

Price on trade: USMCA without the 'M'?

Steel Market Update

July 11, 2024

This article was originally published in Steel Market Update on June 22, 2024 and can be found here.

The chairman of a large American steel company called for Mexico to be dropped from USMCA at a steel industry conference last week. This follows earlier calls from members of Congress to reinstate Section 232 duties on Mexico. How did we get to this point?

In signing the United States-Mexico-Canada Agreement (USMCA), the three parties signaled their intention to “support mutually beneficial trade.” However, the benefits of USMCA and the 2019 U.S.-Mexico Section 232 agreement on steel and aluminum are again tilting away from the United States. Worse still, Mexico is allowing the benefits of these agreements to flow to unintended beneficiaries.

In 2019, Mexico agreed to monitor its steel and aluminum exports to the United States and prevent any surges. In exchange, the United States removed duties imposed under Section 232 of the Trade Expansion Act of 1962.

A key aspect of the agreement limited steel imports to the levels that existed before former President Donald Trump imposed the Section 232 duties. Yet imports from Mexico for major categories of steel products remain much higher than pre-Section 232 levels (measured by the average annual imports from 2015-2017). Imports of rebar were 1,700% higher in 2023 compared to historic levels, as were import volumes for products including hot-dipped galvanized sheet (up 183%), metallic coated products (up 93%), coiled plate (up 67%), and mechanical tubing (up 57%). These trends are also true for aluminum imports, which were 118% higher in 2023 (compared to historic rates), and Mexico is subject to a dumping and subsidy

Authors

Alan H. Price
Partner
202.719.3375
aprice@wiley.law
John Allen Riggins
Associate
202.719.4493
jriggins@wiley.law

Practice Areas

International Trade

investigation on aluminum extrusions.

Under the monitoring agreement, Mexico also agreed to implement “effective measures” to prevent unfair trade. But Mexican steel producers continue to dump products in the United States, harming domestic producers. Since the import agreement, Mexican rebar, wire rod, and light-walled pipe and tube producers have continued to dump products in the United States.

Mexico has likewise failed to comply with its obligation to “prevent transshipment of aluminum and steel made outside of Mexico.” Shifting trade patterns show how steelmakers in China are using Mexico to avoid US trade measures. Steel and iron imports into the United States from China dropped substantially after the United States imposed Section 232 duties. Over the next few years, China’s steelmakers shifted exports to Mexico. According to UN Comtrade, total Mexican imports of Chinese steel products under tariff heading 72 grew from \$386 million in 2018 to \$1.39 billion in 2023.

Mexico’s imports of Chinese aluminum products grew significantly in the same period, including a 1,600% increase in imports of unwrought aluminum. Much of this steel and aluminum has been processed and re-exported to the United States as a product of Mexico, leading to a sharp increase in US imports of downstream steel and aluminum articles from Mexico.

Mexico has facilitated these trade patterns through import duty exemption policies that are tied to the re-manufacture or re-export of imported goods to third-country markets. Any duty exemption is a competitive advantage and transfers the harm of unfairly traded products to the United States.

By not collecting duties on imports that are to be subsequently exported, Mexico violates either the letter or the spirit of USCMA Article 2.5(2), which prohibits the refund, waiver, or reduction of any antidumping or countervailing duties on the condition of export. Similarly, Mexico’s IMMEX and PROSEC programs work jointly to side-step USCMA’s duty drawback provisions by simply not collecting duties in the first place.

Additionally, while Mexico has applied tariffs to some categories of steel and aluminum imports, the tariffs do not cover important categories of steel and aluminum, include carveouts for certain programs and favored industries, and do not apply to the numerous countries with which Mexico has a free trade agreement.

Third countries, particularly China, are not just directing their products towards Mexico, they are also pouring in foreign investment. An Inter-American Dialogue analysis shows that China’s yearly foreign direct investment (FDI) in Mexico’s manufacturing sector was larger in 2022 than ever before. Mexico is leveraging its position within USMCA to attract foreign investment in a manner that undermines the purposes of USMCA and US supply chain resilience.

Case in point: Authorities in Zhjiang Province and Nuevo Leon created the Hofusan Industrial Park through a memorandum of understanding. The park advertises that it is “[a]n alternative” for companies looking “[t]o avoid trade barriers” by “exporting Chinese products to America.” That is, Mexico is marketing itself as a circumvention hub. Mexico and China benefit from this arrangement, while US trade measures are thwarted and our domestic industries are harmed.

It's time for Mexico to address steel and aluminum import surges. Stronger "melted and poured" and "smelted and cast" provisions should become a prerequisite for any Section 232 exemptions to apply to imports. The Mexican government should also reform its laws and practices that facilitate the transshipment of excess capacity from China and elsewhere.

We need resilient supply chains, and the assembly of Chinese goods in neighboring countries does nothing to improve resiliency. Failure to address the growing exploitation of USMCA's benefits and Mexico positioning itself as a circumvention hub to US trade policy may guarantee that more drastic proposals, like getting the "M" out of USMCA, will only gain momentum.