

Flash Comment

Trump likely to announce tariffs on steel soon

- **A change to the US steel policy is likely to be announced soon. The announcement will be important, as it will show whether Trump is siding with his protectionist advisers or the pragmatic camp in his administration. Tariffs of 20-25% on steel have been mentioned among sources and possibly in combination with quotas for each country.**
- **Trump is set to use the so-called nuclear option of ‘national security’ to justify any measures under US laws and WTO rules. If he does so there is a risk that it could open a Pandora’s box of similar actions in other countries with the same justification and thus undermine the WTO system.**
- **The EU Trade Commissioner promised retaliation in a recent interview if the US takes protectionist actions on steel. It could also trigger a response from China, which is the main target of any actions on steel.**

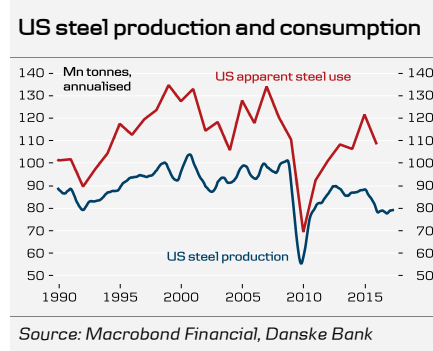
Reports suggest that Trump is currently in the process of deciding how high tariffs should be and whether to combine it with steel quotas for each country, see for example *FT* and *Wall Street Journal*. On 7 June Donald Trump said in a speech: ‘Wait until you see what I’m going to do for steel and for your steel companies. We are going to stop the dumping, and stop all of these wonderful other countries from coming in and killing our companies and our workers. You’ll be seeing that very soon’, see *Reuters*.

Apparently a high-level battle is going on in Washington between the protectionist camp in the Trump administration of Secretary of Commerce Wilbur Ross, Director of Trade and Industrial Policy Peter Navarro and US Trade Representative Robert Lighthizer and the more pragmatic camp of Secretary of State Rex Tillerson and Chief Economic Adviser Gary Cohn. That the battle is difficult and ongoing is suggested by the cancellation of two congressional briefings on the issue lately.

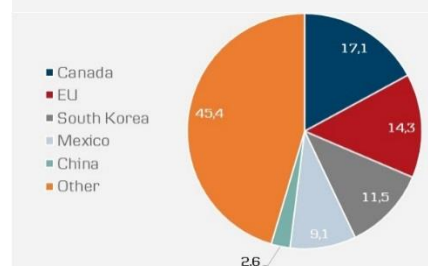
The result will be a very important signal for which course Trump will choose and who he is listening to on the matter of trade policy. Given Trump’s promise to the steel workers, it is hard to imagine that tariffs in some form are not coming.

One of the most controversial issues is Trump using the ‘national security’ card to put on tariffs – if he does so. The steel investigation has been based on a very rarely used ‘section 232’ of US trade law, which allows a president unilaterally to ‘adjust’ imports if the Department of Commerce find evidence of a national security threat from foreign shipments. In a Senate hearing on 8 June, Wilbur Ross said he believes there is a ‘genuine national security issue that must be considered in this case’.

The WTO is extremely worried over this as it could create a wild west in global trade policy as the ‘national security’ card could then be used by any nation to bypass trade agreements. Under WTO rules a similar national security exemption is allowed but it was intended for use in the case of war.



US steel imports by country – Canada and the EU to be hit the most

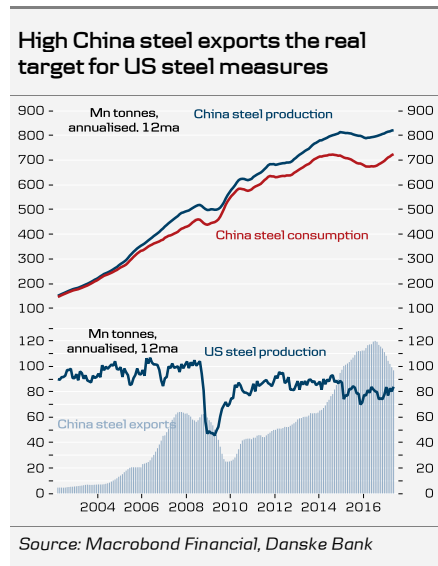


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In a recent interview the EU's Trade Commissioner Cecilia Malmstrom said 'That is opening a Pandora's box', see *Bloomberg*. She also said any measure by the US to limit steel imports would affect the EU dramatically and that 'we will retaliate, of course'.

The real target of the steel action from the US is China, which produces half of the global steel in the world and is accused of dumping steel on the global markets. While Chinese steel exports have fallen in 2016 due to higher domestic consumption, total Chinese exports of steel are still higher than all of US steel production (see chart on front page). The US has already put anti-dumping tariffs on certain Chinese steel products, but the it apparently wants to go further as the global market is still oversupplied due to Chinese steel exports. In fact, China hardly exports any steel to the US (only 2.6% of US steel imports), but Wilbur Ross has accused China of exporting through other countries and that the Chinese overproduction is still a reason why the oversupply of steel is depressing global prices.

The steel announcement from Trump is expected to come before the G20 Summit in Hamburg on 7-8 July. Among others, Germany has worked hard to stop the US from taking protectionist measures on steel and if they are carried out it will likely create the worst possible setting for the G20 meeting.



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Expected updates

None.

Date of first publication

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