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STCA Members Weather Steel Tariffs by Libby Maurer

Despite bleak economic conditions in many manufacturing industries throughout the United States in 2002, members of the Steel Truss and Component Association (STCA) have focused their efforts on a balancing act to come out ahead and with a little more perspective on the future of their industry.

Recall that the steel industry was hit by a tariff imposed by the Bush administration on March 20, 2002, which mandated a three-year descending tariff on most forms of imported steel coming into the United States. The "temporary safeguard" was implemented after a U.S. International Trade Commission (USITC) investigation of Section 201 of the 1974 Trade Act determined that increased steel imports from foreign markets were flooding the domestic market. After completing the investigation, the USITC handed down a recommendation to the administration, and the administration then confirmed the USITC's claim, citing damage done to the domestic steel industry by illegal steel imports and global overcapacity as the root of the industry's economic slump.

Bob Johns of Nucor, Inc., has been in the business of steel manufacturing for nearly four decades and explained that the acceleration of the industry's trade woes began at least five years ago. "I track the problem way back to the collapse of the Asian economy," said Johns. "The very competitive importation of steel began in Asia and migrated across the world. To give you some idea of how much of a problem this became, at the time that the tariffs were implemented, 200 active anti-dumping and countervailing duties were enacted and 50 more were pending by the International Trade Organization (ITO) to counter serious economic advantages." Further, Johns said that there was undeniable evidence that the steel industry was in trouble. "With 36 bankruptcies in the U.S. steel sector—more than half of the suppliers to the industry—the damage to the domestic steel market was clear; taking advantage would continue if safeguard measures were not implemented," said Johns.

Said Bush in his March 5, 2002 announcement to impose the temporary safeguards, "I take this action to give our domestic steel industry an opportunity to adjust to surges in foreign imports, recognizing the harm from 50 years of foreign government intervention in the global steel market" (www.whitehouse.gov). The tariff levels were established as 30 percent in year one, 24 percent in year two and 18 percent in year three. The tariff significantly impacted flat-rolled steel products including coated sheet, hot-rolled, cold-rolled and light gauge galvanized steel. Johns cited three motivations for the administration's tariffs. The first: put a damper on the economic damage to the domestic industry and give the industry some breathing room. Secondly, the tariffs sought to address international trade regulation organizations, among them the World Trade Organization (WTO), asking them to eliminate global capacity that is inefficient and the root of the foreign manufacturers' economic advantage. The third motivation was to allow the industry to reorganize and restructure through consolidation.

To understand the real impact of the tariffs on the domestic light gauge steel manufacturing industry, clarification of the material's step-by-step flow through the market is helpful.

Step 1: Steel mills, either domestic or foreign, produce large galvanized (coated) steel coils. Since steel is a highly recyclable material, a large part of the production process is melting down steel from existing items, like automobiles, and forming it into new coils.

Step 2: Roll formers buy flat rolled galvanized steel coils from mills and shape them into individual chords and webs.

Step 3: Steel truss manufacturers buy individual roll formed members and use them to fabricate pre-engineered light gauge steel trusses for residential and commercial construction applications.

The tariffs provided protection for domestic steel producers, allowing them to partially restore prices that were collapsed by imported steel from foreign mills. Johns called the Section 201 tariffs "stop-gap measures to deal with import surges." Demand for domestic steel increased as expected as the foreign producers passed the 30 percent tariff on to their United States customers; domestic mills could afford to raise prices just enough to give them a competitive edge over steel imported from Korea, Japan, China, South America and the European Union. Canada and Mexico as well as other developing countries were exempted from the tariffs (www.whitehouse.gov). Johns commented that countries such as India, Turkey, Egypt and Brazil are developing countries as defined by the World Trade Organization (WTO) and are therefore exempted from the Section 201 tariffs as well. "It is odd that these 'developing countries' have large and highly advanced steel industries," he said.

The result of the imposed tariffs for light gauge steel truss manufacturers was a domino effect which began with incremental price increases from steel mills and ended with higher prices on finished steel goods for builders and contractors. STCA members told SBC staff how they weathered the economic storm. According to STCA member Mike Noonan of Cascade Manufacturing, the greatest implication of the tariff was that the escalating prices passed on to steel truss manufacturers from the mills came as a shock to manufacturers who were accustomed to the material's historically consistent prices over long periods of time.

Said Noonan, "Price stability has really been the hallmark of light gauge steel truss manufacturing. The aftershock of the tariff meant that we had to quickly adjust to the incremental price increases." As a result of the tariff, Noonan encountered two problems. First, he would have to prepare his company for future steel price increases for material coming out of the mills. It also meant that he would not be able to honor prices on finished goods for customers that he had set months prior to the tariff's implementation.

The price increases facing steel truss manufacturers for light gauge steel products has meant an uphill struggle to compete. But according to one STCA member, the steel tariff had relatively no measurable negative effect on their third and fourth quarter light gauge steel truss sales in 2002.

Michael Meek of Allied Studco pointed out that recent sales increases experienced by his company reveal some exciting facts regarding the steel market's growing prevalence in the United States. “Our steel truss product sales have actually risen in the third quarter—a very bright sign that the steel truss market is growing and sustainable despite a dreary situation with respect to raw materials and the economy overall,” said Meek.

Johns noted that restructuring and consolidation in the steel industry are going at warp speed, thanks to the March tariff. “However, reorganization of an industry can be a legal and environmental maze that can take years before everything is said and done.” And will America's steel industry see a full recovery? According to Johns, “In some cases, it might be too late to avoid Chapter 11, but the steel manufacturing industry as a whole should see some sign of recovery in the next few years.”

With the wisdom of a man who has watched economic changes in U.S. manufacturing for 38 years, Johns pointed to the fact that trade issues are not just impacting the steel market. “We are a microcosm of what is happening to U.S. manufacturing today. If you dive deep enough into the big picture, you begin to see that these are the same problems plaguing the textile, telecommunications and electronics industries. The challenge we face for the future of the U.S. manufacturing sector will be to ‘identify and address what is killing the industry.’”
