

Steel Yourself

If you've been reading this column for any length of time, you know that I'm a big believer in industry associations like the American Gear Manufacturers Association. AGMA provides great value

to industry professionals like you in the form of phenomenal opportunities for professional and personal growth and education, as well as the ability to build a network among your peers. More importantly, associations like AGMA have the ability to tackle problems collectively that would be extremely difficult or even impossible for individual companies to achieve. They can help you look at issues facing the industry from a much larger perspective.

A good example of that was the AGMA Marketing Forecast webinar held in May. The webinar included a presentation on steel tariffs and quotas by John Anton, Senior Principal Economist for IHS Markit. Frankly, what he said scares the living daylights out of me and should be cause for concern for all of us.

You've all heard about the 25% tariff on imported steel and 10% tariff on imported aluminum that the U.S. government has imposed. You've all heard about the retaliations being put in place by the rest of the world. Your steel prices have increased.

It's a full-on trade war, and it's likely to get worse before it gets better.

That in itself is scary enough. But what really scares me is that many of you might be too busy to realize that you could soon be in a situation that could endanger your very company. When I brought up the subject with several industrial gear manufacturers recently, they didn't seem to have given it much thought.

You're already dealing with higher prices. But are you ready for a scarcity of raw materials? What will you do if you can't get the steel you need—at any cost? That's the real danger that Anton warned about. Tariffs are bad, because they mean higher prices, but quotas are potentially catastrophic for a company that relies on raw materials. What happens if the steel you buy comes from a country who has agreed to accept quotas instead of tariffs?

South Korea, the third largest supplier of steel to the United States, already agreed to such quotas. They've promised to reduce their shipments to 70% of their 2015-2017 totals. Each type of steel (different grades of bar, plate, coil, etc.) is treated separately for each country. For certain types of steel, South Korea has already reached its quotas, which means the United States simply won't accept any further shipments. Brazil and Argentina have also agreed to quotas. Pretty soon, it will be



Publisher & Editor-in-Chief
Michael Goldstein

hard to get steel of any type from these countries.

Anton didn't mince words about the threat. He went so far as to recommend that gear manufacturers think seriously about buying up as much steel as possible, even if they have to lease additional warehouse space to hold it. It's an expensive, risky proposition, because there's also the very real possibility that if the quotas disappear, prices could fall by the end of the year. But you have to weigh that against the possibility that you just might not be able to ship any product in the third and fourth quarters.

None of this makes for easy decision-making from a long-term strategy standpoint, especially considering that the situation changes daily. More tariffs and more retaliations are on the way. Negotiations between countries will continue, and there's nothing you can do about any of it.

So it's very tempting just to wait and see. Business is great, after all. You can probably weather some higher prices, at least in the short term.

But if more quotas get implemented, you'd better be ready to act quickly. You'd better have a contingency plan in place. If you haven't already done so, you'd better take some time to evaluate your supply chain. At a minimum, find out where your steel is coming from and evaluate the potential risk of extreme shortages later in the year.

If you don't, there's a chance you won't be so busy for too much longer.