

# **The American Steel Industry: A Changing Profile**

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## Summary

The U.S. steel industry has faced increasing difficulties since the late 1990s. More than 30 U.S. steel producers have gone into bankruptcy. While different companies and parts of the industry have been affected to different degrees, the two types of domestic producers of raw steel, integrated mills and minimills, have both supported restrictions on imports, which they say have undermined the ability of the U.S. industry to produce steel economically. U.S. policymakers have responded with a variety of measures, but could not prevent a new downturn in the domestic industry in late 2000 and 2001.

Active and retired steelworkers and their union representatives have also become particularly concerned about the industry's possible inability to continue to fund pension and healthcare benefit commitments (an issue known as "legacy costs"). Already, more than 100,000 retired steelworkers have lost health care benefits, which were funded by steel companies that have been liquidated. Supporters of government assistance for legacy cost relief introduced legislation, and the 2002 trade bill, approved by Congress and President Bush (P.L. 107-210), assists retirees not eligible for Medicare, who have lost their health care benefits because of corporate bankruptcies. Pensions are guaranteed up to statutory limits by the Pension Benefit Guarantee Corporation, which acted in 2002 to take over the plans of three of the largest integrated steel producers.

Pressed to act by Members of Congress, steel companies, and labor representatives, President Bush in June 2001 requested the U.S. International Trade Commission (ITC) to undertake a new Section 201 trade investigation on the steel industry. The ITC ruled that much of the industry was being injured by increased imports and recommended relief measures to President Bush. On March 5, 2002, the President decided to impose three-year safeguard tariffs with top rates of 30%. The safeguard tariffs were only one element of an Administration strategy concerning steel, which also included a multilateral international negotiations on global overcapacity in the steel industry and future rules for world steel trade. Meanwhile, U.S. trading partners are challenging the Section 201 measures under rules of the World Trade Organization, a subject covered in CRS Report RL31474, *Steel and the WTO*.

Some Members of Congress, economists and representatives of steel-consuming industries have expressed concerns that measures to aid the industry are having a negative impact on the competitiveness of a broad range of U.S. businesses. Supporters of this view have introduced H.Con.Res. 23 in the 108<sup>th</sup> Congress calling on the ITC to give consideration to the impact on U.S. steel-consuming industries in the review of the effects of President Bush's safeguard measures.

This report reviews industry developments and the economic situation of the steel industry, including legacy cost aspects of its problems. It will be updated as events warrant.



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# The American Steel Industry: A Changing Profile

Since the late 1990s, the U.S. steel industry has experienced increasing difficulties. Much of the industry has been in serious trouble since the financial crises of 1997-98 in Asia, Russia, and Latin America contributed to a rise in U.S. steel imports. After reactions from the Clinton Administration and Congress, imports fell in 1999 and the domestic steel industry staged a partial recovery by early 2000. However, this recovery was undermined by a renewed rise in imports, by a suddenly slowing domestic U.S. economy, and by the big rise in energy prices that affected the energy-intensive steel industry in 2000. Some commentators also say that there are still too many older, inefficient steel mills that are not competitive with newer, more productive plants here and abroad, and that contracted wage and benefit costs are obstacles to restructuring, consolidation, and modernization.

By 2002 more than 30 steel companies were in bankruptcy. Companies operating under Chapter 11 have included Bethlehem Steel, Republic Technologies, Wheeling Pittsburgh, and National Steel, all well known as integrated producers, *i.e.*, companies that produce steel from iron ore. LTV, reportedly the third-largest U.S. integrated producer, has been liquidated under Chapter 7 of the bankruptcy code, though part of its assets are back in operation under new ownership as the "International Steel Group." Geneva Steel of Utah, the only integrated mill west of the Rockies, has ceased operating and a number of minimills, which generally produce steel from remelted scrap, have also gone out of business. The industry found it difficult to raise the financing necessary for further restructuring and modernization. Also, integrated steel companies have had problems in funding the pension and healthcare packages for steelworkers and retirees to which they agreed in the 1980s, at the time of a major industry restructuring, an issue now known as "legacy costs."

While U.S. policymakers responded to the problems of the industry with a variety of measures, the situation in the domestic industry continued to worsen in 2001. Under increasing pressure from Congress, industry and labor, and after consultations with all three groups, President George W. Bush took action under Section 201 of U.S. trade law. This allows the President to implement temporary trade relief for a domestic industry after finding that it has been injured by surging import levels. Under U.S. law, the presidential request went to the U.S. International Trade Commission (ITC), for an investigation to determine if high import levels are a substantial cause of injury to the U.S. industry. The ITC reported affirmatively that imports are substantially injuring a large part of the domestic industry and forwarded recommendations of relief to President Bush. Although highly criticized by U.S. trading partners, the President on March 5, 2002, announced a series of three-year remedy tariffs, known as "safeguard" tariffs, of up to 30% on a selected range of steel products.

The Section 201 action, combined with other trade remedy actions under U.S. antidumping and anti-subsidy laws, a decline in operating capacity that has squeezed supply, and a domestic economic recovery may have all contributed to a rapid price recovery in the American steel market in the first half of 2002. Steel consuming industries, some of which had protested the Section 201 remedy actions, now claim, by contrast, that higher steel prices have endangered their businesses and are driving their customers to seek foreign production sources. Meanwhile, the American steel industry itself has accelerated a process of restructuring and consolidation begun before the Bush safeguard tariffs were in place.

The balance of this report examines the current situation of the American steel industry. It examines both the domestic structure of the U.S. industry and the international competition, including the changes brought to the import market by the safeguard tariffs and the impact of the legacy cost issue on industry restructuring.

## Overall Performance of the U.S. Steel Industry

The Asian financial crisis began in Thailand in 1997 and quickly spread. It dampened demand for steel in that previously fast-growing region, and led Asian steelmakers to seek markets in the United States and Europe. By mid-1998, the financial crisis had spread to Russia and Brazil. These countries also sought to maintain steel production, in the face of domestic recessions and global oversupply of steel, by selling a larger share of their output to the United States. The result was a one-third increase in steel imports in 1998 over imports that were already near a record level in 1997. Exacerbating the surge also was a rise in the U.S. dollar exchange rate that made low-priced foreign-produced steel even more competitive against U.S. products.<sup>1</sup>

According to the Department of Commerce study, *Global Steel Trade: Structural Problems and Future Solutions*, the heavy volume of low-cost steel entering the U.S. market drove prices below levels at which U.S. producers could continue to make steel at a profit.<sup>2</sup> **Figure 1** shows the evolution of market supply in the 1990s. It indicates the total apparent U.S. consumption of steel (finished and semi-finished) for each year, and the share that was provided by imports.<sup>3</sup> Through 1992, the U.S. steel industry was still protected by voluntary trade restraint agreements negotiated in the 1980s. These were allowed to lapse after failure to

<sup>1</sup> It has been estimated that exchange rate changes affected the price competitiveness of both integrated U.S. steel mills and minimills between \$66 to \$164 per metric ton of output. Richard McLaughlin, "Exchange Rates Seen at the Heart of Steel's Woes," special report in *American Metal Market (AMM)*, September 3, 2001.

<sup>2</sup> Department of Commerce. *Global Steel Trade: Structural Problems and Future Solutions* (July 26, 2000), [<http://www.ita.doc.gov/media/steelreport726.html>]. A more recent detailed analysis of the industry's economic condition and the developments that led to the present situation is the ITC report, *Steel: Investigation No. TA-201-73*, Vols. II-III, *Information Obtained in the Investigation* (Publication 3479, December 2001).

<sup>3</sup> "Apparent domestic consumption" equals total domestic product shipments plus imports, minus exports.

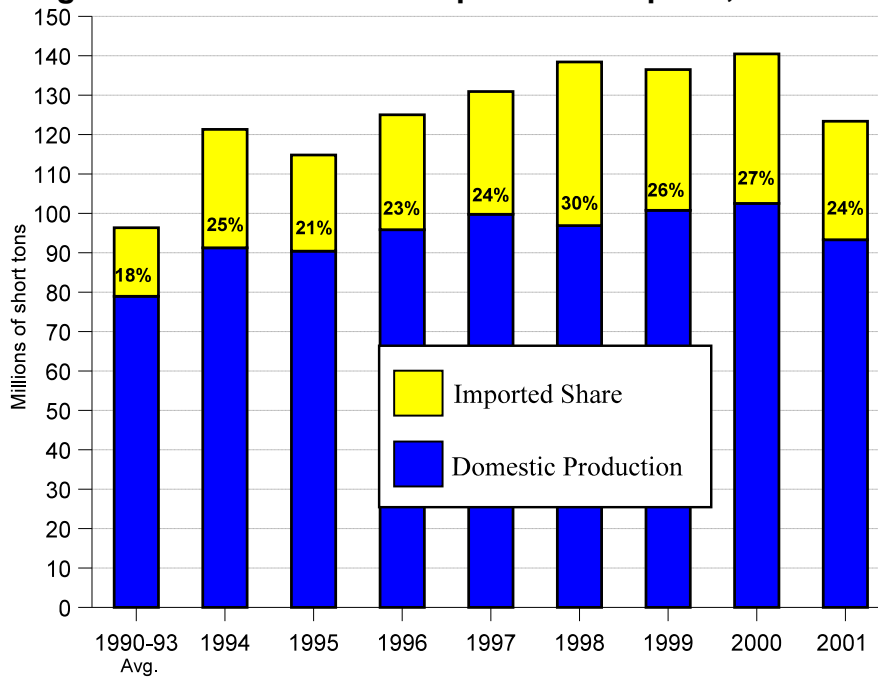


negotiate a multilateral steel trade agreement.<sup>4</sup> Apparent consumption grew strongly in the mid-1990s. But imports accounted for more than half of the increase between 1990-93 average levels and the 1998 peak – and surging imports accounted for all of the net one-year growth in 1998, as they reached 30% of U.S. steel consumption.

Some authors have suggested that steel’s problems in part are attributable to older, inefficient integrated steel mills (“unproductive domestic capacity”<sup>5</sup>). But a 1999 report by the ITC suggested that problems of integrated mills provide only a partial explanation:

Indeed, the same trends for the industry as a whole are also apparent in the separate results of both integrated mills and minimills. ...In fact, minimills fared even worse than integrated mills from 1997 to 1998. ...The worse financial performance of [minimill] producers reflects in part their greater dependence on the merchant market, where imports are concentrated.<sup>6</sup>

**Figure 1. U.S. Steel Consumption and Imports, 1990-2001**



Source: American Iron & Steel Institute. *Annual Statistical Report*, 1999-2001.

By mid-1998, U.S. companies were losing substantial market share to imports of cheaper foreign steel. Many previously profitable domestic steelmakers experienced a decline in sales revenue, operating income, and profit in 1998 and 1999. Some small companies experienced a loss of access to capital and liquidity

<sup>4</sup> Gary Clyde Hufbauer and Ben Goodrich, *Steel: Big Problems, Better Solutions* (Institute for International Economics Policy Brief no. PB01-9), July 2001, p. 1.

<sup>5</sup> Joseph B. Francois and Laura Baughman. *Costs to American Consuming Industries of Steel Quotas and Taxes* (Consuming Industries Trade Action Coalition, April 30, 2001), p. 1.

<sup>6</sup> U.S. International Trade Commission. *Certain Hot-rolled Steel Products from Japan*, Publication no. 3202 ( June 1999), p. 19. Cited in *Global Steel Trade*, p. 27.

problems, which forced many companies into bankruptcy.<sup>7</sup> Confronted with these problems, U.S. steel companies, steelworkers, and many Members of Congress argued that federal support for the steel industry and its workers was necessary. A number of measures, as described below, were adopted to bolster the industry and to reduce the adverse impact of imports. But these measures did not avert a further worsening of conditions in the industry.

In September 1998, the steel industry filed antidumping (AD) cases with the ITC against hot-rolled steel from Brazil, Japan, and Russia, and a countervailing duty (CVD) case against Brazil.<sup>8</sup> As the situation worsened in other product areas, additional petitions were filed. In response to the import surge, the Clinton Administration conducted more than 100 AD/CVD investigations on steel products, a number of which were expedited to provide faster relief to industry. According to Robert LaRussa, then Under Secretary of Commerce for International Trade, “these helped turn back massive import surges seen during the 1998 crisis.”<sup>9</sup>

The Clinton Administration announced a Steel Action Program on August 5, 1999, which had three main elements that included (1) vigorous enforcement of U.S. trade laws, including expedited investigations; (2) bilateral efforts to address the underlying problems that led to the crisis, including consultations with Japan and Korea, and an agreement with Russia to limit steel imports; and (3) improved import monitoring mechanisms to detect potential import surges. Moreover, the Congress passed, and the President signed, the Emergency Steel Loan Guarantee Act (P.L. 106-51, August 17, 1999), which was designed to assist financing of troubled steel companies unable to obtain commercial loans at reasonable rates.<sup>10</sup>

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<sup>7</sup> *Global Steel Trade*. p. 34.

<sup>8</sup> “Antidumping is relief to remedy the adverse price impact of imports sold on the U.S. market at ‘less than fair value’...Countervailing duty is relief from the adverse price impact of imports that receive foreign government subsidies.” In both cases, the form of relief is extra duties on imports. CRS Report RL30461, *Trade Remedy Law in the 107<sup>th</sup> Congress*, by William H. Cooper, p. 3.

<sup>9</sup> U.S. Department of Commerce. International Trade Administration. *Testimony of Undersecretary Robert S. LaRussa before the Senate and House Steel Caucus*. December 12, 2000. (<http://www.ita.doc.gov/media/larussa121200.htm>).

<sup>10</sup> Section 101(b) of that Act contained a number of congressional findings, including –

- (1) the United States steel industry has been severely harmed by a record surge of more than 40,000,000 tons of steel imports into the United States in 1998, caused by the world financial crisis;
- (2) this surge in imports resulted in the loss of more than 10,000 steel worker jobs in 1998, and was the imminent cause of three bankruptcies by medium-sized steel companies, Acme Steel, Laclede Steel, and Geneva Steel;
- (3) the crisis also forced almost all United States steel companies into—
  - (A) reduced volume, lower prices, and financial losses; and
  - (B) an inability to obtain credit for continued operations and reinvestment in facilities;
- (4) the crisis also has affected the willingness of private banks and investment institutions to make loans to the United States steel industry for continued

(continued...)

Despite these measures, large parts of the U.S. steel industry have never fully recovered from the 1997-98 import surge. Steel imports initially fell in 1999 as a share of U.S. consumption, as shown in Figure 1. However, imports rose again in 2000 to 27%, 50% higher than the average 18% market penetration of the early 1990s. With penetration levels at 25% or higher, imported steel captured much of the increase in demand for steel that accompanied the strong growth in the U.S. economy in the late 1990s. Many product areas experienced double-digit, or even triple-digit, one-year import percentage increases in 2000. Moreover, the increases were registered from a wide range of foreign sources.<sup>11</sup> But there was substantial disagreement between domestic producers and users over the causes and nature of the problems of the U.S. industry. “Almost universally, U.S. steel producers blame the second-highest import year on record for their late-2000 financial losses. Steel importers disagree, saying the problems can be traced to early-2000 domestic price increases that made cheaper foreign-made steel more attractive.”<sup>12</sup>

Domestic steel market growth ended abruptly in late 2000, as the manufacturing sector of the economy entered a recessionary period. Average steel industry capacity utilization through early August 2001 was 79%, down about 10 points from the same period in 2000, according to weekly American Iron & Steel Institute (AISI) figures. By late October, the capacity usage level fell to 65%.<sup>13</sup> Capacity usage rates for November and December 2001 continued at similar levels.

Capacity utilization rates and steel prices rose dramatically in early 2002. Geneva Steel ceased operating in November 2001, then LTV shut down in December. Together, these developments closed 10 million tons in potential capacity, equal to about 10% of total U.S. domestic production. Prices generally rose following these and by the week ending March 23, 2002, the capacity utilization rate increased to 92.5%, the first time it had been above 90% since May 2000.<sup>14</sup> AISI commented, “The figure is higher in part because there is less capacity overall in operation. Nevertheless, it does reflect some increase in optimism based on improved order books and expectations that the 201 remedy will benefit the health

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(...continued)

- operation and reinvestment in facilities;
- (5) these steel bankruptcies, job losses, and financial losses are also having serious negative effects on the tax base of cities, counties, and States, and on the essential health, education, and municipal services that these government entities provide to their citizens; and
- (6) a strong steel industry is necessary to the adequate defense preparedness of the United States in order to have sufficient steel available to build the ships, tanks, planes, and armaments necessary for the national defense.

<sup>11</sup> “Steel Imports the Second-Highest Ever in 2000,” *Purchasing.com* (March 2001).

<sup>12</sup> *Ibid.*

<sup>13</sup> *AMM*, August 8, 2001 and October 31, 2001.

<sup>14</sup> *AMM*, January 7 and 10, 2002; *Wall St. Journal*, January 10, 2002.

of domestic steelmakers.”<sup>15</sup> Through October 2002, weekly capacity utilization rates stayed near or above 90% and raw U.S. steel output rose to more than two million short tons per week, approximating the 100-million-ton annual level reached in the late 1990s and 2000. But as the year ended, both output and capacity utilization began to slip. There has been some evidence of decline in demand, percentage capacity usage in December 2002 was between 80-85%, and output was back below two million tons per week, even though LTV’s successor company, International Steel Group, had begun to restart production.<sup>16</sup>

According to Census Bureau figures on a preliminary basis through November 2002, import tonnage had actually been slightly higher in 2002 than for the comparable 2001 period, despite the Section 201 tariffs. The total for 2002 projects to 32 million short tons, compared to just over 30 million in 2001. AISI president Andrew Sharkey commented that the numbers proved that, “Imports are flowing freely,” despite the tariffs, and that price and supply relationships were stabilizing. By contrast, David Phelps of the American Institute for International Steel, representing importers, said that the net increase was solely because of semifinished imports brought in by domestic steel producers themselves. Otherwise, he noted, imports were actually down by 1.5%, despite higher domestic demand.<sup>17</sup>

Supporters and opponents of the U.S. steel safeguard tariffs have produced conflicting reports on the impact of the tariff measures on domestic prices and the steel consuming industry. Peter Morici, in a study that received financial support from Nucor, the largest steel minimill operator, concluded that “201 relief has led to improved market conditions in the United States and the rest of the world.” Morici notes that prices have risen, but that such increases have been due also to other factors such as increased demand and U.S. AD/CVD tariffs. He notes that foreign steel prices have gone up by equivalent rates, casting doubt on whether steel consuming industries would lose business to foreign-based competitors. In any case, “even after the increases, prices are only at or below their mid-2000 level and their historical averages.” Furthermore, the price rises are uneven. Morici’s data shows that hot-rolled steel spot prices have increased 42%, from \$240 to \$340 per ton, between June 2001 and June 2002, but are only a little higher than in June 2000. Cold-rolled and galvanized prices have likewise increased by 28% and 22% respectively, but bar prices, also subject to the remedy tariffs, have been relatively flat for the past two years.<sup>18</sup>

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<sup>15</sup> AISI. *Steelworks News Digest*, March 27 and April 11, 2002.

<sup>16</sup> Based on AISI output figures in *AMM*, December 18, 2002. On pricing issues, see *AMM*, Nov. 21, 2002. Also, Nov. 13 and the “Destination Detroit” section in the Dec. 23, 2002 print ed., with reference to the impact of the average 10% increase in reported contract prices for some steel grades paid by auto producers on behalf of themselves and principal body part suppliers.

<sup>17</sup> *Ibid.*, Dec. 30, 2002 print ed.

<sup>18</sup> Peter Morici, *The Impact of Steel Import Relief on U.S. and World Steel Prices: A Survey of Some Counterintuitive Results* (July 2002).

In a critique of Morici's analysis supported by the American Institute for International Steel, Hans Mueller challenged this data, methodology and conclusions. Mueller emphasizes, for example, that Morici compares U.S. and international steel price percentage increases in 2002, not the actual dollar values – and across the board, he says, U.S. prices have increased \$50-100 more than foreign prices. Mueller also notes that in choosing June 2000 for the steel price baseline in his comparative table, Morici has actually chosen a point at which domestic prices spiked and, according to at least one other analyst, were unsustainably high.<sup>19</sup> In any case, the Global Insight (formerly DRI-WEFA) analysis for the last half of 2002 and early 2003 is that prices have peaked and will start to slide. It finds the rise in prices driven by short-term supply shortages, not real demand, and believes higher prices are being eroded by the reorganization and reopening of some shuttered mills.<sup>20</sup>

## Changing Structure of the Domestic Steel Industry

Despite the increase in steel prices in 2002, the long-term recovery of the industry is far from assured. It seems unlikely that the American industry will disappear, even the long-beleaguered integrated steel mills, which make steel from iron ore, rather than starting with recycled scrap, as is generally done in the minimills. But the structure, the ownership and the labor organization patterns in the industry are all changing. As John Anton of Global Insight writes of two now-bankrupt integrated steel companies:

If Bethlehem or National cannot find buyers they will eventually cease operations, as LTV did.... However, it is highly probable that each mill would quickly re-start under new ownership. There is not enough sheet capacity in the United States without them, and the facilities are attractive if the legacy cost burden is erased through liquidation.<sup>21</sup>

**Figure 2** illustrates how the impact of trade and industry problems for steel has not been even across the sector. The production of the large integrated mills using mostly basic oxygen furnaces (the last U.S. open hearth plant closed in 1991) between 1990 and 2000 generally hovered around 60 million short tons per year. Minimills employing electric-arc furnaces and reprocessing steel from scrap steadily increased production after the recession of 1991. Their market share is shown to have topped 50 million tons for the first time in 2000, when it reached almost 50% of domestic raw steel production, up from 37% at the beginning of the 1990s. Output from both integrated steel works and minimills fell in 2001, as shown in Figure 2. Preliminary 2002 AISI statistics through November 2002 show an overall increase

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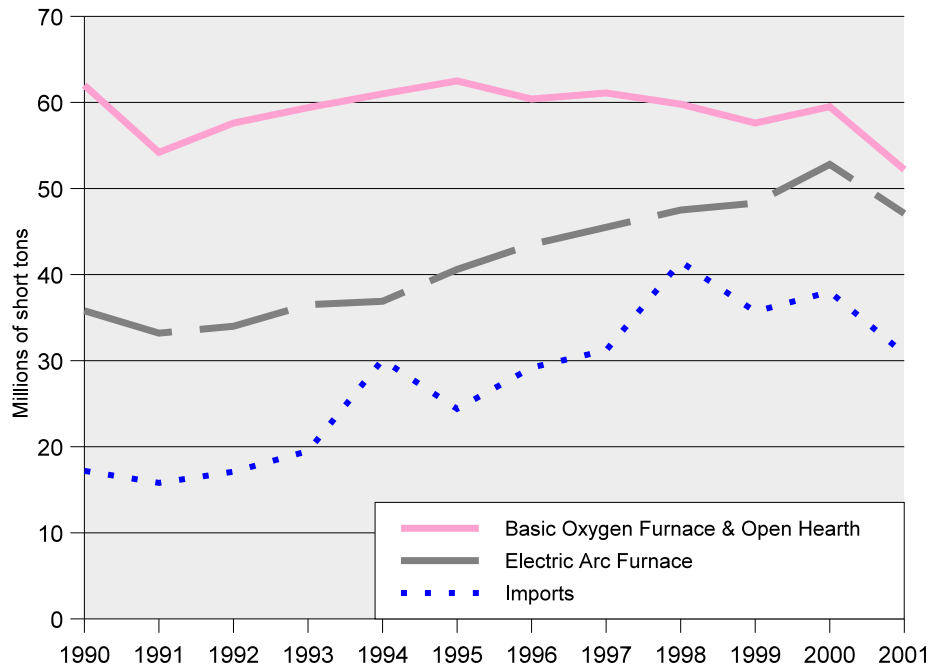
<sup>19</sup> Hans Mueller, *The Impact of 201 Tariffs on U.S. Steel Users and Foreign Steelmakers: A Critique of Peter Morici's "Survey of Some Counterintuitive Results"* (July 2002). John Anton of DRI has frequently made the point that the price rise of early 2000 was not sustainable, and that a too-rapid steel price increase in 2002 could lead to another price collapse. See, for example, DRI-WEFA, *Steel Forecast Summary* (1<sup>st</sup> qtr., 2002), p. 1.

<sup>20</sup> DRI-WEFA. *Monthly Steel Report* (August 2002). Compare to Global Insight. *Monthly Steel Report* (October and November, 2002).

<sup>21</sup> Global Insight. *Monthly Steel Report* (December 2002), p. 1.

in domestic steel production, with a small lead for the share of production from minimills (50.8%).<sup>22</sup>

**Figure 2. Sources of U.S. Steel**



Source: DRI/WEFA. *Steel Industry Review*; and, American Iron & Steel Institute (December 2001 monthly statistics).

Figure 2 also shows the import trend generally increasing, so that the integrated mills are under competitive pressure for many products from two different sources.<sup>23</sup> The integrated mills and minimills have conflicting views on some policy issues, though both types of producers supported the Section 201 investigation of the industry and requested high levels of remedy tariffs. Many minimill operators have also gone into bankruptcy, ceased operating or been acquired out of financial difficulties. One recent report questions whether there is now even overcapacity in some product sectors where minimills have become the exclusive domestic production source.<sup>24</sup>

For 2001, Figure 2 shows that minimill shipments, integrated steel mill shipments and imports all declined in a down market. While this parallel decline is

<sup>22</sup> AISI. "Pig Iron and Raw Steel Production" (Report no. AIS7), November 2002.

<sup>23</sup> Gary Hufbauer and Ben Goodrich argue that "although integrated steel producers and the USWA concentrate their blame on imports, over half the decline in traditional integrated steel production is attributable to the rise of domestic minimills..." but their data also show that the rise of imports also increased very substantially at actually at a faster overall rate than minimill production, *Steel Policy: The Good, the Bad and the Ugly* (Institute of International Economics Policy Brief PB03-1), Jan. 2003, p. 5 and table 1.

<sup>24</sup> *AMM*, "Balancing Act: Battling Bloat in the Wide-Flange Beam Market," January 27, 2003 print ed., pp. 3-5.

clearly attributable to market conditions, the sharpest fall was in imports. They decreased by 19%, or 8 million tons, according to AISI figures, compared to 11-12% (5-7 million tons) for domestic minimill and integrated production. U.S. trading partners and importers argued during the Section 201 case and in response to the presidential decision, that the 2001 decline in imports undermined the U.S. justification for a broad safeguard action under Section 201. According to AISI calculations based on official U.S. trade data, however, imports in 2002 increased again by 8% despite the U.S. safeguard tariffs, and totaled 32.5 million short tons.<sup>25</sup>

**Table 1** provides details on individual company production data for 2000 and 2001, as published by *American Metal Market*. With its large number of bankruptcies among leading companies, the table foreshadows that a new listing in the near future will look very different. In 2001, for the first time, the leading North American steel producer was a minimill operator, Nucor. The Charlotte-based company, with operations in eight states, ended a century of leadership in production by the largest integrated steel producer, United States Steel Corporation. Nucor, which has been acquiring minimills as well as building new plants of its own, gained the leadership by a wide margin, outproducing U.S. Steel by more than 20% in tonnage in 2001. But strong moves toward consolidation are under way in both the integrated and minimill halves of the domestic steel industry, so that the listing of names on future tables may look very different.

## Steel Industry Consolidation

A stated goal of the Bush Administration in applying the Section 201 tariffs is to provide a period of respite from import competition, so the industry can restructure through consolidation and other measures, and better meet international competition.<sup>26</sup>

Some minimill operators moved rapidly in 2002 to restructure their side of the steel business. In May 2002 Nucor, already by far the largest U.S. minimill operator, acquired Birmingham Steel, the financially troubled second-leading U.S. steel minimill operator.<sup>27</sup> It had earlier acquired Trico, an Alabama minimill rated at more than 1 million tons of annual capacity in which LTV had an ownership stake, out of the LTV bankruptcy proceedings. Gerdau, Brazil's large minimill operator, already operated a total of seven U.S. and Canadian minimills. In 2002 it merged its North American-based operations with Co-Steel, a large minimill operator in Canada and the United States. As Gerdau AmeriSteel, it will now be the second largest operator

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<sup>25</sup> AISI. "Steel Imports in 2002 Exceed 32.5 Million Tons – Fourth Highest in History," press release, January 28, 2003.

<sup>26</sup> "I have determined that the safeguard measures will facilitate efforts by the domestic industries to make a positive adjustment to import competition...[including] consolidation of United States steel producers..." President George W. Bush. Memorandum on "Action under Section 203 of the Trade Act of 1974 Concerning Certain Steel Products" (Mar. 5, 2002) in *Message to Congress* (House Doc. 107-185), March 6, 2002, p.56.

<sup>27</sup> *AMM*, June 3, 2002.

of minimills in North America, with strength especially in long products, such as concrete reinforcement bars, structural steels and wire products.<sup>28</sup> Steel Dynamics (SDI), a minimill operator based in Fort Wayne, which also specializes in long products, bought Qualitech, a closed Indiana minimill producer of special bar quality steel, after a legal contest with Nucor, and reportedly plans to revamp and reopen it. Later, SDI bought GalvPro, an Indiana finishing mill formerly owned jointly by two integrated companies. Cargill Inc., the owner of North Star Steel, another big minimill operator, was reported at the end of the year also to be actively seeking a buyer for its steel operations.<sup>29</sup>

**Table 1. Major North American Steel Companies**

(Companies producing at least 2.0 million net tons of raw steel in 2001)

	2000	2001
Nucor <sup>Ⓜ</sup>	11.3	12.3
U.S. Steel	11.4	10.1
Ispat International*	— —	10.0
Bethlehem ■	10.0	8.8
LTV ■■	8.2	6.5
AK **	6.5	6.1
National ■	6.1	6.0
Stelco	5.6	5.0
Dofasco	4.5	4.5
Ahmsa	3.7	3.3
Rouge	2.9	2.8
Birmingham <sup>Ⓜ</sup>	3.1	2.5
Hylsa	3.1	2.5
Ipsco <sup>Ⓜ</sup>	2.0	2.4
North Star <sup>Ⓜ</sup>	2.9	2.4
Weirton	2.5	2.4
Villacero	2.4	2.4
Co-Steel <sup>Ⓜ</sup>	2.9	2.3
Wheeling-Pittsburgh ■	2.4	2.3
Algoma ■	2.4	2.2
Steel Dynamics <sup>Ⓜ</sup>	2.0	2.0

\* *American Metal Market* estimate of 2001 production of three North American operating units (March 18, 2001).

\*\* AK totals estimated by *American Metal Market*.

■ Steel company operating under Chapter 11 bankruptcy statutes, as of March 1, 2002. (Algoma emerged from reorganization under Canada's Companies Creditors' Arrangements Act on January 29, 2002.)

■■ Steel company in liquidation, as of March 1, 2002.

Ⓜ Minimill operator

Source: *American Metal Market*, March 11 and 18, 2002.

<sup>28</sup> *Ibid.*, August 14 and 29, 2002.

<sup>29</sup> The recent flurry of minimill consolidations is summarized in the *AMM*, "Supersizing the American Mini-mill," special section in Dec. 9, 2002 print ed. On the SDI deal for Qualitech, see also *ibid.*, Jan. 3, 2003; on GalvPro, *ibid.*, Feb. 6, 2003.



In contrast to the minimills, “consolidation remains elusive for integrated mills in the United States,”<sup>30</sup> but at the beginning of 2003, several major transactions are proposed involving the five largest U.S. integrated steel mill companies shown in the table. At the end of 2001, U.S. Steel introduced a consolidation plan for the integrated steel industry, which would have included possibly Bethlehem, National and one or two smaller integrated firms under U.S. Steel ownership. But U.S. Steel was not able to get the plan off the ground before the end of 2002. The plan essentially called for consolidation of much of the U.S. integrated production under U.S. Steel. It involved three “key elements”

First ... implementation of President Bush’s [steel] ... program ... [especially] a strong remedy under Section 201 of the Trade Act of 1974. Second ... the creation of a government-sponsored program that would provide relief from the industry’s retiree legacy cost burden ... thereby removing the most significant barrier to consolidation of a highly fragmented industry. Third ... a progressive new labor agreement that would provide for meaningful reductions in operating costs.<sup>31</sup>

Once President Bush enacted extensive trade relief for the steel industry under Section 201 in March 2002, the first part of this plan was essentially in place. But Congress, the Administration and industry could not come to agreement on any form of assistance that would resolve the legacy cost problem and make acquisition of the other companies a viable financial proposition from the perspective of U.S. Steel (the impact of the legacy cost issue on retirees will be examined in detail in a later section of this report). The Administration guaranteed no government support beyond trade policy. At his press briefing on the presidential Section 201 decision, U.S. Trade Representative Robert Zoellick deflected a question on legacy cost relief by saying, “... In the meeting that the President had with members of the steel caucus last week, Democrats and Republicans, everyone who spoke about this topic said, Mr. President you should focus on the safeguard action and let Congress deal with this question of legacy costs, recognizing that there are a variety of views.” Zoellick further indicated that, “The steel industry was somewhat divided ... Some of the large, integrated producers want the government to pick up the \$13 billion [in unfunded legacy cost liabilities]. The minimills, who have had a different set of labor contracts, didn’t want that.”<sup>32</sup>

The original U.S. Steel consolidation plan was vigorously criticized by the steel minimills, which are not in general troubled by the legacy cost problem. The president of the Steel Manufacturers Association (representing minimills), Thomas

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<sup>30</sup> Global Insight. *Monthly Steel Report* (Nov. 2002), p. 2.

<sup>31</sup> USX Corp. “U.S. Steel Developing Plan for Significant Consolidation in Domestic Integrated Steel Industry,” press release (December 4, 2001). USX was the holding company parent of U.S. Steel Corporation before December 31, 2001. At the end of the year, the steelmaking operations of USX became the current U.S. Steel through a tax-free spin-off from USX, whose other operations have become the totally separate Marathon Oil Corporation.

<sup>32</sup> Press briefing by U.S. Trade Representative Robert Zoellick (March 5, 2002), [<http://www.whitehouse.gov/news/releases/2002/03/20020305-13>].

Danjczek, called the government aid proposal a “bailout.”<sup>33</sup> To address the perception of a division in steel’s ranks, the CEOs of U.S. Steel and Nucor, together with other steel executives, announced on January 15, 2002, a “common action plan.” They agreed on support of “strong and comprehensive” Section 201 trade relief. They also agreed on “... removal of the principal barrier to consolidation – employee-related obligations that certain steelmakers have accrued through prior restructuring actions as well as those that will result from future rationalization activities.” However, this did not mean “direct government payments to any steel company.” Rather, the CEOs suggested that the government should bear, “with existing government programs ... to the maximum extent possible,” the costs of rationalization by assuming for displaced workers of consolidated companies “the same obligations that would become [government’s] responsibility via the Chapter 7 liquidation process.”<sup>34</sup>

This “common action plan” was not directly translated into a legislative proposal, nor did other industry stakeholders respond.<sup>35</sup> But legislation would be necessary if the federal government were to assume responsibility for any additional payments or benefits that steel company employees and retirees receive beyond those to which they are entitled under existing law. Thus, in April 2002 nine Senators co-sponsored the Steel Industry Consolidation and Retiree Benefits Act, after reported consultations with large integrated steel companies and the United Steelworkers union (USWA). Also at this time, an amendment to add steel legacy cost relief to the Senate energy bill failed on the floor.<sup>36</sup> Shortly thereafter, two similar bills were introduced in the House. But no action was taken in the House or the Senate on any of these bills.

Without any government action on these legacy cost proposals, the integrated steel industry has started to restructure itself, coping with legacy costs primarily through bankruptcy reorganizations. (The Trade Act of 2002, P.L. 107-210, now provides some relief for retirees’ health care benefits, but does not address health care legacy costs as they affect companies that are continuing to operate.) After LTV Steel was liquidated, an investment firm, W.L. Ross & Co., purchased and restarted some of the facilities as the International Steel Group (ISG), but legally has no responsibility for the LTV pension funds or retiree health care plans.<sup>37</sup> ISG then also

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<sup>33</sup> Quoted in *New York Times*, Dec. 11, 2001. Nucor Corp. issued its own counter statement attacking the government assistance concept in the U.S. Steel plan, reproduced in *Inside U.S. Trade*, Dec. 7, 2001. Some minimill executives, including the head of financially troubled Birmingham Steel Corp., were quoted in a more positive vein in *AMM*, December 6, 2001.

<sup>34</sup> Identical press releases of Nucor and U.S. Steel, January 15, 2002; see also *DER*, “Steel Industry Heads Announce Plan for Steel Industry Recovery,” January 16, 2002.

<sup>35</sup> See *Inside U.S. Trade*, “Steel Company Agreement Omits Specific Solution for Legacy Costs” (January 25, 2002).

<sup>36</sup> *AMM*, April 19, 2002; *DER*, “Senate Rejects GOP Effort to Open Arctic Refuge to Oil, Gas Exploration,” (Apr. 19, 2002); *Washington Post*, April 19, 2002.

<sup>37</sup> *Business Week*. “Bullish on Bankruptcy,” (April 1, 2002) pp. 70-71; *AMM*, Mar. 26, 2002; (continued...)

acquired and re-started some of the assets of Acme Steel, a bankrupt and shuttered, but very modern, rolling mill in suburban Chicago.

An inability to resolve legacy costs and related benefits issues has encumbered efforts to take Bethlehem Steel out of bankruptcy. Bethlehem pursued opportunities to establish joint ventures with Europe's Arcelor at its Burns Harbor, Indiana, works and with CSN of Brazil at Sparrows Point, Maryland. But Bethlehem's CEO Robert S. Miller found that he could not complete these deals without first resolving the legacy cost issues.<sup>38</sup> In January 2003, after PBGC had taken over the Bethlehem pension plan, ISG succeeded in negotiating a \$1.5 billion buyout of Bethlehem's steelmaking properties, later expanded to include the entire company. As of this writing, the agreement has been approved by the Bethlehem Steel board of directors, but still must be approved by the bankruptcy judge and the USWA.<sup>39</sup>

Meanwhile, the other two largest integrated steelmakers, U.S. Steel and AK Steel, competed for ownership of bankrupt National Steel Corporation. In December 2002, PBGC declared the pension funds operated by National Steel as insolvent (the PBGC's action in both the National and Bethlehem cases was criticized by the companies and the USWA; its role will be discussed further in the section on legacy costs below).<sup>40</sup> The PBGC move, though controversial, cleared the way for U.S. Steel to make a total bid of \$950 million for National's operating assets on January 9, 2003.<sup>41</sup> On January 23, 2003, AK Steel made a competing offer for National to the bankruptcy court worth \$1.2 billion. The USWA, which must renegotiate labor contracts with any party that buys out Bethlehem and National, indicated that it viewed its relations with AK Steel unfavorably after a three-year lockout at an AK plant that had only recently ended; also, AK had brought its new Rockport, Indiana, plant on line as a non-union operation. The U.S. Steel bid has the support of National Steel's management, as well as the USWA. The bankruptcy court has established AK's bid as the leading offer, but has also established that AK must negotiate a new labor contract with the USWA by March 17, 2003.<sup>42</sup>

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<sup>37</sup> (...continued)

*Chicago Sun-Times*, Feb. 28, 2002; *Business Week*, "Wilbur Ross: Pulling LTV Out of the Scrap Heap" (Feb. 3, 2003), p. 101.

<sup>38</sup> *AMM*, Mar. 6 and 27, Oct. 8, 2002; *Baltimore Sun*, July 10, 2002; *Financial Times*, Oct. 7, 2002.

<sup>39</sup> *Financial Times (FT.com)*, Jan. 6, 2003; *Washington Post*, Jan. 7 and Feb. 10, 2003; *AMM*, Jan. 7-8 and Feb. 6, 2003; for further background on Wilbur Ross and the ISG bid for Bethlehem, see also *Financial Times*, "Forging a New Future for Steel," Jan. 17, 2003.

<sup>40</sup> *South Bend Tribune*, Dec. 6, 2002; *Wall Street Journal*, Dec. 6, 2002.

<sup>41</sup> *AMM*, Jan. 10, 2003; Bloomberg.com, "U.S. Steel to Buy National Steel Assets for \$950 Million" (Jan. 9, 2003).

<sup>42</sup> *AMM*, Jan. 13, 24 and 27, and Feb. 3 and 10, 2003; Bloomberg.com, "AK Steel Makes Rival \$1.02 Billion Bid for National Steel" (Jan. 23, 2003). On the USWA role in reorganizing the industry and renegotiating labor contracts more generally, see *AMM*, Dec. 24, 2002, Jan. 8, 2003 and "A Template for Change" in Jan. 20, 2003 print ed., pp. 2-4; *Business Week*, "Salvation from the Shop Floor" (Feb. 3, 2003), pp. 100-01.

The impact of the safeguard tariffs plus the consolidation moves just described will impact states with steel industries. These are shown in **Figure 3**, which indicates the 14 states that each shipped more than \$1.0 billion of steel and related ferroalloy products, according to the Census Bureau's *Annual Survey of Manufactures (ASM)* in 2000. Three states – Indiana, Ohio and Pennsylvania – shipped the majority of U.S.-produced steel, by value. They also accounted for 76,000 of 144,000 total employees then working in the steel industry, according to the *ASM*. These states, plus, to a lesser extent, Maryland, Illinois and West Virginia, are home to most of the U.S. integrated steel mills. Arkansas, South Carolina and Kentucky, along with Indiana, are particularly the location of many of the steel minimills. Alabama's production is divided between a number of minimills and an integrated steel mill complex near Birmingham. With the reorganization and contraction now going on within the industry, the map gives some indication as to the number of jobs and amount of production now at stake in the domestic steel industry.

## The International Competition

The steel industry's demand for Section 201 protection conflicted with the interests of a wide range of U.S. trading partners. **Figure 4** shows trading partners that exported at least 500,000 tons of steel to the United States in 2001 and their 2000 import totals as well (note that international data, as used in this figure, are in metric tons, MT, not short tons). The overall volume of steel imports in 2001 declined by more than 20%, from 34.4 million MT to 27.4 million MT. Nevertheless, Figure 4 shows that the U.S. market remains significant for a large and diverse group of countries, representing a wide range of geography, development levels and U.S. policy interests. Import numbers were volatile in 2002, owing to both the uncertain recovery of the U.S. economy and the impact of the U.S. safeguard tariff,<sup>43</sup> but, as noted above, totaled an estimated 32.5 million short tons, or about 8% higher than in 2001, according to AISI calculations.

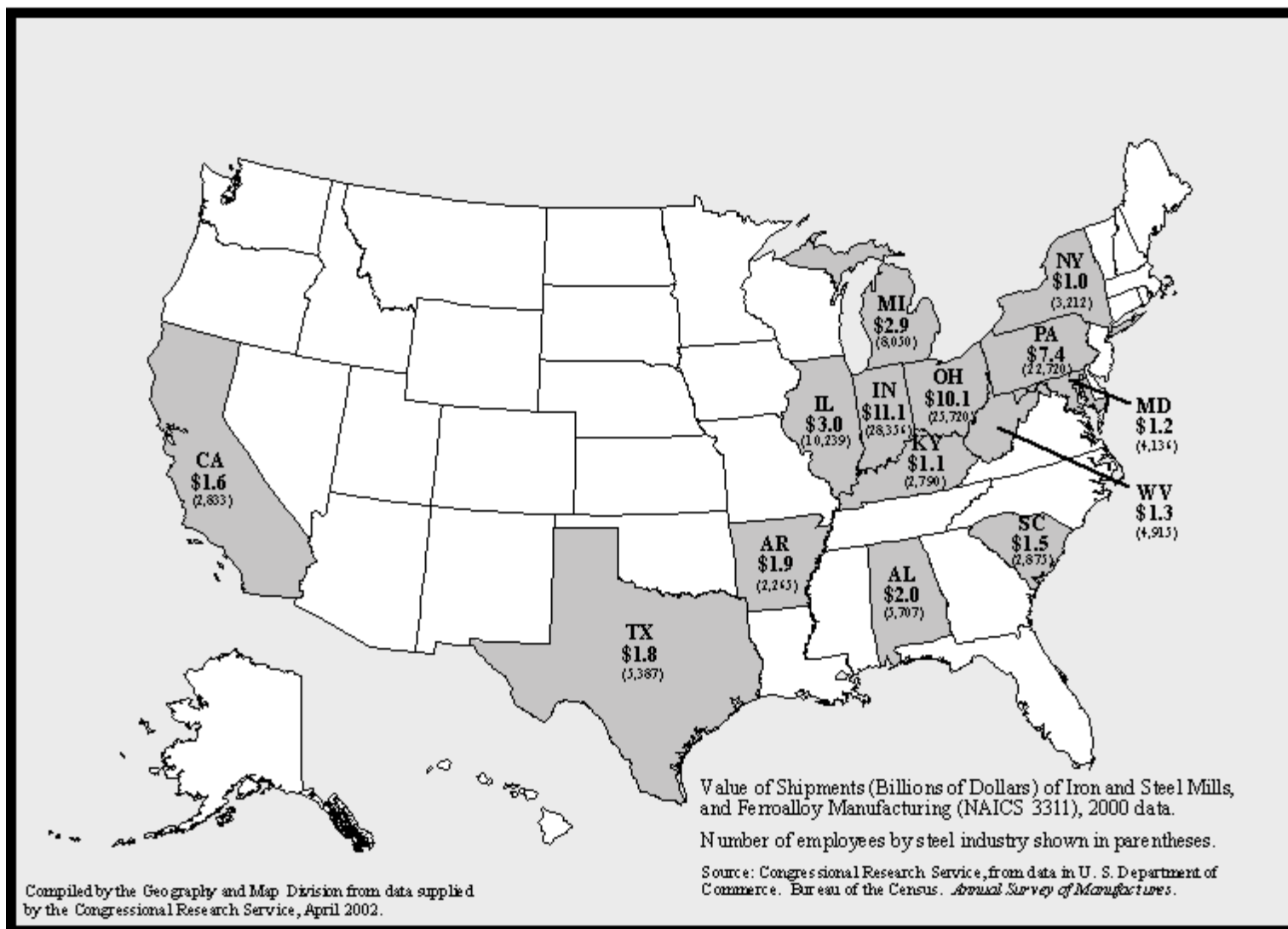
One reason for such diversity is that a general rise in the U.S. dollar exchange rate in the late 1990s made imported steel much cheaper in the U.S. market. The exchange rate of the U.S. dollar increased nearly 30% in value against a range of other currencies after early 1997, making U.S.-produced steel less price-competitive against all foreign competitors. In a recently released study co-sponsored by steel companies and industry organizations, Robert Blecker estimates that the dollar's rise between 1995 and 2000 implied a 24.4% increase in steel imports, based on observed elasticities, or "about 44% of the actual increase" in volume.<sup>44</sup> The dollar declined 9% against other industrial country currencies between January and December 2002, and has since weakened still further against the euro. But it rose 6% against the Federal Reserve index of other important trading partner currencies in 2002, and remains substantially higher than the pre-1997 level against both industrial and developing country currencies.

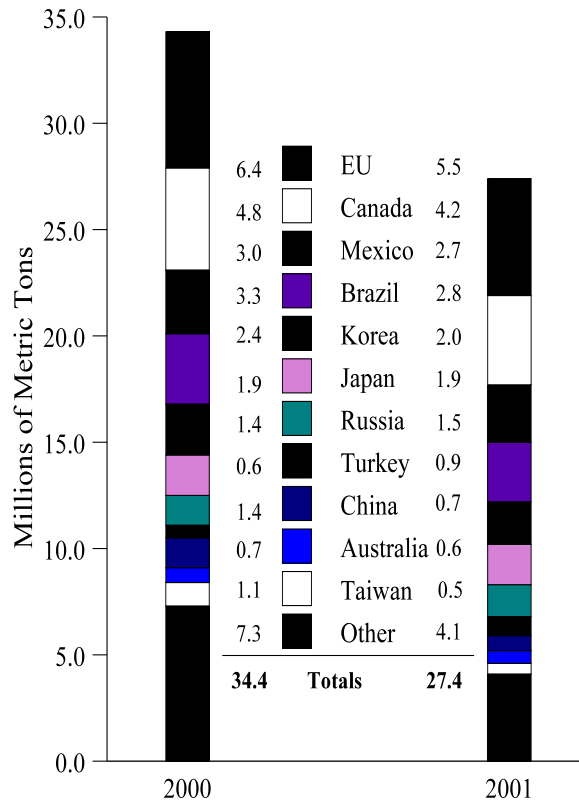
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<sup>43</sup> See discussion in *AMM*, August 1, 2002.

<sup>44</sup> Robert A. Blecker, *Let It Fall: The Effects of the Overvalued Dollar on U.S. Manufacturing and the Steel Industry* (October 2002), pp. 27-28.

Figure 3. Top Steelmaking States



**Figure 4. Sources of U.S. Steel Imports**

Source: U.S. Census Bureau. Imports of Steel Products (December 2001 final).

Reviewing the level of imports by specific suppliers in Figure 4, the **European Union (EU)** is a high-wage trading area with a mature steel industry facing some of the same problems as parts of the U.S. industry. Yet, the EU was actually the largest source of U.S. imported steel, 5.5 million MT in 2001, 22.5% of total U.S. steel imports, compared to 6.4 million MT in 2000. The leading European exporter to the United States was **Germany** with 1.5 million MT, nearly twice the total of any other EU member. **France** was second at 800,000 MT, while **Netherlands, Italy, the U.K., Spain and Belgium** all exported about 400-500,000 MT. **Sweden, Austria and Luxembourg**, not listed here, were also important suppliers especially of lower-tonnage but higher-value specialty products. U.S. figures show the value of EU imports to have been more than \$4.0 billion in 2000 and about \$3.4 billion (29% of the total) in 2001. There has been a wave of consolidations in Europe, capped at the end of 2001 by the merger of France's major steelmaker, Usinor, with the Luxembourg steelmaker, Arbed, and its Spanish affiliate, Aceralia, to create Arcelor, now the world's biggest steelmaker.<sup>45</sup>

Before the full list of product exclusions was announced, the European Commission claimed that the structure of the Section 201 tariff remedies and

<sup>45</sup> *AMM*, December 13, 2001. On Arcelor, which expected to produce 43 million MT of steel in 2002, or about 5% of the world total, see *Financial Times*, June 6, 2002.

exclusion of EU members from any national exemptions would unfairly target more than \$2 billion of EU products.<sup>46</sup> Actual U.S. import figures, on a final basis through November 2002, seem to confirm the EU's estimate to some degree. Tonnage imports from the EU were 14% less than in 2001 for the comparable period, and import value was down 18%, or about \$550 million from the EU as a whole. The EU share of U.S. steel imports by value fell to 23%, and by volume EU imports were half a million MT behind Canada.<sup>47</sup>

Our North American Free Trade Agreement (NAFTA) partners, **Canada** (4.2 million MT) and **Mexico** (2.7 million MT), ranked second and fourth among steel exporters to the United States in 2001. They were exempted by the Clinton Administration from the limited Section 201 trade actions in 2000, but were included by the ITC in some of its injury determinations under the Section 201 case. President Bush exempted all Canadian and Mexican products from the Section 201 remedy measures. Canadian and Mexican steel industries are closely integrated with the U.S. market, and Table 1 showed that many of the largest North American steel producers are Canadian and Mexican companies (Stelco, Dofasco, Ahmsa, Hylsa, Villacero and Algoma). Canada and Mexico have therefore been two of the chief foreign beneficiaries of the U.S. safeguard tariffs. Imports from Canada shot up by nearly a million tons over the first eleven months of 2002 and increased \$540 million in value. Mexican imports were up by almost 600,000 tons and by \$260 million or 30% in value.

**Brazil** ranked third in 2001 with 2.8 million MT in steel exports to the United States. The U.S. and Brazil are scheduled to co-chair the Free Trade Agreement of the Americas (FTAA) negotiations starting in 2003. According to news reports, this creates a special incentive for the Bush Administration to remain on good terms with Brazil in trade policy issues.<sup>48</sup> Brazil's industry has been fully privatized. It went through a period of substantial modernization and consolidation since 1990. Thirty-four companies were reduced to a total of 12, controlled by seven groups, with new direct foreign investment, especially from Europe, playing a big role. Employment was reduced by more than 60%, with more than 110,000 jobs eliminated. Although Brazil has a large and growing domestic market, one-third of its 27 million MT in output was exported in 2001, about 40% to North America. Brazil is especially important as a supplier of slabs, the most widely shipped shape of semi-finished steel, to the U.S. market; two-thirds of Brazil's steel exports are semi-finished

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<sup>46</sup> This was the initial level of retaliatory sanctions that the European Commission proposed in connection with its complaints against the U.S. Section 201 trade action. BNA. *Daily Report for Executives (DER)*, "EU Plans to Aim \$2.5 Billion in Sanctions at U.S. Areas in Favor of Steel Safeguards," March 25, 2002.

<sup>47</sup> All 2002 data in this section from U.S. Department of Commerce. U.S. Census Bureau. "U.S. Imports for Consumption of Steel Products from Selected Countries and Areas" November 2002 final report (Jan. 28, 2003).

<sup>48</sup> See the report on USTR Robert Zoellick's trip to Brazil the week after the Bush 201 decision was announced in *New York Times*, March 14, 2002.



products.<sup>49</sup> These exports were included in the Bush safeguard tariffs, but Brazil also received large quotas and exclusions for its semi-finished exports; consequently, total U.S. tonnage imports from Brazil had increased 26% for the year through November 2002.

Brazilian companies have made substantial direct investments in the U.S. market, including half-ownership of California Steel Industries, a major West Coast rolling mill. Gerdau, as mentioned earlier, acquired a total of seven U.S. and Canadian minimills, then reached an agreement to merge its North American-based operations with Co-Steel, a large minimill operator in Canada and the United States. It will now be the second-largest operator of minimills in North America, with strength especially in long products.<sup>50</sup> CSN of Brazil, which had acquired Heartland Steel of Indiana, was also reportedly involved in discussions to acquire a joint venture position at the Baltimore facilities of Bethlehem Steel, although this deal was never completed.<sup>51</sup> Subsequent to its discussions with Bethlehem, CSN reached agreement to be acquired by the Anglo-Dutch steel company Corus to create one of the world's largest steel companies, but Corus backed out of the deal.<sup>52</sup>

In 2000, the three leading Asian suppliers were **Korea**, with 2.4 million MT, **Japan** (1.9 million MT) and **Taiwan**, at 1.1 million MT. Korea's exports to the U.S. market declined in 2001 to 2.0 million tons. In part this was due to earlier U.S. trade actions and in part because a fire substantially reduced production in 2001 at a California cold-rolling mill, jointly owned by U.S. Steel and Korea's Pohang Iron & Steel (POSCO), which imports a substantial amount of Korean flat-rolled steel as feedstock.<sup>53</sup> Imports from Japan declined only marginally in 2001, but fell substantially from Taiwan – by more than half to about 500,000 MT. Imports from all three major Asian producers were down in both tonnage and value on an annual basis through November 2002. POSCO began 2002 as the world's second-largest steel company, but Japan's five big steelmakers, also among the world's biggest, are actively consolidating. NKK and Kawasaki have agreed to merge in a new company, known as JFE; the deal will be completed by April 2003. Japan's remaining three largest steel companies have formed a cooperative alliance.<sup>54</sup>

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<sup>49</sup> Brazil data from Instituto Brasileiro de Siderurgia. *The Brazilian Steel Industry: Competitive in an Open Global Market* (Dec. 2001) and *Pocket Yearbook 2002*.

<sup>50</sup> *AMM*, August 14 and 29, 2002.

<sup>51</sup> *Ibid.*, March 27, 2002.

<sup>52</sup> Bloomberg.com, "Corus Scraps Proposed Takeover of Brazil's CSN" (Nov. 13, 2002); *AMM*, Nov. 14, 2002; *New York Times*, Nov. 14, 2002.

<sup>53</sup> *AMM*, March 19, 2002.

<sup>54</sup> On JFE see esp. *AMM*, Oct. 14, 2002 print ed. See also *AMM*, December 5, 2001 and January 3, 2002; *Financial Times*, Dec. 23, 2001 and April 8, 2002. Additionally, a *Financial Times* article (Jan. 10, 2002) on an alliance between Japan's Sumitomo Metals and Corus notes an increasing array of international alliances within the industry. An April 8, 2002, article in the same newspaper describes a new technology alliance between NKK and Kawasaki Steel of Japan with Germany's largest steelmaker, ThyssenKrupp.

Current and former centrally planned economies were strongly represented by **Ukraine, Russia and China**, each with around 1.3-1.4 million MT of exports to the United States in 2000; Russia's exports bucked the general downward trend and increased slightly in 2001, while imports from China and the Ukraine fell sharply. In Russia, Ukraine, and perhaps other former Soviet republics such as Moldova, the collapse of the Soviet Union has left major domestic industries without big government-financed projects that provided major markets for their steel. So now they look to the global market, including the United States.<sup>55</sup> U.S. imports from Russia are governed by an agreement suspending U.S. antidumping duties on covered products in exchange for limits on Russian shipments, negotiated under the Clinton Administration as a resolution to an antidumping case. The Bush Administration has declared Russia a "market economy," which changes the basis of calculating margins and subsidies for AD/CVD cases. The Bush Administration has been negotiating new suspension agreements and quotas for Russian semi-finished products under the Section 201 remedies.<sup>56</sup> Russia's exports to the United States were marginally higher in 2002, while the exports of China and the Ukraine fell further.

The United States imports steel from many other sources and these imports fared variously under the Section 201 tariff regime. Imports from **India** dropped sharply from nearly 1 million MT in 2000 to only about 200,000 MT in 2001, as shown in Figure 4, but then tripled in 2002, as India was exempted from most safeguard tariffs. **South Africa** and **Australia** saw smaller declines, but, possibly assisted by a falling currency exchange rate, exports from **Turkey** to the United States increased 41% to almost 900,000 MT in 2001, and were already more than 1 million MT in 2002 through November. This long list of countries still leaves out many other suppliers, most of which fully or partially qualify for the developing-country exemption to the safeguard tariffs (to be discussed more fully below).

There are many reasons for the attractiveness of the U.S. market for international steel producers. In a period of slow global growth and a strong dollar, many analysts believe, the U.S. market has become a safety valve for a systemic overcapacity that is distinctive for this industry. Gary Hufbauer and Ben Goodrich of the Institute for International Economics note that integrated steel mills have high fixed costs, so that "it makes sense for struggling steel firms to continue running their plants so long as the marginal revenues from extra production at least cover variable costs ... economic logic differs somewhat for minimills ... but while [they] account for a big share of U.S. steel production ... their share of global production is much smaller. The world steel industry is still characterized by integrated steel producers and their overcapacity problems."<sup>57</sup>

Using data from the International Iron and Steel Institute and the Clinton Administration report, *Global Steel Trade*, Hufbauer and Goodrich calculated that global overcapacity at the height of the 1998 steel import surge was 275 million MT,

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<sup>55</sup> Section 3.1 of *Global Steel Trade*.

<sup>56</sup> See, for example, *DER*, "Commerce Finalizes Suspension Pact with Russian Producers of Carbon Steel Plate" (Jan. 7, 2003).

<sup>57</sup> Hufbauer and Goodrich, *Steel: Big Problems*, p. 3.

out of total world production of 776 million MT.<sup>58</sup> Using 1999 OECD figures, the Canadian Steel Producers Association reported that the U.S. steel industry was the only one whose production level was substantially below domestic consumption (about 15%). The Canadian steel industry's production was about equal to consumption, and only the U.S. and Canada were major net steel importers. Using this production/consumption ratio, the Canadian producers reckoned that the EU overcapacity level was about 13%, Korea and Japan, 30-40%, Mexico 66% and Russia 191%.<sup>59</sup>

Clearly, any plan to address steel trade issues, which President Bush has included as part of the Section 201 tariffs, would have major diplomatic implications. But U.S. steelmakers have cited job losses, past industry closures and capacity levels below current consumption to argue that they should not be required to participate in global capacity downsizing.<sup>60</sup> On the other hand, the European Commission has also argued that its producers have restructured, eliminated jobs, reduced capacity and seen a net steel trade surplus turn into a deficit. They say that the U.S. industry should get its own domestic house in order before seeking further trade remedies.<sup>61</sup>

## The Legacy Cost Issue

“Legacy costs,” and how they are to be met in any restructuring of the U.S. steel industry to meet international competition, have colored the political debates over steel issues. Legacy costs may be defined as pension and health care benefit provisions of steel worker contracts, which provide benefits beyond those that are available through public entitlements and that are funded by earnings of steel companies. These benefits were negotiated, especially at unionized integrated steel companies, to encourage workers to accept rationalization and productivity improvements that were deemed necessary to keep these companies competitive.

Now many of these companies have gone into bankruptcy and some even into liquidation, leaving retirees facing loss of benefits. Acquiring companies may be interested in maintaining existing operations on an ongoing basis, as ISG has done with LTV and plans for Bethlehem, but have no interest in supporting large numbers of retirees. The legacy cost issue has been an important one for both current and future beneficiaries of steel industry pension and health care plans, and for potential acquiring parties of integrated steel mills suffering financial distress. But the latter issue for the largest integrated companies has been resolved by PBGC takeover of

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<sup>58</sup> *Ibid.*

<sup>59</sup> Canadian Steel Producers Association, “Addressing World Steel Overcapacity” (May 1, 2001), reproduced in *Inside U.S. Trade*, May 11, 2001.

<sup>60</sup> *AMM*, July 20, 2001.

<sup>61</sup> Letter of EU Ambassador Günter Burghardt to USTR Robert Zoellick, May 3, 2001 (reproduced in *Inside U.S. Trade*, May 11, 2001), and European Commission press release, June 5, 2001. The deficit turned into a surplus again in the first half of 2002, possibly because of the EU's own safeguard tariffs; see Nancy E. Kelly, “Potomac Pulse” column in *AMM*, Nov. 11, 2002 print ed.

some integrated steel company pension plans. Under this arrangement, retirees may lose their health care benefits, but in some cases they will be partially compensated by new provisions in the Trade Adjustment Act, as reauthorized as part of the 2002 Trade Act and possibly supplemented by provisions that may be negotiated in collective bargaining on new labor agreements.

The United Steelworkers union (USWA) calculated in 1999 that there was a total of \$10.6 billion in unfunded post-retirement health insurance obligations. The four largest companies at that time with unfunded retiree health insurance plans, all integrated producers, were U.S. Steel, Bethlehem Steel, LTV Steel, and AK Steel, which together accounted for 63% of total unfunded benefits.<sup>62</sup> For the major integrated producers, the USWA estimated in May 2001 that total retiree health care and pension benefit costs amount to \$65 per ton (\$50 for pension benefits and \$15 for health care benefits), or 14% of the average weighted price of a ton of steel.<sup>63</sup> This amounted to an estimated \$965 million in annual health care benefits to approximately 400,000 retired employees and their families. USWA President Leo Gerard raised the estimated number of affected retirees to 600,000 in a letter to Members of Congress dated January 15, 2002, and another USWA source estimated in December 2001 that the total liability would be more than \$13 billion.<sup>64</sup>

Retirees and active employees of a company providing health care lose all coverage under that plan, if the employer ends the plan upon a liquidation under Chapter 7 of the bankruptcy law. Even if a plan is continued through a bankruptcy reorganization under Chapter 11, retiree health coverage may be subject to modification or termination. If the company maintains a health care plan for active employees, retirees may be able to participate, if they elect to continue coverage at their own expense, under rules established by the Consolidated Omnibus Budget Reconciliation Act of 1985 (so-called "COBRA continuation").<sup>65</sup> For example, the health care coverage of LTV's retirees ended on March 31, 2002, when a successor trust set up last year during LTV's bankruptcy ran out of money.<sup>66</sup> Workers still with LTV lost their health care benefits, when the plan was terminated following liquidation proceedings. Similarly, Bethlehem Steel has announced that it will seek permission from the bankruptcy court to terminate all health and life insurance benefits for retirees and dependents as of March 31, 2003.<sup>67</sup>

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<sup>62</sup> USWA. *Domestic Steelmakers, Retiree Health Insurance Costs, 1999*. (Table prepared by USWA).

<sup>63</sup> USWA. *The Crisis in American Steel*. May 22, 2001. Major integrated steelmakers are U.S. Steel, Bethlehem Steel, LTV Steel, AK Steel, National Steel, Ispat Inland and Wheeling-Pittsburgh.

<sup>64</sup> This data is quoted in a *New York Times* article of December 5, 2001.

<sup>65</sup> Health care and pension benefits for employees and retirees of a company that has entered Chapter 7 or Chapter 11 bankruptcy proceedings are discussed in CRS Report RL30641, *Employment Benefits in Bankruptcy*; see especially pp. 6-7 on retiree health care issues.

<sup>66</sup> *AMM*, February 26, 2002.

<sup>67</sup> Associated Press wire service report, "Bethlehem Steel Retiree Benefits in Peril," February 10, 2003; *AMM*, February 11, 2003.

A measure of relief was enacted for steelworkers and retirees who lose their health care insurance through corporate bankruptcies, as part of the 2002 Trade Act (P.L. 107-210). The issue of employees and retirees who lose health care coverage was addressed in that part of the law, known as the Trade Adjustment Assistance (TAA) Reform Act, which reauthorized and revised benefits for workers who lose their jobs owing to import competition. Under the new TAA law, health insurance assistance is now provided to three classes of eligible individuals:

- TAA participants who are receiving TAA cash assistance or unemployment insurance compensation;
- Participants in the newly established “alternative” TAA program, which, instead of providing regular TAA benefits, will provide workers over 50 with cash payments for two years to make up or reduce the difference between their pre-layoff wage and their new wage;
- Any individual aged 55 years and older who receives pension benefits paid by the Pension Benefit Guaranty Corporation (PBGC) and who is not yet eligible for Medicare.

For eligible recipients, the TAA Act now authorizes a health insurance tax credit (HITC), valued at 65% of the premium for the purchase of qualified health insurance plans. This includes COBRA continuation coverage through the former employer, group coverage that may be available through a worker’s spouse, individual coverage in a qualified plan, or new state coverage pools that may be provided by state agencies under provisions of the new TAA law. The HITC became available 90 days after the Trade Act became law in August 2002, meaning that for 2002 only coverage for December may be claimed on income tax returns. By August 1, 2003, the credit will be available on an advance payment basis, which means that the Treasury Department “will make payments on behalf of certified individuals *directly to qualified health insurance providers*. [Emphasis in original] The Department of Labor will coordinate the administration of health insurance tax credits with State agencies that administer the TAA program.”<sup>68</sup> The law also includes health care funding through the Department of Health and Human Services to assist states in creating and operating high risk health insurance pools.<sup>69</sup>

Retirement pensions are already protected under federal law. The LTV pension plans were taken over as of March 31, 2002, by the PBGC. This move has protected the pensions of 82,000 LTV workers, retirees and dependents, insofar as they are eligible under PBGC rules. PBGC estimates that about half the total \$4.4 billion LTV pension liability was unfunded, so the net cost to PBGC will be about \$2.2

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<sup>68</sup> Dept. of Labor. Employment and Training Administration. *The New Trade Adjustment Assistance Program, Reauthorized by the Trade Act of 2002* (Dec. 2002), pp. 9-10. Exclusion of Medicare recipients from HITC benefits is not specified in the source, but in P.L. 107-210, Sec. 201 and means, for example, that steel company retirees who are on Medicare will not be able to use HITC assistance for any “Medicare-plus” benefits such as prescription drug benefits.

<sup>69</sup> Dept. of Labor. Employment and Training Administration. “Trade Adjustment Assistance: Fact Sheet – Added Major Features to the Program” (Dec. 10, 2002).

billion.<sup>70</sup> PBGC also declared insolvent and took over two smaller steel company pension plans later in 2002, Republic Technologies and Geneva Steel.

In December 2002, PBGC declared the pension funds of National Steel and Bethlehem Steel insolvent, and announced steps to take them over as well. In the case of National Steel on December 5, a total of seven separate pension funds were involved, covering 35,000 workers and retirees. The net liability for PBGC was \$1.1 billion, at that time making it the second-largest PBGC takeover.<sup>71</sup> This action was soon overshadowed by the PBGC declaration on December 16, 2002, that Bethlehem Steel's pension fund was insolvent and that the PBGC was taking it over. Covering 95,000 workers and retirees, the Bethlehem Steel pension fund was found to be only 45% funded, with \$3.5 billion in assets covering \$7.8 billion in liabilities; PBGC calculated that its net liability is for \$3.7 billion.<sup>72</sup>

The net costs of these steel industry pension takeovers, plus the decline in the market value of PBGC assets, eliminated PBGC's actuarial surplus by the end of 2002. As of the end of 2001, PBGC reported a surplus of \$7.7 billion, down about \$2 billion over the previous year. After the LTV action, in June 2002, the agency was quoted as reporting to Congress a surplus of \$4.8 billion.<sup>73</sup> But when PBGC closed the books on FY 2002, its total losses for the year, including actual and "probable" assumptions of underfunded pension funds, stock market losses and lower interest earnings, were \$11.4 billion, leaving \$25.4 billion in assets to cover \$29.1 billion in liabilities. \$9.3 billion in FY 2002 losses, including the eventual National and Bethlehem pension fund assumptions of December 2002, foreseen as "probable" losses, were due to takeovers of failing private pension plans. "All told, the steel industry accounted for \$7.57 billion of the \$9.31 billion in losses from completed and probable pension plan terminations," calculated PBGC. "The PBGC has sufficient assets to pay benefits to workers and retirees for a number of years," said Executive Director Steven A. Kandarian. "But given the amount of underfunding in pension plans sponsored by financially troubled employers, we must examine every option to strengthen the pension insurance program for the long term."<sup>74</sup>

The reactions of the companies and the USWA were sharply negative to the National and Bethlehem pension fund takeovers by the PBGC. Although it was not contested that the pension funds were insolvent and would eventually have to be taken over by the PBGC, the companies had apparently hoped to be able to utilize them in covering some legacy costs of laid-off workers as they restructured for

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<sup>70</sup> Pension Benefit Guaranty Corporation press release. "PBGC Protects Benefits of 82,000 LTV Workers in Largest-Ever Federal Pension Takeover" (Mar. 29, 2002).

<sup>71</sup> PBGC news release. "Federal Pension Insurer Moves to protect Benefits of 35,000 at National Steel"(Dec. 5, 2002); *South Bend Tribune*, Dec. 6, 2002.

<sup>72</sup> PBGC news release. "PBGC to Protect Pensions of 95,000 at Bethlehem Steel" (Dec. 16, 2002).

<sup>73</sup> *Ibid.* "PBGC Records \$7.7 Billion Surplus Despite Higher Claims in 2001"(Apr. 8, 2002); *DER*, "Correction Notice" (October 30, 2002).

<sup>74</sup> PBGC press release. "PBGC Releases Fiscal Year 2002 Financial Results" (Jan. 30, 2002); *Washington Post*, Jan. 31, 2003.

bankruptcy reorganization or acquisition. The timing of the PBGC action was therefore a surprise and was heavily criticized by both companies.<sup>75</sup> Leo Gerard of the USWA also reacted negatively. On the National pension fund takeover, he said, “In this era of unbridled corporate greed, we are disappointed, but not surprised, that the PBGC has acted to limit its own liability rather than to fulfil its mandate to protect the pension benefits of workers and retirees ....” And in the case of Bethlehem he said, “This pre-empts our ability to negotiate with an employer .... It’s not the government’s business to force consolidations through the PBGC.”<sup>76</sup>

The USWA argues that the major integrated companies are at a competitive disadvantage against domestic companies that do not face legacy costs or foreign manufacturers whose governments already provide health care to steelworkers through national health care plans. Domestic companies that operate minimills, such as Nucor, have a younger work force, few retirees, and no unfunded post-retirement obligations.<sup>77</sup> USWA supported action such as that proposed by members of the Senate Steel Caucus, which wrote President Bush on February 8, 2002 that the total costs to federal, state and local governments of relief of workers who face reduced pensions and lost health care benefits through bankruptcies might be equal to or greater than government support of industry legacy cost burdens.<sup>78</sup>

But beyond the provisions described above as part of the 2002 Trade Act, Congress took no further action. The 108<sup>th</sup> Congress may choose to revisit this issue. The USWA and steel companies have also addressed the subject in collective bargaining agreements. A tentative ISG-USWA agreement was reached in December 2002, which reportedly includes many changes from previous USWA steel industry contracts, notably “a fund to provide health care for retirees of LTV steel.” Moreover, Wilbur Ross, head of ISG was quoted as saying “This agreement will facilitate our acquisition of Bethlehem Steel or other steel companies,” clearly implying that he expects the same deal to be used as the “template” for a new contract, if ISG completes its acquisition.<sup>79</sup> But in reacting to the news that Bethlehem was applying to end its retiree health care plan as of March 31, 2003, president Gerard of the USWA indicated that the union would continue to seek legislative relief as well:

For a bankrupt company that is doling out millions in golden parachutes to top executives to say that it must cut off health-care benefits of people who worked a lifetime in the mills is a disgrace ... [the] fight [for more support from the Administration and Congress] will be re-doubled now, as will our efforts to

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<sup>75</sup> See *AMM*, Dec. 9, 2002; Bethlehem Steel Corp. “Bethlehem Unhappy with Timing of Pension Plan Termination,” press release, Dec. 16, 2002; *Wall St. Journal*, Dec. 17, 2002; *Washington Post*, Dec. 17, 2002.

<sup>76</sup> Quotations from *AMM*, Dec. 10 and 18, 2002.

<sup>77</sup> USWA. *Domestic Steelmakers: Retiree Health Care Legacy Costs*. no date.

<sup>78</sup> Letter of Senate Steel Caucus to President George W. Bush, February 8, 2002.

<sup>79</sup> *AMM*, December 24, 2002.

negotiate a benefit trust for these Bethlehem retirees in the new labor agreement being bargained with International Steel Group.<sup>80</sup>

Furthermore, the December 2002 labor deal not only sets the standard for USWA's relationship with ISG-owned operations, but reportedly may be emulated by those who compete with ISG in the integrated sector. This includes U.S. Steel, which is not only negotiating with the USWA on a prospective new labor agreement for National Steel in event of an acquisition, but also is seeking an early renegotiation of its current labor agreement, which does not expire until 2004.<sup>81</sup>

## Effects on Steel Consuming Industries

Even before President Bush announced that he would take a Section 201 case on steel imports to the ITC, representatives of steel consuming industries expressed concerns regarding the impact of trade relief for the steel industry. The Consuming Industries Trade Action Coalition (CITAC) in particular responded negatively to the 201 case and pointed out that an earlier study it had commissioned found that steel import quotas could cost "as much as \$2.34 billion annually or up to \$565,000 per steel job."<sup>82</sup> Jon Jenson, President of CITAC, was quoted as saying that the problem of legacy costs was due to bad decisions made by the heads of integrated steel mills. "They made promises they can't keep. Why should the taxpayers and the steel users be made to feel guilty over promises they can't keep?" Import remedies, he claimed, would add 15 to 20% to steel prices.<sup>83</sup> The industry response is that the benefits commitments were made in good faith, but no one anticipated the surge of cheap imported steel into the U.S. market in the late 1990s because of global overcapacity.

Complaints from U.S. businesses about high steel prices and short supplies started being received as the Section 201 tariffs went into effect and steel prices rose in the first half of 2002. The House Small Business Committee heard testimony from business executives and workers in small manufacturing enterprises that steel price rises of 50% or more and supply shortages, both coincident with the Section 201 tariffs, were having a serious negative effect on steel consuming industries.<sup>84</sup> The issue of steel price increases, whether or not they are principally or directly caused by the Section 201 remedy tariffs, also may have influenced the process of excluding

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<sup>80</sup> *Ibid.*, February 11, 2003.

<sup>81</sup> See for example "ISG 'Template' Spurs Weirton, Union to Meet," in *ibid.*, Jan. 9, 2003; Weirton Steel workers are represented by an independent union, not USWA. On U.S. Steel, see *ibid.*, Feb. 11, 2003. More broadly on the new USWA labor relations "template" see *AMM* print ed. Jan. 20, 2003, and *Business Week*, Feb. 3, 2003, pp. 100-101.

<sup>82</sup> CITAC press release, June 5, 2001.

<sup>83</sup> *AMM*, August 27, 2001.

<sup>84</sup> U.S. Congress. House. Committee on Small Business. *The Unintended Consequences of Increased Steel Tariffs on American Manufacturers*. Hearings, 107<sup>th</sup> Cong., 2<sup>nd</sup> Sess., Parts 1-2, July 23 and Sept. 25, 2002 (hereafter House Small Business Committee). Committee chair Don Manzullo introduced as evidence also a series of articles on the problem from a newspaper in his district, the *Rockford Register-Star* (July 21, 2002).



nearly a quarter of potentially covered import volume from the Section 201 tariffs in the “exclusion” process included by President Bush as part of his Section 201 remedy actions. The Section 201 safeguard tariffs are scheduled to remain in effect for three years – and each year, on the anniversary date of the implementation of the initial safeguards (March 5), President Bush will also review whether additional products should be added to the exclusion list.

Many of the companies who testified at the House Small Business hearings in 2002 were manufacturers who supply the Big Three car manufacturers. They stressed that given the present supply-chain cost squeeze, the auto makers could well move more sourcing offshore.<sup>85</sup> The Small Business Committee held a total of three hearings, one in July, 2002, a field hearing in California on September 3, and another in Washington on September 25. At the last, testimony was heard from Under Secretary of Commerce for International Trade Grant D. Aldonas. Under Secretary Aldonas refused to consider any early termination of the Section 201 tariffs outside the annual review process, though he stated that the exclusion list could be modified, if steel suppliers are shown to have used false or fraudulent information in successfully objecting to product exclusions.<sup>86</sup>

On October 1, representatives of auto parts suppliers, who annually use about 1.5 million tons of special bar quality steel for gears, transmissions and axles, visited Washington to request further review of the Section 201 remedy tariffs. Responding to these requests, Representative Joe Knollenberg and six co-sponsors introduced on October 9, 2002, a resolution that urged the President to request the ITC to conduct an early review of the safeguard measures and to include consideration of impact on consuming industries (the ITC is required to review the impact of Section 201 tariffs eighteen months after their initiation, in this case by September 2003). The resolution was referred to the Ways and Means Committee, where no action was taken before the 107<sup>th</sup> Congress adjourned.<sup>87</sup>

Rep. Knollenberg and 51 co-sponsors introduced a similar resolution in the 108<sup>th</sup> Congress (H.Con.Res. 23) to ask the President to request that the ITC particularly consider the impact of the steel safeguard tariffs on consumer industries in the regularly scheduled mid-term review. The efforts of Rep. Knollenberg and other co-sponsors have been strongly supported by the Motor & Equipment Manufacturers Association (MEMA), which has emphasized the impact of rising steel prices and cuts in supply on their industry.<sup>88</sup> To alleviate volatile price impacts, the Big Three

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<sup>85</sup> House Small Business Committee, July 23 and Sept. 25, 2002. See also the reports in *AMM*, July 24 and 29, 2002, which particularly note Rep. Manzullo’s plan to request that the Attorney General investigate “collusion” in pricing among U.S. steel producers in the wake of recent price increases.

<sup>86</sup> House Small Business Committee, Part 2 (Sept. 25, 2002), pp. 5-11. *DER*, “Commerce Official Rebuffs Call to End Steel Tariffs; Leverage Cited,” (September 26, 2002).

<sup>87</sup> *Detroit Free Press*, Oct. 1 and 10, 2002; *AMM*, Oct. 10, 2002.

<sup>88</sup> For example, MEMA one-pagers, “Section 201 Steel Tariffs: Impact on U.S. Automotive Suppliers;” “The Steel Safeguard Program: Direct Repercussions for U.S. Automotive  
(continued...)

domestic automobile producers generally buy large quantities of steel in high volume at set contract prices; contracts renegotiated in autumn 2002, saw general price increases of up to 10%. Much of this steel is flat-rolled galvanized and corrosion-resistant steel used in metal-stamping operations for body panels and similar model-specific parts; it may be shared at cost with “Tier 1” industry suppliers that stamp such parts. However, other Tier 1 suppliers and smaller suppliers at the Tier 2 and 3 levels who require steel must negotiate their own prices with steel producers or service centers.<sup>89</sup> They claim that they have borne the brunt of the rise in steel prices for a broad group of steel categories, and report increases ranging anywhere from 10-18% upwards to 65-77%.<sup>90</sup>

**Figure 5** shows the national distribution of auto parts manufacturers. It uses the same source as the map in Figure 3, the 2000 *Annual Survey of Manufacturers* (ASM). Data is provided at the four-digit level (NAICS 3363), which includes both steel and non-ferrous products, as well as metal stampers who may get their steel under fixed price contracts from the Big Three, though they are only one category out of many included in the classification. The total 2000 output, according to the ASM, was \$200 billion, and the industry employed more than 800,000 Americans. More than half the output came from three midwestern “Auto Belt” states (Michigan, Ohio and Indiana), which are also major steel producers. But a total of 22 states each produced more than \$1 billion in automotive parts.

The debate over the total number of jobs in steel consuming industries adversely affected by the Section 201 steel safeguard tariffs has heated up in the early weeks of 2003. CITAC issued a follow-up report, *The Unintended Consequences of U.S. Steel Import Tariffs: A Quantification of the Impact During 2002*, on February 4, 2003. This paper estimated that “200,000 Americans lost their jobs to higher steel prices during 2002 ... [representing] approximately \$4 billion in lost wages from February to November 2002.” About one in four of these jobs, it estimated, had been in the metal manufacturing, machinery and equipment, and transportation equipment and parts sectors. The paper assigned to the safeguard tariffs a major role in the increase in steel prices, but it did not specify the number of jobs lost due to the tariffs, as distinct from other factors that contributed to higher steel prices (notably steel mill closures) and the general effects of an economic recession.<sup>91</sup>

AISI immediately attacked the CITAC methodology and conclusions in a response issued by its current chairman, Dan DiMicco, CEO of Nucor. DiMicco stated that both CITAC and Labor Department data showed that total employment

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<sup>88</sup> (...continued)

Suppliers” and “U.S. Automotive Suppliers Support the Knollenberg Resolution on Steel,” all n.d.; and, *AMM*, “‘201’ Straining Customer-Supplier Relations,” print ed., Feb. 10, 2003.

<sup>89</sup> *Ibid.*, Nov. 4, 2002 print ed.; Nov. 13, 2003; “Destination Detroit” section in Dec. 23, 2002 print ed.

<sup>90</sup> Price rises quoted from MEMA one-pager, “Section 201 Steel Tariffs ... “

<sup>91</sup> Dr. Joseph Francois and Laura Baughman, *The Unintended Consequences of U.S. Steel Import Tariffs: A Quantification of the Impact During 2002* (CITAC Foundation, Washington, DC, February 4, 2003).

in U.S. metal-consuming businesses actually increased by 229,000 jobs in 2002.<sup>92</sup> DiMicco also responded to charges of higher prices resulting from the safeguard tariffs by noting, “Prices for hot-rolled sheet in the U.S. right now are considerably lower than they are in China, Taiwan, Japan and the U.K., just to name a few examples.”<sup>93</sup>

In their recently released analysis, Gary Hufbauer and Ben Goodrich produced estimates on the low side of this issue. Their cautious conclusion was that the safeguard tariffs increased U.S. domestic steel prices by 3.3% in 2002, though they add that this could well be a very conservative number, in part because they can only measure the price impact on imports actually entered, and not those that were discouraged by the Section 201 tariffs. Hufbauer and Goodrich also note that the effect of the specific product exclusions requested by U.S. industry increased 2002 imports between 600,000 and 700,000 short tons, worth an estimated \$233 million.<sup>94</sup>

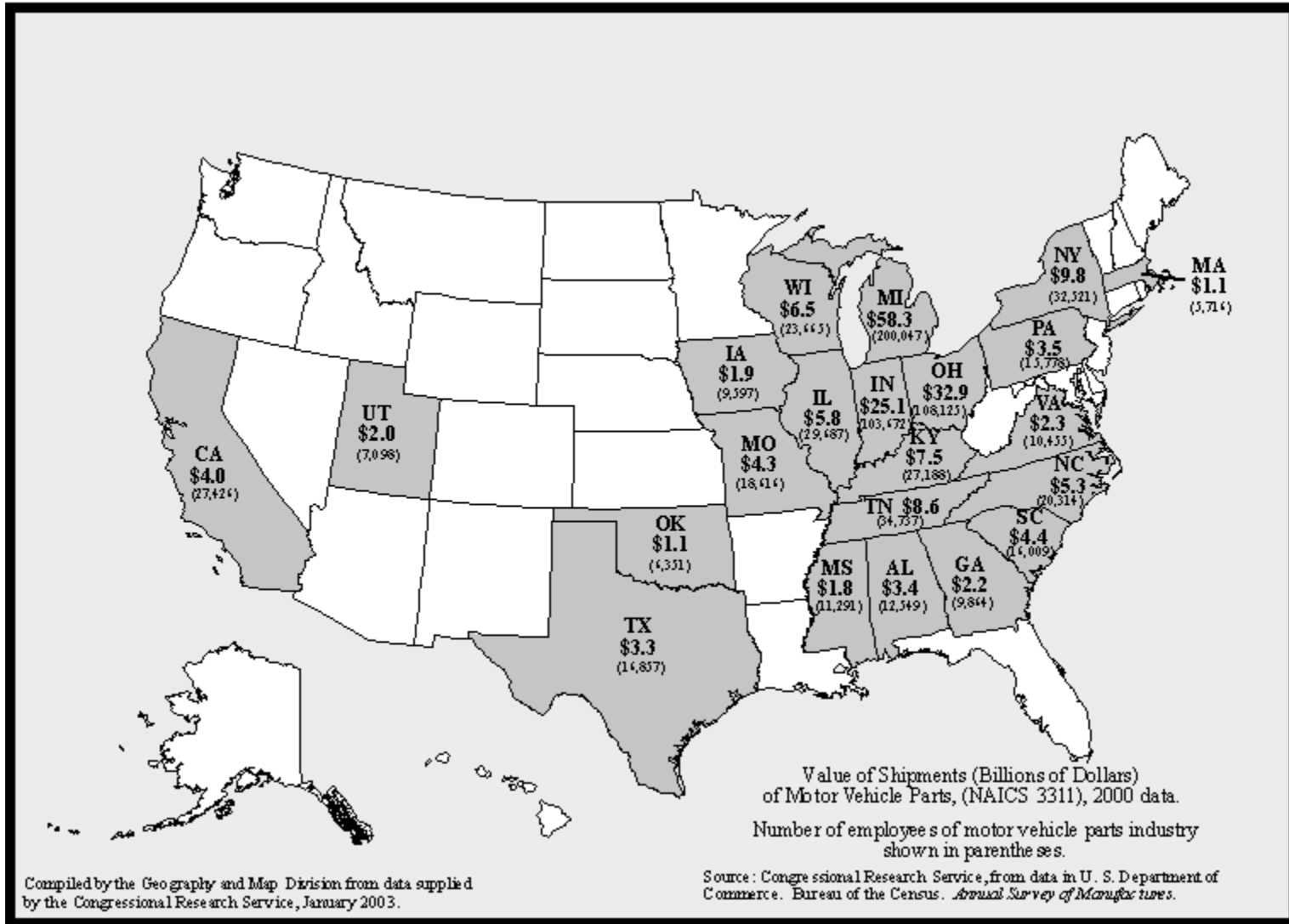
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<sup>92</sup> AISI, press release, Feb. 5, 2003.

<sup>93</sup> AISI, *Steelworks News Digest*, Feb. 4, 2003. For further background on this dispute, see *AMM*, February 11, 2003.

<sup>94</sup> Hufbauer and Goodrich, *Steel Policy: The Good, the Bad and the Ugly*, pp. 3-4, 22-24. Separately, Dr. Hufbauer was quoted in a *Financial Times* article, which was highly critical of the CITAC study, as estimating that “perhaps 5,000 to 10,000” steel consuming jobs were lost owing to the Section 201 safeguard tariffs; *Financial Times*, “The Devil’s in the Details,” February 10, 2003.

Figure 5. Leading States in Manufacture of Motor Vehicle Parts



## Conclusion and Outlook

Since neither the general situation of the economy nor other specific policy measures between 1998 and 2001 resolved dire financial problems within the steel industry, President Bush was encouraged to adopt safeguard tariff measures provided under Section 201 of U.S. trade law. Some said that under a period of temporary protection, the industry would hunker down behind tariff walls and conduct business as usual, then plead for continued protection when the tariffs were eliminated in three years, but this did not happen.

The minimill side of the U.S. industry, whose output now equals that of the older integrated industry, has moved aggressively to consolidate and restructure operations. After a period of delay, as it sought an acceptable formula of legacy cost relief, the integrated industry in recent weeks has also moved decisively to consolidate ownership under two or three big firms. One issue left unresolved domestically, since retiree health care benefits were only partially addressed in 2002, is whether Congress will seek to act further on that issue. Another domestic question, which is already being addressed in the 108<sup>th</sup> Congress, is whether the interests of steel consuming industries are being adequately considered in the Section 201 policy and other steel industry trade remedy actions.

The big issues with respect to the shape of industry restructuring may now shift to the international side. First, how will the WTO view the Administration's use of Section 201 – will it be considered compatible with global trade rules? The WTO has already ruled against a number of other U.S. policy initiatives on steel (see CRS Report RL31474). And if the Bush Administration is ruled extensively out of compliance, how and in what time frame will its policies be changed (assuming that no change is enacted even earlier for purely domestic policy considerations)?

Secondly, the Administration has been conducting international negotiations with other significant producers in the forum of the Steel Committee of the Organization for Economic Cooperation and Development. These negotiations have sought to address the elimination of excess steel capacity worldwide, as well as governmental subsidies to the steel industries. These two problems have been considered by both the Bush and the Clinton Administrations as the root causes of long-term problems in the steel industry. Can the Administration bring back meaningful resolution of these problems through international negotiations?