S. HRG. 106-187

STEEL IMPORTS

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDRED SIXTH CONGRESS

FIRST SESSION

ON

H.R. 975, H.R. 1120, S. 61
S. 395, and S. 528

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CONTENTS

OPENING STATEMENTS

ADMINISTRATION WITNESSES

CONGRESSIONAL WITNESSES

PUBLIC WITNESSES

ALPHABETICAL LISTING AND APPENDIX MATERIAL

COMMUNICATIONS

STEEL IMPORTS

TUESDAY, MARCH 23, 1999

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 9:33 a.m., in room SD–215, Dirksen Senate Office Building, Hon. William V. Roth, Jr. (chairman of the committee) presiding.

Also present: Senators Murkowski, Gramm, Moynihan, Rockefeller, Conrad, and Robb.

OPENING STATEMENT OF HON. WILLIAM V. ROTH, JR., A U.S. SENATOR FROM DELAWARE, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. The committee will please be in order. Today's hearing will focus on the complex situation facing the U.S. steel industry and a number of proposals that have been introduced in both the House and Senate to address the situation.

Because we have a limited amount of time and a very large number of witnesses to hear from, I want to get right to our witnesses' testimony.

But, before turning to our first group of witnesses, we will hear from two of our colleagues, Senator Specter and Senator DeWine, and two members of the House, Congressman Houghton and Congressman Levin, both members of the Ways and Means Committee, who have introduced a steel proposal.

Then we will hear from a panel consisting of Secretary of Commerce William Daley, and U.S. Representative Charlene Barshefsky. They are here to provide the administration's position on the various bills now before the Senate, including the recently-passed House bill imposing quotas on steel imports.

Finally, we will hear from our second panel of witnesses, consisting of steel producers, steelworkers, and the consumers of steel products to learn their views on the various proposals.

Senator Rockefeller?

OPENING STATEMENT OF HON. JOHN D. ROCKEFELLER IV, A U.S. SENATOR FROM WEST VIRGINIA

Senator ROCKEFELLER. Mr. Chairman, I know that my name is not Senator Moynihan.

The CHAIRMAN. Right.

Senator ROCKEFELLER. But I would like to make a small opening statement, because this is a life and death issue for me and for the people I represent, particularly since we have been more affected than any other State.

I just want to say, and I respect my Chairman and I will be short, I am interested in short-term strategies. I am interested in strategies of all kinds. But what we in our State, and I think the steel industry, cannot afford is sort of business as usual, that we need some kind of action which is going to address this problem now.

I have always been for fair trade. I said at a recent meeting, which you and I know about, that people have to play by the rules. When people don't play by the rules, then that changes things. If people dump steel, that is called breaking international law. That is illegal. When people do something illegally, under international law, one does not usually let that pass.

I want to point out that import levels are at record levels, pricing are depressed. If I could just put these on the record. Hot-rolled imports have slightly decreased from the three countries, and only the three countries and only hot-rolled steel, in Russia, Japan, and Brazil, but imports are up generally in steel to this extent: 1,236 percent from China; from Indonesia, 720 percent; 326 percent from Australia; from Finland, 168 percent; South Africa, 164 percent; India 124 percent, et cetera. Cold-rolled now is up everywhere. People are saying, good, then we will come in and we will fill in where hot-rolled is down just a little bit.

The Commerce Department did some critical circumstances. They made it faster by 20 days, the ruling procedure, et cetera. But the benefit of the hot-rolled win with Russia was crushed by the suspension agreement. The suspension agreement was a major mistake. I have the feeling that the administration may be looking at Brazil. I want to find out about that.

Senator BYRD HAS DONE A TREMENDOUS THING IN TERMS OF THE BILLION DOLLARS WHICH HE IS LOOKING AT. On the other hand, that does not put a single steelworker back to work. It is tremendously important to keep some of our steel companies viable, particularly in West Virginia. But we do have the mechanisms, Mr. Chairman. This is a serious problem.

As I said before, there has never been any commodity in the history of trade statistics which has risen so fast, so quickly, in terms of imports, and so illegally, as the matter of steel. Therefore, this is, I think, an extremely important hearing, and I am grateful to you.

The CHAIRMAN. Well, because of the importance and seriousness of the situation, that is, of course, the reason we have called this hearing.

Senator Moynihan?

OPENING STATEMENT OF HON. DANIEL PATRICK MOYNIHAN, A U.S. SENATOR FROM NEW YORK

Senator MOYNIHAN. Let me just say, Mr. Chairman, that, indeed, we do face a singular set of events in the last year and a half. Representatives Levin and Houghton have some good ideas of how to fix up Section 201, which is where we have to go. I think you have indicated you are of that disposition. I look forward to their comments, and to our colleagues Senators Specter and DeWine, and I have a statement I would like to place in the record.

[The prepared statement of Senator Moynihan appears in the appendix.]

The CHAIRMAN. It is now a pleasure to call on the members of Congress who have given us leadership in this area. I would first call on Senator Specter.

Senator CONRAD. Mr. Chairman?

The CHAIRMAN. Would you like to make a comment?

Senator CONRAD. Might I just say a word before we do that?

The CHAIRMAN. I would ask everybody to be very brief, because we have a full panel today.

OPENING STATEMENT OF HON. KENT CONRAD, A U.S. SENATOR FROM NORTH DAKOTA

Senator CONRAD. Very brief. I understand that you do, Mr. Chairman. I wanted to be here because, although my State is not a steel producing State, we have faced similar circumstances with respect to a flood of unfairly traded wheat coming into this country which has devastated the economy of my State.

It is a very similar circumstance in which other producing countries are dumping at below their costs into our market. What we have found, is there is virtually no way to rectify the situation. I know now that we are experiencing this in the steel industry. I would hope that, together, we could form a coalition to try to make certain that there is a means for fixing these defects in trade agreements.

I have argued on this committee, there ought to be a corrections mechanism when something goes wrong. Frankly, you look around for a way to fix things and it is pretty hard to find. Yes, you can bring a dumping case. That is very difficult to do, in many circumstances, and expensive to do.

There has to be a way of getting results for an industry that is experiencing the kind of illegal, unfair activity that the steel industry is experiencing and that we have experienced in the wheat industry.

So, I just want to point out that this is a circumstance in which we have a similar interest. Those who are in steel producing areas have suffered terribly. Those who are in wheat producing areas have suffered terribly.

I think, together, we should try to find a way of rectifying these unfair circumstances and insist that our country enforce the laws that are on the books, but also to provide for fixes in agreements where they are flawed. I thank the Chairman.

The CHAIRMAN. Thank you.

Now we look forward to hearing from our friend and colleague, Senator Specter.

STATEMENT OF HON. ARLEN SPECTER, A U.S. SENATOR FROM PENNSYLVANIA

Senator SPECTER. Thank you very much, Mr. Chairman and members of the committee. Thank you for convening this very important session.

I begin with Senator Rockefeller's comment that the situation is life or death. It is a real crisis. The action taken by the House of Representatives on the quota bill—289 to 141, veto-proof if those votes stand—shows the overwhelming import of the matter.

H.R. 975, the quota bill, was placed on the calendar on Friday on a Rule 14 motion by Senator Hollings, and a major, massive effort will be made to bring that measure to the floor for a vote in the U.S. Senate within the course of the next several weeks, perhaps as soon as we return from recess, or perhaps shortly thereafter.

Beyond the action on the quota bill, there are other matters pending before this committee which deal with structural reforms going to the issue which Senator Conrad has raised about wheat dumping. It is not only steel and wheat, but many of the other industries are affected by these illegal practices which violate U.S. trade laws and which violate international trade laws.

When Senator Conrad asks for a long-term corrective mechanism, I suggest to him that the provisions of S. 528, a private right of action, go right to the core, to the target of that issue. Private rights of action have long been effective, illustratively in the antitrust laws, because private parties have a much faster, firmer handle on what is happening to take the initiative to move to core.

In 1982, I introduced legislation for equitable injunctive relief to deal with the crisis in the steel industry at that time. The essence of that proposal was that an injured party, union, or corporation could go into a court of equity to get injunctive relief—that is, to stop dead in its tracks—dumped goods from coming into the United States.

In a court of equity, it is possible, on affidavit alone, to get what is called a temporary restraining order, ex parte. That means on the application of one party, with an affidavit setting forth the facts, an emergency situation, and a judge will issue a restraining order.

When that is done, there must be a hearing within 5 days for consideration of a temporary injunction. The court hears that as promptly as possible and then considers a permanent injunction. But relief in a court of equity is a matter of days or weeks, not a matter of years.

The time line on the trade cases is that the complaint filed on September 30 of last year will not come to a final ITC determination until June of 1999. That is an intolerable period of time, which allows the dumping and the illegal practice to take a tremendous toll on industry and on labor.

We face a critical determination as to whether our laws will be sufficiently responsive to enable us to carry on the capitalistic system where, illustratively, the steel industry has invested $50 billion to become competitive.

In the 1980's, the cry was, "Steel is not competitive," for many, many reasons. So the industry went out and invested $50 billion in a premiere example of capital raising and capitalism to make us competitive to deal with the most basic of all industries for national defense or for domestic production.

Now we find that the industry is being decimated. Three bankruptcies have been announced in the course of the past several weeks. We find a tremendous lay-off of steelworkers. We find entire communities under siege. And I will not go through those statistics, because I know you will hear a great deal about them today.

My legislation in S. 528 is revised to be GATT-consistent. Article 4 of GATT provides that there may be "to offset or prevent dumping, a contracting party may levy on any dumped product an anti-dumping duty not greater in amount than the margin of dumping in respect to such product."

So in order to be GATT-consistent, my legislation on equitable relief would provide that, instead of an injunction which would stop the goods from coming in, that in this brief period of time, days or weeks, there would be a tariff or duty which is allowed by GATT.

Now, there is absolutely no reason why that ought not to be the law of the United States. This dumping is prohibited by Federal law. It is prohibited by international law. We ought to have a remedy which takes care of the problem instead of the years' delay.

Other structural changes are provided in S. 261, which amends the provisions of Section 201 in three particulars, on which I shall not elaborate because the yellow light is on, changing the definition of substantial, changing the definition of what kind of a serious injury, and changing the definition of causal link.

Thank you.

The CHAIRMAN. Thank you, Senator Specter.

We will now turn to Senator DeWine.

STATEMENT OF HON. MIKE DeWINE, A U.S. SENATOR FROM OHIO

Senator DEWINE. Mr. Chairman, thank you, first, for holding this hearing. This is a matter of tremendous importance to my home State of Ohio, and I appreciate your courtesy in taking the time to hold this hearing.

Our domestic steel industry, Mr. Chairman, has evolved, as Senator Specter has said, into a highly efficient and globally competitive industry. Yet, despite this modernization, our steel producers face a number of unfair trade practices and market distortions that have had a devastating impact in Ohio and other steel-producing States.

I have heard firsthand, as I know my colleagues have, from industry and labor leaders about this crisis. Their message is clear: the time for action is long overdue. The flood of drastically cheaper imported steel over the course of last year has caused thousands of workers to be laid off.

Some domestic steel businesses have been forced to file for bankruptcy. Most troubling of all, approximately 10,000 jobs, by our best calculation, have been lost already in our steel industry just since last year. In my home State of Ohio, the consequences have been devastating.

The Timken Company, a leading international manufacturer of highly engineered bearings and alloy steels was forced to lay off 400 employees. The WCI Steel Company in Warren, Ohio was forced to lay off 200 individuals. Wheeling Pitt, where over 65 percent of the employees actually live in the State of Ohio, was forced to lay off 250 jobs. The story goes on.

Mr. Chairman, these jobs need to be saved. Once they are lost, it is impossible to predict whether these jobs will ever be restored. Each day that goes by without a clear plan of action increases the danger to the steel industry, a key component of Ohio's and America's economy and to the livelihoods of thousands of dedicated steelworkers and their families.

Now, I am a free trader. I believe free trade does not truly exist, though, without fair trade. Free trade does not mean free to subsidize, free to dump, nor free to distort the market. Our trade laws are designed to enforce these basic principles.

The current crisis underscores what I believe is a flaw and weakness in our current trade laws. The extremely large preliminary dumping margins that were determined by the Department of Commerce revealed that foreign companies are willing to dump huge volumes worth of steel in our markets in order to gain a long-term share of the market. Because of the laws, it is difficult for U.S. companies to counter their actions.

That is why I strongly urge this committee to approve the legislation that I have introduced, the Continued Dumping or Subsidization Offset Act. Let me just also say as an aside, I also support Senator Specter's bill, as well as Senator Rockefeller's bill.

Let me talk a minute about my bill. Mr. Chairman, the Tariff Act of 1930 give the President the authority to impose duties and fines on imports that are being dumped in U.S. markets or subsidized by foreign governments.

My legislation would take this act one step further. Currently, revenues raised through import duties and fines go directly to the U.S. Treasury. Under my bill, duties and fines would be transferred to injured U.S. companies as compensation for damages caused by dumping or subsidization.

Mr. Chairman, transferring duties and fines will help our steel industry deal with the pending crisis and hopefully deter future dumping or subsidization. These practices reduce the ability of injured domestic industries to reinvest in their plant, to reinvest in equipment, people, R&D, technology, and health care and pension benefits for their employees.

Moreover, current law simply has not been strong enough to deter unfair trading practices. In some cases, foreign producers are simply willing to risk the threat of paying U.S. antidumping and countervailing duties out of the profits they receive from dumping. They think it is good business practice.

I believe that my legislation is consistent with our obligations under GATT and the World Trade Organization. Let me tell you why. The benefits provided under my bill do not create an actionable subsidy under the WTO as the benefits provided are broadly available to any petitioning group and eligibility is automatic and based on objective criteria. The benefits are neutral and do not favor certain enterprises over others.

Mr. Chairman, the steel crisis calls for leadership. Now that the House has acted, all eyes are on us in the Senate. We should not act for the sake of just acting, but we should act in a way that will help our steel industry in the short term, and our U.S. manufacturing base in the long term.

We need to stand up for steel and not just to help the workers in these communities. In many ways, this is a broader issue than steel. If we as a Nation say we will allow other countries break the law of illegal dumping, who knows what other U.S. industries will be targeted by illegal foreign predators? We need, Mr. Chairman and members of the committee, to draw the line and draw it now and protect the rule of law and preserve free trade. I thank the Chairman and members of the committee.

The CHAIRMAN. Thank you, Senator DeWine.

[The prepared statement of Senator DeWine appears in the appendix.]

The CHAIRMAN. We are very pleased to have Congressman Houghton and Congressman Levin with us. Congressman Houghton, do you want to start?

STATEMENT OF HON. AMO HOUGHTON, A U.S. REPRESENTATIVE FROM NEW YORK

Congressman HOUGHTON. Thank you very much, Mr. Chairman. Mr. Chairman, I would like to submit my testimony for the record. I will not read it. I will just sort of talk a little bit, because I think it is easier for me to get at some of the issues.

The CHAIRMAN. The full statements of all four, and all witnesses, will be included.

[The prepared statement of Congressman Houghton appears in the appendix.]

Congressman HOUGHTON. Thank you very much.

I am here with my friend and colleague, Congressman Levin from Michigan, and we have forged a bill called H.R. 1120. Obviously, we believe in it and we think it is an answer to the steel crisis, and also to other problems where people are unfairly using our open trade system.

I can only speak for myself in this particular case, but I applaud Mr. Visclosky in the House for bringing this to our attention. Something, clearly, must be done. I think it is important that we realize that when we use the word dumping, not all products that are injurious to our system are dumped. This is why the Section 201 is particularly important versus 301, which applies only to dumping, because there are particular industries that are affected by steel from South Korea, for example.

South Korean steel is not being dumped at all, but their currencies are so low that they could sell at any price they want, perfectly legally, throughout the world. But, obviously, they do tremendous damage to our own industries.

I sort of like to look at this as if I were a businessman. I am a businessman under the——

Senator MOYNIHAN. Sir, you are a businessman. [Laughter.]

The CHAIRMAN. He was.

Congressman HOUGHTON. Thank you, Senator. Representing a part of your State. If I look at my industry, assuming I am in the steel business for the moment, as I did when I was in the glass business, I would say, 201, this applies when an industry is being injured.

What do I do? So what do I ask? How long is this going to take me? What is it going to cost? What are the chances of success? All of the answers are negative, so therefore I do not file for a 201 case. In effect, it does not help me. I have got to do something else. That is why so few 201 cases have been applied for.

In terms of the Visclosky amendment—Mr. Levin obviously can speak for himself—I do not think that is the answer to this issue. It imposes quotas without any sort of injury finding, and that is clearly GATT-illegal. It takes away all Presidential discretion.

Certainly, we want to narrow it, but we do not want to take it all away. It just applies to steel. I think that this is a problem which has much more to do with many other industries. For example, the oil industry is being severely hurt not.

What our bill does, is ~~to have~~ the process honored by going through the International Trade Commission to find out if there, in fact, is an injury decision. Also, we changed wording.

Now, I am not a lawyer and I am not big on definitions and distinctions. However, there is a difference in the wording that we proposed versus the wording that exists now. In order to have a decision favorable in a 201 case, it must be a substantial cause of injury.

Now, you could be in the middle of a recession and the recession can be the number one cause for the industry being in terrible shape. But at the same time, you can have steel or whatever the product is coming in from the outside hurting you tremendously, but as long as it is not the single most important cause of injury, then it is not approved. So what we do, is to change the wording to "serious." I mean, it could be a significant, but not the only, number-one reason for depression in your industry.

Also, what we have tried to do is keep the Presidential discretion but reduce it. So, in other words, the President cannot just say, because of national security interests, because of economic interests, this thing is not applicable here.

He must produce a reasonable, cogent case that there is reason to think that the President should overrule whatever the findings are. Also, what we do, is open this thing up so it does not just apply to steel, it applies to other industries.

Now, everybody has their own feelings about their own particular bills, but I think that this is an answer. The administration, I understand it, is going to testify a little later. I think that Mr. Levin and I, and people from the administration, have talked and I think we are almost on the same page.

Thank you very much.

The CHAIRMAN. Thank you, Amo.

Now it is a pleasure to call on Congressman Levin.

STATEMENT OF HON. SANDER M. LEVIN, A U.S. REPRESENTATIVE FROM MICHIGAN

Congressman LEVIN. Thank you, Mr. Chairman, Mr. Moynihan, and all of your colleagues. I am really glad to be here.

I think Senator Rockefeller is very correct, there is a real problem. Sometimes the instant polarization that occupies trade issues makes us overlook facts.

There was a substantial surge. I will spare you my charts. They are colorful and unmistakable. There was a very substantial one in 1998. The Japanese economics minister came to see me and he brought a chart showing how much the hot-rolled steel imports had gone down in the last few months.

I pointed to him, look how much they went up in the previous 9 months. Their exports overall in steel went up, to the United States, from 180,000 to 900,000 metric tons, over 400 percent. People were hurt, that is clear. Ten thousand steelworkers, three companies filing for bankruptcy.

Next, it is clear the government acted slowly. It was not until dumping petitions were filed in September that the government did swing into action, and they did, aggressively.

I think it is clear, and Senator Conrad is so clear and so correct about this, there are real problems with Section 201. The relief is not expeditious at all when there is a surge. People are essentially helpless. That was shown in the Steel case. Section 201 has even more onerous requirements and standards than the dumping laws. So, you cannot wait until you are bleeding to death. Something has to change.

Second, the antidumping laws are incomplete because you can see a substitution of products or see a substitution of countries. So, the antidumping laws essentially do not work. We have seen some increase from other countries in recent months, especially from China, I might add.

So, look. We have got to take advantage of what Mr. Visclosky, Senator Rockefeller, and others have done to spotlight the problem. We need to act.

The problem with 975 is, it violates WTO. I looked into it. I read as much as I could. It was not even argued on the House floor that it did not violate WTO. We cannot, in a word, seek to enforce our international rules under WTO—and we are doing that—at the same time we are voting to violate them.

The WTO rules do not leave us defenseless against surges, not at all. What we have to do, is to craft aggressive provisions within WTO, and that can be done. That is what Amo Houghton and I—who fought to safeguard our antidumping laws in Geneva when WTO was being negotiated—have done once again, using his deep experience in the business world.

In a word, what we do is this. We strengthen Section 201, and I believe you have a copy of the analysis of it, by removing, as Mr. Houghton has said, the unduly high causation standard which is beyond required by WTO.

We make sure that there is consideration of the impact of import surges. As I dug more and more into 201, it was clear to me that the ITC does not really do this if there is a quick import surge. They look at three to 5 years, and you can be gone in much less than that.

Also, it requires the ITC to perform a more comprehensive injury and threat analysis, and also, as Mr. Houghton said somewhat gingerly, it requires the administration, when it looks at ITC findings, to focus on the problem at hand and not kind of automatically let the problem there be overcome by other issues, foreign policy and others.

There are other provisions in it, including—and I think you would find this of importance—an early warning import monitoring system. We really have not had that in place. So, the surge goes and we are asleep. We need to wake up. This legislation is an effort to do that.

I wanted to close by just saying a couple of things. The steel surge was not about globalization; that is here to stay. It was about manipulation. I just finished with this, because some are saying, if we reform 201, if we take strong action within WTO, it is down the slippery slope to protectionism. I say to that, that what will feed protectionism is inaction. We need to act.

I very much hope that this committee will use its experience, its resources, and help lead us to the path to a solution, by the way, which can be imposed quickly, because we have the power, under law—you, Finance, and we, Ways and Means—to self-initiate a 201. We do not do it because 201 today is not worth initiating. Thank you, Mr. Chairman.

[The prepared statement of Congressman Levin appears in the appendix.]

The CHAIRMAN. Thank you. I thank the entire panel. We appreciate your coming forward today and we look forward to continuing the dialogue.

Senator ROCKEFELLER. Mr. Chairman, on behalf of Senator Baye, could I submit a statement from him for this hearing?

The CHAIRMAN. Yes, of course.

[The prepared statement of Senator Baye appears in the appendix.]

The CHAIRMAN. And Senator Gramm has asked permission, and Senator Moynihan and I have agreed, we will open up for a brief statement on the part of Senator Gramm.

OPENING STATEMENT OF HON. PHIL GRAMM, A U.S. SENATOR FROM TEXAS

Senator GRAMM. Mr. Chairman, let me thank you for giving me an opportunity to make a statement. Obviously, we cannot help but be moved when our colleagues come before us and talk about job loss.

I think that is especially true in my case, because while our colleagues are talking about 10,000 jobs being lost in steel, during this same period we have lost 53,500 jobs in oil. Every one of those jobs has been lost because of an import of crude petroleum.

But I think we have got to bring some balance to what has been said here. Let me just briefly make a few points. First of all, we have 40 times as many jobs where we are using steel as jobs where we are producing it, domestically.

Second, domestic production is near an all-time record. Domestic production is not sagging. Domestic production was 1.2 million tons in 1998. The all-time record was 1.5 million tons in 1997. Of the 16 largest steel makers, 12 of them earned a profit in 1998.

And when you basically look at where we are, we do have provisions under Section 201 of current law for relief. But it is under two circumstances. Number one, you have got to prove you suffered serious injury. Two, you have got to prove that they were substantially caused by imports. Part of the problem is, the steel industry, by its own record, since 1983 has, on average, lost 9,000 jobs a year because of gains in productivity.

So it is very difficult to ferret out what is happening here, which is why we have Section 201. I think it is very important that we stay with our current trade laws and have the steel industry bring their case to the International Trade Commission.

We are already engaged in substantial action. The Department of Commerce, under existing laws, has reduced steel imports from Russia by 93.3 percent, from Japan, by 49.5 percent, from Brazil, by 30.5 percent, and from Korea, by 8.1 percent.

The final point I want to make is, and not to sound unsympathetic because I am very sympathetic, is the bills that have been presented to us here are prosperity killers. The adoption of one of these bills would send Dow down by 2,500 points. The adoption of one of these bills would be a major movement towards protectionism.

You can cover this with whatever kind of glossy paint you want to talk about, these bills are aimed at introducing protectionism where we would be the leader in what would quickly become an international effort, especially when the world except for Europe is in a deep recession—we are in the midst of great prosperity. If we start a trade war when we lose 10,000 jobs in an industry when we are creating 9,500 jobs a day in the economy as a whole, then I think we are going to be the great loser.

While I think we need to make the current law work, I just want to be sure that there is one person who says, we are not going to start a trade war in America. This bill may have blown through the House, but it is not going to blow through the U.S. Senate.

I think it would be a disaster for our country. I think it would be a prosperity and job killer. I am adamantly opposed to it. I just wanted to be sure that at least the other side of the story was told to some degree. I thank you very much, Mr. Chairman. I also thank you, Pat.

The CHAIRMAN. Thank you.

Senator ROCKEFELLER. Mr. Chairman, do I have the right to respond to that?

The CHAIRMAN. Well, we have many important witnesses.

Senator ROCKEFELLER. I know. But Senator Gramm has just laid out a case which is so filled with errors and ideology. I will be quiet if you wish me to, but I will answer his question as I talk to the other witnesses.

The CHAIRMAN. You will have your opportunity later.

It is a great pleasure to welcome you, Mr. Daley, and our USTR, Charlene Barshefsky. Rather than waste time introducing you, I will call on you now. Your full statements will be included as if read.

Secretary Daley?

STATEMENT OF HON. WILLIAM M. DALEY, SECRETARY OF COMMERCE, WASHINGTON, DC

Secretary DALEY. Thank you very much, Mr. Chairman.

President Clinton is dedicated to ensuring that America's steel industry, our workers, and their families are not hurt by unfair trade practices and import surges. This is a real problem. It is getting real attention and real results. The President has made it one of our top priorities.

Our staff at the Commerce Department has been working tirelessly for several months on steel issues. We have done everything possible to provide the quickest, most effective relief allowed under the law, including shifting resources, expediting cases, and making an early critical circumstances determination.

This policy has had dramatic impact in reducing imports. This is especially true in the hot-rolled steel, which is the subject of dumping cases in Japan, Russia, and Brazil. Hot-rolled imports have dropped 70 percent since November.

But the administration is not content with the status quo, especially when 10,000 steelworkers have lost their jobs. We are taking action to make sure what has happened in the steel industry last year is not reported. Last week, a bipartisan group of House members introduced H.R. 1120, the Import Surge Response Act of 1999.

We believe this legislation constitutes a constructive approach and we are ready to work with both Houses of Congress to develop a bill that we could recommend that the President sign.

In sharp contrast, we have deep concerns over the Steel Quota bill passed by the House last week. While we understand the motivation behind this legislation, we do believe it is the wrong approach. Not only does it raise serious WTO concerns, but it also could have a negative impact on our economy and send the wrong signal to the rest of the world.

Mr. Chairman, we recognize that the steel industry is not out of the woods, but our policy is working. If we could just take a few minutes to look at the numbers. Chart number 1. 1996, 1997, 1998 steel mill products from all countries. The first chart shows the dramatic increase in all steel imports in 1998, 33 percent higher than 1997, which itself was a record year.

By November of 1998, import penetration for steel products exceeded 36 percent. Domestic steel mill capacity utilization rates fell below 75 percent.

Chart number 2 is 1996, 1997, 1998 hot-rolled steel from Japan, Russia, and Brazil. Chart 2 shows the rise in hot-rolled steel imports, the major traded steel product, from these three countries between 1996 and 1998. In October, the steel industry filed antidumping cases on hot-rolled steel from these three countries, which account for the major portion of the surge. Where are we now? Since then, a turnaround has begun. It is too early to declare a victory, but the news is encouraging.

Chart number 3 is November, December, and January world steel mill products. Chart 3 shows the worldwide steel imports of all steel dropped by 34 percent from November of 1998 to January of 1999. The major reason for the reduction was a sharp decline in imports of hot-rolled steel.

Chart 4. November, December, January, hot-rolled products. Chart 4 shows the worldwide imports of hot-rolled steel fell by 70 percent in these 3 months.

Chart number 5 is November, December, January, hot-rolled from Japan, Russia and Brazil. Chart 5 shows the dramatic decline in imports of hot-rolled steel in these countries that is a direct result of the antidumping cases.

As you can see, hot-rolled steel imports from Japan plummeted from over 400,000 tons in November to less than 16,000 tons in

January. Russian imports fell from 600,000 to 11,000, and Brazilian, from 65,000 to 16,000.

All of this is a direct result of our dumping cases and the bilateral pressure which has been applied to our trading partners. The impact was felt because of our early changed circumstances determination made in early November.

This has had an immediate impact on the market, beginning in late November. The Commerce Department will release preliminary data for February on this Thursday, and we are expecting the dumping cases to continue to have a positive impact on our import numbers.

As I have said, these numbers show that tough enforcement of the law works. Let me briefly describe many of the unprecedented actions which we have also taken.

First, we expedited these hot-rolled cases. For the first time ever, we issued preliminary determinations almost a month early. These margins on Japan and Brazil ranged from 25 to 71 percent.

Second, as I mentioned, we changed our esoteric policy that has had a tremendous impact on the steel market. This policy, known as critical circumstances, is a WTO-consistent approach that is designed to deal with extraordinary import surges.

By making this determination early for the first time, we made the impact of the hot-rolled investigations felt in the market much earlier than last month's preliminary determinations. Instead, the impact was felt in November, and this was evidenced by the huge drop in December.

Third, we reached two proposed agreements with Russia that will significantly reduce imports of Russian steel and provide effective relief to our industry and our workers.

Together, the two agreements, when combined with the 1997 steel plate agreement, will reduce overall steel imports from Russia by almost 68 percent.

Overall, we are enforcing over 100 cases on steel products, and yesterday we issued final dumping and subsidy determinations on stainless steel plate and coil from five countries. The combined dumping and subsidy rates range from 8 to 60 percent, and two weeks ago we initiated dumping and subsidy cases on carbon steel plate.

Finally, our steel plan announced in January put into place new guidelines for the release of preliminary import statistics almost a month early.

Mr. Chairman, the President remains deeply concerned about the problems which are faced by the industry and workers. We have outlined strong actions which we have taken and have pointed out the dramatic results. Finally, I have indicated that we are prepared to work with you on additional constructive measures.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you, Secretary Daley.

[The prepared statement of Secretary Daley appears in the appendix.]

The CHAIRMAN. Ambassador Barshefsky?

STATEMENT OF HON. CHARLENE BARSHEFSKY, U.S. TRADE REPRESENTATIVE, WASHINGTON, DC

Ambassador BARSHEFSKY. Thank you, Mr. Chairman and members of the committee.

Last year, in the context of the Asian financial crisis, steel imports rose sharply and rapidly, averaging 3.5 million tons per month between April and November, the peak of the crisis, about 50 percent above historic levels.

While U.S. demand for steel has been strong, the very rapid increase in imports was driven by the sharp drop in demand in Asia and a diversion of Russia's exports from Asia to the United States.

Commerce Department preliminary findings have shown that at least a significant portion of the overall steel surge resulted from dumping. This threatened, in a matter of months, the stability of our industry and the jobs of many of its employees.

President Clinton and our administration listened and responded rapidly and forcefully. The President is personally committed, as he has said here and abroad, to ensure that our trading partners act fairly and that the policy that is adopted is working.

The steel report he sent to Congress on January 7 includes four complementary trade actions. First, full and expedited enforcement of our unfair trade laws. Second, initiatives dealing directly with the major sources of import growth in steel over the last year in Japan, Russia and Korea, which together accounted for 76 percent of the import surge. Third, strong support for our safeguards remedy. Fourth, the creation of an early warning system.

Let me just make two points about this overall approach. First, the policy is working and it is working rapidly. Steel import volume has fallen 32 percent over the last 3 months. At this level, 1999 imports are only 5 percent above the average pre-crisis 1997 average rate.

Imports of carbon flat-rolled products subject to the dumping investigations were down 70 percent over the last 3 months. This includes a 96 percent decline in Japanese imports, a 98 percent decline in Russian imports, and a 76 percent decline in imports from Brazil.

We know that domestic prices are beginning, at least slowly, to increase, as is capacity utilization here at home. The market share of imports has dropped from 36.6 percent in November to 28 percent in January.

Second, our policy operates within the framework of domestic law and the international trade commitments our country has made. Both of these are crucial. By working within our domestic laws, we ensure a fair and transparent process.

By remaining true to our international commitments, we prevent the beginning of the cycle of protection and retaliation which would harm working people and families in other sectors, notably manufacturing exports, including steel-intensive exports, and farmers and ranchers who are also suffering as a result of the Asian crisis.

Let me now review our actions on each of the four trade-related elements, briefly. First, with respect to the vigorous expedited enforcement of our antidumping laws, Secretary Daley has already reviewed for you the unprecedented actions the administration has taken.

Second, with respect to bilateral approaches, last year we informed the Japanese Government that we expect steel imports from Japan to return to pre-crisis levels and that, without such a roll-back in short order, the administration would self-initiate trade action against Japan.

We are monitoring import trends closely and we note a sharp decrease in Japan's exports from their peak volume, about a 75 percent drop. However, further progress must be made.

With respect to Russia, the Commerce Department has conclude two steel import agreements, which will reduce substantially Russia's import levels.

With respect to Korea, our negotiations are centering on the expeditious, complete, and market-based privatization of Korea's largest steel producer, Pasco, and the rapid implementation of the sale of Hanbo Steel, which has since been closed, in a manner which will not entail government involvement.

The third element in the President's plan is support for Section 201, including the possibility of expedited action under Section 201.

Last, our early import monitoring system. Import steel statistics were made public almost a month before their regularly scheduled release. We intend to, first, carefully monitor imports from Japan; second, monitor import trends from product categories that had been the subject of sharp increase; and third, monitoring imports from second-tier suppliers and the EU.

Let me say a few words about this third element. Some have expressed concern that third countries will take advantage of the reduction in imports under the various elements of the President's plan. We recognize this possibility and we are closely monitoring imports of steel from all sources.

On this point, let me say a word about China. Overall steel imports from China have increased. There has been some growth in hot-rolled sheet, which we are watching closely, as well as increases in pipe and tube.

China is a relatively small supplier of these products but, due to the weakened state of our industry, any steel import growth at this time is of concern. We remain prepared to address unfair trade practices of any country expeditiously and forcefully.

In summary, we have adopted a comprehensive action plan. It has begun to provide relief from unfairly traded imports and it is designed to ensure that steel firms and steelworkers are not made to bear the full weight of the Asian financial crisis.

This plan, we believe is, well conceived and is getting results. At the same time, it remains within the framework of American law and international commitments, thus helping us to prevent a cycle of retaliation which could harm working people and families in other sectors.

Others have suggested alternative approaches. We are deeply concerned, however, that legislative initiatives to roll back imports outside the processes established by U.S. trade laws could backfire and cause harm to U.S. economic interests in the steel industry, steel-intensive exports, and other manufacturing and agricultural goods.

But the steel crisis has demonstrated that there is room for improvement to our trade laws, and particularly the Section 201, to ensure that they deliver strong, effective relief in an expeditious manner.

Section 201, our safeguard statute, is critical for ensuring that our industries can make a positive adjustment to import surges when they occur. We believe, for example, that H.R. 1120, the legislation introduced by Representatives Levin and Houghton, constitutes a very constructive approach and we stand ready to work with them, and other member of Congress, to develop a bill that we could recommend the President sign.

The steel crisis is not over yet. We see a glut of product on the market and imports remain very high in a number of product categories. We do, however, see positive signs in the marketplace and we look forward to working with you, Mr. Chairman and members of the committee, as we make progress in this, and many other, trade issues. Thank you.

[The prepared statement of Ambassador Barshefsky appears in the appendix.]

The CHAIRMAN. Thank you, Ambassador Barshefsky.

Let me ask both of you. We are faced with the prospect of quota legislation coming to the floor. It, of course, passed overwhelmingly in the House. If that legislation were enacted to become law, what would be the impact on our trade? How would it affect other industries' employment? Ambassador Barshefsky?

Ambassador BARSHEFSKY. Well, let me say that we have a very substantial concern about the bill that was passed by the House. As you may know, the administration does not support the bill.

The administration has provided a letter to the leadership on the House side indicating that, certainly, the President's senior advisors would recommend that he veto the legislation, were it to come to his desk.

There are a number of reasons for these strong views on that legislation, and let me just cite a few. One, is that we have effective tools to combat unfair and injurious trade. The actions that Secretary Daley, in particular, has taken have proven remarkably effective.

Second of all, our trade laws are based on fair and transparent processes. They are designed not to advantage or disadvantage one set of producers or workers at the expense of another set of producers or workers. Without that kind of transparent review and well-thought-out approach, action with respect to one sector is likely to favor one constituency potentially at the expense of another.

Third, legislated quotas can create severe distortions in the market. They can add to, rather than resolve, economic problems. Quotas can create shortages for user industries, they can result in excessive price hikes, and add to economic distortion.

The imposition of quotas at this stage, when it looks like the market is beginning to stabilize, could have the unintended effect of causing a panic in the market and creating severe additional problems.

Last, action outside the bounds of our trade laws exposes U.S. producers and workers to retaliation. We would be in violation of our international obligations and the result might be a further downward turning in our export performance in a number of important sectors beyond the downturn we are already experiencing because of the Asian financial crisis.

The CHAIRMAN. Secretary Daley?

Secretary DALEY. I would just second everything that the Ambassador stated. I, as one of the senior advisors, would recommend that, if the bill as it passed the House, came to the President's desk, that he veto it.

The CHAIRMAN. Let me ask you this. If we were to lose a WTO case and face retaliation or pay compensation, how much would that likely cost our economy?

Secretary DALEY. To be honest with you, Mr. Chairman, I would not have a guess at this point. But we can try to get some analysis done for you. I would not have a guess at this point. No doubt, it would be substantial.

Ambassador BARSHEFSKY. It would be substantial. It would be substantial.

The CHAIRMAN. Well, I would be interested in any further comments you care to make because I think it could have a very, very significant impact, both on other industry, if there is retaliation, and on workers.

Ambassador BARSHEFSKY. I agree, Mr. Chairman. We do not have figures. We could attempt to see if we could work them up based on the kinds of cutbacks and potential damage that would be occasioned as a result of that bill becoming law, were it to become law.

But there is no question that legislated quotas of this sort run counter to our international obligations and would entail the very real risk of retaliation against any one of a number of sectors.

As you know, under international trade rules no one can retaliate across sectors. So the fact that we block steel imports could result in, for example, retaliation against agricultural exports or services exports, or the export of other manufactured goods of some sensitivity here.

The CHAIRMAN. Let me ask you this. How do we address the long-term structural problem facing the steel industry due to overcapacity in the global market? Are more unfair trade cases the answer? Should we be initiating some kind of a multilateral negotiation on steel trade and encouraging the international financial institutions to facilitate further privatization? What do we do about subsidies abroad?

Ambassador BARSHEFSKY. Mr. Chairman, you are asking, obviously, the difficult questions. I think there are a couple of points to be made. For many years, of course, the United States attempted to negotiate a multilateral steel arrangement which would have had the effect of reducing global subsidies on steel.

Over time, there has been a general reduction in global subsidies owing particularly to the restructuring of the European steel industry and the fact that budgets are tight the world around. It is harder and harder to pour in large amounts of money, though some countries do, into particular sectors.

But subsidies remain a significant problem. The U.S. had tried for many years to negotiate a multilateral steel agreement. The chief stumbling block was that our trading partners, most notably Europe, wanted in exchange for that agreement our agreement to go without the dumping and the subsidy laws. That obviously was a completely unacceptable condition and the talks floundered for a number of years after that condition was imposed.

I think, second, though, through the WTO we have a pretty good subsidies code. That is an area I think of fruitful inquiry.

Third, IMF conditions on a number of the Asian economies, including Korea, mandate that the government stop directed lending to enterprises. This, in Korea, included steel. It resulted in the shut-down of Hanbo, which is their hot-rolled steel producer.

It is what is encouraging the Korean industry to privatize Pasco and to get government out of the business of being in business in the steel sector. We think that that is also a positive approach.

Obviously, all these approaches take time. The problem is still severe in terms of subsidies, but we do think we have some means of dealing with that, in addition, of course, to our unfair trade laws, particularly the countervailing duty law.

The CHAIRMAN. Let me ask this, and then I will turn to you, Senator Moynihan.

Does the administration support either Senator Specter's proposal to allow dumping and countervailing duty cases to be litigated in Federal court, or Senator DeWine's legislation, which would pass dumping duties along to the industry petitioners?

Secretary DALEY. No. Mr. Chairman, at this point we do not support either one of those. We think one of the concerns must be the burden that will be put on the judicial system with these sort of cases.

As to the compensation being given to the private sector, I think there is a question, one, of frivolous suits, and also just the burden of administering such a program may be too much for all of us. But I think the burden that would be put on the judicial system could be rather enormous.

Ambassador BARSHEFSKY. Mr. Chairman, if I might just add, I agree fully with what Secretary Daley has said.

I think the other point is, our unfair trade laws are designed to operate in an expeditious manner. That is to say, an administrative agency like the Commerce Department, making very complex economic determinations but within a specific period of time, that kind of discipline would not be present in a court case.

These cases are akin, in data collection and analysis—for example, the antitrust cases. We know how long antitrust cases take in the Federal courts. Yet, industry is affected by unfairly traded imports want expeditious relief. So, for that reason as well, we do not support the legislation.

The CHAIRMAN. I would just make one comment. I think one of the concerns is that action is not normally taken quickly enough to help. If you have safeguard, it is a year or so later. One of the things, if we are going to be changing the laws, we need to look at, how can we expedite so that there is real relief given when it is needed and not after the fact.

Senator Moynihan?

Senator MOYNIHAN. Well, very much to agree with what you just said, Mr. Chairman.

I was pleased, and I am sure my good friend Representative Levin was pleased, when you, Mr. Secretary, stated that their bill, the Houghton-Levin bill, if you will, H.R. 1120, was a constructive approach to this matter.

I was even more pleased, yet more pleased, when Ambassador Barshefsky said that the Houghton-Levin bill was a constructive approach. I have a feeling the OMB has been checking out the testimony.

Ambassador BARSHEFSKY. They have been very constructive. [Laughter.]

Senator MOYNIHAN. I, for one, agree. I hope we can proceed along those lines. Could I just observe from someone who goes way back and has admired the work of Cordell Hull on the Trade Agreements Act of 1934, sir, there is a tornado heading your way of protectionism.

It could be devastating to us and it could come about because we are not sufficiently attentive to real injuries that are easily accepted in the large view of things, but not in Weirton, West Virginia. I just plead that there needs to be more energy in the executive here. Not either of you, but there seems to be an assumption that surely no one would believe any of these things.

Well, we just saw that the House of Representatives did otherwise. In the midst of the longest prosperity in the history of the world, our present expansion does not go back 11 years, or 9, or what you will, it goes back to 1946, or 1941, if you wish, in unprecedented movement, largely the work of economic theory and very courageous people such as Cordell Hull and Franklin D. Roosevelt.

We could lose it more quickly than you think. You saw it hit the other day on the floor of the House. Do you share any of that sense? I am not berating you, I am pleading.

Secretary DALEY. I would say we have the same concern and we hear it every day. We have been hearing from not only the industry, but workers and the union now for almost a year, the truth of the matter is. George Becker came in to us probably in April of 1998 and began to lay out his strong feelings about what was going to happen.

I have had the opportunity to meet with industry workers, workers from Kentucky, workers from other parts of the country, and talk about the difficulties and listen to real people talk about the problem as opposed to others.

I think we sense very much the political concern and the move towards an action, some action to address this deep concern of people who have lost their jobs and who fear that they may be next.

At the same time, as you say, Senator, we have got to balance that with keeping this strong economy and not getting swept up in a wave of protectionism, but address, in a quicker way—and in some people's opinion a more serious way—these honest feelings of people that they are being taken advantage of by what is going on in these import surges.

Senator MOYNIHAN. Could I say, sir, that this is not a new experience, of the individual against the collective good, or the perception of well-being.

Mr. Secretary, the Chairman of this committee, and I think the members of this committee, are determined to give the President negotiating authority, which every President since Franklin D. Roosevelt has had. And if you do not get fire in your blood downtown, we are going to lose it. That is a legacy. I do not think one can be too blunt. I am a great admirer of yours, and yours, Ambassador. But we could lose a legacy of 60 years.

Secretary DALEY. We are intent, Senator, on not losing that. We do want to work with you. I appreciate your——

Senator MOYNIHAN. Well, I hope there are people downtown—and not you, you have been right up front—who might give up just a little political advantage, a few notches on the overnight poll, to save this central principle of American foreign relations. Well, do not answer that.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Moynihan.

Senator Rockefeller?

Senator ROCKEFELLER. Well spoken, Senator Moynihan.

You have talked, Ambassador Barshefsky, about running counter to our international obligations about other legislation. That, of course, implies that others are living up to theirs. If you are indicating that, then you are an entirely new person than the one I have known for the last number of years. You have talked about substantial concern, or perhaps Secretary Daley talked about substantial concern. We have effective tools. I think that was you, Ambassador Barshefsky. The only problem is, you will not use them.

Now, the fact of the matter is, everybody has been talking about 10,000 workers laid off. I would kind of be interested in what it takes to get you all moving. Yes, we can do Section 201 in the Senate Finance Committee. I doubt it will happen, but we could try.

They are not going to do it in Ways and Means. In fact, they voted down the quota bill. I doubt that either of you would have given a dime that the quota bill would have passed the House, but you were dead wrong, were you not, both of you? Absolutely, totally wrong. I was surprised and you were surprised, and do not pretend otherwise. It could happen here. It could happen here. We have got a 2-week recess coming up and there are going to be some amazing activities going on.

People talk about 10,000 workers having been laid off. That is a total misnomer, and I hope you understand it, because you have used that, Gramm used that, others have used that. That is not true. That only refers to those who have been laid off; 3,000 of them, incidentally, in Texas of the 10,000. The fact is probably closer to 75,000 to 100,000.

As I have said in this committee many times before, the fact that the United Steelworkers have a not cut clause in their contract that expires in July, that come July, which is before any action that you all will be able to take, is probably going to put another 75,000 on the street.

Those people today are probably sweeping and cleaning machines in the factories today, so let us not talk about 10,000, let us talk about 75,000, 85,000, 95,000, in effect, in fact, today, but for the protection of that clause in the contract which is not yet expired, but which will. So, do not talk about 10,000.

So what is it that gets you going? I mean, you did some things on Japan and Brazil. Yes, Japan is down. They are down. But let us wait and see what the April statistics look like on March before we come to any real deep conclusions about that.

Russia. You probably took the heart out of the steel industry on Section 201 for the moment, although their lobbyists were lobbying like crazy for the quota bill in the House, in case you had not noticed. They want this tragedy stopped now. They do not want to wait 2 years for a solution, by which time a lot of the industry will have shut down, far more in Wierton, West Virginia.

So the Russia thing was a tragedy. I do not know, Secretary Daley, whether you are going to do the same thing in Brazil. I have heard that you are, I have heard that you are not, but I am interested in the answer to that.

But, regardless of the answers to those which I hope I will get, Russia, Japan, Brazil, that is terrific. All right. That is three countries. But, since they are coming down a little bit and you are all beaming about it, the administration is doing nothing about it.

I mean, try to make an impression in the Oval Office or the Vice President's office, it just does not work. It does not happen, because they are all listening to Secretary Rubin. I would hope they would listen to you, but they do not.

This has been a pattern which has been very clear for a very long time. They want to resurrect the world and, oh, yes, they will settle on bananas. They will go to the mat on bananas, because that is what Trent Lott wants. But when it comes to a steelworker, forget it. Well, I cannot, and I will not, like he cannot forget his farmers, and he will not.

So while you are doing something on Brazil, Japan, and Russia, China has increased hot-rolled 720 percent, Indonesia up 1,236 percent, Australia 326 percent. Finland—I did not even know they made steel—168 percent. South Africa, 164 percent. India, 124 percent. That is hot-rolled. But cold-rolled is also up. Cold-rolled is also up because they are beginning to figure us out: we will not act. We will talk, but we will not act.

Some of us are fairly tired of that. And maybe I could just ask you, Secretary Daley, whether or not you are planning to bring a suspension agreement with Brazil, which would be a crushing blow to this whole effort, or if you are not?

Secretary DALEY. I met with the foreign minister last week. He has asked for negotiations. I told him we would get back to him. We have made no decision on whether we would.

Senator ROCKEFELLER. So it is open. You might.

Secretary DALEY. It is open. We might, we might not. We might not even sit down with them to discuss whether we would have an agreement.

Senator ROCKEFELLER. Yes, but you might.

Secretary DALEY. We might.

Senator ROCKEFELLER. Yes. So then that would be two of the three of the hot-rolleds. Do you understand the message that that sends to the rest of the world? I mean, big steel. Sure, they are making money now because they are selling to automobile companies. But that, as Senator Moynihan refers to, is because of the incredible economy. The economy does not necessarily stay that way. It does not necessarily stay that way. We were meant to pass 10,000 and we did not do it. So, things can change.

What I am interested in is a short-term solution which says to the world, America, for the first time, will not be the only one who will play by the rules.

You know perfectly well that the Europeans have a history of refusing to take up any of the slack for the dumped imports, regardless of what the matter is, what the commodity is, that come our direction because we will always take them. Yes, some of our steel mills are buying them because they have no choice, because they are trying to keep their people on the job.

I am just very, very discouraged and distressed, Mr. Chairman. I admire your desire to look for a long-term result. By the time that the long-term result is achieved, I am afraid that the steel industry in this country is going to be replaced by a lot of $8- to $9-an-hour jobs, probably without benefits. That is all I have to say.

The CHAIRMAN. Senator Conrad?

Senator CONRAD. Mr. Chairman, thank you. Thank Ambassador Barshefsky and Secretary Daley. We welcome you here. You hear the frustration. You are about to hear some more. I do not have a lot of steelworkers in my State, but I can tell you, we feel their pain.

I represent a State that is the most agricultural State in the Nation. I believe in free trade. I believe in the benefits of free trade. I believe that it makes economic sense in the large context. The devil is in the details, as both of you know so well. Probably nobody knows that better than Ambassador Barshefsky. This is a tough, tough world. People fight for their interests with great intensity. Others are, frankly, quick to take advantage of the United States and our good nature and our prosperity.

Ambassador Barshefsky, you have seen this chart many times, more times than you probably care to. But for others, I would show it because this shows what has happened to durham imports from Canada since the passage of the so-called Canadian Free Trade Agreement. I call it so-called because I do not think it is really free trade, I think it is negotiated trade. At least with respect to wheat, which is the dominant commodity in my State, we lost the negotiation.

Now, that was not on your watch; I want to make that very clear. That was in a previous administration, a previous trade representative. We got slipped a mickey. Some of us recognized it was going to be trouble and voted against it. I think there were eight of us in the Senate that did. But I can tell you, it has been a disaster for my State.

They went from zero percent of our durham market to 20 percent of our durham market virtually overnight. Not because they are more efficient, not because they are more competitive, but because of defects in those trade agreements and because of a lack of effective tools to deal with it. That is what happened here.

Now, you see there was a sharp reversal back in the 1992-1993 time frame because a previous trade ambassador was then able to take action, before GATT, which restricted our ability to do so. Ambassador Kantor took action and we got a dramatic reduction, cut it in half—cut it more than half.

Durham, by the way, is the product that makes pasta. The vast majority of the durham produced in this country is produced in my State, the State of North Dakota.

But we have been devastated by this. So when I see it happening in steel, I must say, I feel their pain. I know what they are going through. It is pretty lonely out there.

The truth is, you search for what you can do to fix it and what you find is not very encouraging. We had a Binational Panel ruling that went against us because we found there was a secret side deal between the previous trade ambassador and the Canadians. So, we got no relief there.

Then you turn to the other remedies that are available, 201, 301. Those cases are not going to be brought. Here is a commodity that is a small dollar volume. It is very hard for them to raise the money to bring a dumping case. If you do bring a dumping case, because wheat prices are very volatile, they move all around, it is very hard to prove injury.

So what do you do? What do you do? We had put in place this limitation, this green line, memorandum of understanding. It was in effect for 1 year and it could not be repeated because of provisions in the GATT. In the last 2 years, they crossed the line. What do you do? Ambassador Barshefsky has talked, talked, and talked to the Canadians. They say they are now going to tell us what they are going to send us next year.

I mean, our farmers are living with truck, after truck, after truck that crosses our border every hour of every day, bringing in Canadian grain. Again, not because they are more competitive, not because they are more efficient, because of defects in trade agreements.

I would just ask, Ambassador Barshefsky, do you think there are things that need to be done to change law to help us deal with this situation, and if so, what would they be?

Ambassador BARSHEFSKY. First of all, you obviously are pointing to a very difficult situation. We know how hard-hit your State has been, in particular, for a variety of reasons, among which is the durham issue from Canada.

You know that we have entered into an agricultural agreement with Canada several months ago, which has already begun to improve quite dramatically the situation on cattle, as well as on our ability to use Canadian railroads for our shipments of wheat to the coast, which provides very important price competition to the existing carrier in the United States.

We see volumes shipped on Canadian railroads increasing quite substantially now, and we are hoping that is going to bring down rail rates overall. I think that will be good for the farmers, particularly in North Dakota.

With respect to durham and spring wheat imports from Canada, you know we have been working hard with the Canadians to help ensure that Canadian imports are non-disruptive to the U.S. market, non-disruptive to the markets in your State, and in other States in the northern tier.

Canada will now provide us with estimates of their shipments, essentially, in advance. We have indicated to Canada that we are on the lookout for market disruption, and they are aware of this. I think we have provided some of those estimates to you.

I would say, with respect to the question of trade law changes, that I do think our trade laws, generally speaking, are effective. But I think we should always be alert to the question of whether they can be made more so. That is to say, whether they are providing the necessary relief within the framework of international rules and whether that relief is being provided at the earliest point in time, which is also an issue Senator Rockefeller has raised.

For that reason, we do think—and I hate to go back to the phrase that Mr. Moynihan spoke of—that the approach that Sandy Levin and Amo Houghton have suggested is very, very constructive and one that we would hope the committee would look at quite seriously because it is a generic approach. It is not sector-specific in any way.

It is one that would comport with our international obligations in all respects—I am speaking now, in general; I cannot tell you whether we agree with the details of their bill, but speaking in general—and one that might well ensure that more recent surges in imports can more effectively be captured under our trade laws.

So we would urge the committee to look carefully at the Levin-Houghton approach, and that may well be an approach, Mr. Conrad, that you might look at as well.

Senator CONRAD. I thank you for that. I hope, in addition to being responsive on this Canadian grain issue, continuing to work at making that a priority, that we send a strong message on steel.

My colleague, Senator Rockefeller, feels deeply because people's lives are at stake. When that agreement in July, that contractual agreement, comes to an end, there are tens of thousands of people at risk for losing their jobs through no fault of their own.

It is critical that we respond, and that we respond effectively, because otherwise these trade laws will lose respect in this country. Then we will have a very difficult time maintaining any kind of regimen for the long term.

Secretary DALEY. Senator, if I could just make one comment on a point you made. I know it is a concern of yours. That is, the inability of small businesses to take advantage of the trade remedies. Under Secretary Aaron testified last month before the committee. We are trying to work with the committee to try to come up with an idea.

One idea that was put forward was possibly having some funds with which we could work with the States and have a grant program with the States, so they could then work with small businesses to put together the funds to take action under our trade laws, which we acknowledge can be long and costly. So, I think there are some ways to address some of the concerns of your small businesses.

Senator CONRAD. Well, I appreciate that. I want to say, we do respect the work of the two of you. We know that you labor long and hard to make this all effective, but you are caught up in a system that is not perfect. Part of our obligation is to try to improve it.

The CHAIRMAN. Senator Robb?

Senator ROBB. Thank you, Mr. Chairman. Mr. Secretary, Madam Ambassador, I wonder if you could respond just for a minute to the passion that you heard from the last two colleagues. My friends from both North Dakota and West Virginia have in the past very frequently articulated not only the problem, but the underlying concern, the depth of the emotion that these problems create.

For many of us who profess, as almost everyone has said in one way or another around the table, to be free traders, there is a human dimension, and it is very real. I do not have quite the extent of the vested problem in either the steel or the durham problem. I am aware of it and I have heard both of our colleagues who have just interrogated you and made their feelings very clear on this issue.

But it seems to me that we have the age-old problem of the impact on the people who are adversely affected, or believe they are going to be adversely affected.Sometimes there are even more of the latter than the former, by others who do not play by the rules, to use the terminology that the Senator from South Dakota just used.

What obligation do we have to address the underlying human problem and human concern that is clearly generated by the dumping practices that are taking place in both areas, or the perspective on unfair trade practices which have got to be a little more neutral? What do you see that we can do about those?

Secretary DALEY. I think, and this really goes back to Senator Moynihan's comments earlier. For those of us who believe in an open trading system, we have got to make sure that we hold that middle of America, who have benefitted by an opening trading system and are supportive of it, but are at this point questioning whether seeing certain people in our society impacted negatively and their concerns about the changes that are going on in the overall society, the technology changes that have changed the work force much more than trade has changed the work force. How do we hold that middle of support?

There is no question that Senator Rockefeller's deep concerns on this issue are not new. They are concerns that he has had for many, many years, going back to even before he was Governor. He understands this issue as well, if not better, than anyone, and understands the depth of the personal feelings of people.

We hear these stories from people, real people, and also from those who come in, whether it is the union or the industry that comes in, to visit with us. We are trying to balance that.

At a time when our overall economy obviously is going very well, to see people who are subject to fluctuations in the market that have occurred over the last, less than a year, the truth of the matter is, this surge, these difficulties, started in April of 1998. If you look at the imports and you look at the impact, it really started in April and then dramatically went up in May, through November, so, a period of about 6 months.

But, even though that is a short period, it has had an enormous impact on the 10,000 that have been affected as of January 30, and the potential obviously of the numbers that Senator Rockefeller speaks of that are enormous.

So we are trying to balance that. Again, a few people feel the passion because they have been involved in this issue for so long. But we are working. We are trying to take advantage of the laws, as you have passed them, to move quickly and to enforce them. We believe that, even though it is a short period.

We have seen dramatic results to bring down from this surge that started in April that has had such a devastating impact. On a week-by-week basis, we will monitor this to make sure that we are on top of it, and whether we have to change the laws.

But this President has spent over 6 years now trying to work with the Congress to get our economy strong for the overall good, and we are taking steps to try to hold that good economy, and at the same time prepare for the next administration.

Senator ROBB. I certainly do not want to see us lose that. I am concerned, as the Ranking Member has suggested, that the actions that we might take could have consequences far beyond anything that we are talking about here.

But the old problem, and certainly everyone around this table, and I think both the Secretary and Ambassador Barshefsky have heard me use this analogy before, to the one individual who may have a job at this point, it is no great source of relief or euphoria for him or her to find out that, although their job may be at risk, one of the trade agreements is going to provide employment for two unemployed cousins, or whatever the case may be, if their own job is placed at risk.

As one who has supported each of the agreements that have come along and who wants to see us continue to enjoy the fruits of the kind of trade relationships that we have had, it seems to me that we do have an obligation to try to respond to the very real concerns.

Let me say to my friend from West Virginia, and I have been working with him for almost 30 years. We were Governors almost 20 years ago together. The passions that you hear today are the same passions that he exhibited for the people of West Virginia in a way that very few public officials can truly understand and represent, the kinds of concerns. He has a way of conveying those to colleagues that is unparalleled, as far as I am concerned, over a long period of time.

So, I take those concerns seriously, but I take the potential implications of the kind of legislation that was passed by the House very seriously as well. I am looking for some way to address the underlying concerns that are real without creating some sort of devastation on the whole system.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Murkowski?

Senator MURKOWSKI. Thank you, Mr. Chairman. I guess we are all puzzled, frustrated, and recognize your degree of frustration for not being able to enforce the trade laws that we have, playing by the rules of the antidumping laws.

I am particularly moved by Senator Moynihan's reference to the danger of where we are drifting with our frustration being expressed. I am sympathetic to my friends who are dependent on the steel industry. But I would suggest to you it is not unique to the steel industry, it is all of our commodities, our oil, agriculture, timber, minerals, fisheries. They are all under water.

Now, we have got a little good with the bad. It is great for inflation, is it not? It is great for inflation. The administration, of course, is motivated by the economic prosperity that we have. But it is rather curious that everybody is under water. The economy is at an all-time high, inflation is low, and these are the causes of it.

I am looking at commodities in addition to steel. Agricultural jobs are down 14 percent, mining down 22 percent, manufacturing jobs decreased 360,000 from 1985 to 1995. Low commodity prices, minerals, gold, lead, zinc, silver, agricultural products, soybeans, wheat, corn, oil. Water is cheaper than oil. Cattle, timber.

Senator GRAMM. You mean the other way around.

Senator MURKOWSKI. I mean the other way around. Oil is now cheaper than water. These are all historic lows. And we blame Asia, we blame everybody but ourselves. But the realization is, imports are attractive and we are becoming more dependent on imports. Our mark-ups are higher on imported apparel than domestic apparel, so the wholesalers obviously are attracted.

But it seems to me, as we address the necessity of recognizing job losses in the steel industry, we are looking at the rest of the commodity market as well. You cannot look at it singularly.

It seems to me you have to look at the ills associated with all commodities and recognize that we are either all going to move over to high-tech, Microsoft type jobs, which I doubt the reality of, or we are going to do something about protecting our basic commodity markets without, as Senator Moynihan suggested, drifting towards a very dangerous situation that we have already seen during Smoot-Hawley, where we built a fence around our Nation.

It would seem that the answer is to enforce the existing trade laws. But I have worked on issues, and one of my favorites was trying to get U.S. firms into the Japanese construction industry. They just stonewall us. Our markets are open to them; theirs are not open.

I am venting my frustration. I am wondering, is it not better to look at the entire cause of all of our commodities being in a situation? I am sure Senator Gramm would indicate the number of jobs lost in the oil industry. There are thousands and thousands in my State of Alaska; 600 here, another 1,000 there.

So, this is a compound problem. I wonder if either of you are suggesting how you propose that this administration not just take on the steel industry, but take on the underlying cause that we find our commodities all under water. What are you going to do about it? What are we going to do about this?

Ambassador BARSHEFSKY. Let me just say that obviously we are happy to work with you and with the committee. I think you see, generally speaking, a collapse of commodity prices globally. This not only impacts the U.S., it impacts other countries, particularly the producing countries. For example, Chile and copper, which forms such a large part of Chilean GDP.

The reasons for that collapse are very complicated. In the case of agriculture, it is, in part, bumper crops in countries that formerly had not been large agricultural producers, coupled with bad weather in other countries, coupled with a collapse of the Asian economy, the inability to afford basic foodstuffs. The Indonesians' rice subsidies were taken away because they simply cannot afford any increases in price, particularly with a devalued currency.

So I think there are many reasons that, for example, in agriculture, but also in other areas, that commodity prices have collapsed.

To the extent that collapse results in capacity reductions, that may help prices firm because these commodity prices, whether it is wheat or corn, whether it is copper, whether it is oil, tend to be global prices. There is relatively little differentiation among countries, which is, in part, why we think of them as commodities.

But part of this may result in a shake-out of capacity, particularly less productive capacity. That, therefore, would create some price firming. We may be seeing that already beginning in agriculture and a few of the other commodity markets.

Part of this is addressed in IMF programs, which try and get government out of business in the countries in which this has become a problem. But I think this is a complex area and one that is probably subject to a lot of different economic interpretations as to why what has happened has happened all at once, seemingly. It is something I think we should look at with the committee.

I would say, as a general matter, I do think that to the extent imports coming into the U.S. are unfairly traded, if they are subsidized or dumped, I do think our trade laws are effective remedies.

But that is not, generally speaking, a remedy to which most of the sectors you have mentioned have decided to turn, in part, because the price collapse is a global one, it is not predatory pricing in the U.S. market, per se.

The CHAIRMAN. Senator Gramm?

Senator GRAMM. Well, Mr. Chairman, thank you. Thank you, Mr. Secretary and Madam Ambassador.

Let me just take up, Madam Ambassador, where you left off. Your point, I think, is the critical point, that we are in the midst of a global recession where we are blessed by having very strong levels of demand. We are looking at an industry that has had tremendous technological breakthroughs in the last 10 years and, as a result, since 1983, has eliminated 9,000 a year, on average, as a result of cost-saving technology.

The basic problem, from the point of view of the steel industry—and from the point of view of many other industries, quite frankly—is that in our Section 201, we have two provisions, which I strongly support, by the way, for exactly the reasons they are against it.

Number one is, you have got to prove you suffered serious injury. Two, you have got to prove that imports were a substantial cause. The law defines substantial cause: "A cause which is important, but not less than any other cause." Now, these are not huge standards.

Now, what is important about this, is that if you eliminate these standards, and this H.R. 1120 eliminates the substantial standard, let me tell you what you are buying into.

Now, I know you all were trying to stop a terrible bill in the House with a bad bill. But let me tell you what you are buying into when you take substantial out of this law. You have got a big technological breakthrough going on in an industry. Take computer chips. This industry happens to be one we are a world leader in, but we have falling prices in that industry.

So what happens is, if you take "substantially" out, you have a potential where both these words prevent us from pulling the trigger on protectionism, where we impose countervailing duties, and so Americans pay more for steel than people in the rest of the world, or for that matter, let us bring it close to home, more for oil than other people in the world. We have 40 jobs in fabricating steel for every one we have got producing it.

So, without these high standards, we would constantly be shooting ourselves, not in the foot, but in the head, because we would be constantly imposing duties, driving up basic commodity prices on which our prosperity is built.

So when you take "substantially" out of here, you are setting yourselves up for a technological breakthrough in an industry, especially if the breakthrough does not start in America, where we would literally end up protecting Americans in using old technology when the rest of the world is using new technology.

Senator ROCKEFELLER. Would the Senator yield?

Senator GRAMM. No. Now, here is my point. You need to think long and hard before you take "substantially" out of this law, because when you do it, you are going to end up with all of these measures being taken that, in many cases, are not the result of trade in and of itself, or where trade is not a substantial matter.

Do you share that concern, Madam Ambassador?

Ambassador BARSHEFSKY. I think we have to look at any change in trade law very, very carefully on a couple of bases. One, would the change be consistent with our international obligations? Two, could we live with mirror legislation in other countries? Remember, we are the world's single largest exporter; what is sauce for the goose is sauce for the gander. We always need to be aware that foreign countries might mirror what we do.

In the case of Section 201, we have a curious situation where the standards in our law—and I cannot tell you exactly why this is—are higher than the old GATT standard or the WTO standard.

Our standards are also higher than, for example, those employed by Europe in making assessments. I think it is a legitimate question to ask, should our standard be WTO-plus, or would it be sufficient for our standard to be WTO-consistent, perhaps afford some relief to the industry that might have been on the cusp.

Senator GRAMM. But let me ask you a question, if I may.

Ambassador BARSHEFSKY. Yes.

Senator GRAMM. Who benefits from the high standard? It seems to me, we are acting as if having a substantial cause standard, because that is a high standard compared to the world, we are acting as if that hurts us. But, in a sense, we are also the big beneficiary of it.

Ambassador BARSHEFSKY. I think that what you are raising is one of the elements that the committee needs to consider and look at as it assesses the Levin-Houghton bill, or similar approaches which some on the Senate side have suggested. I think we have to look at the question, is this higher standard a net advantage or a net disadvantage, or would it wash out in the end?

The only other point, if I could make it, and I do not know the specifics of the Levin-Houghton bill well enough, but, of course, under WTO rules, imports, as a cause of injury, still must meet a fairly high test. That is, you would have to show that the import increases are at the least an important cause of that serious injury, that is not a low standard as it is. Important cause carries with it some weight.

The only other point I would make is that, as in all Section 201 cases, of course, the ultimate relief imposed is decided on by the President. In that process, and I think this is probably true of any President, and I am not merely speaking of Mr. Clinton, all sides, those who would disfavor relief and restrictions, those who would favor restrictions, those who might have other interests, are heard from, and those interests can be balanced in a way that does not necessarily lead to one outcome or another.

Senator GRAMM. Well, let me say that I am not sure that I want to leave a decision where we would take a word like "substantial" out when we have got 40 jobs at stake for every one we are saving and disadvantaging domestic producers. I am not sure that I want to give that power to the President.

I would just urge you, while you are urging us to look at these provisions, to look at them.

Ambassador BARSHEFSKY. Absolutely. We will.

Senator GRAMM. I would also just make a final point, Mr. Chairman, since I am out of time. In looking at what we have done in places like Russia and Japan, especially in the case of Russia, a society absolutely on its back, I think we have done more than enforce the trade laws. I think no one can complain that your administration is not doing everything possible in order to protect steel, it seems to me.

I would like to have sat in on the room where we explained to the Russians that we believe in trade, only do not send any more steel to the United States, when no one has filed a Section 201 protest. The reason they have not is very clear: you have got to provide proof.

I think in these passionate moments, when all of the politics are on the side of give relief, give relief, give relief, that we have got to look at the national prosperity.

I think that Section 201 is too easy to trigger, in my opinion. I certainly am opposed to making it any easier to put hundreds of thousands of people out of work in responding to what can often become more political than economic.

I thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Gramm.

Well, I think we have our work cut out for us.

Senator MOYNIHAN. Now, is that all clear to you? [Laughter.]

The CHAIRMAN. But it is a serious matter. Somehow, we have to find some answer to the problem, because I think the economy is at stake. I would agree with what my distinguished colleague said.

So we will look forward to working with you and Senator Rockefeller to try to come up with some kind of solution.

Thank you very much for being here today.

Ambassador BARSHEFSKY. Thank you.

Secretary DALEY. Thank you.

The CHAIRMAN. Our second panel today is made up of six distinguished witnesses.

Curtis Barnette is the chairman and CEO of Bethlehem Steel Corporation; George Becker is the president of the United Steelworkers of America; Joseph Cannon is the chairman and CEO of Geneva Steel Corporation; Thomas Belot is the president and CEO of the Vollrath Company; David Daniel is the president of Quality Tubing, Inc.; and finally, Jack Porter is the chief of Procurement at Caterpillar.

Thank you, gentlemen, for coming. I do want to note at this stage that we did have scheduled Bruce Bartlett from the National Center for Policy Analysis to join us as well. Due to the pressure of time, we are unable to hear from him.

Gentlemen, it is a pleasure to welcome you. We will start with Mr. Barnette.

STATEMENT OF CURTIS H. BARNETTE, CHAIRMAN AND CEO, BETHLEHEM STEEL CORPORATION, BETHLEHEM, PA

Mr. BARNETTE. Thank you, Mr. Chairman. Thank you for this opportunity to be with you. I come with both pride and regret, Mr. Chairman. Pride in our industry that is truly a low-cost world-class industry, and regret for the serious injury that is being caused for industry because of these unprecedented levels of unfairly traded foreign imports.

We have, Mr. Chairman, as a trade policy, longstanding, to support open markets, to support market-based trade, to support rule-based trade. But when those rules are breached and cause injury, they must be enforced to preserve the very foundation of our trading system.

We have taken three actions as an industry and joined with our colleagues in the United Steelworkers, and others. We have taken legal actions through the trade cases we brought, public affairs actions through a very broad-based educational campaign, Stand Up for Steel and Stand Up for America campaign. Third, we have been working with our Congress in so many ways, and with the administration.

We have urged the administration to take 10 specific actions. They are covered in my statement. We have also recommended that the Congress consider eight specific legislative changes that we think are essential.

We do wish, with your permission, Mr. Chairman, graphically, if I may—and charts have been provided to you—to tell a steel story. I would ask that you would refer to the booklet which I hope has been given to each member of the committee, and would make six observations.

Chart 1 simply demonstrates, over a period of time, 1995 to 1998, the very substantial increases in import penetration into this market. Let me remind you that, during the last months of 1998, we were approaching 50 percent of the domestic market.

The second chart demonstrates monthly import totals. April through November represent the eighth highest monthly import levels in the history of import trade.

Chart 3 shows the increases in just two products. This is not just about hot-rolled and plate and coil, but look at the increases in just those two products during this time frame.

The fourth, takes a very specific product, plates-to-cut-length and shows the massive increases from just three countries, South Korea, Japan, and Indonesia.

Now, the critically important chart. It has been missed in all of the testimony this morning. When imports go up at that unprecedented level, prices collapse. Using just one product, the Japanese product of hot-rolled, it is down 40 percent. That is the price of steel in the marketplace today. So there is no recovery once those prices are so depressed, whatever the volumes are happening.

I may refer you also then to Chart 6, which shows the other devastating effect of such a massive increase in imports. When imports go up, the operating rates in our companies come down. That means we are operating less efficiently, employees are out of work, our shipments are down, and we suffer the consequences financially.

Here, we see an industry operating in the 90 percent level until these surges took place, driving us to 75 percent, which is an unacceptable level and a rate at which, in general, we are operating today with respect to our operating rates.

So here are the consequences. Imports are up, approaching 50 percent of our market. Prices are down 40 percent. Operating rates are diving into the 75th percent level. To preserve our industry and our companies, we must take all those actions that we can take. We wish to take them fully within the law, and we have done so. But we must have laws that are certainly no more restrictive than WTO authorized. We urge the Congress, in every respect, to be examining that issue.

That would constitute my informal opening remarks, Mr. Chairman. I would look forward to your questions.

The CHAIRMAN. Thank you, Mr. Barnette.

[The prepared statement of Mr. Barnette appears in the appendix.]

The CHAIRMAN. Mr. Becker?

STATEMENT OF GEORGE BECKER, INTERNATIONAL PRESIDENT, UNITED STEELWORKERS OF AMERICA, PITTSBURGH, PA

Mr. BECKER. Thank you, Mr. Chairman.

The crisis in steel is not over. There have been some margins that have been applied to Japan, to Russia, and to Brazil, but already we have seen shifting of product lines within Japan, moving around those that were covered by the hot-rolled..

And we have seen surges—and it has been talked about already—from other countries that are out there, primarily Indonesia, China, and Australia, but we understand France and others have all upped their market. The marketplace is here in the United States, and they are going to fill that market.

The stake of the steel industry is what we are concerned about. There has already been testimony and comments regarding 10,000 steelworkers that have lost their jobs over the last year, and another 100,000 that are at risk. We believe this is a very real risk.

We have got three companies that have already filed bankruptcy, smaller companies in the United States.

We know that there is another three that have missed heavy obligations, payments that are to be made, and are very much at risk. We expect this to go up dramatically. There is no way that they are going to be able to survive over the long haul.

We have pleaded for the administration to do something for the last 15 months, a bit longer than what was alluded to here by the Secretary of Commerce, because we started out with other agencies within the government. This was very predictable, what was going to take place.

Even though we got some cases settled, those with Russia, Brazil, and Japan, the devastation that this leaves in its wake is beyond recovery. We found that we do not get these jobs back. Everybody is concentrating their efforts on the industry.

We should be concerned about the industry, but I am also concerned about workers, I am concerned about their families, I am concerned about the communities and the devastation there.

None of the approaches that we have talked about in any way deals with working with the human element of this. President Clinton talks about putting a human face on trade. We have the human face out there in the steel community. We see this daily. This is what we are trying to deal with.

We believe it is absolutely essential that we get a quota bill, something that deals definitely with the problem that we are talking about. We have not talked about building a fence around America.

The quota bill does not do that. We have said, you establish a quota at the pre-crisis level. This is somewhere in the neighborhood of 20 percent. There is not another industrialized nation in the world that would give away 20 percent of their market willingly. This is what we have done.

I applaud the other Senators that have come forward with bills of their own, but we are supporting, in the long run. We feel we have to have one that we can come behind in a solid way. We are solidly in support of Senator Rockefeller's bill, which will mirror-image the bill that was passed in the House.

We are concerned also about the linkage, the linkage between China and their steel industry. They have the largest steel-producing mechanism in the world and they are the largest steel producers in the world. Their imports into the United States are increasing.

We are concerned about what happens if their accession into the WTO occurs, and what kind of rules are going to be applied by that. The administration says, and they have said repeatedly, that a quota bill is problematic with the WTO. I do not believe that is. We have never believed that that is the case.

But if it is the case, if the administration is right, their accession into the WTO with this possibility, the cheapest and the largest steel industry in the world, I think there are problems we are going to have to deal with.

We are here today to talk about the steel quota and what it will do, what it will provide. The existing laws, clearly, from the steelworkers' end, from a worker's end, are not sufficient to protect the industry. Fifteen months, 16 months is too long of a period for us to go through the process in order to have some kind of control or effect. We need action. We need it now. We need the Senate to rally solidly behind the Rockefeller bill.

I would add one other comment, because we have drifted in some of the prior conversations about the number of other jobs in the United States that are at risk. We have lost 285,000 industrial jobs last year in the United States. In January, we lost 50,000 more. In February, it is my understanding we have lost 60,000. We are heading the wrong way, with the trade laws that we have now and the enforcement mechanism we have.

How much of this is tied in with steel? We have no way of knowing. But we know that we are at risk with the current trade laws that we had today, and with the defense mechanism in order to support that.

The CHAIRMAN. Thank you, Mr. Becker.

[The prepared statement of Mr. Becker appears in the appendix.]

The CHAIRMAN. Mr. Belot?

STATEMENT OF THOMAS BELOT, PRESIDENT AND CEO, THE VOLLRATH COMPANY, L.L.C., SHEBOYGAN, WI

Mr. BELOT. Good morning, Mr. Chairman and members of the committee. Were Mr. Gramm still here, I would gladly give my time to him because he has said more eloquently what I am about to say.

I am Tom Belot. I am president of the Vollrath Company in Sheboygan, Wisconsin. I am here on behalf, however, of not just my company, but of the North American Association of Food Equipment Manufacturers as a member company.

NAFEM represents 650 U.S. firms that manufacture commercial stoves, broilers, toasters, refrigerators, dishwashers, beverage dispensers, food carts, and many other lines of food preparation and serving equipment. Therefore, we are users of steel.

Our members employ approximately 60,000 men and women in the United States. Total sales are $6.5 billion at the manufacturers' level. Stainless steel represents about 30 percent of all of our costs of production.

My own firm produces products including broilers, steamers, food warmers, food carts, pots and pans, and many other products. A brochure that I have submitted may give you an idea of a range of our own products, over 2,500 in total just from my firm, most of which are made out of stainless steel.

This industry uses about 550 million tons of stainless steel a year, and is the second-largest user of stainless in our country, second only to transportation. In companies which principally use domestic stainless steel—and Vollrath is one of these—the access to foreign markets is essential to retain price competition and to assure the supply of specialty materials used by many of our member companies in NAFEM.

My own firm employs 750 men and women. Total U.S. employment at all NAFEM members is approximately 60,000, as I said before. This one segment of the American steel-using industry employs about one-third as many workers as the entire U.S. steel industry.

Our industry is a great American success story. We lead the world in the technology of food preparation equipment. A number of our members, including my company, have won the Department of Commerce's "E" award for export.

Over 80 percent of NAFEM members have markets overseas. My own firm exports about 10 percent of our products. The average among all NAFEM members is about 20 percent. That is a lot of exported stainless steel. That is, stainless steel exported with high value-added, job-intensive manufactured product.

Our industry's export markets are growing rapidly, or at least they have been growing rapidly. Growing markets for our products have, up until now, meant an increased need for stainless steel and an increased need for workers.

We have a technological advantage and will continue to compete effectively around the world unless artificial trade barriers raise our costs and put us at a world market disadvantage.

Although you would normally believe that an industry would work in the best interests of its customers, in this case the steel industry is clearly not. The drive by the domestic steel manufacturing industry for punitive duties meant to cut off foreign supplies and the proposals before you for quotas that would roll steel imports back to the levels of two to 4 years ago will mean lost sales and lost jobs in the now-thriving food equipment manufacturing industry.

As Senator Gramm mentioned, 40:1 is the ratio of jobs in the steel industry versus steel users. This is exactly what happened in 1980, when we had voluntary quotas on imported steel, including stainless steel.

Domestic prices of stainless 304, our principal material, rose 75 percent in 18 months, to a level well above world prices. Our industry's ability to compete was crippled. It was several years after the phase-outs of the VRAs before our industry recaptured foreign markets and began again to grow at double-digit rates.

Imports of stainless steel did increase markedly in 1998 over 1997, but—and this is very important—that is not at the expense of production, sales, or employment in the domestic industry.

Shipments by domestic manufacturers of stainless steel, whether you look at stainless steel or specifically at stainless steel strip and sheet, were higher in 1998 than they were in 1997, or in any recent year. Shipments, even in 1998, December, exceeded 1997, December.

For the domestic stainless industry, to replace the proposed cuts in imports would require production of about 99,000 tons that would be taken out of exports. I do not know if they can meet this demand or not.

I think there would be shortages, at least for a transition period, and I am sure these trade restrictions would lead to sharply higher prices with a negative effect on the competitiveness of our industry that I have tried to describe.

The law of supply and demand, proven by our experience under the VRAs of the 1980's, is that quotas or similar import restrictions would lead to higher prices for stainless steel in the United States, and that these prices will rise above those in competing countries.

In fact, quotas here will probably lead to greater supply and lower prices in the rest of the world, and for my competitors.

While our export markets would be the first to go, we would also begin to see increased imports of stainless steel in finished food equipment coming into our own market from overseas. And we would see some shifting away from steel to plastics. What good would this do anyone?

This is not the time for the United States to back away from the principles of free trade. Protectionism is rising around the world. Restrictions on imports by the United States will hurt our competitiveness and will soon be followed by other nations' restrictions on our own exports. Other industries, from high-technology manufacturing to agriculture, could be harmed.

We know what happened under the "Voluntary Restraint Agreements"—"voluntary" quotas of the late 1980's, when stainless steel prices went up 75 percent in 18 months, and they killed our markets.

Please, let us not make that same mistake again.

The CHAIRMAN. Thank you, Mr. Belot.

[The prepared statement of Mr. Belot appears in the appendix.]

The CHAIRMAN. Mr. Cannon?

STATEMENT OF JOSEPH A. CANNON, CHAIRMAN AND CEO, GENEVA STEEL CORPORATION, VINEYARD, UT

Mr. CANNON. Good morning. Thank you very much for holding this hearing this morning. My name is Joe Cannon. I am chairman and CEO of Geneva Steel, located in Vineyard, Utah.

In 1987, we resurrected a shuttered steel mill and restored 2,600 jobs. We made steel, we made money. We went public. We invested nearly $400 million in our mill to become a leading low-cost steel supplier in the United States.

In 1996, we were hit with a wave of plate imports from Ukraine, Russia, and China. We filed antidumping cases and won them with 100 percent average dumping duties against these inefficient producers.

Suspension agreements entered into for foreign policy, and not trade policy, reasons allowed those countries to retain 400,000 tons annually of plate in the United States, down from 1.2 million tons shipped in 1996. Just as our company started to recover from this financial debacle, the world economic crisis produced a surge in imports in 1998 which threatens our survival.

Our biggest product is plate. From 1997 to 1998, plate imports increased from 1.25 million to 1.85 million tons, a 46 percent increase. Imports of that product took over 28 percent of the U.S. market.

Our second-biggest product is hot-rolled sheet. Between 1997 and 1998, imports increased from 6.3 million tons to 11.1 million tons, a 77 percent increase. Imports took 36 percent of that U.S. market.

Our third product is welded line pipe. Imports increased from 220,000 tons in 1997 to 330,000 tons in 1998, a 50 percent increase, with imports taking up to 37 percent of U.S. market. I might say, in January of 1999 there was more line pipe imported into the United States than the domestic product.

These huge import increases at dumped prices have forced domestic prices, as Mr. Barnette pointed out, to fall by $80 to $100 a ton in each of our major markets. Domestic shipments in each product category have fallen by at least 15 to 20 percent thus far this year.

At Geneva, our company, we shut down a blast furnace in September. We reduced our work force by over 800 workers and saw fourth quarter 1998 sales fall over 50 percent from fourth quarter 1997, resulting in a $50 million fourth quarter loss.

This fourth quarter loss resulted in our company filing for Chapter 11 bankruptcy on February 1. Today, I urge the Finance Committee to request an investigation by the ITC, under Section 201, on flat-rolled steel products, including cut-to-length plate and slab.

A number of members have asked this morning, what can be done? Ambassador Barshefsky noted herself that 201 is largely a political decision, once the ITC has done its work. You have the political power. We do not have the political power. That is a way that the Senate could act on this, is to request that 201 relief.

The reason for our request, is that the collapse of the world steel demand is continuing and we face a renewed import surge in 1999 that could prevent Geneva from reorganizing under bankruptcy laws and may cause many other U.S. producers into bankruptcy or closure.

For example, imports of hot-rolled sheet in January were slightly more than imports of hot-rolled sheet in January of 1998, at about a half a million tons. But an import decrease of 250,000 tons from Russia and Japan because of antidumping cases was replaced by 250,000 tons of increased imports from other countries, primarily from China, Indonesia, Australia, the Netherlands, India, and South Africa. This is illustrated on a chart that I have attached to my testimony.

Most of these are Asian countries. Just as with the import surge of 1998, these increased imports are hitting the west coast first, then moving through the midwest, the east coast, and southeast later in 1998.

I will get to my main point. Because of these world market conditions, international trading companies will never show any mercy to the U.S. market. They will bring in product from anywhere in the world where there is more supply than demand and dump it into the U.S. market at prices significantly below U.S. producers' cost. We cannot face this wave, after wave, after wave, of imports which often are closing the barn door after the horse is gone.

So, a 201 case provides a comprehensive arrangement that looks at all the factors, even those mentioned by Senator Gramm, that could produce a result here that would give the domestic industry that time period to adjust to what is going on in these foreign markets.

Thank you very much.

The CHAIRMAN. Thank you, Mr. Cannon.

[The prepared statement of Mr. Cannon appears in the appendix.]

The CHAIRMAN. Mr. Daniel?

STATEMENT OF DAVID L. DANIEL, PRESIDENT, QUALITY TUBING, INC., HOUSTON, TX

Mr. DANIEL. Mr. Chairman and members of the committee, thank you for the opportunity to present Quality Tubing's views on H.R. 975.

My name is David Daniel and I am president of Quality Tubing. We employ over 100 people in our plant in Houston, Texas, and I am here to explain why H.R. 975, as well as other measures designed to restrict imports of steel, are ill-advised.

Quality Tubing was the first company established for the sole purpose of manufacturing steel coil tubing for use in the oil and gas industry. The hot-rolled steel that we must use to make our critical service coil tubing is unavailable from domestic American manufacturers of hot-rolled steel, and the high strength that we require makes it even more difficult to obtain.

This critical service coil tubing product, referred to as "downhole work strings," is used by the oil and gas industry in deep, highly pressurized oil and gas wells, where it must be uncoiled from large spools, sometimes fed up to depths of 20,000 feet or more, and coiled back onto a spool for use in another well.

The constant coiling and uncoiling of this product subjects the material to significant metal fatigue. As a consequence, the life span of this coil tubing is three to 4 months. Any interruption in the supply of the steel will, in a very short time, affect not only the jobs at Quality Tubing, but jobs in the oil and gas industry as well.

Quality Tubing purchases approximately 70 percent of its hot-rolled steel needs from Japan because the products are simply not produced by domestic steel mills. Quality Tubing has worked with domestic suppliers to produce steel meeting the requirements of our customers.

However, domestic suppliers have repeatedly been unable or unwilling to attempt the production of the hot-rolled steel we require for critical service applications. Therefore, Quality Tubing has turned to the Japanese steel mill, Sumitomo Metals, to develop the steel we need in order to produce steel coil tubing with the properties required by our customers.

The steel purchased by Quality Tubing from Japan is not fungible with either U.S.-produced steel, steel from Russia, or Brazil. Only Sumitomo Metals has been willing to attempt the production of the uniquely tapered rolled steel essential to our business. This tapered hot-rolled steel tapers from a thicker gauge to a thinner gauge along the length of the coil. This very unique material is used in coil tubing representing approximately 25 percent of our production.

We believe the potential adverse impact on our business by H.R. 975 is a prime example of unintended consequences. Nonetheless, those consequences are real. H.R. 975 is aimed at steel that is dumped in this country at lower than market prices. Yet, Japanese prices for the hot-rolled steel that we purchase are higher than the closest grades of available steel from U.S. suppliers.

Furthermore, in each of the last 4 years the Japanese steel we purchased has increased in price. Although the steel we import is not produced in the United States, trade restrictions often do not distinguish between imports, which compete with domestic products, and those which are not available domestically.

Our Japanese supplier has responded to what competition there is from domestic sources by moving into higher grades of specialized products rather than reducing its price.

With respect to price, the Japanese price per ton increased each year, as did domestic sources. The Japanese price per ton increased, on average, three percent per year. The Japanese price that we paid averages 49 percent more than the closest grade of domestic steel.

Any reduction in our ability to import this high quality steel would gravely impact Quality Tubing's competitiveness in the marketplace. Although the overall market for this niche product is small, production of coil tubing strings enables the $1 billion coil tubing services market to function.

In the event of an interruption in imports, all of the coiled steel tubing in existence would be retired in very short order and could not be replaced with steel of a like quality and functionality.

U.S. service companies, as a consequence, would feel the negative impact of a loss of this product almost immediately. U.S. energy production and jobs could be, and almost certainly would be, adversely affected. Indeed, Quality Tubing would have to turn to a French coil supplier, and not a U.S. supplier, for the closest substitute steel product in order to stay in business.

Mr. Chairman, we produce a unique product essential to the efficient operation of the U.S. oil and gas industry. In the 23 years since our founding, we and are market have steadily grown and we expect to, and hope to, expand our markets still further as the industry prospers. But without access to this steel, our business and the businesses of our customers would surely falter. It is that simple.

I urge you then, as you evaluate this bill, to keep in mind companies like Quality Tubing, which produce specialized products and do not deserve to be adversely affected by legislation aimed at exacting quotas on commercial-grade steel imports.

Thank you very much.

The CHAIRMAN. Thank you, Mr. Daniel.

[The prepared statement of Mr. Daniel appears in the appendix.]

The CHAIRMAN. Now, Mr. Porter.

STATEMENT OF JACK B. PORTER, CHIEF OF PROCUREMENT, CATERPILLAR, INC., PEORIA, IL, ON BEHALF OF THE EMERGENCY COMMITTEE FOR AMERICAN TRADE, WASHINGTON, DC

Mr. PORTER. Mr. Chairman, members of the committee, on behalf of Caterpillar and the Emergency Committee for American Trade, ECAT, thank you for this opportunity to present our views regarding the pending steel quota bill and other legislative proposals that would change U.S. trade remedy laws.

I am Jack Porter, Caterpillar's chief procurement office. I am appearing before the committee today on behalf of the Emergency Committee for American Trade, an association of major American companies with global operations representing all principal sectors of the U.S. economy. The annual sales of ECAT member companies total over $1 trillion. The companies employ approximately four million people.

Caterpillar and other ECAT member companies understand that the domestic industries, which are experiencing increased import competition, may appropriately apply for relief under existing unfair trade remedy statutes. In fact, there are ECAT member companies that are among those who have petitioned for such relief.

ECAT is concerned, however, that the U.S. steel industry's efforts to convince the Congress and the administration to grant them special relief from steel imports beyond that provided for under existing U.S. trade remedy statutes could result in market closing measures which would subject U.S. exports to the risk of retaliation, undermine U.S. competitiveness, and threaten the United States' economic expansion.

Enacting special relief for the steel industry would signal to our trading partners that we have abandoned our support for the open trading system and would encourage them to make similar measures to protect their own domestic industries.

Instead, the United States must remain steadfast in its opposition to protectionism and to help its trading partners do the same by urging them to agree to a standstill of trade-restrictive measures in advance of the WTO ministerial which the United States will host this fall.

My written testimony discusses these issues at length. But, to comply with the Chairman's request for brevity, I would like to focus the remainder of my oral comments and how the steel quota bill would affect American steel-using manufacturers like Caterpillar.

As you may know, Caterpillar's business strategy is somewhat unique in that we compete globally from what is primarily a U.S. manufacturing base. The products we make are steel-intensive. We buy over 90 percent of our steel requirements from United States' suppliers. The steel that we do import is primarily steel that is not made in this country.

Last year, Caterpillar exported over $6 billion worth of machines and engines throughout the world. As a result, Caterpillar continues to be America's largest exporter of United States-produced plate steel.

I have been working with steel companies most of my career. During that time, I have witnessed a remarkable transformation of the United States' steel industry. Today, the American steel industry produces more high-quality steel with greater efficiency than ever before. New, more modern facilities to produce more steel per worker continue to come on-line. Older, less efficient factories are being closed.

When it makes sense, the domestic steel industry increasingly relies on imported steel slab to further improve its competitiveness. As a result, companies like Caterpillar that rely on steel have a strong competitive reason to expand production in the United States. That is one of the reasons why, for the past 2 years, steel production in the United States has been at record-high levels.

Caterpillar strongly opposes the steel quota bill because it would hurt our competitiveness, lead to direct retaliation against Caterpillar exports, and undermine the international trading system, which would jeopardize the global economic recovery.

Senators, with all due respect, it has been our experience that, when the U.S. Government intervenes in the marketplace, it often makes matters worse. The last time the U.S. used quotas to restrict steel trade during the 1980's, the ITC reported that it cost American manufacturers as much as $12.4 billion in lost sales. That is ITC Investigation Number 332–270, May 1989.

At Caterpillar, quota-induced shortages required us to fly in steel from overseas just to keep our U.S. production lines running. On one occasion, we came perilously close to shutting down our largest plant while we waited for permission to import a type of steel that was not even made in the U.S.

Today, we still rely on heavy, special section steel to make Cat track shoes. So there is no confusion, let me point out that these are not the Cat shoes you see teenagers wearing around town. Rather, they are the track shoes that go on our bulldozers. Even though there are no U.S. producers of this type steel, Caterpillar continues to manufacture the end product in the U.S.

As a practical matter, if steel quotas keep us from importing this type of steel, we will be forced to produce the finished product somewhere else. It is my experience that it is hard to forecast steel markets. Lead times are generally long.

Last summer, we were all surprised with the General Motors strike. We hope that will not be repeated with the steelworkers this year. Perhaps what is even more troubling is the direct impact that the steel quota bill could have on American exports. Retaliation could be catastrophe.

Mr. Chairman, members of the committee, by now it is clear that U.S. unfair trade laws are working. The steel industry remains profitable, new factories are coming on-line. Rather than focusing on new protectionist issues like the steel quota bill, we urge you to support initiatives aimed at improving the competitiveness of the U.S. steel industry. That way, the steel industry, American manufacturers, and U.S. workers and consumers all win. Thank you.

[The prepared statement of Mr. Porter appears in the appendix.]

The CHAIRMAN. Thank you, Mr. Porter. You make a very eloquent statement about the impact of a quota bill becoming law.

I wonder what the rest of the panel would say. Mr. Daniel, if the Senate should pass the quota bill, the President should sign it, what kind of impact would it have on our economy?

Mr. DANIEL. On our economy, in general? I think what it does, is put restrictions in place that are unpredictable. The impact can be positive or negative, but we do not know what they are. In fact, the free trade practices have proven to be very effective without the restrictions of quotas.

The CHAIRMAN. Mr. Cannon?

Mr. CANNON. I am not an economist and I do not know what would happen to the whole economy.

Senator MOYNIHAN. You can think of yourself as an applied economist. That is all right.

Mr. CANNON. All right. Well, I do not want to avoid the question. I would just say that one reason that in my testimony I asked for a 201 relief, is I do think that that is a GATT-sanctioned approach that could get at the same problem in a more systematic, systemic way than the quota bill.

But, on the other hand, we have supported the quota bill because we are in, as I think there is ample evidence in the record to show, a very damaging, overwhelmingly damaging, situation with respect to this particular product in the United States. So, we think something has to be done. If you choose to do a quota bill, then that would be fine.

I guess my position, and our company's position, was we would like you to use your political clout with this administration in the 201 context.

The CHAIRMAN. Mr. Belot?

Mr. BELOT. Number one, I would like to say that I believe that adequate protection is already existing in 201, and I think it is incumbent on the steel industry to prove damage, which I think they have had trouble doing. That is why they are here asking for the quotas.

The effect that I believe the quotas would have, were they to pass and the President were to sign them, would be, number one, to limit the amount of supply of foreign steel coming into the United States, raising the price of steel here in the United States, making us as users of steel less competitive when we export.

And also, because if you limit the supply in the United States there will be more supply to our competitors overseas, their price of stainless steel will probably drop, making them more competitive in importing finished products into the United States. So, I think it would be a devastating effect on both sides, limiting our exports and making imports less expensive and making us less competitive here in the United States.

The CHAIRMAN. Mr. Becker, a few of our witnesses have indicated that the impact of the quotas system would be serious on employees of other industries than steel. You are understandably concerned about the steelworkers. But have you made any study, or has labor made any study, of what the impact would be on other industries if we pass the quota bill?

Mr. BECKER. Well, first of all, let me put it in just a little bit different way, because clearly I am not an economist either. But we are not talking about shutting off steel from everywhere in the world, we are talking about establishing it at the pre-crisis level, which we depended on some 20 percent imports coming into the United States.

We are not talking about changing this. This was all during a period of rapid growth in the United States through this whole period of the 1990's of 20 percent coming in. We are not talking about wiping that out.

But I would like to comment on the status of the steel industry. We are the most efficient steel industry in the world. I measure efficiency not by cost, I measure efficiency by low man hours per ton.

When the comments are made that we should make the steel industry competitive, competitive with what? Nineteen cent-an-hour labor? What are we talking about when we say, make it competitive? We produced for steel at less than four man hours per ton. That is lower than any steel industry in the world. In economics, let us think about this. For every steelworker, for every family-supportive job that we cut out of the steel industry, we are wiping out four supportive jobs in the community.

So when we talk about 10,000 jobs, we are not talking about just limiting it right there. We are talking about another additional 40,000 being cut out of the economy. These are consumers that we are talking about. The real question is, do we want a steel industry in the United States? That is what it gets down to.

Keep in mind that the three cases that went forward with Russia, with Japan, and Brazil, clearly there was dumping. This is illegally dumped steel coming into the United States.

Keep in mind also that we worked with the administration for 15 months trying to get them to do something with this. They have ignored us. They just want the problem to go away. They would not do anything. So we appealed to Congress and Congress responded, because they have the same concerns we do about communities and about workers.

So we had the bill passed in the House, and we need it passed in the Senate. Somewhere along the line the administration has a responsibility, and Congress has the responsibility, to communities and to people in the United States.

The CHAIRMAN. Thank you. Mr. Barnette?

Mr. BARNETTE. The issue, I think, Mr. Chairman, is what is the appropriate remedy for an injured industry. There are many different remedies that can be applied under our trade laws, either tariffs or quantitative restraint. Those can be formed within the framework of the existing laws that we have, which are simply not working effectively.

With your permission, this has not been brought back to the attention of the committee, but with great diligence Secretary Daley, Mr. LaRussa, and his staff, in their preliminary determinations on hot-rolled, found Brazil, 50 to 70 percent dumping margins; Russia, 71 to 218 percent dumping margins; Japan, 25 to 67 percent dumping margins.

These products are being sold in America at less than fair value at those margins. That, understandably, is causing serious injury to our low-cost, high-quality industry and forms the very basis for the cause and concern that we have, Mr. Chairman.

The CHAIRMAN. My time is up. One question I do have. There are any number of different tools available to the industry beyond Section 201 safeguards, yet, to be candid, neither the industry nor the unions have taken any steps to avail themselves of these tools, especially 201. Why is that?

Mr. BARNETTE. Mr. Chairman, it is a very good question. That is why we have recommended to the administration, since last year, the 10 actions that are outlined. We think there is a responsibility by responsible government leaders to take their own actions when this sort of injury is taking place. We urged consideration of appropriate actions by the administration.

Second, we have taken all of the actions we can take under existing law. 201, we must remember, has not been used effectively for some 16 years. It is more restrictive than our WTO obligations require, as are many other laws.

Third, that remedy which was used by the steel industry in the 1980's, ultimately, is decided upon by the President of the United States as a recommendation by the International Trade Commission of the remedies to be imposed. We have urged the administration, as a consequence of the injury being sustained here, to self-initiate a 201 action. They have that authority. They have declined to do so.

So, there are other remedies. We are considering other cases. We are considering state law actions. The attorneys general of six States have expressed themselves on a number of these issues.

They have started to become active, Mr. Chairman, because if the Federal Government, in our Federal legal system, is not resolving this matter, the States will, of necessity, be considering and taking action.

The CHAIRMAN. Well, my understanding is that there have been some successful cases under 201 during the last 10 years. Of course, one of the purposes of giving the industry or the opinion the option of taking action, is if the government does not act then they are able to act to help themselves.

But is part of the problem, to be candid, that much of the industry is fairly profitable?

Mr. BARNETTE. No, it is not, Mr. Chairman. I think when we talk of an industry in terms of trade cases we are talking about specific products within the industry. So it is the hot-rolled industry, it is the cold-rolled industry, not either the operating income or the net profit line of any particular company which, indeed, may be in other businesses or in other products that are not being adversely affected.

The industry, I believe uniformly in the products here under question, has shown significantly adverse results in the hot-rolled section of a particular company, business, or plate.

The CHAIRMAN. Well, let me be the devil's advocate just for a moment.

Mr. BARNETTE. Yes, sir.

The CHAIRMAN. The March 11 issue of Business Week reported that industry earned an average 11 percent return on equity, and that is overall, with some companies earning returns as high as 17 percent. A week ago, The Wall Street Journal reported profits for a number of the major players in the hundreds of millions.

So, under these circumstances, when does Section 201 action prevail, in your judgment?

Mr. BARNETTE. I do not know the answer to that, Mr. Chairman, under the circumstances or the figures that you have referenced. What I do know, and the charts attempted to illustrate, is that while the crisis in steel started in early 1998 with meteoric rise in the mid-year of 1998—and that is what is of enormous concern here. Look at those monthly increases, approaching 50 percent of our market.

So many of the figures, I believe, that you might have reference to are referencing full-year data. There is no question that, in the first half of 1998, the industry was, in general, profitable. Certainly, our company was.

Equally, there is no question that, in the second half of the year, based on the injurious imports coming into the marketplace, that the financial condition of our companies changed, and that certainly was true in our case, on a quarter-by-quarter basis.

Mr. CANNON. Mr. Chairman, are you addressing that to all of us?

The CHAIRMAN. Sure. Go ahead.

Mr. CANNON. Just two issues, to follow up on what Mr. Barnette just said. A year ago today, our company was profitable. Our bonds were trading at par. We were a very successful company. This devastation occurred in the second half, and is even continuing into this year, so I am not sure that the Business Week figures appropriately reflect the damage, A.

B, on why the industry would not push a 201 case, I think—and I will try to say this maybe as politely as possible—and Ambassador Barshefsky herself said, at the end of the day when the ITC finishes looking at these things, the President has to make that decision. The fact of the matter is, there has been a notable absence of political will on the part of the administration to do something about this.

We have pushed every trade case that we can within our own power, but at the end of the day somebody with greater political clout than this administration and than the workers, obviously, has to do something about it. That is one thing that I think you are able to do. They will listen to you for all kinds of reasons that they will not listen to us.

Senator ROCKEFELLER. Want to bet?

Mr. PORTER. May I springboard on that question?

Mr. CANNON. I will bet you that you are better than us. I do not know whether you would be successful, but you have more ways to influence them than we do.

The CHAIRMAN. Mr. Porter?

Mr. PORTER. I am clearly not a steel producer, I am a large steel user. I would point out that our fourth quarter results did not meet the expectation of analysts. I would point out that the foreign market, John Deere, Case, I believe if you look at their production levels in the fourth quarter of 1998, and for that matter the first quarter of 1999, are down substantially from the first half.

I believe there is more to the reduced price of steel, if you will, than simply imports. I think there is has been historically, or at least in 1998, some reduced achievement of some expectations.

The CHAIRMAN. Senator Moynihan?

Senator MOYNIHAN. Yes. Mr. Becker wanted to say something.

Mr. BECKER. I wanted to just pick up on that a second, if I could. At the beginning of this, back in the latter 1970's when the Asian crisis first started to unfold, there was an economic model that was run by the Economic Policy Institute here in Washington and which we use extensively. At that time, they predicted that there would be 1.1 million jobs lost as a result of that, and 70 percent of those jobs would be manufacturing jobs.

What I am saying, in the reduced usage here in the United States, I think this is starting to unfold. There is a lot of spin-off from the loss of jobs and a loss of business overall as a result of the Asian imports coming into the United States.

I think that reflects, partly, the 285,000 jobs that we are talking about that have disappeared in 1998, and the 110,000 that had disappeared so far in 1999. One further point on that. We know that there is an over-capacity of steel in the world. Somebody has to deal with this in some way. When I say, do we want a steel industry in the United States, I think we do want one, for a lot of reasons. Defense is one of them. It is a basic industry. I think it is very necessary.

It produces family-supported jobs. Those are the kinds that can support other community jobs. They can support Medicare, they can support the social systems in the United States, Social Security and what have you. You cannot support those kinds of programs.

You cannot support our system in the United States or the status of life on minimum wage jobs. I think that those people that say, let the steel industry go, I think they should re-think this and we should look at this very seriously.

Mr. BARNETTE. Mr. Chairman, my colleague passed me a note, and I do wish to correct my earlier comment. He advises that there have been three instances: Wood Shakes and Shingles, with imports of 182 million in 1986; wheat gluten, at 170 million in 1998, and broom corn brooms at 9 million. Very important industries. In two cases, a tariff duty, in one case, quantitative restrictions, but hardly industries in volume that can be compared to the current steel situation.

The CHAIRMAN. Thank you for correcting.

Mr. BARNETTE. Yes. I apologize, Mr. Chairman.

The CHAIRMAN. I appreciate that, Mr. Barnette.

Mr. Becker, just let me ask one further question. The loss of jobs is extraordinarily serious. Part of it, undoubtedly, is from the surge. But to what extent is it from so-called increases in productivity?

Now, I understand, for example, that the domestic industry is now talking about increasing by nine million tons. So that sounds like they are not too pessimistic about the future, if that is going to be accomplished. Have any studies been made as to a breakdown of what has caused these job losses?

Mr. BECKER. No, there has not been a breakdown of that. I just go back to the fact that we have helped the industry become as competitive as they possibly can. If you go back from the 1980's, we insisted that the industry, as they regained profitability, that they plow heavy amounts of their profits back into the industry so that we would be able to be competitive.

When I say we produce steel for less than four man hours per ton, and the figures are there for what every nation in the world produces, clearly, we are the low man hours per ton.

On the dumping end of it, let me say, we were told by the industry—this is not our calculation—that we could work for nothing—nothing—and they could not compete with the prices of the steel that was coming into the United States. So how in the world are we talking about becoming more competitive? Tell me how that works. I want to make sure that Caterpillar can continue to buy 90 percent of their steel in the United States. I think that is an admirable level. I applaud that.

The CHAIRMAN. Senator Moynihan.

Senator MOYNIHAN. I would like to take off from a comment of Mr. Becker about over-capacity. This is not a subject I feel any competence on, but on January 27 the CEO of LTV testified that "over 300 million tons of foreign steel capacity, or roughly one-third of total world capacity is in search of new markets."

I do not know just how well business or labor economists think of the subject of over-capacity, but I have a feel for it from my own experience. There was a time when the first thing every developing country, did was to get a steel industry. Not for nothing did that Georgian gentleman rename himself Stalin.

I was once our Ambassador to India and it happens that, in 1900, the Indians produced more steel than Japan. But then came a planned economy and so forth, and nothing would do, they had to get an enormous mill from the Soviet Union, as it then was, and it did not work. Well, it obviously works, but not very efficiently.

Has that political imperative of, you must have a steel industry or you are not an independent country, produced the phenomenon that we would not necessarily see in computer chips or other such matters? Who has a view on that? I have none. I do not know, but I have a suspicion.

Mr. BECKER. I am not an expert on world steel locations, but I do believe there are still some independent countries, under-developed countries, that do not have steel mills.

Senator MOYNIHAN. Not for lack of wishing.

Mr. BECKER. No. You are right, Senator.

Mr. PORTER. I could offer just a bit of a comment, if I could, on that. My colleague just passed me a chart here, which I would be very happy to provide. The source of it is the OECD 1996 Steel Market Outlook. This was torn out of a page. This shows here that the over-capacity for Japan and the European Union, just those two entities, equals more than the total consumption of the United States.

Senator MOYNIHAN. And OECD uses the term "over-capacity."

Mr. PORTER. Over-capacity. That is what it says. "Steel over-capacity in Japan and the European Union roughly equals total consumption of steel in the United States." Steel industries are steel being created. India is creating additional steel capacity, Australia is. I understand, and I am not sure on these, this is passed on to me, that Australia is doing the same. We know that some of the steel industry in South Korea that is laying there is for exports.

Senator MOYNIHAN. These will tend to be state owned or state subsidized.

Mr. PORTER. I would respectfully point out, sir, that the United States is also increasing capacity in the steel industry. I can think of three new mills that have come on-stream in the last 9 months.

Senator MOYNIHAN. That can also be a function of getting moving with productivity.

Mr. PORTER. Absolutely.

Mr. BECKER. This is why I feel that somebody should come to grips with that. When I say somebody, I do not know. Maybe you gentlemen here should come to grips with this in some way. It is a global problem, so I think it really requires a global solution.

Clearly, we do not have enough jobs in the United States, steelworker jobs, that we can give away to keep these other economies going. We just do not have that many jobs.

Could I say one other thing on pricing?

Senator MOYNIHAN. Mr. Barnette?

Mr. BARNETTE. Yes, Senator. In the 1980's, the U.S. steel-making capability was about 155 million tons. As a result of the restructuring that took place in our industry, about 30 percent of that capacity, 40 million tons, was restructured. It is partly in answer to your question, Mr. Chairman, as well, earlier.

Senator MOYNIHAN. We know about that in Lackawanna, New York.

Mr. BARNETTE. Yes, sir, we do. Some good redevelopment is starting to happen in that location now. But our workers, we are at about 500,000. They have been reduced by 60 percent, nearly 300,000 workers. But the productivity in our industry has doubled, and in some cases, tripled. The industry circumstances we face around the world then is looking at a particular country's capability and measuring it against its own domestic demand.

What we find there is that many countries continue to have the capability, a capacity, to make and ship steel far greater than needed in the domestic market. We do not have that in America. We are, in effect, steel short. As long as it is fairly traded coming into this marketplace, that should not be an issue.

Senator MOYNIHAN. Well, Mr. Chairman, I would just say that I think we ought to learn up a bit on this whole question of subsidized, nationalized steel. It has clearly got to be part of this issue. I will leave it there.

The CHAIRMAN. Thank you.

Senator Rockefeller?

Senator ROCKEFELLER. Thank you, Mr. Chairman. I agree, once again, with Senator Moynihan. There are very few countries, if any, that have gone through what we have in terms of steel. That is a 100 percent cost to the company, not a dime from the Federal Government, not one dime.

You go to most European countries or most Asian countries and they are either state owned or state subsidized. If they lose money at the end of the year, it is made up by the government.

I want to ask a question of Mr. Barnette, and I want to ask a question of Mr. Porter. I am not a great admirer of your testimony, Mr. Porter.

Would you agree, in that I only have a short amount of time and I hope you will be short, that, under international trade laws, that the globalization that you speak of, which I also believe in, that when people violate international trade laws, that should not go unnoticed? When other countries violate international trade laws, that should not go unnoticed. Do you agree with that?

Mr. PORTER. Yes, I do. But we are talking here about quotas that also impact fairly.

Senator ROCKEFELLER. I am not talking about quotas, I am asking you a question. You answered it.

Mr. PORTER. I agree with you, yes.

Senator ROCKEFELLER. All right. Do you agree that steel is, within the general context of industry in this country, that it is an important one, that it is special?

Mr. PORTER. Important, yes. Special, no.

Senator ROCKEFELLER. You do not. All right.

You do not agree that steel is critical for an industrial society?

Mr. PORTER. You asked the question, important and special. It is critical to society.

Senator ROCKEFELLER. I am trying to give you——

Mr. PORTER. I understand that, Senator.

Senator ROCKEFELLER. So you think it is critical for an industrial society.

Mr. PORTER. I believe it is very important for an industrial society. I do not believe it is special to be set aside from other industries. I do not think it should be given special preferences.

Senator ROCKEFELLER. That is interesting. So long as you can sort of do business the way you want, what happens to steelworkers as individuals or the steel industry as an industry, therefore, is not that important to you. It is a matter of passing interest to you. You read about it in The Wall Street Journal, but otherwise it is not really that important to you.

Mr. PORTER. I am not sure that that is a conclusion that can be reached by my remarks. As I said during my remarks, we buy more than 90 percent of our steel from U.S.-produced steel.

Senator ROCKEFELLER. I am aware of what you said. I am just trying, in that you say that the steel industry is not particularly special, it does not deserve any more treatment than anybody else does, you are saying, so long as you all do well, it does not really matter what happens to the steel industry or the steelworkers.

Mr. PORTER. That would not be my definition of special.

Senator ROCKEFELLER. Well, it would be my definition of your definition of special.

Mr. Barnette, you indicated, and I will also say that I think that your concept that protectionism trade wars, with all due respect to our original and quite remarkable friend Senator Metzenbaum from Ohio, if you will remember, Senator Moynihan, whenever Senator Metzenbaum introduced a bill, the entire business community of the United States would fly in on their G–4s and prepare for an all-out war on the assumption that there was a predictable behavioral reaction, because Senator Metzenbaum was going to do something which was not friendly to business.

But the fact of the matter is, I can think of almost no bills that Senator Metzenbaum ever passed, but boy, did he ever cause a lot of jet aviation to take place. So, I make that comparison to your assumption that a trade war would break out.

If we were to do a quota bill, something that would stop this historic, absolutely never-before-recorded-in-history surge of imports in the last 6 months to which you seem to be relatively sanguine, but which I can guarantee you some of the other folks at this table are not—we are the place where people buy things. We are the consumers of the world. I do not think that what you would like to think is going to happen will happen.

Mr. Barnette, not deliberately, I know, you did not say in your testimony that the bipartisan legislation that is the quota bill in the House from your testimony, "deserves full consideration by the Senate within the framework of providing a prompt and effective response to the steel import crisis.

Let me reiterate, you say, "that we are in a period of record American demand and we are experiencing widespread losses in our industry. The cause of the current crisis lies wholly outside the United States."

Your next paragraph you say, "We need an effective response now." Another paragraph, "We urge that members of this committee, who have much collective experience with American trade posture, carry an understanding to the country at-large about the nature of the problem discussed here today," et cetera.

Could you please explain why you think it is important that we get a hold of this problem now, and that the industry seems unwilling to bring Section 201 under the present circumstance, perhaps because of the suspension agreement with Russia? We do not know whether it will happen with Brazil, from Secretary Daley this morning.

Could you please say why you wrote those words in your testimony?

Mr. BARNETTE. I will certainly try, Senator.

We desperately want to serve our customers, in the markets in which we supply products to them, on a competitive basis. We can compete. We can compete with foreign competition when it is unfair. We are going to be seriously injured when that product comes in here at such dumped and subsidized prices.

The background of that then, and let me say it as strongly as I can, is driven by the way we want to try to respond to and serve our customers. We have consistently said, give us the tools. When trade is unfair, we will use those remedies and we will take the actions that will cause the unfair trade to stop.

We have been trying that and then urging the administration to take actions. The administration has done some things, which we very much appreciate and support. They have failed to do other actions and they may still have some other actions under consideration, I just do not know.

We did not wish in any way, as we look at what has to be done, though, to suggest that it can be accomplished other than the private industry taking every action it can take, the Congress determining what is appropriate under these circumstances in terms of further changes and the strengthening of our trade laws, and hopefully, which we have not talked a lot about, urging the administration to continue to take further actions.

All three parties, Senator Rockefeller, have to be active and engaged in this process. I cannot, and would not, attempt to be presumptuous enough to know the right role ultimately of the——

Senator ROCKEFELLER. Mr. Barnette, let me be presumptuous then on your behalf. One, you do not want to say it too strongly, but you want to see the quota bill passed.

Second, the lobbyists that represent your larger steel companies, not my mid-sized steel companies which are drying up, were all over the House supporting the passage of the quota bill, all over the House supporting members, encouraging members to support the quota bill.

So the American steel industry may talk about having a variety of options at their disposal, but it is fairly clear to me from your testimony, and even more clear to me from what your lobbyists did—I would not presume at their own choice, in that they were lobbying very hard for something to happen now—to stop the hemorrhaging now, and that we all perfectly well understand that any other option at the present time is not sustainable.

I would say to you that, when Secretary Daley passed me on the way out of this thing, he said he is fully prepared to accept the possibility, or prepared to believe, that the quota bill can pass the U.S. Senate, and I agree with him.

The CHAIRMAN. Gentlemen, I think this brings us to the conclusion. Thank you very much for being here. We will undoubtedly be in contact with you further, but we do appreciate your assistance today.

The committee is in recess.

[Whereupon, at 12:30 p.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF CURTIS H. BARNETTE

Thank you for this opportunity to participate in the Committee's crucial and timely hearing on the steel import crisis.

My Statement will consist of four parts: 1) an Appendix that reviews in detail the steel import crisis, 2) a brief summary of actions taken by the industry, 3) our recommendations for actions that should be undertaken by the Administration, and 4) an outline of legislative initiatives that need to be enacted.

Last Fall, the Congress indicated its concern and support for the American steel industry and its workers by stressing the need for strong and effective government actions to stop the surge of heavily dumped and subsidized foreign steel imports. The Congressional Resolution included in the budget reconciliation bill sent a clear message that the U.S. government should not allow dumped and subsidized foreign steel to undermine the American steel industry and American jobs.

STEEL IMPORT CRISIS UPDATE

Appendix I to this Statement is a summary of the steel import crisis caused by unprecedented levels of unfairly traded imports, and the serious injury caused to the American steel industry and its employees and communities. The Appendix is essentially an update of my Statement filed for the record of the Committee's January 27, 1999 trade policy hearing. It is an extraordinary, compelling and deeply disturbing account of the severe damage to our industry.

This point needs to be stressed—the crisis continues. The joint industry-union litigation and public relations efforts described later in this Statement have helped produce some short term benefits. Imports were down in some products in December and January because of cases that had been filed. However, there are increases in other product areas—tin mill and rail, for example—not covered by recent unfair trade cases. We also have reports that the trading companies are rebounding from the impact of these cases by booking significant import business from new sources for delivery in June and beyond.

Vitally important is the fact that the steel price collapse caused by the flood of unfairly traded imports continues. We experienced price declines of as much as $125 a ton on some products in the last half of 1998. The modest restoration of $10 to $20 a ton, which may or may not be achieved 1999, will not restore fairly traded prices.

Regrettably, the steel crisis is not over.

STEEL INDUSTRY ACTIONS

We have implemented a four-part plan to address the crisis which includes legal actions, an extensive public awareness campaign, and recommendations for actions by the Administration and the Congress.

LEGAL ACTIONS

Flat rolled steel producers and their unions have filed unfair trade cases covering two products. The first cases were filed at the end of September 1998, covering hot rolled sheet from Japan, Russia and Brazil, and have resulted in affirmative preliminary antidumping and countervailing duty margins ranging from 25 to over 200 percent. These cases addressed some of the highest volumes experienced in the third quarter of 1998, and are directly responsible for most of the decline in the overall import numbers in December and January. We appreciate the Commerce Department's expedited handling of these cases.

However, the effectiveness of these cases has been severely undermined by the Administration's decision to initial a suspension agreement with Russia which will allow Russia to continue to ship hot rolled into our market at dumped prices. The Administration also announced that it had reached a more comprehensive steel export restraint agreement with Russia covering other products which will also be dumped. We have repeatedly stated our strong opposition to a separate negotiated settlement with Russia, and these negotiations have been conducted over our well-recognized objection. We understand the importance of helping Russia, but the burden of doing so must not fall on the American steel industry and its workers, by permitting such unfair and injurious trade to continue.

Based on our understanding of the terms of the proposed hot rolled product suspension agreement with Russia, we do not believe that the agreement, if entered into, will meet the statutory criteria of being in the public interest and preventing the suppression and undercutting of prices for steel produced in American plants by American workers. We have advised the Administration that we will immediately take our case to the Federal courts, and we will request the Congress to hold prompt hearings. Going beyond the strict legal criteria, we believe such an agreement undermines the Administration's stated commitment to strong and effective enforcement of our unfair trade laws and deprives our industry and our workers of the effective remedy to which we are lawfully entitled. The Attorneys General of Alabama, Indiana, Pennsylvania, Utah and West Virginia have indicated their opposition to the suspension agreement.

Based on our understanding of the more comprehensive agreement with Russia, we do not believe that the agreement will achieve a reduction of imports of injurious and unfairly-traded Russian steel. First, the quantities that may be shipped under this agreement have been set at already injurious levels. Second, there can be no successful one-country solution to the steel import crisis.

On February 16, 1999, Bethlehem, four other domestic petitioners, and the unions filed new antidumping petitions covering cut-to-length plate against the Czech Republic, France, India, Indonesia, Italy, Japan, Macedonia and South Korea. Countervailing duty petitions were also filed for six of these countries. There are two very significant aspects of these cases. First, the product involved is already the subject of eleven existing antidumping orders and four suspension agreements. It is a clear example of the how international trading companies find new sources of unfairly traded steel to circumvent the effectiveness of our trade remedies, and of the breadth of the world overcapacity problem. Second, the third largest American plate producer, Geneva Steel, is not a petitioner in these cases because it has filed Chapter 11 Bankruptcy proceedings.

We and others are actively reviewing additional state and federal legal actions, and additional cases will be filed when appropriate.

PUBLIC AWARENESS CAMPAIGN

An informed public is essential as we request our government to take immediate actions to uphold our rights against these unfairly traded steel imports, and we believe we have made important progress in a joint industry-labor public awareness program. The USWA and America's leading steel companies have established a "Stand Up for Steel—Stand Up for America" Campaign that reaches out to America and is designed to involve all interested parties. Numerous rallies and other public events, have taken place with significant community participation. Countless messages and letters have been sent to leading newspapers and other media, and a vigorous print, radio and television campaign to tell the public about the steel crisis is being conducted. We will continue these efforts—this multi-steel company and USWA Campaign—as a means to educate the public until the crisis is resolved and fair trade restored.

ADMINISTRATION ACTIONS

We have recommended actions the Administration should take and they include:

1) Forceful and publicly known bilateral discussions with all countries who are engaging in unfair trade to direct them to stop.

2) Prompt and effective enforcement of trade cases brought by the industry.

3) Willingness to self-initiate, or consider self-initiating in consultation with the industry, as appropriate: AD, CVD, 201 and other cases.

4) Willingness to deal with Russia by imposing a tariff on Russian shipments, utilizing the 1990 USSR-US agreement on Trade Relations and other Presidential authority.

5) Willingness to deal with the Japanese Cartel under 301, by a WTO case or through the antitrust laws.

6) Utilization of CVD regulations to provide strong CVD remedies.

7) Support for an effective steel import monitoring system.

8) Support for trade legislation that will strengthen our trade laws in a manner consistent with the WTO.

9) Having the highest qualified public servants in position or nominated to administer our trade laws.

10) Having forceful statements about the crisis in the American steel industry made by the President, Cabinet Members and others to the effect that rules will be enforced when trade is unfair and injurious.

On January 7th, the Administration released its congressionally-mandated Report to the Congress on a comprehensive Plan for responding to the increase in steel imports. The judgment from industry and labor is that the Plan falls short of what is required, and that has been communicated to the Administration. The Plan is primarily a recitation of actions previously taken by the Administration. It contains four "new" items: a vague and unenforceable demand for Japanese export restraints; a "300 million dollar" net operating loss (NOL) carry-back extension which was not requested and is of no use to Bethlehem or any other company we have talked to; accelerated release of steel import data, which falls far short of "real time" data provided by an import permit system that other countries have; and trade adjustment assistance enhancements that are widely opposed.

We continue to work with the Administration to encourage more meaningful actions, and we hope that the January 7 Report can be viewed as a starting point rather than the final response to the steel import crisis.

CONGRESSIONAL ACTIONS

In addition to what the Administration can and should do now under existing laws to address the steel trade crisis, legislation is needed now to cause our remedies against unfair trade to be effective and to make sure those remedies continue to function effectively into the future.

Bethlehem and the steel industry have long supported a trade policy based upon open, fair, rule-based and market-based trade, with the effective enforcement of our trade laws as appropriate, to handle unfair trade. Our trade laws need to be firmly enforced to prevent unfairly traded imports from injuring U.S. industries. The trade laws, however, also must be improved and enhanced to the fullest extent possible consistent with WTO.

It has been a full decade since the Congress last enacted an omnibus trade law reform bill, that was not related to the implementation of a trade agreement. In that decade, and especially in this most recent crisis period, we have learned—having suffered material and serious injury—that the existing laws do not provide the timely and effective remedies intended by Congress and permitted by WTO rules, which are required to continue open and market-based trading.

The steel industry has supported international agreements intended to open world trade. In particular, we supported the WTO agreements, which established new international rules for the trade remedies imposed from time to time by WTO Member governments. But we did so based on an understanding that the United States, with the world's largest open market, would have and enforce the strongest possible remedies consistent with the new rules. Congress intended that these laws provide remedies, but increasingly they simply have not, and do not work.

We are advocating prompt, appropriate and necessary fair trade law reforms in the 106th Congress. Our overall recommendations include the following areas, recognizing that additional technical amendments are needed in each of these areas.

1. Section 201: Section 201 should be amended to reflect the standards in the WTO Safeguards Agreement, rather than the more restrictive standards currently in our law. There is no justification for the additional burden now imposed on U.S. industries seeking safeguard relief. In addition, in any case involving an "upstream" product that is both sold on the merchant market and "captively consumed" by domestic manufacturers who use it as feedstock, the statute should direct the ITC to measure the domestic industry's market share in a manner consistent with common commercial practices in the industry concerned.

We also advocate changes in the U.S. 201 statute to clarify its applicability to situations like ours where internationally-competitive industries experience precipitous price suppression as a result of rapid, widespread import surges. Finally, we need to clarify the relationship between 201 relief and AD/CVD sunset reviews.

2. Suspension Agreement Authority: We urgently need legislation to prevent the Commerce Department from entering into AD/CVD suspension agreements when such agreements are opposed for good cause by the petitioners. The AD/CVD laws provide a credible and predictable remedy for WTO-recognized unfair trade practices. It is wholly inappropriate for the Administration to effectively negate the rights of petitioners to enforcement of their remedy, and the Congress should act quickly to end this practice.

3. ITC injury analysis in AD/CVD cases: This is an area of particular and unnecessary difficulty for industries seeking relief against dumped and subsidized imports. Congress intended, and WTO rules allow, that such imports face offsetting duties whenever the domestic industry is injured to any measurable degree by the imports. Where there is an unfair trade practice, whether selling at less-than-fair-value or a subsidized product, no amount of injury should be tolerated. Any detectable injury should be remedied. That is the original intent of the Congress—but it is not what happens today. An industry should not have to suffer as much injury as we are suffering now in order to get relief. Likewise, it should not be necessary to wait until there is current injury in order to find threat of injury. To list just three of the many needed amendments, Congress should act this year to clarify that: (1) there is no need to show actual losses or layoffs in order to find present injury; (2) in cases where injury is developing rapidly, the ITC must focus primarily on the most recent information; and (3) any causal link between imports and injury is sufficient for an affirmative determination—whether or not there is evidence of one or more individual factors such as underselling of domestic products.

4. Antidumping calculations: Significant and unnecessary loopholes in the current law allow foreign exporters to avoid the law's full remedial effect by, for example, selling their goods through related parties in the United States. Amendments are needed to ensure that dumping margins are appropriately adjusted to prevent such manipulations. Congress should likewise amend the law to ensure that severe foreign currency depreciations do not put antidumping relief out of reach. We also believe that certain aspects of the current U.S. methodology for non-market economies need to be tightened and codified in the statute—especially as some of the larger non-market economies move toward membership in the WTO.

5. Countervailing duty calculations: The Commerce Department recently issued final countervailing duty regulations, and in doing so codified a number of balanced rules that can bolster the CVD remedy's effectiveness. Nevertheless, the Department failed to promulgate one very important rule that had been expressly sought by the Congress: a rule that changes in the ownership of subsidized factories, including privatization, shall be treated as having no effect on the countervailability of previously received subsidies. This rule, along with a few other clarifications, should now be added to the statute.

6. Section 301: The effectiveness of section 301 as a market-opening tool has lessened, both because of the WTO agreements and because of the proliferation of new and harder-to-reach types of foreign trade barriers. Closed foreign markets are an important part of the overall trade crisis in the steel industry. We urge that Congress update section 301 with expanded authority for the President to address the new generation of private and joint public/private restraints on international trade. The USTR should have authority to act directly against foreign firms that participate in, or are the principal beneficiaries of, such restraints.

7. Import Monitoring: The current delays in providing steel import information to the industry can only be addressed through legislation to implement a steel import notification system that will provide "real time" data. Senator Specter and others have introduced legislation (S. 261) to implement such a system and we commend and support that effort.

8. WTO Dispute Settlement Review Commission: Unwarranted fear of future litigation in Geneva is emerging as a major problem in the administration of the U.S. trade laws. In large part, what is needed is simply a more resolute approach by the Federal agencies involved. However, Congress can help by establishing a blue-ribbon commission, comprised of federal judges, to review adverse WTO dispute settlement panel decisions. This proposal has been previously introduced by Senators Moynihan and Dole and publicly endorsed by the Administration. We believe its enactment would help to prevent U.S. officials from being deterred in carrying out the dictates of U.S. law, by the prospect of unpredictable results from WTO litigation. When WTO panels act outside the rules and invent new limitations on the use of U.S. trade remedies, some procedure must be in place to facilitate an appropriate Congressional response.

These fair trade law reforms would make our existing trade law remedies more effective and credible. We will have additional suggestions as we move forward.

In addition to S. 261, a number of other bills have already been introduced in the 106th Congress to address the steel crisis, including S. 61, a bill to provide for the assessment of additional retroactive antidumping duties. We appreciate and thank the sponsors and co-sponsors of this bill and others for their efforts to achieve a prompt, meaningful and comprehensive response to the steel import crisis.

On March 17, the House passed H.R. 975, a bill to limit steel imports for a period of three years and to implement an import notification system, and that bill will now come over to the Senate. This bipartisan legislation deserves full consideration by the Senate within the framework of providing a prompt and effective response to the steel import crisis. Let me reiterate, that we are in a period of record American demand, and we are experiencing widespread losses in our industry. There is only one cause, imports— imports which are dumped, subsidized, closed out of other markets by official and private restrictions. The causes of the current crisis lie wholly outside the United States.

We need an effective response now. We need to have full enforcement of the current trade laws. But we must recognize that these laws were not crafted to deal with a collapse in foreign demand coupled with the widespread policies which prevail in foreign steel trade as in no other sector. We ask that you consider carefully the well-documented facts of foreign unfair trade practices in steel. We have made a paper available to you documenting these practices which is entitled The New Crisis In Steel.

We urge that you consider carefully the causes of the current crisis and possible solutions. We urge that the members of this Committee, who have much collective experience with America's trade posture, carry an understanding to the country at large about the nature of the problems discussed here today. The American steel industry is not advocating protectionism. It is advocating a restoration to this sector of fair trade in steel and the operation of an undistorted market. Our industry is highly competitive and certainly the most efficient producer for this market, and yet we have recently experienced a sharp drop in shipments, prices and capacity utilization. Why? So that far less efficient, polluting, and heavily subsidized foreign mills operating in closed markets can avoid the necessary, painful adjustments that we underwent to modernize? That cannot be acceptable as a matter of sound public policy. We need Congress to consider every effective alternative, and find a solution. We have tried with our proposed trade law changes to contribute to the solution. Actions and reforms are needed to restore fair trade in steel and to provide all domestic industries with prompt and effective remedies. The available responses to date have been inadequate. We have done all that we can do as an industry in competing in the market place and in responsibly invoking the trade remedies under law. The decisions now are yours.

The current steel crisis and the need for action should be considered in relationship to other trade developments. Consider just the following three:

First, the U.S. trade deficit was a record high of $231 billion in 1998, and a record high in January 1999 of nearly $17 billion. It will almost certainly be even higher in 1999. This is an understandable and serious obstacle to popular support for open trade policies, and quite properly causes significant public opposition to unfair trade.

Second, we have not found in the WTO the hoped-for leverage to open foreign markets and curb unfair foreign trade practices. This early incapability of this institution brings into serious question whether the WTO is really effective in creating a fair, rule-based system for international trade. Our rule-based approach to trade requires, and our adherence to WTO obligations certainly requires, that we all have a high confidence in the WTO. At present, we do not.

Third, consider the Administration's recent actions in "settling" the Russian dumping cases. Simply stated, the rights of seriously injured steelworkers and companies have been taken away from them, and the injuries to them are being authorized to continue by our government. How can we depend upon rule-based trade if the rules are not enforced?

We are really at a trade policy crossroads. We believe that a comprehensive and effective response can be based on WTO-consistent principles, but that course requires an Administration willing to fully use the remedies available to it under current laws, and a Congress willing to make WTO-consistent changes in our trade remedies where they have been proven to be deficient. When the United States is not able to respond, however, and the need for an effective solution has surely been established, we may require a different course of action. Prompt, comprehensive and effective action to address the steel import crisis is absolutely essential if we are to continue our present trade policy.

APPENDIX I

BACKGROUND ON THE STEEL IMPORT CRISIS

The American steel industry has gone through a painful restructuring since the 1980s—we have reduced inefficient capacity by 30%, reduced jobs by 60%, made massive capital investments of nearly 60 billion dollars, and more than doubled our productivity. We emerged as the world class steel industry. Our foreign competitors, however, did not make the painful decisions made by the American industry. There continues to be significant foreign overcapacity which has to land somewhere, and it has landed in the United States—the world's most open market. As we examine the data detailing the sharp increase in steel imports and its effect on our industry, it is essential to keep in mind the basic cause of the problem—uneconomic decisions by foreign producers leading to excess worldwide capacity that ultimately is unfairly traded in the United States and thereby undermines the American industry and its workers.

Record levels of unfairly traded imports in 1998 pose an unprecedented threat to all that our world-class American steel companies and employees have achieved in recent years. The impact of the steel import crisis in the United States has become even more severe in the first quarter of 1999.

Import volumes in 1998 reached unprecedented levels (see Attachment 1). The United States imported a record 18 million tons in the first half of 1998. Nevertheless, import levels in the second half were even higher. During the third quarter, a record 12.4 million tons of imports surged into the U.S. market, an increase of 56 percent over the same period last year. The July through November imports were the five highest monthly totals for imports in U.S. history (see Attachment 2). Although imports declined in December—reflecting the impact of the hot rolled sheet antidumping petitions—imports of steel mill products for 1998 set an all-time record for a single year of 41,519,000 net tons—a 33 percent increase over 1997, which itself was a record year.

There is only one accurate description for America—we have become the World's Steel Dumping Ground. While average U.S. import values have declined by almost $100 per ton in the past year, total import volume has increased by over 70 percent (see Attachment 3). On October 28, 1998, the Executive Director of the steel importers association admitted to the Journal of Commerce that "there's no place left to put the steel." The docks and warehouses are full. The inventories remain at record levels. Yet, unprecedented levels of unfair and disruptive steel imports continue to stream in from every corner of the globe.

Comparing 1998 with 1997's record import levels, finished steel imports are up 144 percent from key Asian producers (see Attachment 4), and up 72 percent from Russia and two other nations of the Commonwealth of Independent States (CIS), not including cut-to-length plate, which is subject to a suspension agreement (see Attachment 5). Other examples of 1998 import surges include Australia (up 117 percent) and South Africa (up 106 percent).

More than half of the total import surge in 1998 has been concentrated in hot-rolled carbon steel flat-rolled products (see Attachment 6), which explains why this is the product area covered by the initial trade cases filed earlier this year by U.S. steel companies and the USWA. A closer look at the data shows that flat-rolled imports have surged sharply since the first quarter of 1998 (see Attachment 7), and significantly higher import volumes and substantially lower average unit values are especially pronounced for imports of hot-rolled carbon steel flat products from Japan, Russia and Brazil (see Attachments 8-10).

It is important to emphasize, however, that this import surge is not limited to hot-rolled carbon products or to these three countries alone. With U.S. imports from nearly 40 countries having exceeded their 1997 totals (see Attachment 11), steel import market share is rising in several key product lines (see Attachment 12), and import surges, both by country and by product, are occurring across-the-board.

In one dramatic example, U.S. imports of cut-to-length carbon steel plate from South Korea have skyrocketed since June (see Attachment 13), and more cut-to-length plate from Korea entered the United States in a 4-month period, from August through November 1998, than in the previous 7 years combined (see Attachment 14). And these are not the only examples. More plate in coil entered the U.S. from Japan in the last 3 months than in the previous 10 years combined (Attachment 15), and more cold rolled sheet entered the U.S. from Korea in the last 4 months than in the previous 5 years combined (Attachment 16).

This is a supply-driven crisis, in which an already enormous world steel over-capacity problem has been made much worse by major structural economic failures in Asia and the CIS. Today, we have over 300 million tons, or roughly one-third of total world steel capacity, desperate for new markets. This current crisis is deeply troubling, causing serious injury to American steel companies and employees, and it is unique in three respects:

First, worldwide overcapacity and the failure of foreign producers to execute the difficult restructuring decisions made by the U.S. producers continues to undermine our industry and workers. The problems caused by this overcapacity have been exacerbated by the recent global macroeconomic developments, from extreme currency shifts to severe economic downturns abroad, which clearly are beyond the ability of U.S. producers and workers to control.

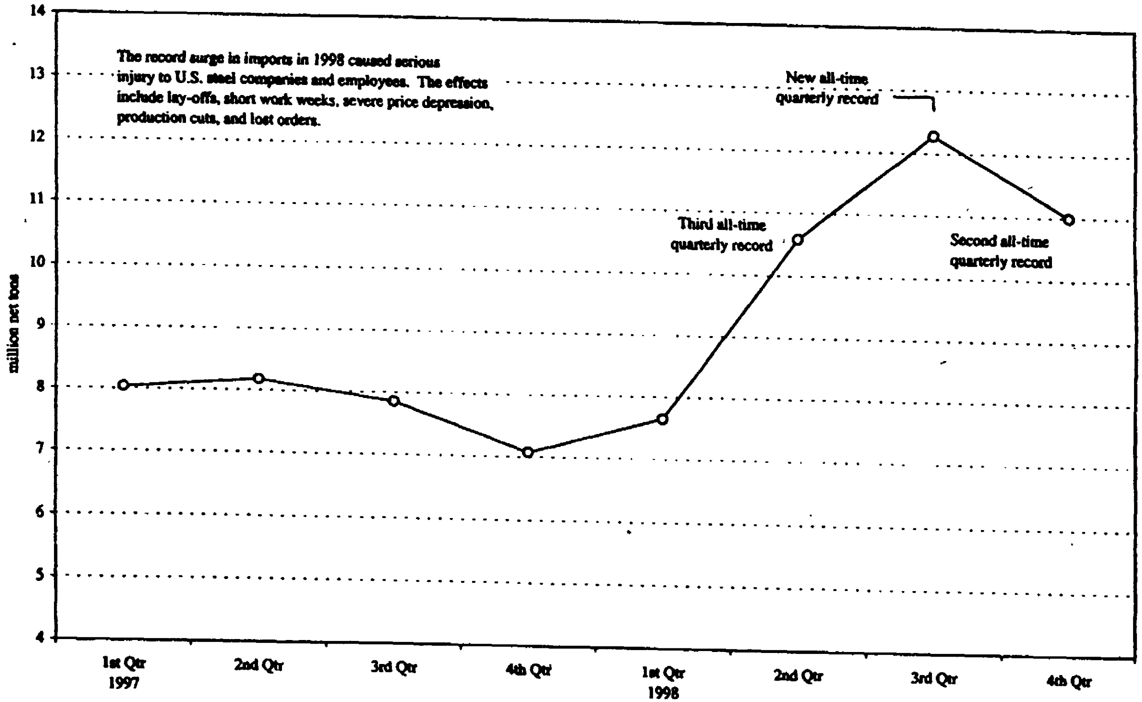
Second, no one can recall a time when American steel prices fell as far as fast in a period of still relatively strong U.S. market demand. The stark truth is that dumped and subsidized imports are deriving most of the benefits of our own successful efforts to grow the demand for steel in the United States and North America.

Third, and perhaps most troubling of all, the serious import injury this time is threatening to destroy an American success story of industrial revitalization, an industry that is once again the world leader in labor productivity and the application of state-of-the-art steelmaking technology. This time, unlike in the early-mid 1980s, major structural economic failures abroad are threatening the viability of a world-class, highly competitive American steel industry—and with it, thousands of high skilled U.S. jobs.

Recent press reports and public news releases detail the effects of this accelerating national crisis. Unprecedented levels of unfairly traded and disruptive steel imports have caused a large and growing number of American steelworkers to experience layoffs, short work weeks or reduced pay incentives. And for American steel companies, these surging levels of imports, at prices far below the cost of production, have resulted in lower shipments, large production cuts, significant declines in capacity utilization, lost orders, severe price depression, and significant financial losses. Attachment 17 is a listing of recent plant closings, layoffs and capacity reductions as of February 10, 1999.

Attachment 1

Record Levels of Unfairly Traded Imports From Russia, Asia and Other Countries Pose an Unprecedented Threat to the Competetiveness Gains Achieved by U.S. Steel Companies and Their Employees



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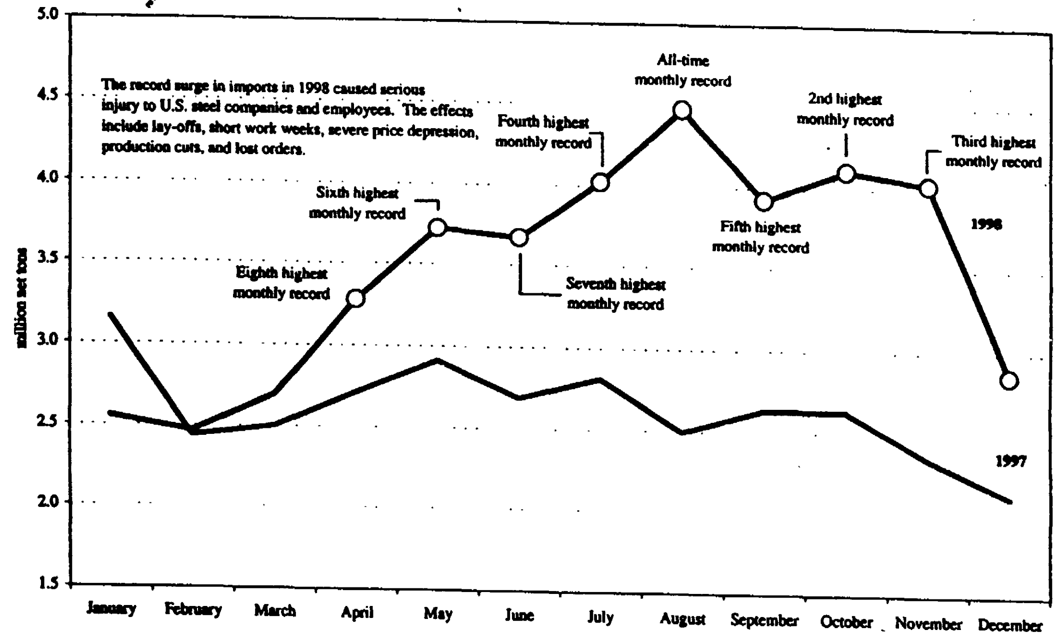
Attachment 2

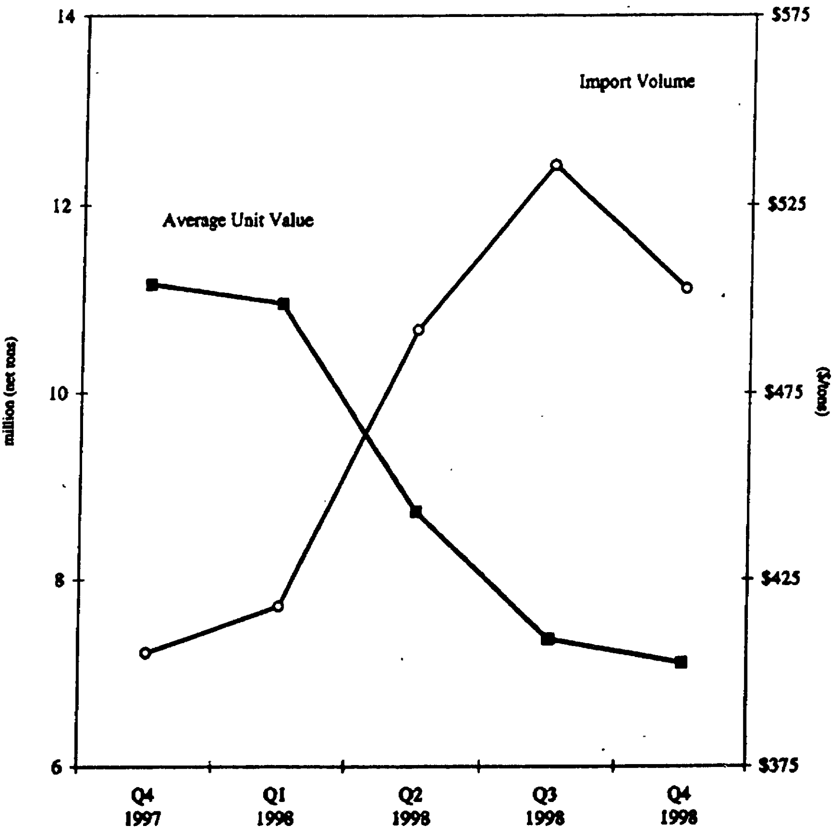
Record Levels of Unfairly Traded Imports From Russia, Asia and Other Countries Pose an Unprecedented Threat to the Competitiveness Gains Achieved by U.S. Steel Companies and Their Employees



Source: Department of Commerce

Attachment 3

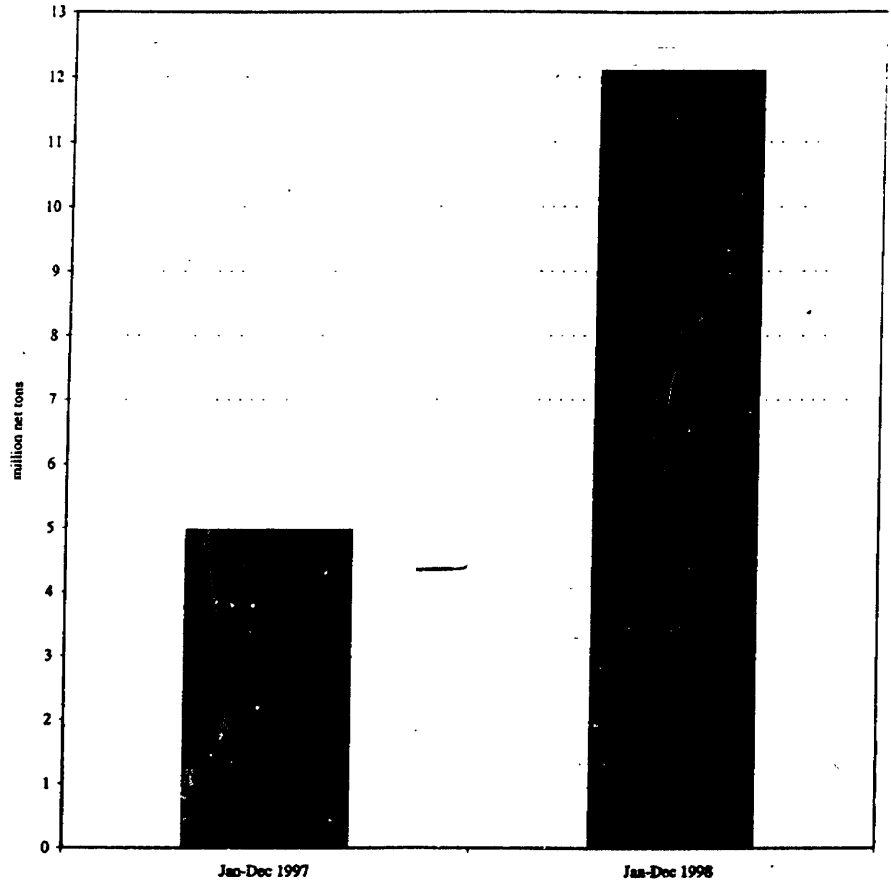
Over the Past Year Average Import Values Have Declined Almost $100 Per Ton For Total Steel Imports While Import Volume Has Increased 54 Percent (Over 70 Percent through Q3 98)



Source: U.S. Department of Commerce

Attachment 4

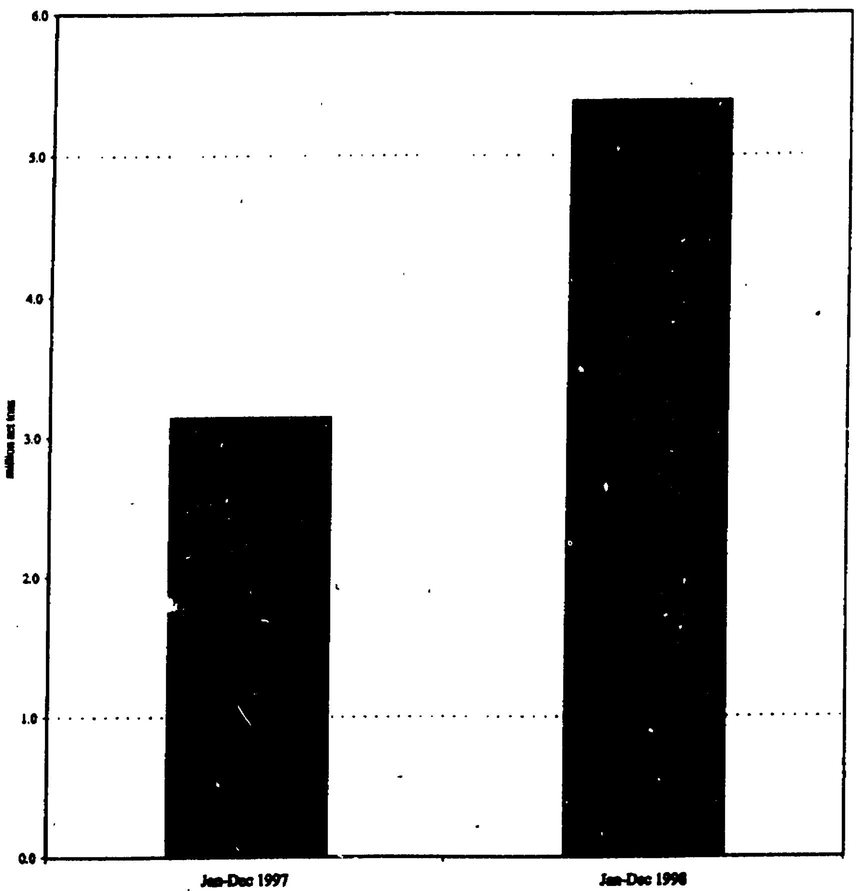
U.S. Imports of Finished Steel Mill Products
From Asian Steel Producing Countries,
Already at Very High Levels in 1997,
Increased an Additional 144 Percent in 1998



Source: U.S. Department of Commerce
Note: Asian steel producing countries include China, Japan, Korea, Taiwan, India, Indonesia, Malaysia and Thailand.

Attachment 5

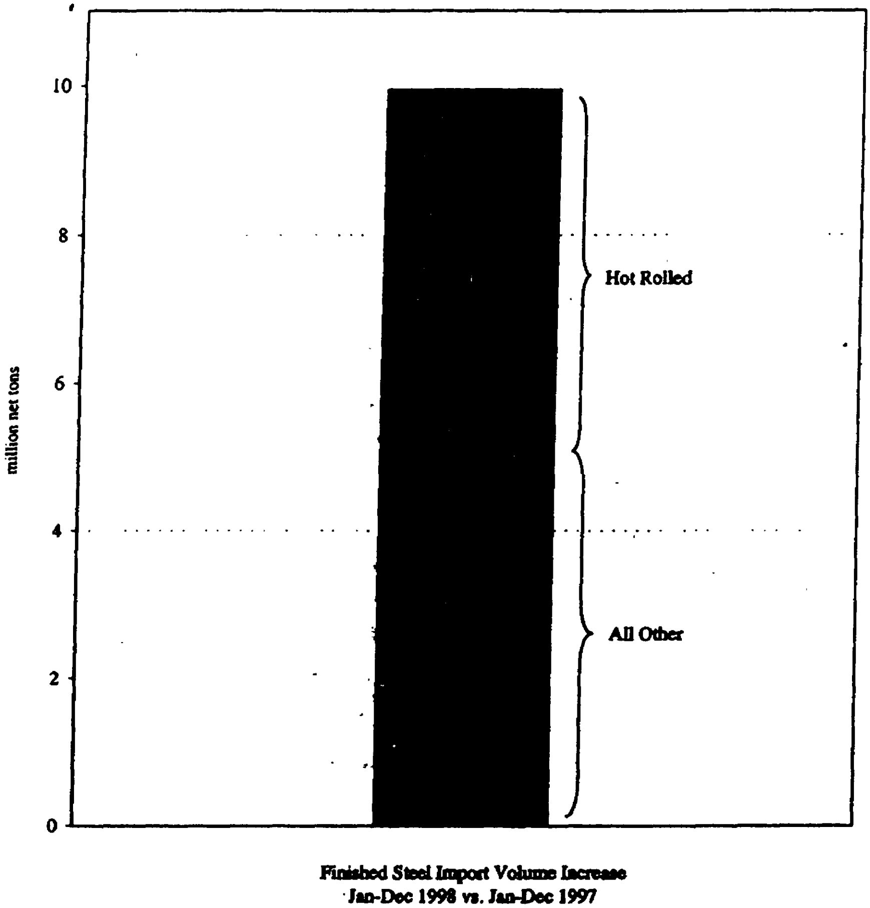
U.S. Imports of Finished Steel Mill Products From CIS Countries Not Subject to Suspension Agreements, Already at Record Levels in 1997, Increased an Additional 72 Percent in 1998



Source: U.S. Department of Commerce
Note: Data on CIS excludes carbon cut-to-length steel plate which became subject to a suspension agreement in 1997.
CIS countries include Russia, Ukraine and Kazakhstan.

Attachment 6

Almost Half of the Finished Steel Import Surge in 1998 Was Concentrated in Hot-Rolled Carbon Steel Flat-Products (million net tons)

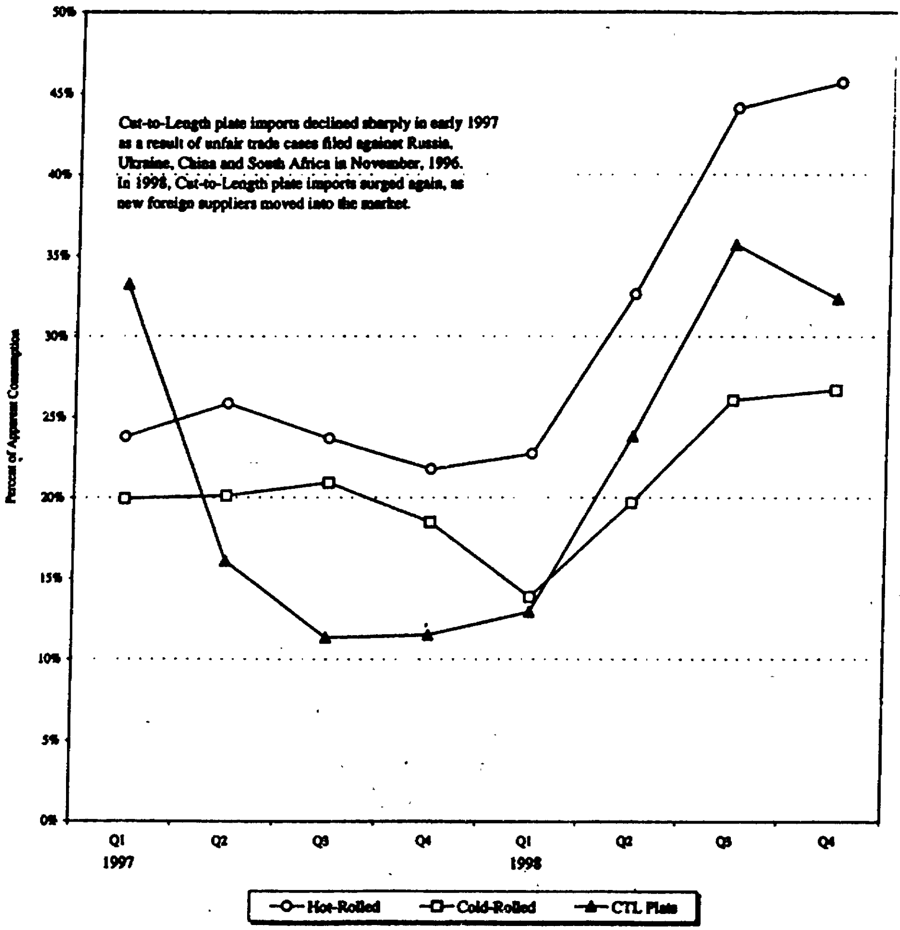


Source: U.S. Department of Commerce
Note: Hot-rolled carbon steel flat products includes hot-rolled sheet and strip and plate in coil.

Attachment 7

Flat-Rolled Imports Have Surged Sharply Since the First Quarter of 1998

Import Market Share 1997: Q1 to 1998: Q4

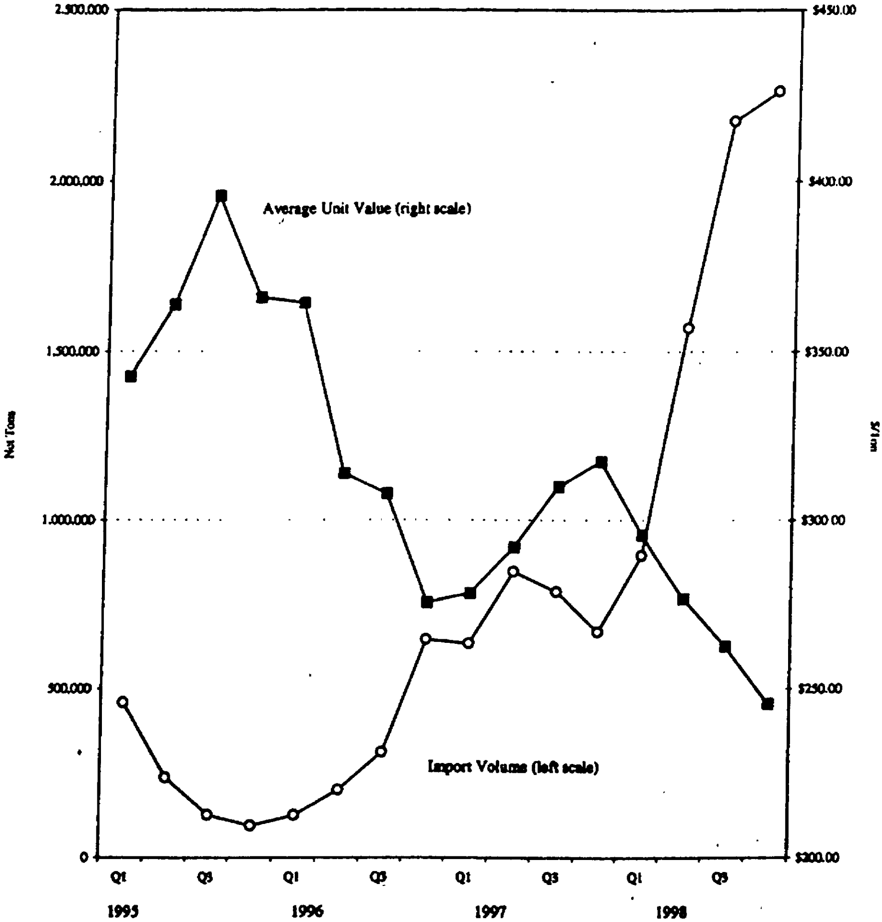


Source: U.S. Department of Commerce and AISI.
Note: Hot-Rolled includes plate-in-coil.

Attachment 8

Hot-Rolled Carbon Flat Steel Product Imports From Japan, Russia and Brazil

1995:Q1 to 1998:Q4

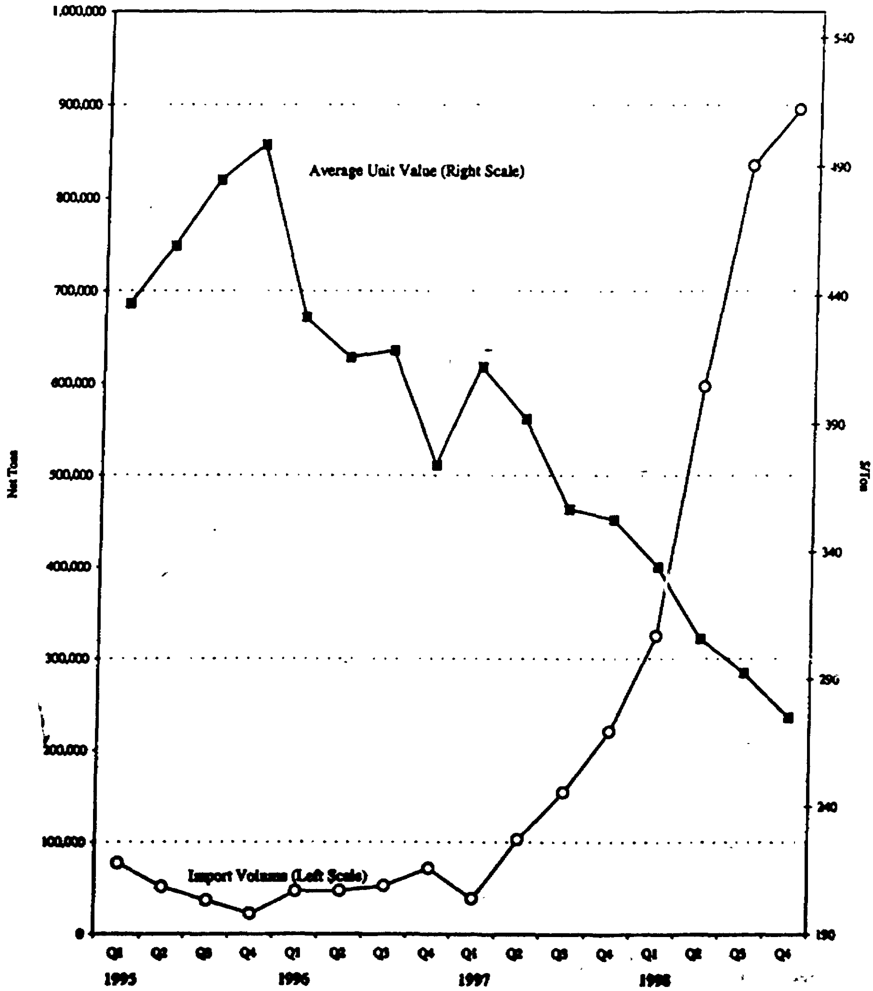


Source: U.S. Department of Commerce.
Note: Hot-rolled carbon flat steel products include hot-rolled sheet and plate-in-coil.

Attachment 9

Hot-Rolled Carbon Steel Flat Product
Imports from Japan

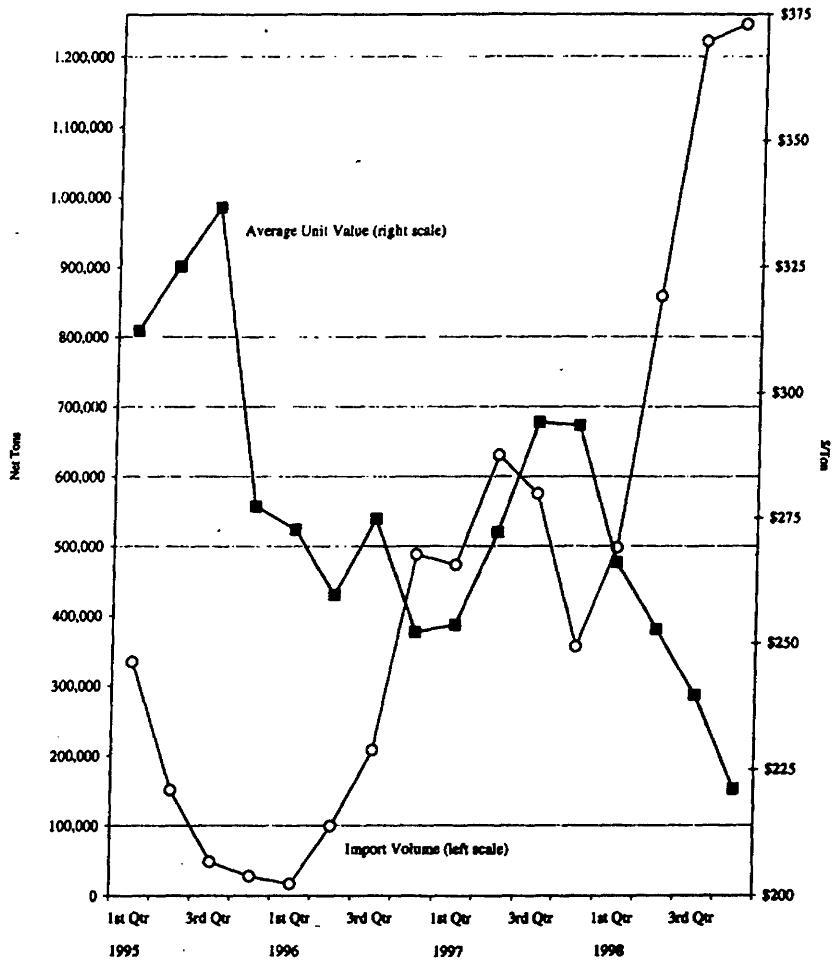
1995:Q1 to 1998:Q4



Source: U.S. Department of Commerce.
Note: Hot-rolled carbon steel flat products includes hot-rolled sheet and plate in coil.

Attachment 10

Hot-Rolled Carbon Steel Flat Product
Imports from Russia
1995:Q1 to 1998 Q4



Source: U.S. Department of Commerce
Note: Hot-rolled carbon flat steel products include hot-rolled sheet and plate in coil.

Attachment 11

Foreign Suppliers That Surpassed 1997 Totals in 1998

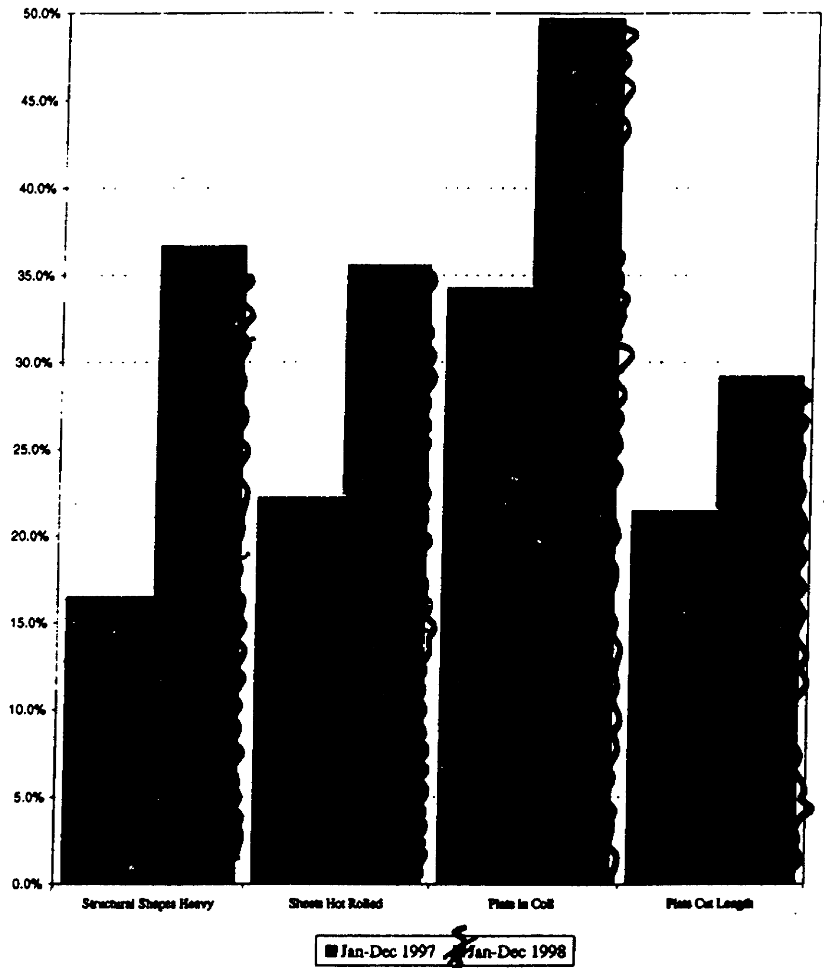
COUNTRY	Year 1998	Year 1997	Difference
Japan	6,727,518	2,554,473	4,173,045
Russia	5,273,589	3,319,000	1,954,589
Canada	4,913,714	4,775,166	138,548
Korea	3,429,837	1,638,373	1,791,464
France	1,091,659	1,072,750	18,909
UK	961,977	663,605	298,372
Australia	951,086	439,399	511,687
Ukraine	882,321	580,501	301,820
Netherlands	801,497	767,320	34,177
South Africa	649,115	314,577	334,538
China	632,274	476,916	155,358
Spain	598,208	580,139	18,069
Indonesia	542,071	91,484	450,587
Venezuela	509,680	441,681	67,999
Taiwan	491,956	188,956	303,000
India	376,742	194,472	182,270
Moldova	314,061	117,070	196,991
Luxembourg	313,169	174,357	138,812
Romania	239,737	157,694	82,043
Finland	207,513	174,151	33,362
Latvia	175,960	112,326	63,634
Argentina	161,809	152,934	8,875
Poland	153,255	150,385	2,870
Kazakhstan	149,266	22,588	126,678
Thailand	140,142	64,678	75,464
Austria	133,718	121,347	12,371
Egypt	67,690	50,904	16,786
Lithuania	62,931	1,560	61,371

COUNTRY	Year 1998	Year 1997	Difference
Macedonia	61,601	43,386	18,215
Malaysia	52,350	29,053	23,297
Switzerland	47,227	28,535	18,692
Portugal	37,322	12,602	24,720
Chile	36,112	21,094	15,018
Hungary	34,108	17,650	16,458
Norway	28,656	21,105	7,551
Belarus	19,887	927	18,960
Colombia	18,419	14,749	3,670
Philippines	16,844	9,766	7,078
Croatia	11,242	3,536	7,706
UAE	10,709	2,812	7,897
Cyprus	9,269		9,269
Guatemala	7,108	5,183	1,925
Ireland	3,855	375	3,480
Dominican Rep	2,606	1,812	794
Honduras	2,276	1,946	330
Pakistan	2,271	174	2,097
Cayman Islands	2,218		2,218
Algeria	1,697		1,697
Peru	555	27	528
Hong Kong	368	111	257
Costa Rica	190	164	26
Gabon	10		10
Antigua	7		7
Falkland Islands	5		5
Montserrat	4		4
Haiti	2		2

Source: U.S. Department of Commerce

Attachment 12

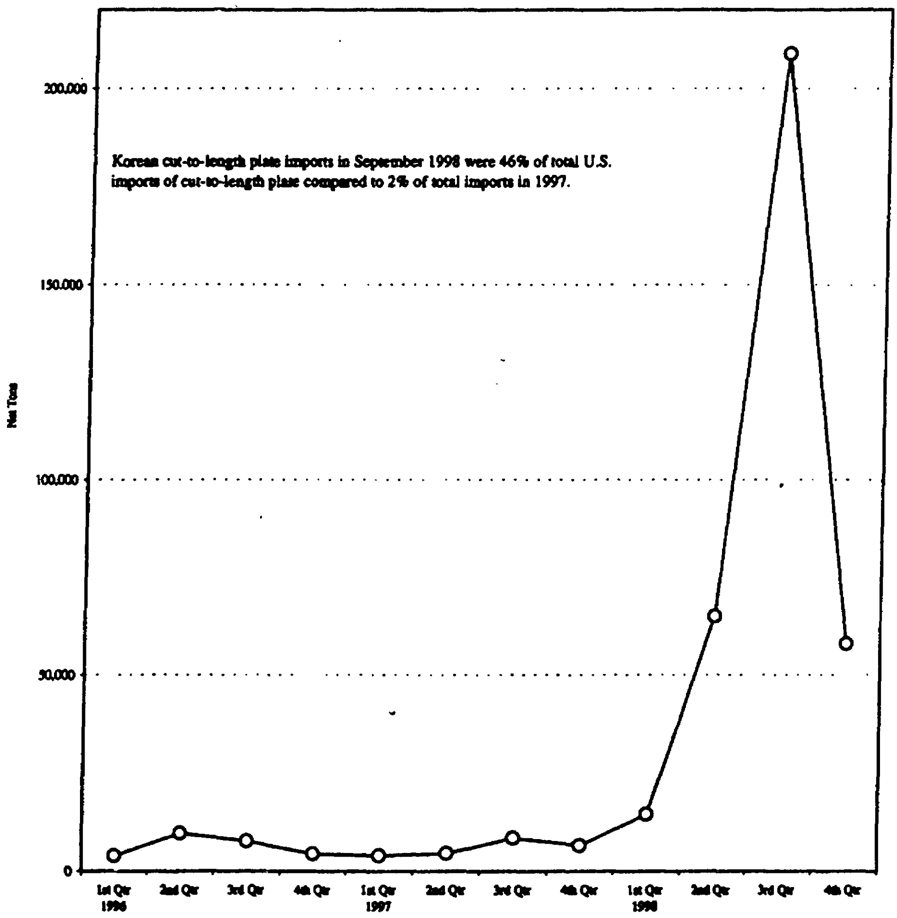
Steel Import Market Share in 1998 Rose Significantly in Several Key Product Lines (Shown Below are Four Examples)



Source: U.S. Department of Commerce, AISI.

Attachment 13

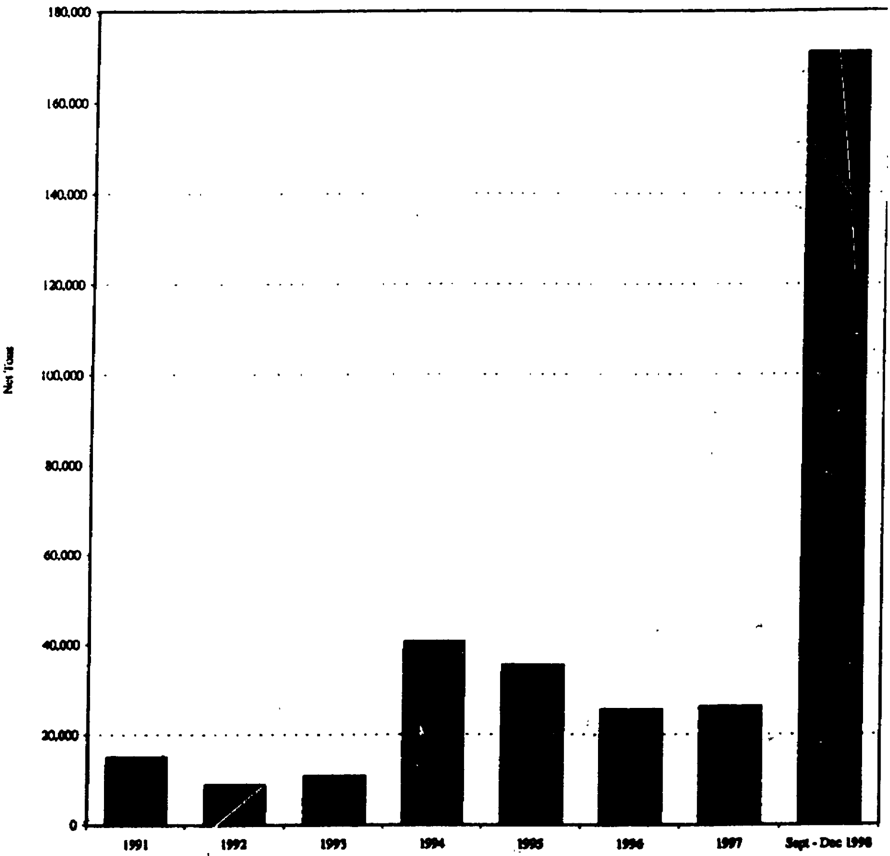
U.S. Imports of Cut-To-Length Carbon Plate from Korea Surged Sharply Beginning in the Second Quarter of 1998 and Still Remain Significantly Higher Than 1997



Source: U.S. Department of Commerce

Attachment 14

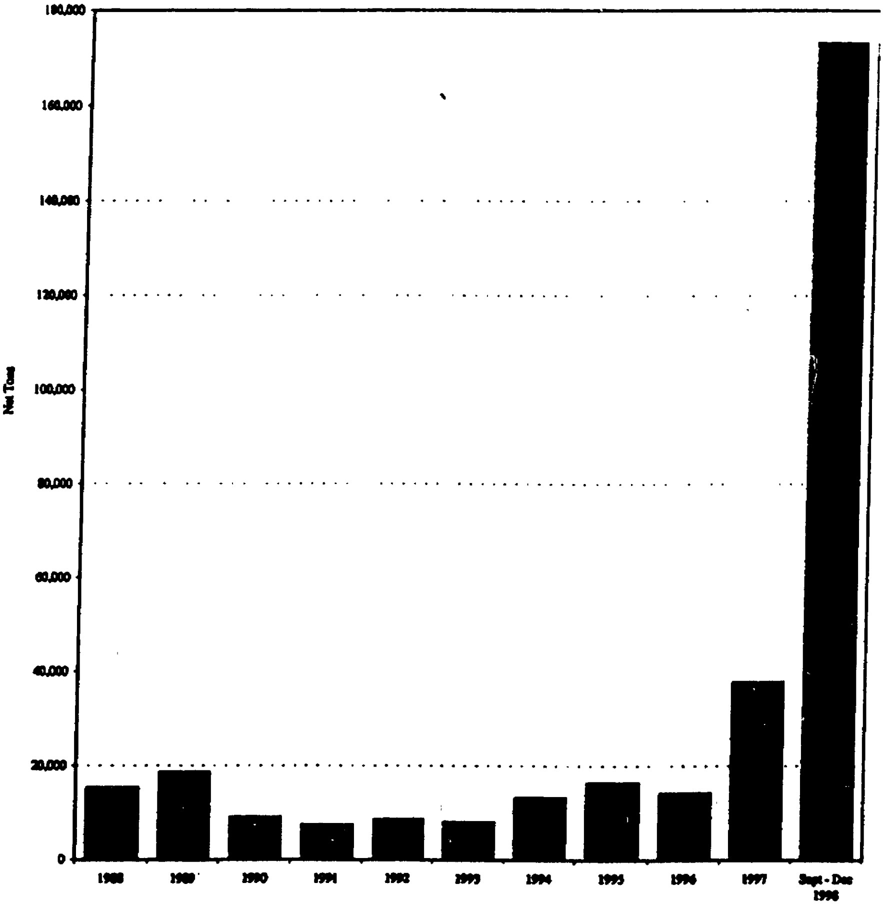
More Cut-To-Length Plate Entered the United States
from Korea in the Last Four Months
(September through December 1998)
Than in the Previous Seven Years Combined
(1991 to 1997)



Source: U.S. Department of Commerce

Attachment 15

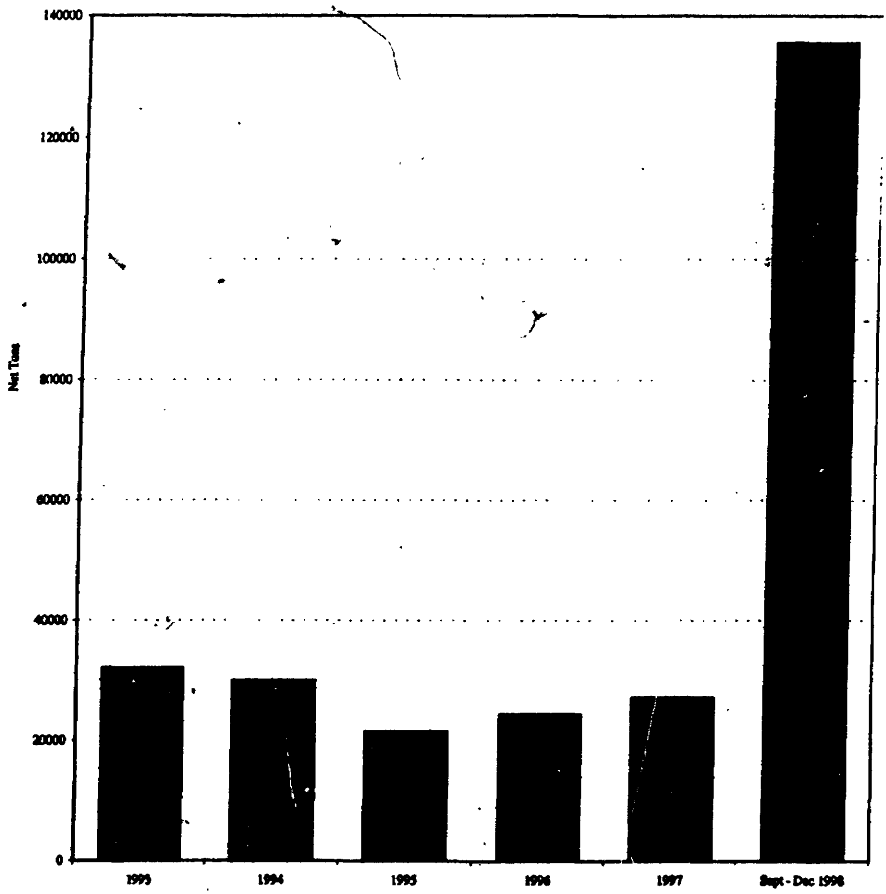
More Plate in Coil Entered the United States from Japan in the Last Four Months (September through December 1998) Than in the Previous Ten Years Combined (1988 to 1997)



Source: U.S. Department of Commerce

Attachment 16

More Cold Rolled Sheet Entered the United States
from Korea in the Last Four Months
(September through December 1998)
Than in the Previous Five Years Combined
(1993 to 1997)



Source: U.S. Department of Commerce

Attachment 17

RECENT PLANT CLOSINGS, LAYOFFS AND CAPACITY REDUCTIONS
(as of February 22, 1999)

Date	Company	Product Affected	Event
1998	California Steel Industries	All	Petitioner California Steel Industries has lost 15 to 20 percent of its sales volume so far this year.[1] Consequently, it has had to reduce production operations by an equivalent percentage.[2]
1998	LTV	All	Petitioner LTV has curtailed blast-furnace operations by 13 percent.[3] That translates into 300,000 tons of lost production in the fourth quarter of this year.[4]
1998	Steel Dynamics	All	Petitioner Steel Dynamics started up a second caster in June, but is operating it at significantly less than its capacity.[5] Overall, Steel Dynamics is now operating at 75 percent of capacity even through it is one of the most efficient mills in the world.[6]
1998	Gulf States Steel	Hot Strip	Petitioner Gulf States Steel has shut down its hot-strip mill for one week, and plans henceforth to be operating the mill only four days a week.[7]
9/10/98	Gulf States Steel	All	Gulf States Steel announces that it will lay off eight percent of its work force, and eliminate overtime for the remainder of its employees.[8]
9/98	U.S. Steel	All	Petitioner U.S. Steel has reduced operations, and laid off 100 workers at its Mon Valley Works near Pittsburgh in connection with a 12 percent reduction in output at that facility.[9] Additional layoffs at that facility are expected in the "near future."[10]
9/22/98	U.S. Steel	All	U.S. Steel President Paul Wilhelm announces that the company has decided to keep out of operation indefinitely a blast furnace at its Gary, Indiana works with a capacity of 1 million tons.[11]
9/28/98	Geneva Steel Co.	All	Petitioner Geneva Steel Co. announces that it will cut planned fourth quarter production by nearly 20 percent and lay off 350 workers.[12] This follows Geneva's lay off of 270 workers earlier this year.[13] Its corporate credit rating was downgraded because it missed an interest payment.

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1 Tr. at 54 (Testimony of Jim DeClusin, Executive Vice President, CSI, Inc.).
2 Tr. at 54 (Testimony of Jim DeClusin, Executive Vice President, CSI, Inc.).
3 Tr. at 63 (Testimony of J. Vail).
4 Tr. at 63 (Testimony of J. Vail).
5 Tr. at 24 (Testimony of Keith Busse, President, Steel Dynamics, Inc.).
6 Tr. at 24 (Testimony of Keith Busse, President, Steel Dynamics, Inc.).
7 Tr. at 57 (Testimony of John Lefler, President and CEO, Gulf States Steel Co., Inc.).
8 Tr. at 57 (Testimony of John Lefler, President and CEO, Gulf States Steel Co., Inc.).
9 "Layoffs at USX cited in talk of trade meeting," American Metal Market (Sept. 1, 1998); "Imports keep Gary Furnace idle," American Metal Market at 1, 12 (Sept. 23, 1998) ("Gary Furnace Idle").
10 Tr. at 63-64 (Testimony of J. Vail).
11 See "Gary Furnace Idle" at 1.
12 "Geneva joins list of production cuts citing import woes," American Metal Market at 1 (Sept. 29, 1998).
13 "Geneva joins list of production cuts citing import woes," American Metal Market at 1 (Sept. 29, 1998).

Date	Company	Product Affected	Event
9/7/98	Nucor	All Flat-Rolled	Nucor announces that it cut production at its Hickman, Arkansas mill by more than 40 percent (i.e., by more than 800,000 tons) because of market turmoil in the wake of the flood of cheap imports.[14] Since then, Nucor announced that it was cutting back production at all of its flat-rolled facilities in the face of the import onslaught.[15] Nucor announced that the effect of the cuts was "10-15% reduction in sheet output, mostly HR coils."[16]
9/29/98	Acme Metals, Inc.	All	Acme Metals, Inc. ("Acme"), files for protection from creditors under Chapter 11 of the U.S. Bankruptcy Code. Acme is a classic example of a U.S. producer that invested heavily in the expectation that strong demand would enable it to realize at least an adequate return on their business. In late 1996, it brought onstream a $370 million new slab caster designed to take advantage of its high-quality blast furnace operations, while linking it to low-cost, mini-mill style casting and rolling equipment. Acme attributed its downfall "in large part to heavy volumes of cheap imports. . . ."[17]
10/98	Steel Dynamics	All	While Steel Dynamics does not plan to layoff workers, their compensation will be cut by 20 percent.[18]
9-10/98	Gallatin Steel	All	Petitioner Gallatin Steel is one of the industry's new mini-mills. In September and October, it reduced its production levels to 50 percent of capacity.[19]
10/98	IPSCO Steel Inc.	Plate, Hot Rolled Sheet	Petitioner IPSCO Steel Inc., which only recently ramped up production at its new mill in Iowa (which makes both plate products and hot-rolled sheet), has scaled back operations from seven to five days a week.[20]
10/98	Weirton	All	According to Weirton Steel President Richard Riederer, employees of Weirton Steel are experiencing reductions in their take home pay ranging from 20 to 50 percent.[21]
10/19/98	National Steel	All	Petitioner National Steel has announced the idling of a blast furnace producing 1.1 million tons of iron at its Great Lakes Division.[22] As a result, the steelmaking capacity at that unit will be reduced by 25 to 30 percent.[23]
10/23/98	Weirton	All	Weirton announces that it is laying off 300 workers -- nearly 10 percent of its workforce -- "due primarily to a loss of orders and the continued surge of steel imports, primarily those being illegally dumped into the United States."[24]
10/28/98	Wheeling-Pittsburgh		Company announces 18 voluntary layoffs at its Martins Ferry plant.

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14 "Low prices force Nucor to cut production," Metal Bulletin at 33 (Sept. 7, 1998).
15 "Nucor cuts sheet production by 15%," Metal Bulletin at 37 (Sept. 28, 1998).
16 "Nucor cuts sheet production by 15%," Metal Bulletin at 37 (Sept. 28, 1998).
17 See "Acme blames cheap imports for bankruptcy," Metal Bulletin at 15 (Oct. 1, 1998).
18 Tr. at 24 (Testimony of Keith Busse, President, Steel Dynamics, Inc.).
19 Tr. at 56 (Testimony of John Holditch, President, Gallatin Steel Co.).
20 "American producers cut output as stocks mount and imports surge," Metal Bulletin at 19 (Oct. 8, 1998).
21 Tr. at 60 (Testimony of Richard Riederer, President, Weirton Steel Corp.).
22 "National set to join ranks of cutbacks," American Metal Market at 1 (Oct. 19, 1998).
23 "National set to join ranks of cutbacks," American Metal Market at 1 (Oct. 19, 1998).
24 Weirton Press Release, October 23, 1998.

Date	Company	Product Affected	Event
10/30/98	LTV		LTV announces a one-week shutdown of the Direct Hot Charge Complex at its Cleveland plant. 320 workers will be laid off or reassigned to lower paying jobs during the shutdown, scheduled to begin Oct. 31.[25]
11/04/98	U.S.Steel	All	U.S. Steel announces that it will cut back operations at its steelworks in Fairless Hills, Pa. by about 70 percent. The company will shut down indefinitely its 80-inch pickling line, cold reduction sheet mill, sheet annealing line and sheet temper mill. Several hundred of the 850 workers at the plant will be laid off. President Paul Wilhelm remarks, "The actions we're being forced to take at the Fairless plant are a direct result of the record tonnages of illegally dumped foreign steel reaching this country."[26]
11/09/98	LTV	Cold-rolled	LTV announces that it will permanently close cold-roll finishing operations at the No 2 Finishing Department at its Cleveland Works. Approximately 320 jobs are eliminated. The company cites dumped imports as one reason for the unit's closure.[27]
11/19/98	Bethlehem	Sheet	Bethlehem Steel announces that about 500 workers at its two Washington County, Pa. plants will be laid off for two weeks, starting Nov. 23, due to "record levels of imported steel." The steelmaker also announces a two-week shutdown at its Massillon, Ohio plant.[28]
11/20/98	Bethlehem	All	Bethlehem Steel issues press release detailing the impact of dumped steel on the company's operations. Announced production cutbacks include a planned one-week shut down of the Burns Harbor, Ind. hot strip mill as well as a mill in Steelton, Pa. beginning Nov. 23, shift cutbacks at Sparrows Point, and the idling of plate facilities in Coatesville, Pa. from Dec. 24 to Jan. 2.[29] The Coatesville shutdown requires that the company lay off 1,000 workers.[30]
12/1/98	Laclede		Laclede Steel Co. files for bankruptcy, attributing losses primarily to a surge in imports.[31]
12/3/98	Weirton	All	Weirton announces that it will temporarily idle a blast furnace starting Dec. 15, causing the short-term layoff of about 415 workers.[32]
12/31/98	Geneva		A Standard & Poor's report speculates that Geneva will likely file for bankruptcy. While the company does not confirm the report, a spokesman states that it is in discussion with creditors, after missing January's interest payment on its 9.5-percent senior notes.[33]

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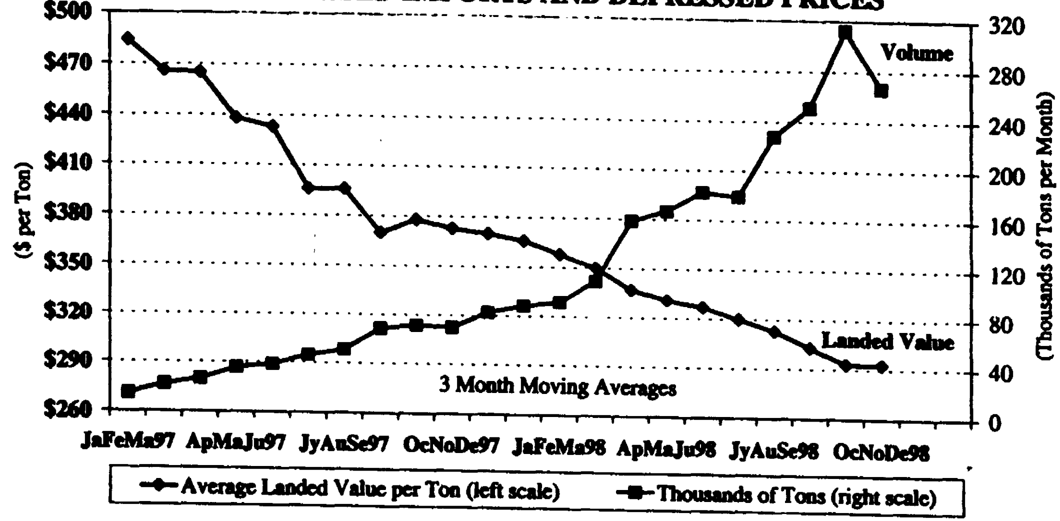
25 "Steel company will shut down part of Cleveland plant next week," AP State and Local Wire (Oct. 30, 1998).
26 "U.S. Steel, citing imports, to idle most Fairless lines," AP State and Local Wire (Nov. 5, 1998).
27 "LTV axes Cleveland unit: 320 jobs to go," American Metal Market at 1 (Nov. 11, 1998).
28 "Imports bring 500 more steel layoffs," Pittsburgh Post-Gazette (Nov. 19, 1998).
29 "In Response to Inquiries," Press Release, Bethlehem Steel Corporation (Nov. 20, 1998).
30 "Bethlehem shaves output, idles staff," American Metal Market (Nov. 25, 1998).
31 "Laclede Steel and Two Units in Chapter 11," The New York Times (Dec. 1, 1998).
32 "Weirton to idle blast furnace," American Metal Market (Dec. 4, 1998).
33 "Geneva comment called 'speculation'," American Metal Market (Jan. 5, 1998).

Date	Company	Product Affected	Event
1/7/99	Bethlehem	Stainless, cold-rolled	Bethlehem announces that, due to "unprecedented levels of unfairly traded imports," it will close two plants located in Washington, Pa., and Massilon, Ohio, and consequently eliminate 340 jobs at the Washington mill and 200 in Massilon. The plants contained stainless sheet and strip operations, as well as cold-rolled and finishing facilities.[34] On January 27, after a final effort to locate buyers for the Massilon mill, the company declares that the mill will be closed within a week.[35]
1/14/99	Gulf States Steel	Flat-Rolled	Moody's speculates that Gulf States Steel, a small integrated flat rolled mill in Alabama, will file for bankruptcy "in the near future."[36]
2/1/99	Geneva	All	Geneva Steel of Vineyard, Utah files for Chapter 11, citing "a dramatic surge in steel imports" as the cause of its financial distress. The company, which employs roughly 2,400 workers in Utah, is the third U.S. steel manufacturer to declare bankruptcy since September 1998.

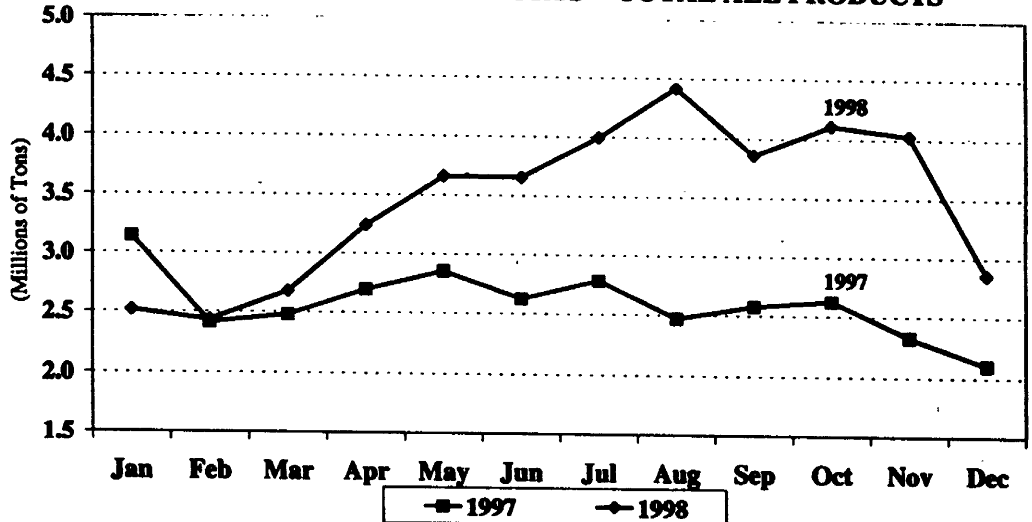
[34] "Bethlehem closes two plants," American Metal Market (Jan. 7, 1999).
[35] "Bethlehem moves to shut Massilon," American Metal Market (Jan. 28, 1999)
[36] "Gulf States named as candidate for bankruptcy," Metal Bulletin at 18 (Jan. 14, 1999).

1997 - 1998
HOT-ROLLED SHEETS FROM JAPAN
INCREASED IMPORTS AND DEPRESSED PRICES



The unprecedented increase in the volume of HR Sheet imports from Japan and other countries caused a sharp decrease in price, down about 40%.

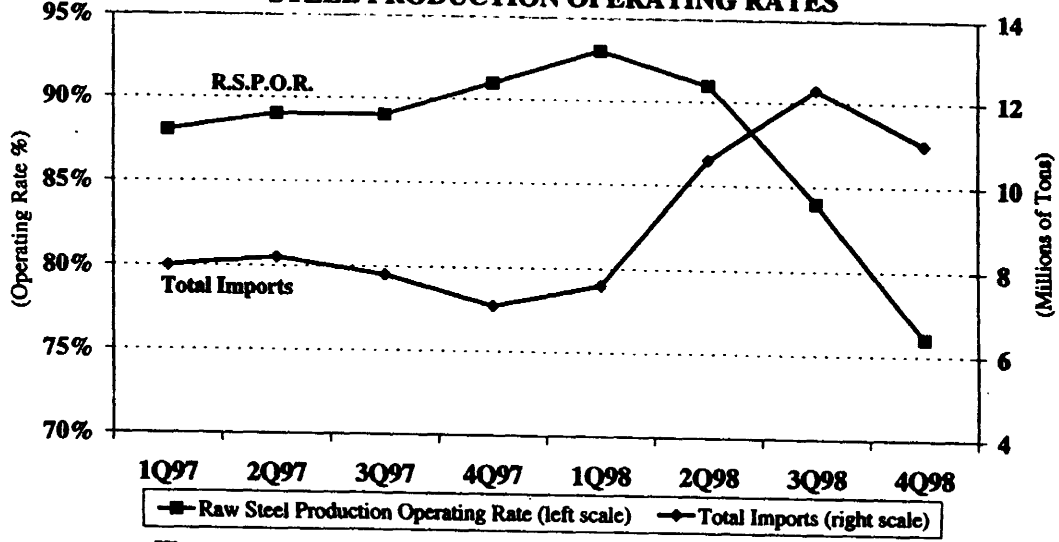
1997 - 1998
HIGHEST MONTHLY IMPORTS -- TOTAL ALL PRODUCTS



In 1998, April through November represent the eight highest individual monthly import totals in U.S. history. If continued at that level they would equal about 50% of domestic industry shipments.

Source: U.S. Department of Commerce, [illegible]

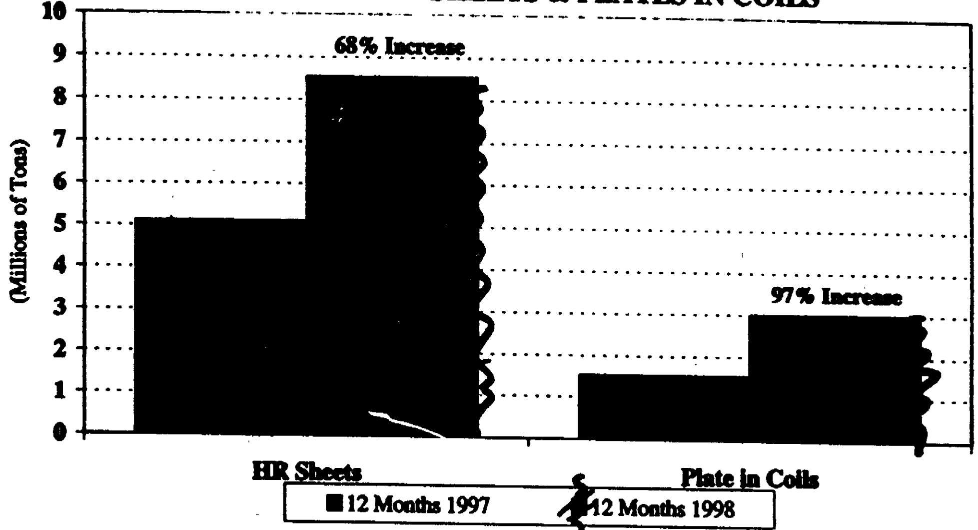
1997 - 1998
INCREASED IMPORTS AND DECREASED STEEL PRODUCTION OPERATING RATES



The unprecedented levels of imports caused a severe decline in the operating rate of the domestic industry from over 90% in 1Q98 to 75% in 4Q98.

1997 - 1998

IMPORTS -- RECORD INCREASES IN HOT-ROLLED SHEETS & PLATES IN COILS



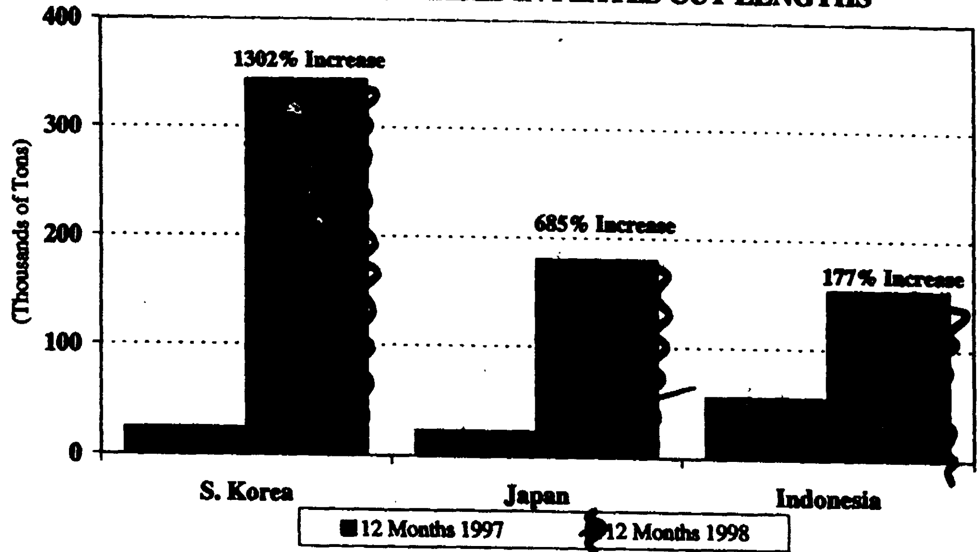
Imports of these products have increased at unprecedented rates to new record levels.

Source: U.S. Department of Commerce, [illegible]

[illegible]

83

1997 - 1998
IMPORTS -- INCREASES IN PLATES CUT LENGTHS



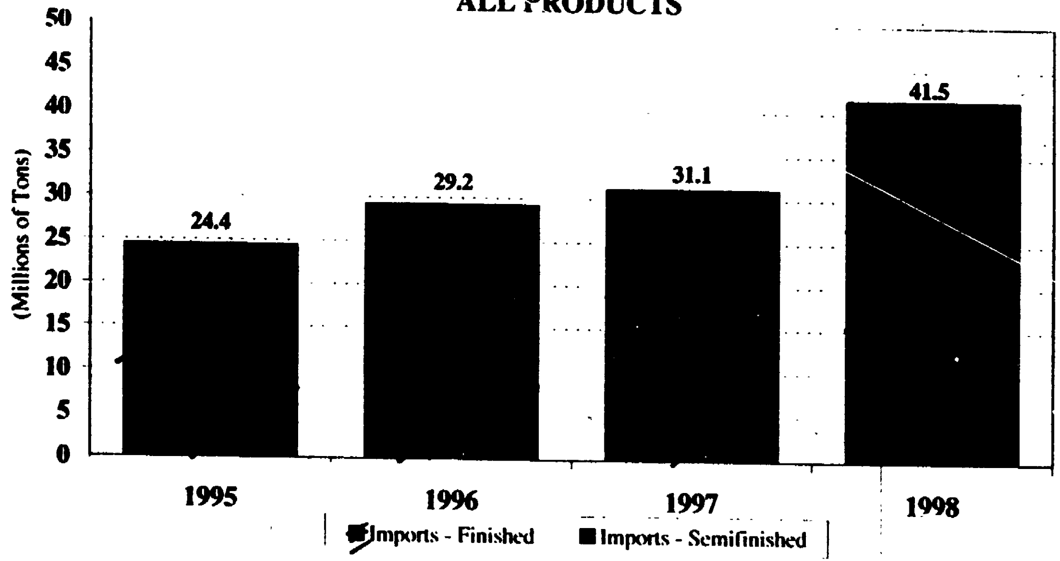
The unprecedented surge in Plates Cut Lengths came mainly from S. Korea, Japan, and Indonesia.

Source: U.S. Department of Commerce, [illegible]

[illegible]

CHART I
3/23/99

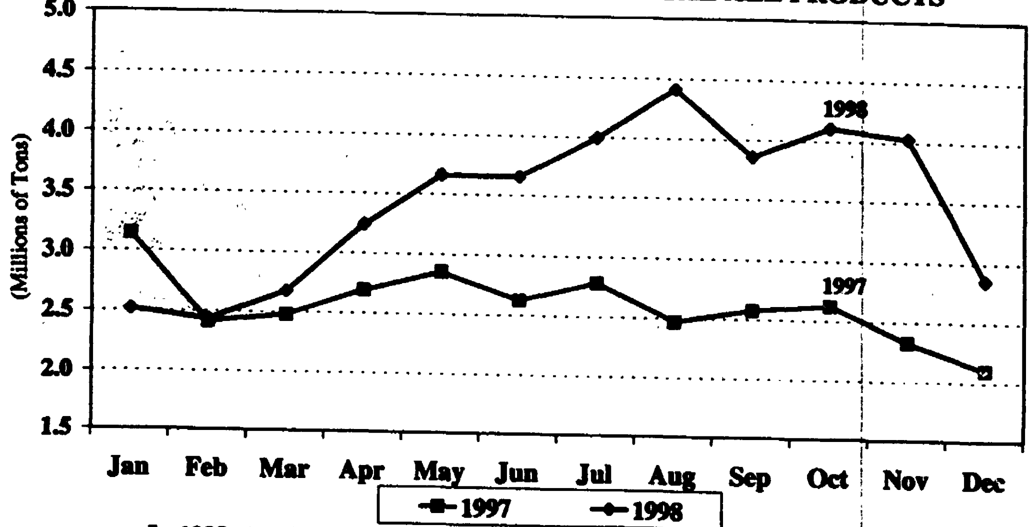
1995 - 1998
U.S. MARKET -- HIGHEST ANNUAL STEEL IMPORTS
ALL PRODUCTS



Total steel imports in 1998 reached a new record level of 41.5 million tons, surpassing the previous record of 31.1 million tons in 1997.

CHART 2
3/23/99

1997 - 1998
HIGHEST MONTHLY IMPORTS -- TOTAL ALL PRODUCTS

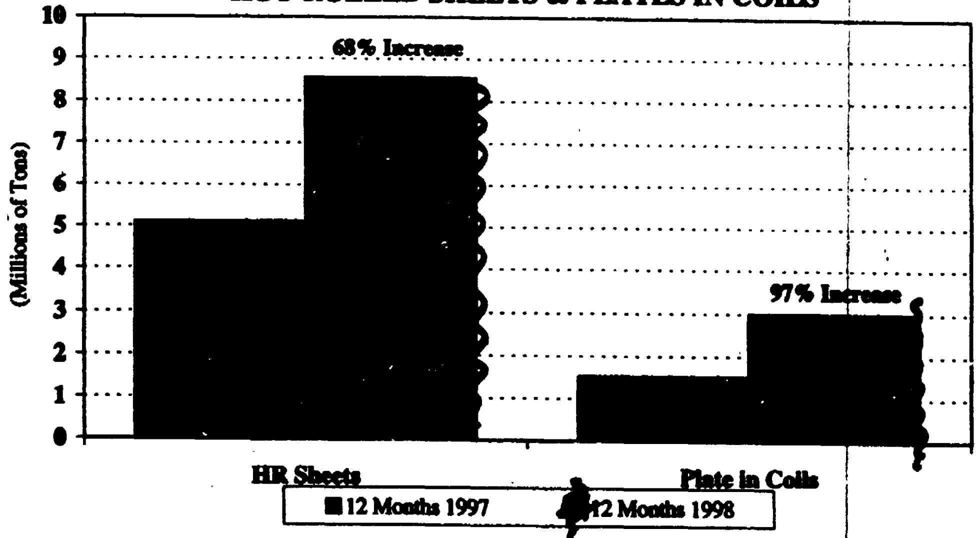


In 1998, April through November represent the eight highest individual monthly import totals in U.S. history. If continued at that level they would equal about 50% of domestic industry shipments.

Source: U.S. Department of Commerce, IM-145

CHART 3
3/23/99

1997 - 1998
IMPORTS -- RECORD INCREASES IN HOT-ROLLED SHEETS & PLATES IN COILS



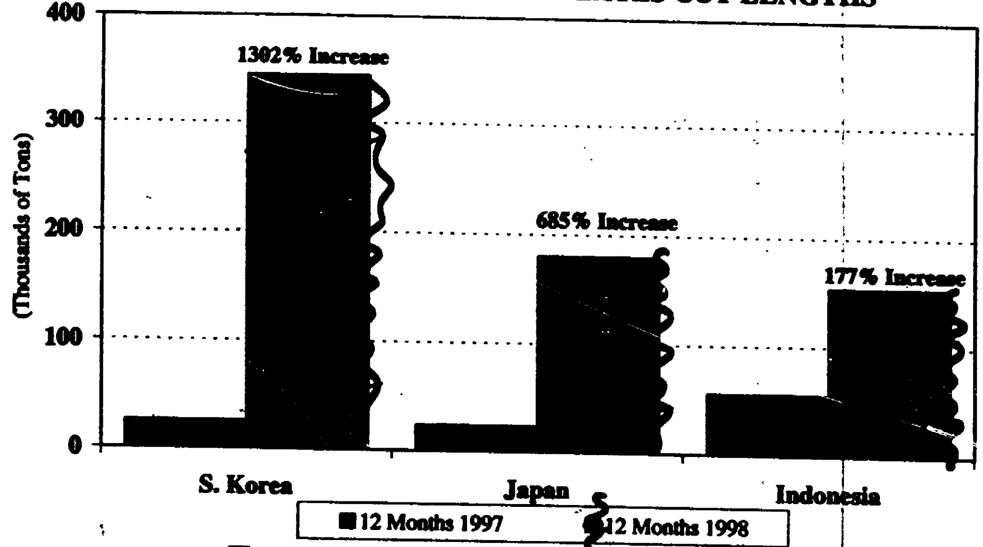
Imports of these products have increased at unprecedented rates to new record levels.

Source: U.S. Department of Commerce, [illegible]

[illegible]

CHART 4
3/23/99

1997 - 1998
IMPORTS -- INCREASES IN PLATES CUT LENGTHS



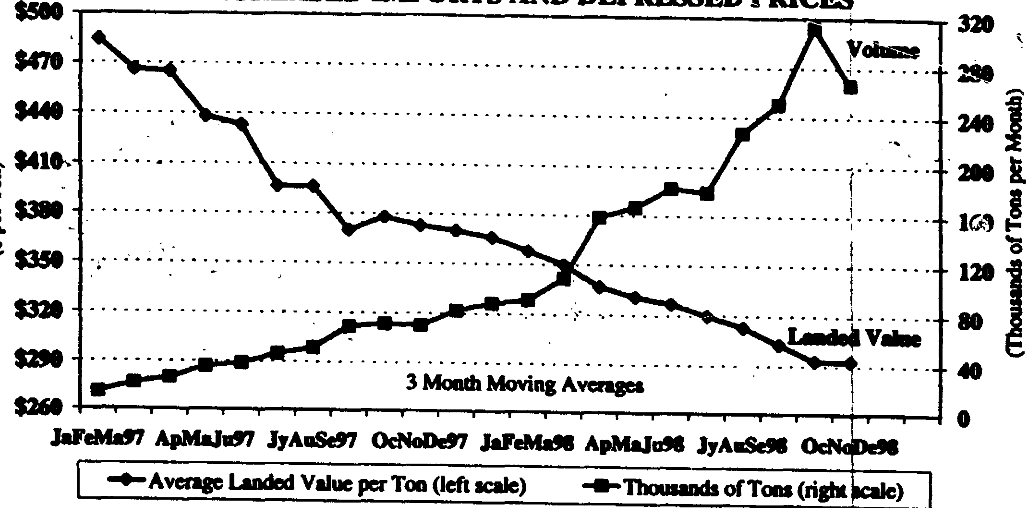
The unprecedented surge in Plates Cut Lengths came mainly from S. Korea, Japan, and Indonesia.

Source: U.S. Department of Commerce, IM-145

[illegible]

CHART 5
3/23/99

1997 - 1998
HOT-ROLLED SHEETS FROM JAPAN
INCREASED IMPORTS AND DEPRESSED PRICES



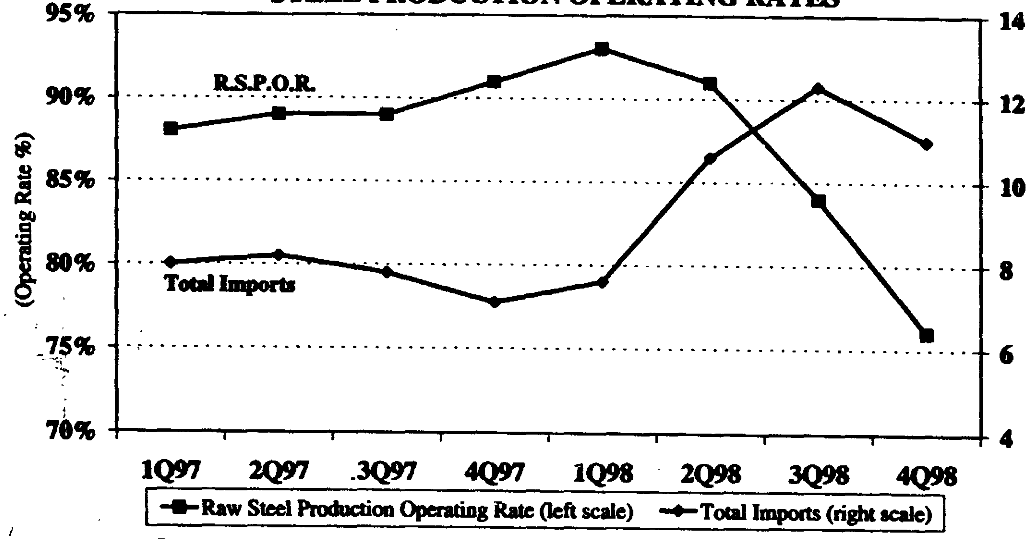
The unprecedented increase in the volume of HR Sheet imports from Japan and other countries caused a sharp decrease in price, down about 40%.

Source: U.S. Department of Commerce, [illegible]

[illegible]

CHART 6
3/23/99

1997 - 1998
INCREASED IMPORTS AND DECREASED STEEL PRODUCTION OPERATING RATES



The unprecedented levels of imports caused a severe decline in the operating rate of the domestic industry from over 90% in 1Q98 to 75% in 4Q98.

Source: U.S. Department of Commerce, IM-145

PREPARED STATEMENT OF HON. CHARLENE BARSHEFSKY

Mr. Chairman, Senator Moynihan and Members of the Committee, I appreciate the opportunity to discuss with you today the steel import surge, its impact on the U.S. market and industry, and the Administration's response.

INTRODUCTION

Last year, as we all know, steel imports rose sharply and rapidly, threatening, within a matter of months, the stability of our domestic industry and the jobs of many of its employees. In the April through November period, imports ran some 50 percent over historic levels across the industry, and at much higher levels in several key product sectors. This import surge occurred in the context of the larger Asian and Russian financial crises, as a result of weakened demand for steel in Asian and other markets. Neither can the crisis become an excuse for our trading partners to adopt predatory export policies in steel or any other sector. Thus President Clinton is personally committed, as he has said both here and abroad, and as he repeated in his State of the Union Address, to ensure that our trading partners act fairly, and will continue to enforce our domestic trade laws to ensure this.

The Steel Report which the President sent to the Congress on January 7 provided a comprehensive and forceful set of actions to deal with the steel import surge and the associated unfair trade issues. This action plan is working and we are seeing the first signs of recovery. The Administration is determined to follow through until stability has been restored to the U.S. steel market.

Let me also stress that our efforts to solve the steel crisis have been, and must remain, within the framework of our laws and our international commitments. To begin with, this framework can meet the task. And second, by sticking to the established rules, we can help ensure that the Asian crisis does not lead to a cycle of retaliation and protectionism which would badly damage our economy as a whole, and be especially dangerous to farmers, ranchers and manufacturing exporters including steel-intensive exporters, who are already suffering due to weaker demand for our products abroad. This is especially important as we work to ensure that the European Union lives up to its commitments in the banana and beef cases at the WTO.

THE PRESIDENT'S ACTION PLAN

The President's steel action plan was developed with the benefit of advice and suggestions from industry and labor. It can be found on the USTR web page at www.ustr.gov/reports/steel99.pdf. The report outlines in detail steel import trends, their economic impact, and our response. This action plan includes four trade-related elements:

1. Vigorous and expeditious enforcement of laws to counter trade practices;
2. Bilateral efforts to address unfair trade practices at their sources;
3. Support for a strong safeguards law and for expeditious Section 201 investigations;
4. Creation of an early warning system for steel import monitoring.

The initiatives are the foundation for a comprehensive resolution of the steel import crisis in a balanced manner which will not damage other U.S. industries and workers by exposing them to retaliation or supply shortages. These principles have been translated into specific actions which began providing meaningful relief in December. We are confident that continued vigorous implementation of the President's steel action plan will bring about the result we all desire: a stable and competitive U.S. steel market where U.S. and foreign producers can compete fairly. In the days, weeks and months ahead, we will follow through on progress being made and take additional targeted actions where market conditions and imports warrant, in a manner consistent with our nation's overall economic interest.

Let me now turn to a more detailed review of the import surge, the current market situation, the status of our efforts, and next steps.

STEEL IMPORT TRENDS AND MARKET CONDITIONS

A. The 1998 Import Surge

I will begin by reviewing the trends in our steel trade and market over the past year.

Last year, 1998, witnessed the largest level of steel imports, the largest and fastest import growth, and the largest import penetration in history. Based on final import statistics for December, our 1998 steel imports were 37.7 million metric tons (MMT)—an increase of 33.3 percent, or 9.4, MMT over 1997. Steel import penetration rose from 23.8 percent in 1997 to 30.1 percent in 1998. This level exceeded U.S.

domestic needs, causing a glut in the market and severe price suppression. Between 1997 and 1998 U.S. steel shipments fell 3.5 percent, from 96 to 92.7 MMT. Labor statistics show a sharper than usual decline in steel employment, from 242,000 in January of 1996 to 236,000 workers in January 1997 and 1998, to 226,000 in January 1999.

Three countries—Japan, Korea, and Russia—accounted for the great bulk B 76.4 percent—of this import surge. To update the information from the President's January Steel Report, in 1998:

- *Japan* was the single largest source of steel imports at 6.1 MMT, up 163.4 percent or 3.8 MMT from 1997, accounting for 40.3 percent of the import growth;
- *Russia* was the second largest supplier at 4.8 MMT, up 58.9 percent or 1.8 MMT, accounting for 18.9 percent of the import growth; and
- *Korea* was the third largest source of the growth, with imports at 3.1 MMT, up 109.3 percent or 1.6 MMT, accounting for 17.3 percent of the import growth.

While these three countries accounted for the bulk of the steel import growth, imports from a number of other countries also rose substantially. In 1998, the United States imported steel from 68 countries (albeit in very small quantities from some). Steel imports from a dozen or so "second-tier" suppliers reached between 100,000 and 900,000 metric tons, and have potential to increase further. Notable import growth occurred from: the United Kingdom, Australia, Ukraine, South Africa, China, Indonesia, Taiwan, India, Luxembourg, Moldova, Romania, Latvia, and Kazakstan. In addition, the European Union as a whole remains the single largest source of U.S. steel imports, supplying 6.6 MMT to our market in 1998, although overall steel imports from the EU were 4 percent below 1997 levels.

By product, carbon flat rolled steel was the single largest source of the import surge, accounting for 46.5 percent of the overall import increase. However, sharp import increases occurred in a range of other products, including heavy structurals, steel piling, light shapes, reinforcing bars, line pipe, pressure tubing, etc.

In sum, we saw import and market disruption levels of unprecedented proportions in the U.S. steel market beginning in April of 1998. However, due to the Administration's execution of the steel action plan, the first signs of recovery emerged.

B. First Signs of Recovery

The December 1998 steel import data provided the first indication that market conditions may have bottomed out, and that recovery can be anticipated.

At 2.6 MMT, December imports reflected a substantial decline from the average monthly import levels of 3.5 MMT from April through November 1998 import surge period. Further progress was evident in January, with imports declining further to 2.48 MMT—about 5% above the January 1998 import level.

The December and January decreases were concentrated in carbon flat rolled products from Japan and Russia, which are subject to the ongoing antidumping investigation, indicating that actions taken by the industry, labor, and the Administration are bearing fruit. When compared to November levels, January imports of these products declined 70 percent. Declines were sharpest from the three countries under investigation, with imports from Japan down 96 percent, from Russia down 98 percent, and from Brazil down 76 percent. Imports of this product from Japan and Russia have basically ceased. The 1998 U.S. import increase of this product was 4.4 MMT (from 5.7 MMT in 1997 to 10.1 MMT in 1998). In 1998 U.S. imports of this product from Russia and Japan totaled 5.9 MMT. Therefore, a substantial reduction of imports from these two countries will more than offset the growth which has occurred. Nevertheless, imports of carbon flat rolled steel from a range of other countries are increasing, and are being closely watched by the interagency import monitoring team with a view to ensuring fair trade.

This type of short-term import decline does not by any means resolve the entire steel problem. A glut of steel products is still evident in the U.S. market, and high import levels of other products persist. However, the December and January declines are significant steps, and a clear indication that President's steel action plan is working.

Several other market indicators are also positive. Steel demand in the United States remains strong and new orders are reportedly improving. In late January, a number of companies announced price increases ranging from $20-$40 per net ton on hot-rolled, cold-rolled, and coated sheets for second quarter shipments. Analysts believe these increases will likely succeed, as prices for these products are already quite depressed (down an average of 21 percent since May 1998), and as the import supply is being reduced due to ongoing unfair trade cases.

In January, U.S. raw steel production rose 5.1 percent from December while the capacity utilization rate rose to 77.2 percent from 74.8 percent over the same months. The most recent data for capacity utilization for the week of March 13, 1999 show another improvement to 78.8 percent. Nevertheless, these rates are still low when compared to the operating rate of 93 percent in mid-March 1998.

Reflecting the drop in imports, import penetration (imports as a percent of apparent consumption) fell to 28.0 percent in January 1999, from 36.6 percent in November of 1998. Still, this level is significantly above the 23.4 percent level recorded in December 1997.

TRADE ACTION PLAN

These are some initial encouraging signs that the President's steel action plan is working. Continued forceful pursuit of the policies and actions announced, and active monitoring of import and market conditions with a view to additional, targeted action, where needed, will be key in reestablishing the health and stability of the U.S. steel market. Following is an update on the trade related aspects of the President's action plan.

A. Unfair Trade Laws

The first and essential element of the steel action plan is vigorous and expeditious enforcement of the antidumping law and countervailing duty laws by the Commerce Department.

As you know, fully one third of some 300 antidumping and countervailing duty orders now being administered by the Department of Commerce address steel products. This remedy is well suited for the steel sector, in which the industry's cyclical nature and the high level of government intervention and support overseas have led to a high incidence of unfair trade. The industry is a strong proponent of this trade remedy, and has used it effectively to gain relief from unfairly traded and injurious imports.

That has been the case in this crisis. The Commerce Department's expedited investigations and the critical circumstances findings have resulted in relief for U.S. carbon flat rolled producers in record time, with retroactive effect to 90 days prior to the Commerce Department announcement of the preliminary dumping margins. Thus, in the case of Japan, the antidumping cash deposit and bonding requirements became effective only some six weeks from the joint industry and union filing of the dumping case. The trade laws have worked expeditiously to provide U.S. industry and workers with relief against unfair trade. Secretary Daley will elaborate on this element of the President's action plan.

The U.S. steel industry and workers filed additional dumping and countervailing duty petition on February 16th with respect to carbon cut-to-length steel plate imports from eight more countries which may have taken advantage of antidumping relief applied to products from Russia, Ukraine, China and South Africa. The Commerce Department initiated these investigations on March 8th.

Let me also note that January's import figures show a sharp rise in steel imports from China, from 60,000 to just under 100,000 tons. This is still a small total, making up about 4% of our steel imports for the month. However, the sharp rate of increase is a cause for concern. Secretary Daley will raise this issue during his upcoming visit to China. As the Secretary has said, we will not allow others to jump into a vacuum caused by the elimination of dumped steel from Japan or other countries.

In sum, the combined industry, labor, and Administration effort to pursue and implement actions to counter unfair trade are providing relief, in a manner fully consistent with U.S. international obligations.

B. Bilateral Action

Another key element of the President's steel action plan provides for bilateral initiatives with countries which are the key sources of the steel import growth: Japan, Russia, and Korea. Substantial progress has been made on this front as well.

1. Japan—The largest source of steel import growth last year was Japan. As reflected in the President's Steel Report to the Congress, in January the Administration informed the Japanese Government that we expect steel imports from Japan to revert to pre-crisis levels. We also informed Japan that, if such a roll-back does not occur in short order, the Administration would self-initiate trade action to ensure a reduction of imports and to prevent further injury to U.S. steel producers and workers. Thus, the roll-back will be enforced, if necessary, through Administration trade action. Our intent is to act forcefully if normal trade patterns are not promptly restored.

Our interagency steel import team closely monitors and analyzes both Japanese monthly export data and U.S. monthly import data for all major steel categories. We are reviewing trends, levels, and U.S. market conditions, and in consultation with U.S. producers, we are assessing where trade action may be appropriate. Some of the trends are encouraging, but important concerns remain. Japan's exports of steel to the United States in December 1998 fell to 363,000 metric tons, and in January 1999, Japan's exports declined to 233,000 metric tons. This compares to the average monthly export rate of 680,000 tons from April through October 1998, and the peak of 908,000 tons in Japan's September exports to the United States. Japan's December and January steel exports of hot rolled sheet declined to a negligible level. Our product-specific monitoring of steel imports from Japan continues to ensure that our expectations are fully met.

At the same time, in our broader trade and economic relationship with Japan, we are pressing for the creation of domestic demand-led growth in Japan through fiscal stimulus, broad deregulation, financial reform, and meaningful market-opening measures. If fully implemented, these policies would create substantial opportunities for exporters and workers in America, other Pacific economies, and for Japanese workers and companies. Decisive action by the Government of Japan to implement such reforms are key to relieving global pressures which are at the root of the steel import crisis in the United States. We are looking to compile a substantive package of deregulation measures by Prime Minister Obuchi's visit to the United States in May.

2. *Russia*—On February 22nd, Secretary Daley announced the initialing of a comprehensive set of steel agreements with Russia—a suspension agreement on the carbon flat rolled dumping case, and a broader agreement under the market disruption article of the 1992 U.S. bilateral trade agreement with Russia. These agreements would roll back and cap steel imports from Russia, the second largest source of our 1998 steel import surge.

The suspension agreement would ensure that: a) there will be a zero quota—no imports from Russia of flat rolled products covered by the investigation for a period of six months, and b) the annual quota which goes into effect at that time, 750,000 metric tons, is 78.4 percent below our 1998 imports of this products from Russia and 58.4 percent below our 1997 imports of this product from Russia. The quota basically rolls back imports from Russia to their 1996 level. In addition, there would be minimum price and strict monitoring provisions.

The second, broad, steel agreement with Russia would cover imports of all other steel products not already subject to quota, as well as pig iron. It contains quotas on sixteen products, and rolls back imports of these products to 1997 levels or below, reducing them by 68 percent from the 1998 import level.

Both agreements have been subject to public comment, and all views will be considered. The key objective here is to offset any unfair trade margins, and to help restore predictability and stability in the U.S. market. This comprehensive approach to the Russian issue is particularly appropriate because the Europan Union had already negotiated a similar agreement with the Russian government which may have caused diversion of Russian steel to the U.S. market, something U.S. industry was particularly concerned about. This comprehensive approach also envisages opportunities for regular dialogue between U.S. and Russian government and steel industry representatives which can be used to provide technical assistance in the transformation of the Russian steel sector to market-based principles, and to sound environmental and managerial practices. We welcome U.S. industry and labor involvement in this dialogue.

3. *Korea*—The third largest source of our steel import growth was South Korea. The President's Steel Report announced that our dialogue with Korea on steel trade and policy issues would be expanded and expedited. A Korean government and industry steel delegation visited Washington in late January and provided an update on government and industry efforts to restructure and privatize Korea's steel sector. The Administration, as well as U.S. steel industry and members of Congress, have had a longstanding concern with the Korean government's involvement in the steel sector through industrial policies which have favored steel and steel-using industries, and encouraged their growth and export-oriented capacity expansion, through incentives and directed lending. Hanbo Steel is the best-known example, but there are other examples as well.

In August of 1998 USTR exchanged letters with the Korean Ministry of Foreign Affairs and Trade which are aimed at ensuring that the sale of Hanbo Steel, which is in bankruptcy, is taking place through a market-driven, open, and transparent process in accordance with international practices. Hanbo's production of hot-rolled sheet has ceased pending its sale, Bankers Trust has been engaged to manage the sale.

In addition, the Korean government has offered general assurances that steel-related practices which have resulted in excess capacity in Korea and have been the cause of longstanding trade friction between our countries, have been abandoned. Accordingly, we have included in our steel discussion with Korea a set of objectives to ensure that real and substantive progress is made toward permanently getting the Korean government out of the steel business. Our broad objectives in these discussions include:

a) Having the Government of Korea address anti-competitive activity in the Korean steel sector and ensure open competition inside Korea and in international trade;

b) Expeditious, complete, and market-based privatization of Korea's largest steel producer, POSCO;

c) Implementation of the Hanbo sale and operation of the company on arms-length terms outlined in our August exchange of letters with Korea, in a manner which will not engender government involvement (we sent a formal Report on this issues associated with Hanbo to Congress last December); and

d) Fair trade in steel products. In our view, these are reasonable expectations. They are consistent with stated policies of the Korean government, and they must be implemented fully if we are to avoid continued trade friction in steel.

B. Section 201 Safeguards

A third key element in the President's steel action plan is strong support for an effective safeguards provision in U.S. trade law, including his willingness to urge the ITC to expedite any section 201 safeguards investigations concerning steel.

U.S. industry and workers filed a petition for relief on steel wire rod under Section 201 in December of last year. The International Trade Commission (ITC) is now conducting an inquiry to establish whether injury has occurred or is being threatened in this segment of the industry. If the ITC reaches an affirmative conclusion under its legal procedures, the President will have the option to decide whether relief is appropriate. If a remedy is appropriate, he will have wide discretion to fashion it in a manner which is appropriate for this industry.

Because of its scope and flexibility, Section 201 is an extremely important and valuable trade remedy tool. As with the unfair trade remedies, the decision on when and whether to invoke it lies foremost with U.S. industry and workers. The Administration has met with steel industry and labor representatives to review market and import trends and to review assess relief options. Close collaboration on these issues will continue.

C. Import Monitoring and Early Warning

The fourth trade-related point in the President's steel action plan is the decision to release preliminary steel import data in order to create an early warning import monitoring system. Under this unprecedented new data release program, steel import statistics are made public almost a month sooner than the regular release schedule, some three weeks after the end of each month. Import trends are reviewed at senior levels of government and discussed with industry and labor representatives to assess their impact and options for import relief.

These import data releases have been invaluable in providing both the government and the industry with a real-time sense of import trends. Each month's data are carefully analyzed by USTR and Commerce Department experts and the interagency import monitoring team to review trends by country and by product category in terms of volume and per unit import value. These trends are reviewed in light of most current information on U.S. market and industry developments.

Our particular focus at this time is threefold: 1) to carefully monitor imports from Japan in light of the President's announcement that he expects imports from that country to revert to pre-crisis levels: 2) monitoring import trends for product categories that had been the subject of sharp import increases, to ascertain whether meaningful declines are underway; and 3) monitoring of imports from second-tier suppliers and the EU.

LEGISLATIVE INITIATIVES

In summary, our action plan, and our trade laws are in place, and beginning to provide the relief needed and deserved by U.S. steel producers and workers. Proposed legislation such as H.R. 975, which would attempt to resolve these issues through the legislated imposition of import quotas or similar import restrictions, would be neither in our national interest, nor that of our steel industry. While well intentioned, this type of action could create additional havoc in the U.S. market and undermine substantial progress we have made to date.

Unilateral imposition of quotas or import bans would ignore the fact that we already have effective trade remedy tools which are producing results. As I have discussed above, we have seen a substantial decline in imports in December and January; we have announced preliminary dumping and countervailing duties against unfair trade in record time; we have seen a substantial drop of imports from Japan; and, we have initialed a comprehensive set of agreements with Russia. Additional trade cases, both under the unfair trade laws and under the safeguards mechanism (section 201) are pending, and the Administrations has affirmed its support for their fair and expeditious review. Our action plan and our trade laws are working as Congress intended, providing the relief needed and deserved by U.S. steel producers and workers. The crisis is by no means over, but we are seeing signs of recovery. Continued implementation of the President's action plan will ensure further progress. In particular, we are determined to carry on with our active import monitoring program to ensure that these positive trends continue, and that other countries do not undermine progress we have made.

By contrast, legislated solutions, which are not based on careful ITC analysis and an interagency and industry consultation process, can create market distortions that can add to, rather than resolve, economic problems. Legislated imposition of trade remedies for steel outside of the established U.S. trade laws can create shortages for user industries or result in excessive price-hikes. As our economy continues to grow, demand for steel products remains strong. Imposing quotas at this stage, when it looks like the market is beginning to stabilize could have the unintended effect of disrupting the market, with effects that could reverberate throughout the U.S. economy and undermine our nation's economic growth. Moreover, while intended to assist U.S. steel workers, quotas that are legislated outside of our trade laws could harm U.S. steel interests by prompting retaliation against export oriented U.S. steel-using industries, such as autos and machinery, or against other industries such as agriculture that rely on a strong, rules-based trading system.

On the other hand, the steel crisis has demonstrated that there is room for improvements to our trade laws, and particularly to Section 201, to ensure that they deliver strong, effective relief in an expeditious manner. Section 201, our "safeguards" statute is critical for ensuring that our industries can make a positive adjustment to import surges when they occur. We believe, for example, that H.R. 1120, the legislation introduced by Representatives Levin and Houghton, constitutes a constructive approach, and we stand ready to work with them and other members of Congress to develop a bill that we could recommend the President sign.

CONCLUSION

In conclusion, let me reiterate that prompt restoration of a stable U.S. steel market remains a top U.S. trade priority, and the President's steel action plan is achieving the goal. Vigorous and expedited enforcement of U.S. trade laws has resulted in substantial relief from unfair trade. Imports from Japan have been rolled back almost to the pre-crisis levels. A comprehensive agreement has been initialed with Russia which will substantially roll back imports and prevent new surges. Progress has been made with Korea, and additional results are anticipated shortly. Active import monitoring is underway based on the unprecedented early import data releases, and the Administration is committed to do more as market and import trends warrant. Domestic steel prices and capacity utilization are rising.

We are not ready to declare that the problem has been solved. We are fully aware of recessionary conditions and excess capacity abroad, and of the fact that the strong U.S. market will continue to act as a magnet, while the temptation to trade unfairly will persist. Nevertheless, we are pleased that actions taken to date have resulted in improvements, and we are committed to continue to vigorously enforce the President's comprehensive steel action plan. Working hand-in-hand with U.S. industry, labor, and Congress, we believe positive results will be achieved without jeopardizing broader U.S. economic interests.

Thank you for providing me with this opportunity to testify.

Senate Finance Committee
March 23, 1999
Questions Submitted For the Record By
Senator Orrin G. Hatch

Question: Millennium Round WTO Negotiations

Recent reports have indicated that the Administration has become more receptive towards expanding the scope of the next round of WTO negotiations. Those opposed to the trade laws have pushed hard to re-open negotiations on the antidumping agreements; however, these trade laws are the only legal recourse available to an industry injured by unfairly trade imports. Any weakening of the WTO antidumping rules would effectively strip U.S. industries and our workers of their remedy against unfairly trade imports. The Administration must not allow these negotiations to be used as a tool to weaken the antidumping rules.

What assurances can you give me that this Administration will not allow this round of WTO negotiations to result in weakening of the trade laws?

Answer:

The full and correct implementation of WTO Agreements is a priority for the United States, including implementation of WTO rules for antidumping remedies. Since the entry into force of the WTO, the United States has worked actively in the WTO Antidumping Committee to improve our trading partners' compliance with the Antidumping Agreement, as that helps to assure greater fairness and predictability to U.S. exporters when they sell in foreign markets. At the same time, however, we have made clear to our trading partners that the United States will not accept any weakening of the international rules which address unfair trade practices, and we have opposed suggestions that the Antidumping Agreement should be reopened as part of a new round of multilateral trade negotiations.

The Administration has been consulting closely with the Congress, the private sector and other interested groups to develop specific U.S. objectives for future work in the WTO. Some issues (*e.g.*, agriculture and services) have already been agreed to as subjects for further negotiation, while work is ongoing to develop a consensus on any additional issues for negotiation. We look forward to working with you and others in the Congress to establish an affirmative agenda in the WTO to pursue U.S. interests and to defend against any weakening of the remedies against dumping and other unfair trade practices.

Question: Support for Legislative Proposals

The current steel crisis demonstrates that there are two fundamental flaws in our current trade laws. First, our laws have not been responsive enough to this crisis. Steel imports surged dramatically and prices plummeted over a very short time period. Thousands of jobs have been lost, and thousands more are threatened. Numerous steel companies have been forced to cut back their steel capacity, and several companies have had to declare bankruptcy. Second, certain standards under our trade laws are higher than required under the WTO Agreements. Changes to our trade laws are desperately needed.

Should we amend the trade laws so that they respond more quickly and effectively to surges of unfairly traded imports before so many people are forced out of work? Will the Administration support such amendments to our trade laws?

Answer:

The surge in U.S. steel imports from April through November 1998 was a result of a sharp and sudden drop in demand for steel in Asia, coupled with substantial steel overcapacity in Russia. These factors combined to depress global steel prices globally and in the United States.

Proceedings initiated by the U.S. industry under our trade laws, and actions taken by the Administration under the President's steel action plan, outlined in the January 7 report to the Congress, have substantially rolled back imports of unfairly traded steel. As part of the President's action plan, the Commerce Department acted swiftly and effectively to apply our antidumping law to unfairly traded steel imports. The Commerce Department's preliminary antidumping remedies took effect in a matter of weeks after the initiation of the antidumping investigation against carbon flat rolled steel imports from Japan and Russia. Within two months after the Commerce Department initiated its investigation imports of this product from Japan and Russia had virtually stopped.

As a result, in the first quarter of 1999 steel imports were 7 million metric tons, which was at or below 1997 and 1998 import levels for the comparable period. Recovery in the U.S. market is underway, with industry order books reportedly full, and prices moving up. Continued recovery will depend on maintaining 1999 imports at more traditional levels, and, to that end, the Administration is closely monitoring steel imports, making steel import statistics available to the public on an expedited basis, and consulting intensively with steel exporting countries.

While our trade laws provided a mechanism for rapid and substantial relief for the U.S. steel industry, last year's import surge demonstrated that we need to look closely at these laws to ensure that they deliver strong and effective relief in an expeditious manner, while remaining consistent with our international trade obligations. We believe the legislation introduced in the House by Congressmen Levin and Houghton constitutes a constructive approach to this issue, and we stand ready to work with Members of Congress to develop a bill we can recommend that the President sign.

In contrast, legislation mandating steel import quotas would not be in our nation's economic interest and would violate our international trade commitments. Quotas imposed outside the procedures provided in our trade laws (such as our "section 201" safeguards law or the quota suspension agreement provisions in our antidumping and countervailing duty laws) would violate our international trade obligations under the World Trade Organization. We fought hard to put strong rules in place under the WTO – not only to ensure that we can use our trade laws against import surges and unfairly traded imports but also to protect our exporting industries and workers from arbitrary or protectionist import restrictions abroad.

Quotas that are legislated outside of our trade laws could prompt retaliation against export oriented U.S. steel-using industries, such as autos and machinery, or against other industries such as agriculture that rely on a strong, rules-based trading system. In addition, legislated quotas could have the unintended effect of creating shortages and excessively high prices for steel products with effects that could reverberate throughout the U.S. economy and undermine our nation's economic growth.

PREPARED STATEMENT OF GEORGE BECKER

I. THE STEEL CRISIS

Mr. Chairman and distinguished members of the Senate Finance Committee, thank you for your invitation to testify today about the crisis facing steelworkers, their families, their communities, and their employers across the nation.

Today, the jobs and future of steelworkers all across America are being threatened by a flood of foreign steel, much of which has been illegally dumped into our market. According to the President's January Report to Congress on the steel crisis, over 10,000 steelworkers' jobs in basic steel, iron ore mining, and coke production have been lost. Thousands more have seen their work hours and their paychecks cut as their employers have adjusted to the grim reality of empty order books and lost customers. The list of companies where steelworkers have lost their jobs or had their work hours and paychecks cut grows longer every day. Gulf States Steel in Gadsden, Alabama; Geneva Works in Provo, Utah; Bethlehem Steel's Lukens Division plants in Houston and Washington, Pennsylvania; Sparrow's Point in Baltimore, Maryland; WCI, Inc., in Warren, Ohio; USX's Fairless Works in Bucks County, Pennsylvania; and LTV's Cleveland Works in Ohio. And the list goes on and on.

Perhaps worst of all, the crisis we are in today was both predictable and preventable. We are in a crisis today because for eighteen months, our policymakers ignored our warnings as foreign producers dumped millions of tons of steel into the U.S. market.

When the Asian currencies collapsed in late 1997 and early 1998, we warned then that if decisive action were not taken that foreign-made steel would be dumped into the American market. We warned then that the International Monetary Fund's (IMF) insistence upon export-based solutions to the economic problems facing nations in Asia, eastern Europe, Latin America, and Russia would be a prescription for disaster for our own manufacturing industries. We warned that the longer action was delayed, the more damage would be done, and the more difficult this problem would be to solve. Our warnings fell on deaf ears.

Unfortunately, our predictions have now been realized.

1998 was a disastrous year for the steel industry and our steelworkers. Last year, the U.S. imported a record 41 million tons of steel. That's an increase of one-third over the volume of imports the preceding year of 1997. From July through November last year, each month's steel import figures were the highest monthly totals in history. In fact, our total volume of steel imports in the third quarter of 1998 was nearly half of the total volume of shipments by the entire U.S. steel industry.

One year ago, in March 1998, the U.S. steel industry was operating at 93 percent of capacity. Today, in March 1999, the industry is operating at only 78 percent of capacity despite a strong U.S. economy and a correspondingly strong demand for steel. While the volume of imported steel has surged, average prices fell by almost $100 per ton.

Recently, some have suggested that because there has been a slight decline in total monthly steel import figures that the steel crisis is over. Nothing could be further from the truth.

While total imports of hot rolled steel declined in January, 1999 from their peak in November, 1998, as Japan, Russia, and Brazil backed away from the market imports of hot rolled steel have already begun to surge up from a number of countries: Indonesia (up 1,310%), China (up 552%), Kazakhstan (up 166%), South Africa (up 76%), Australia (up 60%), and The Netherlands (up 42%). In fact, Chinese steel surged 65% from December 1998 to January 1999.

With preliminary antidumping decisions against Japan and Brazil on hot rolled steel, these two nations have reduced their hot rolled steel exports to the U.S. However, they have increased the level of other key steel product exports. For example, imports from Japan of rail products, tin mill products, and cold rolled sheet and strip steel increased 520%, 348%, and 54%, respectively from November 1998 to January, 1999. Imports from Brazil of cut-to-length plate, wire rod, and cold rolled sheet and strip increased 109%, 102%, and 47% respectively over the same three-month period. Clearly, countries that have been found guilty of dumping hot rolled steel have simply switched to exporting more of other types of steel products to the U.S.

Overall January 1999 imports were still 10.3% higher than the average imported during the three-year period from July 1994 to June 1997.

- Imports from Japan at 418,577 net tons in January, 1999 were still 96.3% Higher than before the pre-crisis period;
- Imports from Korea at 300,996 net tons in January, 1999 were still 155% Higher than during the pre-crisis period;

- Imports from Indonesia at 58,760 net tons in January, 1999 were still 705% higher than during the pre-crisis period.

It is abundantly clear to steelworkers who have lost their jobs and who have not been called back to the mills that this crisis is not over.

II. THE HUMAN IMPACT

Mr. Chairman, there is a human face behind all of these cold statistics about import levels, unused capacity, and import values.

Steelworkers work hard for a living. They work in some of the hottest, noisiest, and most dangerous work places anywhere and yet they take great pride in what they do. Many come from families where their fathers, grandfathers, and even great grandfathers worked in this industry. They are the people who have helped to build America. They have made the steel that has built our skyscrapers and our bridges and they are the same people who have made the steel used to defend America throughout its history. They are proud people. They have repeatedly shown their willingness to compete in the world market, but they cannot compete if the rules of international trade are not fair or if our trade laws are being violated with no sanctions.

Many of us have bitter and painful memories of the last steel crisis in the late 1970s and early 1980s when over 350,000 steelworkers lost their jobs. Four hundred forty-seven (447) steelmaking facilities were shut down. Twenty-five steel producers went into bankruptcy.

While many found other jobs, many more never worked again. The economic and social costs of that crisis were staggering. Many steelworkers lost homes, automobiles, health insurance, and maybe worst of all, lost hope. There were increased incidents of substance abuse, mental health problems, marital problems, and even suicides. Communities in large steel-producing states, such as Pennsylvania, Ohio, and Indiana, saw a large portion of their tax base disappear as steelworkers went from being taxpayers to being recipients of unemployment insurance, food stamps, and welfare payments from federal, state, and local governments.

In the iron ore mining industry in northeastern Minnesota, employment fell from 16,000 jobs in 1980 to 1,500 in 1982. In fact, northeastern Minnesota saw its gross domestic product plunge by 50 percent as 28,000 people left the region during the 1980s. This same scenario was repeated in scores of other steel communities in Pennsylvania, Ohio, New York, Indiana, and Illinois.

We simply cannot go through this same experience again. If we do not act decisively in the present crisis, there will be no American steel industry in the 21st century. When steelworkers lose their jobs, the consequences go far beyond just the steel industry. Unemployed steelworkers cannot afford to buy homes, cars, appliances, or much of anything else. Businesses which depend upon steelworkers bringing home a paycheck soon find that their business is also hurt when steelworkers lose their jobs. Likewise, state and local governments that depend upon the income tax revenue from steelworkers' earnings and sales tax revenues from their purchases find that the revenues which they need to finance fire protection, law enforcement, education, highways, and more for the benefit of the entire community decline when steelworkers lose their jobs.

When a steelworker permanently loses his or her job, that's usually another name, or several family members' names, added to the list of some 42 million Americans who have no health insurance in the richest country in the world.

Two decades ago, the experts said that the American steel industry had become bloated, inefficient, and uncompetitive with foreign-made steel from countries like Japan, Korea, and Germany. After cutting 350,000 jobs and after investing over $50 billion in modern electric furnaces, continuous casters, and other modern steelmaking technologies, the American steel industry was reborn.

American steelworkers have become the most productive steelworkers in the world. Since 1980, productivity has increased by 169 percent, or 5.5 percent each year. In fact, the productivity of steelworkers has increased far faster than that of other workers in other industries. While the price of an automobile has increased by 50 percent since 1980, the consumer price index has increased by 97 percent since 1980, and a ticket to a baseball game has increased by 200 percent, a ton of American-made steel costs no more today than it did in 1980. By any measure, this has truly been one of the greatest comeback stories of all time.

While some downstream users and consumers of steel products may not share our alarm about the collapse of steel prices, this cannot be a healthy economic development in the long run. Although steel may be cheaper to buy now than it was two years ago, there is no evidence that automakers or appliance makers or other users are passing these savings on to consumers for their finished products. The hard reality of economics is that many domestic steel producers will not survive if they cannot earn a reasonable profit. No business can operate indefinitely by losing money. When those companies go out of business, the industry becomes more concentrated and such concentrations inevitably lead to higher prices in the long run.

Make no mistake about it; the domestic steel industry is not in a crisis today because it is unproductive or inefficient. It is not in a crisis because it provides its workers with decent pay and benefits. It is in a crisis because of illegal dumping, ineffective trade laws, and because our government has not embraced a policy of preserving this nation's industrial manufacturing base.

III. THE ADMINISTRATION'S RESPONSE

On January 7, 1999, the Clinton Administration announced what it called "A Comprehensive Plan for Responding to the Increase in Steel Imports." As I said in my January 8 letter to the President, "Unfortunately, this plan is neither comprehensive nor terribly responsive." The four key points in the Administration's plan were 1.) a vague and unenforceable demand for export restraints by Japan; 2.) the accelerated release of import data; 3.) a new $300 million tax credit for the steel industry; and 4.) trade adjustment assistance for displaced steelworkers.

Let me be clear: threats against Japanese exports are meaningless unless such threats are enforceable. While the accelerated release of steel import data is helpful, unless further steps are taken, this only ensures that we will be getting bad news about steel dumping and import surges sooner rather than later. Three hundred million dollars ($300 million) of tax relief for the steel industry and more money for trade adjustment assistance will do nothing to save the market for American steel companies and save the jobs of steelworkers here at home. In fact, in the absence of further effective measures, these proposals represent a surrender of our markets, the surrender of steelworkers' jobs, and a further step toward the dismantling of our domestic industrial manufacturing base.

On a more positive note, the United Steelworkers of America is pleased with the February 12, 1999 preliminary decision by the Commerce Department in the anti-dumping and countervailing duty investigations on hot-rolled steel from Japan and Brazil. In the case of Japan, anti-dumping margins ranged from 25 percent to 67 percent. For Brazil, margins ranged from 50 percent to 71 percent. Clearly, these preliminary anti-dumping margins confirm what the Steelworkers union and the industry have alleged; illegally dumped steel is destroying our domestic steel industry and taking the jobs of American steelworkers.

The United States and Russian governments have recently completed negotiations on a tariff suspension agreement on Russian steel. As we have stated on previous occasions, we believe that any agreement with Russia must be accomplished within the context of a comprehensive worldwide agreement on steel imports if we are to end the current crisis. Such an agreement should involve all steelmaking countries and all steel product lines.

You may ask why steel deserves such consideration. Steel and the steel industry are vital to protecting America's national security interests. I would remind you that it is American-made steel which is built into the aircraft carriers and Navy ships built by steelworkers from Local 8888 at Newport News Shipbuilding Company in Newport News, Virginia. What would have happened in 1941 if America had no steel industry and was instead dependent upon Japan or Germany for its steel? Can we afford to permit this industry to fail and to become reliant upon foreign steel producers from Russia, China, Korea, and elsewhere for such a vital product?

IV. THE CONGRESSIONAL RESPONSE

Just last week, on March 17, the House of Representatives passed the bill H.R. 975, The Bipartisan Steel Recovery Act of 1999, sponsored by Representatives Visclosky, Regula, Kucinich, Quinn, Traficant, and Ney, by a vote of 289 to 141 (more than two-thirds of those members voting). This legislation would require the President to take action, including the imposition of temporary import quotas on certain steel products, tariff surcharges, negotiated voluntary export agreements, or other measures, so that the volume of steel imports does not exceed the average volume of monthly steel imports during the 36 months preceding July, 1997 when the current crisis began. Additionally, H.R. 975 would establish a new steel import permit and monitoring process so that the industry and the government can track steel import activity more closely and respond more effectively to surges of possible illegal steel imports. Before passage, H.R. 975 (along with its predecessor, H.R. 506) had attracted over 200 sponsors in the House.

The passage in the House of H.R. 975 shows that there is a bipartisan commitment in Congress to put the interests of Main Street above the interests of Wall

Street. Steelworkers and steel communities hold dear the notion that America's trade policies should benefit Americans first. That idea may be novel in some quarters, but on March 17th it was a winning idea in the House of Representatives.

A companion bill, S. 395, has been introduced in the Senate by Senators Rockefeller and Specter. This legislation currently has 14 cosponsors.

Let me just add that prior to H.R. 975 being reported (unfavorably) by the House Ways and Means Committee, I was deeply disappointed to learn of White House Chief of Staff John Podesta's letter to President Clinton recommending that the President veto the bill if it were to reach his desk. Mr. Podesta states that, "The President's commitment to effective, vigorous, and timely enforcement of our trade laws is producing results."

Unfortunately for our steelworkers, the remedies being administered under the existing trade laws are too late, too narrow, and too weak. Incremental steps, taken country by country (as in the case of the Russian suspension agreement) or product by product (as in the hot rolled case against Japan, Brazil, and Russia) simply invite ever-more inventive circumvention of the trade rules.

It is our view that S. 395 provides the only effective opportunity for bringing a quick end to the current steel crisis.

V. THE INADEQUACY OF THE WORLD TRADE ORGANIZATION (WTO)

Mr. Chairman, many critics, including those in the Administration and here in Congress, have argued that some or all of these proposed bills violate U.S. commitments to the World Trade Organization (WTO) or other international trade agreements.

I will leave it to the lawyers to argue with each other on that issue. Let me say, however, that when the United States joined the WTO, we did not surrender our sovereignty nor our right to protect our national security interests. A strong domestic steel industry is vital to this nation's national security.

The Europeans have recently filed an action before a WTO tribunal seeking to bar the application of the 1916 Anti-Dumping Act. If the Europeans' view of our anti-dumping law is upheld, it will mean that when the U.S. entered into the WTO, global trade arrangement, we wiped long-standing legislation off our own statute books and willingly agreed to wear handcuffs that prevent our addressing massive, industry-threatening trade law violations. Certainly, this could not have been Congress' intent in originally approving U.S. participation in the WTO.

If, as we are constantly being told by our critics, our commitment to the WTO prevents us from effectively addressing the crisis caused by illegally-dumped foreign steel in the U.S. market, then it is time for Congress and this Administration to reconsider that commitment at the earliest possible opportunity. If the WTO isn't working right, we need to fix it or get out.

Ironically, while the Administration has insisted that they cannot take more forceful action without running afoul of the WTO, it is the Administration's own proposal for $300 million in tax credits for the American steel industry that is now being challenged by our trading partners as an illegal government subsidy under the WTO.

Apparently, it is the view of some of our trading partners that there is literally nothing that the President or Congress can do or should do to stop this catastrophe for steelworkers and the steel industry. Such a view is preposterous.

None of our trading partners would allow such a vital industry in their own country to be destroyed in the name adherence to the WTO or any other international trade agreement. Indeed, our trading partners have erected many barriers to the import of American-made products into their markets in order to protect their own domestic industries.

December 8, 1999 marks the fifth anniversary of the Uruguay Round Agreements Act and U.S. participation in the World Trade Organization. The Act mandates a review by the Administration and Congress of the effects of the WTO on domestic interests and the costs as well as the benefits to the United States of its past participation. Most importantly, Congress must consider the matter of this nation's continued participation in the WTO. Should Congress conclude that continued participation in the WTO is not in the national interest, it can, under the law, require the withdrawal from the WTO by enacting a joint resolution this year. What's more, if Congress does not act, we must remain in the WTO until the next opportunity for review and withdrawal, which does not occur again until December 2004.

These issues of our sovereignty and the enforcement of our laws to prevent or stop irreversible economic injury to vital industries must be carefully examined if Congress is to make a sound decision about our continued participation in the WTO.

VI. THE NAFTA DISASTER

Mr. Chairman, it would be bad enough if the only recent crisis we faced was from foreign steel being illegally dumped in our market. Other events, however, have magnified the impact of the current crisis for steelworkers.

The implementation of the North American Free Trade Agreement (NAFTA) has been an unmitigated disaster for steelworkers and working people all across the United States as well as workers in Canada and Mexico. By our government's own admission, over 8,000 steelworkers have lost their jobs and been certified as eligible for NAFTA trade adjustment assistance. Nationwide, nearly half a million workers have lost their jobs because of NAFTA.

NAFTA has transformed the U.S.' $1.7 billion trade surplus with Mexico in 1993 into a nearly $15 billion trade deficit last year in 1998. During the five years from 1993 to 1998, other developed countries—such as those in the European Union—have maintained their trade surpluses with Mexico, even during the 1995 devaluation of the peso. Likewise, the U.S. trade deficit with Canada for 1998 was over $18 billion.

The so-called "free trade" system that NAFTA established across North America has given predatory corporations a license to hunt for the cheapest labor and the lowest environmental and safety standards on the continent. To make matters worse, the twisted logic of NAFTA encourages even socially responsible corporations to join this hunt in order to remain competitive.

No working person in Canada, Mexico, or the U.S., should be forced to trade hard-earned economic security for the "opportunity" to work harder and longer for less. And no community anywhere should have to accept lower health and safety standards and environmental protection standards to keep some of its citizens working. But it is precisely this kind of blackmail that has ravaged workers in all three countries.

As a result of NAFTA, thousands of companies have moved their U.S. operations to Mexico. They include many familiar and prominent names: RCA television sets, Oshkosh overalls, American Standard plumbing fixtures, TrueTemper hardware products, Fruit of the Loom t-shirts and underwear, Farah pants, Woolrich coats, Smith-Corona typewriters, Goodyear tires, and the list goes on and on.

NAFTA has failed workers and not just here in the U.S. It has also failed in Mexico where workers have seen their wages drop by at least 27 percent since NAFTA was implemented. And it's failed in Canada, which has lost more than 137,000 highly paid industrial and manufacturing jobs.

VII. THE LOSS OF OUR MANUFACTURING INDUSTRIAL BASE

The current steel crisis, the inadequacy of the WTO, and the negative effects of NAFTA are all symptoms of a profound long-term problem facing America; the loss of our industrial manufacturing base.

While most economic observers have noted the overall strong performance of the U.S. economy, these observers often overlook a very different story of what is happening in manufacturing. According to the Bureau of Labor Statistics (BLS), from December 1997 to December 1998, our nation lost 237,000 manufacturing jobs.

Why does this matter? Because many of these lost manufacturing jobs are the kind of jobs that pay decent living wages which can support a family and which allow families to buy homes, cars, clothing, and the necessities of life. They are also the kind of jobs that provide workers and their families with health insurance and pensions so that workers need not fear living out their older retirement years in poverty. The loss of manufacturing jobs also guarantees that the continuing and widening disparities in incomes between the highest income earners in America and those at the lower end will only continue to get wider in the future.

Economists at the Economic Policy Institute have estimated that a $100 to $200 billion increase in the trade deficit would mean the loss of 700,000 to 1.5 million jobs in manufacturing and other industries producing tradable goods. The trade deficit for 1998 was over $163 billion. Our trade deficit continues to grow. The trade deficit in January 1999 hit a record $17 billion; up from $14.1 billion in December 1998. On an annualized basis, the January figure would mean a trade deficit this year of $204 billion.

The issue before us is not whether there's going to be a global economy. The global economy is a reality. The real issue is what kind of global economy are we going to have?

Is it going to be a global economy that truly lifts the wages and living standards of all workers or is it going to be a global economy that only works for the benefit of those with great capital, wealth, and political power?

Is it going to be a global economy that accelerates the destruction of our environment and natural resources for the benefit of a few or is it going to be a global economy that protects our natural resources for everyone?

These are fundamental questions that we as a nation must address.

A recent Wall Street Journal/NBC News Poll indicated that 58 percent of the public thinks that foreign trade has been bad for the U.S. economy because cheap imports have taken U.S. jobs. The American public has spoken up repeatedly in favor of fair trade. Yet our policymakers seem to have a tin ear when it comes to this issue. If we don't move to stop violations of our trade laws and if we don't ensure that trade agreements will be mutually beneficial for all Americans, then there will continue to be this deep antipathy about trade.

Mr. Chairman, steelworkers believe in America and the American dream. Steelworkers have made the steel that has built America and defended this nation throughout its history. We are not asking our government for any special favor here. We are asking the President and this Congress to stand up for us just as we have stood up time and time again for our country.

With over 10,000 steelworkers already out of work, three major steel producers already in bankruptcy, another one on the brink, and virtually every steel producer experiencing huge losses, action isn't an option; it's an absolute necessity.

Please pass S. 395 before it's too late.

Thank you.

Prepared Statement of Thomas G. Belot

QUOTAS OR TRADE BARRIERS ON IMPORTED STEEL WILL MEAN LOST JOBS IN STEEL-USING INDUSTRIES

Mr. Chairman and members of the committee, I am Thomas Belot, President of the Vollrath Company of Sheboygan, Wisconsin. I am here on behalf of the North American Association of Food Equipment Manufacturers, as a member company.

NAFEM represents 650 firms that manufacture commercial stoves, broilers, toasters, refrigerators, dishwashers, beverage dispensers, food carts and many other lines of food preparation and serving equipment.

Our members employ approximately 60,000 men and women in the United States. Total sales are $6.5 billion at the manufacturers' level. Stainless steel represents about 30 percent of all costs of production

My own firm's products include boilers, steamers, food warmers, food carts, cookware, and many other products. A brochure that I have submitted may give you a better idea of the range of our own products, over 2,500 in total, most of which are made with stainless steel.

If you have ever looked behind the order counter at McDonalds or Burger King, or into the kitchen at any restaurant or cafeteria, large or small, what you see is an expanse of clean, shining metal. The great majority of the products of our industry are made from stainless steel. Hygiene requires a non-rusting, hygenic surface that is easily cleaned. Economy and efficiency demand durability. While higher prices could drive some shift to plastics, stainless steel is the material of choice. The food equipment industry uses about 550 million tons of stainless steel a year and is the second largest user of stainless steel in our country, second only to transportation. Even for companies which principally use domestic steel—and Vollrath is one of these—the access to foreign markets is essential to retain price competition and to assure the supply of specialty materials used by some other members of our industry.

My own firm employs 750 men and women. Total U.S. employment at all NAFEM members is approximately 60,000. This one segment of the American steel-using industry employs about one third as many workers as the entire U.S. steel industry and is for larger than the U.S. industry producing stainless steel.

Our industry is a great American success story. We lead the world in the technology of food preparation equipment. A number of our members—including my company—have won the Department of Commerce's "E" award for exporting excellence. Over 80 percent of NAFAEM members have markets overseas. My own firm exports about ten percent of its products. The average among all NAFEM members is greater—about 20 percent of all food equipment manufactured in the United States is exported. That is a lot of exported or re-exported stainless steel—that is, stainless steel exported in a high value-added, job-intensive manufactured product.

With 20 percent of our industry's products exported, that means that 20 percent of the jobs in our industry—about 12,000 jobs—are directly tied to exports. One typical NAFEM member—A.J. Antunes & Co. of Addison, Illinois—now has markets in

140 countries, exporting 37 percent of its product. The company is moving into a new and larger plant this year and its target is to increase overseas sales to 50 percent of its market, hiring new workers as it does so.

This is typical. Our industry's export markets are growing rapidly—or at least have been growing rapidly. Growing markets for our products have until now meant an increased need for stainless steel and an increased need for workers. We have a technological edge and will continue to compete effectively around the world unless artificial trade barriers raise our costs and put us at a world market disadvantage.

Although you would normally be safe in assuming that an industry would act in the best interests of its customers, that is not the case with the steel industry. Their drive for punitive duties meant to cut off foreign supplies and the proposals before you for quotas that would roll steel imports back to the levels of two to four years ago will mean lost sales and lost jobs in the now-thriving food equipment manufacturing industry.

This is exactly what happened in the late 1980's, when we had "voluntary" quotas on imported steel, including stainless steel. Domestic prices of stainless 304, our principal material, rose 75 percent in 18 months, to a level well above world prices. Our industry's ability to compete overseas was crippled. It was several years after the phase-out of the VRA's before our industry recaptured foreign markets and began again to grow at double-digit rates.

Data from the American Iron and Steel Institute show that average imports of stainless sheet and strip in the 36 months preceding July 1997 were 30,789 tons. Quotas at that level would reduce imports by about 15 percent from 1998 levels.

Imports of stainless steel did indeed increase markedly in 1998 over 1997. But—and this is very important this was not at the expense of production, sales, or employment in the domestic industry. Shipments by domestic manufacturers of stainless steel—whether you took at all stainless steel or specifically at stainless sheet and strip—were higher in 1998 than in 1997 or in any recent year. And shipments even in December 1998 exceeded December 1997.

For the domestic stainless industry to replace the proposed cuts in imports would require increased production of about 99,000 tons that would be taken out of exports. I do not know if they could meet this demand or not. I think there would be shortages, at least in a transition period. And I am sure these trade restrictions would lead to sharply higher prices, with the negative effects on the competitiveness of our industry that I have tried to describe. The law of supply and demand—proven by our experience under the VRAs of the 1980s—is that quotas or similar import restrictions will lead to higher prices for stainless steel in the United States, and that these prices will rise above those in competing countries. In fact quotas here will probably lead to greater supply and lower prices in the rest of the world.

While our export markets would be the first to go, we would also begin to see increased imports of stainless steel in finished food equipment coming into our own market from overseas. And we would see some shifting away from steel to plastics. What good would this do anyone?

This is not the time for the United States to back away from the principles of free trade. Protectionism is rising around the world. Restrictions on imports by the United States will hurt our competitiveness and will soon be followed by other nation's restrictions on our own exports. Other industries, from high-technology manufacturing to agriculture, could be harmed.

We know what happened under the "Voluntary Restraint Agreements"—"voluntary" quotas of the late 1980's, when stainless steel prices went up 75 percent in 18 months, killing our markets.

LET'S NOT MAKE THE SAME MISTAKE AGAIN.

Prepared Statement of Joseph Cannon

Good morning. My name is Joe Cannon; I am Chairman and CEO of Geneva Steel located in Vineyard, Utah. In 1987, we resurrected a shuttered steel company and restored 2600 jobs. We made steel, we made money, we went public, we invested nearly $400 million in our mill to become a leading, low-cost steel supplier in the U.S.

In 1996 we were hit by a wave of plate imports from Ukraine, Russia, and China. We filed antidumping cases and won them with 100% average dumping duties against these inefficient producers. Suspension Agreements entered into for foreign policy, not trade policy reasons, allowed these countries to retain 400,000 tons annually of plate in the U.S. market, down from the 1.2 million tons they shipped in

1996. Just as our company started to recover from this financial debacle, the world economic crisis produced a surge in imports in 1998 which threatens our survival.

Our biggest product is plate. From 1997 to 1998 plate imports increased from 1.25 to 1.82 million tons, a 46% percent increase. Imports took over 28% of the U.S. market. Our second biggest product is hot-rolled sheet. Between 1997 and 1998 imports increased from 6.3 to 11.1 million tons, a 77% increase. Imports took 36% of the U.S. market. Our third major product is welded line pipe. Imports increased from 220,000 tons in 1997 to 330,000 tons in 1998, a 50% increase. Imports took over 37% of the U.S. market. These huge import increases at dumped prices have forced domestic prices to fall by $80-$100 per ton in each of our major products. Domestic shipments in each product category have fallen by at least 15-20% thus far this year. At Geneva, we shut down a blast furnace in September, reduced our workforce by over 800 workers, and saw fourth quarter 1998 sales fall over 50% from the fourth quarter of 1997. This resulted in a loss of $50 million in the fourth quarter. This fourth quarter loss resulted in our company filing for Chapter 11 bankruptcy on February 1.

Today I urge the Finance Committee to request an investigation by the ITC under Section 201 on flat-rolled steel products including cut-to-length plate and slab. The reason for our request is that the collapse in world steel demand is continuing and we will face a renewed import surge in 1999 that could prevent Geneva from reorganizing under the bankruptcy laws and cause many other U.S. producers into bankruptcy or closure.

For example, imports of hot-rolled sheet in January were slightly more than January of 1997 at approximately half a million tons, but an import decrease of 250,000 tons from Russia and Japan because of the antidumping cases was replaced by 250,000 tons of increased imports, primarily from China, Indonesia, Australia, the Netherlands, India, and South Africa. This is illustrated by the chart attached to my testimony. Most of these are Asian countries. Just as with the import surge in 1998, these increased imports are hitting the West Coast first. The import surge that hit the West Coast in April or May of 1998 hit the Gulf, Midwest and East Coast by August and September of 1998. Second, at the recent hearing in the plate unfair trade cases held at the ITC on March 9, a spokesman for Mitsubishi International stated that they had no orders for March. This is not a surprise as to orders from Japan given that the domestic industry just filed cases alleging dumping margins of 50% and those margins could go into place as early as mid-May. However, on March 15, just six days after that ITC hearing one of our customers received an offer from Mitsubishi International Steel for plate from Malaysia at $290 a ton landed in the United States. Now this is below Geneva's costs and I believe the costs of any manufacturer in the United States. I don't know whether this Malaysian plate will be made with Japanese slab or not. But my point is that these international trading companies will never show any mercy to the U.S. market. They will bring in product from anywhere in the world where there is more supply than demand and dump it into the U.S. market at prices significantly below U.S. producers cost.

Geneva would not be able to reorganize and continue in business if we face wave after wave of imports until the world economy improves. If that happens, the western United States will lose one of its two plate producers, one of its two hot-rolled sheet producers, and one of its three line pipe producers. Not only will this be bad for the people of Utah, but it will also have serious negative consequences on the hundreds of western customers that will lose a valuable supplier.

Thank you for this opportunity to testify today.

Major Steel Import Changes

Hot Rolled Carbon Steel			
	Volume (Net Tons)		
Country	Jan 1998	Jan 1999	Change
China	0.00	68,322.54	68,322.54
Indonesia	0.00	42,471.33	42,471.33
Australia	0.00	27,211.87	27,211.87
Netherlands	29,674.33	51,206.35	21,532.02
India	0.00	18,882.93	18,882.93
S. Africa	1,524.03	17,717.68	16,193.65
Canada	30,509.02	44,954.38	14,445.36
France	28,730.69	41,338.83	12,608.14
Italy	0.01	11,285.26	11,285.25
Finland	0.00	10,783.12	10,783.12
Kazakhstan	0.00	10,695.26	10,695.26
Taiwan	129.04	10,201.51	10,072.47
Brazil	***17,539.63***	***17,230.45***	***(309.18)***
Russia	***117,523.23***	***11,683.80***	***(105,839.43)***
Japan	***150,382.34***	***16,969.36***	***(133,412.98)***
Subtotal	376,012.32	400,954.67	24,942.35
All Other	99,996.65	113,440.00	13,443.35
Total	476,008.97	514,394.67	38,385.70

Cold Rolled Carbon Steel			
	Volume (Net Tons)		
Country	Jan 1998	Jan 1999	Change
Brazil	***6,299.33***	***47,178.76***	***40,879.43***
Japan	***23,879.61***	***62,141.76***	***38,262.15***
S. Korea	0.00	29,691.08	29,691.08
Venezuela	0.00	12,365.73	12,365.73
Taiwan	254.63	9,211.60	8,956.97
Finland	615.92	8,943.83	8,327.91
Mexico	9,855.10	17,310.99	7,455.89
Sweden	126.66	6,934.21	6,807.55
Thailand	0.00	4,932.25	4,932.25
Russia	***32,655.85***	***27,940.51***	***(4,715.34)***
Subtotal	73,687.10	226,650.72	152,963.62
All Other	105,625.24	103,796.75	(1,828.49)
Total	179,312.34	330,447.47	151,135.13

Major Steel Import Changes

Galvanized			
	Volume (Net Tons)		
Country	Jan 1998	Jan 1999	Change
S. Korea	8,021.45	31,858.29	23,836.84
Japan	11,710.52	28,973.26	17,262.74
Taiwan	1,079.05	14,587.17	13,508.12
Argentina	618.85	6,387.10	5,768.25
Finland	428.73	5,015.73	4,587.00
Italy	484.64	3,980.82	3,496.18
Indonesia	0.00	2,903.93	2,903.93
New Zealand	134.07	2,996.35	2,862.28
Tunisia	0.00	1,959.99	1,959.99
Subtotal	22,477.31	98,662.64	76,185.33
All Other	140,817.70	97,039.80	(43,777.90)
Total	163,295.01	195,702.44	32,407.43

Carbon Cut To Length Plate			
	Volume (Net Tons)		
Country	Jan 1998	Jan 1999	Change
Japan	429.10	20,290.32	19,861.22
Mexico	45.37	18,301.70	18,256.33
S. Korea	4,044.22	16,795.52	12,751.30
Indonesia	4.49	10,368.22	10,363.73
Canada	8,113.76	17,134.36	9,020.60
Ukraine	1,014.46	7,623.58	6,609.12
France	4,134.82	9,989.00	5,854.18
India	384.95	5,815.52	5,430.57
Brazil	1,290.97	6,000.44	4,709.47
China	240.69	4,870.72	4,630.03
Subtotal	19,702.83	117,189.38	97,486.55
All Other	30,818.29	31,409.91	591.62
Total	50,521.12	148,599.29	98,078.17

Prepared Statement of William M. Daley

Thank you, Mr. Chairman. President Clinton is dedicated to ensuring that America's steel industry, our steel workers, and their families are not hurt by unfair trade practices and import surges. This is a real problem that is getting real attention, and the President has made it one of his top priorities.

Strict enforcement of the trade laws, especially the dumping and subsidy laws, is the linchpin of our comprehensive, WTO-consistent solution to the steel crisis. My staff at the Commerce Department has been working tirelessly for several months on steel issues. We have done everything possible to provide the quickest, most effective relief allowed under the law, including shifting resources, expediting dumping cases, making early critical circumstances determinations, and adopting WTO-consistent methodologies that strengthen enforcement.

This policy has had a dramatic impact in reducing steel imports. This is especially true in hot-rolled steel, which is subject to dumping cases on Japan, Russia and Brazil. Hot-rolled imports have dropped 70% since November.

But the Administration is not content with the status quo, especially when 10,000 steel workers have lost their jobs. We are taking action to make sure that what happened to the steel industry last year is not repeated.

LEGISLATIVE APPROACHES

Last week, a bipartisan group of House members introduced H.R. 1120, the "Import Surge Response Act of 1999." We believe this legislation constitutes a constructive approach, and are ready to work with both Houses of the Congress to develop a bill that we could recommend the President sign.

In sharp contrast, we have deep concerns over the steel quota bill passed by the House last week. While we understand the motivation behind this legislation, we believe it is the wrong approach. Not only does it raise serious WTO concerns, but it also could have a negative impact on the U.S. economy and it sends the wrong signal to the rest of the world.

In the end, steel quota legislation would be counterproductive and would not provide the long-term job security that American steel workers and their families deserve. Long-term job security can only be achieved by keeping domestic demands for steel strong and by keeping America's economy strong. The way to do this is to strengthen our trade laws and take aggressive enforcement actions in accordance with our WTO obligations.

WHERE WE WERE

Mr. Chairman, we recognize that the steel industry is not out of the woods yet. But our policy is working. Let's just look at the numbers.

Chart 1: 96-97-98 Steel Mill Products from all countries

- The first chart shows the dramatic increase in all steel imports in 1998: 33% higher than 1997, which was itself a record year.
- By November of 1998, import penetration for steel products exceeded 36%. Domestic steel mill capacity utilization rates were below 75%.

Chart 2: 96-97-98 Hot-Rolled from Japan, Russia, and Brazil

- Chart 2 shows the rise in hot-rolled steel imports—the major traded steel product—from Russia, Japan, and Brazil between 1996 and 1998.
- In October, the steel industry filed antidumping cases on hot-rolled steel from Japan, Russia, and Brazil—the three countries accounting for the major portion of the surge.

WHERE WE ARE NOW

Since then, a turnaround has begun. It is too early to declare victory, but the news is encouraging.

Chart 3: Nov.-Dec.-Jan. World Steel Mill Products

- Chart 3 shows that worldwide imports of all steel dropped by 34% from November 1998 to January 1999.
- A major reason for the reduction was the sharp decline in imports of hot-rolled steel.

Chart 4: Nov.-Dec.-Jan. Hot-Rolled Products

- Chart 4 shows that worldwide imports of hot-rolled steel fell by 70% from November to January.

Chart 5: Nov.-Dec.-Jan. Hot-Rolled from Japan, Russia, Brazil

- Chart 5 shows the dramatic decline in imports of hot-rolled steel from Japan, Russia, and Brazil that is a direct result of the antidumping cases.
- As you can see, hot-rolled steel imports from Japan plummeted, from over 400,000 tons in November to less than 16,000 tons in January. Russian imports fell from over 600,000 tons to less than 11,000 tons. And Brazilian imports dropped from almost 65,000 tons to less than 16,000 tons.

All of this is a direct result of our dumping cases and the bilateral pressure we have applied to our trading partners. The impact of these cases was felt because of our early changed circumstances determination made in early November. This had an immediate impact on the market beginning in late November.

OTHER GOOD NEWS

The Commerce Department will release preliminary import data for February on Thursday. We are expecting the dumping cases to continue to have a positive impact on import numbers.

During the four weeks ending March 13, steel mill capacity utilization rose on average to 80.5% from the 74.6% average in November. This is not as high as the 93% average we saw early last year, but it is a marked improvement. We are also encouraged that domestic production has risen in recent periods.

Also in late January, domestic steel firms announced price increases beginning next month. Many Wall Street analysts expect the increases to stick.

All of this is very positive news, and we expect that a healthier industry will translate into increased job security.

Of course, we recognize that 1998 was a record year for steel imports, and a couple of months of good data does not make a trend. But we believe we are beginning to see a long-term solution to the steel crisis. Let me assure you that we will continue to do everything possible, consistent with our laws and the WTO, to ensure that the United States does not become a dumping ground for unfairly traded steel.

ENFORCEMENT OF TRADE LAWS

As I have said, these numbers show that tough enforcement of the trade laws works. Let me briefly describe the many unprecedented actions we at the Commerce Department have taken.

First, we expedited the hot-rolled steel cases. For the first time ever, we issued the preliminary determinations almost one month early. The preliminary dumping margins on Japan and Brazil ranged from 25 to 71%.

Second, as I mentioned earlier, we changed an esoteric policy that has had a tremendous impact on the steel market. This policy, known as critical circumstances, is a WTO-consistent approach that is designed to deal with extraordinary import surges. By making this determination early for the first time, we made the impact of the hot-rolled investigations felt in the market much earlier than last month's preliminary determinations. Instead, the impact was felt in late November. This is evidenced by the huge drop in imports in December.

RUSSIAN STEEL AGREEMENTS

Third, we reached two proposed agreements with Russia that will significantly reduce imports of Russian steel and provide effective relief to our steel industry and U.S. workers. The first agreement would suspend the hot-rolled steel dumping investigation in favor of a three-part deal:

- First, there will be a six-month moratorium on imports, which is intended to offset the recent surge. As a result, total 1999 Russian hot-rolled steel imports will drop by almost 90 percent from the 1998 import level of 3.8 million metric tons.
- Second, starting in 2000, there will be an annual quota on hot-rolled steel of 750,000 metric tons per year. This is equivalent to the pre-surge, non-injurious 1996 import levels. It represents a 78 percent reduction from 1998 levels.
- Finally, the suspension agreement sets a minimum price for Russian steel, high enough to ensure that U.S. prices are not forced down.

As required by law, we also issued the preliminary dumping determination on Russian hot-rolled steel, finding margins ranging from 70 to over 200%.

The second agreement is a comprehensive agreement restricting exports of other Russian steel products to the United States to 1997 levels. This agreement will provide the steel industry and U.S. steelworkers with additional, immediate relief from imports of other Russian steel products. The comprehensive agreement will prevent surges in other steel products. In addition, it will deter circumvention of the hot-rolled suspension agreement by preventing the Russians from shifting to other steel products to get around the quota.

Together, the two agreements, when combined with the 1997 steel plate agreement, will reduce overall imports of Russian steel mill products by almost 68 percent in 1999, compared to 1998 import levels.

OTHER STEEL CASES

We are currently enforcing over 100 cases on steel products. And we are continuing our vigorous enforcement.

Yesterday, we issued final dumping and subsidy determinations on stainless steel plate in coil from five countries-Korea, Italy, Belgium, South Africa, and Taiwan. The combined dumping and subsidy rates ranged from 8 to 60 percent.

Two weeks ago, in response to petitions filed by the domestic industry, we initiated dumping and subsidy cases on carbon steel plate from nine countries, including France, India, Japan, and Korea.

EARLY WARNING SYSTEM TO MONITOR IMPORT TRENDS

Early last year, in response to the Asian financial crisis, the Commerce Department established an import monitoring system to watch for import surges and falling prices, particularly for import-sensitive industries, such as steel.

Building on this approach, the President's steel action plan, announced in January, put into place new guidelines for the release of preliminary import statistics. To ensure that the U.S. steel industry and workers had accurate information as early as possible, the Commerce Department took the unprecedented step of publicly releasing preliminary steel import statistics almost a month before the regular release of the complete trade statistics. This Thursday, we will release the February preliminary steel import data.

COUNTERVAILING DUTY REGULATIONS

Another important action we have taken is to issue strong new countervailing duty regulations that strengthen our ability to combat unfair subsidies. These regulations send a clear message to foreign governments that we will take action against unfair subsidies that injure U.S. industry and workers.

BILATERAL EFFORTS

We continue to press the countries accounting for the largest volume of imports, particularly Japan, which accounts for the largest share of the recent import surge, to end unfair trading practices. The President put Japan on notice in his State of the Union address and in meetings with Prime Minister Obuchi that if Japan's exports in 1999 do not revert to their pre-crisis levels, the Administration stands ready to take further action. Ambassador Barshefsky and I have reiterated this message in our bilateral meetings. In addition, we have pressed Korea to end government involvement in the steel industry.

Finally, we have also issued stern warnings to other countries that may be tempted to sell more steel in the United States unfairly: We are monitoring imports closely and will continue to enforce our trade laws vigorously.

CONCLUSION

Mr. Chairman, the President remains deeply concerned about the problems faced by the steel industry and its workers. Today I have outlined the strong actions we have already taken to respond to the steel crisis. I have pointed out the dramatic results we have seen so far. And finally, I have indicated that we are prepared to work closely with you on additional constructive measures.

I would be happy to take any questions.

PREPARED STATEMENT OF DAVID L. DANIEL

Mr. Chairman and Members of the Committee:

Thank you for this opportunity to present Quality Tubing, Inc.'s views on H.R. 975.

My name is David Daniel and I am President of Quality Tubing, Inc. ("QTI"). We employ over 100 people at our plant in Houston, Texas, and I am here to explain why H.R. 975, as passed by the House of Representatives on March 17, as well as other measures designed to restrict imports of steel, are ill-advised. Quality Tubing, Inc., founded in 1976, was the first company established for the sole purpose of manufacturing steel coiled tubing for use in the oil and gas industry. All of our products are unique because they are coiled, and 70 percent of the coiled tubes we make can be coiled, uncoiled and recoiled repeatedly. The hot-rolled steel we must use to make our critical service coiled tubing products is unavailable from domestic American manufacturers of hot-rolled steel, and the high strength makes it even more difficult to obtain.

This critical service coiled tubing product, known as "downhole work strings," is used by the oil and gas industry in deep, highly pressurized oil and gas wells, where it must be uncoiled from large spools, sometimes fed to depths more than 20,000 feet down the well, and coiled back onto a spool for use in another well. The constant coiling and uncoiling of this product as it is used in especially deep and high-pressure wells subjects the material to significant metal fatigue. As a consequence, the life span of this coiled tubing is three to four months. Any interruption in the supply of the steel we need to produce this product will, in a very short time, affect not only the jobs at QTI, but jobs in the oil and gas industry as well.

Quality Tubing purchases approximately 70% of its hot-rolled steel needs from Japan because the products are simply not produced by domestic steel mills. QTI has requested domestic suppliers to produce steel meeting the requirements required by our customers. However, domestic suppliers have consistently been incapable or unwilling to produce the hot-rolled steel we require for critical service applications. Therefore, QTI has found it necessary to work with the Japanese steel mill, Sumitomo, to develop the steel we need in order to produce steel coiled tubing with the properties required by our customers.

The steel purchased by QTI from Japan is not fungible with either US produced steel or steel from Russia or Brazil. Only Sumitomo has been willing to attempt the production of a uniquely tapered rolled steel essential to QTI's business. This tapered hot-rolled steel sheet actually tapers from a thicker gauge to a thinner gauge along the length of the coil. This very unique material is used in coiled tubing representing 25% of QTI's entire production.

We believe the potential adverse impact on our business by H.R. 975, as passed last week in the House, is a prime example of unintended consequences. Nonetheless, those consequences are real. H.R. 975 is aimed at steel that is "dumped" in this country at lower than market prices. And yet, Japanese prices for the hot-rolled steel purchased by Quality are higher than the closest grades available from domestic producers. Furthermore, in each of the last four years, the Japanese steel we purchased has increased in price. Although the steel we import is not produced in the United States, trade restrictions often do not distinguish between imports which compete with domestic producers and those which are not available domestically.

Our Japanese supplier has responded to what competition there is from domestic sources by moving into higher grade specialized products rather than reducing its price. With respect to price,

- The Japanese price per ton increased each year, as did the domestic price per ton.
- The Japanese price per ton has increased 3% per year on average, and
- The Japanese price per ton averages 49% more than domestic price per ton.

Any reduction in our ability to import this high quality steel would gravely impact Quality Tubing's competitiveness in the market place.

Although the overall market for this "niche" product is small, production of coiled tubing strings enables the $1 billion coiled tubing service market to function. As I mentioned earlier, coiled steel strings wear out in an average of three to four months. In the event of an interruption in imports, all of the coiled steel tubing strings in existence would be retired in very short order and could not be replaced with a steel of like quality and functionality. U.S. service companies, as a consequence, would feel the negative impact of a loss of this product almost immediately. U.S. production and jobs could be, and almost certainly would be, adversely affected. Indeed Quality Tubing would have to turn to a French coil supplier for the closest substitute steel product in order to stay in business.

Mr. Chairman, we produce a unique product essential to the efficient operation of the domestic U.S. oil and gas industry. In the 23 years since our founding, we and our market have steadily grown, and we expect and hope to expand our market still further as the industry prospers. Moreover, we expect to adapt this unique steel to new products. But without access to this steel, our business and the businesses of our customers would surely falter. It's that simple.

I urge you, then, as you evaluate this bill, to keep in mind companies like QTI, which produce specialized products and do not deserve to be adversely affected by legislation aimed at exacting quotas on steel imports.

PREPARED STATEMENT OF HON. MIKE DEWINE

Mr. Chairman, let me begin by thanking you for giving me this opportunity to appear before this Committee on a matter of vital importance to Ohio.

Our domestic steel industry has evolved into a highly efficient and globally competitive industry. Yet, despite this modernization, our steel producers face a number of unfair trade practices and market distortions that have had a devastating impact in Ohio and other steel-producing states. I have heard firsthand from industry and labor leaders about the crisis. Their message is clear: The time for action is long overdue.

The flood of drastically cheaper imported steel over the course of last year has caused thousands of workers to be laid off. Some domestic steel businesses have been forced to file for bankruptcy. According to the American Iron and Steel Institute, 4.1 net tons of steel were imported in October of last year that's 56 percent higher than the previous year, and the second highest monthly total ever.

This surge in imports has directly impacted our own steel industry. In November, U.S. steel mills shipped nearly 7.4 million tons of steel last year more than one million tons below what was shipped the previous year. We have seen U.S. steel's industrial utilization rate fall from 93.1 percent in March 1998 to 73.9 percent in January 1999. Most troubling of all, approximately 10,000 jobs have been lost in our steel industry since last year. In my home state of Ohio, the consequences have been devastating.

- The Timken Company, a leading international manufacturer of highly engineered bearings and alloy steels, was forced to lay off 400 employees.
- The WCI Steel Company in Warren, Ohio was forced to lay off 200 jobs.
- Wheeling-Pittsburg Steel Company, where over 65 percent of the employees live in Ohio, was forced to lay off 250 jobs.

These jobs must be saved. Once they are lost, it is impossible to predict whether these jobs will ever be restored. Each day that goes by without a clear plan of action increases the danger to the steel industry a key component of Ohio's and America's economy and to the livelihoods of thousands of dedicated steel workers and their families.

I am a free trader. And I believe free trade does not truly exist without fair trade. Free trade does not mean free to subsidize, free to dump, free to distort the market. Our own trade laws are designed to enforce those principles.

The current crisis underscores a flaw and weakness in our trade laws. The extremely large preliminary dumping margins determined by the Department of Commerce reveal that foreign companies are willing to dump huge volumes of steel in our markets in order to gain a long term share of the market. And, because of the laws, it is difficult for U.S. companies to counter their actions.

That's why I strongly urge the passage of my legislation called the "Continued Dumping or Subsidization Offset Act."

The Tariff Act of 1930 gives the President the authority to impose duties and fines on imports that are being dumped in U.S. markets, or subsidized by foreign governments. The "Continued Dumping or Subsidization Offset" provision would take the 1930 Act one step further. Currently, revenues raised through import duties and fines goes directly to the U.S. Treasury. Under my bill, duties and fines would be transferred to injured U.S. companies as compensation for damages caused by dumping or subsidization.

Transferring duties and fines will help our steel industry deal with the pending crisis and hopefully deter future dumping or subsidization. Current law does not contain a mechanism to help injured U.S. industries recover from the harmful effects of foreign dumping and subsidization. These practices reduce the ability of injured domestic industries to reinvest in their plant, equipment, people, R&D, technology, or health care and pension benefits for their employees. Moreover, current law simply has not been strong enough to deter unfair trading practices. In some cases, foreign producers are willing to risk the threat of paying U.S. antidumping and countervailing duties out of the profits they receive from dumping.

Some may argue the cost of this provision is too great. Well, recent data indicate that the "costs" will be 50-60 percent lower than originally estimated. Also, tariffs were not meant to be a revenue gathering measure but rather a deterrent. Any loss in government revenues will be made up by:

- Fewer dumping cases being filed, thus less resources needed by the Department of Commerce;
- More companies paying taxes on profits, and;
- Fewer lay-offs. Let me also stress that this legislation is consistent with our obligations under GATT and the WTO. The benefits provided under my bill do not create an actionable subsidy under the WTO as the benefits provided are not

specific within the meaning of Article 2 of the Agreement on Subsidies and Countervailing Measures. The benefits under my bill are broadly available to any petitioning group, and eligibility is automatic and based on objective criteria. The benefits are neutral, and do not favor certain enterprises over others.

Mr. Chairman, let me conclude. The steel crisis calls for leadership. It's important that we in the Congress remain focused on this crisis and take the lead in cushioning a very tough blow for these hurting communities, and assessing how we can shape our laws to prevent similar blows to other industries. Now that the House of Representatives has acted, all eyes are on the U.S. Senate to weigh in. We should not act for the sake of acting. We should act in a way that will help our steel industry in the short term and our U.S. manufacturing base in the long term.

We need to stand up for steel, not just to help the workers in these communities, but to protect a vital American national security interest. Our military needs domestic steel suppliers; without them, our ability to build ships, tanks, and other equipment would be at the mercy of foreign suppliers.

That's unconscionable; it flies directly in the face of our national interest.

And it does so in an even broader way as well. Because this is a broader issue than steel. If we, as a nation, say we will let other countries break the law with illegal dumping, who knows what other industries will be targeted by illegal foreign predators? Let's draw the line now, and protect the rule of law—and preserve free trade.

I thank the Chair.

Prepared Statement of Orrin G. Hatch

Mr. Chairman, I want to welcome Joe Cannon, CEO of Geneva Steel in Orem, Utah. Geneva is the nation's largest manufacturer of steel plate west of the Mississippi. Geneva, along with Acme Metals and LaClede Steel, is one of several U.S. steel mills facing recent or imminent bankruptcy from dumped, subsidized, or otherwise unfair steel imports.

I was really angered yesterday when I read an article in the Los Angeles Times by Donald Nauss, a Times business page writer. According to Nauss, all three companies are using imports as a sour grapes excuse for poor management. In the case of Geneva, Nauss said that the company was failing because it "was highly leveraged from large investments in new technology that never paid off." Nauss, having made the charge, never gave us the details, so let me help him out.

He's right: the technology didn't pay off. That's because the plant modernization scrupulously pursued by Geneva was nipped in the bud by the same unfair import deluge that prompted the bill introduced by my good friend from West Virginia.

Geneva finished its costly modernization program in 1995. The changes cut production costs by 20 percent. What happened then was another 20 percent price reduction in plate resulting from a massive import surge from Ukraine, Russia, and China. Geneva and other members of the steel sector won a series of anti-dumping cases leading to a 100 percent—I repeat, 100 percent—dumping duty against these countries.

By now everyone's probably thinking, why are we complaining? They slapped the offenders with a 100 percent duty and won their antidumping cases. The domestic trade laws must be working.

Unfortunately, there's a gimmick called a "suspension agreement," unlawful under GATT and WTO, but available to nonmarket economies (NME) and non-WTO members. It would be as if our courts allowed the commutation of sentences for murders. In this instance, it allowed these countries to continue murdering U.S. steel manufacturers as long as they didn't murder too many!

My point, although made with a bit of justifiable cynicism, is that our domestic trade laws do not safeguard U.S. industry from devastating import surges. Worse, the discretionary authority allowed the President in exempting NME and non-WTO countries is not being fairly applied. While I am very sympathetic to our foreign policy need to keep Russia politically stable, it is unreasonable to expect, as Clinton administration officials have come to insist, that we do it by gutting the U.S. steel industry.

In my judgment, Mr. Chairman, quotas won't do the job. The risk of cutting off imports on which our country's high productivity, low inflation and even consumer choice depend is just too great.

But, I can point to several deficiencies in our Section 201 safeguards law that need our urgent attention. The two most egregious provisions are those pertaining to the cause of import-related injuries and the definition of serious injury.

Both provisions impose much tougher requirements on our own import-injured companies than the WTO provisions impose on the rest of the world.

For example, on the matter of causation, under Articles 4.2 of the WTO Safeguards agreement, adopted by the Uruguay Round, relief is available whenever "increased imports have caused or are threatening to cause serious injury to a domestic industry . . . ."

However, U.S. law requires that imports be a "substantial" cause of serious injury, which is defined as an "important cause," and one that is "equal to or greater than any other cause."

The serious injury standard is equally unfair. The WTO provision defines "serious injury" as a "significant overall impairment in the position of the domestic industry." It directs authorities to consider the impact on market share as well as "changes in the level of sales, production, productivity, capacity utilization, profits, and losses, and employment."

The U.S. Section 201 provision was amended after the Uruguay Round to incorporate the language "significant overall impairment in the position of the domestic industry." But, much to the delight of some of our trading partners, I'm sure, the standards for assessing "serious injury" were not also changed accordingly. The result is that U.S. authorities must show such factors as:

1. The significant idling of productive facilities;
2. The inability of a significant number of firms to carry out domestic production operations at a reasonable level of profit; and
3. Significant unemployment or underemployment.

The repeated use of the modifier, "significant," has to make anyone suspicious. My interpretation is that it imposes an artificially high injury level never intended under the Uruguay Round . . . and that this is borne out repeatedly through the few successes of US Sec. 201 cases since the Uruguay Round changes were adopted internationally.

The time has come to adopt the international standard and to place American industry in general, and steel in particular, on an equal footing with their competitors.

I appreciate the chair's consideration of my remarks.

Prepared Statement of Hon. Amo Houghton

I wish to thank Chairman Roth and Senator Moynihan for the opportunity to appear before the Committee to discuss the steel trade issue, and specifically the current situation caused by the surge of steel imports, and what might be done about the problem. I want to briefly discuss two aspects of the situation. First, the bill passed by the House last week (H.R. 975), and why I believe that bill requires the wrong course of action, and second, the alternative bill, H.R. 1120, that Congressman Levin and I introduced a week ago today. We believe our bill is a viable alternative to the Visclosky bill, H.R. 975.

Mr. Chairman, I applaud the gentleman from Indiana, Mr. Visclosky, for bringing up this issue. It is an important one and we need to do something about it. The issue is not only the hurt caused to the employees. The issue is how to cure the hurt.

First, let me address H.R. 975, the bill that passed the House. It seems to me from my experience that this bill has a heart but does not have a head. What do I mean by that? First of all, I don't believe it will go anywhere. Even if it did, it is WTO illegal. Furthermore, the most important thing is we have sort of a reverse golden rule. We are doing unto others what we do not want others to do unto us. An example of that, of course, is the banana issue.

I have been in this situation personally. I have been in a company which almost went on its knees because of unfair trading practices, and I relate to that. There are two issues here, though. There is the antidumping issue, and there is the import relief issue. The problem is not just dumping. The very existence of the steel industry is threatened by imports. This must be addressed by Section 201, the provision of our trade law designed to address injury caused by all imports whether or not they are dumped. But H.R. 975 or variations thereof, is not the way to do it. That approach will hurt us long-term.

There is another alternative, and I point to my colleague here at the table with me, the gentleman from Michigan, who has been extraordinarily helpful in this endeavor. Last Tuesday, we introduced a bill, H.R. 1120, which I believe is a comprehensive approach to the "import surge" problem B not just for steel, but for other industries as well. The approach is WTO legal, bipartisan and I hope has the support of the Administration. It is not perfect, but it is a significant step forward. It enables us to give hurting firms and workers relief without violating our WTO obligations.

What does the bill do? First, it strengthens Section 201 of the Trade Act of 1974, by removing the unduly high causation standard and bringing it in line with the WTO standard. Our standard is presently higher, creating a significant and unnecessary obstacle to obtaining relief. Second, the bill shortens the time for obtaining provisional relief, from 90 to 65 days. Third and very important, the bill requires the consideration of import surges. Fourth, the bill creates an early warning import monitoring systems. And fifth, what I consider to be crucial, the bill makes changes in the President's discretion provisions to create greater likelihood that the President will implement the Section 201 remedy. The bill would make it more difficult for the President to deny a remedy recommended by the International Trade Commission. In my view, the President's current discretion to modify or ignore the ITC recommendations is the single biggest reason why American firms don't use Section 201.

The current situation in steel has been brought on by a surge in imports. An increase in 1998 of 33% for steel products. For January the imports were about the same as for December. I'm told the data for February will not be available from the Department of Commerce until this Thursday, March 25. In the January preliminary report, imports from Japan, Brazil and Russia were down, but imports from Korea were up, as well as Canada and Mexico. The antidumping orders and Russian suspension agreement have had some results, but we still have a long-term problem to solve. The February data will be very informative as to the effect of the actions to date.

Many believe our trade are not enforced. Thus, they are skeptical of using them. We need to address that issue. I believe H.R. 1120 is a step in that direction. Both Congressman Levin and I are eager to work with the Committee on our bill as an alternative and comprehensive solution to the steel situation—and to address other similar situations that will surely develop in the future.

Thank you for allowing me to testify and I will be pleased to answer any questions that the Committee members may wish to ask.

PREPARED STATEMENT OF HON. SANDER M. LEVIN

Chairman Roth and Senator Moynihan, thank you for the opportunity to appear before the Committee today. Issues of trade are so prone to instant polarization that facts often can get lost in the reflexive skirmishing. In this instance, certain facts are clear:

- There was a substantial surge in certain steel products from several countries in 1998. Other nations whose own economies were in trouble sought some instantaneous hard currency not in Europe but in the world's most open market, ours.
- The surge hurt. Certainly, like in any significant sector of an economy, there were a number of factors at play in 1998 in steel, such as competition within the domestic steel industry, including between mini-mills and the larger ones. But the parallel path of a sharp spike in imports and in employee lay-offs—10,000 workers—and bankruptcy filings by three steel firms points to the former as a significant cause of the latter.
- There was no U.S. government action until antidumping petitions were filed in September 1998. After that, the government did swing into action actively and aggressively enforcing existing law.

I would urge that the events of 1998 demonstrate that existing laws are inadequate.

First, none of our trade laws provides expeditious relief for sudden, dramatic surges in imports. Under the antidumping law, U.S. industries and workers must wait until the injury has been done, or is so imminent as to be unavoidable to file for relief. In order to ensure success in their injury case, the U.S. steel industry had to wait until September 1998, fully 10 months after the import surge began, to file antidumping petitions on hot-rolled imports. Section 201 imposes an even more onerous requirement. The ITC considers an even longer period—five years in most cases—in making the determination of whether serious injury exists. Forcing industries to wait until injury "ripens" before they can file for relief, I believe, is like forcing a patient to bleed toward death before you can begin to dress his wounds. The remedy provides too little too late.

Second, the remedial measures typically put in place are incomplete and can be evaded. Antidumping orders cover only certain products from specific countries. The duties do not prevent foreign producers from shifting to other production areas or producers from other countries from stepping in to fill the gap.

This very problem is looming in the current steel import crisis. While there has been a dramatic decrease in imports of hot rolled steel from Japan, Russia and Brazil since December, there also has been a sizable increase in imports from other countries (such as Australia, China, India, Indonesia, Italy and Kazahkstan) during that same period.

Third, our current laws do not address the more fundamental, systemic problems of structural overcapacity and anti-competitive foreign practices that underlie import surges such as the one that occurred in 1998.

Strengthening our laws is the appropriate response to the steel crisis, rather than H.R. 975. The prime author of H.R. 975, Pete Visclosky, working with others in and outside of Congress, has played an important role in highlighting the crisis in steel. However, H.R. 975 calls for action in a way that is contrary to the rules of the World Trade Organization (WTO) and our obligations thereunder. Because of this, John Podesta, the White House Chief of Staff has recommended a veto to the President. The reason is clear. We cannot seek to use the WTO to enforce international rules of law regarding trade—as we currently are in many cases—while at the same time advancing a proposal that is clearly in violation of those rules.

We need to focus now on strengthening and reforming our laws. Toward that end, Congressman Houghton and I have introduced legislation that would both address deficiencies in our trade laws and provide effective, comprehensive relief for the steel industry now—all in a manner that is consistent with our WTO obligations. Specifically, the legislation, H.R. 1120, would

- Strengthen section 201 by removing the unduly high causation standard, requiring consideration of the impact of import surges, shortening the time period for obtaining and expanding the availability of provisional relief, requiring the ITC to perform a more comprehensive injury and threat analysis, and increasing the likelihood that relief will be granted by focusing the President's analysis.
- Create early warning import monitoring systems by creating mechanisms for U.S. industries and workers to request monitoring of specific products, establishing an import monitoring center, providing for the early release of import data when import surges are detected, and implementing a system to allow for the accurate tracking of products subject to antidumping/countervailing duty orders or safeguards actions.
- Address the systemic problems underlying import surges by requesting the ITC to conduct a section 332 investigation on anti-competitive practices in international steel trade, and directing the Office of the U.S. Trade Representative to follow up on the ITC's findings.
- Promote expedient, effective enforcement of U.S. trade laws by providing additional funding to the Department of Commerce, the Office of the U.S. Trade Representative, the International Trade Commission and other agencies to administer, enforce, and defend U.S. trade laws and actions.

The events in the steel industry provide this Congress with an opportunity to show that it can ultimately respond creatively, rather than reflexively, to the changing dynamics of economic life in this and every nation. The steel surge was not basically about globalization, which is here to stay, but manipulation. To those who urge that any action is starting down the "slippery slope to protectionism," I urge that the latter's ally, indeed not its enemy, is being frozen in inaction.

In sum, responding in the manner we propose will steer us between trade's Scylla and Charybdis, between saying on the one hand that the benefits of inaction always outweigh any detriments, or saying on the other that the benefits of action in a particular matter so outweigh the value of a general structure of rules of trade that we should simply ignore that structure, as is done by H.R. 975.

As the Asian financial crisis and instability in Russia and South America have shown, mismanagement of other economies can have a deleterious effect on other nation. Rather than accepting such impacts simply as an inevitable consequence of having interconnected markets, we have begun to address the problems; we are already doing so by mandating reform of capital markets and financial systems abroad. Increasingly, we are confronting the issue of how we respond to evolving economies with very different structures relating to other market conditions including their labor markets and environmental rules.

We need to find a new consensus on these issues in the trade sector. We need to do so both at home to ensure that our trade laws are as strong and effective as they can possibly be within the WTO framework and in our bilateral and multilateral negotiations. An appropriate response to the steel surge is a useful place to pursue this endeavor.

PREPARED STATEMENT OF HON. DANIEL PATRICK MOYNIHAN

In 1997, the United States steel industry was the most competitive in the world. Our cold-rolled sheet was $50 per ton less than the top producers in Japan and Germany. In the spring of 1998, imports surged. Korea shipped more cut-to-length plate to the United States in four months than it had in the previous seven years combined. Total steel imports in 1998 jumped by a third.

On a brighter note, the Commerce Department reports that January imports of hot-rolled steel from Japan, Brazil and Russia are down 96% from their November levels. Yet January imports of steel from China and Korea were way up.

It is too early to conclude that the import surge is tapering off. But one thing is clear: our domestic trade laws and our international agreements don't cope well with the kind of sudden import surge that has battered the steel industry.

Representatives Levin and Houghton have some goods ideas about how to fix up section 201 of the Trade Act of 1974, our so-called "safeguard" or "escape clause" provision, and I intend to work with them and with Chairman Roth on this very important issue.

PREPARED STATEMENT OF J.B. (JACK) PORTER

I. INTRODUCTION

My name is Jack Porter, and I am Chief Procurement Officer of Caterpillar Inc. Caterpillar is one of America's largest exporters and biggest consumers of U.S.-made steel. As the world's largest manufacturer of construction and mining equipment, natural gas and diesel engines and industrial turbines, and soon agricultural equipment, Caterpillar buys over 90 percent of the steel it uses from U.S. steel producers. We employ 65,000 people worldwide and posted sales of $21 billion last year. Our exports account for $6 billion of our total sales.

I am testifying before the Committee today on behalf of the Emergency Committee for American Trade, an association of major American companies with global operations representing all principal sectors of the U.S. economy. The annual sales of ECAT member companies total over one trillion dollars, and the companies employ approximately four million persons.

Caterpillar and other ECAT member companies understand that domestic industries which are experiencing increased import competition may appropriately apply for relief under existing unfair trade remedy statutes. In fact, there are ECAT member companies that are among those who have petitioned for such relief.

ECAT is concerned, however, that the U.S. steel industry's efforts to convince the Congress and the Administration to grant them special relief from steel imports—beyond that provided for under existing U.S. trade remedy statutes—could result in market-closing measures which would subject U.S. exports to the risk of retaliation, undermine U.S. competitiveness, and threaten U.S. economic expansion. Special relief for the steel industry is also unwarranted, as domestic production is at record levels and imports are declining.

Global economic stability and the restoration of the health of Asian economies can only be achieved through America's leadership in supporting an open trading system. Enacting special relief for the steel industry, whether through quotas or a weakening of U.S. trade remedy statutes, would signal to our trading partners that we have abandoned our support for the open trading system and would encourage them to take similar measures to protect their own domestic industries. Instead, the United States must remain steadfast in its opposition to protectionism and help its trading partners do the same by urging them to agree to a standstill of trade restrictive measures in advance of the WTO ministerial, which the United States will host this fall.

Today, I will present ECAT's overall concerns regarding the dangers of going beyond existing unfair trade remedy statutes to aid the steel industry and then discuss the severe impact that the pending steel quota legislation could have on Caterpillar's exports and overall competitiveness.

II. DANGERS OF PROPOSED EXTRAORDINARY RELIEF FOR THE U.S. STEEL INDUSTRY

A. Steel Quota Legislation

The primary focus of the steel union's campaign for extraordinary relief has been H.R. 975, the steel quota legislation that was recently passed in the House. Senator Rockefeller has introduced a similar bill, S. 395, the "Stop Illegal Steel Trade Act of 1999." The bills would establish a discriminatory, government-administered steel import quota program that would restrain fair and unfair steel trade in flagrant violation of U.S. obligations under international rules. They would put U.S. exports at risk of retaliation. In addition, they would undermine U.S. competitiveness. Such legislation could also set into motion a spiral of market-closing measures in foreign markets, thereby jeopardizing U.S. efforts to encourage global economic recovery.

Imposition of U.S. quotas on fairly and unfairly traded steel imports would be likely to prompt swift retaliatory action by our trading partners against a wide range of U.S. exports, including farm commodities and manufactured products such as Caterpillar's construction equipment, airplanes, automotive parts, and computers. The next section of the testimony details the potential impact on Caterpillar's exports.

Exports are a vital engine of U.S. economic growth. U.S. exports are already suffering as a result of the Asian financial crisis. We should not invite further damage to U.S. exports by enacting legislation providing extraordinary relief to the steel industry.

Steel import quotas will also undermine U.S. manufacturing competitiveness. The steel industry supplies an essential input for major sectors of the economy—metal fabrication, transportation, industrial machinery, and construction—that employ over eight million American workers. Steel quotas would deny these sectors world-priced steel.

As I noted earlier, steel import restrictions are already under consideration under existing trade laws. The U.S. steel industry has filed antidumping and countervailing duty cases, as well as a Section 201 petition, against a wide range of steel imports. The U.S. government is now conducting these investigations pursuant to U.S. law and in accordance with international rules. Congress should not prejudge the outcome of these investigations.

Steel quota legislation and other extraordinary relief for the steel industry are also unwarranted in light of the fact that domestic steel production is at record levels and imports are declining. While certain steel imports rose to high levels in 1998, U.S. steel mills shipped over 102 million tons in 1998, just under the 1997 level of 105 million tons, the second highest level in U.S. history. U.S. steel demand last year was the strongest in history, and early last year there were actually shortages in the United States. Moreover, in December 1998 and January 1999, U.S. steel imports fell significantly.

B. Private Right of Action

S. 528, the "Unfair Foreign Competition Act of 1999," introduced by Senator Specter, would create a private right of action in U.S. District Court or the Court of International Trade for any interested party whose business or property is injured by reason of U.S. imports of a product sold in the United States at less than foreign market value or if the imports are subsidized. If the court finds that dumping has occurred or a foreign subsidy has been provided, antidumping or countervailing duties would be imposed against the targeted imports. The bill also creates a private right of action for customs fraud.

S. 528 raises serious concerns, as it inconsistent with U.S. obligations under international rules. With regard to antidumping, the WTO rules provide for a single remedy to prevent or offset dumping through the levying of antidumping duties in accordance with agreed procedural rules. While current U.S. law provides for a private right of action under the Antidumping Act of 1916, this law preceded the GATT and the WTO and is permissible under WTO rules because it was "grandfathered" under these rules. The Specter bill would expand the 1916 Act and, therefore, would not be protected by the exception granted to the United States for the original law. Furthermore, even the grandfathering of the existing 1916 Antidumping Act is currently being challenged by the European Union in the WTO. The antidumping private right of action would therefore be inconsistent with existing antidumping rules and would be subject to WTO challenge.

Similarly, the private right of action against subsidized imports is also inconsistent with the single remedy and agreed procedures for the imposition of antidumping duties set out in the GATT Subsidies Code. Unlike antidumping, there is no private right of action under current law with regard to subsidized imports. In addition, the private right of action for both antidumping and subsidized imports could be challenged in the WTO as a violation of the prohibition in Article XI against the maintenance of restrictions on imports other than "duties, taxes or other charges," because the duties would be imposed under procedures which are inconsistent with the antidumping and subsidies codes.

In short, S. 528 is inconsistent with WTO rules, would be subject to challenge by our trading partners, and would subject U.S. exports to the risk of retaliation.

III. IMPACT OF STEEL IMPORT PROTECTION ON CATERPILLAR

Caterpillar's business strategy is somewhat unique in that we compete globally from what is primarily a U.S. manufacturing base. The products we make are steel intensive. We buy over 90 percent of our steel requirements from U.S. suppliers. The steel that we import is primarily steel that is not made in this country. Last year, Caterpillar exported over six billion dollars worth of machines and engines throughout the world. As a result, Caterpillar continues to be America's biggest exporter of U.S.-produced plate steel.

The U.S. steel industry has undergone a remarkable transformation over the last decade. Almost every year, both quality and productivity levels have improved in the U.S. steel industry. Today, the American steel industry produces more high-quality steel with greater efficiency than ever before. Newer more modern factories continue to come on-line. When it makes sense, the domestic steel industry increasingly relies on imported steel slab to further improve competitiveness.

As a consequence, companies like Caterpillar that rely on steel have a strong competitive reason to expand production in the United States. This is one of the reasons that U.S. steel production has been at record high levels for the past two years.

Caterpillar along with other ECAT member companies strongly oppose the steel quota legislation as well as any other extraordinary relief measures that could lead to direct retaliation against our exports and undermine the international trading system.

It has been Caterpillar's experience that when the government intervenes in the marketplace, it often makes matters worse. The last time the United States imposed quotas to restrict steel trade during the 1980s, the International Trade Commission found that it cost American manufacturers as much as $12.4 billion in lost sales. At Caterpillar, the quota-induced shortages in the 1980s required us to import steel just to keep our U.S. production lines running. On one occasion, we came very close to shutting down our largest plant while we waited for permission to import a type of steel that was not even manufactured in the United States.

Another example of this is the heavy special-section steel that we use to make Caterpillar's track shoes that go on our bulldozers. Despite the fact that there are no U.S. producers of this type of steel, Caterpillar continues to manufacture this product in the United States. Steel quotas could prevent Caterpillar from importing this type of steel and could force us to produce the finished product outside the United States.

It is difficult to forecast steel markets. Lead-times are generally long. Last summer, we were all surprised when the demand for steel dropped as a result of the prolonged United Auto Workers (UAW) strike at the country's largest steel user, General Motors. Labor issues could again reduce steel supply this year. In spite of this uncertainty, steel quota legislation and other extraordinary relief measures attempt to turn the clock back to the mid 1990s, a time when demand for steel was lower, unemployment was higher, and stock markets were significantly lower.

Steel quotas would have a direct negative impact on American exports. The steel quota legislation and other extraordinary relief proposals that violate U.S. obligations under international agreements would invite WTO challenges and retaliation by our trading partners. The exports of Caterpillar and other U.S. manufacturers of steel products would be likely targets of foreign retaliation. Other highly competitive sectors of the U.S. economy, such as agriculture, aircraft and high technology, would be likely targets as well.

IV. THREAT TO GLOBAL ECONOMIC STABILITY AND IMPORTANCE OF STANDSTILL COMMITMENT

ECAT believes that steel quota legislation and any similar market-closing measures should also be opposed on the grounds that they would threaten global economic stability. Today, the United States is at full employment; inflation is virtually nonexistent, and our economy is growing. Shutting U.S. markets to steel imports, whether fairly traded or not, would be a radical retreat from over a half-century of U.S. trade policy devoted to expanding trade and investment. It would encourage our trading partners to take similar action and could lead to a dangerous chain reaction of market-closing measures that will choke off global economic recovery and growth.

Closing U.S. markets to steel imports would also undercut U.S. leadership and credibility in hosting the upcoming Seattle WTO ministerial and the launch of a new round of trade liberalization negotiations.

ECAT believes that rather than yielding to protectionist pressures for extraordinary relief for specific U.S. industries, the United States should pursue a market-opening, positive trade agenda that includes setting priorities for the next round of WTO negotiations and calls upon our trading partners to enter into a standstill of trade restrictive measures. The standstill we are advocating would involve a pledge to resist protectionist, unilateral measures which are inconsistent with international rules—such as the steel quota legislation, private right of action legislation, and any other provision of special relief to U.S. industry or agriculture not in accordance with international rules. It would not preclude the provision of relief under U.S. trade remedy statutes in accordance with U.S. law and international rules.

IV. CONCLUSION

For the reasons outlined above, ECAT urges the Finance Committee to reject extraordinary import relief for the steel industry, whether in the form of steel quota legislation, the creation of a private right of action, or other measures which are inconsistent with international rules and which would invite foreign retaliation. ECAT urges caution in the consideration of any other amendments to U.S. trade remedy statutes to ensure that such amendments are necessary, consistent with international rules, and maintain a balanced approach which takes into account the interests of the domestic steel industry, as well as U.S. steel users and U.S. exporters and importers.

I appreciate the opportunity to appear before the Finance Committee and would be happy to answer any questions.

COMMUNICATIONS

STATEMENT OF THE AMERICAN INSTITUTE FOR INTERNATIONAL STEEL

The American Institute for International Steel (AIIS) is pleased to offer comments to the Senate Finance Committee on proposed steel related trade legislation, including the steel quota bill, HR 975, which passed the House of Representatives last week.

For over seven months the steel industry and its protectionist allies have raised the decibel level with their complaints about increases in steel imports and the alleged devastation that these imports have wreaked on the domestic industry. The truth has a different ring to it. The following four items show that the steel industry cannot be considered an industry in distress. The hearing on the protectionist legislative proposals before the Senate should be denied as contrary to the needs of steel industry's customer base -- which employs 8.3 million compared to 170,000 in steel production -- and contrary to the commitments of the U.S. in the WTO to open trade and markets.

- First, the domestic industry shipped over 102 million tons of steel mill products in 1998, its second best year since the 1970s. Only 1997 was better, with 105 million tons shipped. Steel imports increased in 1998, but so did steel consumption, as steel industry customers demanded record levels of steel to satisfy their needs.

- Second, steel demand, thought to be in its death throws in the 1980s, has come back with a vengeance in the 1990s. Demand increased from 88 million tons in 1991, to 138 million tons in 1998, a 57 percent increase in a short period of time.

- Third, the domestic industry has responded by increasing productive capacity, much of it financed with foreign capital, and imports have also increased to satisfy the growing needs of steel industry customers. The increase in demand has resulted in significant imports of steel on the part of domestic steel industry producers themselves, as much as 25% of the total.

- Fourth, 11 of the largest 13 steel producers in 1998 were profitable, though profits for some were lower in the second half of the year, when competitive pressures were the greatest on all sellers of steel products.

The steel industry has a 30 year history of crying for help from the government when things get tough. In the past the government has responded, with 30 years of protectionist programs, including trigger prices and quotas, to make the steel industry the most protected industrial sector in the U.S. Indeed the market for steel was tough for sellers in the second half of 1998. It was also tough for the oil industry, and most other metals as well. Yet it was only the domestic steel industry that came to Washington, demanding protectionist actions from the government.

It is time for the government to stop sending the bill for protection to the steel industry's customers.

Attached is a fact sheet critiquing the industry's claims, as well as three recent articles from the *Wall Street Journal.*

Steel Imports: Facts versus Fiction
March 1999

The domestic steel industry's noisy "Stand Up for Steel" public relations campaign has made numerous outrageous claims regarding the impact of steel imports on the industry. A closer look shows that the campaign's claims do not stand up under scrutiny:

"Stand Up For Steel" Claims: The domestic steel industry is suffering from open free trade policies for steel.

FACT: The domestic steel industry has been a major beneficiary of free trade and the internationalization of steel consumption and production.

U.S. apparent steel supply has grown from 88 million tons in 1991 to 138 million tons in 1998 – a 58% increase. Consumers of steel have improved their U.S. and international competitiveness causing this surge in demand.

The domestic steel industry has a 30 year history of protection from import competition, and HR 975 is merely the 1998-1999 version of this longstanding tendency to demand protection, instead of competing.

"Stand Up For Steel" Claims: Imports are having a devastating effect on the domestic steel industry.

FACT: U.S. steel companies are themselves major importers – from iron ore and ferro alloys to steel making machinery, slabs, hot rolled sheet, and other finished products. Like all steel consumers, imports have improved the industry's competitiveness. An estimated 37% of domestic steel production has some form of foreign ownership.

The domestic steel industry claims that three recent bankruptcies in the steel industry were caused by imports. This is simply not true. For example, Geneva is a chronically ill corporation and did not even make a profit when demand and prices were strong in 1997. Acme's problems stem far more from problems associated with a major investment gone awry.

The domestic steel industry doesn't talk about the companies that are flourishing. In the fourth quarter when the market was the toughest for all sellers of steel, AK steel had record shipments and operating profits of $61 per ton, USS was profitable, and Nucor's profit dropped only 10%.

"Stand Up For Steel" Claims: Current US steel trade policy is forcing the domestic steel industry to lay off thousands of workers.

FACT: The domestic steel industry claims 10,000 layoffs have been caused by the surge in imports in 1998; however, the industry has yet to produce the evidence to support this claim. The fact is that consumers of steel in the United States employ 8.3 million workers compared to 170,000 in steel production. Steel consumers cannot remain internationally competitive unless the prices they pay for steel are comparable with the prices paid by their international competitors. The irony is that more steelworker jobs would be lost from protectionist actions than could ever be lost from the tough competitive situation all sellers now face.

From a trade policy perspective, it makes no sense for the U.S. to take actions that endanger the far larger steel consuming sector for an industry whose total employment is one-third the size of Ford.

Stand Up For Steel Claims: The steel industry needs help from Washington because of the worldwide recession.

FACT: Steel, along with most metals and the oil and gas industry, has been affected and price competition has become tough. Yet it is only the domestic steel industry that is demanding special protection from Washington.

With economic problems facing many of our trading partners, protectionist actions by the U.S. could have devastating effects on the world economy.

Protectionist tariff increases contained in the Smoot-Hawley legislation spurred a spread of protectionism in other countries and turned a world recession into the Great Depression. Haven't we learned our lesson? There are signs that some countries are beginning to experiencing a return to health, e.g. Korea; making this the exact wrong time to enact protectionist actions.

The American Institute for International Steel is comprised of steel importers, exporters and related enterprises in North America. For additional information, call 202-628-3878.

The Wall Street Journal
March 19, 1999

Whistling Past Big Steel's Graveyard

By ROBERT W. CRANDALL

On Wednesday the House passed one of the most blatantly protectionist pieces of legislation since the 1930s. Reacting to anguished cries from the steel industry and its rapidly declining unionized workforce, the House voted to impose quotas on imported steel for three years. But no amount of protection will save the declining steel companies and their workers, whose primary threat is not imports but new, smaller American companies.

Over the past 30 years, there have been so many bouts of trade protection for the U.S. steel giants—Bethlehem, USX, Inland, LTV and so on—that they have become quite practiced in seeking import restrictions. Cries of "unfair dumping" or "subsidization" ring out from Pittsburgh or Chicago every five or 10 years, whenever the world steel market is roiled by any of a number of disruptions.

The most recent source of agony is last year's economic collapse in Russia and Southeast Asia. Steel prices fell dramatically last year when imports from countries including Russia, South Korea and Brazil surged in response to abrupt changes in demand and currency prices. The import price of garden-variety sheet steel fell by more than $50 a ton to well under $300. U.S. companies were forced to respond by reducing their prices.

Temporary Disruption

The disruption caused by the sharp fall in import prices would likely have been temporary even without the usual dumping suits and warnings from Congress. Some of the larger U.S. companies would undoubtedly have had to consider layoffs and even perhaps accelerate the closure of some facilities that would close in the next two or three years anyway. Other, marginal producers might have faced insolvency. But the new, smaller "minimill" producers would have suffered less, because they already have lower costs and because, unlike their larger brethren, they rely heavily on scrap to feed their furnaces. When steel prices plummet, so do the prices of scrap. The result is that the minimill companies can more easily ride out downturns in steel prices. Many operated at a profit even during last year's collapse of prices.

It would be difficult to overestimate the effect that the new minimills have had on their older, more lethargic Big Steel competitors. Starting from almost nothing in the mid-1960s, these companies have increased in number and in size to account for about 40% of the country's current carbon-steel capacity. The pace of minimill expansion has increased, and the opening of several new sheet-producing minimill plants undoubtedly added to last year's downward price spiral.

These minimill companies are so efficient that they employ only about 30,000 workers, compared with some 105,000 for the larger companies. The most successful of the new minimill companies, Nucor, has never laid off a steelworker in its 30 years. The plants operated by Nucor, North Star, Birmingham, Bayou, Keystone, Quanex and the other 40 or so minimill producers rarely employ more than 500 workers. These plants are spread all over the country, mostly in small towns. This diminishes the political need to worry about the effects of major steel layoffs when the world market takes an unfortunate turn.

> *No amount of trade protection can change the fact that the end is approaching for old-line steel componies.*

In defending the House's blatantly protectionist steel legislation, Rep. Joe Moakley (D., Mass.) was quoted as saying that "not every American is sharing in the good times. . . . Ten thousand steelworkers lost their jobs last year." Apparently Mr. Moakley is unaware that the steel industry has been shedding employees at this rate for three decades. In the mid-1960s, steel employed more than 600,000 workers. Today, it produces about the same amount of steel with only 230,000 workers. Mr. Moakley and his allies in Congress would rather blame foreigners for these productivity gains than acknowledge that such job losses are simply a reflection of increased efficiency.

Today there is very little left of the old "integrated" steel sector. Thirteen companies still employ massive outdated blast furnaces, coke ovens and oxygen furnaces to produce steel from coal, iron ore and limestone. These companies now have only about 60 million tons of capacity, down from 145 million tons just two decades ago. The inflation-adjusted price of the carbon-sheet steels they produce has fallen by an astonishing 40% in these 20 years, even before the recent surge in imports, in large part because of the minimill competition and lower resource prices. The combined market capitalization of all 13 of these firms is barely above $5 billion, less than one-third of the value of the Internet bookseller Amazon.com. On most days the market capitalization of Microsoft rises or falls by more than the market cap of the entire U.S. integrated steel industry.

The total market value of these old steel companies' total assets is now between $11 billion and $12 billion, or about $200 per ton of capacity. This is the same as the cost per ton of building new minimill plants. Were any of the large companies to try to rebuild their plants, they would probably have to spend about $1,500 per ton of capacity for the blast furnaces, coke ovens, steel furnaces and other equipment. Needless to say, such a strategy would be disastrous. The last large integrated U.S. steel plant, Bethlehem's factory on Lake Michigan, was built in the 1960s. Any U.S. steel firm that tried to replicate just this one plant today would quickly be forced into bankruptcy.

Equally important, the large integrated steel companies, with their ponderous bureaucracies and unionized workforces, simply cannot build and operate minimills in competition with the smaller, entrepreneurial companies. Only one of the large companies, LTV, has as much as a partial interest in a new minimill company. A Canadian integrated steel company, Dofasco, has had difficulties making a joint-venture minimill in Kentucky operate successfully.

No Future

If it makes no sense to replace the old companies' declining plants with the same technology, and if they cannot compete with the minimills in building the scrap-based electric-furnace technology, they surely have no future. What is it then that the protectionists want to save? The old integrated companies are now such a small part of the economy as to be virtually unnoticed by Wall Street. The entire lot of them is smaller than the 100th-largest U.S. industrial company. They still employ 105,000 workers or so, but this is only 0.07% of the U.S. labor force. Their total employment will continue to decline regardless of U.S. import policy as the minimill companies keep expanding.

A short-term rise in steel prices caused by any Washington-crafted trade protection will only lead the minimills to expand more rapidly. In short, the end is approaching for Big Steel as the new, entrepreneurial companies continue to replace them. Already Nucor has nearly twice the market capitalization of USX, the largest of the remaining old-line U.S. steel companies. No amount of trade protection will change that balance.

Mr. Crandall is a fellow at the Brookings Institution.

The Wall Street Journal
March 22, 1999

Trade Secrets

Steelmakers Complain About Foreign Steel; They Also Import It

Firms See No Inconsistency, Saying Metal They Buy Has Not Been 'Dumped'

Mills That Need More Slab

By CHRIS ADAMS
Staff Reporter of THE WALL STREET JOURNAL

WEIRTON, W.Va.—"Free traders are traitors," said a sign at a recent rally in this center of the beleaguered steel industry, cosponsored by hometown steelmaker Weirton Steel Corp. The company has helped lead a campaign for relief from a flood of foreign steel, resulting last week in House passage of a bill to curtail imports.

That set up a clash with the Clinton administration, which opposes the bill. Steelworkers, fervently on management's side on the import issue, have helped mount demonstrations and pay for full-page newspaper ads assailing foreign steel they say is priced unfairly low. Weirton Steel Chief Executive Richard Riederer calls the struggle a "war."

So who are the American companies that are buying all that steel from places like Russia, Brazil and Japan?

Weirton Steel, for one. It regularly buys steel in slab form from various nations, which it processes into finished steel, and last year its joint-venture trading arm imported finished steel as well. Some of that came from Russia, one of three exporting nations about which Weirton and other U.S. steelmakers have filed a federal complaint.

Bethlehem Too

In fact, name a big U.S. steelmaker and chances are it will be one that has both complained vociferously about imports—and bought foreign steel itself. That includes Bethlehem Steel Corp., whose chairman has been the point man in the anti-import campaign. Bethlehem bought steel from five countries last year, including Russia. In all, American steelmakers, by some estimates, buy about 25% of the steel coming into the U.S.

Doesn't this seem a trifle hypocritical? Not at all, say the U.S. steelmakers. "Some will say, 'Gosh, it's wrong of you to be complaining about imports when you import so much yourself,'" says Bethlehem's chairman, Curtis Barnette. "That view really misunderstands the marketplace and the issues."

The steel industry says it doesn't have a problem with steel imports per se. Year in and year out, U.S. steelmakers have a built-in need to buy certain kinds of imported steel. The problem, they say, arises only with particular types, from particular countries, that under international-trade rules are being unfairly "dumped" here.

"There's a big difference between imports and illegal imports," says Weirton's chief executive, Mr. Riederer.

Slab Dumped

Steel producers' need to import steel traces back to the 1980s, when they went through a wrenching downsizing that cut hundreds of thousands of jobs. As U.S. makers struggled to pare costs, they realized they could close down the basic steelmaking furnaces at the front of their production lines, which produce slabs (but not much profit). They often retained the rolling mills at the back, which take slabs and turn them into higher-priced finished products: hot-rolled, cold-rolled or galvanized steel.

The result is that today the U.S. steelmakers have more capacity to make finished steel than to make the basic slab steel. When they need more slabs to feed into the finishing mills, they generally get them from abroad. Imports of slab steel jumped to 6.8 million tons last year from 155,343 in 1989.

There's no question the American steel industry suffered in the past year, as imports soared and prices plunged. Amid the turmoil in Asia, some nations with shattered economies and devalued currencies poured out low-priced steel. Several U.S. producers idled mills and laid off workers, and three filed for bankruptcy-court protection. The culprit, according to them and the unions, is obvious: imports.

Foreign steelmakers point to other factors, such as the strike at big steel-user General Motors Corp. last summer and the generally weak conditions of the small companies hurt the most. But few deny that imports played a role. Steel imports jumped by a third last year, to 41.6 million tons, according to the American Iron and Steel Institute.

Trade Complaint

The bill the House passed would limit U.S. imports to pre-1998 levels, something opponents say would violate World Trade Organization rules. In addition to that bill, pushed by organized labor, the industry has filed complaints with the U.S. International Trade Commission and Department of Commerce alleging that hot-rolled steel from Russia, Japan and Brazil is being dumped in the U.S.

The first test of dumping is that the steel is priced unfairly low—either below the selling price in the home country or below the cost of production. But what if the buyer is a U.S. steel company? Is it thus the beneficiary of the same unfair pricing about which it complains? Generally, U.S. steelmakers reply that they won't import steel if they think it has been priced in the U.S. at less than fair value. But their restraint doesn't appear quite universal.

To qualify as dumped, an import also

Please Turn to Page A8, Column 1

The Wall Street Journal
March 22, 1999
(continued)

Steelmakers Dislike Imports but Import Steel Themselves

Continued From First Page

has to injure the domestic industry. But this clearly isn't an easy case to make about products the industry itself is importing. And U.S. steelmakers don't seek dumping duties against slab steel, the kind they import as a feedstock.

Weirton Steel illustrates the forces tugging the industry in different directions. Its mill, nestled on the Ohio/West Virginia border, dates to 1909. Because Weirton shut down some basic steelmaking capacity, the mill today can produce three million tons of slab a year, but has the capacity to make four million tons of finished steel. To narrow the gap, Weirton has bought up to 400,000 tons of slab a year, most of it from abroad, the company says.

Yet slab isn't the only steel it has imported. Weirton's joint-venture trading operation, WeBco International LLC, imported hot-rolled finished steel from Russia and other nations last year. Mr. Riederer says it did so because it had orders it couldn't otherwise fill. The company says WeBco stopped ordering finished steel from Russia in the middle of last year, after the dumping issue heated up.

Was any of that Russian steel it bought priced at less than fair value? "I do not know," Mr. Riederer says. "I would suspect not, but I do not know for sure."

It is "pretty easy to tell" when foreign steel is offered at less than its cost of production, he says. As to the other unfair-pricing test—being sold for less abroad than at home—Mr. Riederer says that "sometimes we check, sometimes we don't. It's hard to monitor that, frankly, without having to do significant research."

A lawyer for the U.S. steel industry says practically all the steel that comes from Russia is priced unfairly here. The lawyer, Alan Wolff, recently told a government hearing that "Russian steel cannot be sold fairly in the U.S. market. . . . It can only be dumped."

One American steelmaker acknowledges buying some imported steel priced below fair value. Nucor Corp. of Charlotte, N.C., bought 6,000 tons of Korean cold-rolled steel for one of its divisions last year. "It was dumped," says Nucor CEO John Correnti. "It was sold here below their cost of production." He says Nucor bought the dumped steel as a "trial" to see if the Korean company would actually deliver. Nucor would be unlikely to buy other steel that was clearly dumped, Mr. Correnti says, adding that to do so would be "two-faced."

It isn't possible to get a full accounting of how much foreign steel U.S. producers buy. While some U.S. Customs Department shipping records list the importer of record, many are incomplete. In addition, many steelmakers get imports through trading companies, and those companies are the ones listed on public documents. But an analysis of shipping records shows that plenty of U.S. steelmakers have dipped into the import pool. The customs records of more than 35,000 1998 shipments were compiled by a trade-data division of the Journal of Commerce and provided to The Wall Street Journal, which analyzed them.

They show California Steel Industries of Fontana, Calif., which joined the trade complaints against Brazil, imported more than a million tons of slab steel last year, much of it from Brazil. The company hadn't any comment.

LTV Corp. in Cleveland helped lead the fight against Japanese hot-rolled steel but also used another kind of finished Japanese steel, cold-rolled. LTV explains that it came from Sumitomo Metal Industries Ltd., LTV's joint-venture partner, and went to the joint-venture mill in the U.S.

All seven of the biggest U.S. steelmakers imported either slab or finished steel in 1998, according to shipping records or company officials.

USX Corp.'s U.S. Steel Group, for instance, says it imported slab when one of its blast furnaces went down last year. And its joint-venture mill in Pittsburg, Calif., USS-Posco Industries, has long been a major importer of finished steel, normally from venture partner Pohang Iron & Steel Co. of South Korea. When Pohang couldn't meet all the mill's needs, the California mill turned to Japan's Kobe Steel Ltd. for about 130,000 tons, according to Kobe and USS-Posco officials. USS-Posco says it "paid Kobe a very good price. . . . We certainly didn't get an economic windfall."

Plenty of other U.S. steelmakers looked to Japanese suppliers. The Japanese industry's trade group says that, in the first eight months of 1998, U.S. mills bought 200,000 tons of slab, which isn't part of the current trade complaint, and 300,000 tons of hot-rolled steel, which is.

Last August, just as the industry was about to file its complaint against Russian finished steel, 21,856 tons of Russian slab steel arrived in Philadelphia bound for Bethlehem. A smaller shipment arrived in New Orleans six weeks later. For the full year, Bethlehem imported at least 416,000 tons of steel, according to shipping records. Bethlehem's Mr. Barnette, while saying he didn't have pricing information on the Russian shipments, says the company tries not to buy any product dumped on the U.S. market.

Despite its own use of imports, the U.S. steel industry began preparing for its current trade battles more than two years ago. Lawyers in Washington closely watched import numbers, and they pounced as soon as the industry hit the skids last summer, filing the dumping complaints. Later, prodded by Weirton and unions, the House passed the bill to limit steel imports. With uncertain Senate prospects and White House opposition, chances it will ever make it into law are considered slim.

One steel trader scoffs at the notion that U.S. steelmakers would pay the fair-value price of steel they import if others are paying a price below fair value. "If they are willing to pay that higher price, tell them we've got a lot of steel we'd like to sell them," says Nicholas Tolerico, executive vice president of Thyssen Inc., a steel-trading division of Germany's Thyssen Krupp AG. Without citing any particular U.S. company, he says, "They pay the same price as everybody else."

128

The Wall Street Journal
March 16, 1999

Review & Outlook They're Baaaack!

It's Halloween in March, politically speaking. The same protectionist odd-fellows coalition that tried to kill Nafta and GATT is back in the Beltway this week urging Congress to start a trade war over steel.

There's Pat Buchanan, the CNN host who is making steel quotas the centerpiece of his third run for the White House. Pat's moved so far right he's now left. He's joined by the AFL-CIO and its Congressional spokesmen, Democrat Pete Visclosky of Indiana and Republican Jack Quinn of New York. Their proposal, to be voted on Wednesday in the House, would cap steel imports at 1997 levels, which would merely be the most radical American protectionist act since Smoot-Hawley.

Normally we'd count on a President to veto something so contrary to American interests, but with Bill Clinton you never know which campaign contribution came in last. So it'd help if enough House Members mustered the courage to defeat this prosperity killer before it gets to his vacillating desk.

All the more so because there really is no U.S. steel "crisis." The decline in steel shipments in the last half of last year can be traced in part to the General Motors strike. GM buys about 99% of its steel needs from U.S. producers, so last year's 54-day labor walkout took a bite out of domestic demand. In other words, the auto unions that struck GM ended up sticking it to the steelworkers who lost their jobs as a result. So much for labor solidarity. Maybe the steel unions should petition AFL-CIO chief John Sweeney.

Instead American steel unions and management are using this as an excuse to ram their own protectionist wish-list through Congress. They ignore the fact that U.S. steel production last year of 102 million tons was only slightly below 1997's record of 105 tons, or that for much of 1998 there was actually a steel shortage in the U.S. Steel-industry employment is falling, as it has at least since the early 1980s, but that's due more to productivity gains than to imports. New steel minimills and capital investment mean it takes fewer workers to produce more steel.

As for imports, U.S. trade laws have already kicked in against steel "dumping," an economically dubious concept in any event. In case that's not enough, the Clinton Administration has jawboned Russia and other countries to "voluntarily" reduce their steel shipments. So let's see: Russia, a country in recession but struggling to stay free, is instructed by its new "friend," America, that capitalism works everywhere except in trade with Americans.

But what about America's own steel consumers? Even at record production levels, U.S. makers can meet only about three-fourths of American steel demand. Import restraints mean that American steel users will pay higher prices than their foreign competitors, hurting their sales. So for every steel job saved by quotas there may well be many jobs lost at Deere or Caterpillar or somewhere else. Could it be that the steel unions are just trying to pay back the autoworkers for sticking it to them by striking GM?

Mr. Buchanan kicked off his latest campaign by visiting Weirton Steel in West Virginia. And Weirton has been losing money. But he and Weirton won't tell us about Nucor, a minimill pioneer, which made $264 million last year; or USX, which rolled up $364 million in profit, or even Bethlehem Steel, which earned $120 million. Our populist protectionists turn out to be advocates of more corporate welfare.

What's politically scary about this steel bill is that it's made so much progress despite these good economic times. The Visclosky-Quinn quota bill has more than 200 House co-sponsors.

Many Members probably consider this a free vote, figuring Mr. Clinton will veto. But America's trading partners will understand the signal Congress is sending on trade, and rest assured they will retaliate in some way against some American exports to their countries.

This is the kind of trend a normal President would want to fight, maybe even spending political capital to do it. But Bill Clinton always takes the path of least resistance. We'd also expect leadership from Vice President Gore, but he has to worry about offending his new Campaign 2000 pursestandsecrer Dick Gephardt. The White House's steel silence fits its surrender on fast-track trade negotiating authority over the past two years. We'd better hope the grownups in Congress prevail this week.

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BANKING, HOUSING, AND URBAN AFFAIRS
ENERGY AND NATURAL RESOURCES
SPECIAL COMMITTEE ON AGING

United States Senate

WASHINGTON, DC 20510-1404

STATEMENT OF SENATOR EVAN BAYH
SUBMITTED FOR THE RECORD

SENATE FINANCE COMMITTEE HEARING ON STEEL IMPORTS
MARCH 23, 1999

Mr. Chairman, this hearing today should not be necessary.

The legislation I cosponsored with Senator Rockefeller should not be necessary.

It shouldn't *be* necessary, but both events *are* happening because of one simple fact: The Administration has failed to enforce our trade laws.

Cheap foreign steel being illegally dumped into the U.S. market is threatening thousands of jobs and undermining one of the most productive and efficient sectors of our economy. The results of this unfair trade have been devastating. Ten thousand jobs have already been lost. Two companies have gone bankrupt, and several are facing significant losses that could result in further job cuts.

I am particularly concerned about the impact this crisis is having on Hoosier families. Indiana is the number one steel-producing state, accounting for nearly one quarter of all raw steel produced in this country. Nearly 30,000 Hoosiers are employed by the steel industry. It is by no means easy work, but the people of my home state are not afraid to work hard. What they are afraid of now, is that they will lose their jobs.

How do we explain to these hard working men and women the Administration's reluctance to stand up for free *and* fair trade?

I believe in open markets and free trade. Free and fair trade can be a tremendous engine for economic growth and opportunity. But free trade only works when all parties play by the rules. When foreign competitors feel free to subsidize their products and dump them into our market, we should do what is right: enforce the laws designed to protect free trade. Without enforcement of our trade laws the whole trade system breaks down.

Countries that dump steel into our borders need to be on notice that the United States will stand up for steel and fair trade. I call on the Administration again to stand up for American jobs, enforce our trade laws, and put a stop to this this illegal dumping.

Written Testimony
Submitted by Mr. Daniel T. Griswold
Associate Director, Center for Trade Policy Studies
Cato Institute

"The Steel 'Crisis': The Rest of the Story"

Hearing on Trade Legislation Relating to Steel Imports
Senate Finance Committee
March 23, 1999

"The domestic steel industry has been flooded by imported products pouring in from Asia, Russia and Latin America, swamping more efficient American producers and drowning thousands of jobs. This tsunami threatens to wash away a strategic industry that has been a keystone of our manufacturing sector for generations." *Rep. Phil English, R-Pa.*[1]

"Please do not wait too long to act or there will be no steelworkers and no steel industry to stand up for." *George Becker, International President, United Steelworkers of America.*[2]

"We are fighting for the survival of the entire domestic steel industry." *Mark Glyptis, President, Independent Steelworkers Union.*[3]

The above statements are typical of the apocalyptic rhetoric that dominates the current debate over steel imports. Claims of the imminent demise of a major American industry—at the hands of "unfair," "illegal," and "predatory" imports—have generated a crisis atmosphere in Washington. Already, antidumping and countervailing duty actions against hot-rolled steel from Brazil, Japan and Russia threaten draconian cutbacks of imports from those countries, if not their total exclusion from the U.S. market. But U.S.

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[1] Statement of Rep. Phil English (R-Pa.) before the House Ways and Means Subcommittee on Trade, February 25, 1999, p. 1.
[2] Testimony of George Becker, International President, United Steelworkers of America, before the House Ways and Means Subcommittee on Trade, February 25, 1999, p. 9.
[3] Testimony of Mark Glyptis, President, Independent Steelworkers Union, before the House Ways and Means Subcommittee on Trade, February 25, 1999, p. 6.

steel mills and their unions remain unsatisfied. They are now lobbying Congress for additional protection, including highly restrictive quotas against a broad range of steel imports.

It is vitally important that policymakers resist the crisis atmosphere and instead gain a cool and measured understanding of the full facts of the steel import question. In particular, the following facts are jarringly inconsistent with both the descriptions and prescriptions advanced by the steel lobby:

- U.S. steel mills shipped 102 million tons in 1998, the second highest annual total ever. Domestic steel shipments in 1998 were up 20 percent from 1989, the last cyclical peak, and up 66 percent from the 1982 recession.
- American steel mills actually increased their share of global production in 1998, from 12.3 percent to 12.6 percent. U.S. steel makers still supply more than two-thirds of domestic steel consumption.
- Eleven of the 13 largest steel mills were profitable in 1998, and 9 of 13 were profitable even during the fourth quarter of 1998, the supposed depths of the "crisis."
- Steel imports in January fell to 2,669,000 tons, below the monthly average of 2,729,000 tons imported during the last "pre-crisis" quarter of April-June 1997.
- U.S. steel mills themselves accounted for about 20 percent of 1998 steel imports.
- Steel protectionism is incapable of saving steel jobs. Employment in the steel sector has declined by more than 60 percent since 1980 largely because of rising productivity, and employment will continue to fall even if trade barriers are imposed. From 1984 to 1992, the last time the United States imposed import quotas, employment in the steel industry fell by 78,300.
- While the steel industry has reduced its workforce by 10,000 in the last year, the rest of the American economy has created 2.5 million net new jobs. So for every steel job eliminated, 250 net new jobs are being created in other sectors of the economy.
- Workers in the major steel-using sectors—transportation equipment, industrial machinery, fabricated metal products, and construction—outnumber workers in the steel industry 40-1.
- Quantitative restrictions on steel imports during the 1980s cost the U.S. economy up to an estimated $6.8 billion a year.
- Quotas are a direct violation of our international obligations under the World Trade Organization. Such violations by the United States would encourage copycat protectionism in countries suffering much greater economic problems than we face. An outbreak of protectionism around the world would directly threaten continued U.S. prosperity.

This briefing paper represents an attempt to set the record straight—to provide a reasoned analysis of actual conditions in the U.S. steel market and current proposals to address those conditions. The conclusion of this analysis is that the U.S. government has already gone too far in favoring U.S. steel mills with unfair protection from imports. Further favoritism for the steel industry is completely unwarranted.

Steel "Crisis"—What Crisis?

Imports of steel-mill products rose sharply in 1998, reaching a record 41.5 million tons and up 33 percent compared to the previous year.[4] Prices of steel products fell, especially for commodity products in sensitive spot markets; the spot-market price for hot-rolled steel fell by 30 percent. In the face of falling prices, earnings of U.S. steel mills deteriorated sharply, and some smaller mills, including Geneva Steel in Utah, recently filed for bankruptcy. Employment in the steel sector fell in 1998 compared to 1997.

As these facts demonstrate, American steel mills have certainly faced adverse market conditions in recent months. Nevertheless, claims of a "crisis" that threatens the viability of the industry are wildly overblown. An examination of the broader historical record shows that overall industry performance in 1998 was negative only by comparison to a string of banner years immediately preceding. Look at the total U.S. steel production figures in Figure 1. Domestic steel mill shipments in 1998 were 20 percent higher than in 1989, at the peak of the last expansion, and a whopping 66 percent higher than the trough during the 1982 recession. While domestic shipments dropped slightly in 1998 compared to the record-setting 1997, they were still at their second-highest level ever.[5] This is hardly the picture of an industry on death's door.

Not only is the U.S. steel industry strong by the standard of its own past performance, it is strong compared to other industries around the world. The impression given by the steel lobby is that American mills are being displaced by relentlessly expanding foreign production. In fact, many steel industries around the world are suffering far worse at present than our own. The Japanese steel industry, for example, sank to its lowest production levels in 30 years last year.[6] With world steel output falling, U.S. producers actually *increased* their share of world steel output last year, from 12.3 percent in 1997 to 12.6 percent.[7]

Although earnings fell from the previous year, most domestic steel companies continued to operate profitably in 1998. Of the 13 domestic steel makers with annual sales of more than $1 billion, 11 posted operating profits in fiscal 1998. Even in the fourth quarter of 1998, in the depth of the supposed crisis, 9 of the 13—including antidumping petitioner USX Steel Group—posted net profits. Major American steel producers enjoyed combined profits of more than $1 billion in 1998.

The steel companies and their unions point again and again to the 10,000 jobs lost in the past year as proof that emergency action is needed.[8] First, although statistics do show a decline in steel-sector employment of roughly 10,000 workers in the last year, there is no evidence as to how much of this total is due to normal attrition (i.e., retirements not offset by new hires) rather than layoffs, or the percentage of layoffs due

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[4] American Iron and Steel Institute, Press Release, "1998 Steel Imports of 41.5 Million Tons Highest Ever," February 19, 1999, http://www.steel.org/news/index.html.

[5] AISI, Press Release, "December U.S. Steel Shipments down 14.9 Percent," February 8, 1999, http://www.steel.org/news/pr/1999/pr990208.htm. The 1989 production figure is from AISI, 1997 Annual Statistical Report (Washington: AISI, 1998), Table 10, p. 27.

[6] Alexandra Harney, "Troubles grow for Japanese steel executives," Financial Times, November 20, 1998, p.5.

[7] "Economic Indicators," The Economist, February 6, 1999, p. 108.

[8] According to the Bureau of Labor Statistics, the number of workers employed in the blast furnace and basic steel product sector fell from 236,000 in January 1998 to 226,100 in January 1999. See BLS, http://stats.bls.gov/webapps/legacy/cesbtab1.htm.

to rising imports rather than other factors. Furthermore, as discussed below, declining employment has been the norm in the steel industry for the past two decades. A continuation of this secular trend is hardly evidence of a crisis. And finally, the figure of 10,000 job losses, even if taken at face value, is hardly alarming when compared to the 2.5 million net new jobs created in the whole U.S. economy in 1998.[9] Total jobs eliminated in the steel industry over the course of the past year come to little more than a single business day's worth of net job creation in other sectors of the economy.

Meanwhile, the 1998 import surge shows every sign of being a passing phenomenon. According to Commerce Department figures, imports of steel mill products peaked in the fall of 1998 and have been declining sharply since November. Normal marketplace reactions to falling prices and rising inventories, compounded by the threat of retroactive antidumping duties, caused steel imports to plunge in December by 29 percent compared to the previous month and another 7 percent in January. Hot-rolled steel imports from Japan, Brazil and Russia—the products targeted by the antidumping petitions—have virtually halted, falling in January to only 4 percent of their November 1998 levels.[10] Total steel imports in January 1999 fell to 2,669,000 tons, less than the monthly average of 2,729,000 tons imported during the last "pre-crisis" quarter in April-June 1997.[11] (See Figure 2.)

Another factor contributing to the steel industry's difficulties during 1998 has also been resolved. The General Motors labor dispute in June 1998 sharply cut domestic demand for steel in the second quarter. The sudden fall in demand left domestic steel mills with significant overcapacity and rising inventories, driving down prices further. This temporary disruption of the steel market ended with the resolution of the GM strike in the summer.

Despite recent problems, prospects for the U.S. steel industry look positive. Domestic demand is expected to remain strong, especially in the automotive sector, and exports could pick up in 1999 as demand in East Asia begins to recover. After bottoming out in the fourth quarter of 1998, steel prices are expected to rise in 1999; indeed numerous U.S. mills have announced price hikes in the past few weeks even as they lobby for more protection.

American steel makers admittedly have experienced a tough couple of quarters. These challenging times, though, do not constitute a "crisis." They do not threaten the future of the industry. And they certainly do not justify resort to ill-conceived protectionist policies that would injure downstream U.S. industries and flout our international obligations.

Steel's Problems in Perspective

The steel industry's problems must be understood in the light of past performance and present conditions in foreign steel sectors. To put the steel "crisis" in its full context, though, it is necessary to look at developments outside the industry. This broader

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[9] According to the BLS, 133.4 million Americans were employed in the civilian economy in January 1999 compared to 130.9 million employed in January 1998. See Joint Economic Committee of Congress, *Economic Indicators*, January 1999, p. 11.

[10] U.S. Commerce Department, "Steel Imports Continue to Fall," Press Release, February 25, 1999, http://www.ita.doc.gov/media/225stlpr.htm.

[11] AISI, Press Release, "Preliminary January 1999 Steel Imports at Nearly 2.7 Million Net Tons," February 25, 1999, http://www.steel.org/news/index.html.

perspective reveals that the steel industry's recent troubles are by no means unique; they are the result of deeper underlying factors whose effects extend far beyond the steel industry.

Specifically, the primary cause of rising steel imports and falling prices during 1998 was the Asian economic crisis that began the previous year. That sudden, dramatic, and utterly unexpected reversal of economic fortunes resulted in (1) a collapse in demand for steel in that region and (2) a realignment of currency values that makes foreign steel much more price-competitive in the United States. In light of those circumstances, it is only natural that prices fell and that the still vibrant U.S. market pulled in extra imports.

Many other U.S. industries have been hit by the recent turbulence in the world economy. Exporters, in particular, have experienced slumping sales because of distress in foreign markets. U.S. exports of all commodities were down 1.3 percent for 1998, after increasing 10.5 percent in 1997. Exports of refined fuels (Schedule B Chapter 27 of the Harmonized Tariff Schedule of the United States) fell 19.2 percent last year; exports of grains, oils, and other agricultural products (Schedule B Chapter 12) dropped 28.6 percent; and exports of wood and articles of wood (Schedule B Chapter 44) declined by 18.5 percent.

Meanwhile, many import-competing industries have faced stiffer competition at home because of currency shifts and falling demand in other markets. While U.S. imports of iron and steel (HTS Chapter 72) increased 19.0 percent in 1998, that import surge was not unique. Imports of aerospace products (HTS Chapter 88) jumped by 34.5 percent; pharmaceutical imports (HTS Chapter 30) rose by 31.8 percent; imports of vegetables (HTS Chapter 7) increased by 23.0 percent; and imports of railway products (HTS Chapter 86) shot up by 57.1 percent.[12]

The steel industry is by no means alone in feeling the effects of worldwide economic volatility. Nevertheless, the steel lobby has portrayed this single industry as uniquely victimized and deserving of assistance. There is no reason why the steel industry should receive special treatment at the expense of its customers and American consumers, just because it is experiencing temporarily unfavorable conditions that affect many other industries as well.

Steel Jobs: The Real Story

The steel lobby contends that protectionist barriers against steel imports are needed to save jobs in the industry. But the evidence shows that import restrictions cannot stop steel jobs from disappearing.

Steel protectionism has been the rule rather than the exception over the past 30 years. Quotas were first imposed in 1969, followed by the Carter administration's "trigger price" mechanism in the late 1970s that imposed a price floor for steel imports. In 1984, after the steel industry filed a series of antidumping and countervailing duty (CVD) petitions, the Reagan administration negotiated "voluntary restraint agreements" with virtually all steel exporters. After those VRAs were finally allowed to lapse in March 1992, the steel industry responded with another wave of antidumping and CVD suits against imported steel. Today about a third of all outstanding antidumping and

[12] Data on export and import trends derived from analysis of trade analyst Daniel J. Ikenson of the Library of International Trade Resources. Supporting export and import data are available online at http://www.litr.com.

countervailing duty orders in force—100 cases in all—are directed at steel products.[13] The latest round of protection—with preliminary antidumping rates ranging from 25 to 71 percent, and a suspension agreement with Russia—threatens to continue the war against steel import competition.

Yet despite this record of ongoing protectionism, the domestic steel industry has shed more than 60 percent of its workforce since 1980.[14] How can this be? It turns out that the main threat to American steel jobs isn't imports, but rather rising productivity in the domestic industry. In 1980, a ton of domestically produced steel required 10 man-hours to produce; today the industry average is less than 4 man-hours.[15] With productivity rising faster than domestic demand, the industry has required fewer workers. The resulting decline in employment has been relentless, with the number of employed steelworkers falling in 16 of the last 18 years.[16]

Figure 3 tells the story. Employment has moved steadily downward in sync with the falling man-hours per ton figures. Falling employment has occurred at a time when industry shipments have recovered from their lows of the early 1980s to reach record levels. The drop in steel industry employment has not been caused by falling production but by rising productivity.

During this same period, employment levels have borne no relationship whatsoever to variations in import penetration. Under a previous system of "voluntary" quotas imposed on foreign steel producers, imports as a percent of new supply (shipments plus imports) fell from a peak of 26.2 percent in 1984 to 17.2 percent in 1992. (See Figure 4.) Yet during that same period, employment in the steel industry fell by 78,300—an average decline of almost 10,000 steelworkers a year.[17] (Doesn't that figure sound familiar?)

Foreign competition has helped to spur the progress in productivity, but the most ferocious competition has come from within our borders, from so-called mini-mills. The more efficient of these smaller mills can produce a ton of steel in under two man hours, and are relentlessly expanding the scope of products they can make. In 1981, mini-mills accounted for 15 percent of U.S. steel production; today they account for nearly half of the steel-making capacity in the United States.[18] With or without protection, the industry will continue to economize and shed workers, with production shifting from the larger integrated mills to the smaller, more flexible and efficient mini-mills.

The facts thus show that steel protectionism is an exercise in futility. It cannot save steel jobs from rising productivity. All it can do is injure the rest of the U.S. economy.

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[13] See the Clinton administration's *Report to Congress on a Comprehensive Plan for Responding to the Increase in Steel Imports*, reprinted in *Inside U.S. Trade*, January 8, 1999, p. 20.
[14] BLS, National Current Employment Statistics, Table B-1, http://stats.bls.gov/webapps/legacy/cesbtab1.htm.
[15] AISI, "The New Steel Industry," http://www.steel.org/facts/newindus.htm.
[16] BLS, Table B-1.
[17] For the import and shipment data for the U.S. steel industry, see AISI, *1997 Annual Statistical Report*, 1998, and previous years' annual reports. For the employment data, see the BLS, National Current Employment Statistics, Table B-1, http://stats.bls.gov/webapps/legacy/cesbtab1.htm.
[18] See the homepage for the Steel Manufacturers Association, a trade group representing 60 mini-mill steel producers, http://www.steelnet.org.

Costs of Protection

Raising barriers against steel imports imposes a real cost on the American economy. Millions of American workers and tens of millions of American consumers will be made worse off so that the domestic steel industry can enjoy temporary benefits. Consumers will pay more than they would otherwise for products made from steel, such as household appliances, trucks, and cars. Artificially propping up the domestic cost of steel will only raise the cost of final products to U.S. consumers. If protectionist measures succeed in raising the average price of steel mill products by $50 a ton, Americans will pay the equivalent of a $6 billion tax on the more than 120 million tons of steel they consume each year.

Steel protection will impose a heavy cost on the huge segment of American industry that consumes steel as a major input to its production process. The major steel-using manufacturing sectors—transportation equipment, fabricated metal products, and industrial machinery and equipment—employ a total of 3.5 million production workers. Production workers in manufacturing industries that use steel as a major input outnumber steelworkers by 20 to 1.[19]

A prime example is General Motors Corp., which buys 4.7 million tons of steel directly each year and another 2.5 million tons indirectly through independent suppliers. GM buys most of its steel through long-term contracts, and is thus insulated from short-term price fluctuations, but any price increase caused by protection will eventually filter through when contracts are renegotiated. In a brief filed with the International Trade Commission in October 1998, GM warned that antidumping duties against steel imports could negatively affect its ability to compete in global markets. GM's domestic operations "become less competitive in the international marketplace to the extent those operations are subjected to costs not incurred by offshore competition, and to the extent that U.S. import barriers impede access to new products and materials being developed offshore, or remove the competitive incentives to develop new products in the United States."[20]

One of the largest direct consumers of steel is the construction industry, which accounts for about 35 percent of domestic steel consumption. Duties and tariffs against imported steel will result in higher prices for homes and commercial office space. The jobs of thousands of construction workers could be put in jeopardy. When construction and other non-manufacturing industries are included, the 8 million employees in steel-using industries dwarf the less than 200,000 steelworkers by a ratio of more than 40 to 1.[21]

Especially vulnerable to rising import prices are workers in smaller companies that manufacture metal products. These firms typically buy on the spot market rather than on long-term contracts, and are the first to feel the pinch of higher steel prices. Many of them also act as suppliers to larger corporations, and are thus less able to pass along a

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[19] U.S. Bureau of the Census, *Statistical Abstract of the United States, 1998*, (Lanham, Md.: Bernan Press, 1998), Table no. 1233, p. 742-43.
[20] Brief filed with International Trade Commission, Re: Certain Hot-Rolled Carbon Steel Flat Products from Brazil, Japan and the Russian Federation, Investigation No. 701-TA-384P and No. 731-TA-806-808P, October 26, 1998.

[21] BLS, National Current Employment Statistics, Table B-1, http://stats.bls.gov/webapps/legacy/cesbtab1.htm.

hike in steel costs in the form of higher prices for their final products. The result of higher domestic steel prices to these companies will be lower sales, declining profits, and fewer jobs created.

One such sector is the metalforming industry, which turns sheet metal into intermediate and final products such as precision parts. Jon E. Jenson, president of the Precision Metalforming Association, testified before Congress on February 25, 1999, that steel protection is damaging to the 1,600 companies that belong to PMA and to their 380,000 employees (which makes the PMA alone about twice as big as the steel making industry in terms of workers employed). "Steel is an essential raw material in our products," Jenson testified. "It represents from 40 to 70 percent of the cost of manufacturing our products. So steel prices are critical. They are all the more critical because our members compete globally with businesses abroad. If our members have to pay more for steel than our foreign competition, our members will lose orders and be forced to cut back or cease production."[22]

This unintended consequence of steel protection was confirmed by another witness for downstream users, H. O. Woltz III, president and CEO of Insteel Industries and vice president of the American Wire Producers Association. Woltz told Congress at the same hearing that AWPA members were facing the same import pressures as the steel mill industry, and that steel protection would raise the cost of a major input at a time its members can least afford it. "Restricting the availability of raw materials to companies like Insteel through protectionist legislation will result in reduced competitiveness of our products and job losses in our industry," he said. "Those jobs will be lost to producers of wire rod products in foreign countries that have access to world-market steel."[23]

If the steel industry succeeds is gaining protection from imported steel, an even larger gap will open between domestic and international prices for steel mill products. This will give an advantage to foreign firms competing against American steel-using industries. Faced with artificially high steel prices at home, Americans will simply buy their steel indirectly by importing more finished products made abroad from steel available at cheaper global prices. If the federal government blocks the import of steel mill products through the front door, steel will come in the back door in the form of automobiles, industrial equipment, machine tools, and other steel-based products. As Jon Jenson said in his congressional testimony, "The United States cannot afford to become an island of high steel prices."[24]

The steel industry itself has been a major importer of semifinished steel products. In 1998, more than 6 million tons of steel slabs, billets, and blooms were imported for use almost exclusively by steel mills.[25] When combined with wire rod and other semifinished products, imports by the steel industry reach 20 percent of overall steel imports. In November 1998, the International Trade Commission heard testimony that several of the major steel mills that have petitioned against steel imports were themselves placing

[22] Jon E. Jenson, "Steel Availability: A Growing Concern," Precision Metalforming Association, February 12, 1999. Available at http://www.metalforming.com/govtreg/jejcato.htm.
[23] H. O. Woltz III, testimony before the United States House of Representatives Ways and Means Subcommittee on Trade, February 25, 1999.
[24] Jenson.
[25] David J. Cantor and Gwenell L. Bass, "The Steel Import Surge: Causes and Proposed Remedies," Congressional Research Service, February 24, 1999, p.13-14.

orders to import large amounts of the very same products as recently as August 1998.[26] Through the eyes of the big U.S. steel mills, apparently, these are good steel imports, while steel products that compete directly with what they produce are bad imports.

Aside from its direct negative impact on the domestic economy, steel protectionism will reverberate internationally to our detriment. Many steel-exporting countries are presently reeling from serious economic problems. U.S. protectionism will only worsen their plight and darken the prospects for recovery. At the same time, it will send a very dangerous signal to foreign governments contending with their own protectionist pressures.

Although the United States has been relatively insulated thus far, much of the rest of the world has been buffeted by a series of economic shocks over the past couple of years. With Japan's prolonged malaise, the acute crises elsewhere in Asia, the collapse of Russia, and the recent currency crash in Brazil, the world economy has stumbled into a highly precarious condition. During these turbulent and difficult times, the best thing America can do to encourage growth and stability abroad is to keep our markets open. Instead, at the behest of the steel lobby, the U.S. government is poised to deliver further body blows to ailing countries by restricting their steel industries' access to the American market.

Meanwhile, consider the message that steel protectionism sends to the rest of the world. Many countries today are suffering violent economic contractions; as a result, their governments are facing formidable pressure to abandon market-oriented policies and erect protectionist barriers of their own. If the United States—the largest and richest country on Earth, with 4.4 percent unemployment, low inflation, and 4 percent growth in 1998—is unable to say no to an industry with only about 200,000 workers in a civilian labor force of 138 million, how can we expect other countries to hold the line? A U.S. surrender to special-interest pressure from the steel lobby would be a virtual green light for copycat protectionism around the world. Steel protectionism thus threatens to unleash destructive forces in the world economy that could easily bring an end to the prosperity Americans currently enjoy.[27]

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[26] Scott Robertson, "Mills said to get dumped steel," American Metal Market, November 17, 1998, p. 1.

[27] One recent study suggested that antidumping duties on steel imports will enhance overall U.S. economic welfare. Specifically, the Economic Strategy Institute published a study in February 1999 (Greg Mastel and Andrew Szamosszegi, "Leveling the Playing Field: Antidumping and the U.S. Steel Industry," ESI, February 8, 1999) which purports to show that steel dumping, however that term might be defined, reduces U.S. economic well-being, and that antidumping duties are needed to prevent this harm. ESI's findings rest ultimately on the fact that wages in the steel industry are higher than average and that displaced steel workers frequently are forced to accept lower paying jobs. Thus, according to the ESI study, net U.S. welfare is reduced by dumping that causes job losses in the steel sector; antidumping is good for us because it prevents those job losses.

First, this argument gets causation backwards: it assumes that high-paying jobs are the cause of economic welfare, rather than the consequence of it. If applied across the board, the ESI analysis would mean that public policy generally should protect our high standard of living by discouraging or even outlawing layoffs from high-paying jobs. This is basically the European approach, and its effects are all too visible in low growth and chronic double-digit unemployment. Second, and more narrowly, the ESI analysis assumes that job losses in the steel sector wouldn't occur in the absence of low-priced import competition—an assumption refuted by the industry's steadily declining employment over the past 20 years. Third, the study fails to adequately account for the offsetting production and employment gains that the lower prices would stimulate in the far larger steel-using sectors.

America's Unfair "Unfair Trade" Laws

Despite complaints from the big steel mills that Congress and the administration are not doing enough, the system is already stacked in favor of domestic steel producers. U.S. antidumping law has become nothing more than a protectionist weapon for industries feeling the heat of global price competition.

U.S. antidumping law allows domestic producers to petition against imports that are being sold in the U.S. market at below "fair value." Fair value is defined as the price in the home market or the cost of production plus profit.

The problem with this definition is that it has no meaning in the real world of business and trade. As a consequence, U.S. antidumping law punishes foreign producers for engaging in practices that are perfectly legal, and common, in the domestic American market. U.S. firms, including steel makers, routinely sell the same product at different prices in different markets depending on local conditions, or temporarily sell at a loss (or a lower than "normal" profit) in order to liquidate inventories and cover fixed costs. Any steel company that lost money in the fourth quarter of 1998 was selling its goods at below total average cost and was consequently "dumping" its products on the domestic market according to the definition contained in U.S. law. If every domestic sale was required to be at a "fair" price according to the antidumping law's definition, most American companies would be vulnerable to government sanction, and U.S. consumers would find far fewer bargains.

The steel lobby argues that it isn't seeking special treatment; it merely wants redress for alleged unfair trade practices abroad. But it is clear that unfair trade practices, under any plausible definition, had nothing to do with the recent hard times for the U.S. industry. It is regrettably true that protectionism and subsidies distort steel markets around the world. But nobody can argue seriously that policies around the world are any more unfair today than they were a couple of years ago, when U.S. steel mills were booming.

The aim of the latest batch of antidumping petitions has not been "fair" trade but rather no trade at all. The high preliminary duties announced in February make it difficult for the targeted products to be sold at all in the U.S. market. Secretary of Commerce William Daley, in announcing the preliminary dumping margins on February 12, said, "The impact, what this will do, by virtue of the fact that you've got such substantial ranges here, is basically price these products out of the U.S. market."[28] Richard Riederer, chief executive office of Weirton Steel Corp., one of the petitioners in the case, agreed that the initial duties would be high enough to "lock out" hot-rolled steel imports from Japan and Brazil.

It is a misnomer to say that steel is being "dumped" on the U.S. market. Virtually every ton of steel that enters the United States has been ordered by a willing American buyer, often months in advance of its actual delivery. Antidumping duties not only stop foreign producers from selling in the U.S. market; they stop American citizens from

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Even if one accepts the study's methodology, the hypothetical gains from imposing antidumping duties against foreign steel are tiny—less than .005 percent of annual GDP—and not worth the far more real danger that the law will be used for protection.

[28] Chad Bowman, "Commerce Sets Preliminary Margins in Steel Cases against Brazil and Japan," BNA *International Trade Reporter*, February 17, 1999, p. 258.

buying the type and amount of steel they need at prices that benefit them most as shareholders, workers and consumers.

Proposed Legislation Would Compound the Damage

The steel industry and labor unions complain that existing antidumping laws aren't enough—that they deserve special attention.[29] The reality is that the steel industry has benefited unfairly from trade barriers for decades, and continues to enjoy advantages that are not available to other U.S. industries facing import competition. The Commerce Department's expediting of the antidumping process in the current case and the administration's proposed tax breaks worth an estimated $300 million for steel companies are merely the latest examples of favored treatment.

Meanwhile, precious little attention is being given to the fact that the array of new protectionist proposals now in the works will seriously threaten the ability of other U.S. manufacturers to obtain imported steel. None of the proposed legislation would increase general economic welfare and much of it would be in violation of U.S. international commitments.

The following is a list of the most egregious legislative proposals that would benefit U.S. steel makers to the disadvantage of virtually everyone else:

1) **Quotas on imported steel.** This proposal would limit steel imports from all nations to 1997 levels on a monthly basis for a period of three years. Although the bill passed by the U.S. House of Representatives in March states that the import limits could be accomplished by "quotas, tariff surcharges, or negotiated enforceable voluntary export restraint agreements, or otherwise," it is in essence a quota bill that would set strict limits on the volume of foreign steel U.S. companies would be allowed to purchase. Whatever the mechanics of imposing the limits, the legislation would be a clear violation of our international obligations under the GATT.

Why does GATT illegality matter? Most compelling is that the United States professes to be an honorable nation that keeps its word and upholds the rule of law. But beyond that, the United States voluntarily accepts international trade rules because they are in our best interest. Such rules restrain protectionism abroad and provide an impartial framework for adjudicating disputes, the benefits of which greatly outweigh any potential short-term costs to a single industry. Unilaterally closing the U.S. steel market through quotas would undermine respect for the rules-based international trading system that Washington worked so hard to establish. If the United States expects other nations to honor their obligations, it must do the same.

Even if the United States had not pledged to forgo them, quotas are unwise because they are one of the most damaging forms of trade restrictions. They redistribute wealth from consumers to domestic producers and to those foreign producers lucky enough to get quota rights, while the U.S. government does not receive tariff revenues. In other words, quotas would tax U.S. steel users to benefit major steel companies, both here and abroad. Moreover, they would endanger the ability of U.S. steel-using industries to obtain the materials they need. According to calculations by the Precision Metalforming

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[29] See, for example, the testimony of George Becker, President of the United Steelworkers of America, before the United States House of Representatives Ways and Means Subcommittee on Trade, February 25, 1999.

Association, for example, the quota levels approved by the House would leave U.S. manufacturers nearly 4 million tons short based on 1998 levels of demand.[30]

2) **Section 201 reform and import monitoring.** This proposal would create a permit and monitoring program that would require all steel importers to register with the Commerce Department and report information on the cost, quantity, source, and ultimate destination of all steel shipments. Legislation approved by the House authorizes Commerce to collect "reasonable fees and charges" to defray the costs of issuing permits. The proposed import-reporting regime, in addition to being an unfair burden that falls only on steel importers, has the potential to choke off beneficial steel trade through paperwork.

More significantly, the legislation approved by the House would amend the Trade Act of 1974 to make an injury finding easier under Section 201. First, it would drop the requirement that imports be a "substantial cause" of serious injury (i.e., "not less than any other cause") and instead require that imports be only a cause of injury, however insignificant. Second, the bill would detail the factors to be considered by the ITC to determine whether U.S. industry has suffered serious injury. By making 201 cases much easier for petitioners to win, this bill threatens to open the floodgates of protectionism in the future. It is clearly a step in the wrong direction.

3) **Retroactive dumping duties.** Another proposal would assess retroactive antidumping duties for a period of up to one year prior to the filing of the original antidumping petition. Such a change is ill-advised for at least two reasons. First, it is in direct violation of U.S. commitments under the GATT, which sets universal standards for the imposition of retroactive antidumping duties. Second, extending the potential for imposing antidumping duties after the fact places U.S. importers and steel-using industries in a risky position that could threaten their access to adequate steel supplies. As H. O. Woltz III of the American Wire Producers Association recently pointed out, "The existing system of retroactive assessment of dumping duties already creates uncertainty and often results in unfairness for American importers and customers."[31] Extending the time period would only make the current problems with retroactive duties worse.

4) **Three-month ban on steel imports.** An alternative quota bill would impose a 3-month ban on imports of steel and steel products from Japan, Russia, South Korea, and Brazil, in disregard for the needs of American consumers and steel-using industries. An outright trade ban—even a brief one—would seriously damage private business relationships and undermine the global competitiveness of dynamic U.S. companies. As written, the bill includes no provision for preserving the sanctity of existing contracts, nor does it specify what would happen to steel shipments already en route to the United States. This bill would deprive the U.S. economy of all the gains from steel trade and

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[30] See "Steel Availability: A Growing Concern," Remarks of Jon E. Jenson, President, Precision Metalforming Association, February 12, 1999. Available at http://www.metalforming.com/govtreg/jejcato.htm.

[31] H. O. Woltz III, testimony before the United States House of Representatives Ways and Means Subcommittee on Trade, February 25, 1999.

offer only temporary benefits to domestic steel companies. It would, in short, be a disaster.

5) **Voluntary Export Restraints.** The Clinton administration is pursuing its own non-legislative approach, generally known as Voluntary Export Restraints, or VERs. That entails trying to jawbone foreign governments—especially Japan—into reducing steel exports "voluntarily." Of course, a VER is in reality an informal quota that is hardly voluntary. Like all quotas, VERs distort the economy and reduce national welfare. In the 1980s, a comprehensive system of VERs against steel imports imposed a net loss on the U.S. economy of as much as $6.8 billion a year.[32]

Steel companies and unions have spent large sums of money in an attempt to convince Congress and the public that they are in dire need of protection from imports. The raft of new protectionist legislation shows that some lawmakers have been listening. All of the current proposals, however, would damage U.S. economic health, undermine the international trading system, and deprive American consumers and steel-users of their legitimate right to trade. Despite that hefty price tag, the legislation would do nothing to halt the long-term downward employment trend in the U.S. steel industry. Given those facts, Congress should reject the pending steel bills.

Conclusion

At the time of the so-called steel "crisis," another major and highly visible American industry—the oil industry—has been suffering as well. Worldwide excess supply has driven prices down to record lows. Major producers posted sharply reduced earnings or outright losses for the fourth quarter of 1998. During the same period in which 10,000 steelworker jobs were eliminated, the American oil and gas extraction industry was shedding 38,000 jobs.[33]

So where is the all-out lobbying campaign urging America to "stand up for oil"? Where are the proposals coming out of the Congressional Oil Caucus for sharp restrictions on imports of foreign crude? The absence of pressure for oil protectionism may reflect the fact that Americans can see the impact of oil prices directly—at the gas pump and in their heating bills. Accordingly, there would likely be a strong popular reaction against any effort to raise taxes in order to bail out the oil companies.

Unfortunately, changes in steel prices are invisible to ordinary Americans. Those changes show up, eventually, in the price of an automobile, or a plane ticket, or rental space in an office building—but the causal connections are complex and subtle. The effect of a tax on foreign steel just doesn't show up in the average family's budget in any direct or immediate way. As a result, steel producers are free to equate their interest with the national interest without generating much in the way of grass-roots opposition.

The campaign for steel protectionism thus highlights a classic problem of political economy known as concentrated benefits and dispersed costs. The benefits of restrictions on foreign steel are concentrated in the relatively small steel-producing sector, while the

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[32] Gary Clyde Hufbauer, Diane T. Berliner, and Kimberly Ann Elliott, *Trade Protection in the United States: 31 Case Studies* (Washington: Institute for International Economics, 1986), p. 179.
[33] See BLS, National Current Employment Statistics, Table B-1, http://stats.bls.gov/webapps/legacy/cesbtab1.htm.

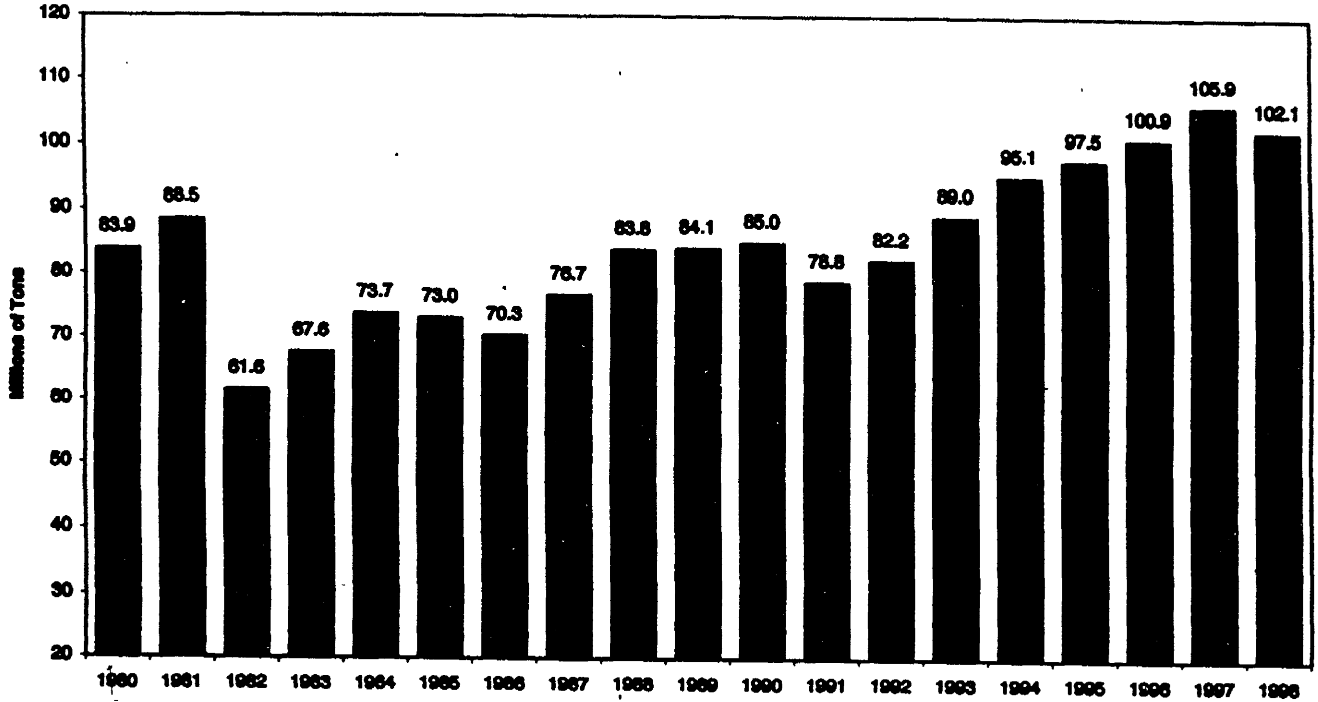
costs are dispersed throughout the entire economy. Steel producers therefore have a very clear and powerful incentive to lobby for protectionism, while most of the rest of us who stand to lose don't have a big enough or clear enough stake to oppose them with any vigor.

Worldwide economic developments have combined to produce conditions that at present are unfavorable for U.S. steel producers and favorable for American steel users. In such a circumstance, it is not the business of the U.S. government to intervene in the marketplace and favor one U.S. industry at the expense of other U.S. industries. In particular, it makes no sense to penalize the industries that in terms of employment and value-added are of much greater significance to the overall national economy.

The federal government should not use its power to confer special benefits on a small but vocal segment of producers at the expense of the nation's general welfare. Congress should reject calls for steel protection and reform the antidumping law to prevent future abuse.

Figure 1

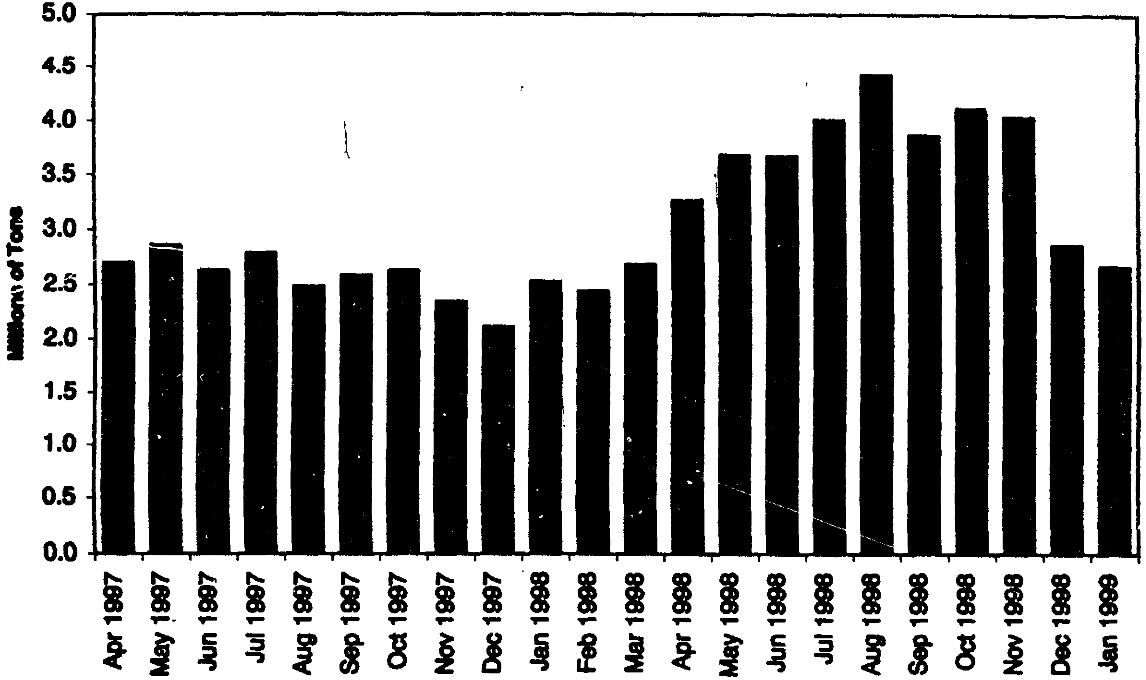
Domestic Steel Shipments, 1960–98



Source: American Iron and Steel Institute.

Figure 2

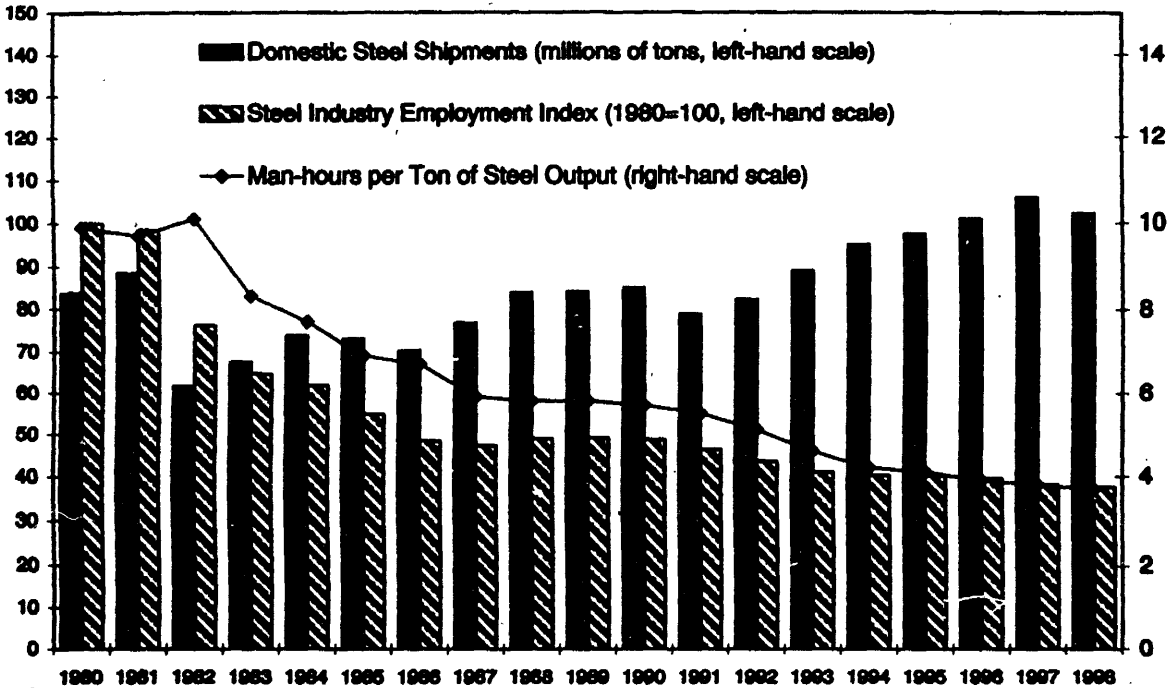
Monthly Steel Imports Decline to "Precrisis" Levels



Source: American Iron and Steel Institute.

Figure 3

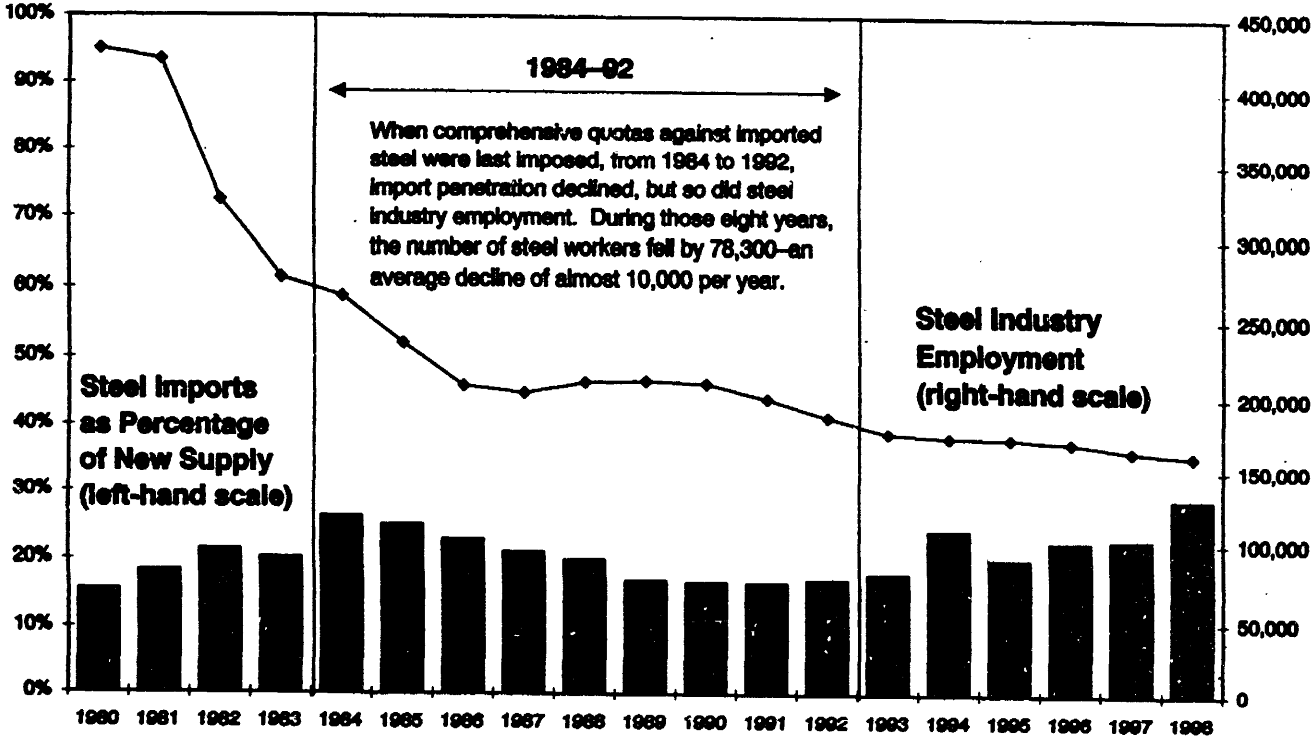
Domestic Steel Shipments, Jobs, and Productivity



Source: American Iron and Steel Institute; and Bureau of Labor Statistics.

Figure 4

Decline of Steel Jobs Unrelated to Imports



Source: American Iron and Steel Institute; and Bureau of Labor Statistics.

Note: New supply equals domestic shipments plus imports.

STATEMENT OF SENATOR PETER COOK, SHADOW MINISTER FOR TRADE, PARLIAMENT OF AUSTRALIA

As the Australian Shadow Minister for Trade, I am of the view that certain issues should be brought to the attention of the Committee. This submission is made in my capacity as Shadow Minister for Trade, member of the Parliament of Australia and representative of the Australian Labor Party.

This submission is principally directed to Bill HR 975 (requiring the President to set a quota on steel imports). In relation to this Bill, I make the following points:

1. The imposition of a quota on steel imports would have a direct effect on Australia. During financial year 1997-98, Australia exported A$348 million of steel to the United States. Our exports are an example of fair and proper trade. Australia's steel industry competes fairly and without subsidies, protection or any other special assistance. A reduction in these exports would cost Australian jobs in the mining and steel production sectors and associated industries.

2. There is already a substantial deficit in Australia's trade with the United States. During 1998, Australia imported A$21.6 billion of merchandise from the US, whilst only exporting A$8.5 billion. This bilateral deficit constituted 167 percent of Australia's overall merchandise trade deficit for 1998 of A$7.9 billion. Australia's overall trade deficit in 1998 was 1.7 percent of GDP—comparable to the US trade deficit of 2.0 percent of GDP. An import quota on steel would exacerbate our trade deficit, as well as our burgeoning current account deficit. It would probably force the Australian dollar down further in relation to the US dollar. This negative effect on the Australian economy may well also cause knock-on problems for the fragile economies of Asia.

3. The imposition of a quota would also have an indirect effect on Australia. During financial year 1997-98, Australia exported 62.0 million tonnes of iron ore (worth A$1.6 billion) and 73.6 million tonnes of coal (worth A$4.1 billion) to Japan. Australia also exported 16.8 million tonnes of iron ore (worth A$0.4 billion) and 21.2 million tonnes of coal (worth A$1.1 billion) to South Korea. This represents a significant proportion of the iron ore and coking coal that both Japan and Korea use to make steel. If those countries are forced to cut back their steel production, Australian iron ore and coking coal producers will suffer.

4. These iron ore and coking coal producers are already facing difficulties as a result of falls in price and volume for Australia's commodity exports. The imposition of an import quota on steel by the US will mean job losses in regions of Australia such as the Bowen Basin in Queensland, the Hunter and Illawarra in New South Wales and the Pilbara in Western Australia. These are discreet regions, heavily or solely dependent on the mining industry for employment. The unemployment rate in Australia at present is 7.4 percent, well above the US rate of 4.4 percent. In most of Australia's mining regions, unemployment is substantially greater than the national average.

5. Another indirect effect that the proposed import quota would have on Australia is to hamper economic recovery in Korea and Japan. As President Clinton acknowledged in his visit to Japan in November 1998, in order to alleviate the Asian financial crisis, it is necessary for the Japanese economy to grow. The President, the G7 and international agencies have urged Japan to take steps to lift domestic growth, rather than depend principally on an export-led recovery. I support these views, and note that the Japanese government has put in place a range of policies to increase growth. Ultimately, however, a steel quota will work against the recovery of the Japanese economy, particularly at this fragile stage. If the Japanese economy fails to recover, it will create continuing regional economic problems for the struggling economies of Asia, hurt Australia at a time when mineral commodity markets are overhung by supply, and hamper global economic growth.

6. The imposition of a quota on steel would be contrary to the spirit of, and possibly US obligations under the rules of the World Trade Organisation (WTO).

7. Finally, an import quota on steel will come at a cost to Americans. Those goods that embody steel will become more expensive in the US domestic market. Additionally, those exports from the US that embody steel will become more expensive in the world market.

A copy of my curriculum vitae is attached.

I would be happy to discuss the above points at greater length with members of the Committee, either in person or by telephone.

Before the
Senate Finance Committee
Washington, D.C.

THE NEW CRISIS IN STEEL

Thomas R. Howell
Brent L. Bartlett
Dewey Ballantine LLP

March 23, 1999

SUMMARY

The world economic crisis which began in 1997 has resulted in an extraordinary surge of imported steel products into the U.S. market. (See Figure A). The import surge struck a U.S. industry that has spent nearly two decades undergoing a radical restructuring, an effort which has transformed it into one of the most efficient, productive, and innovative steel industries in the world. The import influx destroyed the prospects for a strong earnings year for the U.S. steel industry in 1998, drove 10,000 workers out of their jobs, and pushed several steelmakers into bankruptcy. Financial analysts warn that the U.S. steel outlook for the industry for 1999 is grim, and that far more extensive layoffs may occur.

The import surge reflects the impact of the current financial crisis on a world steel industry that has been grossly overbuilt as a result of decades of market intervention by governments. The financial crisis produced an abrupt drop in steel demand in East Asia and the former Soviet Union, and producers which served those markets desperately turned to the export market. (Figure B.)

- **Japan's** integrated steel cartel shifted virtually all of the export sales which it lost in Asia toward increased sales in the United States -- U.S. imports of hot-rolled flat products from Japan increased by over 1000 percent over 1995 levels as Japanese prices fell dramatically. (Figure C.)

- At the same time, **Russia's** massive (but aging and inefficient) state-owned steel sector, having lost most of its markets at home and in Asia, redirected a huge volume of steel toward the United States. (Figure D.) Using deep discounts, the Russians plunged into a "race to the bottom" in steel pricing with Japanese producers, precipitating a steep fall in U.S. steel prices.

- As demand for **Brazilian** steel collapsed in Brazil and in Asia, Brazil's mills (which, according to WTO estimates, have received $26 billion in subsidies in the past four decades) increased their exports to the United States in 1997 and maintained these levels in 1998, exacerbating the price erosion in the American market.

- The **Korean** industry, which has been vastly overbuilt as a result of billions of dollars in government-directed bank loans, dramatically increased its exports to the United States in late 1998.

- The **European Union**, facing its own surge of steel imports, established quotas on steel from Russia, Ukraine, and Kazakhstan, diverting exports from those countries toward the American market.

The convergence of these foreign export drives on the U.S. market produced a flood of imported steel in 1998 that simply has no historic precedent:

- Import penetration rates jumped from 24.2 percent in the first 10 months of 1997 to 29.5 percent in the same period in 1998.

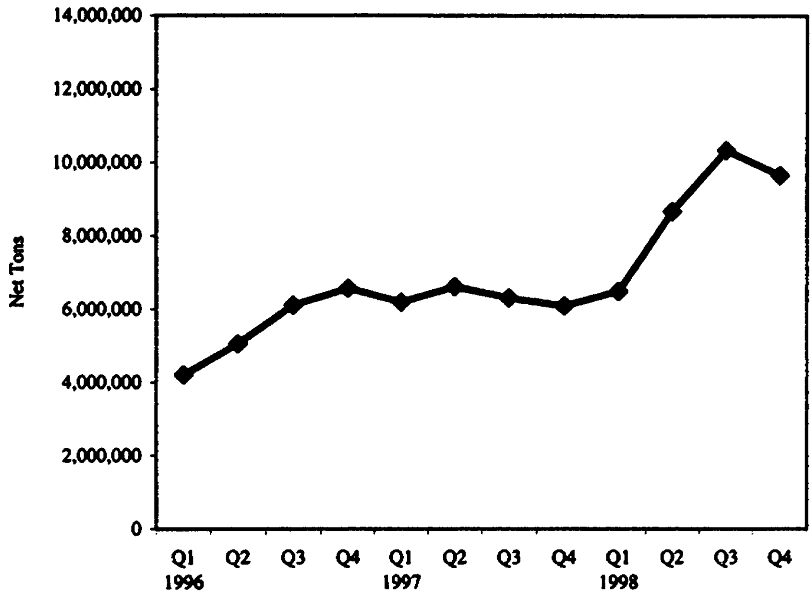
- Prices collapsed despite continuing strong domestic demand.

- The import volume was so great that it clogged U.S. ports and has resulted in huge stockpiles of steel anywhere space for it can be found.

As a result of the import influx, U.S. steel operating rates fell from 90 to 74 percent, profitability and stock value have fallen sharply, three producers have gone bankrupt and 10,000 steelworkers have lost their jobs. The outlook for the steel industry, a basic pillar of the U.S. economy, remains uncertain.

Figure A

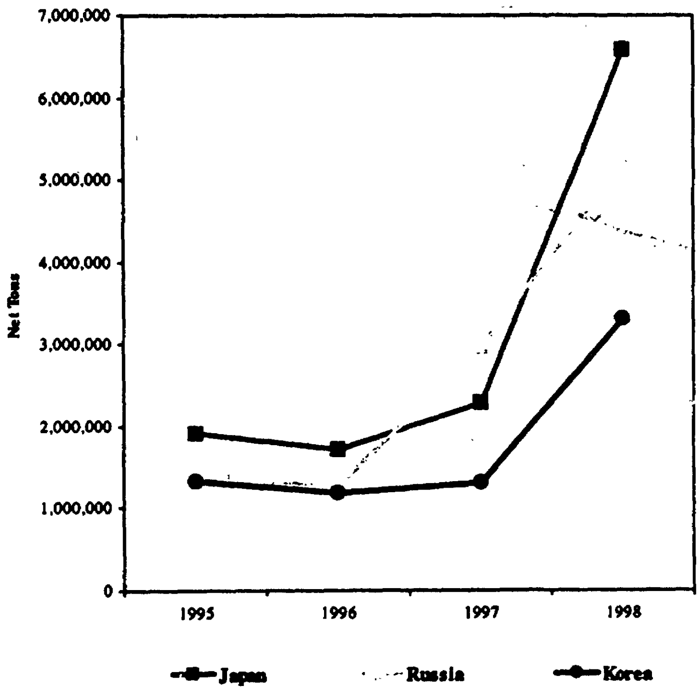
U.S. Imports of Finished Steel



Source: US data from Bureau of the Census, IM-145.
Note: HS codes for finished steel include: 7208, 7209, 7210, 7211, 7212, 7213, 7214, 7215, 7216, 7217, 7219, 7220, 7221, 7222, 7223, 7225, 7226, 7227, 7228, 7229, 730110, 730210, 730220, 730240, 7304, 7305, 7306.

Figure B

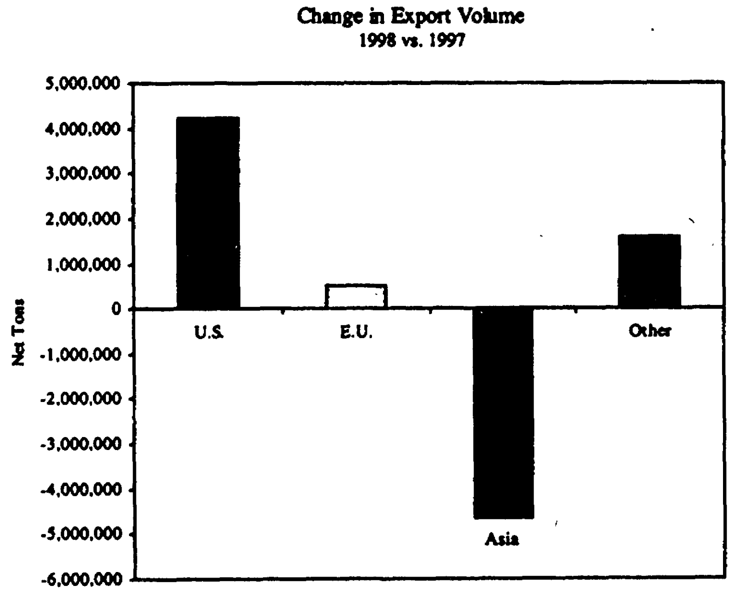
The Upward Trend of Finished Steel Exports to the United States



Source: U.S. Commerce Department Import Statistics

Figure C

Japan: The 1998 Surge in Exports of Finished Steel Mill Products Has Been Directed at the United States

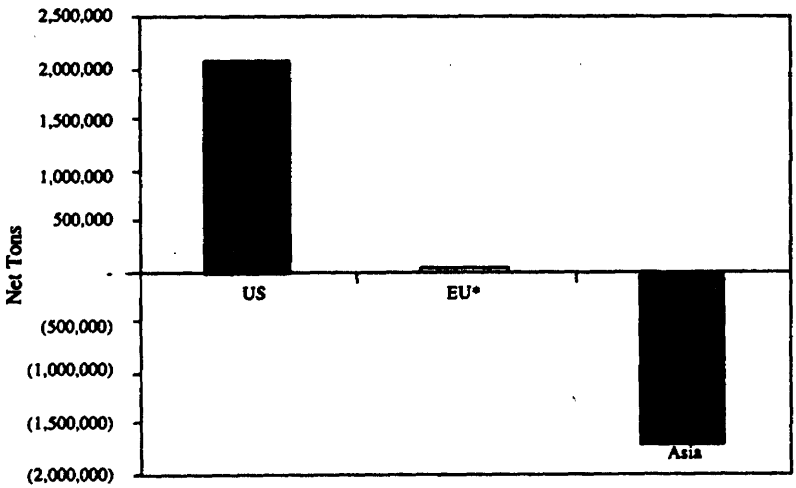


Source: WTA from Japan Tariff Association
Note: HS codes for finished steel include: 7208, 7209, 7210, 7211, 7212, 7213, 7214, 7215, 7216, 7217, 7219, 7220, 7221, 7222. 7223, 7225, 7226, 7227, 7228, 7229, 730110, 730210, 730220, 730240, 7304, 7305, 7306.

Figure D

Russia: The 1998 Surge in Exports of Finished Steel Mill Products Has Been Directed at the United States

Change in Export Volume
Jan-Nov 1998 vs. Jan-Nov 1997



*Note: EU data is Jan-Aug 1997 and 1998.
Asia consists of exports to Japan, Korea, China and Taiwan only.
Source: US data from Bureau of the Census, IM-145. EU and Asia data from Tradstat.
Note: HS codes for finished steel include: 7208, 7209, 7210, 7211, 7212, 7213, 7214, 7215, 7216, 7217, 7219, 7220, 7221, 7222, 7223, 7225, 7226, 7227, 7228, 7229, 730110, 730210, 730220, 730240, 7304, 7305, 7306.

INTRODUCTION

The economic turmoil which now grips much of East Asia and the former Soviet Union has precipitated a crisis of survival for the U.S. steel industry. Demand for steel has fallen dramatically in East Asia and Russia, and the mills which traditionally served those markets – primarily based in Japan, Korea, Eastern Europe and the Soviet successor states – have desperately sought other markets. But most export markets are either severely depressed or heavily protected, with the result that huge steel surpluses are being channeled into the world's few relatively open markets at deeply discounted prices -- a Brazilian trader, speaking of world steel export pricing patterns, said simply, "Its carnage."[1] The European Union confronts an import influx so severe that observers warn that it threatens to "blow a hole in industrial Europe,"[2] although the EU has been able to stanch the flow from Russia, Ukraine and Kazakhstan through the negotiation of steel import quotas with those countries. Chile's largest steelmaker complained at the end of 1998 that imports had taken half the domestic market.[3] Canada's steel producers lament, with cause, that their country has become a "dumping ground."[4]

But no major market has felt the impact of the steel export surge more dramatically than the United States. Investment analysts at Paine Webber warn that "the world is awash in steel and no end to the deluge is in sight," and as a result " the outlook for the [U.S.] steel industry – from the perspective of the mills – is horrendous."[5] Capacity utilization has fallen to 74 percent from a level of over 90 percent a year ago. The stock price of some U.S. producers has lost nearly half its value since the influx began. Three U.S. mills went bankrupt in 1998, another in February 1999, and others are reportedly on the verge of insolvency.[6]

The massive import influx which began in April 1998 struck a U.S. steel industry which has spent the past two decades in a thoroughgoing, painful revitalization effort. This restructuring has been so successful in improving the industry's efficiency that today there is virtually no foreign producer that can deliver steel to the U.S. market at a lower cost than the

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1 Benjamin Baptista Filho of CST in *Metal Bulletin* (August 10, 1998).

2 "Meltdown Feared Over Steel Imports," *European Report* No. 2354 (October 28, 1998); "Italian Coil Market 'Can Take No More,'" *Metal Bulletin* (July 27, 1998).

3 *Metal Bulletin* (December 3, 1998).

4 *Metal Bulletin* (December 3, 1998). Canadian authorities are conducting antidumping investigations of cold-rolled sheet imports from seven countries and hot-rolled sheet and plate in coil from four countries. "Canada Opens Dumping Probe of CR Sheet Imports," *Metal Bulletin* (February 4, 1999).

5 Paine Webber, *World Steel Dynamics* (Price Track #59, September 30, 1998).

6 "Geneva Files for Bankruptcy," *Metal Bulletin* (February 4, 1999). Utah-based Geneva Steel, which filed for Chapter 11 protection in February 1999, stated that "as a result of record high levels of low-priced steel imports and the resultant deteriorating market conditions, the company's overall price realization and shipments declined precipitously." Ibid.

U.S. mills. The current import surge, however, does not reflect comparative competitiveness or other market-based factors. Indeed, in a bizarre reversal of the rules of market economics--

- The country with the highest steel prices in the industrialized world, Japan, has become the leading exporter of steel to the lowest-priced market in the industrial world, the United States.

- Some of the highest-cost, most poorly-run mills built in the twentieth century – antiquated facilities in the former Soviet Union – captured markets from some of the most modern and efficient producers in the world.

The present steel import surge reflects massive government intervention and market distortion abroad which has created and sustained far more steelmaking capacity than the world market can possibly support. The United States has become the world's market of last resort, and is being asked, in effect, to sacrifice a substantial segment of its steel industry and tens of thousands of jobs so that foreign countries can avoid confronting the consequences of their own misguided industrial policies. How the U.S. responds to this challenge has implications for our own long-run national economic well being that extend far beyond the current plight of the steel industry.

American Steel – A Renaissance At Risk

The United States steel industry offers one of the most dramatic examples of industrial revival in U.S. history. At the end of the 1970s, the U.S. industry appeared to be headed for oblivion. Some of its mills were still using obsolete open-hearth furnaces, and in many cases its mills depended on inland sources of iron ore and coking coal, while foreign rivals had access to these resources through lower cost ocean-going transportation. Wage levels had outstripped productivity gains, and U.S. mills were hampered operationally by restrictive work rules. Many U.S. mills were too small to generate optimum scale economies. Reflecting these shortcomings, the U.S. industry had far higher costs per ton produced than its rivals in Japan and Germany, and U.S. producers were widely criticized for lagging competitiveness, out-of-date technology, and poor labor productivity. Imports were capturing a growing share of the U.S. market, and while trade policy measures by the U.S. government could slow import penetration, they were not by themselves a solution to the problem of eroding competitiveness. Several major producers were on the verge of insolvency or already bankrupt, and in 1977 the Council on Wage and Price Stability concluded that the outlook for the U.S. steel industry was essentially hopeless – that is, that the industry's problems were so intractable that it would be uneconomical for the industry to modernize.[7]

Recognizing that the U.S. industry had to change radically or die, management and labor jointly undertook a drastic overhaul of virtually every aspect of the business of steelmaking. U.S. steel firms invested over $50 billion in modernization in the years after 1980. Scores of obsolete mills were shut down, and U.S. steelmaking capacity plummeted from over 160 million

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7 Council on Ways and Price Stability, ***Report to the President on Prices and Costs, in the United States Steel Industry*** (Washington, D.C.: U.S. Government Printing Office, October 1977).

tons in 1980 to around 120 million tons in 1997. Entire layers of management were eliminated. U.S. producers sold off peripheral businesses and abandoned product lines which had become marginal in order to concentrate on responding to customers' quality and cost needs in key product areas, like corrosion-resistant steel. The work force declined by almost two thirds – well over 200,000 steel industry employees lost their jobs, a wrenching downsizing which meant untold hardship for displaced steelworkers and their families. For many steelmaking communities and regions, restructuring meant permanent economic decline. But the adjustment went forward, and the industry's competitiveness improved dramatically. One steelworker recalls that

> *It was a horrible time. But we fought back, and proved we can compete on a level playing field.*[8]

Today the U.S. steel industry bears little resemblance to that which existed in 1980. Every aspect of steel production is highly automated. In the integrated mills (where steel is made from iron ore, coking coal and other raw materials) a new workplace culture has been forged between management and labor which features the vesting of a significant degree of operational responsibility in production managers and workers -- a transformation that has been held up as a model for other industries.[9] All of the old open-hearth furnaces have been permanently shut down, and over 95 percent of all U.S. steel is now made through the efficient continuous-casting method. Led by the so-called "mini-mills," which produce steel by melting scrap in electric-arc furnaces, the United States has become a world leader in the application of advanced steelmaking technology, such as "thin slab casting," which makes possible the production of flat-rolled steel from reprocessed scrap. The improvement in U.S. steelmaking productivity – over 300 percent since 1980 -- has outpaced productivity growth in U.S. manufacturing as a whole in every year since 1983. The U.S. industry has reversed its cost disadvantage with its counterparts in Japan and Germany, and in 1995-97 was producing cold-rolled sheet at an average cost per ton that was roughly $50 less than those of its counterparts in those advanced steelmaking countries. All of these gains were achieved entirely with the U.S. industry's own resources, without the subsidies most foreign producers received to finance their restructuring.

The success story of U.S. steel is a source of justifiable pride for the industry. It should mean prosperity for the industry, its workers, and steelmaking communities in 1999 and beyond, given the fact that the United States continues to enjoy robust economic growth and that the demand for steel continues to grow. Instead, today the U.S. steel industry stands on the brink of an abyss. Within an extremely short period, the U.S. market has been inundated by millions of tons of imported steel.

The import surge. The surge of imported steel which began in the spring of 1998 simply has no historical precedent, either in terms of its sheer magnitude or the velocity at which it

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8 Jeff Davis, USS Fairless Works, in *Washington Post* (December 18, 1998)

9 For a good account of the transformation of labor-management relations in the steel industry, see Roger S. Ahlbrandt, Richard J. Fruehan and Frank Giarratani, *The Renaissance of American Steel: Lessons for Managers in Competitive Industries* (New York and Oxford: Oxford University Press, 1996).

unfolded -- President Clinton commented in January 1999 that in his six years as president, he had "never seen anything like this happen to one sector of the economy so quickly with such obvious consequences."[10] 1998 began as an auspicious year for U.S. steelmakers, with the economy doing well and domestic demand strong. In the second quarter, however, steel imports began to rise dramatically, a phenomenon that accelerated thereafter. U.S. imports of hot-rolled sheet from Japan in 1998 skyrocketed by 1,061 percent over 1995 levels, while Russia exported 3.8 million tons of hot-rolled sheet to the United States in 1998 -- more than it had during the previous three years combined. Imports of plate and cold-rolled sheet from Korea soared -- more cut-to-length plate, for example, was imported into the U.S. from Korea in August and September alone than in the previous seven years combined. The flood of steel clogged U.S. ports with coils, piling up "in warehouses, outside the warehouses, anywhere there is spare ground." An official at the Port of New Orleans said "we're using every square inch we have for cargo, and most of it is steel."[11]

Import volume fell sharply in December 1998, although even this reduced volume was 32 percent higher than the figure for December 1997.[12] Import figures for January 1999 may well reflect reductions from 1998 levels. In large part this lull in import volume appears to reflect preliminary measures implemented by the Department of Commerce on an expedited basis in antidumping investigations involving imports of hot-rolled flat products from Russia and Japan, which together accounted for nearly 60 percent of the increase in imports in 1998.[13] Another factor underlying the recent import decrease appears to be the fact that the U.S. market is utterly saturated with steel as a result of the import surge -- inventories are enormous, and prices remain severely depressed:

> *However, [S]ome believe lingering high stocks of both foreign and domestic material will keep prices at or near the bottom for the foreseeable future. "There is just too much inventory," said one Chicago area stockist who estimated that there is about 30% more steel at US docks and warehouses than what is needed. "I hear they could pave the streets of Houston with the steel that is overloading the docks down there – and that includes a lot of Japanese steel." He added that*

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10 Address to the Detroit Economic Club, cited in "Some Interesting Facts About the Continuing Steel Trade Crisis," *Steel Works News E-Digest #7* (January 13, 1999).

11 "Rising Imports Distress U.S. Steelmakers," *Wall Street Journal*, (September 8, 1998).

12 Imports of hot-rolled products from Japan fell from 405,974 tons in November to 93,102 tons in December; imports of Russian hot-rolled flat products dropped from 621,188 tons in November to 64,825 tons. Imports of hot-rolled flat products from Brazil (also the subject of an ongoing antidumping action) dropped from 64,529 tons to 9,961 tons. "U.S.: Steel Imports from Japan Halved," *American Metal Market* (January 28, 1999).

13 On November 23, 1998, the Department of Commerce made an affirmative preliminary finding of "critical circumstances" in antidumping investigations of imported hot-rolled flat products from Japan and Russia. This means that if a final affirmative antidumping finding is made, importers may be assessed antidumping duties retroactively, reaching back 90 days prior to the preliminary antidumping determination. In effect, this determination put importers on notice that they faced a substantial potential liability in the form of antidumping duty assessments, and may have affected their decision as to whether to purchase additional hot-rolled flat products from Japan and Russia.

> *while traders normally have about 95% of their imports sold, that percentage has fallen to around 70%, which does not bode well for future inventories.*[14]

Whether the recent drop in imports represents the beginning of a trend or a short-term aberration will not be known for a number of months. The President of U.S. Steel Group commented:

> *[O]ne month does not make a trend. . . . The numbers of cut-to-length plate are way up, and we've seen increases in cold-rolled [flat products]. What happens usually, is that when you have success (with a trade case) against one product category, different products come in, or product comes in from other countries. This is not a message that this crisis is over. The market is still saturated with imports."*[15]

Bust in the middle of boom. Ironically, the U.S. steel industry is experiencing a "bust" in the middle of a booming economy that has sent U.S. steel demand soaring to record levels. Imports have destroyed what otherwise would and should have been a period of strong profitability. Foreign mills claimed that they were simply responding to strong U.S. demand, but the plummeting prices of imported steel made it clear that the influx was supply-driven. As the *Wall Street Journal* observed in June 1998:

> *The problem, analysts and steel traders say, is that Russian and Japanese steelmakers, among others, are in a race to the bottom of the pricing ladder. Last year, Russian steel started flooding U.S. markets, but the quality of that product was low enough that big U.S. steelmakers didn't have to fret. In recent months, however, high-quality Japanese steel has been showing up in huge volume and at shockingly low prices. "I've seen flyers advertising Japanese-quality steel at Russian prices" [said an observer]. "There's only one place for the Russians to go: even lower."*

In July 1998, Morgan Stanley Dean Witter issued a report entitled "Steel – Apocalypse Now" which stated that the price spread between imported and domestic steel had reached "historical levels" of 15-20%, that traders were reporting worse price pressure from imports than had been seen in 20 years, and that the entire pricing structure for steel was on the verge of breaking down. In September Paine Webber's *World Steel Dynamics* spoke of a "death spiral" in the steel industry as the bottom fell out of prices, commenting that "we detect a sense of panic on the part of the steel mills in the United States and elsewhere almost like never before."[16] By December 1998, prices were falling so fast that service centers which thought they had scored bargains by purchasing large quantities of imported steel became alarmed as prices continued to plummet, leaving them saddled with inventory which "they have to sell before the bottom drops

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14 "U.S. Sheet Prices Look to Bottom Out," *Metal Bulletin* (January 28, 1999).

15 "Wilhelm Keeping His Gloves On," *AMM Online* (January 28, 1999).

16 *World Steel Dynamics* (Price Track #59, September 30, 1998).

out of the steel market."[17] By the end of 1998, with the impact of the influx just beginning to be felt in company operating results, over 10,000 U.S. steelworkers had already lost their jobs.[18]

The triumph of inefficiency. A central irony of the present crisis is the fact that the U.S. industry, having undergone a punishing restructuring to restore itself to world class competitiveness, is facing what is perhaps its gravest competitive challenge from a large number of foreign producers which are not competitive in the U.S. market themselves. (See Figure E.) It is true that some steel producers in Korea, Taiwan, and other countries are highly efficient, but given the added costs associated with transporting steel to the United States, their total costs are still higher than those of the U.S. mills in this market. More significantly, the group of foreign producers currently pouring steel into the U.S. market includes among its numbers some of the most antiquated, inefficient and heavily-polluting steel facilities in the industrial world; cartelized industries where the major mills have not competed with each other for over twenty-five years; producers that have not been able to survive without massive periodic injections of government money; and industrial "white elephants" whose creation and expansion has been driven by government planners -- and to which no rational private investor would have committed debt or equity capital in a normally-functioning market.

The destruction or substantial contraction of the U.S. steel industry at the hands of such rivals would confound one of the fundamental principles upon which our economic system is based, namely that efficient producers should prevail over inefficient ones -- not the reverse. It would also constitute a serious indictment of the current world trading system, which enjoys the support of the American public, in large part, on the assumption that the opening of world markets will *benefit* competitive U.S. firms and productive workers, not result in the destruction of their livelihood by less efficient rivals. As one laid-off Pennsylvania steelworker, who has pulled his son out of college to make ends meet, said in December 1998

> *I never thought that this would happen again, after all the sacrifices we made. It's a prosperous time, and I should be working. It's like the world has turned upside down.*[19]

From Structural Crisis to "Financial Contagion"

On January 23, 1997 a major South Korean steel producer, Hanbo Steel Corp., defaulted on its outstanding debt. Subsequent investigations revealed that the Korean government and corrupt politicians had manipulated domestic banks to channel over $6 billion dollars in dubious loans into Hanbo to finance the expansion of a massive steelworks -- the first of a series of similar disclosures which metastasized over the succeeding months into a crisis of confidence in

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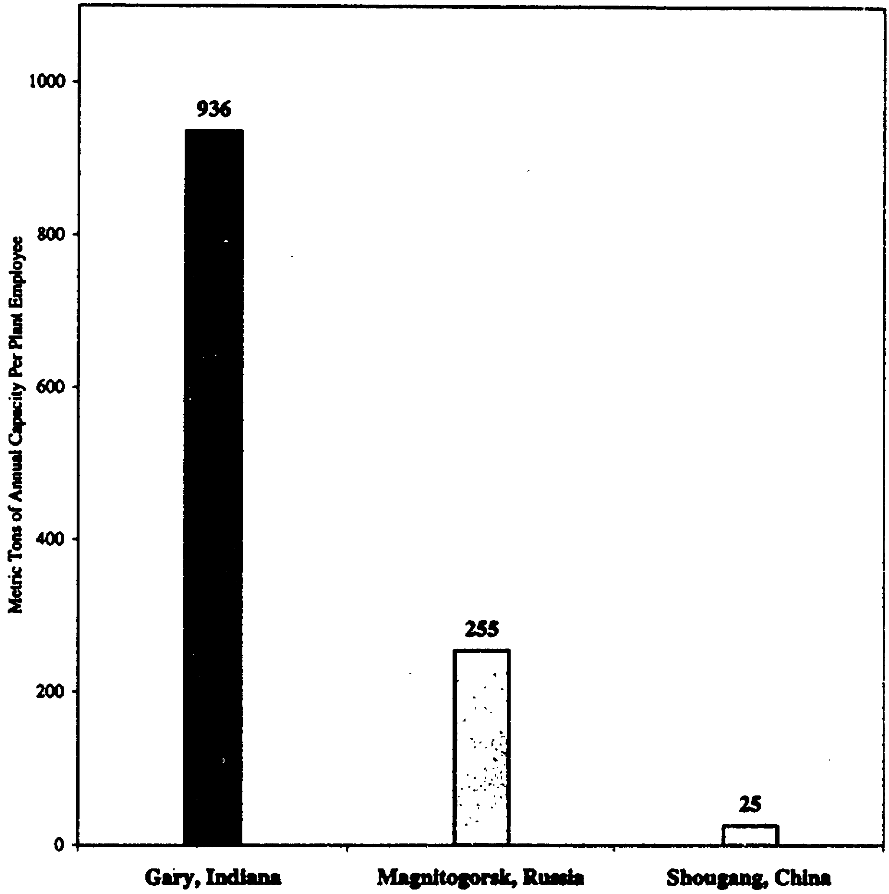
17 "Steel Import Crisis Hits Service Centers Hard," *MetalSite* (December 10, 1998).

18 President Clinton's *Report to Congress on a Comprehensive Plan for Responding to the Increase in Steel Imports* (1999), p.1.

19 Pipe-fitter Jeff Davis, USS Fairless Works, in "Pa. Steel Industry Endures Fiery Blast From Offshore," *Washington Post* (December 18, 1998)

Figure E

Productivity Comparison: U.S., Russia, and China



Sources: Employees: USX (7,690 employees at Gary) and Economist Intelligence Unit (226,000 at Shougang); capacity: PaineWebber cost curve plant data (1998).

the entire Korean financial system. The Hanbo bankruptcy, by most accounts, was the starting point of the so-called "financial contagion" that spread across East Asia, bringing in its wake rapid currency depreciation, wholesale capital flight, and cascading bankruptcies – eventually engulfing Thailand, Malaysia, Indonesia and Korea. At the same time that "financial contagion" was toppling Asian economies, the principal successor states of the former Soviet Union were lurching toward economic collapse. On August 17, 1998, with its economy shrinking at a rate not seen in any major industrial country since the Great Depression, Russia declared a moratorium on the payment of its foreign debt. The Russian default, coming in the wake of the financial turmoil in Asia, sent a shock wave through foreign investors, who began withdrawing funds from other economies deemed vulnerable to "contagion." In the fall of 1998, Brazil, facing growing capital flight by jittery investors and an unstable stock market, swallowed its pride and turned to the IMF for help in stabilizing its financial reserves. On January 13, 1999, Brazil rattled financial markets by announcing a 10 percent devaluation of its currency.

This dramatic chain of events took virtually all-economic experts by surprise. Many spoke of "financial contagion" or "Asian flu" as a sort of visitation inflicted on thriving economies by some new, poorly-understood external force or forces. A variety of diagnoses have been offered, including the maneuvers of international financiers, the huge, virtually overnight flows of investment capital from one national market to another, the imperfectly-understood effects of new information technologies on global finance, and so on. But the steel industry, where the contagion first erupted and where it is now manifesting itself in our own market most dramatically, suggests that much of the explanation for the current crisis is as old as industrialization itself, and is a common element linking every country suffering from "contagion" – that is, the creation of overcapacity leading to a glut and a market collapse. Truly massive investments have been poured into steel production facilities which are not needed and which international markets cannot possibly support. While some of this surplus capacity reflects the reckless and poorly informed decisions of private investors, most of it is a direct result of government intervention in the market. Overcapacity now exists in a number of important manufacturing sectors, but nowhere – *nowhere* – has overbuilding been pressed to such a grotesque extreme as in the steel industry.

Steel's Structural Crisis. The roots of the present crisis in steel go back thirty years, to a time when economies around the world were growing rapidly and living standards were rising. The demand for steel – a material essential for building construction, automobiles, railroads, pipelines, ships, consumer durables and many other prerequisites of a modern economy – was expected to continue to rise at a robust rate more or less indefinitely. In this environment many industrialized countries sought to expand their steel industries, and developing countries aspired to create their own indigenous steel production. Because in most countries the investments needed were too large or too risky, governments stepped in to provide financing and in many cases, management as well. Huge new mills, and in some cases virtually entire new cities devoted primarily to making steel, came into existence. But in 1974, in the wake of the first oil crisis, the bubble burst. World steel demand fell sharply, and the old growth trajectory never resumed – instead, world steel demand remained virtually flat for over a decade. Many governments and producers, however, saw this development as simply another cyclical recession, and pressed ahead with still further expansion plans. Compounding the problem, more and more government-sponsored steel producers were sprouting up across the developing world. By the early 1980s, with many new mills still coming on stream and a recovery in demand nowhere in sight, the world steel industry was groaning under roughly 120 million tons of excess production capacity.

In a market economy, the catastrophic structural gap which had opened between world capacity and demand by 1980 would have produced a shakeout – that is, a period of intensive competition resulting in downsizing of the industry through retrenchment, bankruptcies and mergers. These things did occur, but their distribution around the world was very uneven, reflecting fundamental divergences in government policies.

- In Europe, Latin America, and elsewhere, many mills that would have failed were kept alive by massive infusions of government money – a conservative estimate of subsidies to the steel industry since 1974 would exceed $100 billion.

- Cartels, implemented in conjunction with comprehensive regimes of import protection, enabled mills in Japan and Europe that would otherwise have been shut down to weather the crisis more or less intact.

- In China and the Soviet bloc, central planners gave little regard to steel enterprise operating results as they pressed ahead with ambitious capacity expansion programs.

- In the United States, where the industry did not receive massive subsidies and was not cartelized, the structural crisis had a disproportionately severe impact. The U.S. absorbed a much larger percentage of imports and shed a far higher proportion of capacity and jobs than any other major industrialized country.

In the early 1980s, recognizing that government intervention and private anticompetitive arrangements were grossly distorting world steel competition, the Reagan administration implemented a program of import restrictions pursuant to voluntary restraint arrangements (VRAs) with supplier countries. The VRAs allowed import penetration levels to remain far higher (over 20 percent) than the EU or Japan had ever regarded as acceptable. However, they still provided substantial relief for the US. industry and made possible the successful restructuring effort undertaken by the U.S. industry. After the VRAs expired in 1992, the U.S. industry began filing antidumping and countervailing duty actions against a number of countries whose trade was formerly restricted by the VRAs. Throughout the mid-1990s relief granted pursuant to these cases, coupled with a recovery in world steel demand, served to prevent the sort of massive import influx which had occurred in the late 1970s and early 1980s – until now.

The Endemic Capacity Surplus. The implementation of VRAs and trade remedies by the U.S. government could do little to address the basic problem of overcapacity in the world steel industry, which has remained at about the same level, and for the same basic reasons, for fully a quarter of a century. The world steel industry is still burdened by surplus capacity, at least 25 percent more than is needed – and only marginally less than the level that existed when the structural recession began. While restructuring and enterprise failures have cut capacity in some parts of the world -- such as the United States and the United Kingdom -- dramatic recent increases in capacity in China and elsewhere in East Asia, coupled with the implosion of domestic steel demand in Southeast Asia and Russia, have cancelled out the effects of downsizing elsewhere. Today the CIS states alone have nearly 60 million tons of excess capacity.

By one estimate steelmaking capacity in South and Southeast Asia will more than double from 1995 by the year 2000, from 61 million to 133 million tons, with the most dramatic increases occurring as new mills in India, Taiwan, Malaysia and Thailand come on stream.[20] One observer commented with respect to the new capacity in Southeast Asia:

> *The expansion of some of these mills could not have been more poorly timed because local demand is only a fraction of the demand forecast originally.*[21]

National government promotional policies have played a major role in this expansion. In India, while the government is seeking to expand the role of the private sector in steel, a number of large producers are state enterprises, and the government has pressured financial institutions to channel loans to the steel industry with questionable commercial justification.[22] In Thailand, the steel industry has been one of the two "basic" industries identified as priorities for investment, and receives numerous "incentives" from the government Board of Investment (BOI)[23] – a policy characterized by one Thai economist as a "massive misallocation of resources."[24] Indonesia's Krakatau Steel, the country's principal steelmaker, is government-owned and has been created and sustained through periodic infusions of government funds; since the onset of the financial crisis, the government has been trying, unsuccessfully, to sell the firm to private investors.[25]

As in past steel crises, many national steel industries suffering from overcapacity are simultaneously attempting to export their way out of difficulty, and as in the past, the market impact of the export push is very unevenly distributed. Japan, for example, has actually curtailed imports of steel from East Asia since the economic crisis began, with the result that suppliers in

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20 Australian Iron and Steel Industry estimates.

21 Anna Low, "Asia: No Near-Term Respite in Sight," *Metal Bulletin Monthly* (December 1998).

22 A spokesman from the largest merchant bank in India comments that "[P]ublic sector financial institutions had been under some sort of pressure from the government to fund the steel industry regardless, since this industry was regarded as strategic to the goals of national development. India being a capital-deficient country, allocating around Rs 35 billion ($880 million) for a 1m tpy steel project employing around 1,500 people directly and another 5,000-10,000 indirectly cannot be justified, even from a social welfare point of view." Gilber Lobo, SBI Capital Markets, in "Rolling Toward an Abyss," *Metal Bulletin Monthly* (August 1998).

23 BOI incentives include eligibility for an eight-year corporate income tax exemption; preferential utility rates; exemption/reduction of import duties and business taxes on machinery and essential raw materials; and special tax and duty reductions for export oriented projects. WTO, *Trade Policy Review: Thailand* (December 1995).

24 Such investments led to "an excessive expansion of 'non-traded protective' industrial sectors such as steel, pulp and paper, and cement." Banyong Pongpanich, "Article Views Two Problems Besetting Thai Economy," Bangkok *The Nation* (October 7, 1997).

25 "Minister Notes Difficulty in Selling Steel Plant," *Surabaya Post* (June 8, 1998); "Indonesian Minister Notes Obstacles to Privatization Plan," *Media Indonesia* (February 9, 1999). Most of the capital for the construction of the Krakatau steelworks was reportedly provided by the Indonesian government. *Kompas* (July 3, 1983). After the firm ran into financial difficulty it was revived by periodic injections of "PMP" (government participation capital). *Sinar Harapan* (August 12, 1986); *Kompas* (February 11, 1987).

these countries have redirected their exports to the United States (Figure F). Japan itself has shifted its exports away from markets in Asia toward the United States. (See Figure C.) Russian mills, blocked by EU quotas from increasing exports to Western Europe and facing import restrictions in many other countries, have also dramatically increased their exports to the United States. (See Figure D.)

The global dimension of the steel crisis naturally invites attempts to seek an underlying cause in the macroeconomic realm, and no doubt a clearer understanding of how macroeconomic factors may have contributed to the crisis will emerge over time -- it is clear, for example, that the collapse in currency values in the CIS and some Asian countries has provided a significant stimulus to exports. But when the strands are untangled and the steel problem is examined country by country, it is evident that much if not most of the current crisis has been caused by specific misguided policies and commercial practices implemented in a relative handful of countries. As one steel industry executive expressed it

> *We are in fact confronted with an economic crisis in the U.S. steel industry, stemming directly from the structural mismanagement by several other governments of their economies.*[26]

The blunders and excesses which have fostered this emergency vary from country to country, and include the reckless, unconstrained promotional policies of several developmental capitalist states in East Asia, the megalomania and "gigantism" of central planners in communist regimes, and market-rigging activities by old-fashioned cartels. However, all of these actions share a common trait -- they involve actions by governments, by private syndicates, or by some combination of the two, to interfere with the normal operation of the market.

Japan

Japan bears a heavy burden of responsibility for the steel crisis sweeping East Asia today. Japan was the first major industrialized country to implement an industrial promotion policy in steel which dramatically overbuilt its industry, with severely disruptive effects in world markets. Since then, Japan's example, its capital, and its technical support have fueled comparable spurts of capacity expansion throughout East Asia, while at the same time, Japan has consistently refused to allow more than a trickle of steel produced by these new mills into its own heavily-protected domestic market (Figure G). Thus, while Japanese investment misjudgments and bad advice have contributed substantially to the massive overcapacity, indebtedness and desperate pressure to export that afflict much of the East Asian steel industry, the problem is regarded by Japan as one that other markets of the world must bear, not Japan itself. Indeed, in 1998 Japan unleashed its own devastating export drive on the United States, directly competing with steel mills in stricken Southeast Asian and CIS economies. One Asian steel trader, noting that the Japanese mills were exporting commodity grades of steel and semifinished steel (typical

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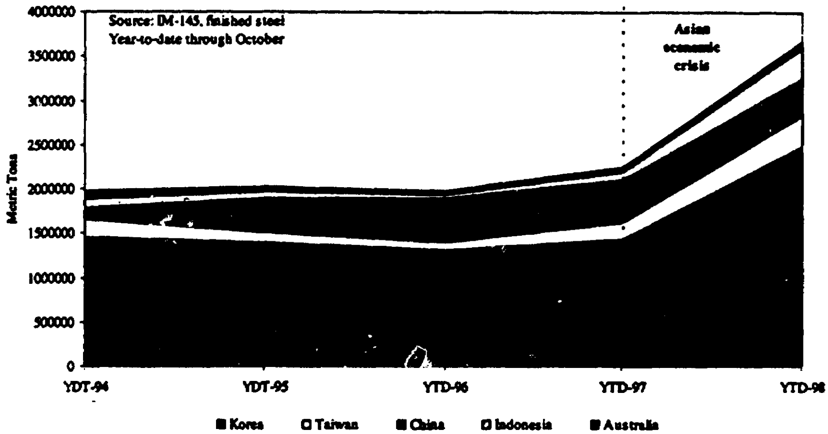
26 Keith Busse, Chairman and CEO of Steel Dynamics, in "Steel Trade Storm Breaks," *Metal Bulletin Monthly*, (December 1998).

Figure F

As U.S. Imports Surged During the Asian Economic Crisis, Japanese Imports Fell

US Steel Imports from Major Pacific-Asia Producers



Japanese Imports from Major Pacific-Asia Producers

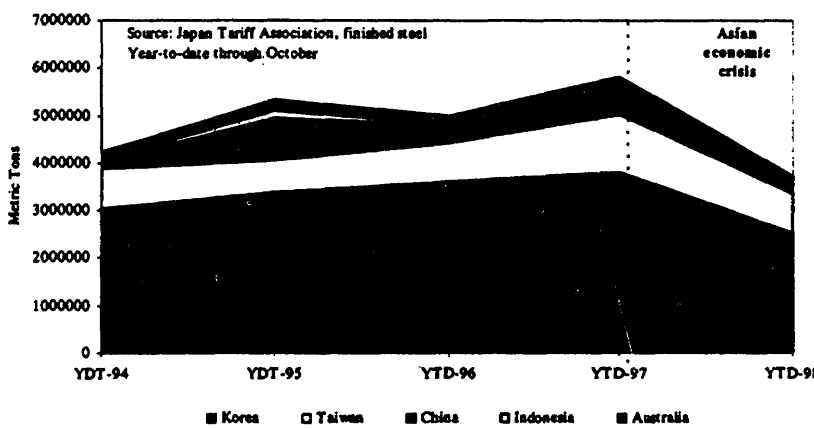
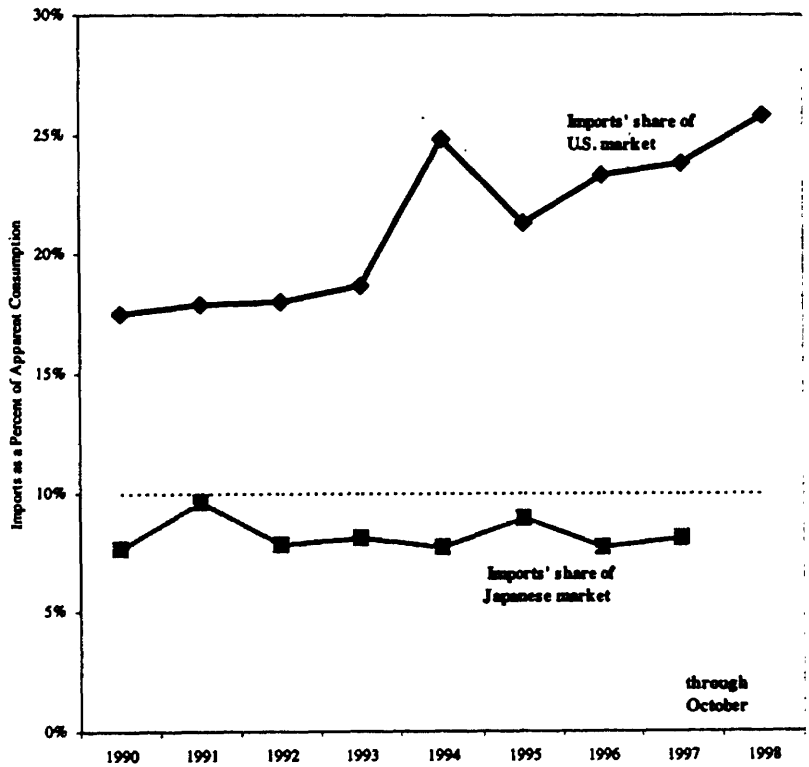


Figure G

While Imports Have Captured a Growing Share of the U.S. Market, Japan Has Kept Imports Below 10 Percent



Source: JISF and AISI

developing country exports) at prices even lower than those offered for CIS steel, complained in December 1998:

> *[T]he Japanese were selling their [semifinished bars] and even pig iron and billet. Once the Japanese decide to export, there's not much more we can do except watch.*[27]

Overbuilding. Japan's spectacular, rapid creation of a huge modern steel industry has been seen as a beacon for other Asian countries seeking to industrialize, and a number of them have emulated not only Japan's government-driven industrial expansion, but the kind of gross investment misjudgments and market distortions that first became observable in Japan in the 1960s. Between 1965 and 1974, with its industry benefiting from massive, government-directed low interest loans, Japan added an incredible 93 million tons to its steelmaking capacity – representing fully 49 percent of all capacity added throughout the western world during this entire period (Figure H). Although Japan suffered severe recessions at intervals during this period, government-administered cartels ensured that no producer suffered the normal competitive consequences of overbuilding. Instead, domestic sales were restricted by cartel arrangements to maintain high domestic prices, and massive surpluses were dumped abroad. With abundant cheap capital flowing from government-influenced banks -- and removed from normal market risk -- the Japanese mills engaged in a frenetic "capacity-expansion race," continuing to build new mills through recessions and in the face of warnings and protests in Japan and abroad. Contemporary Japanese observers, aware that the expansion was irrational and dangerous, commented that "excessive equipment investments had become... monstrous in nature."[28]

By the time the structural recession struck in the mid-1970s, Japan possessed more than twice the steelmaking capacity needed to meet its domestic demand. The Japanese mills response to the onset of the structural recession was to tighten the cartel at home, force through price increases in the face of vociferous consumer complaints, and launch a massive export drive. Japanese dumping triggered bitter trade disputes with the United States, the European Community, and Canada. These culminated in the negotiation of voluntary restraint arrangements with the U.S. and EU.

Japan and the Newly-Industrializing Countries. As the structural recession continued, the Japanese mills sought to offset the stagnation in domestic sales volume by undertaking engineering projects in developing countries, including the export of steelmaking equipment and even the construction of entire steel mills in countries like Korea, Indonesia, Malaysia, China and Brazil.[29] The first integrated steel mill built by Korea's POSCO, now the largest steelmaker in the world, was built primarily with Japanese equipment and technical assistance. The

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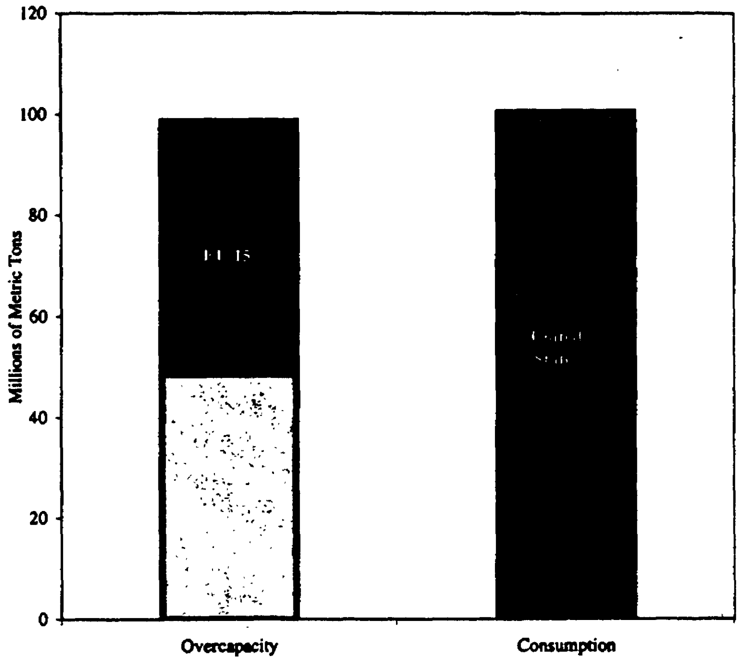
27 "Asia: No Near-Term Respite in Sight," *Metal Bulletin Monthly* (December 1998).

28 *Japan Economic Journal* (August 31, 1971).

29 Nippon Steel President Saito commented in 1981 that "In the future, sales of steel materials will not increase by more than two or three percent. This is why we have tackled engineering projects on a full scale." *Nihon Keizai Shimbun* (June 18, 1981).

Figure H

Steel Overcapacity in Japan and the European Union Roughly Equals Total Consumption of Steel in the United States



Source: OECD 1996 Steel Market Outlook. Estimates for 1997.

Japanese government provided billions of dollars in export credits to facilitate these projects, in part because Japan wanted to forge closer ties with countries that supplied it with raw materials and energy.[30] Japanese steel producers recognized that the new mills being built in East Asia might produce what they call a "boomerang effect" -- a surge of exports directed at Japan -- but they underestimated its magnitude.[31] As POSCO's new capacity came on stream in 1979-81, a stream of Korean steel began finding its way into Japan. Steel from other new mills in developing countries soon followed. This development caused consternation among the Japanese mills, which, worried about "fatal price pandemonium," were "becoming frantic, saying 'we've got to find some way to stop this.'"[32]

The disruptive flow of imports from East Asia was quickly brought under control (Figure I). The Japanese mills placed pressure on the domestic trading companies that distributed steel in Japan. They were warned that if they handled imported steel, the Japanese integrated mills would sever commercial relations with them. Customers -- heavily dependent on Japanese steel producers for the supply of a basic material -- received similar warnings.[33] Finally, the Japanese mills negotiated mill-to-mill agreements with suppliers in the developing countries under which the latter agreed to limit the volume of their exports to Japan to agreed tonnages. The leverage used by the Japanese mills to secure these commitments arose from the threat that their massive capacity would enable them to flood the market of any recalcitrant foreign supplier with dumped steel, and the fact that they could cut off technical and other assistance.[34] POSCO agreed with the Japanese mills to quotas on its exports to Japan on February 10, 1982,[35] and quotas have been renegotiated since then with POSCO and with mills in Brazil, Taiwan, Indonesia, Australia, New Zealand and South Africa, limiting imports to very small levels.[36] These arrangements remain in place today.

30 U.S. Export-Import Bank Statistics. See generally *Tekko Kaiho* (October 21, 1980).

31 On the "boomerang effect," see comments of MITI Basic Industries Bureau Director Minno in *Tekko Shimbun* (July 21, 1981); *Japan Economic Journal* (December 6, 1981); *Oriental Economist* (November 1981). In 1981, Japanese mills, citing the boomerang effect, declined to assist POSCO in establishing a seamless pipe mill. *Japan Economic Journal* (December 8, 1981); *Nikkei Sangyo* (April 21, 1983).

32 *Japan Economic Journal* (December 6, 1981); *Japan Metal Bulletin* (June 27, 1981).

33 "Traders claim, for example, that the big steelmakers use the implicit threat of cutting supplies to any major trading houses which attempt to import steel directly," *Japan Economic Journal* (March 16, 1991). "Any [Japanese] user of imported steel will run the risk of being cut-off from supplies from domestic mills." *Korea Businessworld* (March 1987); "Steeling of Nerves," *Far Eastern Economic Review* (October 11, 1984); see also "Penal Regulations Include Administrative Punishments and Association Punishments," in former Nippon Steel Chairman Inayama Yoshihiro's *Memoirs of Inayama Yoshihiro* (September 1, 1988) pp. 777-78; "[T]rading companies generally do not handle iron-steel imports." "Industry Perplexed at the Proposal by the U.S. for Iron and Steel Liberalization," *Nihon Keizai Shimbun* (August 12, 1989).

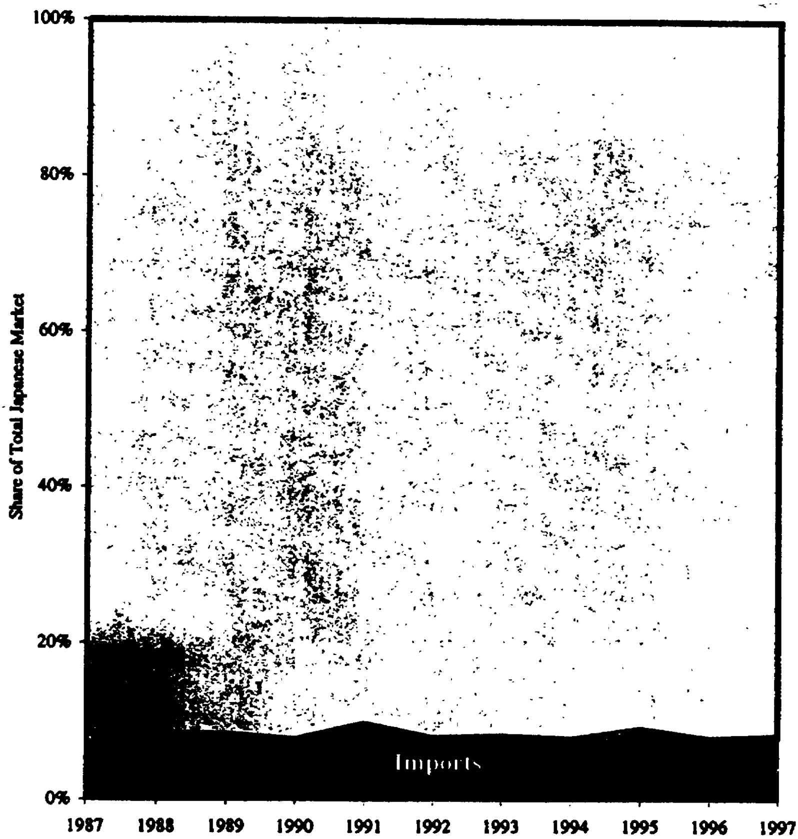
34 See "Patience Will Pay Off for Japan's Importers," *Metal Bulletin Monthly* (May 1991).

35 *Nihon Keizai Shimbun* (February 11, 1982).

36 *Metal Bulletin Monthly* (October 1994); *Nihon Keizai Shimbun* (August 2, 1994); *Metal Bulletin Monthly* (May 1991).

Figure I

Import Penetration into the Japanese Market is Low and Stable



Crude steel basis.
Source: JISF Monthly.

Division of Markets With the European Mills. The Japanese mills not only presided over the cartelization of Pacific Rim steel trade, but concluded a private bilateral arrangement with the integrated mills in the European Union to limit bilateral trade flows and divide the Eastern Hemisphere into respective Japanese and European spheres of influence.[37] Pursuant to the London Agreement, also known as the East of Burma Agreement, the EU and Japanese mills agreed to limit the volume of flat-rolled steel exports in both directions between the EU and Japan to very small tonnages (e.g. about 150 thousand tons per year from the EU to Japan).[38] The Agreement also severely limits European shipments to third country markets east of Burma (Myanmar) and Japanese shipments west of Burma. Today, apparently reflecting these arrangements, while the United States is being flooded with hot-rolled flat products from Japan, Europe is not. A Eurofer spokesman pointedly noted in October 1998 that while imports of hot-rolled flat products into the EU sheet from many sources were surging, "We have no problems with Japan in this area."[39]

The Japanese Steel Cartel Today. The domestic cartel and the system of comprehensive import protection which the Japanese mills established in the decade of the 1970s have remained virtually intact down to the present day, and as a result, Japan remains a high-priced steel island in an East Asian market awash with cheap steel. In consultation with Japan's Ministry of International Trade and Industry (MITI), the five biggest mills regularly exchange production plans and develop projected output ceilings which are required to keep domestic prices firm. Target output levels are reflected in quarterly "guideposts" or "forecasts" published by MITI. Joint output reductions, when required, are implemented according to agreement and embodied

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37 The arrangements between the Japanese and European mills have a long and tangled history, and have involved the Japanese government and EC authorities as well as private firms. They have existed since at least the early 1960s, when they were the subject of press reports in a number of countries and were even denounced by Hubert Humphrey on the floor of the U.S. Senate. ("Foreign Steel Divides Up U.S. Market," *Engineering News Record* (April 18, 1963); remarks of Senator Humphrey, *Congressional Record – Senate* (May 17, 1963, p. 9537).) In the following decades the EC-Japan steel cartel has been the subject of reports and commentary in many countries, and has become an "open secret" in the steel business. (See, for example *Handelsblatt* (October 29/30, 1976); *Metal Bulletin* (March 4, 1986, May 27, 1993); *Nihon Keizai Shimbun* (July 1, 1975); *Kyodo* (03:39 GMT, November 11, 1976); *Japan Metal Bulletin* (December 13, 1980); *Paine-Webber Steel Strategist* #18 (March 1992).) The European Commission's involvement continued into the mid-1980s; in 1985 a Commission document summarizing the EC's system of import restraint arrangements in steel stated as follows: "Arrangements covering Community steel imports for 1986 will be negotiated with the following countries...Japan (special understanding)." *Communication from the Commission to the Council Concerning the Negotiation of Arrangements on Community Steel Imports for 1986*, COM (85) 535 final (October 14, 1985). The Commission's direct involvement appears to have lapsed some time in the late 1980s or early 1990s.

38 For a detailed description of the London Agreement and its effects on steel trade in the 1980s and early 1990s, see Alan Wm. Wolff, "The Problems of Market Access in the Global Economy Trade and Competition Policy," in OECD, New Dimensions of Market Access in a Globalizing World Economy (OECD Documents) (1994). See also "Barriers to Importing Steel Into Japan," *New Steel* (March 1996); *New Steel* (February 1995); *Shukan Daiyamondo* (August 7, 1993); "Allegations of a Secret Steel Agreement," *Washington Post* (July 23, 1993).

39 *American Metal Market* (October 1998).

in MITI "forecasts."[40] MITI jawbones steel producers to ensure that output levels are not exceeded,[41] and, where necessary, MITI also directs steel producers to refrain from discount pricing.[42] (See Figure J.)

> *The biggest manufacturer, Nippon Steel, and MITI decide on everything. If Nippon Steel's production range is decided in the guideposts, others would be assigned to an appropriate rate according to their share. Of course, all prices are just the same.*[43]

There is essentially *no competition* between the Japanese integrated mills -- their market shares have remained absolutely the same for over twenty-eight years (Figure K).

Protection from imports, coupled with the absence of domestic competition, has enabled the Japanese mills to "carry" their capacity surplus -- roughly 15 to 20 million tons -- relatively intact through all of the economic recessions and upheavals of the 1980s and 1990s (Figure L).[44] As Professor Mark Tilton commented in October 1998:

> *Japan's long-standing protectionism has shielded it from global trade realities. The Japanese government, by restricting low-priced steel imports, has not forced the tough adjustments on the Japanese steel industry experienced by the U.S. steel industry. During the 1986-96 period, when the yen was strong and Japanese steel was especially uncompetitive, restrictions on imports allowed Japan to remain a major exporter of steel. Japan artificially maintained uncompetitive steel capacity*

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40 Typically, in September 1998 a Japanese steel industry source acknowledged that the Japanese mills had agreed on a 10 percent output reduction for the third quarters of 1998, based on a "generally agreed forecast" for fourth quarter output of 23.2 to 23.3 million tons." "Japan Extends Steel Output Cut," *American Metal Market*, Sept. 28, 1998.

41 Typically MITI official Kazumasa Kono said at the "Iron and Steel Distribution Discussion Group" in 1995: "I'm being transferred to a new post after today. Thanks [for your cooperation] over the past three years. The supply and demand forecast for July-September is 25,500,000 tons, 1 million tons less than the previous quarter. I would like you to cooperate in wiping out surplus inventory." "258th Iron and Steel Distribution Issues Discussion Group Meeting," *Zentetsuren Square*, July 1995, at 12.

42 Thus, in April 1998, MITI Basic Industries Bureau Steel Division Director Eiji Sakuta stated: "I would like the industry to avoid contests of sacrifice sales, in particular in these very serious times. It will hurt the industry if volume goes down and prices go down. To improve the market, it's crucial to reduce production. The other concern is excessive increases in inventories.... The reason why MITI produced its estimated demand as low as 23,000,000 tons is that we would like to send signal "to press the industry for good inventory adjustment." We really would like the industry to acknowledge the seriousness of the circumstances, to behave rationally (for avoiding sacrifice sales), and to make a plan for decreased production for riding on the wave of recovery." "Interview with Eiji Sakuta, Director of MITI Basic Industries Bureau on Issues of Future of the Steel Industry in Next Fiscal Year," *Tekko Shimbun* (April 12, 1998) at 2.

43 "Part II: Big Turn-Around, Truth of Interest Transferred, Regulations Made by Government and Industry as One to Block New Entries," *Mainichi Shimbun* (March 16, 1997).

44 Japan produced 104.5 million metric tons of steel in 1997. It consumed 82.1 million tons in 1997 and 72.3 million tons in 1998. IISI Steel Data Centre.

Figure J

MITI and Industry Use the Guidepost Managed-Trade System to Stabilize Prices

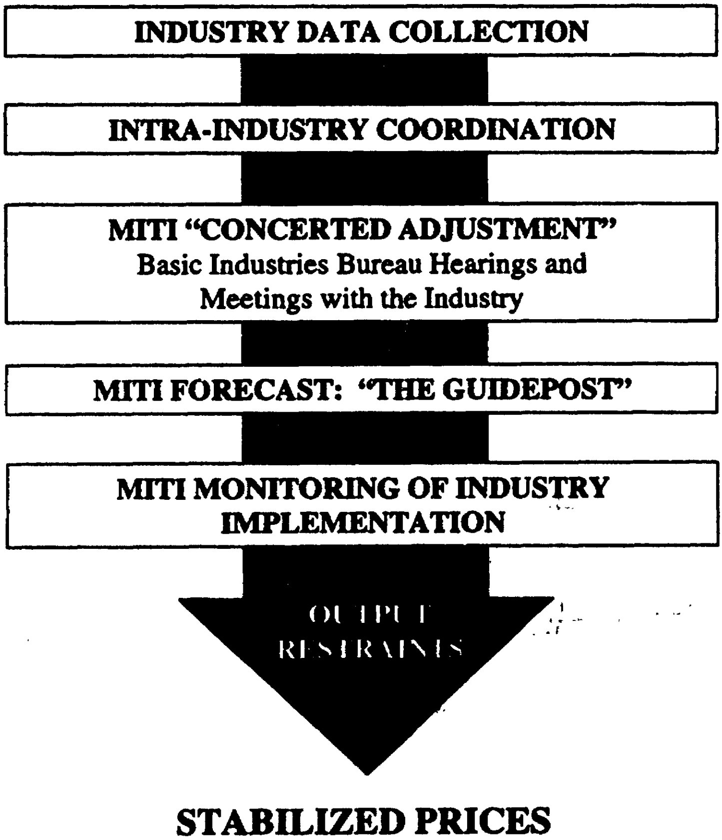
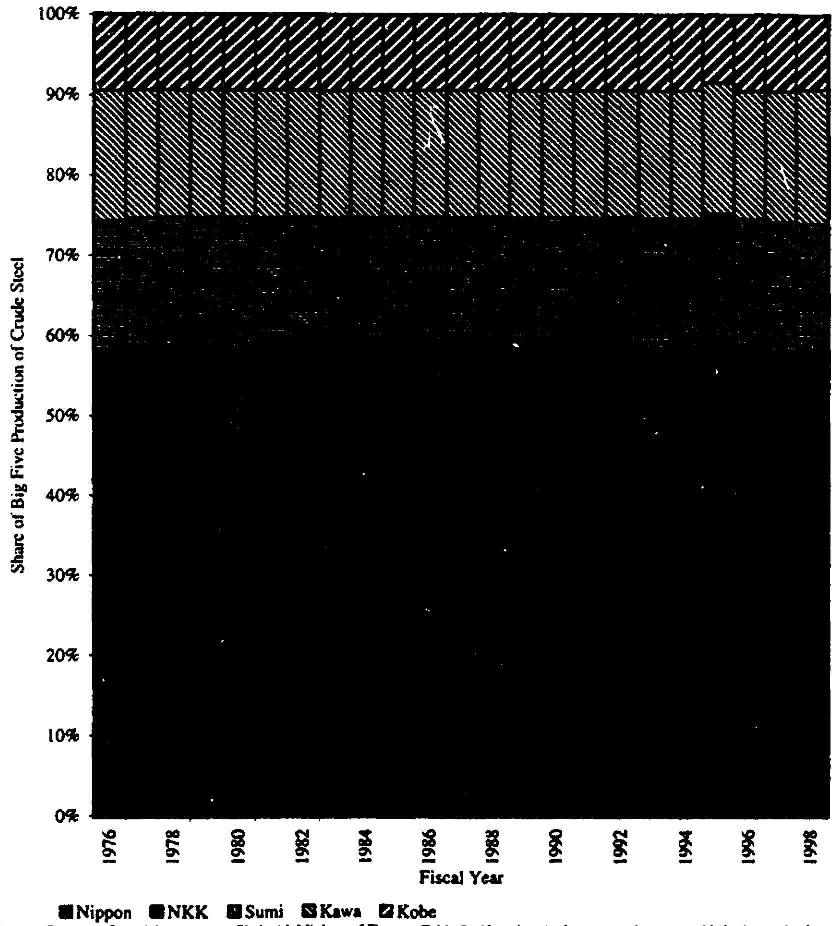


Figure K

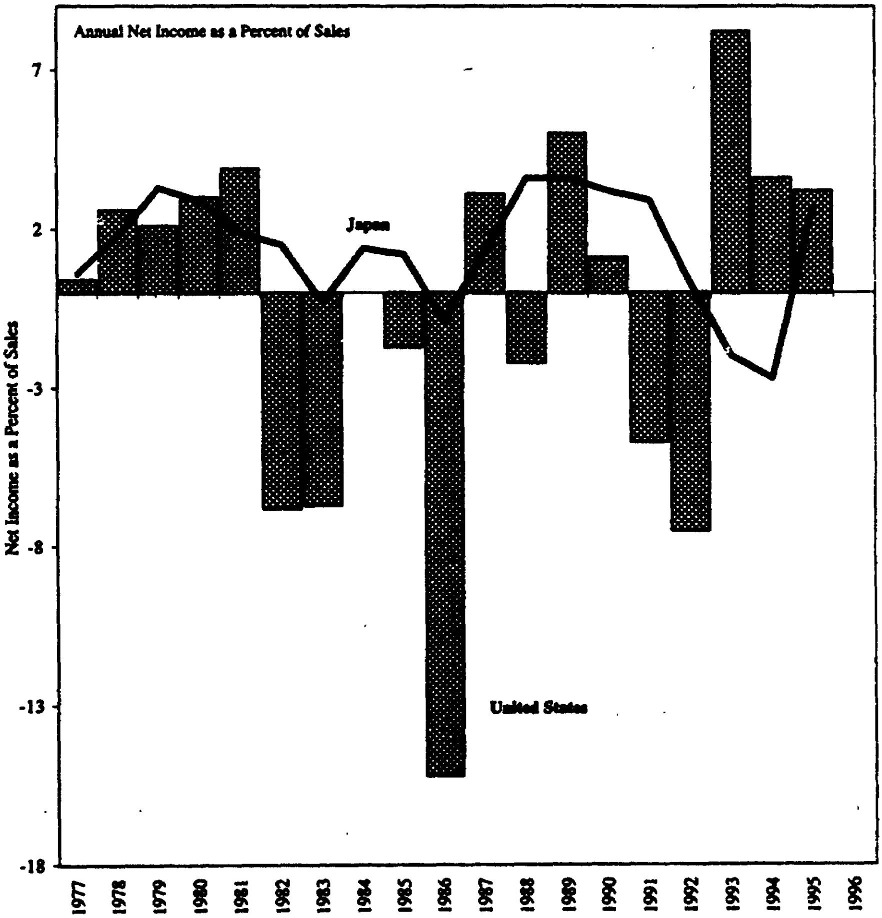
Japanese Production Shares Have Remained Stable Since 1970s



Source: Corporate financial statements filed with Ministry of Finance, Table D. Note that single-percent changes are likely the result of rounding errors (some data provided in thousand-ton increments). The 1994 JFTC Study indicated zero shift among producers during 1976-1993 period, despite changes implied by rounded data.

Figure L

Japanese Steel Industry Profitability is Relatively Insulated from Market Cycles



Source: PaineWebber, World Steel Dynamics Core Reports, HH/1987 update and TT/1997.

that has been the basis for this year's large exports to the U.S. and other countries... Japan's export surge to the United States should be viewed as a global bellwether. The fundamental solution to the problem Japanese imports are posing for the American steel industry is to insist that Japan break up its steel cartel and open its steel market to imports from around the world.[45]

The 1998 Export Drive. The Japanese mills jointly exercise vigorous control over the composition, price and volume of their exports to all world markets through government-sanctioned export associations.[46] They use this control to restrict exports to certain export markets when considered necessary -- e.g., to implement a cartel agreement involving mutual export restraint, or to avoid foreign government-imposed restrictions such as antidumping duties. But given Japan's large surplus production capacity, the Japanese mills are also capable of unleashing a massive torrent of steel exports into other world markets when they see fit to do so -- indeed, the threat of such an export flood is the principal mechanism for enforcing the mill-to-mill agreements with producers in other countries. Most commonly, an export drive is undertaken in conjunction with reduced domestic sales (Figure M). In April 1998, with Japanese domestic steel demand severely depressed, the Japanese cartel directed a veritable avalanche of dumped hot-rolled flat products into the U.S. market (Figure N). U.S. imports of hot-rolled sheet from Japan increased by 1,061 percent in 1998 over 1995 levels, and average prices of Japanese hot-rolled flat products have dropped from over $430/ton in 1995 to under $300/ton in late 1998. A Morgan Stanley analyst commented in September 1998 that "Japanese steel is just murdering [the U.S. industry]."[47] (See Figure O.)

President Clinton's January 1999 report to Congress on the steel crisis singled out Japan as the "single largest contributor to the current pressures faced by the American steel industry."[48] The Administration told the Japanese government that "we expect Japan's exports to return to appropriate pre-crisis levels," and the Japanese government reportedly responded that "Japanese steel levels will return close to 1997 levels in 1999."[49] But as of this writing, Japan has given no real commitments; after the Administration announced its policy, Japan's Ministry of International Trade and Industry issued a statement that "Japan never pledged voluntary steel export restraints to the United States and cannot accept such a step because it violates World Trade Organization (WTO) rules."[50] And Japan's Fair Trade Commission, which has made no

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45 Mark Tilton, *Japan's Steel Cartel and the 1998 Steel Export Surge*, (Japan Information Access Project, October 23, 1998).

46 *50 Year History of the Kozai Club Joho, Kozai Club Joho* (July 1979); (Tokyo; Kozai Club, May 1, 1997).

47 "Steel Imports to U.S. Set Record in July; Japan Claims Shipments are Slowing," *Wall Street Journal* (September 21, 1998).

48 *Report to Congress on Steel*, op. cit. (1999), p. 2.

49 *Report to Congress on Steel*, op. cit. (1999), p. 8.

50 "MITI: No Promise on Voluntary Steel Export Restraints," *Kyodo* (05:50 GMT, January 8, 1999). The notion that the U.S. expected Japan to restrain its exports was branded "a totally shameless act" and severely criticized in Japanese editorial pages. "U.S. Trade Policy Full of Contradictions -- Two-Sided Offensive in the East and West," *Shukan Daiyamondo* (February 20, 1999).

Figure M

Reduced Japanese Producers' Shipments to the Japanese Market Are Almost Always Accompanied by Increased Japanese Steel Exports

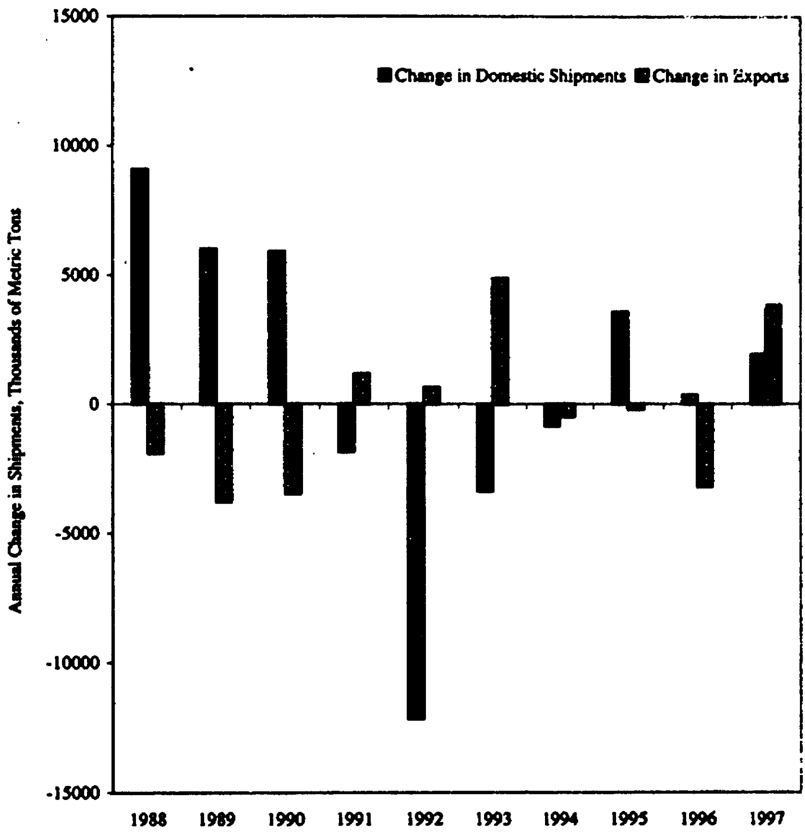
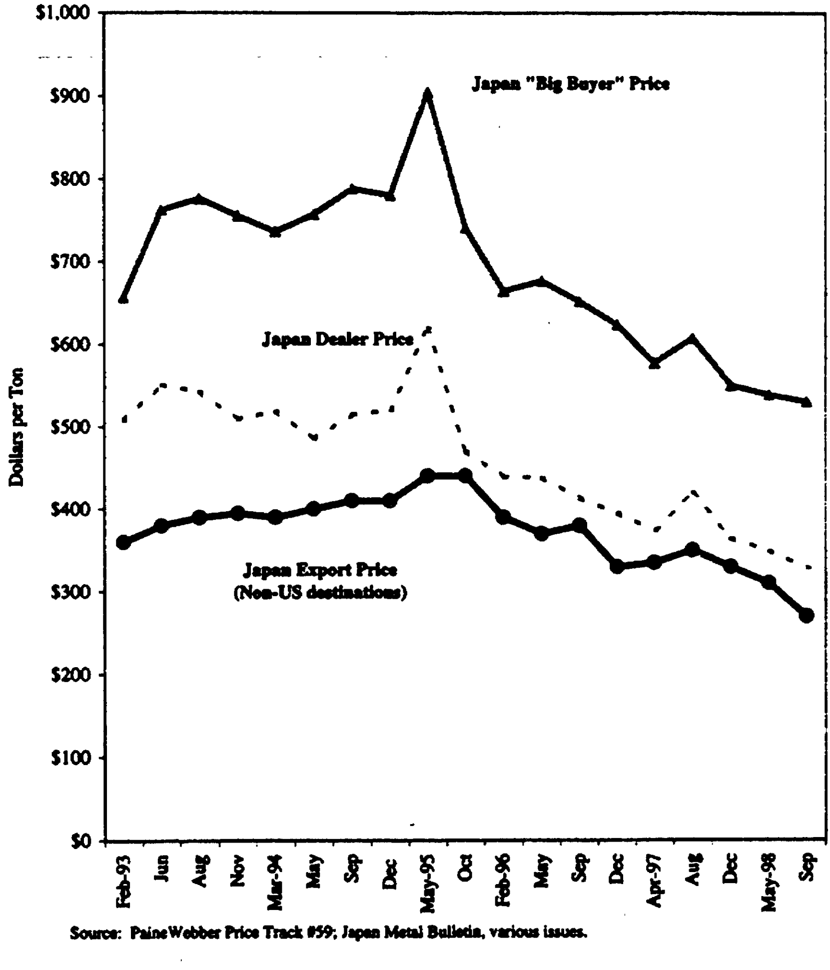


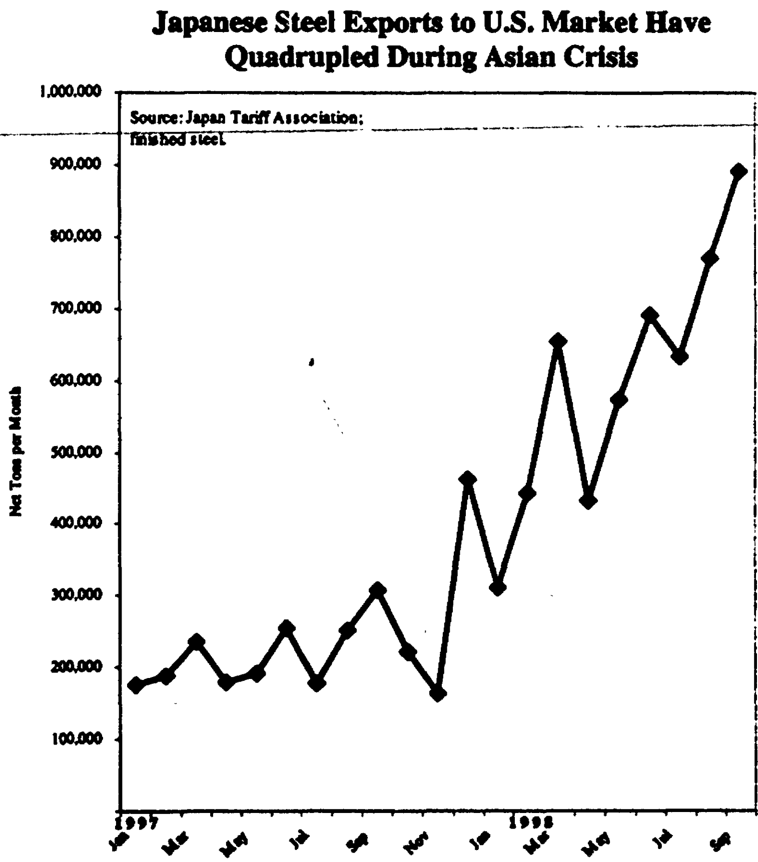
Figure N

Japanese Domestic Steel Prices are Substantially Above Japan's Export Prices: The Case of Hot-Rolled Coil



Source: PaineWebber Price Track #59; Japan Metal Bulletin, various issues.

Figure O


Japanese Steel Exports to U.S. Market Have
Quadrupled During Asian Crisis
Source: Japan Tariff Association;
finished steel.
Net Tons per Month
1,000,000
900,000
800,000
700,000
600,000
500,000
400,000
300,000
200,000
100,000
1997
1998
Jan
Mar
May
Jul
Sep
Nov
Jan
Mar
May
Jul
Sep

move to challenge the Japanese steel cartel in 28 years, suddenly sprang to life and declared it would not permit Japanese steelmakers to act jointly to limit their exports:

> *By stressing its approach of relying on market mechanisms, the JFTC is also aiming to suppress expectations by the U.S. government for a Japanese voluntary export restraint (VER).*[51]

Most importantly, the Japanese steel cartel remains intact and can generate another export flood at any time it sees an opening to do so.

Diversion of East Asian Steel. Japan's restrictive practices in steel not only affect the U.S. market in the form of direct exports, but by diverting massive volumes of steel manufactured in nearby Asian countries away from Japan into the U.S. market. Japan, with an annual consumption of over 70 million tons and the highest steel prices in the industrialized world, should be absorbing much if not most of the low-priced steel being exported by the East Asian mills (many of which were built with Japanese financial and technical assistance). Instead, in the current financial crisis, Japan has resolutely rejected all appeals, including direct pleas from President Clinton, to open its markets to exports from troubled East Asian economies. Japan's steel imports from East Asia occur only on a regulated basis, in volumes permitted by the cartel -- and in 1998 those volumes fell while the export volumes from these same countries to the U.S. rose dramatically (Figure P).

The most dramatic instance of diversion is offered by South Korea. Because Japan and Korea are close geographic neighbors and each country possesses massive steelmaking overcapacity, in a normally functioning market the two industries could be expected today to be locked in a ferocious competitive struggle. Instead the opposite is true -- the Japanese and Korean mills are reportedly closely coordinating their activities to avert such competition. Reflecting a détente between the largest steelmaking enterprises in the world (Nippon Steel and POSCO) surplus Japanese and Korean tonnages have been removed from Northeast Asia and exported to distant parts of the globe, primarily the American market.

When the Asian crisis began, Nippon Steel (on behalf of the Japanese mills) initiated intensive talks with POSCO to ensure against a destructive competitive price war.[52] These talks soon bore fruit. When the Japanese mills were seeking to implement price increases to the

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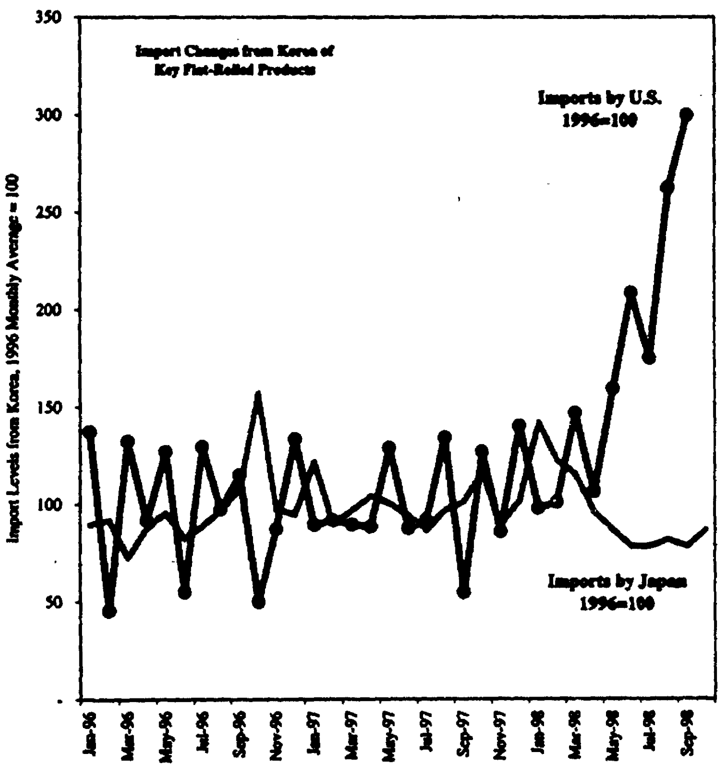
51 "JFTC Will Monitor Iron and Steel Exports to Prevent Collusion in Voluntary Restraints to U.S.," *Nihon Keizai Shimbun* (January 10, 1998).

52 A Japanese observer commented: "'Ever since the presidential election last December [1997], people from Nippon Steel's head planning office in Tokyo have been coming and going in a steady stream,' says an industry source stationed in Seoul. Finally, anxious to make a trip himself, [Nippon Steel] Vice-president Chihaya headed to Seoul. What did [Former POSCO Chairman] Park tell him? Probably, speaking in fluent Japanese, he said, 'I won't do anything to create chaos on the Asia market.' In other words, Park hadn't forgotten the debt of gratitude he owed Nippon Steel for helping POSCO to its feet when it was a national-policy-mandated project. He notified Japanese trading companies that he would let the price of surface-treated and heat-rolled coil shipments to Japan stand from March through May. POSCO, though saddled with U.S.-dollar-denominated debts, still managed to set the minds of those concerned at ease for the time being." "Report Sees Chain Reaction in Asian Crisis," *Shukan Toyo Keizai* (February 7, 1998).

Figure P

As the Asian Crisis Unfolds, Asian Exporters Shipped to the Low-Priced U.S. Market Rather than the High-Priced Japanese Market



Source: U.S. and Japanese government import statistics.

domestic auto industry for flat-rolled steel in the late 1997, "in response to requests made by Japanese mills to raise prices, POSCO, which plays the key role in setting prices for sheet, followed the Japanese mills and came into the negotiations over a rise in price for hot and cold-rolled plate and steel."[53] In the spring of 1998, it was disclosed that POSCO was negotiating with the Japanese mills for a possible cross-shareholding arrangement. Chairman Imai Takashi of Nippon Steel explained that:

> *As a competitor, Nippon Steel has exchanged information with POSCO to stabilize the market. If Nippon Steel can speak "as a shareholder who was requested to be one," there is a possibility that "a tacit cooperation system" will be established for the export market, like that in the domestic market.*[54]

An executive of the Japan Iron and Steel Federation spoke about the proposal in July 1998, noting that "if other [Japanese] blast furnace manufacturers acquire POSCO stock, and Japanese manufacturers together held about 10%, the market will be further stabilized."[55] Reflecting such "coordination," Korean steel is not disrupting the Japanese market and Japanese steel is not flooding Korea. Instead, both Korea and Japan have unleashed massive surges of low-priced exports directed at the United States.

Korea

South Korea's dramatic leap into the front rank of world steel producing nations is frequently cited as a leading example of the "Asian miracle," and the recent debacle in its steel industry is now emblematic of the "Asian mess." Korea, whose steel industry in 1970 consisted of a few antiquated facilities utterly incapable of meeting Korea's then-modest domestic demand, has emerged as the sixth largest producer of steel in the world and a major exporter. Its principal steelmaker, the Pohang Iron and Steel Company (POSCO), is the biggest steel producer in the world, and is widely respected for its efficiency and the quality of its products.[56] But if the creation of POSCO itself was a success, it is now painfully evident that Korea's policymakers simply did not known when to stop the industry's expansion, nor were its steel producers particularly sensitive to market signals. The same comprehensive government promotional policies that enabled Korea to create a modern steel industry fueled massive new capacity expansion projects in a glutted market -- a course of action so irrational that it ultimately precipitated the destabilization of the country's entire financial system.

The Korean promotional effort in steel began in the 1960s. Brushing off findings by the World Bank and U.S. Eximbank that its plan was not economically feasible, the government

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53 "Pohang of Korea Also Proposes a Raise of Prices, Japanese Plates and Sheet for Autos," *Tekko Shimbun* (October 3, 1997).

54 "POSCO Makes a Proposal of Cross Share Holding to Nippon Steel, Strongest Coalition to Develop Asian Markets," *Nihon Keizai Shimbun*, May 20, 1998, at 11.

55 "Nippon Steel and POSCO Move Toward a Capital Tie-Up," *Nihon Keizai Shimbun*, July 4, 1998.

56 "POSCO Keeps the Momentum Going," *Metal Bulletin Monthly* (February 1998).

created POSCO as a quasi-governmental entity headed by a retired general. The government, which ran Korea's financial system "like a military unit" directed Korean banks to loan massive capital to POSCO to fund its expansion, often at negative real interest rates. Between 1975 and 1998 Korean steelmaking capacity grew rapidly, from 2.0 million m/tons to 43 million tons (Figure Q).[57] By the 1980s POSCO and other Korean mills were producing far more steel than Korea's domestic market could absorb, and low-priced Korean steel exports were becoming a major factor in international steel trade.

The Korean government has always operated POSCO as an instrument of its industrial promotion policies. POSCO has provided steel to Korean manufacturers on the basis of two-tiered prices -- if an end product is to be exported, POSCO reportedly lowers the price "in order to increase the export-competitiveness of steel-using domestic industries"[58] -- a practice which effectively subsidizes Korea's exports of a variety of finished steel products. *New Steel* reported in July 1997

> *From the beginning, Korean steelmaking was a "strategic industry," Mahn-Je Kim, POSCO's chairman, told New Steel. This meant that POSCO was supposed to help its customers be competitive by producing low-cost steel. "Despite recent changes in the market environment, there is still plenty of pressure for us to keep subsidizing those customers," he says.*[59]

The Korean government has continued to channel resources into further expansion of the steel industry despite the crisis of global overcapacity that had become apparent by the 1980s, a practice which was the proximate cause of the Korean economic collapse in 1997. The Hanbo insolvency simply highlighted excesses which have characterized Korean policies in steel for many years. As one analyst put it, the problem in steel was "the country's government-dominated banking system and. . .the belief that the bigger you are the better you are."[60] Hanbo was "tottering toward insolvency" as long ago as 1989.[61] Nevertheless, despite the firm's precarious financial condition, and capitalization of only $106 million, Korean banks loaned about $6.7 billion to Hanbo to create a huge new integrated steelworks which would add another 7-10 million tons to Korea's steelmaking capacity. Much of the debt was channeled through government-controlled banks (at rates as low as 1.5 percent) or by private banks pressured by the government to make loans. One such bank loaned over 1 trillion won to Hanbo, representing

57 In 1987 a World Bank study commented that "it should be noted that, while the [Korean steel] industry has become technologically efficient, it was developed with highly subsidized capital and thus may not have been an economically efficient investment in and of itself." World Bank, *Korea: Managing the Industrial Transition*, Volume I (1987), p.2.39.

58 *Korea Metal Journal* (May 5, 1997).

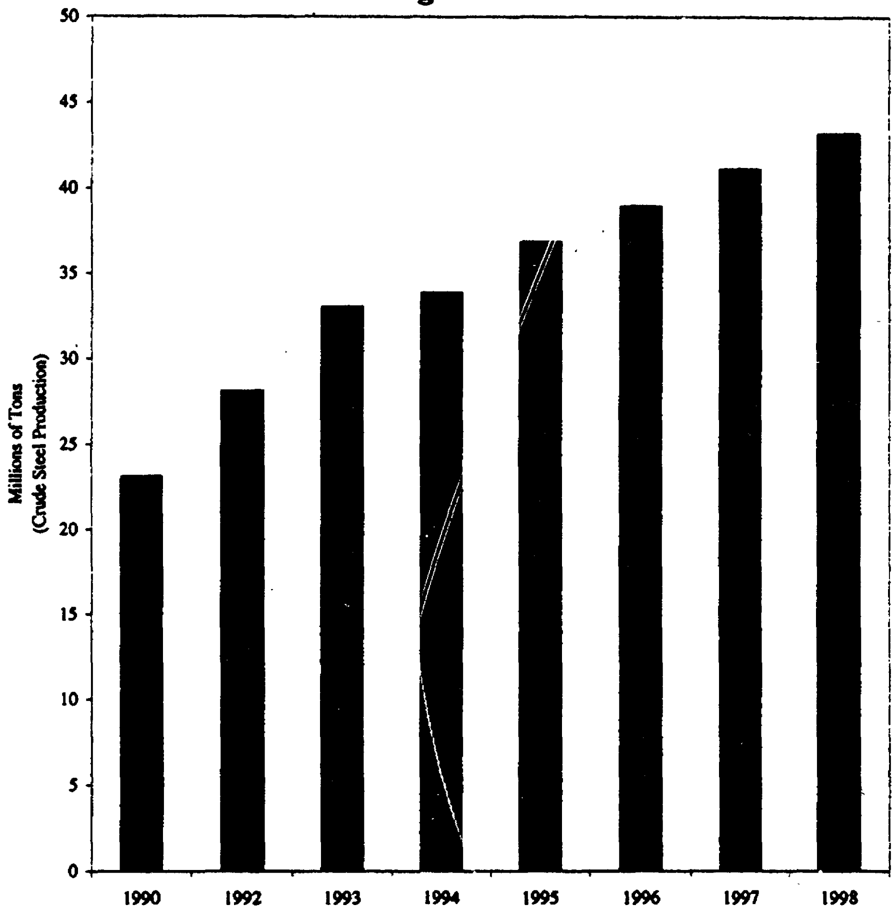
59 "Privatizing Steel in Latin America and Asia *New Steel* (July 1997). In the wake of the Korean economic crisis, in 1998 POSCO lowered the price of its steel sold for production for export in order to offset the effect of the devaluation of the Korean currency, which had caused steel consumers' raw materials prices to rise by 50 percent. *Korea Metal Journal* (May 7, 1998).

60 "South Korea Moves into a New Era," *Metal Bulletin Monthly* (February 1998).

61 "Q&A on Multibillion-Dollar Hanbo Scandal," *The People's Korea* (1997).

Figure Q

Korean Production Nearly Doubled During 1990-1998



Source: OECD.

nearly all the bank's book value, and many of the private bank loans were made without a feasibility study, the requirement of collateral, or a risk analysis, or other minimal lending safeguards. After Hanbo bankruptcy, it was revealed that many of the company's creditors had loaned it money under pressure from government officials. Scores of politicians were investigated; some were charged with pressuring banks to lend to Hanbo after receiving bribes from Hanbo, and several have gone to jail.[62]

Despite the Hanbo bankruptcy, the glut of steel on world markets, and the fact that Korea was "already awash with steel,"[63] in 1997 the Korean government pressed ahead with plans to expand Hanbo. It installed a management team from POSCO, injected grant money into Hanbo to enable it to continue operations, and organized a consortium of banks to ensure that funding would continue for further capacity expansion. The government also disclosed plans to provide funding for roads, piers, harbor construction, industrial water facilities, distribution depots and electric power stations.[64] Hanbo's major investments in capacity expansion continued, even though they were partly responsible for Hanbo's troubles in the first place.

POSCO itself showed little sign of retrenchment despite Korea's economic crisis:

> *While other leading Korean industries responded by curtailing their operation, POSCO doesn't have the luxury of being able to adjust its output. "Financial losses from tampering with blast furnace operations are enormous," says KIET research fellow Kim Joo-han. Steelmakers for this reason never go below 90 percent operation ratio, Kim explains.*[65]

However, POSCO has been forced by the crisis to redirect its exports. "'Short of Asian markets, the U.S. market may really be the only major alternative,' says Kim at KIET."[66]

U.S.-Korea Negotiations. The U.S. government has engaged Korea in extensive talks in 1997-98 (including an exchange between President Clinton and President Kim) to secure assurances that Korea would end "market-distorting subsidies" to Hanbo and would arrange a "market-driven sale of the company." The U.S. also pressed the Korean government to sever its ties with POSCO and provide guarantees that it would not influence POSCO's pricing in the future. Korea has assured the United States that it is taking such steps, and has given commitments to IMF to end government interference in the banking system. These recent

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62 An audit of the company revealed in 1999 that it had "doctored its books" to conceal a "slush fund" of $625 million. "Lawmaker: Hanbo Kept More than W733 Billion in Slush Fund," *Yonhap* (01:15 GMT, January 21, 1999).

63 Anti-Trust Authority Urges Shake-Up of Korean Steel," *Metal Bulletin* (November 26, 1998)

64 "Seoul to Support Completion of Harbor/Power Plant for Hanbo," *Asia Pulse* (March 12, 1997); "Delay Expected in Completing Hanbo's Tanjin Plant," *Korea Herald* (February 18, 1997)

65 "POSCO Bets on a Long-Term Export Recovery," *Korea Herald* (March 11, 1998).

66 Ibid. The Korea Institute for Economics and Technology (KIET) is a think tank which operates under the auspices of Korea's Ministry of Trade and Industry.

developments, however, are unlikely to resolve the problem Korea's government policies have created in steel:

- *Korean government assurances to the U.S. government in steel have historically proven unreliable.* For many years the Korean government assured the Commerce Department in formal submissions that it did not direct Korean banks to channel loans to designated industries such as steel. Today the whole world is well aware that such government influence over Korean banks on behalf of favored companies and industries, including steel, is not only the norm but the principal cause of Korea's economic crisis.

- *Korean government assurances to the IMF have proven unreliable.* The IMF stabilization program for Korea includes a pledge by the Korean government not to influence the lending practices of banks for industrial policy purposes. But government manipulation of banks to achieve specific industrial policy goals not only continues but is openly reported in the press.[67]

- *Hanbo's steelmaking capacity remains intact.* Hanbo's massive new steelworkers — which would not have been built in a market economy or in the absence of subsidies — remains intact and will resume producing steel upon the company's sale. The mere transfer of the firm to new owners — quite possibly another Korean steel firm — will do nothing to offset the effects of government actions that created Hanbo in the first place.

The Legacy of Communism

The production of steel occupied a position of quasi-mystical importance in the ideology and doctrine of the twentieth century communism, and the establishment of a large steel industry was an overriding goal, if not an outright obsession, of generations of central planners in the Soviet Union, Eastern Europe, and the Peoples Republic of China. In these command economies, enormous resources were mobilized and channeled into expansion of the steel industry, regardless of the economic cost and the human toll. Stalin's brutal forced industrialization of the 1930s transformed vast rural regions in the Ukraine and the Urals into major centers of steel production, and by the 1970s the Soviets had created by far the largest steel industry the world had yet seen. In China, under the slogan "all people joining steel production," Mao Tse-tung's Great Leap Forward (1958) uprooted 50 million peasants virtually overnight -- 19 percent of China's entire work force -- and dragooned them into the manufacture of steel, much of it in "backyard" mills so primitive that the steel produced was useless for any purpose. Romania's communist leaders pursued the expansion of the steel industry with such single-minded zeal that by the early 1980s this formerly-rural economy had been transformed

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67 On December 29, 1998, it was disclosed that "government-controlled Korean banks yesterday froze fresh lending to LG Semicon as punishment for defiance of a government demand that it merge with Hyundai Electronics Industries. The banks are also considering calling in existing loans." "Banks Freeze LG Semicon's Credit," *Financial Times* (December 29, 1998).

into the world's 12th largest producer of steel – and as one Western observer commented in 1984, "the building of a giant steel industry [was] an achievement that has helped to break the back of the Romanian economy and pauperize the population."[68] In Poland, so much of the national wealth was channeled into the ill-considered expansion of the steel industry that a Polish economist pleaded – vainly – in 1987:

> *Let us not blunder along any further. The insatiable steelworks demon is devouring all of the funds allocated for investment and it is also gobbling up raw materials and energy.*[69]

Although the Soviet Union was for many years the world's leading producer of steel in terms of volume -- with 186 million tons of output in 1986 -- its steel industry was wholly unsuited to competition in the world market. Most Soviet mills were built before or just after World War II, and used antiquated, inefficient open-hearth technology. The mills were sited where government planners wanted to put them, for reasons frequently wholly unrelated to cost or competitiveness. As a result, today much of the Russian steel industry is sited at remote inland locations -- secure, perhaps, from invading armies but far removed from low-cost ocean transportation and their sources of raw materials and markets. Overstaffing was endemic in the Soviet steel industry, and in the CIS successor states, steel mills continue to support "bloated work forces." At the Magnitogorsk Metal Works in the Urals, only half of the work force of 55,000 is actually making steel; the remainder are on the payroll because layoffs might lead to a "huge social explosion." For much of the industry there is no reliable cost data, and some mills conduct most of their business transactions in barter, even paying their taxes with steel.[70] Elements of the old Soviet command system are still evident.[71] The OECD commented in 1998:

> *"The pricing of Russian and Ukrainian steel exports has often been uneconomic due to the inability in these countries under the current economic conditions to employ standard accounting principles, the lack of finance and the use of barter, and the orientation toward production rather than profits.*"[72]

The CIS Export Push. During the Cold War, a number of communist countries -- particularly those in Eastern Europe -- used the export of commodity-grade steel to the West as a mechanism for earning hard currency. Erratic surges of cheap exported steel from Eastern Europe and the Soviet Union -- reflecting the decisions of state planners rather than market conditions or the relative competitiveness of the producers -- have been disrupting Western

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68 *Reuters North European Service* (May 16, 1984).

69 Dr. Wawrzyniek Wierzbicki in *Polityka* (January 10, 1987).

70 "Venezuela Slaps Duty on CIS Steel," *The Indian Express* (September 7, 1998).

71 A Ukrainian observer commented about his country's steel industry in 1998: "Many plants are preparing investment programs in the Soviet style, rather than creating modern, market oriented business plans. This is something which will have to change." "Dumping Action Hits Ukraine Exports," *Metal Bulletin* (October 1, 1998).

72 OECD, *Cooperation between OECD and Russia and Ukraine in the Steel Sector* (December 21, 1998).

markets for over 30 years, sometimes in spectacular fashion. However, in terms of sheer volume, there is simply no precedent for the flood of steel exports that has occurred in 1997-99, in the wake of the economic collapse underway in the former Soviet Union (See Figure D).

The breakup of the Soviet Union and the ensuing economic implosion in the CIS has precipitated an unparalleled crisis in the steel industry. Its principal traditional market -- the factories of what was once the Soviet Union -- has shrunk to a fraction of what it once was. The Soviet military machine, which generated the demand for much of the CIS steel output, is largely gone. The economic crisis in the CIS has depressed demand in the civilian economy as well -- Russia's GNP has fallen by over 42 percent since 1989, and Russia's steel consumption, once 970 pounds per capita, has today fallen to under 265. In 1997 the OECD estimated that the CIS countries had nearly *five times* as much steelmaking capacity as was needed to meet domestic demand.[73] Yet the mills in Russia, Ukraine and Kazakhstan continue to produce steel, reflecting the fact that in many steelmaking regions, there is literally no other economic activity that promises to support the population. A union official at Magnitogorsk commented in 1998 that "the steel mill is the main enterprise in the city. There is no other work."[74] And as Russian observers note, "it is only abroad that our metal industry has the chance to earn real money [e.g., hard currency]."[75] A Ukrainian observed noted in January 1999:

> *[D]umping is the name of the game. Ukrainian metallurgists call their branch "the big profit net of Ukraine," because it does just that; it nets the big fish called "big bucks."*[76]

But the same account noted that the hard currency being earned by steel exports was not flowing into the Ukrainian economy, but into the Swiss bank accounts of corrupt executives:

> *[M]etallurgy experts say that the money made from export does not go towards the branch's development, but straight to the private Swiss bank accounts of the plants' executives. "They sell 10 tons of metal in Europe through intermediaries. Then they put 0.5 tons in the report and put the rest of the money in their pockets," say ex-people's deputy, and social democrat Yuriy Buzduhan.*[77]

Under such circumstances, mills in Russia, Ukraine, and Kazakhstan have poured their products onto the export market, flooding markets all around the world with commodity-grade steel sold at extremely low prices. In May 1998 a European source complained that the Black Sea ports were clogged with over 2 million tons of steel "and the Ukrainian mills keep on

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73 OECD, *Developments in World Steelmaking Capacity*, DSTI/SI/SC (97) 38 (October 27, 1997).

74 "Facing Oblivion, Rust-Belt Giants Top Russian List of Vexing Crises," *New York Times* (November 3, 1998).

75 "Steel Industry Must Reorient on Home Market," *Nevasimaya Gazeta* (January 14, 1999).

76 "Demise of Metallurgical Industry Viewed," *Kiev Intelnews* (20:45 GMT, January 5, 1999).

77 "Demise of Metallurgical Industry Viewed," *Kiev Intelnews* (20:45 GMT, January 5, 1999).

producing -- this is what makes the market so difficult."[78] By mid-1998 Russian mills were exporting 65 percent of their output, and some producers were exporting nearly 100 percent of their production, usually at prices well below those prevailing in foreign markets. A Ukrainian analyst commented in 1998 that "very frequently, metal production is sold at a price lower than the cost of production..."[79] Incredibly, Russian plate and hot-rolled coils were apparently being sold in some markets at *less than half* the prevailing domestic market price.[80] CIS countries were even trading charges with each other over dumping steel -- in December 1998 the Russian Severstal and Magnitogorsk steelworks demanded imposition of antidumping duties on "the importation of cheap Ukrainian metals" into Russia.[81]

Chaotic steel market conditions were reported in Latin America, the Middle East, South Africa and Southeast Asia as a result of sharply rising imports from the CIS countries. Antidumping actions against Russian steel exports were launched in Canada, Mexico,[82] India,[83] Chile,[84] Thailand, South Africa, and the Philippines.[85] Ukrainian steel was the subject of antidumping or other trade measures in Venezuela, Chile, the United States, India, Canada, Mexico, Thailand, Turkey, Indonesia, South Africa, the Philippines, Colombia, Egypt, and Argentina."[86] "A huge stockpile of cheap, low-quality Ukrainian metal lying in heaps on the external market has only prompted wider-ranging antidumping investigations."[87] By late 1998 at least 30 countries had imposed import restrictions against CIS steel or were preparing to do so.[88] The progressive closure of markets around the world to CIS steel in 1997-98 has had a channeling effect on exports:

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78 *Metal Bulletin* (May 11, 1998).

79 "Metallurgy Anti-Dumping Measures Viewed," *Kiev Den* (September 30, 1998).

80 *Metal Bulletin* (May 28, 1998).

81 "Russian Metallurgists Against the Importation of Cheap Ukrainian Metals," *Izvestiya* (December 26, 1998); see also "Steel Dumping in Russian Market Alleged," *Segodnya* (October 14, 1997).

82 *Metal Bulletin* (May 28, 1998).

83 WTO, Semi-Annual Report Under Article 16.4 of the Agreement: India, G/ADP/N/35/IND.

84 WTO, Semi-Annual Report Under Article 16.4 of the Agreement: Chile, G/ADP/N/29/CHL (September 19, 1997).

85 *Metal Bulletin* (May 28, 1998).

86 "Dumping Action Hits Ukraine's Exports," *Metal Bulletin* (October 1, 1998); "Metallurgy Antidumping Measures Viewed," *Kiev Den* (September 30, 1998); "Demise of Metallurgical Industry Viewed," *Kiev Intelnews* (January 5, 1999).

87 "Demise of Metallurgical Industry Viewed," *Kiev Intelnews* (20:45 GMT, January 5, 1999).

88 OECD, *Cooperation Between OECD and Russia and Ukraine in the Steel Sector* (December 21, 1998).

With the closure of practically every other market, and with declining consumption at home, at the end of last year Russia turned to the last market still open -- the USA.[89]

A Moscow journal commented in January 1999 that "since the Asian crisis the U.S. steel market has been virtually the only place to sell this Russian product."[90]

In 1998, the United States bore the brunt of the Russian export onslaught, absorbing far more Russian steel than any other country. The volume of U.S. imports from Russia virtually exploded in 1997-98 as prices plummeted (Figure R). One Russian account acknowledged that in early 1998 "an avalanche of cheap Russian metal [was] hurled down on the American market."[91] Another Russian observer summarized the situation which was unfolding in June 1998:

The American continent accounts for 28 percent of the 26.5 million tonnes of Russian exported metal products. Russia has sold 42 percent of the "excess" steel in Asian countries (including China) at this point. While the Asian "flu" will not pass soon (and some OECD representatives believe that this "epidemic" will last until the year 2005), American producers truly do have every reason to fear Russian metallurgical aggression.[92]

The Russian Agreements. On February 22, 1999, following weeks of reports that the U.S. attitude toward Russian steel was "softening," the Administration announced it had concluded tentative agreements with Russia to restrict Russian steel exports to the U.S.[93] A "Suspension Agreement" suspends the antidumping proceeding brought by U.S. steel producers and workers against imports for hot-rolled flat products from Russia. The agreement would impose an annual quota on hot-rolled steel imports of 750,000 tons, or a 78 percent reduction from the 1998 level. The Suspension Agreement establishes minimum prices ranging from $255 to $280 FOB for sale of Russian hot-rolled products in the U.S. Finally, the Suspension Agreement establishes a six-month moratorium on imports of hot-rolled flat products from Russia into the U.S. Concurrently, the Commerce Department announced preliminary margins of dumping in the investigation of Russian hot-rolled steel which ranged from 71 to 218 percent.

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89 "Russia May Get Less than She Bargained For," *Metal Bulletin Monthly* (December 1998).

90 - *Nezavisimaya Gazeta* (January 14, 1999).

91 Maria Rozhkova, "Russians Go Home," in *Moscow Kommersant - Daily* (October 2, 1998).

92 "OECD Calls for Reduction of Steel Imports," *Segodnya* (June 9, 1998).

93 *Izvestiya* reported in January 1999 that "the White House position on this issue [steel] has evolved from very tough to moderately neutral... We can only hope that, in the course of future talks with the Russian side, the White House's position will change from moderately neutral to positive, and that, after the conclusion of an intergovernmental agreement on steel shipments, the antidumping investigation will be wound up. "U.S. Administration Softening Stance on Steel Imports," *Izvestiya* (January 12, 1999); see also "U.S. Decision to 'Spare' Russian Steel Makers Analyzed," *Izvestiya* (February 12, 1999).

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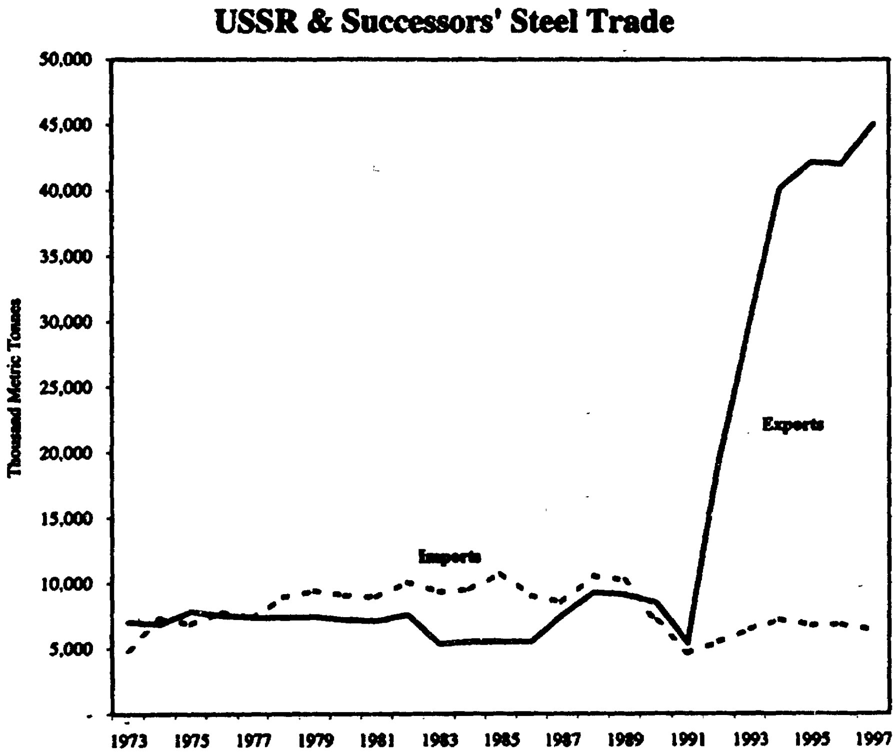
Figure R



Sources: Steel Statistical Yearbook, IISI (1983, 1988, 1998).

Note: Trade expressed in total finished and semi-finished steel products.

A parallel "Comprehensive Agreement on Steel Imports from the Russian Federation" established quotas on U.S. imports of a broad range of steel products from Russia.[94]

The U.S. steel industry sharply criticized the Russian agreements and asked that the Administration neither sign nor implement the tentative pacts. The industry pointed out that the agreement – by suspending the antidumping proceeding – would permit the Russian mills to continue dumping in the U.S. It contended that, in effect, the agreement cedes to the Russian producers a substantial piece of the U.S. steel market that was initially secured, and can now be held by dumping at dramatic margins. But while some Russian producers denounced the agreements, others hailed the tentative accords. The General Director of the Magnitogorsk Steelworks commented:

> *The absence of punitive duties planned against Russians signifies the further partner relations with the American buyers of Magnitogorsk metal –[the General Director said]. The plant welcomes the possibility to continue the exports, although at a smaller amount." The Russian market is so far unable to consume our metal now."*[95]

The Disappearing Chinese Market. While many communist countries built huge steel industries, through all the decades of the Cold War none of them became truly self-sufficient, and they needed to import large volumes of steel from the West--particularly higher-grade steel (such as seamless pipe and corrosion-resistant grades) that they could not make or could not produce in sufficient quantity. China in particular, which in the 1980s and 1990s boasted one of the world's fastest-growing economies, absorbed an enormous volume of exported Western steel – and indeed, had it not done so, the structural crisis which developed after 1974 would have been immeasurably worse. However, today this outlet – a steel export market as big as the United States – is rapidly disappearing as a result of government import-substitution policies. The closure of the Chinese steel market, which began with the issuance of an obscure government circular in 1994, is arguably an event which will have a greater impact on world steel trade patterns than would any conceivable program of import restrictions which the United States might implement. But in contrast to the tentative, fully transparent actions taken thus far by the U.S. government – which have triggered cries of alarm and protest all over the world – China's moves to close its vast steel market have passed unnoticed and unchallenged.

China's Late Start. Communism followed a different path in China than in the Soviet Union, a fact which is reflected in its emerging steel industry. Under Mao-Tse-tung's erratic leadership, China was in theory a centrally planned economy, but was in fact immersed in long periods of revolutionary turmoil and domestic chaos.[96] True central planning, involving the

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[94] U.S. Department of Commerce, *Commerce Secretary William M. Daley Announces Tentative Agreements Sharply Reducing Imports of Russian Steel* (Press release, February 22, 1999). The two sides also concluded a Memorandum of Understanding relating to the promotion of fair trade between the U.S. and Russia.

[95] Viktor Rashnikov, "Magnitogorsk Plant Head Approves of Steel Agreement," *ITAR-TASS World Service* (14:32 GMT, February 23, 1999).

[96] As the World Bank dryly expressed it, in an economy dominated by revolutionary committees which condemned technology, training, profitability, and efficiency, "allocation decisions became more and more

continued...

centrally-coordinated application of resources over a long period of time to achieve specified goals, did not really occur in a sustained fashion until new leadership rejected Mao's thought and launched the country on a course of economic reform in 1978. Among the priorities of Deng Xiaoping's regime was to create modern steel industry that would eliminate China's dependence on imported steel and enable China to become a net steel exporter.

China's steelmaking capacity has grown phenomenally in the two decades since Deng's policies were adopted. The government has channeled massive financial resources to the industry in a succession of Five-Year Plans, concentrating on the creation or expansion of several huge steelmaking centers. Modern equipment and technical assistance were secured from western countries, particularly Japan. Capacity grew from 32 million tons in 1978 to 52 million tons in 1986 and over 100 million tons in 1996. The current Ninth Five-Year Plan (1996-2000) calls for expansion of capacity to 130 million tons by the year 2000. Much of the cost of this effort is being provided by the central government or by local governments.[97]

While China's steel industry is now the largest in the world, it is for the most part not internationally competitive, and most of the industry would disappear under conditions of open competition. The industry has a work force even more swollen than that of the CIS mills. The Chinese industry employed over 3 million people in 1998, and several individual Chinese steelworks each employ more workers than the entire U.S. steel industry (300,000 workers at Anguang works and 260,000 at Shougang versus 226,300 for the whole U.S. industry.)[98] The industry guarantees lifetime employment to this vast workforce, as well as subsidized housing, health care, and other services. Per capita output at the end of 1996 was an abysmal 76 tons, compared with around 425 tons for mills in the U.S. and Europe. The quality of much Chinese steel is poor.[99] But central and local authorities have proven reluctant to allow poorly-managed enterprises to fail, and, where necessary, have intervened to bail them out.[100]

...continued

arbitrary and subjective as central management became increasingly ineffective." World Bank, *China: Socialist Economic Development* (Washington: World Bank, 1983) Vol. I, pp. 46-47.

97 *Mining Annual Review* (September 1997); "BOC Pledges Loans for Steel Giant," *Xinhua* (12:44 GMT) (July 24, 1998); "Liaoning Province Backs Large State Enterprises," *Xinhua* (8:35 GMT, December 28, 1998).

98 Economist Intelligence Unit and American Iron and Steel Institute.

99 "Pain Before Gain for Steel," *Inside China Today* (December 8, 1998).

100 Chongqing Special Steel Works, a "huge state-owned enterprise," ran into difficulty in 1997. "[W]ork in the old factory was a mess. There was no accurate report of the use of gas, electricity and water, nor was there an accurate account of the firm's spending." Chongqing stopped paying its workers in mid-1997, and an audit revealed that the firm was effectively bankrupt. China's State Council intervened, providing financial support and new managers. This episode was said to demonstrate that "contrary to popular belief that the State should stay out of an enterprise's business in a market economy, it seems the government's participation in some enterprises' management is still necessary. . . ." "Steel Works Saved by State Intervention," *China Daily* (August 24, 1998).

Closing the Market. Given the weaknesses of its industry and the progressive decentralization of economic decision-making, in the 1980s and early 1990s many Chinese enterprises preferred imported over domestic steel. By the early 1990s China had become the largest export outlet for steel except for the United States. But in 1993, China's imports surged – the country absorbed 30 million metric tons of steel, a quantity so large that industry observers complained that imports were "blind" and "out of control."[101] (See Figure S). Accordingly, in August 1994 China's highest authority, the State Council, issued a circular prescribing a series of policy measures to be taken to limit steel imports. The circular required, among other things, that steel trade be centralized in the hands of a limited number of national and local enterprises with "trading rights" to import steel products. In addition, any consumer wishing to import steel was required by the circular to file an application with a local authority designated by the State Planning Commission and demonstrate: (a) that the imported steel represented a "market need" and was required for local construction or manufacturing purposes; (b) that the consumer had secured renmimbi to pay for the steel; and (c) that an authorized import agent, and international supplier, and a domestic end-user all existed and were prepared to participate in an agreement.[102] The requirement that an end-user be identified prior to approval effectively forecloses the prospect of secondary sales of imported steel.[103] The net effect of these new rules has been to regulate the flow of imported steel and prevent the market re-sale of imported steel.[104]

After the issuance of the 1994 circular, China's steel imports were steadily ratcheted downward as it proceeded toward a declared goal of 100 percent self-sufficiency by the year 2010.[105] As a result, while China's steel demand continues to grow, its import volume is declining both in absolute terms and as a percentage of domestic consumption. China imported only about 14 million tons in 1995 and about 12 million tons in 1998. In late 1998 it was disclosed that with economic growth slowing and new domestic steelmaking capacity coming on stream, China would cut its steel imports in 1999 to 7 million tons. "China is closing its borders," an industry analyst said.[106]

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101 *Guoji Shangbao* (November 1994).

102 The registration requirement filled a gap left by the removal of import licensing requirements for steel pursuant to the October 1992 *Memorandum of Understanding on Market Access* between the U.S. and China. Under the registration system, as with the licensing scheme, Chinese authorities retain the discretionary authority to limit import transactions as they see fit. Dickson, *China's Steel Imports* (1996 op.cit.) p. 8.

103 The regulations designate 56 local registration authorities, so that any importer seeking to do business on a nationwide scale is required to register in each of the 56 jurisdictions.

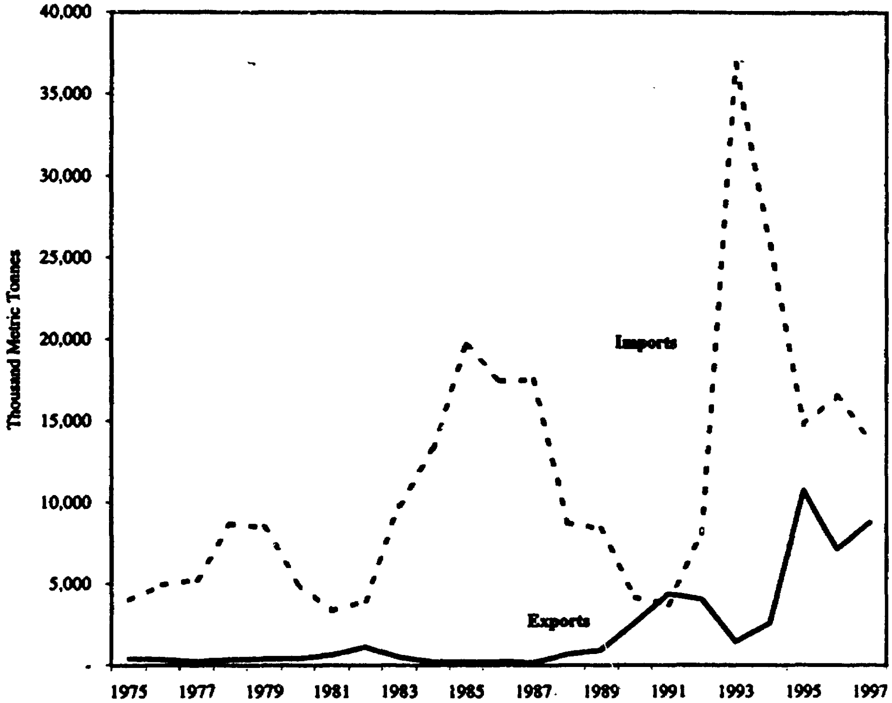
104 Ian Dickson, *China's Steel Imports: An Outline of Recent Trade Barriers* (July 1996, Working Paper, University of Adelaide, Australia).

105 Jiang Baozhang and Wang Yantian, "China: Minister on Steel Production in 1997," *Beijing Renmin Ribao* (March 4, 1997).

106 "China Seen Cutting Imports 40%," *AMM Online* (November 30, 1998). In 1995 China imported 235 thousand net tons of steel from the United States, making it the eighth largest export destination for U.S. steel products. In 1997 this total had fallen to 14 million net tons and in 1998, based on annualization of 11 months' data, to 13.6 thousand net tons. In other words, U.S. exports to China have fallen by over 94 percent since 1995. U.S. Department of Commerce statistics.

Figure S

China Steel Trade



Sources: Steel Statistical Yearbook, IISI (1985, 1988, 1998).

Note: Trade expressed in total finished and semi-finished steel products.

To put the global impact of China's new protectionist policy in perspective, the difference between China's import volume in 1993 (30 million metric tons) and 1998 (12 million tons) was 18 million tons. The drop in steel demand in Asia (excluding China) between 1997 and 1998 as a result of the financial crisis was 27 million tons. If China had been importing at 1993 levels in 1998, it could have absorbed two-thirds of the entire volume of surplus steel on the world market attributable to the Asian crisis.[107]

China is not only disappearing as major steel export outlet, but is on the verge of becoming a major exporter itself. While exports to date have been modest (about 3 million tons in 1998 and a high of 5.9 million tons in 1995), the government is implementing policy measures to stimulate steel exports. Steel was one of a handful of sectors which received preferential export tax rebates in 1998, a measure implemented to "cheapen China's exports to make them more competitive in export markets."[108] The American Chamber of Commerce in China reportedly characterized the measure as a disguised devaluation of China's currency in the form of an export subsidy, a charge which China rejects.[109]

Chinese enterprises have not only adopted many capitalist business practices, but some of capitalism's excesses. In late 1998 the Chinese steel industry was reportedly moving to form cartels to stabilize the domestic prices of steel products. The cartel initiative – centered initially on hot-rolled flat products – was a response to conditions of glut in the domestic steel market and reportedly involved the establishment of price floors through interfirm agreements and "punishing enterprises that sell their products at lower prices."[110] The government has buttressed these efforts with so-called "Self-Disciplinary Regulations on Steel Prices," which prohibit steel and steel trading firms from "reducing selling prices artificially."[111] These market-stabilization moves have drawn sharp criticism within China and may ultimately be reversed, but they bear watching.[112] China has no antitrust tradition and cartels may well appear to be an expedient

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107 Statistics from the International Iron and Steel Secretariat.

108 "Export Tax Rebates up for Five Sectors," *China Daily* (June 23, 1998).

109 "Raising of Export Rebate Rate Viewed," *Beijing Review* (February 15-21, 1999). China has taken pains to point out that the rebates merely return a portion of the domestic value-added tax to export enterprises and are therefore not a subsidy. However, the rebates are larger for a few key sectors (including steel, with an 11 percent rebate), than for Chinese exports in general, and were expressly implemented to stimulate exports in these sectors. As such, the higher rebates for preferred sectors are an indicator of China's export strategy, which appears to envision a major role for steel. The rebate for steel, for example, was increased to 11 percent because "under pressure from price competition from Korea and Japan, China's steel export has stalled." "Official Urges Reform of Export Tax Rebate," *Guoji Maoyi Wenti* (December 6, 1998).

110 "Chinese Industries Set Up Cartels to Deal With Glut," *Agence France Presse* (October 4, 1998); *AFP-Extel News Limited* (October 5, 1998).

111 "Government Begins to Regulate Steel Prices, *China Business Information Network* (November 2, 1998); "State Sets Minimum Price for Steel Products," *South China Morning Post* (September 1, 1998); "Official on Enforcing Price Regulation," *Xinhua* (08:29 GMT, September 20, 1998).

112 In November 1998 an official in the State Development Planning Commission told reporters that members of the State Council (China's supreme governing body) had assured him that the price-fixing policy would soon be reversed. "Beijing to Reverse Policy on Price-Fixing," *South China Morning Post* (November 10,1998).

response to stagnant demand and falling prices. In the past, in other countries, the emergence of cartels has been a precursor to massive dumping in export markets. Given the sheer size of China's steel industry, the closure of the Chinese market, coupled with the cartelization of the industry, could have a profoundly destabilizing effect in export markets in the coming months and years.

Brazil

Brazil has built the world's tenth largest steel industry, largely through a series of ambitious government-driven capacity expansion programs.[113]. The World Trade Organization estimates that the Brazilian government has invested $26 billion its steel industry since the mid-1950s:

> *The industry's growth was supported by successive Brazilian governments, initially through public investment in large integrated steel mills and later through fiscal incentives.*[114]

By the early 1980s the government's enormous commitment to steel produced an industry that was large, but which suffered from inefficiency, chronic massive losses, and operational chaos.[115] When the debt crisis struck developing countries in the early 1980s, it became clear that the steel industry -- by then grossly overbuilt -- was not only a principal source of the country's debt burden, but a policy instrument for improving Brazil's balance of payments through dramatic expansion of its exports.[116] Implementing an extensive array of export subsidies, the government demanded that the steel sector dramatically increase its exports "at any cost."[117] As a result, a massive surge of extremely low-priced Brazilian steel struck the world

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113 The U.S. Embassy in Brasilia commented in 1977 that the "Brazilian steel expansion program . . . is of truly vast dimensions, perhaps unparalleled in the developing world." U.S. Embassy, *Brazil's Steel Industry -- Status at mid-year* (August 31, 1977).

114 WTO, *Trade Policy Review: Brazil* (WT/TPR/S/Z1, 1996) p. 142.

115 A 1987 investigation of Cosipa, one of the three main integrated producers, by the Ministry of Industry concluded that "the company finds itself in a state of absolute financial, administrative, and operational disorder." *Gazeta Mercantil* (January 9, 1988).

116 Former Industry Minister Camilio Penna observed that foreign bankers "came knocking at any door offering money to buy a steel mill, using political and diplomatic pressure. We bought, and now the only way I have to pay the debt is selling steel." *Washington Post* (February 21, 1984); *Siderurgia Latinoamericana* (September 1986), pp. 49-50.

117 A Brazilian steel executive conceded in 1983 that "steel products were often exported at prices that were lower than desirable or even reasonable." SIDERBRAS President Cavalcante in *O Estado de São Paulo* (March 13, 1983).

market in the mid-1980s, creating turmoil in markets all over the world.[118] Many countries imposed restrictions on steel imports from Brazil.

Confronting the collapse of the state steel sector at the end of the 1980s, the Brazilian government changed course and embarked on a sweeping privatization effort. By 1993, eight steel firms had been privatized. The industry became profitable, cut costs, and overcame many of its operational problems. However, subsidies and other forms of state support, while scaled back, have nevertheless continued. Brazil's biggest producer, CSN, is currently building a new mill in Ceara with "lucrative tax benefits and cheap electricity,"[119] and the steel industry remains one of a number of "strategic" sectors designated for government support and easier access to low interest loans.[120]

Brazil's steel industry possessed significantly more capacity than was needed to supply the domestic market even before a recession developed in Brazil in 1998. With the onset of the world financial crisis, demand for Brazilian steel in Asian markets collapsed at the same time that domestic demand fell. As a result, as the President of the Association of Brazilian exporters expressed it, "Brazil will need to be more aggressive in other markets such as Europe, Mercosur and the United States."[121] This "aggression" was demonstrated in Brazil's exports of hot-rolled flat products to the U.S., which increased by 75 percent in 1997 over 1996 levels. By the third quarter of 1998, prices of Brazilian hot-rolled flat products sold in the U.S. had fallen to their lowest level in years, over 25 percent below the level at the beginning of 1995.[122] In February 1999, the U.S. Department of Commerce announced preliminary antidumping and countervailing duties on imports of hot-rolled flat products from Brazil, with antidumping margins as high as 71 percent -- measures which Brazil characterized as "arbitrary" and "artificial."[123] Nevertheless, the Brazilian mills remain bullish about their export prospects for 1999 because the 10-percent devaluation of the Brazilian currency enhances their price competitiveness relative to Russia and Korea, two of the most aggressive steel exporters.[124]

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118 The Department of Commerce found that Brazilian firms were dumping steel in the U.S. at margins which in one case exceeded 100 percent. *Certain Flat-Rolled Carbon Steel Products from Brazil*, 49 F.R. 3102 (January 25, 1984). for accounts of disruption of world markets during this period by Brazilian steel exports, see *Metal Bulletin* (January 28, 1983) (Canada and East Asia); *Metal Bulletin* (May 18, May 29, August 6, 1982) (European Union); *American Metal Market* (January 28, 1981, July 27, 1983) ("United States -- the shipment of more than 700,000 tons of [Brazilian] steel – mainly plate – had 'literally destroyed' pricing in the Gulf Coast region," Ibid.)

119 *Luxner News, Inc.* (June 1, 1997).

120 "Government Launches Export Stimulus Program," *O Globo* (September 8, 1998); "Brazil Pushes Exports as Gap Widens," *Journal of Commerce* (February 10, 1998).

121 Between January and April of 1998, Brazil's exports of rolled steel products to East Asia fell by 48 percent. "Asian Woes Impact on Exports Discussed," *Correio Brasiliense* (June 16, 1998).

122 U.S. Department of Commerce.

123 "Minister on Steel Exports to the U.S., Embraer Issue," *Folha de Sao Paulo* (February 18, 1999).

124 The Brazilian producers are frank in their assessment that steel export volume will increase at a higher rate (4.8 percent) than steel export value (4.0 percent), suggesting a further decline in export prices is anticipated. "Exporters Foresee $6 Billion Trade Balance Surplus," *Jornal da Tarde* (February 15, 1999).

Protecting the Market. Brazil has persistently and heatedly denounced "protectionist" policies in the United States and the EU which limit its exports of steel products.[125] "Our patience is reaching its limit," warned Foreign Minister Luiz Felipe Lampreia in 1997 with respect to U.S. antidumping and countervailing duties on Brazilian steel.[126] Brazil's Minister of Industry, who observes that "foreign trade nowadays is not a game for schoolgirls in a convent,"[127] said in 1998 that

> *President Fernando Henrique has already announced that the government intends to increase our exports to $100 billion by 2002. Brazil is going to achieve that goal whether the WTO likes it or not.*[128]

At the same time, while bristling at foreign impediments to its export push, Brazil has moved to impose its own comprehensive restrictions on imports into its domestic steel market. Beginning in mid-1997, Brazil established a requirement that importers either make an advance non-interest bearing deposit of the purchase price of imported goods or wait 366 days before remitting payment, thus effectively forcing the exporter to provide long-term financing.[129] In addition, in 1998 Brazil implemented an information technology system, "Sisomex," for import licensing which permits a government administrator to establish a minimum import price for the transaction.[130] These restrictions have been denounced by a number of Brazil's trading partners, and Brazil has responded defiantly. When the European Union sought consultations with Brazil in the WTO over the import deposit requirement, the Brazilian Minister of Industry commented that

> *the WTO is made up of a gang of idlers preoccupied with seeing to it that developing countries such as Brazil export less and import more.*[131]

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125 "Lampreia Expresses Concern for U.S. Steel Protectionism," *Agencia Estado* (November 19 1998); "De Lima Scores U.S. Protectionist Policy," *Correio Brasiliense* (August 10, 1998); "Cardoso Voices Concern About U.S. Protectionism," *Gazeta Mercantil* (December 10, 1998);, "German Trade Barriers for Brazilian Products Criticized," *Jornal do Brasil* (April 24, 1998).

126 "Lampreia on U.S. Trade Restrictions on Brazilian Steel," *São Paulo Agencia Estado* (23:43 GMT, September 2, 1997).

127 "Financial Dumping by Foreign Firms Scored," *Jornal do Brasil* (December 26, 1997).

128 "Dornelles Scores WTO on Export Stimulus Probe," *O Globo* (February 5, 1998).

129 "EU Consults with Brazil in WTO on Import Payments Restrictions," *RAPID* (Press Release, February 20, 1998); "Government Tries to Curb Imports to Lower Trade Deficit," *Rede Globo Television* (23:00 GMT, March 27, 1997).

130 "Brazil Regulations: New Rules to Slow Imports, Cut Trade Deficit," *EIU Views Wire* (September 25, 1998).

131 "Dornelles Scores WTO on Export Stimulus Probe," *O Globo* (February 5, 1998).

The European Union

The current open world trading system, based on the General Agreement on Tariff and Trade (GATT) and its satellite agreements, is mostly the product of a longstanding collaboration between the United States and Western Europe. The Americans and West Europeans share a general commitment to liberal trade, encouragement of foreign investment, open markets, and rules-based resolution of disputes. U.S.-European economic relations have nevertheless been marred by acrimonious, recurring disputes in several sectors. While the most bitter controversies have erupted over trade in farm products, no manufacturing sector has generated as much rancor over a sustained period as steel. For decades, U.S. producers have filed trade actions against subsidized and dumped steel from Europe, and the Europeans have vehemently objected to U.S. "protectionism."

At present, the most pressing immediate issue confronting the U.S. and the EU is whether and to what extent the burden be equitably shared of absorbing exported steel products from countries in economic crisis. However, the steel issue, dormant of the past five years, could erupt into another major dispute if the EU mills, suffering from overcapacity, launch an export drive aimed at the United States, as has occurred in past recessions.

The Record of Intervention. In the first 25 years after World War II, the nations of Western Europe devoted an intensive effort to rebuild steel industries that had been shattered by the war. In some countries, such as Germany, with an established industry and tradition of steelmaking, most of the reconstruction and expansion effort was undertaken and financed by the private sector. In France, Italy, Britain, Belgium and Spain, when private firms could not raise the capital required, governments provided the necessary investment funds. Both private and government investors based their expansion plans on the assumption that the buoyant economy and rising level of steel consumption enjoyed by Western Europe in the 1960s would simply continue along the same trend lines in subsequent decades. State planners directed massive public resources into the construction of new steel mills in underdeveloped areas such as southern Italy, southern France, rural Sweden and Scotland.

With the onset of the structural recession, steel demand in Europe fell abruptly, from 124 million tons in 1974 to 102 million tons in 1975, and prices dropped 35-40 percent. Largely failing to recognize that this downturn marked not just another recession but a fundamental change in the pattern of demand, many European governments and producers continued to press ahead with ambitious capacity-expansion plans they had mapped out in the early 1970s. Five years after the structural recession had struck with full intensity, many of the Community's economic decisionmakers were still resisting capacity reduction initiatives, and, in some cases, were pressing forward new expansion plans, with an "overoptimism which in some cases bordered on the extravagant and the perverse."[132] The result was catastrophic. Virtually all major producers suffered unheard-of losses; by the early 1980s the state steel enterprises of France and Italy ranked among the biggest money-losing enterprises in the world, and British Steel had achieved the dubious distinction of being the greatest loss-making enterprise in the

132 Yves Meny and Vincent Wright, eds., *The Politics of Steel: Western Europe and the Steel Industry in the Crisis Years* (Berlin and New York: Walter de Gruyther, 1987), p. 11

history of the United Kingdom.[133] In Italy, the crisis in steel was characterized by *La Repubblica* as "the major economic disaster in the history of industrialized Italy,"[134] and in France, it was called "the greatest mess we have seen in thirty-five years."[135]

Subsidies. While European governments were already providing substantial subsidies to the steel industry before the crisis, the sheer volume of government money poured into steel after the crisis began was nothing short of stupendous. The EC Commission approved over $35 billion in subsidies for steel by Member State governments between 1980 and 1985,[136] and by 1982 the German Steel Federation complained that in Britain, fully one-half the cost of producing a ton of rolled steel was provided by the government.[137] In Luxembourg the drain of steel subsidies on the national treasury was so great -- three percent of total national expenditures -- that the government was forced to raise the cost of public telephone calls and increase taxes on alcohol, cigarettes and gasoline to raise the needed revenue.[138] While the bulk of the subsidies were provided merely to ensure that lossmaking steel producers would survive, government money also enabled these firms--which were uncreditworthy by any reasonable definition--to modernize through the acquisition of expensive state-of-the-art equipment.

In recent years the European Commission has been successful in substantially reducing, although not eliminating, the flow of subsidies from national governments to the steel industry, and a number of state-owned firms have been or are being privatized. Firms such as British Steel, which once benefited from enormous subsidies, have renounced state financial aid to the industry, and are currently vigorously criticizing and legally challenging specific subsidy proposals in other Member States.[139] Nevertheless, steel subsidies have not been eliminated and remain a controversial issue within the EU and with the EU's trading partners. The Commission approved $8.3 billion in steel subsidies in 1994, principally to mills in Spain, Italy and the former East Germany.[140] A new EU State Aids Code which took effect in 1997, actually expanded the universe of allowable subsidies for the EU steel industry -- leading a U.S. steel executive to complain that "They (Europeans) are going backwards on state aid, rather than forward." Moreover, the effects of the massive subsidies of the 1980s on the industry are still readily apparent today. There is still more steelmaking overcapacity in the EU -- over 30 million tons -- than in any other region of the world except the former Soviet Union. The Community

133 *Sunday Times* (December 27, 1981).

134 *La Repubblica* (October 3-4, 1982) cited in Meny and Wright, op.cit., p. 5.

135 Michel Freyssenet, *La Sidurgie Francaise 1945-79: L'Histoire d'un Faillite, Les Solutions qui s'Affrontent* (Paris: Savelli, 1979) cited in Meny and Wright (1987) op. cit., p. 504.

136 EC Commission, *Report from the Commission to the Council on Application of the Rules on Aids to the Steel Industry*, COM (86) 235 Final (August 6, 1986).

137 Wirtschaftsvereinigung Eisen und Stahlindustrie, *Practical Experience with Governmental Assistance to the Steel Industry of the European Community* (February 1982).

138 *Europe* No. 3588 New Series (April 5, 1983), No. 3691 New Series (September 19-20, 1983).

139 "EC Court Rules in Ilva's Favor Against British Steel," *ANSA* (11:03 GMT, October 24, 1997).

140 "The Decline in European Subsidies," *New Steel* (June 1997).

steel industry is dramatically larger today, as well as far more efficient, as a direct result of what is probably the largest infusion of money made by governments into a specific civilian manufacturing sector since the beginnings of industrialization.

Cartels. The cartel is frequently said to be a European innovation, and while that proposition may be debated, there is no question that cartels have found a particularly sophisticated and widespread expression in the European steel industry in this century. European producers have a long tradition of using "gentlemen's agreements" and other anticompetitive arrangements to stabilize steel markets.[141] The European cartel tradition is fundamentally inconsistent with the principles underlying the U.S. antitrust laws, and this divergence has produced some of the worst U.S.-EU economic conflicts of the past 30 years. In steel, European cartels have fostered, periodic surges of dumped exports from the EU into the U.S. market. In the present crisis, any move by the European mills to cartelize their market – historically their standard response to recession – should be viewed with extreme concern by the U.S. government.

Cartel agreements to divide markets and restrain price competition were legal, and legally enforceable, in a number of European countries until and during World War II,[142] and in the 1920s and 1930s the entire European steel industry was organized into national cartels which in turn belonged to an International Steel Cartel (ISC).[143] The U.S. Occupation introduced American antitrust concepts to Europe, but rather than wholly displacing the cartel philosophy, these ideas resulted in the formation of institutions which incorporated both antitrust and cartels as legitimate industrial policy concepts under certain circumstances.[144] Price fixing, restraints on output and other anticompetitive activities were prohibited by the Treaty of Paris, which created the European Iron and Steel Community, but the Treaty also permitted the Brussels authorities to authorize legal cartels to surmount severe recessions (which they began to do in 1967).[145] The same institutional tensions characterized the constitution of the young Federal Republic of

141 See generally Federal Trade Commission, *Report on Cooperation in American Export Trade, Part I* (June 30, 1916).

142 See Robert Brady, *The Rationalization Movement in German Industry* (New York: Howard Fertig, 1974).

143 Ervin Hexner, *The International Steel Cartel* (Chapel Hill: University of North Carolina Press, 1943). The ISC was hailed by European politicians as an institution which would reduce fluctuations in price and contribute to world peace. "I regard the conclusion of an international steel cartel as a landmark of international economic policy." – German Foreign Minister Gustav Stresemann, *Frankfurter Zeitung*, (October 2, 1926), cited in Hexner, op. cit. pp. 207, 244-45.

144 John Gillingham, *Coal, Steel and the Rebirth of Europe, 1945-55* (Cambridge: Cambridge University Press, 1991).

145 H.C. Kohler, "Vestrachliche Formen der Zusammenarbeit in der Produktion und Beim Verkauf Stahlerzeugnissen," *Stahl und Eisen* (April 17, 1969).

Germany.[146] In addition, the Community's competition authorities tended to turn a blind eye to the extensive cartelization of the European steel industry by the private sector.[147]

When the structural recession struck in the mid-1970s, it quickly became clear that traditional private restraints would not suffice to maintain market stability in the Community, and the European Commission intervened with progressively more stringent market-regulating measures.[148] In 1980, invoking the Paris Treaty's provisions, the Commission declared a state of "manifest crisis" and imposed mandatory production quotas on many steel products.[149] Any firm that produced steel in excess of its quota (except for export) or which undercut the legal minimum price, was subject to Commission fines. These measures were reinforced by the integrated steel industry association, Eurofer, which enforced quotas on deliveries to steel consumers in the EU. The Commission-Eurofer anticrisis measures remained in effect for eight years, were phased out, and then reintroduced, in a much more limited respect, in 1992-94. These measures saved many European mills from what would otherwise have been almost certain extinction, but they left a decidedly mixed legacy:

- **Overcapacity.** If subsidies have been the principal factor continuing to the EU's longstanding capacity surplus, cartels – whether formally sanctioned by the EU authorities or not – have also played a major role in preventing the market from forcing a contraction on the EU industry. The production quota system "support[ed] prices and help[ed] to keep inefficient steel companies alive."[150]

- **Dumping.** The Community's crisis measures were designed to reduce the volume of steel within Europe, thus stabilizing prices. A damaging side effect was the consequent displacement of the Community's steel surpluses into export markets.[151]

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146 David B. Audretsch, "Legalized Cartels in West Germany," *The Antitrust Bulletin* (Fall, 1989).

147 See "Cartels Fence in European Steel," *Business Week* (September 3, 1966); Klaus Stegemann, *Price Competition and Output Adjustment in the European Steel Market* (Tübingen: J. C. B. Mohr, 1977).

148 Measures included mandatory floor prices on some steel products, "recommended' price floors on other products, and voluntary production quotas. Fines were imposed on firms which undercut the mandatory minimum prices. *Official Journal* Nos. L. 114 (May 5, 1977); L. 133 (June 7, 1978); L. 352/1; L. 352/8; L. 392/4 (December 4, 1977).

149 *Official Journal* No. L. 291 (October 31, 1980).

150 *Financial Times* (June 8, 1987). A commission of "Wise Men" tasked by the EC Commission to examine the overcapacity problem in the steel industry reported in 1987 that the production quotas "go too far in softening the financial and commercial pressures to act quickly in order to adapt to the foreseeable market situation. . . . It is obvious that, having been protected by a quota system for seven years, and having become accustomed to the system being extended, the companies are not prepared to give adequate undertakings regarding closures. . . ." EC Commission, *Communication from the Commission to the Council Amending COM Final/2 of 17 September 1987*, COM 87 640 Final, November 26, 1987.

151 See T. Howell, W. Noellert, J. Kreier and A. Wolff, *Steel and the State: Government Intervention and Steel's Structural Crisis* (Boulder and London: Westview Press, 1988), pp. 102-108.

- **Persistence of the cartel tradition.** In the 1990s the Community has taken dramatic steps to enforce a more rigorous competition policy. A series of investigations by DG-IV, the EU's competition authorities, has revealed that cartel activity has continued to flourish in the EU steel industry even though the official sanction for such activity was withdrawn years ago.[152] The roots of these persistent clandestine arrangements are traceable, in most cases, to the period of anti-crisis measures that began in the late 1970s, which in turn served to carry forward the "cartel concept" that was embraced by European leaders of the prewar era.[153]

The current surge of imports into the EU from various countries not subject to formal import restrictions presents a challenge to any new European industry effort to reestablish cartel discipline in the EU market, whether with formal approval from Brussels or not. But such problems have been surmounted in the past within a relatively short time frame, and the same could be true in 1999 or beyond. The East of Burma agreement with the Japanese mills appears to be holding up. U.S. policymakers should remain vigilant to ensure that recartelization of the European market does not occur, or, failing in that, that EU surpluses are not – as in the past – displaced into the American market.

Sharing the Burden. Western Europe's geographic proximity to the CIS countries and Eastern Europe make it a more natural export market for steel produced in the former Soviet Bloc than the United States. However, the EU has negotiated agreements with Russia, Ukraine and Kazakhstan which establish quotas on the annual volume of steel the EU will import from these countries. The total quotas for flat-rolled products from all three countries combined in 1997 was 866,690 metric tons,[154] and a Russian observer complained that his country's quota was "absurdly small."[155] As a result, as an official at Severstal, one of Russia's principal steel exporting manufacturers commented:

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152 See Commission Decision of January 21, 1998, *Official Journal* L. 100/55 (April 1, 1998); Commission Decision of February 16, 1994, *Official Journal* L. 116 (May 6, 1994); Commission Decision of July 18, 1990), *Official Journal* L. 220/28 (August 15, 1990). The EU's Commissioner for Competition Policy, Karel Van Miert, commented in 1997: "We have a lot of work to do in the traditional industries, such as paper, sugar and steel. The brutal cartels no longer exist; they have been cosmetically smartened up. . . . In other words it is more sophisticated." "EU's Van Miert on Competition Issues," *NRC Handelsblatt* (November 22, 1997).

153 See Kent Jones, "Forgetfulness of Things Past: Europe and the Steel Cartel," 2(2) *The World Economy* 162 (1979).

154 *Official Journal of the European Communities* (Nos. L300/51, L210/32 and L178/36).

155 "Iron Curtain Built Against Russian Steel," *Export Magazine* (August 21, 1997). The EU has rebuffed a Russian request that the 1998 quota on steel imports from Russia be increased by 10 percent. The EU argues that in 1998 the Russians did not fill their existing quotas. The Russians characterize this failure as a result of poor coordination export transactions on the Russian side rather than the lack of market opportunities in the EU. "Continued Cold Forecast in Quota Standoff," *Journal of Commerce* (February 2, 1999).

Western Europe is a closed market for us anyway, due to the number of quotas enforced.[156]

Hungary has also imposed quotas on steel imports from the CIS.[157] The net effect of these restrictions has been to divert the massive wave of CIS steel exports away from Europe and into the United States, with the result that the U.S. has absorbed far more CIS steel than Western Europe. In 1997 the U.S. imported 8.5 million metric tons of steel from the CIS, and the EU only 2.3 million tons. The diversionary effect of the EU's quotas has been widely recognized:

Russian perspective (1). *"The point is that the market of the countries of the European Union (which accounts for 10 percent of domestic exports) is insured against a "flood" by quotas set in a five-year agreement on the steel trade signed with Russia. So in the event the crisis continues, all the metal intended for Asia might actually pour into the American region and upset it along with output -- unneeded on the domestic market -- from the steel foundries of Japan, Korea, Singapore, Thailand, and other countries which are undergoing crisis."*[158]

Russian perspective (2). *Were the Asian economic predicament to linger on, which some experts tip to last well until the year 2005, the U.S.' misgivings about Russia's intrusive steel exports there could well be vindicated. The point is that the EU market, which soaks up ten percent of Russia's steel exports, is securely hedged over with quotas specified by a five-year steel trade accord the EU clinched with Russia.*[159]

Comment from India. *"In the European Union, where most of the CIS imports should go, HRC exports would only be around 450,000 tonnes per annum, other flat products around 60,000 tonnes per year, and long products 150,000 tonnes. So the 40 million tonnes of exports from Russian and Ukraine have to go elsewhere. Meanwhile, the EU will supply technology and finance to upgrade the CIS industry."*[160]

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156 "Summer Doldrums Add to CIS Export Woes," *Metal Bulletin* (August 13, 1998).

157 "Hungary Renews Quotas on Russian, Ukrainian Imports," *Metal Bulletin* (July 9, 1998).

158 "OECD Calls for Reduction of Steel Imports," *Segodnya* (June 9, 1998).

159 "Steelworkers Are Being Hemmed in by an Iron Curtain," *Segodnya* (June 9, 1998).

160 "Venezuela Slaps Duty on CIS Steel," *The Indian Express* (September 7, 1998).

The Trade Policy Challenge

Imports of dumped and subsidized steel have confronted successive U.S. administrations with trade policy challenges since the 1960s. In general the U.S. government has responded with two types of policy measures:

- ***Trade remedies.*** Congress has created an array of administrative trade remedies which can be invoked by industries which are injured in international competition. Reflecting the massive distortions which characterize international trade in steel, these remedies have been utilized hundreds of times by U.S. steel producers since the mid-1960s, particularly the antidumping law (which authorizes the imposition of duties on imports sold at "less than fair value which injure or threaten to injure U.S. firms) and the countervailing duty law (which authorizes the imposition of duties to offset the effects of foreign subsidies).

- ***Comprehensive programs.*** Several U.S. administrations have also negotiated comprehensive systems of import restraint with the principal foreign suppliers of steel to the U.S. market. The most notable arrangements have been the Trigger Price Mechanism (TPM) implemented under President Carter – essentially an early warning system for dumping with which foreign supplier countries were expected to cooperate – and the so-called "voluntary restraint agreements" (VRAs) pursuant to which foreign countries limit their steel shipments to predetermined annual tonnages.

The market distortions which have occurred in the global steel industry during the past three decades have been so gross and pervasive that in the absence of the repeated application of the trade remedies and the implementation of several comprehensive U.S. government steel programs, most of the U.S. steel industry would have long since disappeared. However, both types of relief were, and are, characterized by certain limitations, an understanding of which is necessary in considering appropriate policy measures in the present crisis. VRAs were negotiated with Japan and the European Community for carbon steel products between 1968 and 1974, and with these and many other supplier countries during the period 1982-92.

The U.S. industry often suffers significant injury before any relief is forthcoming. The antidumping and countervailing duty laws require a finding of "material injury" by the International Trade Commission before duties can be imposed – in other words, U.S. mills must usually suffer significant economic injury in order to obtain relief against the source of that injury. Moreover, the imposition of duties does not make the U.S. producers whole again for the injury already suffered, it simply buffers them against further injury. While duties can also be imposed on the basis of a determination of "threat" of material injury, such findings are less common and more difficult to secure. Section 201 of the Trade Act of 1974 provides that the ITC can authorize comprehensive import relief if it finds that imports are "a substantial cause of serious injury" to a U.S. industry. Here too, the industry normally must suffer very substantial economic harm before becoming eligible for relief. The U.S. government's comprehensive import programs in steel, such the Trigger Price Mechanism (TPM) implemented by President Carter and the VRAs put in place by Presidents Johnson and Reagan, have also only been forthcoming after the U.S. steel industry suffered major economic damage.

The lack of a timely trade remedy mechanism for import relief has played a major role in the progressive contraction of the U.S. steel industry over time. Each wave of dumping and subsidized imports has heralded a new string of plant closings, layoffs and bankruptcies. While the import surges have eventually been halted in each case, the U.S. industry has been smaller. Conversely, it is probably not a coincidence that intensive reinvestment and revitalization occurred during the interval (1985-92) during which the U.S. industry enjoyed relief from import surges.

U.S. Import Restrictions in Steel Have Not Always Provided Adequate Relief. The U.S. antidumping and countervailing duty laws focus on particular steel products and specific countries, such as "plate from Brazil," "wire rod from Taiwan," and so on. Because so many countries now manufacture a broad range of steel products, the imposition of antidumping duties on a particular product, soon as hot-rolled sheet may simply result in the producer shifting to the dumping of a related, but similar product, such as cold-rolled or corrosion-resistant sheet – in which case an entirely new antidumping proceeding, taking roughly a year, is necessary. VRAs commonly cover a wide range of steel products, however, the conclusion of a VRA with a particular country limiting its shipments to the U.S. has commonly resulted in new import surges from countries not covered by VRAs, with no diminution (and in some cases, an increase) in actual import levels. Implementing an effective response to this phenomenon required the U.S. to negotiate VRA's with many countries in the 1980s.

Traditional U.S. policy measures are increasingly constrained by new multilateral rules. The United States is a signatory to the General Agreement on Tariffs and Trade (GATT) which is now administered by the World Trade Organization (WTO). The GATT and several ancillary agreements now appear to prohibit several forms of trade relief which have been utilized in the past in the steel sector and are likely to impose new limits on others:

- *VRAs* are now prohibited by the GATT.

- The *countervailing duty law* was significantly weakened with the Uruguay Round amendments to the GATT, which prohibit application of countervailing duties to a number of so-called "green light" categories of subsidies and limit the extent to which other types of subsidies can be offset.

- The application of *antidumping duties* is coming under increasing attack by WTO dispute resolution panels. In the forthcoming "Millenium Round" of multilateral trade negotiations, our trading partners will insist on a negotiation on antidumping, with the objective of weakening or eliminating the antidumping law.

The United States faces a dilemma in which it is increasingly difficult to implement an effective program for the steel industry while remaining consistent with our WTO commitments. Yet historically and at present, the GATT and the WTC have proven ineffective at remedying the types of market distortions – such as subsidies and cartels – which characterize the world steel industry.

U.S. policy measures in steel have been overridden by "foreign policy" concerns. Steel trade issues are politically sensitive in many countries because of the importance placed on the industry as a basic pillar of modern economies and the large number of jobs at stake. As a result, on a number of occasions when the U.S. was on the verge of applying antidumping and countervailing duties to imports from other countries, furious objections and blunt threats have emanated from foreign governments, and in most cases the U.S. government has chosen a negotiated solution which permits continued sale of dumped and subsidized steel – albeit subject to some constraints – rather than grant of the full relief authorized for the U.S. industry under the trade laws.

A multilateral solution has proven elusive. During the early 1990s the U.S. government initiated negotiations with major steel producers to attempt to conclude a Multilateral Steel Agreement (MSA) which would eliminate market-distorting practices in world steel trade. It quickly became apparent that the basis for such an agreement did not exist. The United States priority was to eliminate subsidies, cartels, import barriers and other market distorting practices in steel around the world. However, many other countries' priority was exactly the opposite – that is, to eliminate the United States' ability to offset their subsidies, closed markets, and cartel practices in steel by the application of the trade remedies.

In theory, according to some, a consensus still could have been achieved if the U.S. had surrendered its ability to use the trade laws in return for foreign guarantees that subsides, cartels and other distortions would end. However, such a consensus proved unattainable for a number or reasons:

- In the MSA negotiations, a tentative consensus *was* reached to prohibit certain practices which most countries had already abandoned anyway (such as direct export subsidies). But foreign countries demanded "carve-outs" from any new multilateral rules that would permit them to continue the particular market-distorting practices they were utilizing in their own steel industries.

- Because existing multilateral disciplines on subsidies have proven almost completely useless, the U.S. was unwilling to trade its ability to use countervailing duties for yet another multilateral mechanism of dubious effectiveness. For example, GATT rules regulating subsidies were codified in the 1979 Tokyo Round of Multilateral Trade negotiations. These rules did nothing to prevent or inhibit the tens of billions of dollars in steel subsidies which occurred after 1979, did they prove to have any utility in offsetting injury caused by these subsidies.

- Japan refused to take part in any multilateral steel negotiations that might lead to a prohibition on cartels and other anticompetitive practices. At the same time, it sought an MSA that would hinder or completely block the U.S. ability to respond to the endemic dumping that was caused by Japan's cartels.

- National antitrust-type rules and enforcement regimes backed by fines have not prevented the flourishing of steel cartels in Japan and the EU. Thus, even assuming an international agreement on cartels could be negotiated, it was difficult to expect such an agreement – which would lack the enforcement powers available to national authorities today -- to eliminate anticompetitive combinations.

Conclusion

The world financial crisis has led some observers to conclude that the United States "must" accept the destruction of its steel industry because it needs to set an example to the world of maintaining an open market regardless of circumstances which may arise in individual industries:

> *"[T]he U.S. government is very likely to sacrifice their steel industry because they have no choice but to practice what they preach," says one Singapore trader, who is optimistic that there will not be protectionist measures in 1999.*[161]

In fact, no major industrial nation, including the United States, can afford to "sacrifice" an industry as essential as steel, and there is no reason to believe that the U.S. government would seriously contemplate such an outcome. President Clinton has already announced an Action Plan to defend the steel industry against dumped and subsidized imports, and has indicated that the Administration "will take additional action as circumstances warrant."[162] While U.S. policymakers may debate the nature and the extent of the relief required, there should be no doubt that the U.S. can and will act to save this key industry. The only issue is which specific actions are necessary and appropriate.

The United States has never "preached" that the U.S. or any other country should maintain completely open markets regardless of the market distortions which may prevail in the international arena. The basic bargain which Congress and American people have embraced in successive rounds of multilateral trade negotiations is that the United States will progressively open its market in return for reciprocal concessions *and* an assurance that effective measures will remain available -- in the form of the trade remedies -- to offset the injurious effects of unfair trade.[163] Reflecting this tradeoff, the right to impose antidumping and countervailing duties, and to grant import relief, is guaranteed by the GATT itself. If -- for whatever reason -- the United States were to find that it could no longer apply these remedies to full effect in response to an import surge of the kind which is occurring today in steel, then this basic balance, which has sustained the U.S. commitment to the GATT/WTO system since the end of World War II, would be broken.

Misguided government actions abroad have created an economic crisis. It does not follow that the U.S. steel industry must now pay the full price for these mistakes through the destruction of their jobs, companies and communities. The steel industry did not create the financial crisis, nor, for that matter, did the United States. In fact, the U.S. has been the most consistent and vigorous opponent of the kinds of interventionist policies that precipitated the present crisis, and the U.S. is now doing more than most countries to redress the situation, both unilaterally and through the multilateral financial organizations. If U.S. policymakers conclude that it is necessary to extend further major assistance to Russia, Indonesia and other troubled economies, the cost of that effort should be shouldered by the United States as a whole, and implemented pursuant to a comprehensive plan -- not imposed, in effect, by default, through dumped imports, on a single industry.

161 "Asia: No Near-Term Respite in Sight," *Metal Bulletin Monthly* (December 8, 1998).

162 *Report to Congress on Steel*, op. cit. (1999), p. 1.

163 "As legislators worked with executive branch leaders to construct a system to protect themselves from trade pressures, they also sought a different sort of administrative institution, one modeled on quasi-judicial regulatory procedures. For there remained broad agreement that, under certain exceptional circumstances, American industries ought to have recourse to trade protection.... Thus, US law and practice maintained a set of "trade remedies" designed to offer recourse to interests seriously injured by imports and to those up against what were considered "unfair" foreign practices. " I.M. Destler, *American Trade Politics* (Washington: Institute for International Economics, 2d ed., 1992), p. 21.

Statement of Hon. Richard J. Durbin (D-IL)

Mr. Chairman and Senator Moynihan, I would like to thank you and your colleagues on the Senate Finance Committee for holding hearings on the issue of steel dumping.

There is a crisis facing the steel industry in the United States, a crisis that has left over 10,000 steelworkers out of jobs and could jeopardize the jobs of thousands of additional workers. This disruption is a result of subsidized and dumped goods coming into the United States from a variety of countries—from Russia, from Japan, from Brazil, from Indonesia—at far under the cost of production and far under the price the steel is being sold in those countries.

While our existing laws and Administrative procedures are in place and we've received favorable preliminary indications from Administration officials, the time it takes to process these cases is too long and does not respond to a situation as dire as ours quickly enough. For example, hot-rolled carbon steel dumping petitions filed in September 1998, a full 10 months after the import surge began, will not be heard and decided until June 1999. Under current law, industries and workers must wait until the injury has occurred or is so imminent as to be unavoidable to file a Section 201 case.

Meanwhile, steelworkers continue to lose their jobs and the steel industry is suffering tremendous losses from which it may not easily recover. I shouldn't have to remind anyone that three American steel companies have declared bankruptcy and two of them are in the state of Illinois (LaClede Steel in Alton, IL, and Acme Steel in Riverside, IL) and at least 10,00 of the nation's 170,000 steelworkers have been laid off. Illinois is the fifth largest steel producing state and we're proud of our steelworkers, the industry, and the products that they make for the American people and the world.

It is my belief that we should approach this situation with both short-term and long-term strategies that will complement each other and produce the maximum benefit for the U.S. economy, the steelworkers, and the industry. First, steel mills need access to capital to stay open and to keep their workers on the job, producing the finest and best steel in the world. That's a short-term approach that will help the industry and the workers when they need it most: now.

Second, we need to put more teeth into current trade laws. Specifically, we should strengthen Section 201 language by removing a very high causation standard and replacing that standard with a lower threshold by which U.S. industries and workers can prove their cases more easily. Let me state for the record that if we reform our trade laws and we ensure our trading partners know we are serious about enforcing those laws, the incentive to dump steel or other imported products will be reduced. I liken this to a long-revered Senate procedure: the filibuster. As we all know, the threat of a filibuster may be far more effective than the actual filibuster itself. Similarly, the threat of more readily-proven dumping cases may, in fact, make a country think twice about dumping a product illegally into this country.

The Congress has reacted swiftly to deal with this national, state, and local crisis. The House of Representatives last Thursday passed H.R. 975, the Visclosky/Regula quota bill. This bill would limit steel imports over the next three years to 25% of U.S. consumption, a level comparable to the average of steel imports between 1994 and 1997. On this side of the Capitol, we have several measures pending before this Committee that will help address this problem. I'm an original co-sponsor of two such measures: S. 261, the Trade Fairness Act of 1999 and S. 582, the Unfair Foreign Competition Act of 1999. I'm also an original co-sponsor of Senator Byrd's steel loan guarantee amendment to S. 544, the FY99 Emergency Supplemental Bill. The Finance Committee is also considering S. 61, the DeWine Continued Dumping or Subsidization Offset Act of 1999 and S. 395, the Rockefeller quota bill.

Mr. Chairman, it is my belief that we need to reach a consensus on how to provide short-term and long-term relief for the U.S. steel industry. We must act responsibly and ensure that our trade laws are as strong and effective as they can be.

I again thank the Committee for this hearing and I look forward to working with the members of the Committee, the Senate as a whole, and leaders from the steel community to find a solution to this American crisis.

Statement of Hon. Phil English, U.S. Representative, 21st District, Pennsylvania

Mr. Chairman, and distinguished members of the Finance Committee, thank you for holding this hearing today. As a member of the House Ways and Means Committee, I have urged the Congress to take concrete legislative action in the wake of the Administration's failure to take effective action to deal with the crisis now facing the U.S. Steel industry.

I testified before the Ways and Means Committee's Subcommittee on Trade on February 25, 1999 and asked the Committee to consider legislation to address the crisis. The conditions that were present at that time are still present.

INTRODUCTION

America's steel industry is the most efficient, competitive and technologically advanced in the world. Our domestic steel producers have long since shed the inefficiencies that plagued the industry in decades past. American steel companies are capital intensive and internationally competitive.

Nevertheless, American steel is facing a crisis which, without immediate action from the federal government, is threatening to devour a significant part of the industry. The domestic steel market has been flooded by imported products pouring in from Asia, Russia and Latin American, swamping more efficient American producers and drowning thousands of jobs. This tsunami threatens to wash away a strategic industry that has been a keystone of our manufacturing sector for generations, and nowhere more than in my part of western Pennsylvania, where the Bessemer process was first perfected in the last century.

Today, American steel jobs are threatened by illegal foreign imports as our trade competitors attempt to unload the consequences of their failed economic policies on American companies and workers. And I predict the bad news will get worse. Increasingly, other manufacturing sectors face similar unfair competition as foreign producers target lucrative U.S. markets, causing rolling depressions that sweep away industry after industry.

The time has come for Washington to stand up for steel, and insist on a level playing field for American producers.

BACKGROUND

The American steel industry is facing a crisis due to an immense surge of illegally dumped and subsidized foreign steel imports. Since mid 1997, many foreign markets have been rocked by economic and financial crises. One consequence of these financial crises has been the significant drop in demand for steel products in foreign markets.

When combined with preexisting overcapacity and subsidized foreign producers, the drying up of foreign demand for steel has led many countries to attempt to illegally unload their excess steel onto the U.S. market.

Since the 1980s the American steel industry has reinvented itself as one of the most efficient, most competitive in the world. Through sacrifice by the industry and its workers, streamlining and investments, the U.S. steel industry has nearly tripled productivity. The new U.S. steel industry can compete against anyone in the world. The sad part of this story is that our industry plays by the rules and has restructured itself to be a model of economic efficiency. It is only through illegal and unfair trading practices that foreign producers have been able to undercut U.S. producers.

Import volumes in 1998 reached record levels, surging 33 percent over 1997. And 1997 was itself a record year for steel imports. Imports have surged over a wide variety of product lines. We have recently seen, in response to trade cases filed by the industry and unions, a decline in certain products that are subject to duties that would be imposed by the final disposition of the cases. But steel is still flowing in massive quantities from countries not covered and in the form of products not listed by the cases. Also it is entirely possible that imports have declined temporarily because we're simply out of storage space at U.S. ports.

This crisis is precisely the reason why the Congressional Steel Caucus, Republicans and Democrats together, have been urging the Administration to use all of the tools at its disposal under our trade laws to take decisive action to address this crisis. So far, we have all been disappointed by the Administration's general lack of concrete, effective action.

Mr. Chairman, the question before us today is this: What can Congress do to stop the current steel crisis and reduce the possibility of another crisis that could be devastating to the industry and its workers?

I firmly believe that we need legislative action. There are several major areas that can be effectively addressed by legislation if we act quickly.

H.R. 975: Reduction in Volume of Steel Imports and Import Monitoring

The House of Representatives passed H.R. 975, combining provisions of Rep. Peter Visclosky's bill (H.R. 506) which will reduce the level of imported steel products to pre-crisis levels and Rep. Ralph Regula's bill (H.R. 412) which will establish an import notification and monitoring system. This legislation passed the House by a wide bipartisan majority.

This bill will reduce the burden of imports into our market to pre-crisis levels and help to limit the damage done to communities, workers, and firms in the U.S. steel industry in the short term. The steel import notification and monitoring system, which is modeled on similar systems currently in use by our largest trading partners, Canada and Mexico, will allow the U.S. government to receive and analyze critical import data in a more timely manner and allow industry to determine more quickly whether unfair imports are disrupting the market.

The Senate should quickly call up and pass H.R. 975.

Strengthening Our Trade Laws

In addition to H.R. 975, Congress should consider strengthening our trade laws in several areas to enforce a level playing field on which U.S. industry can compete fairly within the rules-based trading system.

Section 201

We need to start by strengthening our ability to deal with import surges. By bringing U.S. standards in line with the WTO "Safeguards Agreement," we can make laws which have been on our books for years, such as Section 201 of the Trade Act, more effective and easier to use. U.S. standards for proving injury are currently more strict than required by the World Trade Organization. With these changes, the industry or the Administration will be able to challenge unfair trading activities by foreign competitors in a more timely fashion.

Anti-dumping

We should consider strengthening our anti-dumping and countervailing duty (AD/CVD) laws. We can bring the injury thresholds in line with international standards to allow workers and companies adequate remedies when it is proven that our trading partners are trading unfairly. One aspect of the AD/CVD laws that can be improved is the consideration of currency devaluations. Currency devaluations can have the effect of "robbing" the value of sanctions imposed and allow dumpers to avoid the penalties they should legally face.

Russian Agreement

The recently announced agreement with Russia gives reason for concern. In addition to short-circuiting the legal process of proving dumping and imposing sanctions against violators of the trade laws, the agreement would cede a large part of our market to one of the most inefficient steel producers in the world. Future "suspension agreements" should be subject to the approval of a majority of the affected domestic industry and workers.

Private Right of Action

At the hearing before the Ways and Means Committee on February 25, 1999, Sen. Specter testified on behalf of a proposal to allow a private right of action for judicial relief when there is a violation of our trade laws. This would shorten the process of obtaining relief when it can be proven that our trading partners are engaging in unfair trade practices by providing injunctive relief. This is a valuable proposal which is worthy of consideration.

Closing

Anytime an American loses their job it is a tragedy. But in the steel valleys and mills across our country this tragedy has been replayed thousands of times over in just the past few months. The Administration has been unwilling to act. No wonder our communities and districts are looking to Congress to take the strong action necessary to stop this tragedy and prevent the theft of our jobs by illegal imports.

I want to be clear. The choice we face today is not between free markets on the one hand and protectionist barriers on the other. The choice today is whether we have the will to take appropriate action, such as I have outlined here, to prevent the victimization of our economy by predatory exporters determined to pursue a mercantilistic economic policy at the expense of our workers. Unfortunately, nations sometimes try to take unfair advantage of their trading partners. Companies may attempt to benefit—at the expense of their legitimate competitors—from unfair and often disguised subsidies. When that happens it is the job of government to step in and ensure a level playing field where competition—which benefits us all—can survive. Now is such a time for government action. I hope this committee will answer our call and restore fairness for American steel producers. Thank you.

Statement of the Maritime Exchange

[SUBMITTED BY DENNIS ROCHFORD, PRESIDENT]

The Maritime Exchange for the Delaware River and Bay, a non-profit trade association representing the interests of the Delaware River port community, is opposed to H.R. 975. While the Exchange supports the discerning use of trade remedies already available to the domestic steel industry, the Exchange believes that the unilateral quotas proposed in H.R. 975 will be detrimental to the health and vitality of this port, as well as U.S. trade policy as a whole.

The Maritime Exchange was established in 1872 to promote and protect the Delaware River port commerce, and has grown to approximately 300 members strong. In terms of commercial maritime traffic, the Delaware River port complex is among the busiest of all U.S. waterways, handling a diverse array of commodities from countries throughout the globe. In addition to being the largest U.S. port for imported crude oil and many fresh fruit products, nearly 12% of the ships calling Delaware River port facilities last year carried steel products. The restrictions against certain imported steel products from various nations proposed in H.R. 975 will have a significant adverse economic impact upon both the Delaware River ports and its adjacent communities.

At Delaware River ports alone, federal trade policies have the potential to affect the livelihoods of over 60,000 people whose jobs depend on healthy port commerce, and the associated federal and local taxes. It can be estimated, for example, that average direct revenues for a single Delaware River steel ship transit may top $300,000; last year the port handled 121 steel ships from the 10 countries currently targeted by legal action. Labor wages associated with steel imports at just one of the several marine terminals handling this commodity in 1998 neared $7,150,000. At another facility, approximately 1,260 direct jobs are attributable to imported steel handling. These direct jobs support over 500 induced and 185 indirect jobs. H.R. 975 has the potential to put all of these men and women out of work.

Further, the ports on the Delaware River and Bay have gone to great lengths to become competitive and make themselves accessible to the world's shippers. As a matter of fact, many of the improvements to the port have come through federal and state funding. For example, there is a project underway to deepen the Delaware River main channel by five feet; this project includes federal funding authorized in the amount of $199 million, as well as matching funds authorized by the states of Delaware, Pennsylvania and New Jersey. These financial commitments by federal and local governments represent an investment in both America's infrastructure and trade interests. If trade in certain commodities, such as steel, is allowed to wither, investors may not be as willing to continue supporting America's port and waterway systems. This would lead to a loss of the competitive edge American ports have enjoyed, resulting in a drop in trade overall.

In addition, much of the steel handled by the Delaware River port operators in 1998 was of a type and quality not readily available from the domestic market and was destined for U.S. manufacturing plants, especially the automotive industry. In fact, a significant amount of semi-finished steel handled was consigned to domestic steel producers and utilized for further processing. Simply stated, it is not always possible for domestic companies in one segment of industry to fulfill demands required by another. Therefore, the Exchange is also concerned that U.S. downstream steel users, who employ 40 times as many workers as the integrated steel mills, will be out of work. This number does not reflect the port steel handling workers nor does it reflect the impact on the manufacturing and port communities. Needless to say, the impacts of H.R. 975 will be far reaching and severe.

On a more micro level, the proposed requirement that importers of certain products apply for and obtain a steel import notification certificate from the Department of Commerce will be enormously burdensome to the members of the Maritime Exchange community. As you know, based on published demand estimates for steel products, the Congressional Budget Office (CBO) estimates the increased cost to importers would be nearly $400 million in 2000, $340 million in 2001, and $150 million in 2002. If a reasonable fee is established for the certificate, the CBO estimates that the direct cost for importers to obtain a certificate would be about $50,000 annually. Many of the importers in this port could not afford such an expense. The potential negative impact on the livelihoods of the 60,000 people which depend upon healthy port commerce in this region will be enormous.

From a more broad-based public policy perspective, we agree with the House Committee on Ways and Means that H.R. 975 is in violation with the United States' international obligations. First a quota on steel imports outside of current trade remedy laws violates U.S. obligations in the World Trade Organization (WTO). H.R.

975 quotas would not be based upon a determination of whether the imports are causing or threatening serious injury or whether unfair trade or subsidization is involved, as required by WTO. Such unilateral action, without evidence of injury, is sure to be subject of protracted dispute in the WTO, and could threaten the stability of WTO. Second, this bill would be applied to all steel imported into the United States, and would not be limited to steel imports from countries not involved in this issue. In other words, countries whose exports to the United States have not been shown to cause injury, or even threat of injury, to the United States domestic industry, will be penalized. Such a policy is neither just nor sound.

Finally, we wish to reiterate that the Maritime Exchange does not condone unfair trading. The Exchange supports the use of regulations and laws, such as section 201 and anti-dumping laws, in order to address unfair trade practices when necessary. However, the Exchange supports only the judicious use of these laws to combat unfair trade. If these laws are utilized without an investigation into their total economic impact, they cannot be effective. The adverse consequences which will flow from protectionist trade policy, including H.R. 975, must be measured against the positive effects the domestic steel industry claims will flow from the government intervention. It is essential that the public policy makers consider the legitimate interests of this port, and others like it, as well as those of the domestic steel industry when debating the passage of legislation such as H.R. 975. The ramifications to the entire international trade community must be examined. We believe the consequences to the Delaware River port will be numerous and severe.

Thank you for the opportunity to express our views.

STATEMENT OF ASSOCIATE PROFESSOR MICHAEL O. MOORE, DEPARTMENT OF ECONOMICS AND THE ELLIOTT SCHOOL OF INTERNATIONAL AFFAIRS, GEORGE WASHINGTON UNIVERSITY

The US steel industry has come under increasing economic pressure in the last six months as falling profits and lost jobs have gripped the industry. Steel firms and steelworkers argue that unfairly-traded imports are solely to blame. The industry has resorted to a now well-worn strategy of simultaneously filing antidumping petitions and using quota legislation introduced by the Congressional Steel Caucus to pressure the President to negotiate a special steel trade regime. Those who have followed steel trade policy over the last thirty years have seen identical strategies used during the fights for the 1969 import quotas on European and Japanese steel, the 1977 Trigger Price Mechanism, the 1982 Voluntary Restraint Agreement (VRA) on European steel, and the 1984 VRAs covering all steel imports.

The stated goal of the industry and its allies in its current "Stand Up For Steel" campaign, and in the earlier efforts noted above, is to preserve steel sector employment by limiting imports. However, past protectionism failed totally to prevent job losses in the steel industry and future import restrictions will be equally ineffective. In addition, current legislative proposals will do lasting damage to broader US economic interests, far in excess of any possible temporary benefits to the steel industry. Instead, the better approach would be to let the current, fully-adequate, trade laws deal with this short-run import surge.

The issues confronting US steel policy are three-fold. What is the source of the steel industry's current problem? Are current laws adequate to deal with the crisis? Would proposed changes solve the difficulties at an acceptable cost?

There is no dispute that steel imports rose a dramatic 33% in 1998 over 1997 levels. And these imports have surely contributed to lost jobs, decreased profits, and painful adjustments in US steel communities. However, other factors have played a role in the steel industry's recent economic condition. The booming US economy over the last few years has fueled the need for steel, both imported and domestic. Indeed, despite the record level of imports, US steel production in 1998 was over 102 million tons, which is higher than any year from 1982 through 1994.

The steel industry's position did worsen significantly in the second half of the year, fueled in large part through the rapid fall in steel prices. While imports played a role in the extraordinary price decreases in the last quarter of 1998, price weakness was exacerbated by the 54-day GM strike which brought millions of tons of steel onto the spot market.

In short, import volume and price changes have been the consequence of a complicated set of factors. A careful economic analysis would be in order to ascertain exactly what role imports have had on the industry's condition. Fortunately, US trade law allows for an impartial federal agency, the International Trade Commission (ITC), to sort out the impact of these various factors rather than relying solely on allegations from interested parties.

The next question concerns the adequacy of existing trade law to deal with the industry's problems. The steel industry points to "dumped" imports as the main culprit. Industry representatives argue that current "fair trade" laws cannot protect the industry and that these laws are not being aggressively enforced. These arguments are seriously flawed.

The administration has not been timid in its application of antidumping laws during the current crisis. The Commerce Department expedited the review of the antidumping petitions for Japanese and Brazilian hot-rolled sheet and imposed provisional (and retroactive) duties ranging from 25% to 68%, thereby effectively removing these sources from the US market. A comprehensive steel export restraint agreement has been negotiated with Russia which will reduce imports by 68% compared to their 1998 level. The results of these unfair trade cases, along with the threat of possible action against other countries, has already resulted in a 34% reduction of imports from November 1998 to January 1999.

It is therefore puzzling to hear that the unfair trade laws are not working. The industry has not only been very successful in gaining antidumping protection in the current crisis, it has been by far the single most frequent user of these laws since their inception and has had extensive input into how antidumping law and rules have been written at both the US and international level.

If the industry deems the unfair trade laws inadequate, one wonders why the industry has not filed a Section 201 "safeguard" petition. This GATT-consistent procedure could provide comprehensive protection for at least four years but would require the industry to demonstrate to the ITC that imports are a substantial cause of serious injury. If the ITC ruled in the industry's favor (as it did in 1984, the last time the industry used this procedure) the President could decide to protect steelworkers and steel-making communities with tariffs, other import restrictions, or trade adjustment assistance, the last of which would provide direct help to affected steelworkers.

The industry, however, maintains that it needs special treatment unlike other US industries dealing with the economic crises in East Asia, Latin America, and Russia. Among other initiatives, it proposes that Congress pass a GATT-inconsistent import quota on foreign steel. Not only would this policy be ultimately unsuccessful at protecting steelworker jobs, the attendant costs on other parts of the US economy would be unacceptably high.

The last time the industry convinced US authorities that special treatment was necessary was between 1984 and 1992 when comprehensive steel quotas were negotiated with all exporters. During that period of specific quantitative restrictions on all carbon steel products, the number of wage-earning steelworkers fell from 171,000 in 1984 to 101,000 in 1992, or a loss of almost 9,000 per year, according to the American Iron and Steel Institute.

Why were steel jobs not preserved? Imports certainly were not the culprit since they actually fell from 26 million tons in 1984 to 17 million tons in 1992. In fact, steel sector employment has fallen steadily from the early 1970s through today, despite repeated rounds of protection and sometimes rising, sometimes falling imports. Instead, the critical factor in steel industry job loss was that the traditional integrated sector in the Northeast and Midwest has rapidly lost ground to domestic minimills. The onslaught of these new market entrants, whose productivity and efficiency are much higher than traditional mills, began in earnest during the 1980s and has proceeded unabated to this day.

Minimills use the most up-to-date equipment and recycle steel in electric furnaces rather than relying on costly blast-furnaces and coke-ovens needed in traditional steelworks. These differences provide minimills with significant and far-reaching cost advantages. Consequently, minimill share of US production has risen from 8% in 1979 to 24% in 1991 to nearly 50% in 1998. During the 1990s, minimills have begun to produce significant amounts of high-value-added products like hot-rolled sheet, which had been the last refuge of the integrated mills. And since minimills require many fewer workers per ton than traditional mills (around one worker hour per ton versus more than four in integrated steelworks), their expansion will result in continued losses of steel industry employment, whether imports are restricted or not. Higher prices through protection will simply increase the profits of minimills which will further undercut the workers in integrated steelworks.

Even if future protection somehow managed to preserve steel sector employment in ways that past protection has not, the economic costs would be unacceptably high.

First, increased steel prices would reduce employment in steel-using sectors, especially small metal fabricators and exporters. These industries, which employ dozens of workers for every steelworker, face international competition who would not be similarly burdened by increased steel costs brought about by US protection. This will lead directly to lost sales and laid-off workers. In other words, saving a steelworker's job through protection results in job losses in other US industries.

But perhaps most importantly, the steel quota bill, or any other GATT-inconsistent policy, would be a direct violation of US international commitments and have predictable negative consequences. Other countries, much less committed to the rules-based system for which the US is the undisputed champion and primary architect, will use any GATT-inconsistent US steel policy as an excuse to ignore their own commitments. If the international trading system founded on rules rather than expediency is wrecked through a GATT-illegal measure passed by the US Congress, every job temporarily protected in the steel industry today will result in the loss of many more high-paying US export jobs in the future.

In conclusion, all Americans can comprehend the shock and frustration of US steelworkers employed in traditional steelworks and communities as they face yet another crisis after years of painful restructuring. However, the economics of the industry and the continued growth of minimills means that many of these jobs will be lost over the next ten years, regardless of the level of steel imports. Consequently, overall US interests will be fostered by encouraging the administration to enforce US laws (as it indeed is doing). GATT-inconsistent legislation enacted on behalf of the steel industry dealing with a short-term import surge will undercut that goal. Protection will not preserve steel sector jobs and would put the international trade system at risk as well as the long-term living standards of the vast majority of Americans.

Statement of Specialty Steel Industry of North America

[SUBMITTED BY JAMES F. WILL, CHAIRMAN, AND CHAIRMAN, PRESIDENT, AND CEO, ARMCO, INC.]

I am James F. Will, Chairman, CEO and President of Armco, Inc., headquartered in Pittsburgh, Pennsylvania and Chairman of the Specialty Steel Industry of North America. SSINA appreciates the opportunity to present our views before the Senate Finance Committee on steel-related legislation.

SSINA is a Washington, D.C.-based trade association representing 15 companies which employ over 25,000 workers, many of whom are members of the USWA. Specialty steels are high technology, high-value stainless and other special alloy products sold by the pound rather than the ton. While shipments of specialty steel account for only about 2 percent of all steel produced in North America, annual revenues of approximately $8 billion account for about 14 percent of the total value of all steel shipped.

Our industry has long been recognized as extremely modem and efficient and second to none in the world. We have a strong history of continuous investment in plant and equipment.

We are a world-competitive industry facing an import problem based solely on unfair trade. We cannot afford to, in essence, continue to subsidize our customers who are benefitting from predatory import pricing. Our basic responsibility to our shareholders and employees requires that we file dumping and countervailing duty suits to seek restoration of fair pricing in the U.S. marketplace. We greatly appreciate the opportunity to talk about our situation today.

Three years ago, SSINA did a study in which we examined anticipated growth in worldwide stainless capacity. At that time, we projected that by mid-1998, new capacity would come on stream around the world at twice the size of the U.S. stainless market. At the same time we sought a Multilateral Specialty Steel Agreement (MSSA) to reduce subsidies and encourage fair trading, but our efforts were rebuffed by foreign interests.

To no one's surprise, with no MSSA in place much of the new capacity that came on line was built with foreign government subsidies. Even though market demand for stainless steel has been and remains strong, we knew that there was simply no way that world markets could ever absorb the new capacity—and prices were going to be depressed.

While we knew that global capacity was increasing dramatically, we could not predict the second contributing factor to the current crisis—disastrous economic developments in Asia which began in mid1997. You know the story: the currencies of the Asian "tigers" were severely weakened, their consumers panicked and refused to buy, and their steel mills, desperate for hard currency, began the sale of the decade—with no thought of profitability or even costs of production.

As a result of excess capacity funded by government subsidies and the unpredicted effect of the Asian crisis, the price crunch was much more severe than we anticipated. Prices today are off about 30 to 40 percent compared to just three years ago.

To counter the surge of unfairly traded specialty steels entering the country, we knew it would be necessary to begin the long, arduous and expensive task of filing antidumping and countervailing duty trade cases. Over the last 35 years, SSINA has all too regularly found it necessary to challenge the unfair international trading practices of our trading partners around the world. In the past 18 months, stainless steel producers have filed 34 trade cases against more than 45 producers in 14 countries on four different product lines. A summary is attached to my statement. It has been a difficult process. But, we are finally beginning to see some improvement in some stainless prices as a result of our trade cases. Bear in mind that it takes about a year and a half from the decision to launch cases to final decisions by the Department of Commerce and the ITC.

So where do we go from here? The evidence is clear—foreign manufacturers are willing to do anything and sell at any price to make a sale. Modem and efficient industries like ours must aggressively attack these unfair trade practices in order to preserve our markets. We will continue to closely monitor imports. We will continue to actively pursue the trade cases already filed to their successful conclusion. We will fight to preserve existing cases as the " sunset" review process moves through the Commerce Department and the International Trade Commission. And, we are actively considering additional cases on specialty steel products and producers.

The Administration is finally beginning to recognize the severity of the steel import situation, as highlighted when the Secretary of Commerce personally announced the antidumping margins in the stainless steel wire rod cases last summer. The message Secretary Daley delivered was directed squarely at foreign producers of all products—dumping cannot be the answer to the economic crisis in Asia or elsewhere. Our companies and employees should not be the scapegoats for other nations' economic mismanagement.

The Commerce Department must recognize the devastating effect of the Asian financial crisis on the U.S. marketplace. In the past year, we have seen imports of certain stainless steel products from Korea surge over 50 percent. At the same time, the Korean won lost more than 60 percent of its value. Yet, for reasons that puzzle me, the Commerce Department has refused to take this dramatic currency devaluation into account when making its preliminary dumping determinations against Korea. In fact, Korean stainless steel producers have continued dumping their products into the U.S. market with impunity. Both Secretary Daley and Undersecretary Aaron have stated numerous times that they will enforce U.S. trade laws to the fullest extent, yet if foreign exporters are allowed to take advantage of a weak currency to dump product into the United States, they will be beyond the reach of our dumping law—clearly not what Congress intended. The Commerce Department should recognize the effect of drastic exchange rate changes in administering the dumping law.

We simply will not allow our efficient, technologically-superior U.S. specialty steel industry and the valued jobs of our dedicated workforce to be destroyed by illegal foreign trade practices. I urge you to join us in protecting the sanctity of our trade laws and to oppose at every opportunity any attempt to weaken them.

SSINA joins with other steel trade associations in urging the Congress to work with us and the Administration to develop a comprehensive policy to address these issues. We urge that the following steps be taken:

- The Administration must continue pressure on foreign governments to discourage unfair trade practices such as dumping and subsidization;
- Expeditious handling of trade cases on specialty steel products;
- Congressional support for H.R. 412, the "Trade Fairness Act of 1999," and legislation to pay the dumping duties directly to injured U.S. industries; and
- Legislation to improve the trade laws to provide more effective relief to injured industries.

We are working with our colleagues in the steel industry and other industries to develop additional legislative proposals. These will be provided to you shortly.

SSINA has serious concerns with S.395 / H.R. 975 in its current form. As presently drafted, this legislation would require import quotas on virtually all steel products by category, i.e., semifinished, plates, sheets and strips, wire rods, wire and wire products, structural shapes and units, etc. There is no provision for separate categories of specialty steel products. If this legislation became law in its present form, exporters of carbon steel products could—and most likely would -transfer their exports to the much more valuable stainless steel product categories. Stainless steel is sold by the pound, rather than by the ton as is carbon steel. Stainless sells for roughly 5 to 50 times as much as carbon steel. So, if foreign producers are limited to shipping a certain tonnage of, for example, sheet and strip, they obviously would shift to the higher-value products. Our producers would be overwhelmed and devastated.

Leaders in the House were aware of and sympathetic to our concern, but did not want to amend the basic bill in the House Ways and Means Committee or on the House floor. It is therefore critical that it be amended in the Senate.

We have provided the Congressional and Senate Steel Caucuses with language which would carve out specific quota categories for stainless and other specialty steel products. Without this change, the Specialty Steel Industry of North America would reluctantly be forced to vigorously oppose this legislation. We respectfully urge you to accept our amendment.

The specialty steel industry is on full alert in monitoring specialty steel imports and reported foreign efforts to circumvent U.S. trade laws. We appreciate your help in assuring that competitive, efficient industries such as ours are given the opportunity to compete in a marketplace free of cutthroat practices which violate both U.S. laws and the international rules of the WTO. Thank you, Mr. Chairman, for holding this timely hearing.

Attachments.

STAINLESS STEEL PRODUCERS AND UNIONS STATUS OF UNFAIR TRADE CASES BY MAJOR PRODUCT LINE FILED IN 1997 AND 1998

Product	**Stainless Steel Rod**
Date Filed	July 30, 1997
Named Countries	Italy, Germany, Japan, Korea, Spain, Sweden, Taiwan
Status	The case concluded with the issuance of final antidumping and countervailing duty (CVD) orders by the Commerce Department on 9/15/98. The duties range up to 34%, with penalties extending back to 3/5/98. The International Trade Commission (ITC) voted on final injury determination on 9/1/98. Excluding Germany, ITC concluded that imports from six of the seven named countries caused injury to producers.
Next Step	On 10/15/98, appeals were filed with Court of International Trade. Successful appeals would result in a significant increase in the antidumping duties levied on imports from Korea and the assessment of antidumping duties on imports from Germany. The industry will vigorously pursue the appeals process with the hope of a decision by year end 1999.
Product	**Stainless Steel Round Wire**
Date Filed	March 27, 1998
Named Countries	Canada, India, Japan, Korea, Spain, Taiwan
Status	On 6/4/98, ITC preliminarily determined that imports from the named countries are injuring the domestic industry. In 11/13/98, Commerce set preliminary antidumping duties ranging up to 36% on imports from the subject countries.
Case Concludes	The ITC and Commerce will conclude their investigations and final antidumping duty orders will be announced in early April 1999.
Product	**Stainless Steel Plate In Coils**
Date Filed	March 31, 1998
Named Countries	Belgium, Canada, Italy, South Korea, South Africa, Taiwan
Status	On 5/15/98, the ITC voted preliminarily that imports from the named countries are injuring the domestic industry. On 9/1/98, Commerce issued preliminary CVD determinations against Korea, Italy, Belgium, and South Africa ranging up to 15%. On 10/27/98, Commerce announced preliminary antidumping duties ranging up to 68% on imports from the six named countries. Subsequently, on 12/3/98, Commerce published a revised preliminary determination on imports from Taiwan and took the extremely unusual step of finding that Taiwanese producer Ta Chen Stainless Pipe and its U.S. subsidiary, Ta Chen International, engaged in "middleman dumping" of coiled stainless steel plate produced by Yieh United Steel Corp.
Case Concludes	Commerce will issue final dumping and CVD determinations on March 22, 1999; the ITC will issue its final report by May 7, 1999.
Product	**Stainless Steel Sheet and Strip in Coils**
Date Filed	June 10, 1998
Named Countries	France, Germany, Italy, Japan, Mexico, South Korea, Taiwan, United Kingdom

STAINLESS STEEL PRODUCERS AND UNIONS STATUS OF UNFAIR TRADE CASES BY MAJOR PRODUCT LINE FILED IN 1997 AND 1998—Continued

Status	On 7/24/98, the ITC voted preliminarily that imports from the named countries are injuring the domestic industry. On 10/30/98, U.S. producers requested that Commerce apply the "critical circumstances" provision of U.S. trade laws to combat recent import surges. An affirmative finding would impose antidumping duties retroactively to 9/18/98. On 11/10/98, Commerce announced preliminary CVD rates ranging up to 29% against France, Italy and South Korea. On 12/18/98, Commerce announced preliminary antidumping duty margins ranging up to 59%; and decided favorably on "critical circumstances" as to Germany, Japan (Nippon Metals, Nippon Yakin, and Nisshin only) and Korea (Taihan Electric Wire Co. only). "Critical circumstances" were not found for Italy and Taiwan.
Case Concludes	Commerce will issue its final dumping and CVD determinations on May 20, 1999; the ITC will issue its final report by July 5.

Proposed Amendment to S. 395

On Page 2, Line 21, add the following new sentence:

Specialty steels such as stainless steel, silicon electrical steel, tool steel and high-nickel alloy steel shall be considered as separate categories for each of the foregoing steel product forms.

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