Antidumping Duties on Tin Mill Steel Will Cost U.S. Food Consumers

Executive Summary

The U.S. Department of Commerce is considering imposing antidumping tariffs on imports of the tin mill steel that is used to make metal cans for food and other items. The proposed duties are unwarranted, unnecessary, and counterproductive.

→ Tin mill product prices are not being suppressed by imports unfairly traded imports;

→ U.S. steel manufacturers do not produce tin mill products in sufficient quantity nor of the specifications needed; U.S. can manufacturers and food processors depend on imports from reliable trade partners and allies.

→ Demand for cans and canned food products is growing.

→ The costs of the proposed duties would be passed along to consumers, and based on evidence from previous AD duty cases, likely at a higher pass through rate than the nominal average value of the tariffs.

→ The costs borne by consumers would be a 19 to 30 percent increase in canned food costs.

→ There would be significant unintended consequences to down-stream jobs, food security, nutrition program and charitable feeding program costs, and up-stream costs to agricultural producers.

Background

On January 18, 2023, the steel producer Cleveland Cliffs, Inc., along with the United Steelworkers Union, filed a petition with the U.S. Department of Commerce, International Trade Administration (ITA), and the U.S. International Trade Commission (ITC) to impose antidumping duties on tin mill products imported into the U.S. from certain countries. The petitioners allege these imports are entering the U.S. at less than fair value. The Department of Commerce began its investigations on February 8, 2023, and will conclude its process in early 2024. However, the Commerce Department will issue a preliminary determination this Summer that could trigger the mandatory collection of cash deposits for these duties, even before the Department makes its final determination on the validity of the import dumping claim.

Tin mill is used to produce metal cans for packaging, primarily food cans, but also for products ranging from paint, varnish, and other home care items, to aerosol spray cans, and pet food cans. Tin mill is a unique steel product, produced in sheets, coated with tin, chromium or chromium oxide making it corrosion resistant and able to meet the necessary standards for food packaging, as well as for other products that use metal containers. Generally, this product is often referred to in the industry as "tinplate," though there are certain products (i.e., those coated with chromium or chromium oxides that are more specifically referred to as tin-free steel). U.S. can manufacturers use tin mill, widely defined in this paper to include tin-free coated products, in the production of approximately 25.1 billion cans per year, of which more than 83 percent are food cans.

In their petition, Cleveland Cliffs and the United Steelworkers have requested duties of up to 294 percent on imported tin mill and tin-free steel from seven key allies and trade partners. These targeted trade partners are critical suppliers upon whom can manufacturers, and, in turn, food canners and other consumer product companies rely.

There is not a sufficient supply of U.S. manufactured tin mill to meet domestic demand. Therefore, if imposed, these proposed import duties would have a substantial adverse impact on the U.S can manufacturing industry, U.S. food processors and producers of other packaged products, and ultimately on U.S. consumers.

The bottom line: the duties being sought are unwarranted, unnecessary, and counter-productive.

Moreover, with lingering high food inflation and continuing economic uncertainty, now, especially, is <u>not</u> the time to increase food costs for U.S. consumers by imposing these economically punitive duties.

History of Steel Industry Tariffs

Seeking protectionist duties, tariffs, and volume restraints has long been part of the U.S. steel industry's business model – though, as evidenced by the latest petition, these actions have had little effect to date in revitalizing the industry over the past 55 years. Consider, back in 1968, President Lyndon Johnson negotiated voluntary restraints on the volume of steel imports from Japan and Europe – two targets of the pending duty petition. That was followed by a long succession of additional trade restrictions.

Indeed, a 2018 report[1] by the Commerce Department provides a telling historical timeline on the lack of efficacy to date in protecting the steel industry.

> *Prior significant actions to address steel imports using quotas and/or tariffs were taken under various statutory authorities by President George W. Bush, President William J. Clinton (three times), President George H. W. Bush, President Ronald W. Reagan (three times), President James E. Carter (twice), and President Richard M. Nixon, all at lower levels of import penetration than the present level, which is greater than 30 percent.*

That report was issued prior to President Donald J. Trump's decision to impose tariffs on steel and aluminum (another product used in can manufacturing) under Section 232 of the Trade Act of 1962. That section of the trade law authorizes tariffs based on certain imports based on potential impacts to national security.

Ironically, given the national security rationale for these duties, among the top suppliers of tin mill products are NATO partners Canada, Germany, the Netherlands, and the United Kingdom, as well as strategic allies in the Asian Pacific region Taiwan, Korea and Japan. These key allies and reliable trading partners, along with Turkey, would be targeted yet again by the latest tariff request from the steel industry. Note that imports from Japan have been subject to antidumping duties since 2000.

Together, the seven allied countries noted above supply about 80 percent of the imported tin mill products subject to the new tariff request. This supply is vital to the U.S. can manufacturing sector and its customers who use cans and metal containers to package their products.

[1] THE EFFECT OF IMPORTS OF STEEL ON THE NATIONAL SECURITY—AN INVESTIGATION CONDUCTED UNDER SECTION 232 OF THE TRADE EXPANSION ACT OF 1962, AS AMENDED, January 11, 2018, Federal Register

The petition also requests antidumping duties, as well as countervailing duties to offset certain subsidy schemes, be imposed on China. China supplies between eight and nine percent of the imports covered under the petition.

Statements from Cleveland Cliffs' management show how trade protection is integral to its business model. Per the transcripts from the company's fourth quarter 2022 earnings call[2], CEO Lourenco Goncalves said:

> *While imports of flat roll steel, in general, have not been a major issue for us due to tariffs and duties we have in place, the one area where dumped and subsidized imports have become a problem is our tinplate business, which represents about 300,000 tons of sales per year for Cleveland-Cliffs.*
>
> *Since 2019, we have seen a dramatic surge in unfairly traded imports of tin mill products, which significantly undermine the fair prices we would otherwise achieve in our contract negotiation with our tinplate clients. We have recently filed trade cases against 8 countries who have distorted the market price here in the United States with bad trade practices.*

During this time line of alleged unfairly traded imports, Cleveland Cliffs made the strategic decision to acquire ArcelorMittal USA's tin mill facility, an acquisition which was completed in 2020. Cleveland Cliffs is largest flat-rolled steel producer in North America; though tin mill products account for approximately two percent of the company's total steel sales volume.[3]

On the company's 2021 third quarter earnings call[4], after the acquisition, Goncalves said,

> *Our tinplate business, for example, which we have already renegotiated with all the clients, they are increasing between 2021, 2022 price-wise a 100%. In other words, we're doubling the price of our tinplate because the costs are not increased, not even marginally close. It's a fraction of that. So we're going to have a meaningful, bigger contribution from tinplate.*

Further commenting on the ArcelorMittal USA's acquisition, Goncalves said on the company's third quarter 2022 earnings call[5],

> *… over the past two years, we have already paid ourselves back with profits from the business ….*

Though the company's petition to the Department of Commerce claims that "aggressive competition" and "low prices being offered by the subject imports" is having an adverse impact on the domestic industry, import data from the U.S. Census Bureau[6] shows that the average price of tin mill products covered under the proposed duties, shipped from exporters targeted by the petition has grown from $996.76 per short ton in 2019, to $1,733.17 per short in 2022 – that is an increase of about 74 percent.

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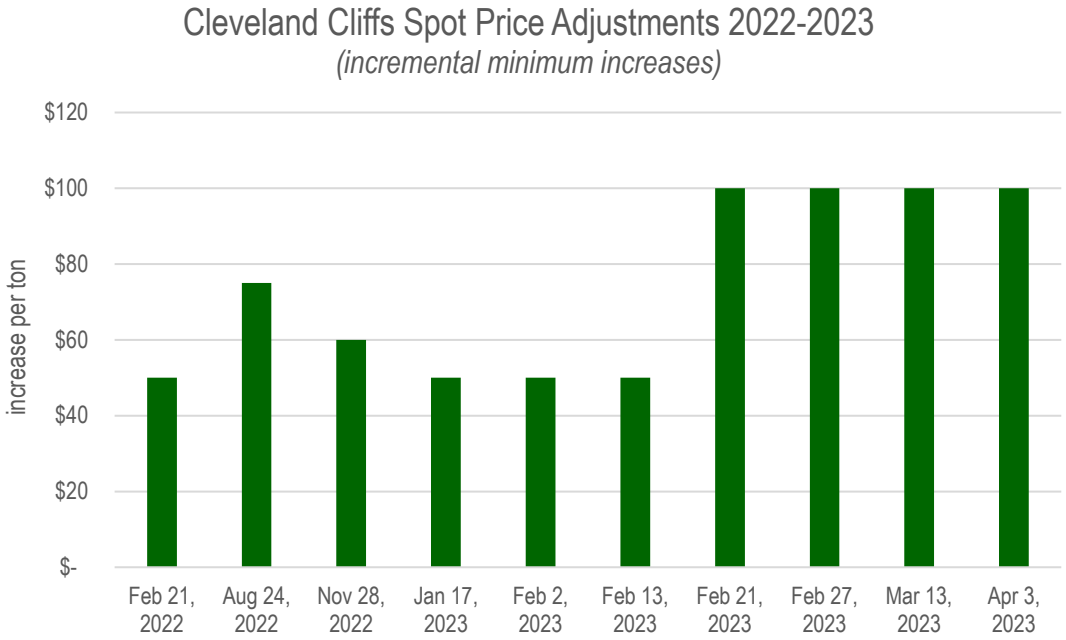
[2] Cleveland-Cliffs Inc. (NYSE:CLF) Q4 2022 Earnings Call Transcript (yahoo.com)
[3] Cleveland-Cliffs and the United Steelworkers File Trade Cases On Unfairly Traded Tin Mill Products :: Cleveland-Cliffs Inc. (CLF) (clevelandcliffs.com)
[4] Cleveland-Cliffs Inc. (CLF) CEO Lourenco Goncalves on Q3 2021 Results - Earnings Call Transcript | Seeking Alpha
[5] Third Quarter 2022 Earnings Conference Call :: Cleveland-Cliffs Inc. (CLF) (clevelandcliffs.com)
[6] USA Trade Online * Home (census.gov) data for HTS code 7210.11.0000, 7210.12.0000, 7210.50.0020, 7210.50.0090, 7210.50.0000, 7212.10.0000, 7212.50.0000, 7225.99.0090, and 7226.99.0180 for Canada, Germany, Korea, Netherlands, Taiwan, Turkey and United Kingdom.

Indeed, the trend in the market can be characterized as anything but price suppression. The day before the company filed its petition with Commerce, it announced a spot price increase for all rolled steel products, including coated steel products – a category that includes those products subject to the proposed duties – by a minimum of $100 per ton. This was the fourth in a series of 10 announced price hikes within a period of about 14 months. Over that period, cumulative minimum spot price increases totaled $735 per ton in aggregate.



Source: News Releases :: Cleveland-Cliffs Inc. (CLF) (clevelandcliffs.com)

Additionally, on December 22, 2022, Cleveland Cliffs issued a statement[7] which included in part,

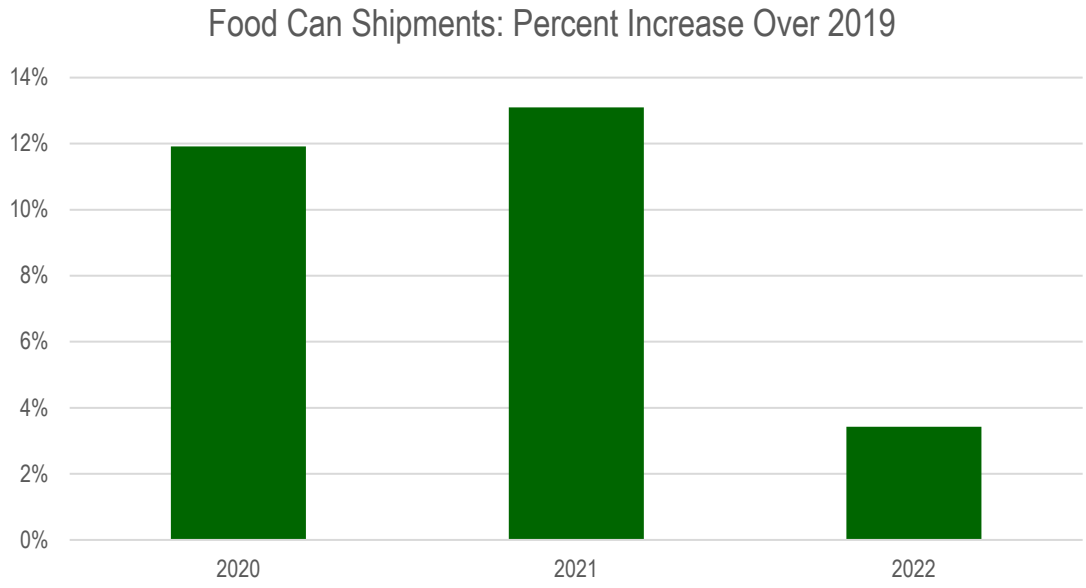
> *The Company affirmed that, with a large portion of its fixed price contractual volumes already renewed in its most recent negotiating cycles, Cliffs will achieve higher annual fixed prices for steel in the calendar year 2023 compared to 2022. These improved annual fixed prices are independent of the Company's recently announced price increases on spot steel sales. (*emphasis added*)*
>
> *Similarly, the Company has also achieved significantly higher contractual fixed prices for its grain-oriented electrical steels for 2023 compared to 2022, as well as meaningful increases in fixed base prices for its non-oriented electrical steel and stainless steel products, before surcharge impacts.*
>
> *Separately, as a result of lower input costs and normalized repair and maintenance expenses, Cliffs also expects significantly lower Steelmaking unit costs in 2023 compared to 2022.*

However, while domestic tin mill products prices have been adjusted upward, the necessary supply has not increased. Again, from the fourth quarter 2022 earnings call (cited above), Goncalves averred, "*It's not enormous for us in a big scheme of things. We're talking 300,000 tons ….*"

[7] Cleveland-Cliffs Achieves Price Increases on Fixed-Price Contracts for 2023 :: Cleveland-Cliffs Inc. (CLF) (clevelandcliffs.com)

Access to Tin mill products is Vital to U.S. Can Manufacturing Industry

While imports of tin mill products steel have increased significantly since 2019 that is due to a lack of domestic supply in the face of increased domestic demand for cans. Below shows the increase in demand for cans, by the number of shipments to U.S. food processors over the period.



Source: CMI, The Juday Group

Based on preliminary 2023 data from the Can Manufacturers' Institute (CMI), for the first quarter, food can shipments in January through March of this year increased another 4.8 percent over the first quarter of 2022.

In context of the economy, USDA's March 2023 Food Price Outlook from the Economic Research Service (ERS) shows the "food at home" consumer price index (CPI) – which measures retail grocery items – increased 11.4 percent in 2022. The ERS outlook for 2023, under a lower, mid, and upper range forecast, is projected to be 5.3, 7.8, and 10.5 percent respectively, all multiples of the 2003-2022 20 year average of 2.5 percent.

Given persistent food inflation and economic uncertainty, the demand for canned foods as a means for consumers to economize on food purchases can be reasonably considered to remain strong into the near to mid-term future. According to the February 2023 shopper survey by Information Resources, Inc. (IRI), 84 percent of U.S. primary grocery shoppers are applying money-saving measures to their shopping decisions.

There is an imbalance between the demand for cans and the domestic steel industry's capacity for producing tin mill feedstock for those cans at the volumes and most importantly at the specifications needed. Moreover, that imbalance is growing. Can manufacturing industry sources estimate that 62 percent of tin mill products used in 2022 was imported; this is a change from industry estimates of the market pre-2019, in which about 60 percent was domestically manufactured.

Again, this situation is based on the lack of domestic supply, which in turn, is largely a result of the domestic steel industry's collective business decisions to produce steel for other market uses. Approximately two percent of U.S. steel production is dedicated to tin mill products, and the capacity to produce it is being cut back.

Currently, there are three manufacturers of tin mill products in the U.S.: Cleveland Cliffs, U.S. Steel, and Ohio Coatings. Cleveland Cliffs and U.S. Steel are integrated steel producers who manufacture hot rolled coil (HRC) steel, the primary component of tin mill products. That HRC is further processed into "blackplate" – a necessary step for coating, which is the final step in making the metal for can production. Ohio Coatings purchases blackplate – both domestic and imported – when it is available in order to produce tin mill products, though it should be noted that foreign blackplate is already subject to import volume quotas, and for the reasons explained above, domestic supplies are limited.

According to CMI prior to the Section 232 tariffs in 2018 there were 11 U.S. manufacturing lines for tin mill products steel. After the imposition of those tariffs due to shut downs and indefinite idling of production capacity dropped to an estimated six lines. As for volume, compared to 2017, the year prior to the Section 232 tariffs, production capacity for tin mill products is estimated to have dropped by 550,000 tons, or 25 percent. By the end of 2023, with the planned closure of one mill that will drop operational manufacturing lines to five, and other operational capacity restraints, total capacity compared to 2017 is expected to drop by 1 million tons from the 2017 level of 2.225 million, a reduction of 45 percent.

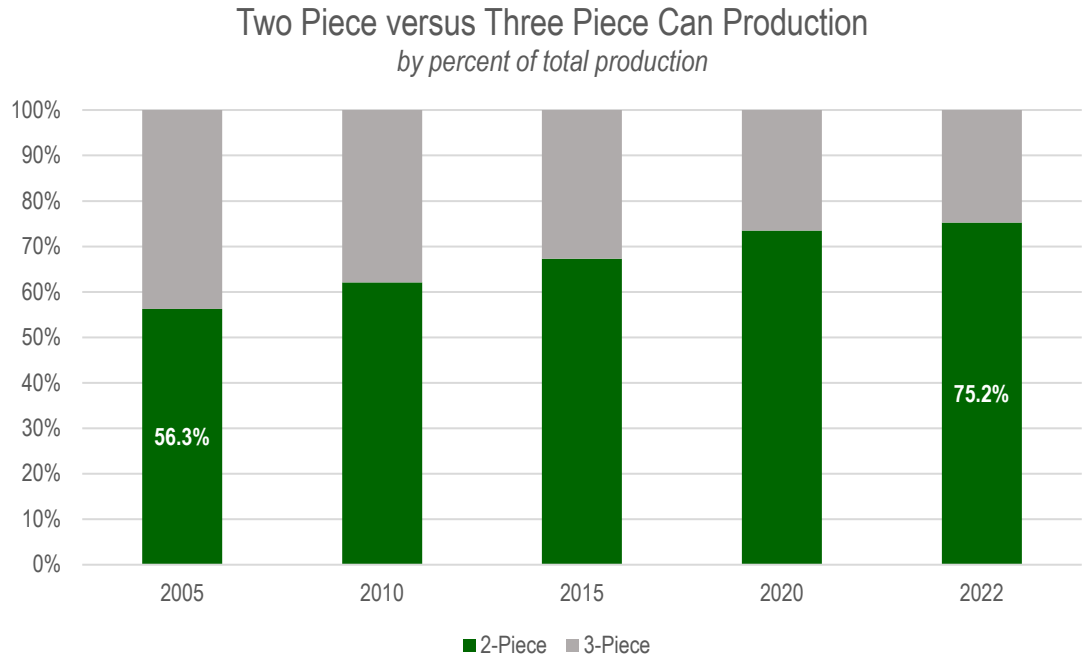
In short, Section 232 tariffs did not help nor incentivize the domestic steel industry to expand production of tin mill products as was the promise inherent in granting past trade protection policies. There is no reason to believe that the newly requested duties would yield any different results.

The production of cans is an exacting process. The tin mill used in can manufacturing is not a fungible commodity; rather it must meet certain bespoke specifications, including width, height, thickness, and performance properties related to bending or forming into cans. Each can maker may have a process that is unique or proprietary based on technology, machinery, and their own customers' specifications. Some can ends require further specifications to make full panel easy-open ends, which is another degree of customization. Additionally, for food safety reasons, food grade cans have rigorous quality specifications for the tin mill products used in their manufacture.

For these reasons, tin mill products is typically annually contracted to meet the specifications of can manufacturers and their customers. Domestic tin mill products manufacturers, however, demonstrably have been unwilling, or unable, to meet these specifications leading to a shortage of suitable tin mill product supply in the U.S. without imports. According to a review of information presented to the U.S. International Trade Commission (ITC) in the preliminary phase of the investigation, can manufacturers report over the past few years that actual physical deliveries of tin mill products from domestic suppliers have been put on allocation at quantities less than specified in purchasing contracts. There is a reduced ability of domestic suppliers to meet the widening array of specifications driven by demand in the consumer market.

Over the past several years, there has been a shift in the type of cans manufactured which the domestic tin mill products supply has not met. Food cans can be three piece or two-piece cans. Traditionally, three-piece cans were the standard. Three piece cans consist of a body and two ends. The body of the can is seamed, and the top and bottom ends are applied. For various reasons, including speed of production, efficiency, aesthetics, and consumer preference, food companies are demanding, and manufacturers are supplying, an increasing volume and percentage of two-piece cans.

Two-piece cans are made from what is known as drawn and walled ironed (DWI) tin mill products; this metal is effectively extruded into a can – a process known as "drawing and ironing." DWI tin mill products have been especially difficult to procure from domestic producers, despite the clear and long term trend over the past two decades as shown in the chart below.



Source: CMI, The Juday Group

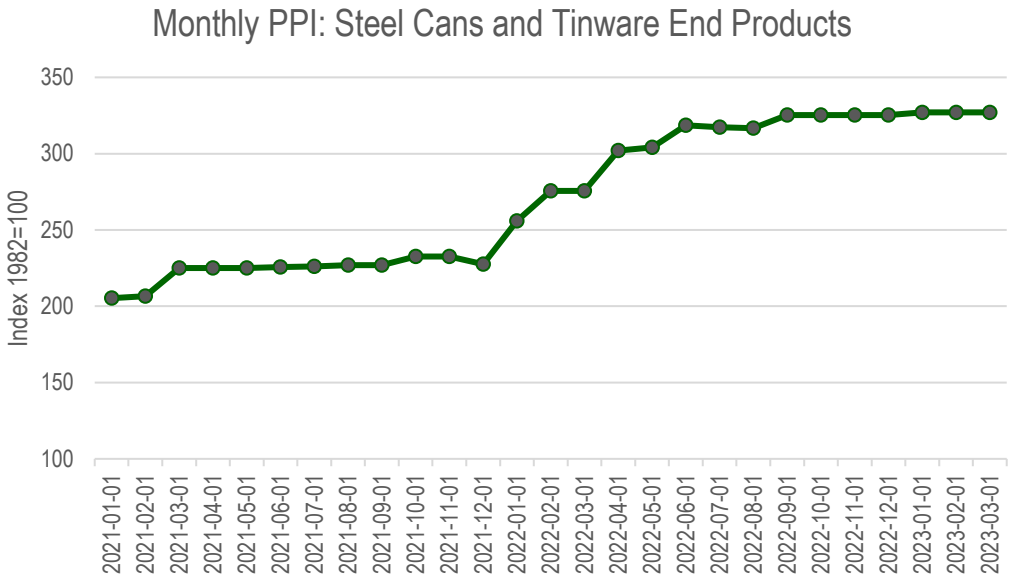
It should be noted that a significant amount of the tin mill products imported into the U.S. is of the type that is not available domestically. That is demonstrated by the Department of Commerce granting certain *ad hoc* exclusions to the Section 232 tariffs on these products. At the time the Section 232 tariffs were imposed, the Secretary of Commerce was authorized grant such exclusions if it was determined that the steel (or aluminum) article for which the exclusion is requested is not "*produced in the United States in a sufficient and reasonably available amount or of a satisfactory quality*."

Thus, in order to request an exclusion an importer must demonstrate there is an insufficient supply available domestically. To date there have been 3,364 specific exclusion requests[8] made for products covered under the latest petition. Many have been denied based on objections from the U.S. steel industry, but also many have been granted without any objections, an implicit admission from U.S. producers that they do not offer a "*sufficient and reasonably available amount or of a satisfactory quality*" alternative supply. Currently, there are several hundred exclusion requests pending a decision from Commerce.

The underlying point is this exclusion process corroborates there is an insufficient supply of tin milled products produced domestically. While the exclusions procedures in place would appear on their face to provide a reasonable relief valve, the process is at best a cumbersome, bureaucratic, and uncertain adding costs and time to securing necessary supplies of tin mill products for the productions of cans in the U.S.. These are costs which are passed on downstream to food processors – and ultimately to consumers.

[8] Published Exclusion Requests (232app.azurewebsites.net)

Those costs can be shown through the Bureau of Labor Statistics (BLS) Producer Price Index (PPI) which reflects the costs of inputs to producers in various sectors of the economy - in this case the cost of cans to food canners.



Source: BLS, St. Louis Federal Reserve Economic Data (FRED)

The Tariffs

The Cleveland Cliffs' and United Steelworkers' petition alleges the following "dumping margins," to be offset by the proposed duties.

- Canada: 78.29%
- Germany: 43.64%
- Netherlands: 124.17% – 294.27%
- South Korea: 13.46% – 110.84%
- Taiwan: 47.22% – 60.12%
- Turkey: 96.51% – 106.43%
- United Kingdom: 110.81%
- China: 130.88%

As noted at the outset of this paper, Commerce's projected schedule projects a preliminary determination this Summer; at that point, deposits on the pending duties can be collected, even before the final determination. This effectively imposes the duty before the case is settled.

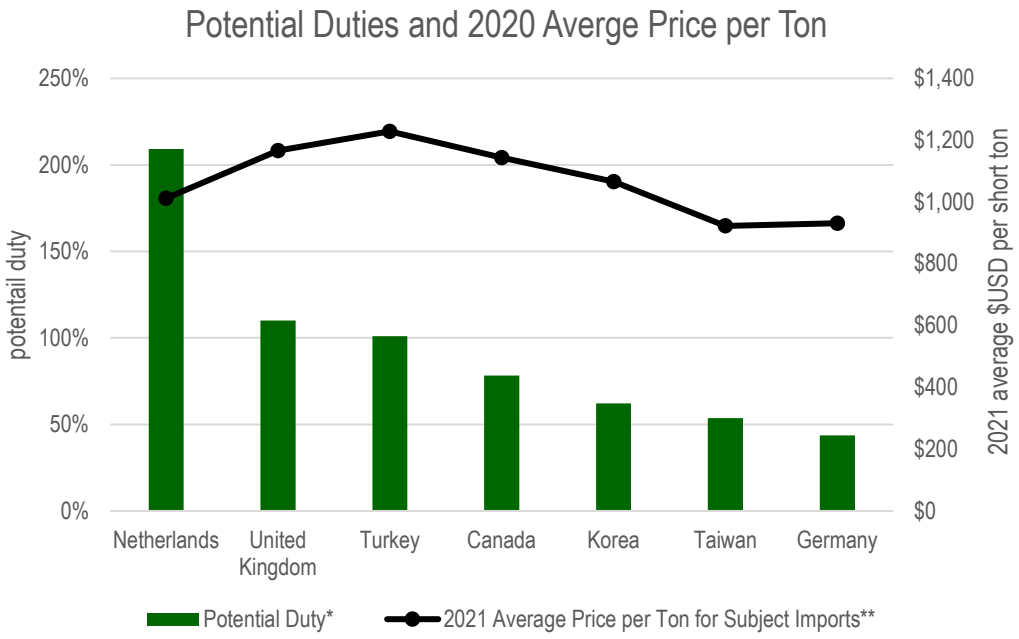
The final determination on the duties is expected to be made in early 2024, which is also significant to the market for tin mill products. Much of this product is transacted in annual contracts, as noted by Cleveland Cliffs announcement of achieving "*higher annual fixed prices for steel in the calendar year 2023 compared to 2022."* That contracting practice is also reflected in the PPI chart for cans above, which shows relatively less volatility month-to-month, and large movements year-to-year from 2021 to 2022. With the Commerce Department's schedule, the potential costs of these proposed duties will be priced into the late 2023 contract negotiations for 2024 prices – even if the duties are not actually finalized or are imposed at lower than the proposed levels.

The average of the proposed duties is 98.77 percent. Such duties would be expected to raise the price for both imported and domestically produced tin mill products by the full amount of the tariff multiplied by the pre-tariff price. However, it is equally likely the marginal cost of tin mill products could move higher than the average tariff rate. There are two reasons to expect such an outcome.

First, there is the basic economic principle that prices are set on the marginal – or last additional – units of supply and/or demand. Exporters not subject to the duties and domestic suppliers would be expected to set their prices to incrementally approach the highest cost supplier in the market, especially if the demand for that supply is what economists call "inelastic," meaning that the supply of imported product is necessary for manufacturers to continue to operate even at higher costs, which has proven to be the case to date.

This dynamic, i.e., impacting prices more than the value of the average tariff, can be understood through the logic presented in the petition, but, in inverse. If price dumping drives the overall average price downward within a range defined at the bottom by the largest dumping margin, then a duty-supported price would drive the average price incrementally up toward the highest duty-impacted price. That is, in fact, the intent of antidumping duties – to raise the prevailing average price toward the highest cost supplier.

In that regard, the highest duty is more than 200 percent. The midpoint of the range proposed for the Netherlands (between 124.17 and 294.27 percent) is 209.22 percent, and that country is a necessary supplier, providing about one-fifth of the imported product covered under the tariff proposal. As a result of those economic dynamics, tin mill product prices should reasonably be expected to increase by more than the 98.77 percent average duty rate.



* alleged dumping margins

** calculated from value and volume published by International Trade Administration (ITA) Case Announcement webpage, Initiation of Antidumping Duty and Countervailing Duty Investigations of Tin Mill Products from multiple countries (trade.gov)

Source: ITA, The Juday Group

The second reason to expect the cost of tin mill products to move higher than the average duty rate is the structure of antidumping (AD) duties themselves. Antidumping duties are different than the Section 232 tariffs which are *ad valorem* tariffs on the price of the imported product. Moreover, these 232 tariffs have been subject to case-by-case exclusions. Antidumping duties, however, are calculated based the concept of imports being priced at "less than fair value" vis-à-vis the exporter's home market.

According to the International Trade Administration (ITA)[9],

> *Dumping occurs when a foreign producer sells a product in the United States at a price that is below that producer's sales price in the country of origin ("home market"), or at a price that is lower than the cost of production. The difference between the price (or cost) in the foreign market and the price in the U.S. market is called the dumping margin.*

Each year, during the anniversary month of the publication of a final AD order, an exporter may request an "administrative review" of that order where the ITA may recalculate the dumping margin and may adjust the duties on the subject merchandise if the exporter can narrow the gap between domestic and export prices. Academic research[10] by Blonigen and Haynes (1999), based on "monthly prices across 345 U.S.- imported Canadian iron and steel products from 1989 through 1995" to examine the effect of ADs concluded,

> *This review process implies that AD duties are endogenously determined over time by the firms' pricing decisions in both its export market and own home market.* (p 2)
>
> *In order to eliminate an AD duty in future reviews, a firm needs to pass through the AD duty 200 percent assuming a fixed home-market price. Even with a variable home market price, pass-through of the duty to the export-market price is still likely to be greater than 100 percent. In fact, our estimates find AD duty pass-through to the export-market price to be around 160 percent.* (p 34)

Therefore, while the AD duty may be reduced, the price of the imported product will remain at least as high as, or even higher than, the level of the duty. This higher pass through effect is a key finding.

Tariff Impact on Food Costs

Canned food products cover a wide variety of items, literally from "soup to nuts" as the saying goes. In between, products include vegetables, fruits, ready to heat products such as stews and pasta with sauce, seafood like tuna and salmon, snacks, meat products and gourmet items. All these products have different cost structures, not only for the consumable contents, but also for the packaging based on the size and specifications of cans. However, for most of this category of food products cans represent a significant percent of the cost of goods sold (COGS). Thus, higher prices for cans would have a significant impact on what consumers have to pay for canned foods on the retail shelf.

For example, the largest category of canned vegetables is sweet corn; based on cost estimates for a 15 ounce can of corn – absent a profit margin – the metal can itself represents the largest input cost to the final product at more than a third of the total cost.

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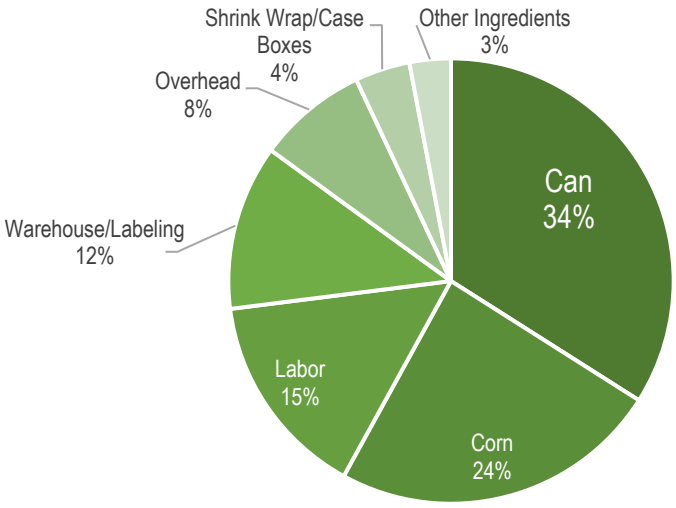
[9] Antidumping and Countervailing Duty Frequently Asked Questions (trade.gov)

[10] Blonigen, Bruce A. and Haynes, Stephen E., Antidumping Investigations and the Pass-Through of Exchange Rates and Antidumping Duties (October 1999). NBER Working Paper No. w7378, Available at SSRN: https://ssrn.com/abstract=194608



Breaking this cost structure down further, with tin mill products making up about 65 percent of the total cost of a metal can, the cost of tin mill products alone, now potentially subject to even higher duties, is approximately 22 percent of the total breakeven cost of a can of corn – just below the cost percent for the actual corn kernels.

It should also be noted that a segment of food cans, specifically large institutional sized cans, are used in the food service sector. Any duties on tin mill products needed to make those cans will add additional cost for restaurants and their customers, as well as for school and hospital cafeterias, and for food banks.

Based on research for this analysis, interviews with sources in the can manufacturing industry and among food canners, as well as the record of information provided in the preliminary phase of the ITC investigation, the following key assumptions are made to scope a consumer cost impact analysis on the proposed duties.

→ As detailed in the preceding section, there is no short term substitutable supply of additional tin mill products. As noted previously, U.S. can manufacturers rely on imported tin mill products for 62 percent of their supply due to a lack of domestic alternatives, and the suppliers targeted with the duties supply 80 percent of the covered imports.

→ Tin mill products make up about 65 percent of the total cost of a finished can; the duties would affect the tin mill products content of finished cans.

→ While there is a wide range of can prices based on can size and other features, the current base price for standard cans is reasonably assumed to be approximately $0.30 per can.

→ Given the cost structure of the can manufacturing, food processing industry, and retail sector, increased costs of tin mill products affecting the final can cost will necessarily be passed through downstream, and that pass through will include necessary operating margins be maintained on those additional costs.

Estimated operating margins are as follows:

→ Can manufacturer @ 15%
→ Food manufacturer/processor/canner @ 25%
→ Retailer @ 30% - per The Food Retailing Industry Speaks 2021 report from FMI as reported in *Supermarket News* for 2016-2021 store margins[11]

→ The average duty rate of 98.77 percent, at a minimum, will be passed through to the final consumer but the ultimate pass through could be up to 158.03 percent (160 percent of the AD rate, per Blonigen and Haynes).

The following table shows the price effects of the duty and its pass through to the consumer.

Down Stream Impact to Consumer Food Price from Antidumping Duties on Tin mill products		
	Avg AD duty **98.77%**	*AD Duty Pass Through* ***158.03%***
Can Manufacturing		
Baseline Cost of Food Can	$0.300	$0.300
Tin mill @ 65% of Total Can Cost	**$0.195**	**$0.195**
Can Mfg Additional Cost w AD Duty on Tin mill	$0.193	$0.308
Pass Through of Can Mfg Margin of 15% on Additional Tin mill products Cost	$0.029	$0.046
New Can Cost (with duty plus margin)	$0.521	$0.654
Food Manufacturing/Processing		
Baseline Cost of Food Can	$0.30	$0.30
New Can Cost (with duty plus margin)	$0.521	$0.654
Food Mfg/Processor Additional Cost of Can sold to Processor	$0.221	$0.354
Pass Through of Food Mfg Margin of 25% on Additional Cost of Can	$0.055	$0.089
New Can Cost as Component of Wholesale Product sold to Retailer	$0.277	$0.443
Retailing		
New Can Cost as Component of Product on Retail Shelf	$0.277	$0.443
Pass Through of Retailer Margin of 30% on Additional Cost of Can	$0.083	$0.133
Consumer - Additional Cost Paid for Retail Food Product	**$0.36**	**$0.58**

According to Information Resources, Inc., (IRI)[12] the analytic and data firm which covers the consumer packaged goods and retail sectors, for the 52 weeks ending January 22, 2023 (effectively the 2022 calendar year), all edible products, excluding beverages, packaged in cans, saw retail sales of $21.682 billion, based on 11.468 billion units sold.

[11] FMI sizes up pandemic's financial impact on food retailers (supermarketnews.com)
[12] IRI rebranded in March 2023 as Circana

That yields an average price per unit of $1.89 cents across all products (some products such as canned meats, seafood and ready to heat products may be higher, some basic staples such as canned vegetables may be lower). However, at the 2022 average price per unit for canned foods, the ultimate pass through of marginal costs from duties on tin mill products ultimately to be borne by consumers of $0.36 to $0.58 would be an increase in canned food prices of a minimum of 19 percent up to a potential 30 percent.

Disproportionate Impact on Lower Income Families

These additional costs would fall on consumers least likely to bear them. Low income households spend nearly one-third of their income on overall food purchases; they cannot afford unnecessary price increases. Lower income consumers who rely on canned products as part of their weekly food purchases would see their purchasing power reduced. Consider, at price increases of 19 to 30 percent, a purchase of six items per week would be reduced to five or four items per week.

According to data published by BLS, households in the lowest income quintile spent eight times more on processed fruits and vegetables (which included canned products) as a share of their income, than do those in the highest income quintile.[13] That same statistical report by BLS shows that households headed by minorities spent six times more on processed fruits and vegetables, as a share of their income, than households generally.[14]

Federal nutrition assistance programs would also be adversely impacted. CMI estimates more than one-third of fruits and vegetables – 32 percent of all fruit and 39 percent of all vegetables - consumed through the support of the Supplemental Nutrition Assistance Program (SNAP) and Women, Infants, and Children (WIC) programs are canned products.[15]

Charitable organizations such as food banks would also bear the burden of higher costs passed through from new duties on tin mill products, on top of already increased operational costs and tighter resources. Last year, Feeding America reported that food banks purchased nearly as much food as they did in 2021 but paid 40 percent more for those purchases. Further increased prices on staple items, such as canned food, will not only impact food bank operating budgets but also the volume of food donations.

Unintended Consequences

As stated at the outset of this report, significant unintended consequences should also be anticipated from imposing new duties on imported tin mill products.

First, and ironically, the unwarranted trade protection of tin mill products from imports – including imported products not available in the U.S. – has the significant potential to lead to larger import volumes of finished empty cans and of canned food products.

Imported cans already enjoy lower tin mill input costs than domestically produced cans because of the Section 232 tariffs in the U.S. There is no specific harmonized tariff schedule (HTS) code for retail sized food cans (there is an HTS code for cans generally of less than 50 liter – i.e., 13 gallons – volume), but stakeholder interviews relayed empirical evidence of greater imports.

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[13] https://www.bls.gov/cex/tables/calendar-year/mean-item-share-average-standard-error/cu-income-quintiles-before-taxes-2021.pdf. Data reflect all processed fruits and vegetables (frozen, canned, or packaged in other materials); data for canned fruits and vegetables are not available from BSL by income groupings.

[14] *Ibid*.

[15] Can Manufacturers Institute, "The Steel Can Crisis Created by Tariffs, Quotas and Domestic Supply Cutbacks," April 18, 2022.

New and higher duties would widen that cost of production gap between U.S. and foreign imported cans. Of course, more imports of finished empty cans due to new and higher duties on tin mill products, ultimately would lead to lower demand for tin mill products from U.S. can manufacturers. That defeats the stated purpose of the duties.

To that point, a recently released study by the international trade and economic consulting firm Trade Partnership Worldwide[16] concludes:

> *The job impacts will have an outsized negative impact on downstream manufacturing workers compared to tinplate workers. In total, while an estimated 66 workers will ultimately benefit from the imposition of the AD and CVD duties, nearly 40,000 manufacturing jobs will be placed at risk by those same duties. In short, for every steel worker who gains from the duties, more than 600 other manufacturing jobs in downstream industries will be threatened. Indeed, one reason the steel industry benefits are so low is that the harm to downstream industries – its customers, directly and indirectly – is significant (*emphasis added*).*

In addition to observed evidence of increased imports of empty cans, there is also a trend to more canned food imports into the U.S. For example, according to the China Canned Food Industry Association[17], China's exports to the United States rose 19 percent to 396,300 tons volume to new records.

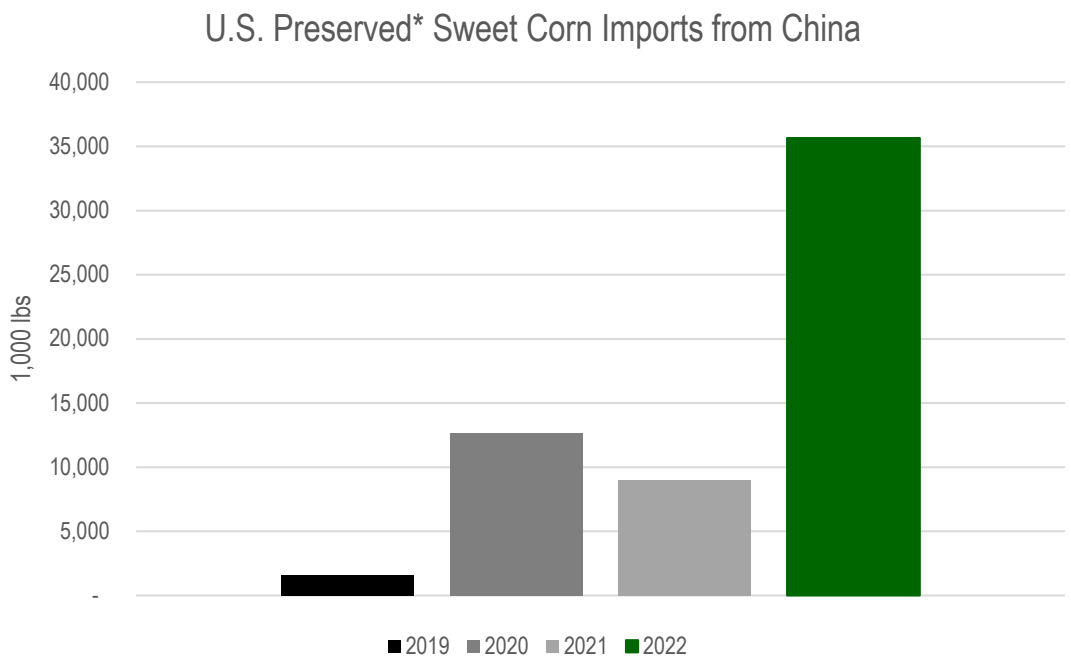
Further, overall Chinese exports of canned food products in 2022 increased 12 percent by volume and 22 percent by value – also new records. These exports compete with U.S. exports in third countries. Thus, not only would the duties have downstream impacts on manufacturing sectors they would also have upstream impacts on fruit, vegetable, pulse crop, nut and other specialty crop producers.

Again, taking sweet corn the largest category of canned vegetables where as noted previously 34 percent of the finished product cost is the can as a benchmark, imports into the U.S. since 2019 have grown 209 percent according to USDA data.

Imports from of preserved corn from China, mostly canned, with low metal costs, have grown 2,187 percent over that same period.

[16] Classic Domino Effect: Imposition of New Duties on U.S. imports of Tinplate Will Hurt American Workers, April 2023, www.tradepartnership.com

[17] China's Canned Food Exports Hit Record High in 2022 (yicaiglobal.com)



* *per USDA "largely canned" "… entering the United State for consumption"*
Source: USDA ERS … Data by Commodity - Imports and Exports (usda.gov)

Conclusions

The proposed duties are unwarranted, unnecessary, and counterproductive.

→ U.S. steel manufacturers do not produce tin mill products in sufficient quantity nor of the specifications needed; U.S. can manufacturers and food processors depend on imports from reliable trade partners and allies.

→ Demand for cans and canned food products is growing.

→ The costs of the proposed duties would be passed along to consumers, and based on evidence from previous AD duty cases, likely at a higher pass through rate than the nominal average value of the tariffs.

→ The costs borne by consumers would be a 19 to 30 percent increase in canned food costs.

→ There would be significant unintended consequences to down stream jobs, food security, nutrition program and charitable feeding program costs, and up stream costs to agricultural producers.

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For more information contact:
Dave Juday
202-251-6320
dave@thejudaygroup.com