American Iron and Steel Institute

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Good afternoon, Chairman Karpel and Members of the Commission. My name is Kevin Dempsey, and I am the President and CEO of the American Iron and Steel Institute. AISI serves as the voice of the American steel industry in the public policy arena and advances the case for steel in the marketplace as the preferred material of choice. I am pleased to appear before you once again to discuss the economic impact and operation of the USMCA automotive rules of origin on behalf of American steel producers.

The American steel industry serves as the backbone of the U.S. manufacturing sector and is essential to America's national defense, national economic security and homeland security. U.S. national defense requirements for military systems and U.S. national security requirements for critical infrastructure are both dependent on the availability of U.S.-produced steel products. The domestic steel industry is also proud to be the cleanest of the leading steel industries in the world, producing steel with lower carbon dioxide emissions intensity than major competing steel industries.

As I have previously reported to the Commission, the steel industry in the United States strongly supported the passage of the USMCA, which modernized and strengthened several key aspects of the NAFTA, a trade agreement we also strongly supported. And the most important improvement in the USMCA over the NAFTA for American steel producers related to the automotive rules of origin. In our view, while well-intended,

the prior NAFTA rules of origin for automotive goods did not in practice provide sufficiently clear incentives for North American automotive producers and parts producers to source steel products from U.S. and North American steelmakers.

The USMCA modernized and strengthened the NAFTA with respect to the rules of origin for automobiles and auto parts in several respects, from our perspective. First, it eliminated the NAFTA's automotive tracing requirements, which actually worked against North American steel because steel was not included on the tracing list for automobiles and light trucks.

Second, the USMCA set forth specific, higher regional value content (RVC) requirements for the final vehicle and the various parts and components of an automobile compared to the NAFTA. These parts and components are divided into three different categories: Core parts and components (including engines, axles, batteries, chassis, transmissions, and suspensions); Principal parts and components (such as brake systems, air conditioners, fuel systems, and exhausts); and Complementary parts and components (including switches, valves, wire harnesses, lighting, and locks).

Of particular value in our view is the requirement that passenger vehicles and light trucks, as well as the "core parts" of these vehicles, must have at least 75 percent RVC using the net cost method.

Third, the USMCA required that all "core parts" must meet the RVC requirements for the vehicle itself to be considered originating under the USMCA. The automotive rules of origin define "core parts" to include such steel-intensive components as the engine, transmission, body and chassis, axles, suspension and steering systems.

Fourth, another key provision of the USMCA automotive rules of origin is the additional requirement that 70 percent of the purchases of steel by each OEM must originate within North America for its vehicles to be considered originating.

Fifth, as of July 1, 2027, the USMCA will further require that for steel products to be considered originating and qualify under the steel purchasing requirement, the steel must be "melted and poured" in North America. In other words, the original raw steel used to make a steel product must be melted in a furnace in North America for the final steel product to be considered made in the region. This should prevent semifinished steel imported from outside North America that is simply finished in the region from qualifying as North American steel.

While we are not able to quantify the exact economic impact of the USMCA automotive rules of origin, we do believe that the impact of these rules on American steel producers has clearly been positive. Our North American partners remain the two largest export markets for American-produced steel products generally, accounting for 94 percent of all steel exports from the United States in 2023, up from approximately 75 percent before the NAFTA went into effect. Furthermore, while many factors play into the volume of our exports of steel to Canada and Mexico, we believe that the USMCA rules of origin have played a role in the increasing levels of American steel sheet exports to these two markets over the last three years – a significant portion of which goes to automotive production.

Although a formal quantitative assessment of impacts is not possible, at least right now, AISI continues to consult with member companies who deal regularly with automotive industry customers. Our member companies report that the automotive rules of origin provisions in the USMCA have led, and continue to lead, to enhanced sales opportunities for their firms as a general matter. The minimum 70 percent North American steel purchase requirement that vehicle manufacturers must meet to maintain

duty-free access to the United States market has been cited as a particularly important factor driving customer inquiries.

AISI steel producer members also report that the "melted and poured" rule scheduled to take effect in 2027 has already stimulated sales inquiries. This rule will require that the finished steel products embodied in vehicles be manufactured regionally and themselves be made of raw steel produced within the region. Although this requirement has not yet come into force, domestic steelmakers report they believe this future rule is already having an impact, and they expect this requirement could also drive increased sourcing from the region in the future.

However, domestic steel producers have also cautioned that while the intended benefits of the strengthened RVCs, the 70 percent North American steel purchasing requirement, and the future melted and poured requirement have all had a positive impact on sales of steel produced in North America, they have also seen increased efforts by some market participants to get around these rules in order to use non-North American steel for some automotive parts. For example, we are seeing a shift in the OEMs now sourcing exhaust systems that are produced by parts suppliers in Mexico who are using non-North American steel. This identifies an area where the USMCA automotive rules of origin may need to be updated to include additional key parts, or to redefine what are the principal and core parts of a light vehicle.

In addition, one area where technological developments may also suggest changes will need to be made to the USMCA automotives rules of origin concerns the shift to electric vehicles (EVs). While the USMCA rules of origin did seek to incorporate the EV transition in the new rules of origin, for example by including advanced batteries as a core part, other aspects of the rules of origin may still need adjustment, such as the treatment of EV traction motors, motor cores and non-oriented electrical steel (NOES), among others, to ensure the rules remain effective as EV production grows as a share of

total North American automotive production. This is particularly true as EV production continues to evolve, and new systems are regularly being developed that were not significant features of automotive production only a few years ago.

This will be another important area for further investigation as we approach the review of the USMCA in 2026.

Thank you once again for the opportunity to testify here today on the value of the USMCA automotive rules of origin from the perspective of America's steel producers. I would be happy to answer any questions you may have.