

ISSUE BRIEF

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Steel Imports Do Not Threaten National Security

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The Department of Commerce is conducting an investigation of steel imports under Section 232 of the Trade Expansion Act of 1962, which gives the federal government the ability to investigate foreign trade practices to determine the effects of imports on U.S. national security.¹ This investigation is purportedly intended to discover whether intervention, including tariffs, is needed to further insulate domestic steel producers from foreign competition. The inquiry is unnecessary and inappropriate.

Steel is a vital commodity for America's manufacturing and construction sectors, and steel imports play a vital role in many supply chains supporting the defense industry. Imposing tariffs under Section 232 would increase the cost of one of the most crucial intermediate goods for these two American industries that together employ more than 12.8 million Americans, whose jobs will be at risk if the Trump Administration imposes new tariffs on steel imports.

Section 232

Section 232 investigations are uncommon, and the imposition of tariffs following an investigation are even more so. There have only been 26 investigations under Section 232 since 1962 and, of those,

19 resulted in a determination that the specified import did not threaten to impair national security and/or the President deciding not to take action.² In most cases, there is far greater benefit from imports than there is risk—and the same is true for steel.

Defense Industrial Base

There are more than 100,000 companies and many more subcontractors who provide products or services to the Department of Defense (DOD).³ These companies, which form the U.S. defense industrial base (DIB), rely on steel as a critical input for many defense products and systems from missiles to aircraft carriers. However, unlike dependence on Russian rocket engines (for which few alternatives exist) or Chinese microchips (which can be infected or counterfeited), steel imports do not present the same vulnerabilities or technological sensitivities. There is not an inherent threat in steel imports, but rather a vague concern regarding availability of supply.

The link to national security has also been used in attempts to justify domestic renewable energy production,⁴ given the military's practical reliance on foreign oil. However, as is the case with oil, steel is not in short supply, and demand for imports driven by cost considerations should not be mistaken for vulnerability. Products that are neither scarce nor technologically sensitive do not pose a threat to national security and do not warrant these industry protections.

The use of foreign-sourced steel is already strictly regulated in defense contracting through the Buy American Act of 1933 and the Berry Amendment.⁵ Buy American restrictions can increase the cost

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of goods procured by the DOD by up to 50 percent, while the latter can have even more perverse effects, like eliminating choice for our new servicemembers when selecting running shoes for basic training.⁶

These regulations limit options for DOD contractors and subcontractors that use steel as a means of production. Imposing additional restrictions on contractors through Section 232 tariffs will further reduce competition and raise costs of production, making end products more expensive.

Defense Production Act

Material shortages have occurred in the past. During the Korean War, the U.S. did not have access to enough titanium to keep pace with military aircraft production.⁷ In response to the looming shortage, Congress passed the Defense Production Act of 1950 (DPA). The DPA authorized the President to place priority orders on government contracts and to invest in the domestic productive capacity as necessary to ensure that critical materials remain available in sufficient quantity and quality to support defense requirements.⁸

Although Congress has since allowed four of the original seven titles of the DPA to expire, provisions remain in place to provide for the national defense in the event of an industrial base shortage—whether the result of increased demand for produc-

tion or decreased supply. With safeguards already in place, protectionist policies only serve to preempt an undefined threat while imposing certain cost increases on U.S. consumers and the Defense Department.

Anticipated Proposals by Commerce

The Department of Commerce is expected to suggest the following three options to President Trump, indicating the department will conclude that at least some steel imports threaten to impair U.S. national security:⁹

1. Impose a 25 percent tariff on a wide variety of steel imports;
2. Impose a tariff-rate quota system, which would apply a tariff on various steel imports once a certain threshold of imports is met; or,
3. Impose quotas on a variety of steel imports, limiting the amount of steel imports allowed in the U.S.

Recommendations

Tariffs, quotas, and other trade measures meant to protect one industry can, and often do, have significant damaging effects on other domestic industries. Imposing such measures on the basis of nation-

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 2. U.S. Department of Commerce, Bureau of Industry and Security, Office of Technology Evaluation, *The Effects of Imports on National Security*, June 2007, <https://www.bis.doc.gov/index.php/forms-documents/section-232-investigations/86-section-232-booklet/file> (accessed June 15, 2017).
 3. U.S. Department of Homeland Security, "Defense Industrial Base Sector," <https://www.dhs.gov/defense-industrial-base-sector> (accessed June 15, 2017).
 4. Hollis Simodynes, "Energy Security Requires Diversity: An Argument for the Defense Production Act Title III Biofuel Initiative," Calhoun: The NPS Institutional Archive, 2013, p. 7, http://calhoun.nps.edu/bitstream/handle/10945/40266/13Jun_Simodyne_CIVINS.pdf?sequence=1 (accessed June 15, 2017).
 5. Tori K. Whiting, "'Buy American' Laws: A Costly Policy Mistake That Hurts Americans," Heritage Foundation *Backgrounder* No. 3218, May 18, 2017, <http://www.heritage.org/trade/report/buy-american-laws-costly-policy-mistake-hurts-americans>.
 6. Thomas W. Spoehr and Rachel Zissimos, "Preventing a Defense Crisis: The 2018 National Defense Authorization Act Must Begin to Restore U.S. Military Strength," Heritage Foundation *Backgrounder* No. 3205, March 29, 2017, <http://www.heritage.org/defense/report/preventing-defense-crisis-the-2018-national-defense-authorization-act-must-begin>.
 7. "Non-Aerospace Titanium for Armor and Structures Transformation Project," Defense Production Act: Title III, U.S. Department of Defense, http://www.dpatitle3.com/dpa_db/project.php?id=213 (accessed June 15, 2017).
 8. Jared T. Brown and Daniel H. Else, "The Defense Production Act of 1950: History, Authorities, and Reauthorization," Congressional Research Service, July 28, 2014, p. 3, <https://fas.org/sgp/crs/natsec/R43118.pdf> (accessed June 15, 2017).
 9. Adam Behsudi, "Deliberating Steel Action," *Politico*, June 14, 2017, <http://www.politico.com/tipsheets/morning-trade/2017/06/14/deliberating-steel-action-220837> (accessed June 15, 2017).

al security when the targets are basic commodities, such as steel, will increase the cost of one of the most crucial intermediate goods for the U.S. manufacturing and construction industries. When evaluating the effects of imports on U.S. national security, Congress and the Trump Administration should take the following actions:

- **Reject the imposition of tariffs on steel through Section 232.** Tariffs will increase costs for U.S. producers and industries, while making little or no contribution to U.S. national security.
- **Utilize laws and mechanisms already in place to ensure access to critical materials.** Should the situation ever arise, Congress can use the tools designed for the express purpose of protecting against an industrial base shortfall, rather than adding additional layers of regulations to an already heavily regulated industry.

- **Encourage competition and innovation in the steel industry by limiting government protectionism in the sector.** U.S. manufacturing and construction industries rely on domestic and foreign steel to create finished products. Tariffs on steel imports limit choices and increase costs for these industries.

In order to best serve the interests of U.S. national security and U.S. industries, Congress and the Administration should reject unnecessary and harmful tariffs on steel imports.

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