

# Supply Chain Disruptions Affect Viability of U.S. Manufacturing Sector



## Overview

This white paper illustrates the supply chain disruptions that are lowering the competitiveness of our combined industries and hindering our members' U.S. manufacturing capabilities. Trade distortions and the COVID-19 pandemic have resulted in shortages of essential components, the effects of which have exposed the severe and worsening deficiencies in the U.S. logistics network and have led to delays and costly inflation at every stage of the manufacturing supply chain. These issues are made worse with ongoing labor shortages, and added together, they disrupt domestic production, result in temporary shutdowns, reduced sales, increased consumer costs, and delayed delivery of critical products. All of this combines to stall the U.S. economy.

## Desired Outcomes

Our members need immediate relief and urge policymakers to initiate the following policy options:

- **Remove Section 232 tariffs on steel and aluminum imports, at least on our allies. At a bare minimum, we suggest a revision of the product exclusion process such that exclusions are transparent and available to all downstream manufacturers of the material, rather than only to the importer of record.**
- **Remove Section 301 tariffs on Chinese imports, or at least renew all of the previously granted expired exclusions.**
- **Ensure that semiconductor supply is fairly and transparently allocated across industry sectors and that the Administration does not—explicitly or implicitly—favor any one sector.**

## Economic Impact

Our combined industries' economic impact in the U.S. is \$591 billion and we employ more than 2.7 million people. Our member companies' products perform essential functions across critical infrastructure sectors, including healthcare, education, energy, electric grid, foodservice and hospitality, information technology, medical imaging, transportation, water/wastewater, and home appliances that Americans rely on daily for health and safety at home and at work. The effects of COVID-19 have exposed long-standing weaknesses in U.S. logistical networks that are decreasing U.S. competitiveness. Our members need policy changes so that they can continue to provide critical products to consumers in a timely, affordable way.

## The Problem

The factors described below illustrate the myriad supply chain challenges that require immediate attention from policymakers to improve U.S. manufacturing prospects:

### *Tariffs and Trade Distortions*

Tariffs on raw materials, low tech/cost components, equipment, and finished goods which are not adequately produced in the U.S., are causing delivery delays of critical products and/or higher consumer costs. The Section 232 tariffs on imported steel and aluminum are causing:

- Record high metal prices (for many metals, producers won't even provide price quotes).
- Outright unavailability of metal.
- Increasingly long delivery lead times.

Likewise, the Section 301 tariffs on imports from China are causing:

- Lack of supply and/or higher prices of substitute components/products
- Lack of time and resources to find new sources of components.
- Multiple companies sourcing from the same pool of non-Chinese supplier alternatives.

### *Logistical and Infrastructure Bottlenecks*

Ocean freight rates have more than tripled during the past 12 months, presenting an unsustainable economic burden for manufacturers and distributors and raising costs for consumers. Other associated ocean freight costs, such as detention, congestion fees, and surcharges, have elevated total costs to historic highs. This is coupled with a lack of available pier and storage space and substantial increases in transit times resulting in higher cost of goods and lower inventory levels. Labor shortages have

worsened the problem, as a lack of longshoremen to unload ships has backlogged ports, and a lack of truck drivers has resulted from demographic changes (e.g., difficulties in attracting young people to the field), and an inability to train new drivers during the COVID-19 pandemic. Lastly, the aging U.S. infrastructure network, which scores a C- in the latest [report](#) by the American Society of Civil Engineers, compounds the issues described above.

#### *COVID-19-Related Effects*

Plant shutdowns and/or slowdowns caused by the COVID-19 pandemic, including current difficulties attracting new employees despite competitive pay and benefits, have reduced manufacturing productivity. Companies have also reported difficulties vaccinating the workforce to make it safe for employees to work in close proximity. Travel and social distancing restrictions have further complicated the difficulties. The pandemic has caused rapid shifts in consumer behavior that have led to increases in purchases of certain goods, including those for household health and comfort. For example, consumers are relying more than ever on room air cleaners and updated HVAC systems, among other air treatment products, to ensure a healthy home during the pandemic. And consumers who have spent more time at home are upgrading their kitchens and other rooms. This increased demand has strained the demand for the raw materials and components to manufacture critical appliances.

#### *Weather Events and Natural Disasters*

In addition to everything described above, uncontrollable events and natural disasters, such as the California wildfires, floods in Germany, Texas freezes and their effect on energy infrastructure, and the six-day blockage of the Suez Canal exacerbate existing supply chain problems. In addition, the proliferation of wildfires and flooding has increased the demand for air treatment products.

#### **The Impact**

These issues are creating a chaotic and costly operating environment disrupting production. Our members have reported to us that, in response to the supply chain challenges enumerated above, they have had to do one or more of the following:

- Conduct temporary or intermittent plant shutdowns.
- Increase prices.
- Forgo sales.
- Delay delivery.
- Limit shipments to those most urgent.
- Increase order sizes on components – in hopes of gaining some material - which strains cashflow.

The result is that the crucial products our members make are either not available or, if they are available, are more expensive and subject to significant delays. This comes at a time when demand for many of our members' products, including home appliances and HVAC equipment, is, as reported above, at a record high. The combination of increased demand with supply chain challenges is causing the severe supply shortages and delays. For example, some home appliance manufacturers report lead times that are, in some cases, double or triple the normal lead time for delivery due to supply chain challenges.

Increasingly, these issues add administrative burdens, especially to small and medium enterprises, in nonproductive activities such as tariff exclusion requests, searching for alternative suppliers, and

rerouting freight from land to air. These unplanned activities crowd out opportunities for research & development, or developing new sales and marketing efforts. These effects will continue to result in reduced productivity, not only for U.S. workers at the point of manufacture, but all throughout the value chain. Some of the problems described above are long-term in nature and are being discussed in forums such as the Advisory Committee on Supply Chain Competitiveness (ACSCC). We need action now.

### Call to Action

Our coalition urges the Biden Administration to initiate and drive the policy options outlined above to prevent the continued worsening of U.S. manufacturing competitiveness, increase U.S. productivity, and reduce inflation for consumers.

### Our Associations



The [Association of Home Appliance Manufacturers \(AHAM\)](#) represents more than 150 manufacturers of major, portable, and floor care home appliances, and suppliers to the industry.

Contact: Jennifer Cleary ([jcleary@aham.org](mailto:jcleary@aham.org); 202-872-5955 x314)



The [Air-Conditioning, Heating, and Refrigeration Institute \(AHRI\)](#) represents more than 300 manufacturers of air conditioning, heating, commercial refrigeration, and water heating equipment.

Contact: Samantha Slater ([sslater@ahrinet.org](mailto:sslater@ahrinet.org); 703-293-4871)



The [North American Association of Food Equipment Manufacturers \(NAFEM\)](#) represents more than 600 manufacturers of commercial foodservice equipment.

Contact: Charlie Souhrada ([csouhrada@nafem.org](mailto:csouhrada@nafem.org); 312-821-0212)



The [National Electrical Manufacturers Association \(NEMA\)](#) represents nearly 325 electrical equipment and medical imaging manufacturers that make safe, reliable, and efficient products and systems.

Contact: Madeleine Bugel ([madeleine.bugel@nema.org](mailto:madeleine.bugel@nema.org); 703-841-3222)