



# North American Supply Chain Letter

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

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March 1, 2024

## **In this issue:**

- Mexico's Economy Minister makes it clear: If the U.S. puts 25% tariffs on steel, Mexico will retaliate.
- Because the U.S. exports nearly twice as much steel to the Mexico as Mexico exports to the U.S., a trade action against Mexico would constitute an "own goal" – kicking the ball into your own team's net – says a steel association official.
- Many critics of Mexico in the U.S. don't realize that the Joint Statement of May 2019 is reciprocal. It also applies to U.S. exports, which have increased sharply in several categories.
- Political pressure to punish the Mexican steel industry began a year ago. The USTR seems to realize that a trade war would disrupt a critical relationship.
- Mexico acted with tariffs against China and others to prevent transshipments, but both Mexico and the U.S. can do more to promote trade transparency and adequate monitoring.
- U.S. steel companies certainly don't look like they're hurting.

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## Mexico Draws a Red Line: If the U.S. Re-Imposes Steel Tariffs, We Will Retaliate

Mexican officials are responding forcefully to U.S. claims of steel export surges and threats of re-imposing tariffs. As Reuters reported on Feb. 27:

**Mexico will impose tariffs on steel if its biggest trading partner, the United States, enacts such measures first, Mexican Economy Minister Raquel Buenrostro said at a news conference.**

It was a dramatic and unusual statement for a Mexican official, and it shows how seriously Mexico is taking threats from the U.S. to re-impose 25% duties on steel under Section 232 of the [Trade Expansion Act of 1962](#).

"Imposing tariffs on steel is not convenient for either the United States or Mexico, because if there were tariffs, they would be impacted the most, given their larger presence in the market," Buenrostro said.

In 2023, the U.S. exported 4.1 million tons of steel to Mexico – 49% of total U.S. global steel exports. By contrast, Mexico exported only 2.3 million tons to Mexico. The U.S. has long had a surplus with Mexico in steel trade, but last year it reached a record level.

Retaliation by Mexico could mean 25% tariffs on *all steel* coming to the country from the United States, a major blow to U.S. steel manufacturers.

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## An 'Own Goal' for the United States?

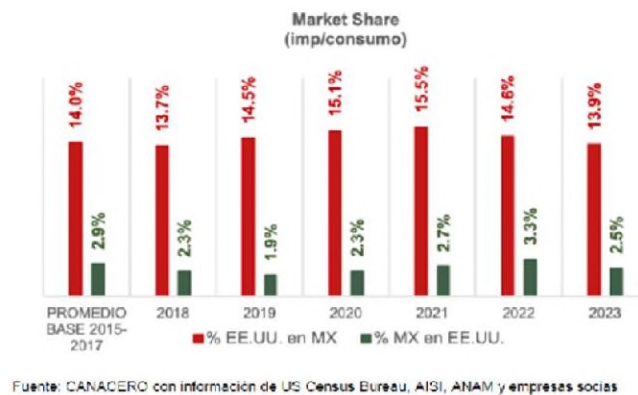
In an interview with the Mexican news site [La Silla Rota](#), Juan Antonio Reboulén Bernal, who chairs the communication committee of the Mexican steel association [CANACERO](#), said that imposing tariffs on Mexican steel would be an "own goal" for the US industry and the start of another "trade war" that would benefit no one. (An "own goal" occurs in soccer when a

member of a team inadvertently shoots a ball into his own net, scoring for the opposing team.)

Reboulén also pointed to politics as exacerbating the trade tensions between the countries. "We are in the middle of an electoral process, both in the United States and in Mexico," he said, "and there is a relationship between companies that finance political campaigns and their representatives at in steel states like Ohio, Wisconsin, among others.

"These states have a lot of power, and steel companies lobby their representatives so they pressure Joe Biden's government to obtain regulatory benefits that they cannot obtain in the field of competitiveness."

According to CANACERO, U.S. exports in 2023 represented 14% of Mexican consumption while Mexican exports represent just 2.5% of U.S. consumption. Both of those market shares have been stable since 2015-17, which is presumed to be the base period for determining a surge under an agreement the two countries signed in 2019.



That agreement, signed and May 17, 2019, and called the "Joint Statement by the United States and Mexico on Section 232 Duties on Steel and Aluminum," lifted 25% tariffs on Canada and Mexico that had been imposed globally by the Trump administration the year before.

But there were conditions. The Joint Statement says:

**In the event that 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. After such consultations, the importing party may impose duties of 25 percent for steel and 10 percent for aluminum in respect to the individual product(s) where the surge took place.**

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### *It's a Reciprocal Agreement*

What U.S. politicians may not have realized is that the Joint Statement is reciprocal. It gives both countries the right to take action against the other in the event of surges.

Note terms “importing country” and “exporting country,” not “United States” and Mexico.” Thus, the two countries have equal rights under the agreement.

As we wrote in this newsletter last October, further evidence comes later in the section, where the agreement states that in assessing whether a surge has occurred, “the United States will consider that new investment in the United States may require an additional 225,000 metric tons of billet from Mexico; Mexico will consider that new investment in Mexico may require an additional 200,000 metric tons of cold-rolled steel from the United States.”

If Mexico could not impose tariffs following a U.S. surge, there would be no need to include the clause about new investment in Mexico requiring extra cold-rolled steel from the United States.

The agreement makes clear that a surge in any steel-product category is actionable. Mexico can make the case that in several categories, there is a surge in U.S. exports.

For example, CANACERO reports that the U.S. has had especially high growth in seven product categories. The Joint Statement does not define

“surge meaningfully,” nor, as we noted above, does it define “period of time.” But the following categories have seen large increases since 2015-17: hot coil, up 28%; hot rolled strip, 20%; cold foil, 50%; galvanized, 20%; electrogalvanized, 43%; bars, 62%; merchant bars, 54%. Mexico could easily take the offensive if it wanted.

At this point, Mexican officials are discussing the issue with the U.S., but if consultations break down and the U.S. acts, Buenrostro has made it clear that Mexico will retaliate. And the Joint Statement says that “if the importing party takes such action” – the re-imposition of Section 232 tariffs – “the exporting country agrees to retaliate only in the affected sector (i.e., aluminum and aluminum-related products or steel).” There can be no retaliation against corn or computers, but retaliation can take place against the *entire* steel sector.

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### A History of Political Pressure

The political claims of a Mexican surge began about a year ago. Some 13 Senators, both Democrats and Republicans, [sent a letter](#) on Feb. 14, 2023, to Katherine Tai, the U.S. Trade Representative (USTR), and Commerce Secretary Gina Raimondo. The letter stated:

**We urge the Biden administration to immediately begin consultations under the 2019 agreement to address this surge of Mexican steel and return imports to “historic volumes of trade,” with quotas, if necessary. However, if the Mexican government refuses to remedy this breach, we regretfully urge the administration to consider other mechanisms to ensure compliance and protect American jobs, including the reapplication of Section 232 tariffs.**

[The Senators escalated their claims in a Dec. 13 letter](#) to Jake Sullivan, the President’s National Security Advisor, claiming that the surge of Mexican steel imports into the U.S. constituted a “violation of the 2019 Joint Agreement [sic] on Steel and Aluminum. This breach, and the resulting surge,

threatens our manufacturing base and American national security, and demands immediate action from the administration.”

The senators added that “the administration must do more to protect America’s steel industry and prevent the further loss of good-paying American jobs.” They also raised the issue of the “failure to conclude an export monitoring agreement due to the unwillingness or inability of the Mexican government is unacceptable.”

The Senators said they wanted “a clear deadline” and if Mexico doesn’t meet it, “we respectfully urge the administration to take aggressive action to counter the increase of Mexican steel imports.”

On Feb. 16, USTR Tai met virtually with Secretary Buenrostro. As we reported in our last newsletter, 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.**

The threatening tone of Tai’s comments appears unwarranted, coming from the top trade official of a country running a \$2 billion steel surplus with the United States – especially coming on the heels of a year in which U.S. exports to Mexico boomed and Mexican exports to the U.S. fell. Yes, certain categories of Mexican exports (generally of low value) have risen in the last few years, but so have categories of U.S. exports (generally of higher value).

After the Tai meeting, Buenrostro has responded in stark terms. She has drawn a red line, and she has made a point that the U.S. steel industry can understand: If you want a trade war in steel, we will have it, and you will be hurt more than we will.

It is hard to believe that either side wants the nasty fallout that a steel trade war would produce at a time when both countries have much more important issues facing them, including immigration and the challenge from China.

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### **Mexico Acts to Prevent Transshipments by China and Other Steelmakers**

When it comes to transshipments and monitoring, Mexico has already taken strong measures. Both countries have 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.

And, as this newsletter stated last month, 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.

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.

The tariffs come with a cost to Mexico. "The reaction from Beijing was understandably negative," said an article in The Diplomat, a publication covering East Asia, in January. "Following the announcement of the tariffs, He

Yadong, spokesman for China's Ministry of Commerce, expressed hopes that Mexico would 'stick to the free-trade principle and remain cautious in implementing such measures. The higher tariffs of Mexico will affect investors' confidence.'"

The Diplomat article says that "Mexico may have had to reluctantly make this move as a show of good faith" to the United States. Certainly, the tariff measure strikes a blow against an activity that harms the U.S. steel industry, but gratitude to Mexico has been hard to find. Yes, 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." But instead of thanking Mexico, U.S. steel firms have unleashed their members of Congress to make over-the-top claims.

It's notable, however, that the tariffs, so beneficial to the U.S. in its competition with China, are temporary.

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 a Feb. 18 statement by CANCELO stated: "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."

A statement by 26 members of Mexico's Congress on Feb. 24 said, "It is false that there is a lack of cooperation and transparency on the part of Mexico and that our country is a triangulation bridge for Chinese steel products to the United States. Mexico actively collaborates with the United States in defending North America against triangulation and unfair trade practices." The statement added:

**We call for dialogue and propose creating a working table bilateral agreement between governments and companies, to combat unfair**

**trade, triangulation, customs fraud and jointly explore mechanisms, actions and adequate, sustainable solutions aligned to the reality of commercial flows between Mexico and the United States.**

The Mexican side also argues that trade between the two countries has enormous benefits. For example, a ton of Chinese steel contains no U.S. inputs, but a ton of Mexican steel has loads of U.S. content – from scrap and ferroalloys and from energy imported from Texas. In addition, steel produced in Mexico is some of the cleanest and most sustainable in the world, with a low carbon footprint. And the steel trade, complying with USMCA rules of origin, strengthens North American supply chains and contributes to U.S. national security.

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### **U.S. Steel Companies Are Hardly Suffering**

Are U.S. steel companies hurting because of Mexican imports? Hardly. Nucor, the largest American steel manufacturer by far, raised its dividend, payable on Feb. 9, for the 203<sup>rd</sup> consecutive time. It was the 51<sup>st</sup> year of dividend increases without a break – “every year since it began paying dividends in 1973,” said a [company press release](#). Nucor stock [has soared](#) from \$58 a share five years ago to \$192 at the end of February. Even Cleveland-Cliffs, a laggard among steel companies, has seen its stock double in five years.

On Feb. 21, [Nucor’s board agreed](#) to spend “\$860 million to construct a 650,000-tons-per-year rebar micro mill in the Pacific Northwest. This will be Nucor’s fourth and largest rebar micro mill, with approximately 50 percent more production capacity than the mill currently under construction in North Carolina.” These are hardly the activities you would expect from a company suffering from Mexican competition.

To put matters in perspective, Nucor alone has a capacity of [27 million tons](#) of steel a year. The entire export volume from Mexico to the U.S. in 2023 was 2.3 million tons.

Meanwhile, U.S. Steel has been the object of purchase offers from Cleveland-Cliffs and Nippon Steel. In December the companies accepted an offer from Nippon, the world's fourth-largest steel producer, which agreed to pay \$14.9 billion for the company, a huge all-cash sum – a 142% premium to the price of the stock on Aug. 11 when Cleveland-Cliffs made its original bid.

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