

## FORTUNE

# How Donald Trump's Steel and Aluminum Tariffs Could Start a Trade War

By DAVID MEYER March 2, 2018

The U.S. has potentially launched a trade war by imposing heavy tariffs on imported steel and aluminum.

Steel imports will carry a 25% tariff and aluminum imports 10%. The move, announced Thursday, sent stock markets reeling and prompted threats of retaliation from Canada and the EU.

Here's what you need to know about the situation.

## Why is this happening?

The U.S. is the world's largest importer of steel, significantly ahead of Germany and South Korea, which are in the number two and three spots respectively. What's more, the U.S. has over the last decade consistently imported more steel than it has exported. Currently, around four times as much steel flows into the country than out of it.

Steel production in the U.S. fell by 11% between 2014 and 2016, while demand has been increasing. Although steel production rose by 3% in the first three quarters of last year, the increase in demand still outstripped it.

Per [U.S. government statistics](#) for that period, the main countries filling the gap between demand and production are Canada, Brazil, South Korea, Mexico, and Russia. In terms of the countries whose steel exports to the U.S. are increasing rapidly, look to India, Russia, and Taiwan. And don't forget the EU, which is collectively a significant player here too.

Meanwhile, the U.S. aluminum industry has [shrunk drastically](#) over the last 25 years, down from 23 operational smelters to five. What's worse, only one of those smelters

makes the high-grade stuff that the U.S. defense industry needs to make fighter jets.

The biggest aluminum exporters to the U.S. are Canada, Russia, the United Arab Emirates, and China. (What's more, the Department of Commerce earlier this week [accused major Chinese aluminum foil exporters](#) of dumping their products in the U.S. market at prices with which local producers can't fairly compete.) Again, Europe is also a significant player.

President Donald Trump campaigned on a promise to bring back U.S. steel and aluminum manufacturing. However, a ["Buy American" executive order](#) didn't fix the problem and, by the end of 2017, American steel workers were [still being laid off](#).

In April last year, Trump opened a "Section 232" investigation into the steel and aluminum import deficit, with the unusual aim of figuring out whether it's a national security issue. In January of this year, commerce secretary Wilbur Ross reported back, offering the president [a range of options](#) for restricting imports. One of those options was the imposition of new tariffs—something that Gary Cohn, Trump's top economic adviser, [desperately tried to argue against](#).

Cohn lost.



**Donald J. Trump**

@realDonaldTrump

Our Steel and Aluminum industries (and many others) have been decimated by decades of unfair trade and bad policy with countries from around the world. We must not let our country, companies and workers be taken advantage of any longer. We want free, fair and SMART TRADE!

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There are two main problems with imposing import tariffs of this nature. The first is that it's a massive diplomatic gambit, creating the risk of retaliation from the countries that are affected. The second is that, while U.S. production remains underpowered, it will inevitably mean higher prices for goods made in the U.S. using steel and aluminum—which is everything from beer cans to cars and airplanes.

## What's the international reaction?

The EU was quick to hit back, with European Commission president Jean-Claude Juncker saying the EU executive would in the coming days propose countermeasures. “The EU has been a close security ally of the U.S. for decades. We will not sit idly while our industry is hit with unfair measures that put thousands of European jobs at risk,” he said.

Canada also said it would reply in kind.

“Should restrictions be imposed on Canadian steel and aluminum products, Canada will take responsive measures to defend its trade interests and workers,” said Canadian foreign minister Chrystia Freeland.

It's worth noting at this point that Canada isn't only the main exporter of steel to the U.S.—it also buys half of U.S. steel exports. And the Europeans could now whack big tariffs on things like Jack Daniels whiskey and [Harley-Davidson](#) motorcycles.

Many of the international players in this game don't just stand to lose because they will find it harder to export their steel to the U.S.; they will also now have to deal with the issue of the biggest exporters—China in particular—now seeking other places to dump their wares.

So Trump's move may set off a domino effect of countries imposing tariffs in order to protect themselves. Officials from Germany, Italy, France, and Spain pre-empted the American decision with a meeting at which they agreed to prepare safeguard measures.

“We can end up easily in a situation where we are in a trade war with the two fronts,” European Commission vice president Jyrki Katainen [said Thursday](#). “And only because of one decision made by the president of the United States.”

China is yet to provide an official response to Trump's move.

## And the markets?

The Dow dropped around 1.7% on Trump's announcement—at one point it was down 586 points—and the S&P500 and Nasdaq each closed down around 1.3%.

Then it was over to Asia. Japan's Nikkei was down 2.5% at the time of writing on Friday morning. Stock markets also fell in Hong Kong (down 1.5%), Singapore (0.9%), South Korea (1%) and Shanghai (0.6%). Stock markets across Europe also fell when trading began on Friday.

The Dow had already fallen on Wednesday, due to fears over further interest rate hikes in the U.S. “Volatility is back,” said asset manager Daniel P. Wiener, as quoted in *The Washington Post*.

The individual winners and losers weren't hard to predict. U.S. steel producers were up—Nucor (NUE, +1.35%) by 3.3%, AK Steel (AKS, +1.12%) by 9.5%, CMC by 5%, Steel Dynamics (STLD, +0.90%) by 4%—while global players were down, with the largest, Luxembourg-based ArcelorMittal, falling by 4.1%.

The auto industry took an immediate hit due to the likely impact on their costs. General Motors fell by 8%, Fiat Chrysler by 5.7%, and Ford by 2.1%. Aerospace giant Boeing was down 3.2%.

Century Aluminum—the last U.S. firm making the aforementioned high-grade aluminum for military applications—welcomed Trump's move. It said in a statement that, once the tariffs are in place, it bring back 150,000 tons of production to its Hawesville, Ky. plant.

“We're going to hire almost 300 people, put another \$100 million into the plant,” CEO Michael Bless told CNBC. “These are devastated communities. The whole community will benefit.”

However, many in the car industry are warning of precisely the opposite effect on their businesses.

“These proposed tariffs on steel and aluminum imports couldn't come at a worse time,” Bloomberg quoted Cody Lusk, president of the American International Automobile Dealers Association, as saying. “Auto sales have flattened in recent

months, and manufacturers are not prepared to absorb a sharp increase in the cost to build cars and trucks in America.”