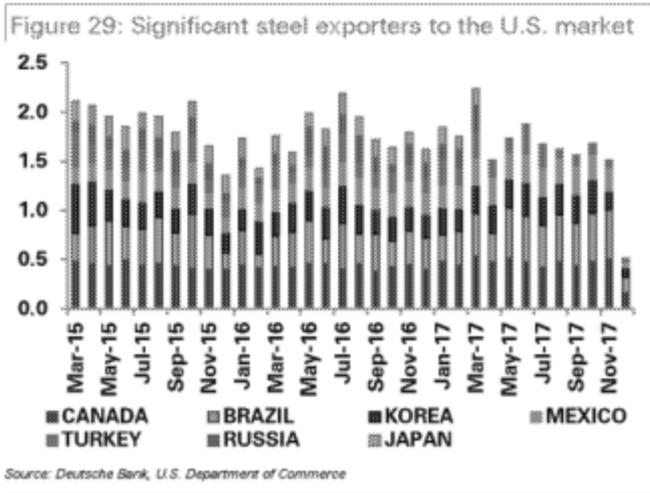




**Efforts Employed to Avoid Tariffs: Transshipments & Mislabeled Goods**

An unfortunate consequence of globalization, the North American steel market has evolved into an attractive target for foreign steelmakers to arbitrage steel prices by selling their products abroad rather than at home. Figure 29 displays the seven largest steel exporters to the U.S. This phenomenon is driven by disparities in regional steel prices around the world. For example, a Chinese steel company may determine it can earn a higher profit by shipping steel to NA and realizing higher selling prices rather than selling that steel into the Chinese market at lower price points. Hence it is important to keep an eye on the gap between U.S. domestic and Chinese export prices in order to recognize when an arbitrage opportunity may be presenting itself to foreign steelmakers, as shown in Figure 30 below.



While the U.S. has implemented preventative tariffs to discourage substantial amounts of foreign steel from entering the country, we believe this has only partially alleviated the burden of imports as many foreign manufacturers are well aware of ways to circumvent these duties. In one instance, a foreign manufacturer may ship steel destined for the U.S. through a nation that is not subject to tariffs before eventually sending it to its U.S. destination, effectively avoiding tariffs. “Transshipments” have the effect of making steel appear as if it came from a compliant country when it may have actually originated in a non-compliant nation such as China. In another example, some manufacturers have been accused of intentionally mislabeling steel as books or other bulky items to mask the steel inside the containers. Furthermore, we believe the U.S. government may lack sufficient resources and technology to identify and fine each foreign entity that illegally bring in steel products into the U.S. Hence while we are hopeful that steel tariffs will ultimately lead to lower import levels, we question whether the U.S. will ever be able to effectively examine each commercial shipment that makes its way to U.S. shores. Therefore we believe imports should continue to pressure steel prices in the U.S. from time to time until steel production is ultimately rationalized to appropriate levels of demand in the overproducing countries.

**Section 232 Implications**

The U.S. Commerce Department is currently investigating whether or not it should apply Section 232 to restrict all imports or put in place quotas for steel imports from certain countries. While we are not going to speculate if Section 232 will come to fruition or not, we would opine that more restrictive controls are warranted and any additional trade remedies would be well-received by the U.S. domestic industry as they continue to cope with a market that oftentimes can become distressed in a matter of months.