

Nucor Public Affairs Update

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Steel Supply Chains and the Conflict in Ukraine

The conflict in Ukraine has caused significant disruptions to global steel supply chains, including raw materials, semi-finished products, and finished products. In addition to the conflict itself causing price volatility and disrupting shipments of iron and steel products from Ukraine, the United States and its allies have imposed expansive sanctions on Russian and Belarussian companies and financial institutions. Legislation to suspend Russia's "permanent normal trade relations" (PNTR) with the United States also passed the House of Representatives on March 17, 2022. The bill is pending before the Senate.

If it proceeds, suspension of PNTR with Russia would also result in an immediate increase in tariffs on nearly all imports from Russia. The extent of the increase would vary by product but would generally be significant. The bill also gives the President discretion to increase these tariffs on a product-specific basis. At this time, it is unclear when the bill will advance in the Senate. Both the Biden Administration and U.S. allies have expressed support for suspending PNTR with Russia.

The sanctions response has been historically broad and may continue to expand pending events on the ground in Ukraine. Currently, there are no direct sanctions on Russian iron and steel companies, but restrictions may apply by virtue of direct or indirect ownership by certain sanctioned Russian "oligarchs" with close connections to the Kremlin. Sanctions on major Russian financial institutions, including restrictions on their ability to access the SWIFT interbank payment system, may also make it difficult or impossible for U.S. companies to pay for imports from Russian companies, including iron and steel or steelmaking raw materials.

Section 232 Agreements with Japan and the UK

The Section 232 national security measures on steel imports have been in place for approximately four years. Over that time, however, a series of alternative arrangements with U.S. allies and granted product exclusions have gradually narrowed the program's coverage. Recent agreements between the United States and Japan and the United Kingdom have continued that trend. Based on the most recent import figures, the 25% Section 232 tariffs only apply to approximately 18% of total U.S. steel imports. First, the United States and Japan announced an agreement on February 7, 2022. The agreement replaces the 25% tariff on steel imports from Japan with a "tariff rate quota" (TRQ) system like the one in place for imports from EU countries. The agreement with Japan will allow 1.25 million metric tons of steel imports, allocated among 54 product categories based on average 2018-2019 volumes, to enter duty free. This quota may increase or decrease periodically based on significant changes in U.S. demand. Any volumes above the quota will be subject to the original 25% tariff. To qualify for the duty-free treatment, steel must be "melted and poured" in Japan. Importers may apply for product-specific exclusions from the tariff, but any volumes imported under an exclusion will count against the quota. The agreement enters into force on April 1, 2022.

On March 22, 2022, the United States announced a similar Section 232 agreement with the United Kingdom. The TRQ volume under the U.S.-UK agreement is 500,000 metric tons, which is approximately twice the 2018-2019 UK import average. Of the 500,000 tons, a total of 37,800 tons of the steel “melted and poured” in the UK may be processed into downstream products in EU countries. All other aspects of the TRQ system are the same as the agreement between the United States and Japan. The U.S.-UK agreement, however, includes an additional provision regarding UK steel producers that are owned or controlled by Chinese entities (*e.g.*, British Steel, which is owned by the Jingye Group). These companies must undergo an annual audit, beginning within six months of the agreement’s entry into force, to establish that they do not benefit from any market distorting measures like subsidies. If the audit uncovers any such market distortions, they will not qualify for duty-free treatment under the TRQ. The agreement enters into force on June 1, 2022.

Nucor and other domestic producers are urging the Administration not to enter into any further alternative 232 arrangements. Further weakening of the program would undermine its economic and national security objectives, as well as the Administration’s climate objectives.