percent of laminations and cores exported from those two countries went to the United States in 2019.\(^5\) Imports of laminations and cores from Canada and Mexico have displaced approximately 43,000 net tons of U.S. GOES demand from 2016 to 2019 and this level of displacement is expected to continue and likely increase for 2020 and each year after, if the circumvention is not stopped. This circumvention of the Section 232 tariffs on GOES actively undermines the national security objectives of maintaining domestic GOES production capability.

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\(^{1}\) Global Trade Atlas, “HTS Codes 7225.11 and 7226.11; Canada and Mexico,” last accessed June 3, 2020.

\(^{2}\) Internal industry expert estimate based on industry analysis.

\(^{3}\) USITC Dataweb, “HTS Codes 8504.90.9534, 8504.90.9634, 8504.90.9538, 8504.90.9542, and 8504.90.9642,” last accessed June 1, 2020.

\(^{4}\) USITC Dataweb, “HTS Codes 7225.11 and 7226.11,” last accessed June 1, 2020.

V. Conclusion

Domestic steelmakers have been severely impacted by repeated surges in dumped and subsidized imports that have flooded the U.S. market over the past decade, particularly in the electrical steel market. As the Trump Administration has repeatedly found, U.S. national security relies on a robust domestic steelmaking capability for the energy market, and electrical steel is a critical component of transmitting power across the electrical grid and distributing it into our homes and businesses. Without access to a reliable U.S. supply of GOES, transformer components and transformers, the United States would become entirely dependent on foreign producers to supply essential materials for our electrical grid. This could lead to the U.S. experiencing inadequate supplies of transformer supply chain products and unnecessary delays in getting electricity restored to our homes and businesses in the event of a natural disaster or other major event. Assuming the United States is on good terms with countries that could supply GOES, it can take approximately three months from ordering GOES offshore to receive it in the U.S. - delays the nation could ill-afford in the event of a disaster.

In light of these serious national security considerations, action to address the circumvention of the Section 232 tariffs on GOES by imposing appropriate measures on imports of laminations and transformer cores made predominantly of GOES is critical and necessary to preserve domestic GOES production.

Thank you for the opportunity to provide these comments on the Department of Commerce’s Section 232 national security investigation on imports of transformers and transformer components. AISI greatly appreciates the continued attention and engagement by President Trump’s Administration to ensure that a strong, robust domestic steel industry can provide the necessary supply of components for electrical power generation in the United States.

Respectfully Submitted,

Thomas J. Gibson
President and CEO