

1 Introduction

The U.S. steel crisis of 1998 began to take hold in the middle of the year and then came on quickly. In the last six months of the year, import penetration reached record levels, domestic shipments fell 11 percent and capacity utilization rates dropped dramatically. The speed and severity of the crisis, and the abrupt deterioration of the U.S. industry's fortunes, caused steel companies and workers to fear that they might soon be facing one of the worst crises to hit the industry in recent years.

The rapid growth in imports coupled with the drop in prices hit many U.S. steel companies hard. In 1998, a number of U.S. companies saw their sales drop sharply.

For Example:

- North Star BHP's order books dropped from 227,000 metric tons (MT) to less than 55,000 MT in a period of less than six weeks.
- Six firms – Acme Steel, Geneva Steel, Gulf States Steel, Laclede Steel, Qualitech Steel, and World Class Processing – were driven into bankruptcy, typically citing the increase in steel imports and the fall in prices as one of the reasons they filed for protection under Chapter 11.

Thousands of steel employees were laid off in 1998 and 1999. Steel firms shut down lines and cut back their workforces.

The crisis was triggered by economic downturns abroad. The Asian financial crisis began with Thailand in mid- 1997, and spread throughout Asia, bringing with it the worst economic downturn to hit the region in thirty years. As economies collapsed, demand for steel in Asia quickly dried up. Asian steel producers and traditional exporters to the region, such as Russia and Brazil, needed to find other markets and turned to the United States and Europe, where demand was still strong. The situation was further exacerbated as the Asian financial crisis went global, spreading to Russia and Brazil by mid- 1998.

One would have expected U.S. imports to increase as a result of these financial crises. Few, however, anticipated the magnitude of the increase in imports that took place in 1998. A large amount of steel was diverted to the United States from other markets as imports increased 33 percent over 1997 (which had been a record year for U.S. imports). The largest increases came from Japan, Korea, and Russia. Imports from these three countries alone accounted for 76 percent of the 9.4 million MT increase in total U.S. steel imports.

The steel crisis was not simply an issue of increased volume. Imported steel was coming in at extremely low prices in many instances, assisted by the declining value of foreign currencies that buoyed dollar-denominated export revenue in home currency units. Led by Japan and Russia, and often followed by Korea and Brazil, it appeared as if foreign producers were trying to beat each other in a race to the bottom.

In 1998, steel prices in the U.S. market had plummeted, falling to levels well below where U.S. companies could price profitably. Strikingly, this occurred while demand for steel in the U.S. market was booming. Although the General Motors strike in mid- 1998 caused some uncertainty just as increasing imports began to hit U.S. soil, overall demand was strong in 1998 and remained strong in 1999. Nevertheless, U.S. steel companies, which had been profitable in 1997 and early 1998, faced significant losses by early 1999.

Given the strong demand in the U.S. market, U.S. steel companies expected to be able to build a cushion for the lean years that tend to follow in a cyclical industry like steel. Instead, they were losing money on sale after sale. As 1998 came to a close, what started as a promising year for the U.S. steel industry ended with the

industry in crisis.

2 Protectionism

2.1 What is Protectionism?

Though comparative advantage through free trade increases resource productivity and wealth creation, it is dynamic, and there are winners and losers, both inter-regionally and internationally. The victims of free trade e.g. British coal miners, tend to be more highly visible (and concentrated in specific communities) than the beneficiaries e.g. electricity consumers (who are more widely dispersed). Most governments, even advocates of free trade, tend to see their exports as 'good' and their imports as 'bad'.

2.2 Reasons for Protectionism

There are seven reasons to support protectionism. Firstly Ignorance of the benefits of specialisation based on comparative advantage: self-sufficiency feels naively comfortable. In the second place to give domestic producers an advantage in the marketplace. Danger: this may adversely affect other industrial sectors e.g. US raised tariffs on imported steel from 27 to 36.5%: US steel prices rose by 20%, making steel users less competitive e.g. car manufacturers. Thirdly because one special case of 'dumping': claims that some trade is 'unfair' e.g. the import price is below the cost of production.

Another reason is protect 'strategic' industries e.g. food and farming defence, nuclear etc. One more reason is to maintain employment, Risks freezing resources in uncompetitive industries and preventing growth of new industries where competitive advantages (profits, salaries and wages) are greater.

An additional reason for support protectionism is social reasons – to maintain a 'way of life'. Rural depopulation is a serious problem in some countries e.g. eastern France.

Finally to protect 'infant' industries – to give them time to become established and develop genuine comparative advantage, e.g. the British sugar beet industry was established after World War I (for strategic reasons) but is still not competitive without protection from cheaper, imported cane sugar.

2.3 Forms of Protectionism

There are different ways to protect a market one of them is Tariffs: taxes on goods or services crossing economic or political boundaries.

- On exports: to ensure domestic supply or as a source of government revenue: mainly a feature of developing countries.
- On goods in transit (cabotage: once common in Western Europe, still common in central Europe e.g. on Polish exports to Russia via Belarus.
- On imports: the most common form to protect domestic industry from competition and as a source of government revenue (especially important where government domestic fiscal instruments are weak e.g. Russia.
- *Ad valorem* (by value) e.g. 25%. Danger of attracting low-value commodities at marginal cost pricing.
- Specific e.g. £25 per tonne, or a minimum import price e.g. £100 per tonne. Tend to attract premium, high value imports.

Another form is Quotas: physical limitation of the quantity imported e.g. New Zealand butter and lamb into the UK . Quotas Provide more absolute control of imports than tariffs, May be presented in the guise of Orderly Marketing Arrangements or Voluntary Export Restrictions (VERs). Most VERs concern the EU and USA e.g. the USA has VERs covering: Textiles, clothing, steel, cars, shoes, machinery and consumer electronics. Most VERs is directed at countries with high trade surpluses with their trading partners: Japan, South Korea and Taiwan.

A different protectionism form is Non–Tariff (Administrative) Trade Barriers: a plethora of regulations covering: Licensing regulations (including foreign exchange control), performance requirements, government subsidies, health and safety, packaging and labelling, size and weight requirements etc. There is often a fine line between genuine concern for health and safety and protectionism.

Such non–tariff barriers can have a big impact on trade e.g. Japanese car market share: 2% Italy, 3% France, 12% UK, 36% Denmark.

2.4 GATT and the World Trade Organisation

The General Agreement on Tariffs and Trade was established in 1947 to progressively liberalise world trade by reducing or eliminating protectionist measures, especially quotas and non–tariff barriers. The incidence of tariffs has been reduced from 40% of traded items in 1947 to fewer than 5% today. Principles:

- Reciprocity: a bilateral bargaining away of tariffs.
- Non–discrimination: elimination of preferential treatment.
- Transparency: conversion of non–tariff barriers with bound tariffs.

WTO was established as global watchdog and to resolve disputes in 1996.it is formed by 129 members and 30 applicants. It is more powerful than GATT: decisions taken by panels whose recommendations can only be overturned by consensus. WTO can impose compensation fines or trade sanctions. Main targets:

- Agricultural products and the services sector (IT: computers, semiconductors and software).
- The integration of China in WTO.
- Foreign investment, competition policy and labour standards (especially child labour).
- Regional trade agreements: e.g. the EU, NAFTA etc.

3 The General Steel Market (Overview)

The U.S. steel industry is a **\$50+ billion** enterprise. There are more than **1,200 firms** operating in all but a few states. The industry employs approximately **154,000** people nationwide. The steel industry (including iron production) is one of the largest energy consumers in the manufacturing sector and has invested more than \$7 billion in environmental controls. The U.S. steel industry is seen as vital to both economic competitiveness and national security. Steel is the backbone of bridges, skyscrapers, railroads, automobiles, and appliances.

The U.S. steel producers face intensive competition from integrated steel producers, mini–mills and foreign producers (often government subsidized). Despite significant reductions in raw steel production capacity by major U.S. producers over the last two decades, the U.S. industry continues to be adversely affected by excess world capacity.

Recent improved production efficiencies and new minimill capacity also have begun to increase overall production capacity in the United States. Excess production capacity exists in certain product lines in U.S. markets and, to a greater extent, worldwide. Increased industry overcapacity, coupled with economic recession, is intensifying an already competitive environment.

Over the last decade, extensive downsizing have necessitated costly restructuring charges that, when combined with highly competitive market conditions, have resulted at times **in substantial losses for some U.S. integrated steel producers**. As a result of this a number of U.S. integrated steel producers have gone through bankruptcy reorganization.

In addition, U.S. steel producers may be adversely **affected by fluctuations in the relationship between the U.S. dollar and foreign currencies**. Furthermore, some non-U.S. steel producers have been owned, controlled or subsidized by their governments. Some non-U.S. producers of steel and steel products have continued to ship into the U.S. market despite decreasing profit margins or losses.

Over the long term, steel prices will be set by the lowest cost producers and the lowest costs will be attained through the implementation of new technologies. The flat rolled steel market provides strong evidence of this downward trend in real steel prices due in part to decreasing costs. Technological innovation is likely to continue in the steel industry and producers will be required to achieve significant, sustainable cost reductions to succeed.

4 Protectionism of the US steel industry

4.1 COMPONENTS OF THE PRESIDENT'S DECISION.

The U.S. President decided to impose temporary safeguards ranging from an 8 percent tariff to 30 percent tariffs on certain steel products. As required by WTO rules, these tariffs decline over the period of the relief. The relief also includes a tariff rate quota (TRQ) on imports of semifinished steel products known as slabs. Under this TRQ, 5.4 million short tons of semifinished slabs will be allowed to enter duty free. The out of quota tariff will be 30 percent.

Below are the descriptions of all products affected by the safeguards. As required by U.S. law and international trade rules, the level of relief is reduced periodically throughout the duration of the measure:

- Flat Products: A tariff of 30 percent will be imposed on imports of plate, hot-rolled sheet, cold-rolled sheet, and coated sheet.
- Tin Mill Products: A tariff of 30 percent will be imposed on imports of tin mill products..
- Hot-Rolled Bar and Cold-Finished Bar: A tariff of 30 percent will be imposed on imports of hot-rolled bar and cold-finished bar.
- Rebar: A tariff of 15 percent will be imposed on imports of rebar. This tariff is higher than the 10 percent tariff recommended by the plurality of ITC commissioners.
- Certain Tubular Products: A tariff of 15 percent will be imposed on imports of certain welded tubular products.
- Carbon and Alloy Fittings and Flanges: A tariff of 13 percent will be imposed on imports of carbon and alloy fittings and flanges..
- Stainless Steel Bar: A tariff of 15 percent will be imposed on imports of stainless steel bar..
- Stainless Steel Rod: A tariff of 15 percent will be imposed on imports of stainless steel rod.
- Stainless Steel Wire: A tariff of 8 percent will be imposed on imports of stainless steel wire.

— Slab: Imports of slab will be subject to a tariff rate quota (TRQ). The in-quota volume will be set at 5.4 million short tons.

4.1 Other Provisions

— Duration. The safeguard measures will remain in place for three years, rather than the four years recommended by the ITC. In light of the strength of the relief imposed, the President has determined that a remedy of three years is appropriate.

— Product exclusions. The President retains the discretion to consider requests for product exclusions within 120 days after the date of the Proclamation and will consider requests for product exclusions each year thereafter. This will help ensure that U.S. consumers have access to needed products.

— Imports from developing countries. Consistent with WTO rules, the Administration will exclude from the relief imports from developing countries that exported only small amounts of steel to the United States and that are WTO members. Following is the USTR list of excluded countries (with exceptions noted below):

Albania, Angola, Antigua and Barbuda, Argentina, Bahrain, Bangladesh, Barbados, Belize, Benin, Bolivia, Botswana, Brazil, Bulgaria, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Chile, Columbia, Congo (Brazzaville), Congo (Kinshasa), Costa Rica, Cote d'Ivoire, Croatia, Czech Republic, Djibouti, Dominica, Dominican Republic, Ecuador, Egypt, El Salvador, Estonia, Fiji, Gabon, the Gambia, Georgia, Ghana, Grenada, Guatemala, Guinea, Guinea Bissau, Guyana, Haiti, Honduras, Hungary, India, Indonesia, Jamaica, Jordan, Kenya, Kyrgyzstan, Latvia, Lesotho, Lithuania, Madagascar, Malawi, Mali, Mauritania, Mauritius, Moldova, Mongolia, Morocco, Mozambique, Namibia, Niger, Nigeria, Oman, Pakistan, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Poland, Romania, Rwanda, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Senegal, Sierra Leone, Slovakia, Solomon Island, South Africa, Sri Lanka, Suriname, Swaziland, Tanzania, Thailand, Togo, Trinidad and Tobago, Tunisia, Turkey, Uganda, Uruguay, Venezuela, Zambia and Zimbabwe.

Following is the USTR list of products from developing countries not excluded from the remedy:

- Brazil: slabs, flat
- India: carbon flanges
- Moldova: rebar
- Romania: carbon flanges
- Thailand: carbon flanges, welded pipe
- Turkey: rebar

4.2 Reasons for protectionism

Section 201 of the American Trade law authorizes the president to impose temporary import relief to industries injured by a surge of imports, requiring those industries to make structural adjustments during the period of relief.

President Bush's decision to impose temporary tariffs and quotas on U.S. steel imports because:

The fact sheet said that subsidized foreign steel, produced in excess of global demand, had flooded U.S.

markets. A glut of cheap imports combined with world steel overcapacity caused steel prices to fall to the lowest levels in 20 years. As a result of falling profitability, the industry registered 30 bankruptcies and shed 20,000 jobs since 1997, according to press reports.

While other steel producing nations subsidize their steel industries and send their surplus steel to the US to sell it often below market prices, American steelworkers, their families, and their communities have been devastated by it and are fighting for survival.

To cut it to the chase, a surge in imports resulted in bankruptcies, serious dislocations, and job loss.

4.3 Goals of protectionism

President Bush decided to impose temporary safeguards to give America's steel industry and its workers the chance to adapt to the large influx of foreign steel. The goal is to help steelworkers; communities that depend on steel, and the steel industry adjust without harming the American economy.

Meeting the challenges and opportunities of the global steel marketplace will also require adjustment and restructuring of the American steel industry, to ensure its long-term competitiveness. It is now up to the U.S. industry to take advantage of this interim relief to make the difficult adjustments needed.

4.4 Arguments against US steel protectionism

Imports were down over 20% last year and cannot be described legitimately as the cause of the problems some US companies are experiencing. Now steel mills are taking advantage of the short supply situation to raise prices and some are even canceling orders booked previously at lower prices. The US steel industry has been protected nearly non-stop from imports since the late 1960s. Steel manufacturing in the US employs less than 200,000 workers, while the steel consuming sector, over 12 million. Protectionist actions will cost more jobs in the steel-consuming sector than they would save in the steel-producing sector. It is simply be bad economic policy to add additional protection to this already heavily protected industry.

Simply put, protectionism and subsidies do not create competitive industries

More protection for the US steel industry is not warranted and will not solve the problems steel producers face today. The fundamental problem facing the US — and steel producers internationally — is non-economic steel making capacity, virtually always kept alive by subsidies. Non-economic capacity exists in the US and around the world. This, not so-called overcapacity, is the source of the problems faced by competitive steel mills. Protectionism fosters uneconomic capacity and discourages unsuccessful firms from the otherwise rational decision to exit the market. Continued operation of inefficient mills produces excess output, which suppresses prices, and jeopardizes prospects for healthier firms and their employees.

Steel protectionism is incapable of saving steel jobs. Employment in the steel sector has **declined by more than 60 percent since 1980 largely because productivity growth** – driven primarily by the success of America's mini-mill producers – has outpaced demand growth. Rising productivity is good for the economy; it provides workers with opportunities for higher paying jobs. Trade protection defers and complicates this process, though. It distorts market signals that might otherwise encourage new investment in new industries, and discourages workers from seeking opportunities these investments provide.

5 Worldwide effects and consequences

5.1 Effect in US

Tension over the U.S. decision to introduce hefty duties against imported steel products have mounted, and

opposition to the Bush administration's policy is coming from across the globe, and not just from the European Union.

The safeguards aim also at addressing underlying causes of depressed steel prices and falling profitability of steel companies, which are global overcapacity and market distortions

From almost all over the world, the U.S. decision to protect steel makers was solely a political one, rather than one based on economics, noting that Congress is now eyeing the mid-term November elections and means to muster political support from key constituencies.

In retaliation against the U.S. move to slap tariffs of up to 30 percent on a range of foreign steel imports to protect its domestic market, the EU have imposed levies of up to 26 percent on steel products.

In the opinion of specialists, putting up trade barriers would not only hurt the European economy, but also discourage U.S. steel makers from restructuring their operations and grow in the longer-term.

Moreover, the Europeans are not alone in their disgruntlement with the U.S. protectionist measures.

The countries that will feel the greatest impact from the 37-million-ton cut in steel imports by the US are Japan, South Korea, Taiwan, China and the members of the European Union (EU), which produce finished steel products like hot- and cold-rolled sheet steel and coated steel.

Brazil and Russia are the countries that will be hit hardest by the new quotas on semi-finished steel, while Thailand and Turkey are exempt from the new quotas and tariffs.

New Zealand's Prime Minister Helen Clark has also voiced her concern about the levies due to New Zealand's steel mills are unsubsidized, and in his opinion, this decision is affecting all steel makers.

Other steel-producing countries have also been vocal in their opposition against the U.S. decision to put up trade barriers, including Japan, South Korea and Switzerland.

"We intend to work closely with Europe ... and we would welcome the participation of other concerned countries to actively argue this problem," stated Japan's Economy Minister Takeo Hiranuma, shortly after the U.S. decision to levy tariffs on steel products not only when the country's steel imports are actually dropping, but also as it has excluded Canada and Mexico from the tariff hikes as part of the North Atlantic Free Trade Agreement.

Meanwhile, South Korea's government made clear that it would continue to press Washington to lift the levies both through official and unofficial channels.

As for China, it is seeking compensation for the \$350 million in steel sales it is expected to lose as a result of the higher U.S. steel import tariffs, which would become still steeper if the EU also discriminates against its products as a result of the European dispute with the United States. The Chinese government has also threatened to file a complaint with the WTO, which would be the first action it would pursue with the global entity since China became a member last December.

Another country that could suffer a double blow as a result of the latest international trade dispute is Brazil, one of the world's biggest steel producers.

In the opinion Brazil's Trade Minister Sergio Amaral the government could adopt its own measures to protect the country's steel makers, pointing out that there was already an noticeable increase in steel exports to Brazil since March 20, when the United States first introduced its tariffs. That could increase still further when the EU also introduces levies on steel imports.

Nearly 12 percent of Brazil's steel exports are destined for the United States, and the government foresees a loss of at least \$90 million in export revenue as a result of the U.S. actions. Estimation of further losses of \$48 million in revenue this year from exports to the EU is expected if the bloc's tariffs kick in.

But while global opposition against the U.S. protectionist action increases, the Bush administration has challenged the European tit-for-tat reaction.

The representative of U.S. steel producers, Kevin Demsey, defended the U.S. decision to impose tariffs in the first place by pointing out that global steel-producing capacity is excessive, and countries have been eager to export their products to the United States particularly since the East Asian economies began to sour in the mid-1990s. He also complains that given that many other steel-producing countries heavily subsidize their manufacturers, it was only fair for U.S. steel makers to be similarly protected through the tariffs.

The WTO is expected to give its final ruling on the steel dispute between the United States and the EU by June 2003. In the meantime, countries heavily dependent on exporting steel, which ironically applies to neither the United States nor the EU, are likely to suffer the consequences the most.

5.2 Impact on the EU

Most of the world was united today – in totally rejecting the decision by President Bush to protect the US steel industry with tariffs. The European Union joined China, Russia, Brazil South Korea and others in attacking the move as politically inspired.

The EU is planning a complaint to the world Trade Organization, and Britain, along with other European countries, will consider measures to "safeguard" their own steel industries. How the spate over steel could rapidly escalate into a wider trade war. Just when Britain's steel sector was getting back on its feet, a body blow. George Bush's move to slap tariffs of up to 30 per cent on US steel imports will have a seismic affect on global steel markets. Over ten thousand UK steel jobs have gone over the last two years – a painful restructuring. The sector's survived despite downsizing and a strong pound. Tony Blair, Prime Minister: "The problems of the US steel industry are solved by restructuring that industry. Not by imposing arbitrary and unjustifiable tariffs."

EU currently exports almost 4 million tones of steel to America every year. But the bigger worry for Europe – and thus Britain – is the so-called trade backwash. An enormous sixteen million tones of steel pour into the US every year from the rest of the world – including China, Russia and South Korea.

The Bush tariff undermines this steel too. So it could be dumped elsewhere – and the biggest market's Europe. Two years ago steel was just over \$300 a tone. Today, it's only £200. And now set to fall further. Of course, UK negs as part of EU. Germany and Italy are also big producers.

This latest American move points to business as usual. The US keeps its steel protection, and in return, the high barriers will remain around EU agriculture.

The continuation of the "old firm" WTO stitch-up will anger countries like China, Russia, India and South Korea – important emerging economies who want fair access to western markets.

5.3 Impact in Brazil

According to Brazil the US government's decision to raise tariffs on steel imports could spur other countries and regional blocs to implement similar trade barriers.

Brazil's steel exports to the US, which amounted to \$730 million last year, will drop 10% to 15% this year as a consequence of the measures announced on 5 March by Washington.

The new package of protectionist measures adopted by the George W. Bush administration will also stand in the way of the growth of Brazil's iron and steelworks industry.

Washington assigned Brazil a quota of 2.54 million tons of semi-finished steel, higher than last year's sales of 2.3 million tons. However, this year's earnings will be lower than last year's, because the new restrictions in the US market will weaken international prices. Furthermore, any sales above 2.54 million tons will pay a 30% duty, which will effectively limit exports to the set quota.

The quota will rise by 10% over the next two years – slower growth than was expected by Brazil's steelworks industry, which hoped to see its exports to the US increase by 20% to 30%.

The new tariffs, which affect 10 steel by-products, range from 8% to 30%, and will remain in effect for three years, starting on 20 March.

Brazil is the only Latin American country that will be affected by the Bush administration decision. Mexico, the region's other large steel exporter, is protected by its membership in the North American Free Trade Agreement (NAFTA), and the crisis-stricken Argentina was excluded from the list of affected countries.

With total production amounting to 27 million tons a year, and with the capacity to produce 32 million tons, Brazil's iron and steelworks industry will only be able to grow by boosting exports, because domestic consumption stands at just 18 million tons.

That route looked like the natural one to take, since the industry, which was privatized nearly a decade ago, has achieved high levels of productivity and international competitiveness, even though Brazil is a medium-sized producer, with production levels far below the nearly 100 million tons a year produced by Japan or the US.

Besides seeing its future growth limited, Brazil fears a wave of protectionism in other markets, and a fall in international prices, because the cut in imports by the US will lead to a surplus in the nations that supply it with steel.

The risk is real, given the fact that the global steel industry has a capacity to out-produce demand, a problem which a movement headed by Washington is trying to overcome through voluntary production cuts in several countries. However, that initiative is now threatened by the trade war that might break out.

If the EU and other importers take reprisals and protect their markets, Brazil's losses will increase. The US absorbs around 36% of the exports of Latin America's giant, while the EU and the rest of Latin America combined import another 40%.

This situation created by the US decision endangered the negotiations for the Free Trade Area of the Americas (FTAA). But U.S.A government expressed confidence that the FTAA talks would remain unaffected because they promise to bring trade benefits to all parties.

Other highly competitive Brazilian products such as sugar and orange juice also face barriers like quotas and tariffs in the US market.

For that reason, the Brazilian government, driven by the need to obtain a trade surplus due to the imbalance in its external accounts, had already decided to file a complaint before the WTO against subsidies with which the US bolsters soybean production, as well as a tariff that the state of Florida imposes on Brazilian orange juice. The revenues from the tariff are used to promote Florida orange juice, in violation of WTO rules, and the subsidies for soybean farmers, which were recently increased, depress international prices, Brazil argues.

In the past, disputes have arisen from US pressure on Brazil to repeal laws standing in the way of computer imports, for instance, or to enact legislation protecting patents.