



North American Supply Chain Letter

News and Analysis of the New Movement to Shorten and Secure Trade Patterns by Leveraging USMCA

February 20, 2024

In this issue:

- In a baffling development, USTR Tai threatens Mexico with a reimposition of Section 232 tariffs – even though U.S. steel exports are rising sharply and Mexico's are declining.
- Mexico has been cooperating with the U.S. on preventing transshipments of steel by imposing tariffs and through technical detection and reporting innovations.
- Secure, short supply chains and complementary production – Secretary Yellen understands the value.

Even as the U.S. Surplus in Steel Trade With Mexico Widens, USTR Threatens Tariffs

On Feb. 16, Katherine Tai, the U.S. Trade Representative (USTR), met virtually with Raquel Buenrostro, Mexico's Secretary of Economy.

According to the official readout of the meeting by the Office of the USTR, "Ambassador Tai stressed the urgent need for Mexico to take immediate and meaningful steps to address the ongoing surge of Mexican steel and aluminum exports to the United States and the lack of transparency regarding Mexico's steel and aluminum imports from third countries."

The readout went on:

Noting that U.S. consultations with Mexico on this matter have been ongoing for over a year, Ambassador Tai emphasized that the 2019 Joint Statement on

the Section 232 Duties on Steel and Aluminum allows for the reimposition of Section 232 tariffs. Conversations between both countries will remain ongoing.

Steel experts were baffled by the content and tone of Tai's accusation and threat. According to an [Excelsior report](#) by the respected business analyst Alicia Salgado, Minister Buenrostro responded that "the steel industry in the United States faces a competitiveness problem, and the way they want to solve it is by threatening to increase 25% tariffs on steel." Salgado wrote that Buenrostro rejected "threats of tariff increases."

The competitiveness deficiencies, say industry observers, are centered in smaller, less efficient U.S. steel manufacturers. Without a full view of the steel trade landscape, they have apparently been pressuring their members of Congress to pressure USTR, in turn.

In fact, Mexico and the U.S. have been cooperating to build shorter and more stable supply chains as COVID-19 and geopolitics have proven China and other sources to be unreliable. Mexico has also worked the U.S. in building a detection and reporting system to trace transshipments (see below).

The North American value chain in steel has provided the U.S. with many benefits, including a trade surplus and domestic job creation. Mexican steel production complements U.S. production, filling gaps and creating more choices for industrial customers.

The USTR readout also runs counter to recent positive comments by U.S. Treasury Secretary Janet Yellen and her Mexican counterparts. And the readout runs counter to the facts....

- First and foremost, steel exports from Mexico to the U.S. have actually *decreased* during 2023 while exports from the U.S. to Mexico dramatically increased.

In a [press release](#) on Feb. 18, CANACERO, the Mexican steel industry association, pointed out that Mexico's trade deficit in steel with the U.S. is now \$3.2 billion – "the largest in history." Using data from the U.S. Census Bureau and private industry, CANCERO reported that Mexico imported 4.1 million tons of steel from the U.S. last year and exported only 2.3 million tons to the U.S. That amounts to a surplus of 1.8 million tons.



Mexico, of course, is a smaller market than the U.S., so the impact of U.S. imports is far greater in that country. In 2023, CANACERO reports....

- U.S. imports represented 13.9% of total Mexican steel consumption; Mexican imports accounted for merely 2.5% of total U.S. steel consumption.
- While Mexico's market share in the U.S. is tiny to start with, it dropped precipitously last year – from 3.3% to 2.5%.
- Since 2020, the first full year after the “Joint Statement” to which Tai refers, U.S. steel exports to Mexico jumped roughly 50% – over twice the rate of increase of Mexican steel exports to the U.S.
- With roughly half the total, Mexico is the number-one market for U.S. steel exports, according to the U.S. International Trade Commission. The Department of Commerce's International Trade Administration reports in its Global Steel Trade Monitor: “Canada and Mexico have ranked first and second as the top destinations for U.S. steel exports for more than a decade.”

The steel industry in North America faces greater challenges and opportunities: unfair trade, excess steel production capacity in China, climate change, circumvention, transshipment, and more. On the global agenda, Mexico is indeed an ally of the U.S. steel industry, and together they can achieve the best results. Collaboration on priority objectives is the best course.

Mexican Cooperation With the U.S. on Detecting Transshipments

It's safe to say that, while Mexico may retaliate if the U.S. re-imposes Section 232 duties, Mexico has no desire for a trade war with the United States over steel.

As this newsletter pointed out in December: “The U.S. and Mexico have a common cause in ensuring that Chinese and other international firms – especially those provided by their governments with subsidies and other benefits – do not exploit Mexico’s favored North American tariff position to circumvent trade laws. Concerns extend beyond the written regulations alone to matters of strict compliance with rules of origin.”

There is no doubt that Mexico needs to be sensitive to U.S. concerns in its own policy making and enforcement, with both nations working in complementary fashion.

So far, Mexico has indeed worked hard to cooperate, respecting the terms of the Joint Agreement, which calls for Mexico to “prevent the transshipment of aluminum and steel made outside of the U.S. to the other country.” The agreement also states: “The United States and Mexico will establish an agreed-upon process for monitoring aluminum and steel trade between them.”

An objective observer would probably say that Mexico has gone above and beyond the agreement. Mexican President Andres Lopez Obrador on Aug. 15 imposed 25% tariffs on steel imported from countries with which Mexico does not have a free trade agreement. Those tariffs match the Section 232 duties with the intention of preventing China and other large manufacturing nations like Turkey and South Korea from transshipping excess steel without tariffs to Mexico, making minor upgrades, and then sending it across the border, tariff-free.

This tariff measure strikes a blow against an activity that harms the U.S. and Mexican steel industries. In response to the Mexican action, a spokesperson for the Ambassador Tai stated, “The United States welcomes Mexico’s efforts to address global non-market excess capacity in the steel sector.”

Mexico has also cooperated with the U.S. on a test project for a new interoperable system which, among other functions, can identify the foreign source of steel products imported from Mexico to the U.S. As the Feb. 18 statement by CANACERO states: “The Mexican steel industry has completed the first phase of the pilot program with the company Transmute, endorsed by CPB [U.S. Customs and Border Protection] to establish traceability mechanisms to the origin of steel that allow verifying the authenticity of the origin of imported products.”

Yellen Praises Mexican Efforts to Secure North American Supply Chains

One U.S. official who clearly understands the value of Mexico in securing supply chains and helping the U.S. economy thrive is U.S. Treasury Secretary Janet Yellen herself. As we noted in a previous newsletter, late last year she traveled to Mexico for discussions with government officials, including Secretary of Finance and Public

Credit Rogello Ramirez de la O, and on Dec. 7 concluded an agreement to monitor foreign investments and share information about screening them. She said in a prepared statement:

We will...continue supporting the creation of reliable, secure supply chains that span the United States and Mexico and benefit both our economies through actions to protect our national security in critical industries. I am pleased to announce that the United States and Mexico have today signed a Memorandum of Intent that reaffirms our joint commitment to counter the threat certain foreign investments pose to our national security and establishes a bilateral working group to exchange technical knowledge and best practices.

The U.S and Mexico “benefit when they work together to guard against foreign investments that pose national security risks,” Yellen said.

In a separate statement after meeting with private-sector executives, she said: “Exports to Mexico, from electrical machinery to plastics, benefit American workers and firms by supporting more than one million American jobs. American manufacturers and consumers gain from significant imports, including of automobile parts, glass, iron, and steel. And Mexican companies are investing in production in the United States.”

It is this symbiotic relationship that must be maintained. Threats from leading public officials rarely help.

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September 12, 2023

In this issue:

- U.S. lauds increased Mexican tariffs on steel from outside North America. Imposed last month, they take aim at transshipments to the U.S. by China.
- Mexican Senator, in a letter to U.S. legislators, hails the increased Mexican steel tariffs as “aimed at defending the region’s steel and boosting its global competitiveness.”
- Question from a reader: Can Mexico retaliate if U.S. imposes 232 tariffs on Mexican steel?
- Mexico passes China to become the number-one trading partner of the United States. It’s the next stage of international trade: regional supply networks.
- Enhancing North American supply chains: a new steel Macro Hub opens in Texas, and the Governor cuts the ribbon.
- A \$7 billion offer to buy U.S. Steel and a reminder that recent years have been good for U.S. steelmakers.

Mexico Imposes 25% Tariff on Steel, Aligning Its Trade Policy With the U.S. and Encouraging More Secure Supply Chains

In a [presidential decree](#) last month, Andres Manuel Lopez Obrador of Mexico took a dramatic step to further align his country’s trade policy with that of the U.S. by placing tariffs on [strategic products](#), including steel from countries such as China. The steel tariff advances the shared interests of the two countries in reducing global excess steel production and preventing transshipment, enhancing the North American economic partnership, and helping foster shorter, more secure supply chains.

On Aug. 15, Mexico imposed 25% tariffs on steel imported from China and a number of other countries outside of North America including Turkey, India and South Korea. Those tariffs match the duties imposed by the United States in 2018 under Section 232 of the Trade Expansion Act of 1962. Their effect is to deter China and others from shipping excess steel to Mexico, perhaps making minor upgrades, and then sending it across the border, tariff-free, to the U.S., benefiting from the zero tariffs among USMCA countries.

Transshipment of steel products from China and other countries through Mexico to the U.S. has been a major concern of the Biden Administration. The new Mexican tariff measure strikes a blow against transshipment of Chinese and other steel to the United States, as well as to the global over-supply of steel, most of which is the result of massive government subsidies, particularly by China.

The U.S. applauded the new policy. In a statement on Aug. 18, USTR spokesperson Sam Michel stated:

The United States welcomes Mexico's efforts to address global non-market excess capacity in the steel sector. As noted during the 93rd Session of the OECD Steel Committee, the increase in global excess capacity continues to raise risks of further oversupply in the steel sector.

At its session in March, the Committee "highlighted continued concerns regarding Chinese steelmaking capacity, accounting for 47% of the world's total in 2022." China is by far the largest steelmaker in the world, with an estimated 1 billion tons of production this year. India is second at 118 million, Japan is third, at 96 million; the U.S., fourth, 86 million.

The new Mexican tariffs, which expire in two years, apply to all countries with which Mexico does not have a free trade agreement.

Leading Mexican Senator Hails Regional Partnership on Steel, Reminds U.S. of Its Steel Surplus with Mexico

"The U.S. and Mexico should continue working together as regional partners and allies to strengthen our clean bilateral supply chains – particularly in light of... disruptions that have reshaped supply to the U.S. markets," wrote Mexican Sen. Eduardo Ramirez in a letter to fellow legislators in the United States.

The Aug. 24 letter went to Rep. Rick Crawford (R-Ark), the Chairman of the Congressional Steel Caucus, and Rep. Frank Mrvan (D-Ind), Vice Chairman of the caucus.

Ramirez, president of the Office of Political Coordination and former president of the Mexican Senate, cited the executive order raising his nation's tariffs on steel. The

measures, he wrote, “are aimed at defending the region’s steel and boosting its global competitiveness through stricter Mexican trade enforcement rules that will ensure fair trade in steel and prevent the transshipment of steel imports.”

He said he was “convinced that this is the type of action for cooperation that our countries can undertake to strengthen the competitiveness of our respective steel industries.”

In his letter, he reminded the Congressmen that “the bilateral steel trade relationship has been very favorable to the U.S. steel industry. Since 2017, the average surplus in finished steel products for the U.S. has been one million tons,” a total value of more than \$11 billion. He also noted that Mexico is the second-largest market for U.S. steel exports.

Yes, the Section 232 Agreement between the U.S. and Mexico Allows Mexico to Retaliate If the U.S. Reimposes 232 Tariffs on Mexican Steel

One of our readers asked this question: “I have heard the U.S. making complaints about Mexican steel imports lately, but isn’t it true that if the U.S. took action against Mexico, then Mexico would be free to retaliate immediately?”

The reader is correct. On May 17, 2019, the U.S. [agreed to lift](#) Section 232 tariffs on Mexican steel and aluminum. As part of that deal, the countries issued a three-page [Joint Statement](#). It said that if “imports of aluminum or steel products surge meaningfully beyond historic volumes of trade over a period of time, with consideration of market share, the importing country may request consultations with the exporting country.” The document doesn’t define the phrase “surge meaningfully.” At any rate, after the consultations, “the importing party may impose duties of 25 percent for steel.”

But, with regard to the reader’s question, the Joint Statement continues:

If the importing party takes such action, the exporting country agrees to retaliate only in the affected sector (i.e., aluminum and aluminum-containing products or steel).

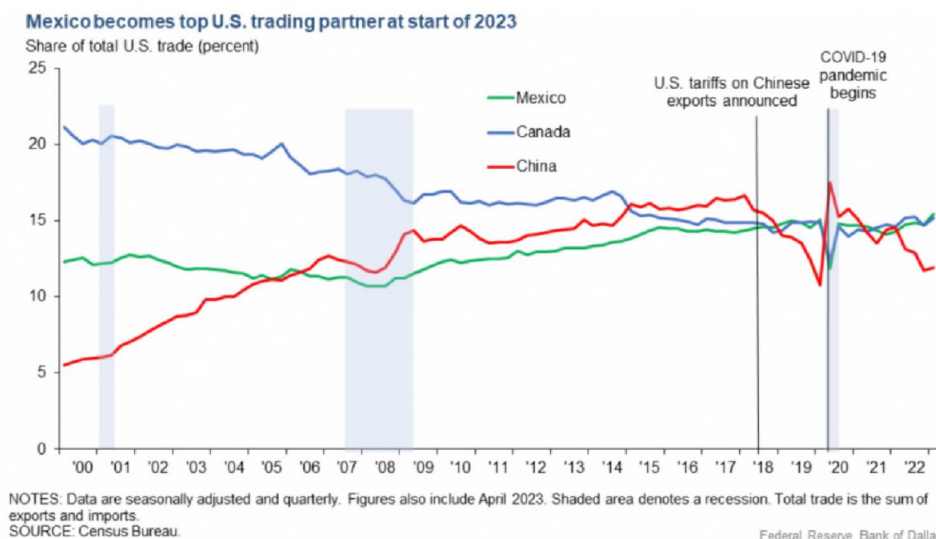
So U.S. 232 tariffs on Mexican steel would almost inevitably lead to Mexican tariffs on U.S. steel. And vice versa. The agreement does not require either country to go through an adjudication process. But once the U.S. or Mexico imposes 232 tariffs on the other’s steel products, this would inevitably lead to a tit-for-tat cycle of steel tariffs that would be damaging to both countries at a time when they are working cooperatively – through mechanisms such as Mexico’s recently imposed steel tariffs on other nations – to deter transshipments of steel from China and other countries outside of North America.

It's worth noting that the Joint Statement also says that Mexico and the U.S. agree to take steps to “prevent the transshipment of aluminum and steel made outside of Mexico or the United States to the other country.” That is exactly what Mexico did on Aug. 15. But a tit-for-tat of steel tariffs between the U.S. and Mexico could undermine future cooperative efforts by the two countries to protect North American steelmakers from threats posed by China and its close partners who do everything possible to avoid and evade U.S. and international trade rules.

Mexico Becomes the Number-One Trading Partner of the U.S. as the Near-Shoring Trend Accelerates

You can see the alignment between Mexico and the U.S. in the data. As Luis Torres of the [Federal Reserve Bank of Dallas](#) pointed out:

Mexico became the top U.S. trading partner at the beginning of 2023, with total bilateral trade between the two countries totaling \$263 billion during the first four months of this year.... Mexico’s gains mirror its rise in manufacturing, a key component of goods moving between it and the U.S. During the first four months of 2023, total trade of manufactured goods between Mexico and the U.S. reached \$234.2 billion.



Mexico, rather than China, is providing more of the components – including steel – that U.S. manufacturers need.

Torres added, “Mexico–U.S. trade during the first four months of 2023 represented 15.4 percent of all the goods exported and imported by the U.S.; the Canada–U.S. share followed at 15.2 percent and then the China–U.S. share at 12.0 percent.”

[A Business Insider article](#) on Aug. 20 noted that “the seeds for this shift were sown before the pandemic — with former President Donald Trump's tariffs on some Chinese goods and the signing of the US-Canada-Mexico trade deal.” But a major

factor has also been “an accelerated shift toward ‘nearshoring,’ a practice in which countries bring supply chains for crucial goods to countries that are close physically and politically.”

The article continued:

Nearshoring increased during the pandemic because of the increased cost of shipping products across the Pacific and the consumer demand for faster delivery times — we'll call the latter "The Amazon Prime Effect." The New York Times' Peter S. Goodman also wrote earlier this year that companies like Walmart were increasingly looking closer to home for ways to fill their needs as political tensions between the US and China heated up.

"It's not about deglobalization," Michael Burns, a managing partner at Murray Hill Group, an investment firm focused on the supply chain, told Goodman. "It's the next stage of globalization that is focused on regional networks."

A Macro Hub Opens in Laredo in a Further Boost to North American Supply Chains

Another important supply-chain development occurred on Aug. 7, when Mid-Continent Steel & Wire opened a new Macro Hub facility in Laredo, Texas. Gov. Greg Abbott delivered the keynote address at a ribbon-cutting ceremony and then toured the facility, which will create more than 100 new jobs and bring \$22 million in capital investment to the Laredo region.



Gov. Greg Abbott cuts the ribbon opening the Macro Hub in Laredo. To his left is Raul Gutierrez, chairman of Deacero Group, and at right is Fernando Villaneuva, CEO of Mid-Continent.

Mid-Continent, a leading steel and wire manufacturer headquartered in Houston, TX, is the largest nail manufacturer in the United States, producing nails at its facility in Poplar Bluff, MO. It is part of the Deacero Group, a family-owned company that was started more than 70 years ago in a small warehouse in Monterrey, Mexico. Deacero, a significant producer of low-emission steel, which opened a global trade and corporate affairs office in Washington, in 2021, is a prime example of effective near-shoring value chains.

In his remarks at the ribbon-cutting, Gov. Abbott said, "I want to say a Texas-sized thank you to Mid-Continent Steel and Wire for choosing Laredo to build their new Macro Hub facility. When you look at the size of this facility, it shows you what is needed to keep up with the size of demand for the steel and fencing products made and distributed here." He added:

Steel plays an important role in the building of the future of our state. Texas is the fastest-growing state in the United States, ...there is truly no better place for a steel-related business to address that growth than a business like this in a location like this. Laredo plays a pivotal role for Texas ranking No. 1 for exports in the United States for 21 years in a row. This facility will help add to that trade.

The Governor was joined by Raul Gutierrez, Deacero Group president and board chairman, who said at the ceremony, "This Macro Hub will extend the North American value chain so manufacturers in Texas and throughout the US will have the steel and wire products they need, quickly and securely."

Also speaking was Fernando Villanueva, the CEO of Mid-Continent, who complimented Governor Abbott on his "robust, pro-growth economic agenda," saying he appreciated how it "has helped our company grow and prosper."

Senior Advisor Elizabeth Heaton served as Master of Ceremonies, and Gov. Abbott presented a proclamation to Villanueva to commemorate the grand opening of the Macro Hub facility.

U.S. Steel Companies Enjoy Robust Years as Cleveland-Cliffs Bids to Expand

In a deal disclosed Aug. 13, Cleveland-Cliffs has offered \$7.3 billion in cash for U.S. Steel Corp. The potential deal between U.S. firms would create the world's 10th-largest publicly traded steel company by market capitalization. Nucor, another U.S. steel company, is number-one, and Steel Dynamics ranks eighth.

Reuters reported on Sept. 5 that the proposed purchase is part of a strategy by Cleveland-Cliffs CEO Lourenco Goncalves to acquire blast furnaces, positioning his company "as an outlier in an industry shifting towards cheaper and more environmentally friendly electric arc furnaces." Reuters noted, "High costs and

environmental opposition have prevented the construction of blast furnaces at steel mills in the United States since 1980.... Goncalves is on a mission to snap up all that are left.”

With blast or electric arc furnaces, U.S. steel companies have been doing well in recent years. From the start of 2020 to Sept. 11, 2023, the [NYSE American Steel Index](#) has climbed 86%% compared with 39% for the benchmark Standard & Poor’s 500.

There is no doubt that U.S. steel companies have benefited since the Section 232 steel tariffs were imposed in 2018. For example, for the 12 months ending June 30, 2020, Nucor’s [earnings were \\$1.68](#) per share, compared with \$21.71 for the most recent 12-month period. [Steel Dynamics doubled](#) its revenues over the same three years. Both [Nucor](#) and [Steel Dynamics](#) have more than tripled in price since Jan. 1, 2020; [Cleveland-Cliffs](#) has doubled.

U.S. steel companies still face management challenges as well as soft recent global demand, according to [BQ Prime](#). But the trade journal adds, “Domestic steel demand is expected to remain robust going forward as pending and stalled projects are pushed to completion.” Undoubtedly, the new Mexican tariffs will help U.S. companies as well. This includes not only in the U.S. but also for U.S. steel companies that have investments in Mexico.

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