Transcript: Interview with Philip K. Bell, president of SMA on Tariffs

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Phil Sasso:

Thank you for making the time to talk to me.

Philip K. Bell:

We appreciate you reaching out to us.

Phil Sasso:
What countries do we currently import from, and how will tariffs impact things?

Philip K. Bell:

When you look at steel imports, we have imports from all over the world. Our two largest trading partners, though, when it comes to steel, are Canada and Mexico. And they have traditionally been the two largest steel trading partners we have. But still, imports arrived on our shores from all over the world.

Phil Sasso:

Canada and Mexico mean that their tariffs will impact our raw materials. But their tariffs are some of the lowest, correct?

Philip K. Bell:

Yes. When you compare them to China, they absolutely are. Currently, China has about a 145% tariff on its steel-produced goods. Canada and Mexico had 25% tariffs reinstated. But keep in mind, any steel products that meet USMCA requirements are not subject to that tariff. So it's not as dreadful as some people make it out to be.

Phil Sasso:

Please explain the requirements to me.

Philip K. Bell:

Well, we don't need to get into the weeds on them at all. The USMCA agreement was reached several years ago, which required certain amounts of steel products to be melted and poured within the USMCA region in order to be tariff-free.

That is the main number one requirement. And what's important to understand about that is that when you look at Canada, the U.S. and Mexico, there are millions of tons of steel products, raw materials and semi-finished products across those borders every day. It's a very integrated supply chain. There's also a lot of what we call cross-border ownership, where you have U.S. companies with operations in Canada and Mexico, Mexican companies with operations in the U.S. and Canada and Canadian companies with operations in Mexico and the U.S. we hope that these newly reimposed 25% tariffs, incentivize the Mexican and Canadian governments to get more serious about their trade relationship with the U.S. I think what often goes under-reported is about the right to sell products in the U.S. It's not something that you're entitled to, it's something that's a privilege and that privilege needs to be understood, nurtured, and appreciated. And I think that's what the president's trying to do.

Phil Sasso:

So, can you get down to the level of wire and coil? Do you track things like that? Are they considered semi-finished products or materials for tariff purposes?

Philip K. Bell:

We have several members who are wire rod producers in the SMA. Our members produce virtually every steel product that's commercially in use, whether it's flat roll products, structural steel plate, or long products like rebar and wire rod.

I think what we're going to see as a result of this in the years leading up to the election, there was a surge of imports from Mexico, wire rod imports from Mexico that were taking market share away from domestic producers. And we were also concerned because it was very difficult to ascertain the country of origin of those rod products, because often rod was transshipped through Mexico and some through Canada, into the United States. But since the election, we've seen both the Mexicans and Canadians get more serious about tracking and reporting the country of origin where that steel was melted and poured. And I think what we're going to see is that anytime you have a tariff in place, there's usually an immediate uptick in price. But you're going to see those prices gradually stabilize and get back down to what we call market levels. And I want to hang out here for just a second. A lot of people think that tariffs are increasing prices. Well, that's an overly simplified point of view. What tariffs are actually doing is they're taking artificially low prices and bringing them back to what they should be at the market level. And those prices are usually artificially low because of dumping, transshipment, evasion of duties, and circumvention of a variety of reasons.

Phil Sasso:

Can you speak for a moment about dumping?

Philip K. Bell:

Sure.

Phil Sasso:

It's becoming an issue in our space. Can you speak to how big it is and how it affects the U.S. as a nation?

Philip K. Bell:

Yes. The reason dumping hurts is you often have steel that is produced in countries that have no free market incentives like we do in the United States. So the steel is highly subsidized. In some cases, the steel-producing company is state-owned. It's not a private entity, but actually a state entity. And because of that, they don't have the same cost structure that we have in the U.S. You also have situations where their energy may be subsidized, the raw materials may be subsidized, and even their labor may be subsidized. This allows them to produce these wire products at market levels below. And then they're selling them sometimes even below the cost of production here in the U.S. And that's why dumping is so insidious and where we have to fight it every step of the way, whether it's through antidumping and countervailing duty cases or through the support we're getting from the administration by closing some of the loopholes on the 232 tariffs.

Phil Sasso:

So it sounds like you are a proponent of reshoring. It sounds like reshoring may be a result of this. Is that what you see in your crystal ball?

Philip K. Bell:

Well, I think the administration's ultimate goal is to use the tariff policy to get steel products to be produced here in the United States in one of two ways. Phil, either foreign direct investment in facilities that employ American workers, pay American taxes and create American jobs, or through the organic growth of existing companies, expanding their operations, upgrading their facilities, or even building greenfield facilities. Now we have seen some of this taking shape in the flat roll markets. For example, Hyundai Steel, a big South Korean steel producer recently announced a $6 billion investment in Louisiana to make automotive flat roll steel for some of its auto manufacturing operations. In the U.S. also among SMA members, you see major investments in rebar, flat rolled and plate. In fact, over the last five years, SMA members have invested about 20 billion of their own money to modernize, upgrade and build greenfield facilities throughout the United States. So you see it occurring, it's going to be incremental in nature. And the one good thing about steel announcements is those tend to happen unlike other investment announcements you see from other industries. When you're going to build a steel mill, you have to be all in because that requires permitting, it requires engineering, and it requires the procurement of large-scale equipment. So this isn't something that you just casually say you're going to do when you announce it, your mind is made up.

Phil Sasso:

I think we've covered everything about imports. Do you feel we've done that?

Philip K. Bell:

I think so. And I think another good thing is that the president saw the need to expand the 232 tariffs to what are called derivative products. So this is going to help downstream producers. For much of the time, the tariffs have been in place. It's really helped the mills primarily. But this expansion to include derivative downstream products is going to help those downstream producers to buy our products. It's going to help the customer base of SMA steel producers. So we're really glad to see that. We were glad to see the president get rid of exclusions, and we were glad to see the president get rid of exemptions so that companies can't game the system and get products in through all of these various U.S. loopholes.

Phil Sasso:

Great. So, in terms of producing more product for the U.S. market and being more competitive, that's one thing. But now let's look at the export side of the coin. How will this impact our ability to export products to other countries?

Philip K. Bell:

A lot of people are under the impression that we export a lot of steel abroad. We really don't. As I mentioned earlier, our two largest trading partners are Canada and Mexico when it comes to steel. And about 90% of all domestically produced U.S. steel (exports) go to either Canada or Mexico. It's not going to Asia, it's not going to Europe, it's not going to Latin America or the Middle East and North Africa. It's staying within the USMCA region. Also, there are already existing tariffs on a lot of steel products that are produced in the U.S. that really prevent us from selling over there. Everyone thinks we're the ones with all the tariffs, but there are tariff regimes in place all over the world that make it hard for us to not only ship our steel, but our steel-containing products like appliances and automobiles. You don't see a lot of F1 fifties in Germany. You don't see a lot of Chevrolets in Japan. There's a reason for that. They make it really hard for us to sell our steel-containing products over there.

Phil Sasso:

That's interesting. And I guess one our largest industry as springmakers, and probably your largest industry as steel manufacturers, is automotive.

Philip K. Bell:

Our largest end users are the automotive market.

Phil Sasso:

Interesting.

Philip K. Bell:

The construction market, and then the energy, oil and gas market. Those are our three top markets.

Phil Sasso:

Aviation. Aviation is a big one for us, too. Aerospace, I guess you'd say. Big for you, too?

Philip K. Bell:

Sure. Aerospace.

Phil Sasso:

Yes.

Philip K. Bell:

Not as much as those three. Those three make up about 75% of domestic steel consumption, but aerospace, military applications, ship shipbuilding, that's approximately 10%.

Phil Sasso:

Springs are a very technical product, more than I realized before I started as editor two years ago. So, it's the technology, it's the design, it's the understanding of the metals. It's just a very interesting world.

Philip K. Bell:

It really is. A lot of people think it just goes into mattresses, but springs are used in a variety of industrial and other high-tech applications.

Phil Sasso:

Are you seeing shifts in the global steel chain in response to U.S. tariffs?

Philip K. Bell:

Yes, I am. And here's something else that goes underreported. Keep in mind the 232 tariffs are not new. They've been in place for almost seven years and they have bipartisan support. The 232 was an executive order. President Biden could have done away with the 232 tariffs on day one of his administration. And he didn't continued them because he understood how important it was to try to rationalize the steel industry because it was under assault from unfairly traded imports. So keep in mind, the two 30 twos are not new. The only thing that's been done with the two 30 twos is it's been expanded to include derivative downstream products. And the president has done away with some of the loopholes through exclusions and exemptions, and he's made a commitment to be tougher on enforcement than President Biden was. So that's very important. And the reason I say all of that is basically when the administration was reelected, they basically came in with the idea, well, you know what?

The supply chain has had about six years to figure out how to procure its steel products and how to structure its supply chain. So over that time, you've seen a huge transformation also, and this will be in my presentation tomorrow, excuse me. A dirty little secret is prior to President Trump's election, only about 18% of steel imports into the United States were even subject to the 232tariffs. And let me tell you why, Phil, you had a situation where when the U-S-M-C-A was reached, all Canadian and Mexican steel was exempt from the tariff, you had countries like Brazil, Argentina, South Korea, Japan, Australia, all of these major steel producing countries who had quotas and not tariffs. So they were allowed to ship millions of tons of steel products into the U.S. tariff free. And then when they reached that quota, the tariff would kick in and they were all clever enough to never exceed that quota. Then during our negotiations with the European Union on something called the global arrangement, which you may have heard of, which was an attempt to link climate policy and trade policy,

Philip K. Bell:

Still exports into the U.S. were not subject to tariffs. And then you had something called an exclusions and exemptions process in which a company if for reasons such as lead times or lack of quality or lack of availability, I mean there's some steel products that aren't made in the us, you could apply for an exemption that way. And then on top of all of that, they had something called general exclusions that the Biden administration put into effect. So you have all of this rolled into one piece, these foreign trade agreements, these quotas, these negotiations, these exclusions and exemptions. There wasn't that much steel that was even subject to the tariff in the first place. And so there were a lot of folks who had no problem getting steel either domestically produced or foreign produced.

Phil Sasso:

So it seems like a lot of what the media reports read, like seem to imply there's going to be retaliatory measures. Is that a real thing?

Philip K. Bell:

Yes, it's always a real thing. But another thing the media is doing a poor job of is they're not differentiating between the tariffs. And it's very important almost to keep the steel 232 tariffs separate from all of this other stuff. Okay. The steel 232 tariffs, as I mentioned, we're already in place. All the president did was strengthen them by closing loopholes. All of these other tariffs, whether it's the 10% across-the-board tariff, whether it's the additional tariffs on China, all of these things are new. And in an attempt to counter those things, other countries will retaliate on certain products. But the fact of the matter remains is that rather than retaliation, they should be pursuing negotiation. And you're starting to really see that over the last several weeks, if you've been paying attention to the president, to the treasury secretary Bessent to USTR, Ambassador Jameson Greer, the U.S. is engaged in a variety of talks with various. countries, the United Kingdom, Japan, South Korea, and many others to try to work things out and to get a trade relationship, that's truly a win-win. And I think that's another thing that the tariffs and even the threat of tariffs do, is it gets partners serious about their trading relationships with the U.S.

Phil Sasso:

This has been in place for six years, and most of the downstream seem to have been dealt with.

But SMI members deal in wire and coil steel. Is that something you're making here in the U.S. from U.S. steel? Are your members strictly making the raw steel product?

Philip K. Bell:

Our members, the members of the SMA, strictly make raw steel. And by the way, we have a very close relationship with the American Wire Producers Association, AWPA. We have testified together before the International Trade Commission, and the SMA actually advocated for the inclusion of raw wire products in 232. … And lo and behold, through a combined joint effort of our lobbying as well as AWPA, we were able to make that happen.

Phil Sasso:

What future policy tariff or trade negotiation changes could change the current landscape?

Philip K. Bell:

I think there are a couple that we need to pay attention to. First of all, the USMCA is up for review next year. And I think the approach to that is going to really define how our trading relationship with Canada and Mexico is going to exist going forward. And I think that's very important. And I actually would not have a problem with that getting started earlier rather than later, and I'd like to see that happen. I think another thing that you're going to see is how long are we going to be extra tough on China, for example, as you know, there's a 90 day pause on the tariffs that are in excess of 10%. There's still the general tariff in place, but anything in excess of that, the president decided to put a 90 day pause on that, but he did that for everyone except China.

So the question is, when the negotiations with China start, and they'll be starting soon, it's how much of their tariffs are going to go away and are they going to come back down a bit? 145% is high, and I think China is feeling the pain of that. So that's the second thing. And then I think the third thing that you want to see is, are we going to continue to have investment in new modern steelmaking capacity, whether that's by domestic producers here in the U.S. or foreign producers that are saying, well, one way I can get around this tariff is to build a Y rod plan in the U.S. or to build a steel mill in the U.S. And I think you see the beginning signs of that. Again, that's going to be more incremental because of the amount of money involved and the amount of planning needed. You've got to proceed very cautiously there. But those are three very important trends. I see. USMCA, what we're going to do in the China negotiations and the amount of investment in new modern steelmaking capacity here in the U.S.

Phil Sasso:

What about steel pricing and supply issues. If you're not in the place to speak about, I'm okay with that. I understand that. Have we seen any pricing impact, yet?

Philip K. Bell:

Yes. Anytime tariffs go in place, initially, prices are going to rise. Okay. Let's not be naive. But then what happens is prices start to normalize to normal market levels. And when I say that what I mean is that they're going to be at the level they should have been all along, but weren't able to be at because of unfairly traded imports. Do you follow me there?

Phil Sasso:

It's like water seeking its own level here. It's finding its own level. It's coming back to where it should have been to begin with.

Philip K. Bell:

With. Yeah, that's a good analogy. That's a very good analogy.

Phil Sasso:

So this one came from the president of my organization. Maybe you can help me unpack it. Is there anything else springmakers should know about current tariffs and domestic steel capacity?

Philip K. Bell:

Okay, is he talking specifically about spring production or just steel capacity in general?

Phil Sasso:

I think it is the ability to supply the steel that we need to make the wire or steel coil springs we need to make springs. Is there a capacity to make more domestic steel for those products?

Philip K. Bell:

As capacity? Yes, there is enough domestic capacity to meet domestic demand for those products. Keep in mind, the steel industry in the United States really is in a situation where it is underproducing its capacity. Utilization rates are in the low to mid-70 % range. So there's plenty of room for growth across all product segments. That includes wire rods and steel products that are used for springs. In addition to that, you see SMA members investing in new capacity in a variety of product segments to meet any increase in demand that we see for say from the tax cuts or an uptick in the economy, or if the infrastructure money ever starts flowing like it should. So yeah, I think that it's not going to be a problem. You're not going to have a problem finding the steel products you need.

Phil Sasso:

That's great. Is there anything you wish I'd covered or that you think I should know?

Philip K. Bell:

I just think the main thing that we need to understand is that what President Trump is trying to do is level the playing field. And he is using a tool in his toolkit that is very powerful and that is tariffs. And again, what we are seeing now is a lot of countries that were talking about retaliation or taking the approach of negotiation, they're coming to the table with ideas. We also want the president to stand firm on the 232 tariffs and to keep them in place. When we look at steel, tariffs are absolutely necessary. For the first time, we have derivative products included. So he needs to stand firm on the 232 tariffs, and we think he will.

Phil Sasso:

That's great. I really appreciate your time, Philip. You've been very informative and very articulate. -- and very soothing in terms of the fears that some of our members may have.

Philip K. Bell:

Absolutely.

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