



Maintaining the Status Quo: The Case for Turkish Steel

On March 22nd, the Trump administration announced that it would exempt the European Union, Argentina, Brazil, South Korea, and Australia from the ad valorem tariffs on steel and aluminum imports into the United States, which went into effect the following day. Yet conspicuously absent from the list of exempted states is one of the most important military and economic allies of the United States, Turkey. The issue posed by steel and aluminum tariffs presents an unparalleled opportunity to help bridge the gap created by recent political and diplomatic tensions in Turkish-American relations. By exempting Turkey from the recent steel and aluminum tariffs, the Trump administration would demonstrate that it is willing to protect key military and economic alliances while also protecting American workers and preserving global trade to favor the United States.

There are two overarching reasons why exempting Turkey will benefit the United States. The first reason is mutual economic interest. Turkey's steel exports have represented a significant portion of its trade with the U.S. in recent years. According to the Observatory of Economic Complexity (OEC), metal products constituted over 18% of Turkey's exports to the United States in 2016, with raw iron bars alone making up roughly 8% of Turkey's \$6.62 billion exports to the U.S. that year. Though the recent steel and aluminum tariffs do not apply to all metal products, the overwhelming majority of Turkey's metal exports to the United States will be affected.

This situation will cause immense problems for both nations. The trade imbalance between Turkey and U.S. largely favors the United States, which exported \$9.39 billion in goods and services to Turkey in 2016. Moreover, American exports to Turkey over the past two decades have been primarily composed of machinery and other complex finished or semi-finished products, such as aviation equipment, most of which are made using steel and aluminum. American scrap iron has also often represented the largest American export to Turkey, meaning U.S. firms

benefit from the Turkish demand for scrap byproducts as well as Turkey's market for finished products. The makeup of U.S. exports to Turkey demonstrates that the pre-tariff status quo overwhelmingly benefits American metal workers and the U.S. economy.

Exempting Turkey will not undermine the broader purpose of President Donald Trump's tariffs. The tariffs of 25% on steel and 10% on aluminum imports to the United States were imposed to protect U.S. domestic steel and aluminum production capacities from predatory dumping practices, which have superficially decreased the price of these commodities in global markets and incentivized a reliance on imported products. As a net importer of steel, Turkey is incapable of engaging in these dumping practices. In fact, Turkey is more likely to be the victim of predatory dumping practices, which is why it has established strict laws to counteract the negative impact of dumping on its domestic steel capacity. The pre-tariff status quo in American-Turkish trade protects both nation's steel capacity, and actively benefits the U.S. because of Turkey's reliance on scrap metal to maintain its domestic steel production.

The other overarching reason to exempt Turkey from the steel and aluminum tariffs is the maintenance of the Turkish-American military alliance. Despite recent tensions between the American and Turkish governments, their military alliance is more important than it has been at any other time in the post-Cold War era. With the second-largest standing army of any NATO member, Turkey's relative political stability and central geographic location at the intersection of the Balkans, the Middle East, the Eastern Mediterranean, and the Caucasus have rendered Ankara a major regional player that has been able to exert a strong stabilizing influence. For example, over 3.5 million Syrian refugees currently reside in Turkey, thereby reducing the strain posed by the refugee crisis on the United States and other NATO allies. Although the U.S. and Turkey do

not always share the same national security objectives, the Turkish military continues to assert its regional influence as well as its military competence. Even as Turkish forces attack U.S.-backed Kurdish militias in northern Syria, Turkish military and civilian personnel have begun to resettle refugees in areas liberated from belligerent forces. In the real world, allies often have divergent national security interests. In the grand scheme of geopolitics, the United States can only stand to benefit from maintaining its strategic alliance with Turkey.

Failing to exempt Turkey from the recent steel and aluminum tariffs, however, would undoubtedly disrupt the status quo of Turkish-American trade, erode the U.S. alliance with Turkey, and undermine credibility. Turkish firms are unlikely to continue exporting steel and aluminum products to the U.S. if the increased price of imported goods decreases demand. These firms will most likely shift their focus to other partners, possibly even China and Russia, both of whom have sought to improve their relations with Turkey in recent years. Confidence in the United States as a reliable and fair trading partner will plummet, which will likely result in a significant decrease in Turkish Foreign Direct Investment (FDI) in the United States. Turkey may also

elect to impose tariffs on U.S. exports thereby decreasing demand for American machinery and scrap metal and undermining American metal producers.

A shift in the status quo in American-Turkish trade will likely coincide with increased diplomatic and political tensions between the U.S. and Turkey, further complicating the task of maintaining one of America's most strategically beneficial alliances. Given the mutually beneficial status quo of American-Turkish trade and the Turkish government's willingness to impose responsible anti-dumping policies, imposing tariffs on steel and aluminum would send a clear signal to the Turkish government that the U.S. does not care about maintaining beneficial economic, diplomatic, or even military relations. If the United States fails to demonstrate its willingness to reward arrangements that benefit both sides, then American credibility will be undermined with Turkey and other U.S. allies. In short, the Trump administration should exempt Turkey from the steel and aluminum tariffs in order to demonstrate Washington's commitment to smart, fair, and mutually advantageous economic relations and military alliances, not just with Turkey but throughout the world.

NOTES

1. Patrick Gillespie, "Trump grants tariff exemptions for EU and others on steel and aluminum," CNN Money, March 22, 2018, <http://money.cnn.com/2018/03/22/news/economy/steel-aluminum-tariff-exemptions/index.html>
2. Observatory of Economic Complexity (OEC), "What does Turkey export to the United States? (2016)," https://atlas.media.mit.edu/en/visualize/tree_map/hs92/export/tur/usa/show/2016/
3. OEC, "What does the United States export to Turkey? (2016)," https://atlas.media.mit.edu/en/visualize/tree_map/hs92/export/usa/tur/show/2016/
4. OEC, "What does the United States export to Turkey? (1995-2016)," https://atlas.media.mit.edu/en/visualize/tree_map/hs92/export/usa/tur/show/2016/
5. Ibid
6. Presidential Proclamation on Adjusting Imports of Steel into the United States, March 8, 2018, <https://www.whitehouse.gov/presidential-actions/presidential-proclamation-adjusting-imports-steel-united-states/>
7. Observatory of Economic Complexity (OEC), "What does Turkey export? (2016)," https://atlas.media.mit.edu/en/visualize/tree_map/hs92/export/tur/all/show/2016/; OEC, "What does Turkey import? (2016)," https://atlas.media.mit.edu/en/visualize/tree_map/hs92/import/tur/all/show/2016/
8. "Semi-Annual Report of Anti-Dumping Actions," World Trade Organization (G/ADP/N/308/TUR), March 14, 2018, accessed at <https://bit.ly/2rIEuUm>
9. U.S. Congressional Research Service, Turkey: Background and U.S. Relations in Brief (R44000; November 9, 2017) by Jim Zanotti and Clayton Thomas, 2-6
10. Republic of Turkey Ministry of the Interior, Migration Management, Migration Statistics (Göç İstatistikleri), updated March 1, 2018, http://www.goc.gov.tr/icerik3/gecici-koruma_363_378_4713
11. Rula Jebreal, "How to Treat Refugees with Dignity: A Lesson from Turkey," The New York Times, September 27, 2017, <https://www.nytimes.com/2017/09/27/opinion/turkey-syrian-refugees.html>
12. "Turkey-People's Republic of China Economic and Trade Relations," The Republic of Turkey, Ministry of Foreign Affairs, accessed March 22, 2018, http://www.mfa.gov.tr/turkey_s-commercial-and-economic-relations-with-china.en.mfa; Torrey Taussig, "The serpentine trajectory of Turkish-Russian relations," Brookings, October 4, 2017, <https://www.brookings.edu/blog/order-from-chaos/2017/10/04/the-serpentine-trajectory-of-turkish-russian-relations/>

Instructions for Companies Seeking Exclusions from the Steel and Aluminum Tariffs

I. Background

Effective March 23rd, 2018, the United States will be applying a 25% ad valorem tariff on certain classes of steel imports and a 10% ad valorem tariff on several types of aluminum import with the goal of protecting U.S. national security and encouraging the growth of domestic production capacity. The tariffs on steel include all items covered in the following categories as defined by the Harmonized Tariff Schedule of the United States (HTSUS): 7206.10-7216.50, 7216.99-7301.10, 7302.10, 7302.40-7302.90, and 7304.10-7306.90. The tariffs on aluminum include all items covered in the following categories as defined by the HTSUS: 7601, 7604, 7606-7607, 7608-7609, 7616.99.51.60 and 7616.99.51.70. For further reference on which specific items are covered by the tariffs, see Chapters 72, 73, and 76 of the HTSUS.¹

II. Basis for Exclusion Requests on Steel and Aluminum Imports

Companies who import steel or aluminum products into the United States for business purposes (e.g. construction, manufacturing, or supplying steel or aluminum to users) retain the right to file for an exclusion request on each product covered by the latest steel and aluminum tariffs. This means that a Turkish company seeking exclusion must operate within the United States, either outright or through a subsidiary, in order to submit an exclusion request for an imported product. Alternatively, the company that receives and processes steel or aluminum imports from the Turkish exporter must apply for the exclusion of individual products. Each company must file a unique exclusion request for each product covered by the tariffs that it imports into the United States, as defined by the HTSUS and distinguished by a unique 10-digit identification number. The Office of U.S. Secretary of Commerce will evaluate exclusion requests in terms of its effects on national security in conjunction with relevant senior members of the Executive Branch (e.g. the U.S. Trade Representative, the Secretary of the Treasury, etc.).

Specifically, Secretary Ross will grant exclusions under the condition that “the steel or aluminum articles are determined not to be produced in the United States in a sufficient and reasonably available amount or of a satisfactory quality or based upon specific national security consider-

¹ The HTSUS assigns a 10-digit identification number to all specific products. The 4-, 6-, and 8-digit examples given above represent increasingly broad categories and sub-categories, with 4-digits representing entire categories, 6 digits representing sub-categories within each broader category, and 8 digits representing more specific sub-categories. Accessible at <https://hts.usitc.gov/current>.

ations.”² This means any exclusion requests should frame their argument in terms of each imported product’s effect on national security, especially in terms of the domestic quantity and quality of each product. So, if your company submits an exclusion request for bars of iron or non-alloy steel, you may wish to demonstrate that the U.S.’s domestic production of this product is insufficient on its own to supply manufacturers of tanks or other downstream products that are dependent on your import.

It should also be noted that the purpose of these tariffs is to counteract the effects of Chinese dumping of steel and aluminum. Consequently, any evidence that your company’s import to the United States is unaffected by Chinese steel or aluminum dumping should be included in your request.

III. Conditions for Exclusion Requests

Exclusion requests will be posted publicly and therefore are prohibited from including classified information or personally identifiable information (e.g. social security numbers, employer identification numbers). If a company feels that certain sensitive information is important to its exclusion request, it must indicate that on the exclusion request form and await further instructions for submitting the appropriate information in a separate forum.

There is no time limit for exclusion requests. All requests must be submitted in electronic form to the Department of Commerce’s Bureau of Industry and Security.

IV. Step-by-Step Breakdown of Exclusion Requests

1. Download the relevant form for the product in question
 - a. For steel products, download the form entitled Request for Exclusion from the Section 232 National Security Investigation of Imports of Steel (Exclusion Request), found at <https://www.bis.doc.gov/index.php/232-steel>
 - b. For aluminum products, download the form entitled Request for Exclusion from Remedies from the Section 232 National Security Investigation of Imports of Aluminum (Exclusion Request), found at <https://www.bis.doc.gov/index.php/232-aluminum>
2. Fill out the relevant form in full using Microsoft Excel
 - a. The specific product in question must be identified using the Harmonized Tariff Schedule of the United States (HTSUS), which can be found in full at <https://hts.usitc.gov/current>
 - i. The tariffs on steel only cover specific items in Chapters 72 and 73
 - ii. The tariff on aluminum only cover specific items in Chapter 76
 - b. Each form is 5 pages long and must be completed electronically
 - c. You will need to answer questions relating to the product in question, including but not limited to:

² Department of Commerce, Bureau of Industry and Security, https://www.commerce.gov/sites/commerce.gov/files/federal_register_vol_83_no_53_monday_march_19_2018_12106-12112.pdf

- i. Whether the requesting company holds partial or complete ownership in or is otherwise engaged in steel manufacturing, steel distribution, steel exporting, or steel importing
 - ii. The primary type of steel or aluminum activity of the Exclusion Request
 - iii. Total requested Annual Exclusion Quantity in Kilograms
 - iv. The average annual consumption (2015-2017) of the steel or aluminum product
 - v. The imported product's port or ports of entry
 - vi. An exact description of the product's physical properties and descriptive terms/phrases (e.g. "hot-rolled")
3. Save the completed form using the proper identification of exclusion requests format
 - a. The file name must include the submitter's name, date of submission, and the 10-digit Harmonized Tariff Schedule of the United States (HTSUS) statistical reporting number
 - b. Example: "The American-Turkish Council exclusion request of 3-21-18 for 7207.12.00.50" is how the American-Turkish Council would title an exclusion request submitted on March 21st, 2018 for Other Semifinished Products of Iron or Non-Alloy Steel of Rectangular (Other than Square) Cross Section, Having a Width Measuring at Least Four Times the Thickness
 - c. Submit all documents to www.regulations.gov
 - i. For steel, submit the completed form under Docket Number BIS-2018-0006, found at: <https://www.regulations.gov/docket?D=BIS-2018-0006>
 - ii. For aluminum, submit the completed form under Docket Number BIS-2018-0002, found at: <https://www.regulations.gov/docket?D=BIS-2018-0002>
 - d. Any additional documents should be submitted with the completed exclusion request form

Prepared by Michael Weaver for:

American-Turkish Council • 1111 14th St NW, Suite 1050 Washington, DC 20005
ph 202.783.0483 • fx 202.783.051 • www.the-atc.org • atc@the-atc.org