



THE CORE COALITION
SUPPORTING COMPETITIVE AMERICAN MANUFACTURING

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Competitiveness of US Transformer Industry Remains Unresolved

The US Department of Commerce recently published its [report](#) on its Section 232 investigation on “The Effect of Imports of Transformer Components on the National Security of the United States.” The report was completed on October 15, 2020, but was never made public until the Biden administration recently published it along with three other Section 232 reports on imports of vanadium, uranium and titanium sponge, that assessed whether imports of these articles “threaten to impair” the national security of the United States. A fourth investigation into mobile cranes was withdrawn by the petitioners, and a fifth report on imports of autos and auto parts was released earlier in July.

President Trump’s Secretary of Commerce, Wilbur Ross, oversaw all four of these Section 232 investigations and reports. Three of the reports, including the report on transformer components, found that imports did pose a threat to national security.

The heavily redacted report on transformer components concentrated on parts made primarily of specialty Grain Oriented Electrical Steel (GOES) and did little to address or advance the global competitiveness of the US transformer industry. The report’s conclusion is that ***“(transformer components, especially cores and laminations) are being imported into the United States in such quantities and under such circumstances as to threaten to impair U.S. national security.”*** This finding gave the President the authority to take action against those imports, but President Trump never did so.

The Commerce Department’s report re-affirmed previous findings that the electric grid and distribution of electricity is vital to the security of the country. However, the report failed to identify how imports become a threat when there is no mechanism to strengthen the domestic industry. Clearly, an imposition of tariffs would have driven more manufacturers out of the US, a prospect which was noted by several respondents to the Commerce Department’s request for public comments.

The report also notes that there is only one domestic supplier of GOES (AK Steel, a subsidiary of Cleveland-Cliffs), and confirms that the company does not have the capacity to provide the full range of grades required by US transformer producers.

A Commerce Department survey of manufacturers in the [distribution transformer](#) sector of the industry found that 76% responded that imports of low-cost components and assembled transformers were the biggest single threat to their business. The report quoted information from our organization, [The Core Coalition](#), an independent group of US suppliers and manufacturers in the transformer industry, that these imports were caused by the high prices of GOES in the US and the Section 232 tariffs on imports of steel, undermining the competitive position of US-based distribution transformer manufacturers.

Of more concern, the Commerce Department found that 82% of Large Power Transformers (LPTs) purchased for domestic use were imported, whereas the six US-based manufacturers of LPTs were

operating at 42% capacity. LPTs are a critical part of the US electric grid and provide the transformers necessary for transmission of electric power throughout the country from generation to the individual points of lower-voltage distribution.

The report's major recommendations are to negotiate a quantitative limitation on imports of transformer components made with GOES, of which Mexico and Canada are the principal suppliers, and/or to impose tariffs on these imported components.

Limiting imports of transformer components would clearly not help the US transformer industry. Tariffs are taxes to US consumers and most of the respondents to the Commerce Department survey of the industry identified the availability to internationally priced GOES as their highest priority to help them compete with imported transformers and components. The Commerce Department did not discuss removing the Section 232 tariffs or quotas on GOES, which have been in place since 2018.

No further action can be taken under this investigation because Section 232 requires that the President act within 90 days after receiving the report from the Commerce Department. After 90 days, the President loses the authority to restrict imports. The President would need to request a new investigation and report by the Commerce Department to obtain the authority to limit imports, either with quotas or tariffs.

The problem of competitiveness remains for the US transformer industry. And now, especially at a time when the Biden Administration has made renewable energy and upgrading the electrical a priority, the administration will need to carefully review its role in supporting manufacturing and national security, particularly as it involves the transformer industry. A stronger and healthier transformer sector requires globally competitive GOES supplies to US manufacturers, equal to foreign manufacturers of transformers and components.

The US transformer industry clearly dodged a bullet in when President Trump did not act on the Commerce Department's report. The industry now must use the opportunity to ensure future competitiveness.