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STEEL: CLASH IN WORLD TRADE

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I should like to thank you, Mr. Chairman, for your invitation, your hospitality and your words of introduction. I am very glad to be here tonight. Especially for two reasons. The first is that in the arguments now raging about protectionism, we are on the same side of the barricades. We export. You import. So we can stand together under a banner labelled IMPORTS ARE GOOD FOR YOU. And to anyone who asks whether we in Europe do our share of importing, I would only point out that last year the Community bought $6 billion more of goods from the United States than we exported to you.

The second reason is that this is a crucial year in the history of American steel imports. The voices of protectionism are being heard more loudly and more clearly than for many years. And they are talking about steel. Steel is becoming a flashpoint of protectionism in dangerous times. So I think it a timely privilege to be able to offer to this prestigious forum tonight some reflections on all this from a European.

Let me do so first against a backcloth which extends a good deal more widely than steel. It is sometimes forgotten that in the 1970s a quiet, but far-reaching revolution took place in the relationship between American business and the outside world. For something like 100 years after the Civil War foreign trade never accounted for more than 3 to 4 percent of the Gross National Product of the United States. For all these years the overwhelming majority of American businessmen and farmers could regard business abroad with a magisterial detachment. Then in the 1970s the picture began to change. And it changed fast. Foreign trade now accounts for something like 12 percent of United States GNP. One-fifth of your industrial production is now exported and two-thirds of your wheat. Four out of every five manufacturing jobs created in the United States between 1977 and 1980 were linked to exports. So the foreigner is now present invisibly, but substantially in the American boardroom and on the American farm. And you can all judge not just as steel importers, but as American citizens and businessmen, what would happen to American jobs and the American standard of living if American foreign trade collapsed. But that is precisely the danger conjured up by the protectionist cries on steel.

So let me take in turn some of the statements recently being made by representatives of the United States steel industry. The first is the cry for <u>protection</u>. It can all sound eloquently persuasive "American steel producers must have time to adjust to import forces ..... There is overwhelming evidence that the market mechanism has been dismantled in overseas steel trade". All this could give the innocent observer the impression that the United States steel industry struggled gallantly for years without protection and after a long period of battling heroically against overwhelming odds is now reluctantly asking its due.

All of you here tonight know that such an impression would be very far from the truth. Let me set the record straight.

Item one. Before the steel strike of 1959 opened the way to the first rush of purchases from abroad imports were negligible. But despite this there were still tariffs which on carbon and alloyed steel ranged on the average from 7 to 12.5 percent with peaks up to 24 percent.

Item two. Following a steady rise in imports during the 1960s there came the Voluntary Restraint Agreements with Japanese and European exporters. These remained in force from 1969 to 1974.

Item three. The Trigger Price System of famous memory put into effect in 1978 and suspended for some seven months in 1980 following the filing by US Steel of dumping complaints against five European countries.

Item four. Reinstallation of the Trigger Price System in October 1980, but finally terminated in January 1982 when US industry filed massive anti-dumping and countervailing suits against European importers.

Item five. In 1982 the US-EC Carbon Steel Arrangement - after long and difficult negotiation - entered into force after the withdrawal of the petitions I mentioned by the US steel industry.

But the history of protection of steel does not stop there.

Item six. Take specialty steel. From 1972 to 1974 this was brought into the Voluntary Restraint Agreements negotiated for carbon steel.

Item seven. From October 1972 to 1977 there was a flat prohibition on imports of specialty metals for US defence procurement. A waiver was subsequently introduced in late 1977 to allow imports from certain NATO countries.

Item eight. From June 1976 to February 1980 import quotas were imposed under Section 201, the escape clause of the Trade Act of 1974.

Item nine. In July 1983 yet more import quotas and increased tariffs were imposed under Section 201.

Anyone who thought before hearing this catalogue that the United States steel industry had been gallantly bearing up in a bleak free trade environment should be reminded of the immortal words of Lewis Carroll in the Hunting of the Snark:

"But the principal failing occurred in the sailing
And the Bellman perplexed and distressed,
Said he had hoped at least when the wind blew East
That the ship would not travel due West."

But perplexed and distressed as the Bellman might be, he might ask a question. Why, he might ask, after this succession of protectionist measures is there a cry for more protection? Being by nature of a helpful disposition, let me give some answers. First the "two wrongs make a right" fallacy. Cries of righteous indignation about subsidies by others have led to demands for increased protection. This is a dangerous approach. The proper answer to unfair practices lies within the normal trading rules and mechanisms which provide in certain carefully defined cases for compensation rather than any further infractions of these rules. Secondly, "much wants more". Protection encourages inefficiency and higher costs and prices. Reduced productivity produces cries for more protection. Protection resembles giving shots of red eye to somebody not noticeably on the wagon. The more you pour the more is demanded. And the more uproarious the demands become. The third point is more general. The over-valued dollar results in calls for protectionism for a wide range of industries. The dollar of course is over-valued for other reasons. But the initial effect of protectionist measures is to put further upward pressure on the exchange rate.

To the extent to which the United States succeeds in cutting imports the trade balance improves and the currency strengthens further.

Then there are cries of complaint in particular about imports of steel from developing countries. As I said earlier, where these complaints are about subsidies there are rules which define clearly what can and cannot be done. And no reasonable person would claim that imports from these countries should be exempt from the international trading rules. Again we are bound to be concerned in Europe when we see our exports to this huge market substantially curtailed while imports from other countries are rising sharply. But I detect in some of the comments on imports from developing countries a more radical feeling. A feeling that these countries have no business to be exporting any substantial quantities at all. If this is the charge we need to take into account some wider factors - commercial, economic and political.

First commercial. In 1982 just under $120 billion of United States exports, some 42 percent of the total, went to developing countries. On these purchases of American goods some 6 million American jobs depend. How are these countries supposed to pay for what they buy from you? Few would argue that the American taxpayer should pay for them. But these countries need to earn foreign exchange. Can they do this if they are kept out of one of the biggest markets in the world?

Then economic. This country grew great on change. The United States not only recognised it. It pioneered change. Think of the Bell telephone, the Model T, the B17 and colour television. But the world in which you are now year in year out much more heavily involved is changing too, more rapidly than ever before. And there is no international statute that says that production of steel should be limited to the North American and European continents. The developing world is getting in on the act, just as they got into textiles in the 50s and 60s and into radios in the 70s. Can we, like King Canute, try and stop the tide? Or should we not employ the skill and the inventiveness of the peoples of North America and Europe to move into more technologically advanced production, both in steel and elsewhere.

Then political. No European can in this city without emotion pass by Ellis Island and recall the words on the Statue of Liberty. "Give me your tired, your poor,
Your huddled masses yearning to breathe free".

For countless millions across the world this is part of the American dream. You cannot bring the poor in as you did but you can still trade with them. Is it seriously suggested that the fair-minded, generous and idealistic people of the United States should condemn half the world to a diet of bananas, and junk the memory of the American dream?

Mention of dreams brings me to economics because dreams and economics often get mixed up with unfortunate results for all concerned. With American steel mills operating at well under 60 percent of capacity cutting imports can seem very attractive. But pause to think for a moment of the consequences. Let us assume that by some stroke of sinister magic all steel imports were eliminated. Would the problems of the American steel industry be solved? No, without foreign competition they would be aggravated. Plant modernisation, already lagging behind that of competitor countries, would be further delayed. Only 34 percent of steel produced in the United States is by continuous casting, the most advanced steelmaking technique, compared with 82 percent in Japan and 56 percent in the European Community. The Chairman of a major US steel firm estimated recently that one-third of the United States steelmaking facilities require modernisation. Without imports labour productivity would decline further and costs would increase. Already wage rates in the steel sector are well above the average for manufacturing industry. Prices would rise and the rise in prices would have an adverse effect well beyond the steel industry. All that wide range of domestic industries which use American steel would also lose competitiveness. The great danger is that they too would then seek increased protection. And all this would mean retaliation against American exports which would inflict grave damage on the American economy.

Let us look for a moment more generally at the troubles of the steel industry. Because these are not limited to the United States. European industry faces very much the same sort of problems. That was the background to the so-called OECD steel consensus in 1977. Then we agreed among ourselves and with our OECD trading partners that there was on both sides of the Atlantic a massive task of readjustment but that we would all of us tackle it in a fair and balanced way and not seek to export our problems backwards and forwards across the Atlantic.

Now what has the European Community done in terms of steel? Have we simply sat idly by and criticised American actions? The answer is no. The European steel industry has taken over the last eight years a considerable battering. Employment in the Community's steel industry between 1974 and 1983 has been cut by over one-third from 800,000 to less than 500,000 today. This year a further 25,000 jobs are expected to go and we reckon that many more will be lost in the coming years. Our total steel production has gone down from 115 to 98 million tons. These have reflected in the last couple of years Community enforced cuts in steel production based on the powers in the original Coal and Steel Community Treaty. Cuts which were only agreed to after long and painful discussion. And they also reflect some tough decisions on subsidies. Each one has in our system to be scrutinised and agreed in Brussels. None have been permitted since 1981 without being linked to reduction in capacity. From January 1986 our intention is to eliminate them entirely. You may ask why should subsidies be given at all in Europe? Let me only say that on this side of the Atlantic while Federal money is not given to the U.S. steel industry through direct aid, there are many ways by which the American steel industry receives benefits through the fiscal system such as accelerated depreciation allowances, and some years ago "safe harbour leasing". In this connection I may cite Mr. de Lancy, Chairman of Republic Steel who stated on 1 April 1982, "the leasing provisions, if unchanged, could provide the steel industry with up to 500 million US dollars for investment in 1982". And the widespread and tough reduction in imports embodied in our agreement on carbon steel last year is just as effective a prop and in economic terms no more defensible.

Let me mention for a moment - since they are often referred to - the restrictions maintained by the Community on imports of steel products. Here the record needs to be corrected. The Community and its Member States maintain a number of quantitative import restrictions against steel from the centrally planned economies in Eastern Europe where, as everybody knows, economic production and pricing conditions are peculiar. There are no such import restrictions from other sources.

But the Community does have to deal with imports from other sources. This is what we do. The Community sets basic prices for imports of the majority of iron and steel products similar to the well-known American trigger prices. These prices, calculated from the lowest normal costs in supplier countries where normal competitive conditions exist, are intended to serve as a bench mark for the application of the Community's dumping regulations. An under-quotation creates a presumption of dumping or of subsidy and exposes the supplier concerned to the opening of an anti-dumping or anti-subsidy inquiry. These basic prices are periodically reviewed to reflect changing cost patterns.

As an alternative to the basic price system, the Community offers its suppliers an opportunity to negotiate bilateral arrangements. The basic principle of these arrangements is to allow the signatory countries to maintain their traditional trade with the Community, taking account of the developments on the Community steel market. Such arrangements are negotiated on a year to year basis with the steel suppliers which have opted for what are basically pricing and orderly marketing disciplines.

The price advantages consist essentially in the non-application of the basic prices, the renunciation by the EC of anti-dumping or countervailing actions, a penetration margin on Community producers delivered prices, and the prohibition on Community producers from aligning their prices on those offered by exporters in arrangement countries. This penetration margin ranges from 3 to 6 percent. In return the partner countries offer the Community respect for traditional trade flows, taking account of the developments of the Community market for steel.

These quantitative limits are not rigidly imposed on our trading partners. The limits give them the assurance of stability in their continued access to the Community market. But if they consider the system of basic prices more advantageous they are always free to switch back.

So we reckon that we have played our part in the restructuring of steel on both sides of the Atlantic. We also reckon we have played our part in accepting last year a limitation of our steel exports to the United States. This is a view with which the U.S. Administration agrees. In his testimony before the International Trade Commission on October 26, Lionel Olmer said "the arrangement was structured in such a way as to address the domestic industry's perceptions of and fears concerning harmful market behaviour while the EC was implementing its announced programme of restructuring and the gradual elimination of subsidies .... The arrangement has been operating very well. And the EC has demonstrated a serious commitment to its continued successful operation ..... Comparing the first eight months of 1983 with the first eight months of last year total U.S. steel imports from the EC fell by 38 percent, some 3.9 million to 2.4 million net tons. Imports of products subject to the Arrangement licensing provisions fell from 2.2 million to 1.8 million net tons, a decrease of 21 percent. Over the same two periods of time EEC import penetration of the U.S. market for total steel mill products fell from 7.42 to 4.64 percent while its market share for products subject to licensing declined from 6.31 to 4.56 percent".

But still there are those who are not satisfied. The call goes out, as in the old song, for madder music and yet stronger wine. We have the anti-dumping case introduced by the Gilmore Company on hot rolled carbon steel plate from Belgium and the Federal Republic of Germany on which the ITC has recently found injury. We think that this petition is unfounded. The petition was not made on behalf of the industry allegedly affected as required by Article 5(1) of the GATT Anti-dumping Code. Steels exports of the products concerned from the Community are made in strict conformity with the provisions of the EC-US steel arrangement which was accepted by the great majority of US producers and which excludes any injury being caused to US industry. Not only, as Lionel Olmer pointed out, have we fully respected all the provisions of the arrangement - as shown by the fall in US imports from the EC both absolutely and as a share of the American market. In the same period imports from other sources (excluding Japan) have increased by 29.6 percent.

Then there was the decision to impose additional penalties on imports of specialty steel. We have disagreed with this decision for a number of reasons. The US Administration has sought to justify this action under the provision of the international trading rules (Article XIX of the GATT dealing with safeguard action on imports of particular products). But this Article can only be used if "any product is being imported ..... in such increased quantities and in such conditions as to cause or threaten serious injury to domestic producers". We hold that the causes of the plight of US specialty steel producers are the US recession and the strong dollar and not imports from the Community which amounted to less than 10 percent of the market.

In 1982 the consumption of specialty steel in the US went down by 200,000 tons and imports went up by 27,000 from all sources. This certainly caused some pressure. But what about more recent monthly figures. Production in the last quarter of 1982 of the items covered by the tariff measures recently taken was 140,000 tons. That was certainly low. For the first quarter of this year the figure was 204,000 tons, the second quarter 234,000 tons, the third quarter 291,000 tons, about the traditional production of 1 million tons a year. Consumption is also going up and in June, July, August it was roughly 100,000 tons a month compared with 80,000 tons in January and February. So what is this talk about the industry "remaining in depressed conditions". There has been a very significant turn around since the last quarter of last year. In recent months the US specialty steel industry has been back where it was before 1982 as far as production and consumption are concerned. But in the meantime on the import side for the quota products the cut back is very sharp and ranges from 30 to 40 percent as compared to imports during the last three years. On tariffs there is an extra 8 percent or 10 percent no less than a doubling of the duties. For high cost products that is not negligible.

Let me just ask on this one question and signal one fact. How is the pressure for a restructuring of the US industry going to work out if imports are either maintained at low levels (for the quota products) or face punitive tariffs while domestic demand rises sharply. All this is more like Smoot Hawley than Adam Smith.

Then the fact. We are still negotiating about the extent of the compensation which according to the GATT rules is necessary for the U.S. measures on specialty steel. We have made some progress and we hope that we can reach agreement by January 15. If we do not our Council of Ministers has decided that restrictions on a range of American exports to the Community will need to be introduced. This shows that the points I have been making about the dangers of protectionism for American exports are not theorising but hard and dangerous reality.

Then there is talk of the across the board Section 201 application which a major steel producer is thinking of bringing to limit imports. And there is also the happy news of the introduction by the members of the House Steel Caucus of a Bill known as "The Fair Trade and Steel Act of 1983" which would limit foreign steel imports to an average 15 percent of the domestic market for a five year period. And there is pressure for restriction of imports of pipes and tubes.

Mr. Chairman, I have spoken of decisions and of plans and proposals. They add up to some menacing wolves prowling round the forest. They show that in the major sector of steel, which is your business, there are some grave threats to the one world trading system on which the prosperity of the West has been based since the War. And these threats are not just to one sector of trade. The protectionist bell does not toll for one. It tolls for us all. If we were ever - which I do not believe - to reach the stage of a major escalation of trade restrictions across the Atlantic then we would rapidly find ourselves in the centre of a major and rapid unravelling of the GATT system. American exports - European exports - of farm products and manufactured goods alike - would be hit. And we account between us for one-third of world trade. So if this were ever to happen then the one world trading system would be bust. And we would be back to the wasteland of the thirties, the years of stifling unemployment, of hope foregone, of "Buddy, can you spare a dime" and of all the terrible political ghosts which cluster in a dark and hopeless time.

I hope and believe, Mr. Chairman, that we can together avoid these dangers. But this will need from both sides a great deal of caution, moderation and good sense. One hundred and eighty-two years ago Thomas Jefferson set out a proud American tradition "peace, commerce, and honest friendship with all nations". I am glad to salute tonight the role your Institute has played in upholding this tradition and I wish it well in holding the banner high through the difficult months and years to come.