

Traders bugged: US imports of steel coil face insect crackdown

US steel buyers debating on whether to book imports with long lead times and high prices face another quandary. It is not whether the foreign mill will ship on time, or sporadic trade policy where tariffs change with a tweet, rather it is a growing number of flagged shipments due to insect-related issues in the wood packaging material used in transportation.

Market sources indicated that the Port of Houston was the epicenter of particularly meticulous inspection protocols for wood packaging material leading to disruptions.

Shipments said to contain wood boring insects or traces thereof lead to a US Customs and Border protection mandate to immediately re-export the wood packing material (WPM) within seven days, along with the steel products that arrived with it.

This has left some traders and their customers in dire straits.

Traders forced to re-export the material are left scrambling to secure transportation at extremely high costs or face fines of up to 100% the value of their cargo. One incident was heard to lead to costs and fines upwards of \$1 million for a trader. A second incident cost a different trader \$250,000 just to re-export a small shipment of steel to Mexico.

"We've all had [issues] happen in the past, but there were various routes for remedies," said the source, noting one past solution had been spot fumigation in warehouses. "[Customs] always worked with you and the costs weren't small, but manageable." Now, the source said costs and fines had become "hideously expensive."

While enforcement of the policies appears to have become stricter at the Port of Houston it hasn't translated to other ports yet, according to sources.

"There have been multiple situations [involving] the same vessel, same producing mill, [but] different discharge ports, and the only place where the problem appears is Houston," said another market source.

For the traders' customers, there is no quick domestic supply substitute with the average US mills' hot-rolled coil lead time averaging well beyond eight weeks, according to S&P Global Platts data. Cold-rolled or hot-dip galvanized coil face even longer domestic lead times, averaging 9.8 and 11 weeks, respectively.

In addition, HRC prices have continued to reach new all-time highs on a regular basis. The latest daily Platts TSI US HRC index was assessed at \$1,712.75/st on June 23, up nearly 290% since August 2020.

Limited options once infestation is detected

According to the International Standards for Phytosanitary Measures No. 15 (ISPM 15), all wood packaging material must be either heat-treated or fumigated and marked with an approved logo to ensure compliance.

Rich Brazzale, managing director at Lake Shore Associates, says some issues with European cargoes can be traced to the use of heat treatment. While methyl bromide, the chemical used for fumigation, is

approved for use in the United States and other countries, its use is not permitted by the European Union.

“Apparently, heat-treating as set out in the ISPM standards is not always sufficient, because it doesn’t seem to be killing the insects,” says Brazzale.

Several market sources had previously reported problems related to vessels booked from Europe.

If an infestation of wood boring insects exists in the wood packaging material, an Emergency Action Notification is issued. “Generally, the EAN directs that the cargo must be reloaded on the vessel and exported within seven days,” says Brazzale. “However, by the time an infestation is found, the vessel can be long gone.”

“If live pests are found, we would have to book a ship, load it, and either take it back to origin or to another port and have it fumigated and repacked to bring it back into the US,” says Diana Davila, Houston branch manager at UTC Overseas. “And there is really no recourse insurance-wise to cover the importer for that expense.”

Davila noted that steel products were not the only imports being affected. “I don’t think that steel as a commodity is being pinpointed for the violations,” says Davila. “It’s just that Houston has had a good enforcement team for the past few years that recognizes and is able to identify the insects very well.”

Both Brazzale and Davila work within the Houston WPM-Dunnage coalition, an informal organization that aims to develop solutions to the increasing occurrence of pest-infested WPM entering the Port of Houston. The group’s main focus is a program that would enable inspection at the port of loading, so a possible infestation could be detected prior to shipment.

Until that program becomes a reality, steel buyers and importers will have to continue to accept the risk of potentially re-exporting a cargo because more than just steel decided to come along for the ride.