The Real Estate Roundtable

March 4, 2019

U.S. International Trade Commission
500 E Street, SW
Washington, DC 20436

RE: U.S. ITC Preliminary Investigation of Fabricated Structural Steel from Canada, China, and Mexico (Inv. Nos. 701-TA-615-617 and 731-TA-1432-1434)

Dear Commissioners:

On behalf of The Real Estate Roundtable and U.S. commercial real estate industry, I urge you to consider carefully the potential harm to real estate and infrastructure projects throughout the country if the federal government imposes new antidumping or countervailing duties on fabricated structural steel. New duties could have a chilling effect on job creation and productive investment, slowing economic growth and reducing employment in industries directly and indirectly affected by real estate development.

Roundtable members are real estate owners, developers, managers, brokers and financiers, as well as the leaders of 17 national real estate industry trade associations. Collectively, our members' real estate portfolios are valued at over $2 trillion and contain millions of office, retail and industrial properties, apartment units, medical and healthcare properties, senior housing and assisted living facilities, and hotel rooms. The jobs and income of millions of Americans across the country depend on the stability and growth of U.S. real estate. State and local budgets rely heavily on real estate, which generates nearly three-quarters of the tax revenue for local schools, police and fire protection, and other community services.

Construction costs are a critical determinant when evaluating whether to proceed with a potential real estate project. Construction costs are incurred during a period when a project's external financing costs are likely at their highest level—before the property is "stabilized" with tenants and a stream of predictable rental income. Rising costs due to the shortage of skilled labor are already putting pressure on new real estate development. Overall, construction costs rose 4.8 percent in 2018 when energy costs are removed from the producer price index for inputs to construction industries.[1] The index is a weighted average of all goods and services used in construction. The increase in construction costs in 2018 was more than twice the rate of consumer inflation. In addition, steel prices in the United States rose significantly after the imposition of 25 percent tariffs on many steel imports last February.

[1] Associated General Contractors of America (Jan. 15, 2019) (data drawn from AGC's monthly reporting on construction costs).

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New duties on fabricated structural steel would compound these current challenges and create new and unnecessary costs that weigh on productive economic activity. Fabricated structural steel represents a significant share of the construction costs for high-rise real estate, particularly in areas where land is expensive and dense and elevated construction is required. Fabricated structural steel costs nationwide increased nine percent in 2018.[2]

As a general matter, fabricated steel is not supplied or sold separately but is a part of a bundle of products and services that go into the construction of a steel superstructure for a new building. Fabricated structural steel is designed and finished for a particular building. The bid itself includes the cost of the related goods and services provided by the steel fabricator. Those goods and services include engineering design, transportation, and erection of the structure, as well as other products and intangibles necessary for the project. A low bid for a project may not reflect an artificially reduced supply price for fabricated structural steel and could be attributable to other variables.

Real estate developers source fabricated structural steel based on several factors, in addition to price. The analysis of bids by a real estate developer necessarily includes consideration of the quality and reliability of the related services. For example, greater certainty that a steel fabricator will be able to meet deadlines and has the ability to incorporate design changes could influence the awarding of a contract. In some of the largest recent real estate projects in the country, production capacity and design expertise, rather than price, have been the key considerations when sourcing fabricated steel.[3] The reliability of the fabricator can have a major impact on the ultimate profitability of a new development. Failure to meet deadlines increases the costs of the project because schedule delays increase short-term interest costs; the postponement of project completion delays the receipt of rental or sales income; and other subcontractors who are scheduled to work must be paid. As a result, there is significant cross-border integration and cooperation in the fabricated structural steel industry. Foreign fabricators operate facilities in the United States, utilize U.S.-made steel in their finished products, and regularly form joint ventures with U.S. firms to take on large and complex projects.

Rather than clear evidence of dumping or illegal subsidies, the difficulty domestic fabricators may have competing with foreign imports could reflect the unfortunate and damaging downstream consequences of the steel tariffs imposed last March under Section 232 of the Trade Expansion Act of 1962. The 25 percent steel tariffs established under the Section 232 action are increasing input costs for the domestic structural steel fabrication industry. Moreover, a shift in the sourcing of fabricated structural steel by U.S. purchasers – if such a shift is found to exist – may have more to do with the ability of certain fabricators to meet, at a given time, the specific and unique needs of a new construction project.

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[2] U.S. Bureau of Labor Statistics, Producer Price Index for Fabricated Structural Metal Manufacturing (updated Feb. 15, 2019).

[3] *See, e.g., Fabricated Structural Steel from Canada, China and Mexico*, Testimony of Henry Caso, Senior Vice President, Manhattan West Construction, Brookfield Properties, in U.S.I.T.C. Investigation No. 701-TA-615-617 (Feb. 25, 2019).

Of course, if there are facts proving unlawful or inappropriate dumping or subsidies of fabricated structural steel by Canada, Mexico or China that are causing injury to U.S. businesses, then action to counter those unfair trade measures is warranted.

In short, rather than spurring real estate and infrastructure developers to purchase fabricated steel from domestic sources, unjustified government intervention in the form of new duties may lead potential U.S. buyers to shelve projects that would create well-paying jobs and produce a lasting economic impact in communities.

For these reasons, unless supported by conclusive evidence of unfair dumping or subsidies, I urge you to reject calls for new tariffs on U.S. imports of fabricated structural steel.

Sincerely,

Jeffrey D. DeBoer
President & Chief Executive Officer