



Voice of the Recycling Industry™

REQUEST FOR EXCLUSION TO 301 TARIFF

HTS 8479.90.94.96 ... Machines and mechanical appliances having individual functions, not specified or included elsewhere in this chapter; parts thereof; Parts; Other; Other

SUMMARY

The Institute of Scrap Recycling Industries, Inc. (ISRI) hereby submits this request to exclude auto shredder wear parts imported from China under ***HTSUS subheading 8479.90.94.96***. This request is made on behalf of the 217 auto shredders operating throughout the United States that shred end-of-life vehicles and other metal for purposes of recycling these metals to create commodity grade raw materials. Shredders produce mainly ferrous scrap (iron and steel) and nonferrous scrap (e.g., aluminum, copper, nickel) that are sold as input raw materials to steel mills, foundries and secondary aluminum smelters to be melted into new metal. For electric arc furnace steelmakers, shredded scrap is the most important raw material that they need to make new steel. This manufacturing supply chain is in jeopardy as a result of the 25% import tariff on auto shredder wear parts.

THE RECYCLING INDUSTRY

The scrap metal recycling industry in the United States contributes over \$50 billion annually to the U.S. economy and supports a quarter million jobs. The scrap recycling industry connects the ends of the manufacturing supply chain by taking products at the end of their original life and processing them into a usable commodity that can be manufactured into something new. Manufacturers prize scrap as a raw material input due, in part, to the cost and energy savings gained through using scrap versus virgin materials. In fact, U.S. steelmakers rely on iron and steel scrap to make roughly two out of every three pounds of steel produced while half of the aluminum consumed in the United States by the aluminum industry is recovered aluminum scrap. Metal scrap can practically be melted and remelted an infinite number of times to make consumer goods.

The United States processes about 130 million metric tons of recyclable materials every year, approximately 70% of which is consumed here. A robust recycling system is critical to the downstream industries that it supports, including steel and aluminum. One of the primary processes relied upon by the recycling industry for the production of scrap metal is shredding, and the auto shredder is thus key to the continued production of the valuable raw materials relied upon by the U.S. domestic steel and aluminum industries.

AUTO SHREDDER WEAR PARTS

HTS subheading 8479.90.94.96 is a catch-all category for machinery parts that have no other descriptor anywhere else in the HTSUS. A Customs ruling of 2009 (attached for reference) confirms that “Automobile Shredder/Crusher Parts...i.e., a hammer, grate, anvil, wall, cap1, cap2...will be 8479.90.94.96...” That said, these are not the only products to fall under the same harmonized tariff code, but the “catch-all” nature of this category makes it impossible to compare these products with other items imported under this category because we do not know what else is imported under this HTS code. However, Annex 1 of this request

Institute of Scrap Recycling Industries, Inc.

1250 H Street NW, Suite 400 • Washington, DC 20005-5903 • Tel: (202) 662-8500 • Fax: (202) 626-9256 • ISRI.org

includes information intended to describe the different types of auto shredder wear parts used by the auto shredder industry.

PARTS SOURCING

Auto shredder wear parts are generally made of three types of material that have an effect on cost. The majority of these replacement components used in the U.S. auto shredder industry are made of manganese steel that is resistant to abrasion, and thus can process metal scrap up to three times the hardness of the parts. The second type is made of alloy steel that can be used to make hammers, grates, cutter bars and anvils. Alloy steel hammers, for example, as the main part used to shred autos, are used to process lighter gauge scrap, which is increasingly incorporated into automobiles. But these hammers cost more than hammers made of manganese steel. The third type, differentially heat-treated alloy – or DHT – is a material also used for hammers. DHT hammers are nearly twice as hard as traditional manganese alloy hammers, requiring a four-step heat-treating process (as compared to a single-step heat-treating process for traditional manganese alloy hammers). The process creates a significantly harder hammer with a better life span but also a much higher cost than both manganese and alloy parts.

Manganese parts are one-third to one-half the price of the alternatives. More than 90% of the manganese steel parts used in the United States were manufactured in China. Some alloy steel and DHT parts are sourced in China but also in Germany and the United States.

Auto shredders and parts suppliers have tried to find additional suppliers to diversify purchasing of wear parts. There is one foundry in the United States, but the operation is too small to meet the requirements of all the shredders in the United States. Germany is a source of the higher priced DHT hammers and has a small niche customer base in the United States. Foundries in Canada and Peru can meet quality standards, but are smaller operations that provide significantly higher-priced products and are unable to satisfy U.S. demand. Foundries in India, Middle East, Mexico, Malaysia and Australia have been approached, but capacity constraints, higher prices, quality issues or a combination of these limitations has prevented U.S. companies from purchasing their products. In the end, auto shredders in the United States must source about 81-85% of their parts from China.

JUSTIFICATION FOR EXCLUSION

Auto shredders process an average of 365,000 metric tons of material per day, which causes wear and tear on the equipment and requires that wear parts be replaced daily. Such equipment turnover makes up a large percentage of their operating costs, and costs have been steadily increasing.

Value

Chart 1 below outlines the approximate expenditure of wear parts by ISRI's auto shredder members from 2015 to 2017. Additionally, the United States has large and small shredder operations, but Chart 2 presents the average expenditure that each shredder spent on wear parts.

Chart 1: Value of Total Sourcing of Wear Parts (USD millions)

| Year | All Sources | China | Chinese Share |
|-------------|--------------------|--------------|----------------------|
| 2017 | 76.9 | 64.5 | 84% |
| 2016 | 55.5 | 46.4 | 83% |
| 2015 | 58.7 | 48.4 | 82% |

Chart 2: Average Value of Sourcing of Wear Parts Per Shredder (USD thousands)

| Year | All Sources | China | Chinese Share |
|------|-------------|-------|---------------|
| 2017 | 354 | 297 | 84% |
| 2016 | 256 | 214 | 83% |
| 2015 | 270 | 223 | 82% |

All told, imposing a 25% increase on these costs will result in a dramatic increase in costs to ISRI's shredder members of approximately \$15 million to \$20 million.

Volume

It is not easy for us to provide precise data on the quantity of each part purchased by shredders, whether sourced domestically or imported from China or other sources. Although we identify eleven different parts imported under the same HTS code, these parts come in literally hundreds of different sizes and specifications according to the size of a shredder, the size of the recycling operation and the type of material that is processed. Prices for the various wear parts vary widely depending on their metal content, size, design as well as transportation and other transactional costs. Furthermore, as shredders place an order for a number of different parts from one foundry, the billing is often an amalgamation of the total purchase of the many products. For that reason, we can only estimate the volume in metric tons that American shredders purchase for use in shredder operations. Chart 3 approximates the total volume of wear parts purchased by ISRI's shredder members, and Chart 4 approximates the volume of wear parts purchased by each shredder.

Chart 3: Volume of Total Sourcing of Wear Parts (metric tons)

| Year | All Sources | China | Chinese Share |
|------|-------------|--------|---------------|
| 2017 | 26,500 | 22,500 | 85% |
| 2016 | 15,600 | 12,600 | 81% |
| 2015 | 14,000 | 11,800 | 85% |

Chart 4: Average Volume of Sourcing of Wear Parts Per Shredder (metric tons)

| Year | All Sources | China | Chinese Share |
|------|-------------|-------|---------------|
| 2017 | 122 | 104 | 85% |
| 2016 | 72 | 58 | 81% |
| 2015 | 64 | 54 | 85% |

Overall Economic Costs to the Industry

For the companies that manufacture equipment and supply the parts to the shredders, the 25% import tariff has caused several instances of disrupted business and increased the market volatility of the shredder industry:

- Increased costs of the parts that are passed on to the shredding operations when the parts are sold to them – the shredders cannot further pass on these costs to consumers of the recycled material, squeezing their already very thin profit margins;

- Increased costs of the parts to equipment suppliers that could be sunk if the parts are eventually sold after a time when the tariff is lifted because they must keep a certain inventory of parts available for on-demand shipping to the shredders;
- Fewer orders as shredder operators reevaluate spending, risking the health and safety of employees at shredder operators as well as supply disruptions to downstream industries that consume the metal processed from the shredder;
- Customers “shopping” for parts that were imported before July 6, causing disruptions to supplier-customer relationships, long-term contracts, and continuity of operations; and
- Inability to quickly fulfill orders from non-Chinese suppliers because the lead times for other foundries to design, calibrate machinery and produce these parts is six months or longer.

The auto shredders have already experienced over the last several years a 25-30% increase in transportation costs, 14% increase in energy costs and 35% increase in fuel costs in addition to increases in labor costs. The financial burden of these tariffs risks the safe, sustainable and responsible running of these recycling operations, the jobs required to run and maintain them, the ability to purchase feedstock to keep shredders economically feasible and the ability to supply the processed material to mills, foundries and smelters. Shredder parts suppliers will, inevitably, have to pass the extra cost on to the shredders, but the shredder operators, already operating on very thin margins, have to absorb these costs because the output material is bought by the consuming industries based on market conditions and not on how the material is produced/processed. This not only eliminates any opportunity for growth but could potentially lead to supply disruptions and layoffs.

Furthermore, the 25% increase to shredders’ primary operating costs are risking downstream manufacturing jobs due to lower output, longer lead times and supply disruptions and thus, fewer inputs for the U.S. manufacturing sector, particularly of steel and aluminum. In short, the tariffs put shredders at a competitive disadvantage to their Chinese competitors and are straining their ability to supply valuable feedstock to the U.S. and global manufacturing sector.

Relevance to Chinese Industrial Policies

While ISRI is not familiar with the full range of iron and steel products that may be covered by Made in China 2025 or similar Chinese industrial policies, we do not believe that this product is a target of the acts, policies, and practices related to technology transfer and intellectual property that are emphasized in USTR’s Section 301 report.

Customs Administration of an Exclusion

Auto shredder wear parts have unique characteristics and are easily distinguishable from other products imported under the same HTS category. With this request are a Customs ruling and photos, engineering drawings and descriptions to aid in the administration of a tariff exclusion.

CONCLUSION

ISRI strongly urges the Administration to exclude **HTS subheading 8479.90.94.96** from the Section 301 tariffs that went into effect on July 6. Eliminating this financial burden on an already stressed industry will help keep manufacturers strong and employees in their jobs. If we can provide any additional information, please do not hesitate to reach out to President Robin Wiener at rw Wiener@isri.org and Senior Director for Trade Adina Renee Adler at aadler@isri.org.

- Annex 1: Auto Shredder Wear Parts Descriptions
- Annex 2: Customs Ruling Regarding HTS 8479.90.94.96
- Annex 3: Drawings of Auto Shredder Wear Parts