CHAPTER 4

U.S. Response to the Crisis

Introduction

The response of the Administration and Congress to the U.S. steel crisis has aided the recovery of U.S. steel prices and stimulated a recovery of the U.S. steel industry.

The Administration developed a multi-pronged approach to dealing with the surge in low-priced imports focusing on three key elements:

- **Vigorous enforcement of U.S. trade laws.** The U.S. Commerce Department expedited investigations and issued early critical circumstances findings.
- **Bilateral efforts to address the underlying problems that led to the crisis.** The U.S. Trade Representative (USTR) launched consultations with Japan and Korea to work to remedy core structural problems, and the Commerce Department negotiated a comprehensive agreement to address steel imports from Russia. The Commerce Department also agreed to provide technical assistance to Russia and Ukraine, designed to help avoid trade disputes.
- **Import monitoring mechanisms.** Improved reporting of steel import data has aided in early detection of potential import surges.

Congress took legislative action to help alleviate the crisis. One effort now signed into law is the Emergency Loan Guarantee Program which will temporarily help provide financing to troubled steel companies unable to obtain loans at reasonable rates.

These efforts helped put the industry back on the road to recovery. Following the early critical circumstances determinations in the hot-rolled steel investigations in November 1998, imports of these products decreased significantly—a pattern that was repeated in other investigations where determinations of dumping or subsidies occurred. By mid to late 1999, the decline in unfairly traded imports was having a beneficial impact on the domestic market, with production levels and capacity utilization rising significantly. However, inventory stockpiles of imports and other factors made for lackluster financial results for most U.S. steel producers in 1999, and the employment picture for steel workers has only recently begun to improve.

Labor and Industry Seek Relief

The United Steelworkers and the Independent Steelworkers unions launched the “Stand Up for Steel” campaign to call attention to the impact of low-priced steel imports on industry profits and competitiveness. In January 1999, steel workers marched on Washington to call for stronger actions against rising steel

imports. Steel workers pushed for immediate quotas on steel products and changes to the trade laws that would make it easier to seek and obtain relief.

As layoffs loomed, the Administration and Congress received thousands of letters from steel workers and their supporters within communities affected by the steel crisis. This campaign helped underscore the problems that unfair trade was causing the steel industry.

> I spoke with a reporter the other day.
>
> When I complained about dumping, he responded to the effect that it is "good for consumers." I told him, "So is smuggling. But whether it's smuggling or dumping, it's illegal and it must be stopped!"
>
> Paul Wilhelm
> President, USX's U.S. Steel Group

The industry and unions sought relief by exercising their rights under the U.S. trade laws. Starting in September 1998, the industry and unions filed antidumping cases against hot-rolled steel from Brazil, Japan, and Russia and a countervailing duty case against Brazil. As the surge in imports shifted to other products, the industry and unions responded with additional petitions against a wide range of steel imports, including cold-rolled steel, cut-to-length plate, heavy structurals, and seamless pipe.

The U.S. Government Responds

It was readily apparent to both the Administration and Congress that the sudden onset and magnitude of the surge of low-priced steel imports called for immediate action. The Administration made it clear it would not tolerate unfair trade practices that injure the U.S. industry.[1] The government also renewed its efforts to address the structural problems and market-distorting practices that contributed to the crisis.

Trade Cases Turn Back the Surge in Imports

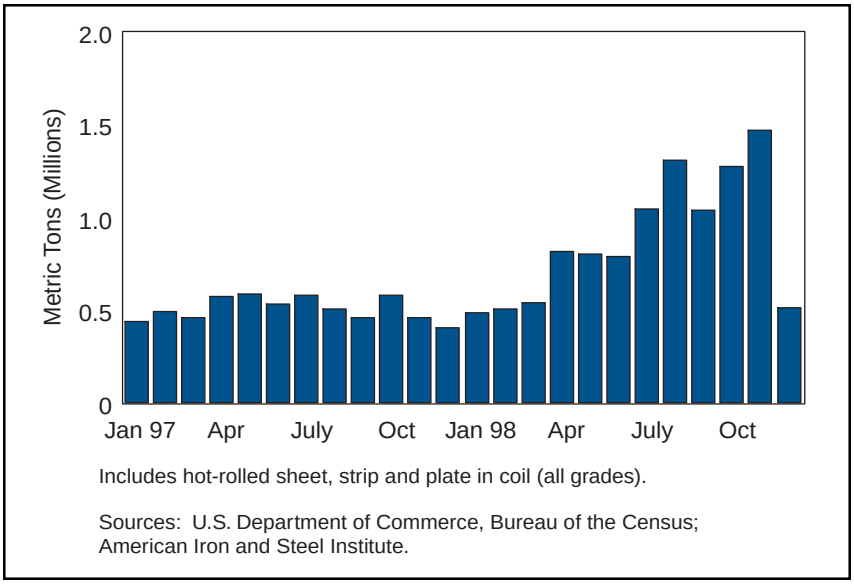
In the opening stages of the crisis, the Administration examined options that could immediately address the problems of import surges and unfair trade but that were also consistent with U.S. law and obligations under the World Trade Organization (WTO).

The Commerce Department shifted resources to expedite investigations, reducing the time it took to conduct its analysis without compromising the rights of respondent parties by shortening the deadlines for questionnaire responses, briefs or oral arguments. This left the Commerce Department in a position to provide relief more expeditiously.

The Department of Commerce also prescribed that in certain situations it could make an early critical circumstances determination prior to the preliminary dumping determination, thereby putting importers on notice in cases of potential import surges that they might be liable for duties in the period prior to the preliminary determination. An affirmative critical circumstances determination extends the liability for potential duties retroactively, up to ninety days prior to the preliminary dumping determination. Commerce applied this policy in the hot-rolled steel investigations, preliminarily determining that critical circumstances existed with respect to Japan and Russia.

Hot-Rolled and Other Steel Cases. The combination of expedited investigations and early critical circumstances findings had a significant impact on imports of hot-rolled steel, resulting in much earlier relief from surging imports. Monthly import volumes had been climbing steadily since the industry's filing of antidumping and countervailing duty petitions, reaching a peak of almost 1.5 million metric tons (MT) in November 1998. Following the early critical circumstances determinations that month, imports of hot-rolled steel declined sharply *(Chart 4-1)*. December 1998 imports of hot-rolled steel fell 65 percent

compared to November 1998 and continued to fall in 1999. Without this early decision and the accompanying expedited investigation, relief from the surge would likely not have come until March 1999.



4-1. U.S. Imports of Hot-Rolled Steel

When the industry filed additional antidumping and countervailing duty cases in early 1999, Commerce continued to expedite investigations where possible. These investigations were also highly effective in helping to reduce import levels. In the three months following the Commerce Department's preliminary determinations in the cold-rolled steel and cut-to-length plate investigations, imports of these products fell 20 percent and 33 percent, respectively, compared to the previous three months.

Determinations Confirm Dumping

The aggressive pricing by foreign steel exporters resulted in substantial dumping margins.

- In the hot-rolled steel investigations, the final dumping margins ranged from 41 percent to 43 percent for Brazil, 18 percent to 67 percent for Japan and 74 percent to 185 percent for Russia.[2]
- Final dumping margins in the cut-to-length plate and cold-rolled steel investigations ranged from *de minimis* to 72 percent and 7 percent to 164 percent, respectively.
- In the heavy structurals investigation, dumping margins ranged from 26 percent to 65 percent.

The high margins resulted in considerable antidumping duties being imposed on imports of most of these products to offset the effects of dumping. In several cases, countervailing duties were also required to offset the effects of government subsidies *(Chart 4-2)*.[3]

Criticism of Steel Cases

Importers and foreign steel producers were critical of the trade cases, arguing that they were protectionist efforts designed to shut imports out of the U.S. market. Japan, the leading surge country and the country subject to the most new steel dumping cases, has been especially critical and has recently formed a special task force within the Ministry of International Trade and Industry (MITI) to bring WTO challenges against trade remedy rulings made against Japan by the United States. Likewise, importers and trading companies, previously the beneficiary of low prices but now potentially liable for dumping duties, raised concerns about the investigations and their outcome.[4]

On the other hand, many in the U.S. industry felt that relief under the antidumping and countervailing duty laws was too slow and piecemeal. The domestic industry and unions have expressed concerns with the potential for importers to shift to other foreign suppliers to avoid dumping orders. This practice is clearly the prerogative of importers, but it can have the effect of undermining the relief provided and require industry to repeatedly file new petitions.

4.2 Recent Antidumping and Countervailing Duty Investigations on Steel Products

Product	Countries	Range of Margins (percent)	AD or CVD Orders	Negative DOC or ITC Decisions
Stainless Steel Plate in Coils	6 AD, 4 CVD	2–45	9	0 *
Stainless Steel Round Wire	6 AD	3–36	0	6
Stainless Steel Sheet and Strip in Coils	8 AD, 3 CVD	0–59	11	0
Carbon Hot-rolled Steel Flat Products	3 AD, 1 CVD	6–185	4	0
Carbon-Quality Cut-to-length Plate	8 AD, 6 CVD	0–72	11	3
Carbon Quality Cold-rolled Flat Products	12 AD, 4 CVD	7–164	0	16
Carbon/Alloy Seamless Pipe (over 4.5”)	2 AD	11–106	2	0
Carbon/Alloy Seamless Pipe (4.5” or less)	4 AD	20–108	4	0
Structural Steel Beams	4 AD, 1 CVD	26–65	1	2
Tin Mill Products	1 AD	32–95	-	-
Circular Stainless Steel Hollow Products	1 AD	62–157	-	-

AD = antidumping. CVD = countervailing duty.
*The ITC split the case into two like products and went affirmative with respect to stainless hot-rolled plate in coils.
Source: U.S. Department of Commerce, International Trade Administration, Import Administration.

U.S. industry also expressed concern that import surges often increase after the filing of antidumping petitions. Steel traders rush to “beat the clock” and ship greater quantities of steel before remedies are in place. U.S. laws provide a “critical circumstances” mechanism for addressing surges in response to a petition, which allows the retroactive application of duties if certain patterns of trade are detected. Under the critical circumstances provisions, retroactive dumping duties may be assessed if the Commerce Department makes a final critical circumstances determination and the International Trade Commission (ITC) makes an affirmative determination that the imports “are likely to undermine seriously the remedial effect of the antidumping duty order to be issued.”[5] The Commerce Department made affirmative critical circumstances determinations in six steel cases within the past three years. In those cases, the ITC did not make affirmative determinations, and no retroactive duties were assessed.[6]

The Effectiveness of the Steel Cases

While members of the U.S. steel industry have been significant users of antidumping and countervailing duty trade remedies, they have also at times questioned the effectiveness of these remedies.

According to U.S. Commerce Department statistics, the U.S. steel industry and unions have filed 158 antidumping and countervailing duty petitions on carbon or alloy steel mill products in the past decade, with fewer than half of the cases resulting in the imposition of trade remedy orders. Of those 158 cases, the ITC has made negative injury determinations in ninety cases. The U.S. industry appealed a number of these negative determinations, asserting that the ITC did not properly consider statutory factors in making injury determinations. In contrast, importers and foreign companies argue that the ITC’s high negative determination rate is a gauge of the merits of the cases brought by the U.S. industry. As support, they point to the much higher success rate of the specialty steel industry before the ITC. During the same ten-year period, the ITC made affirmative injury determinations on thirty-six of forty-eight cases brought on stainless products.

In making injury determinations in antidumping and countervailing duty investigations, the ITC considers a number of factors. One issue that was extensively argued before the ITC in recent steel cases is the treatment of “captive production.” In the steel industry, many steel products are further processed into

downstream products. The U.S. industry believes that production which is sold to an affiliated company or a joint venture for further processing should be considered "captive production" and, pursuant to statutory provisions, excluded from the ITC's injury and import analyses. The U.S. industry contends that these intra-company transfers do not really compete with imports of the primary product and that by including captive production, the ITC overstates the size of the U.S. market and understates the importance of imports. Importers and foreign companies, on the other hand, contend that these intra-company sales should be considered when determining the size of the U.S. market because they compete with these sales and, therefore, are rightfully included in the ITC's injury analysis.

The Section 201 Option

Other trade law remedies, such as Section 201, were available to the steel industry to address the import surge. The import relief provisions under a Section 201 proceeding can result in potentially broad remedies, including quotas. However, because relief under this procedure is provided regardless of whether the imports are unfairly traded, the standard of injury is higher than in a dumping proceeding. In a Section 201 proceeding, the ITC must determine that increased imports are a substantial cause of serious injury to a domestic industry. In the case of an affirmative injury or threat of injury determination, the President has the discretion to decide whether to grant relief and what remedy to impose.

At the onset of the crisis, most segments of the industry were concerned that the higher standard in the injury test under Section 201 would result in a lower success rate for petitioners than in antidumping or countervailing duty cases.[7] They expressed concern that, in the ten years prior to the crisis, there were just three affirmative 201 determinations by the ITC, only two of which resulted in a grant of relief by the President (corn brooms and wheat gluten). Therefore, most segments of the steel industry turned instead to the antidumping and countervailing duty laws for relief, while pushing for changes to Section 201.

However, since that time, three of four Section 201 cases filed with the ITC have resulted in affirmative determinations.[8] Two of the three affirmative cases pertained to steel products. The wire rod and line pipe subsectors each obtained relief for three years.

- Wire rod imports in excess of 1.43 million MT in the first year, increasing by 2 percent in each ensuing year, will be subject to a tariff surcharge.
- Line pipe imports will be subject to a tariff surcharge, except for the first 8,165 MT annually imported from any country.

New Efforts to Tackle Underlying Problems and Help an Injured Industry

As the financial health of the steel industry continued to deteriorate, Congress and the Administration realized that the trade laws alone were insufficient to address the root causes of the crisis and to revive the U.S. steel industry.

The Administration's Steel Action Plan

The Steel Action Plan of January 1999 laid out the Administration's primary strategy for addressing the steel crisis: tough and swift enforcement of the unfair trade laws coupled with bilateral efforts to address the surge in imports.

- A steel import monitoring program was designed to quickly identify import surges or sudden price drops that might indicate unfair trade. In order to provide the steel industry with reliable import data as

early as possible, the Commerce Department took the unprecedented step of releasing preliminary monthly steel import data, three to four weeks before the release of the official import statistics.
- USTR immediately established bilateral consultations with Japan and Korea to discuss steel issues. Negotiations with Korea resolved the long-standing trade problem regarding the sale of Hanbo Steel and served as a forum for issues such as the privatization of Korea's largest steel producer, POSCO, and Korean steel industry restructuring programs.
- The Commerce Department entered into bilateral negotiations with Russia as an offshoot to the suspension agreement negotiations then being conducted within the context of the hot-rolled steel investigation. Commerce concluded a comprehensive steel agreement with Russia that set annual quota limits on a wide range of Russian steel products and pig iron. Designed to complement the antidumping suspension agreement on hot-rolled steel, the comprehensive agreement was intended to prevent future trade frictions in these product areas and act as the basis for future suspension agreement negotiations should cases on these products arise.

The President's Steel Action Program

To reinforce the measures already taken and prevent future crises, the President announced a twelve-point Steel Action Program in August 1999. Key elements of the program include:

- Codification of the new critical circumstances policy.
- Expanded import monitoring.
- Continued bilateral efforts with Japan, Korea, Brazil, Russia, and Ukraine, and dialogue with other steel exporting countries as needed.
- The Administration's commitment to meet with various segments of the steel industry, including producers, suppliers and workers, to discuss the steel crisis and develop recommendations to avoid future crises.
- The Commerce Department's commitment to produce this report, *i.e.*, to examine and report on subsidies and market-distorting trade barriers in the global steel industry.

Congress' Emergency Loan Guarantee Program

Senator Robert Byrd of West Virginia introduced a temporary steel loan guarantee program to help provide financing to troubled steel companies unable to obtain loans at reasonable rates. The program was later expanded to address troubled companies in the oil, gas, and iron ore industries. The Emergency Loan Guarantee Bill passed both houses and was signed into law.

At the time this report was written, four companies, Geneva Steel, GS Technologies, Northwestern Steel, and Wheeling-Pittsburgh Steel had been approved for $365 million in guaranteed loans.[9] Other applications are still being considered, including applications from Acme Steel, Gulf States Steel, and Qualitech Steel (three firms currently in Chapter 11 bankruptcy proceedings).[10]

Critics view the program as a subsidy to inefficient steel producers that will promote or prolong excess capacity. However, the program is temporary and was designed to directly address the harm caused by the import surge of 1998. In addition, participants must still obtain commercial guarantees for 15 percent of the loans, with the government guarantee covering 85 percent of the principal of the financing.[11]

Other Congressional Initiatives

Several bills were introduced to modify existing trade laws, making it less burdensome for industries to bring antidumping, countervailing duty or Section 201 import relief cases and to obtain relief.[12] The U.S. steel industry maintains that under U.S. trade law Section 201 has a stricter injury standard than is called

for by the WTO. The industry argues that changing the U.S. injury standards to conform with the WTO standard would make Section 201 a more viable option for addressing import surges. However, steel consumers believe that the current law is strong enough *(see box)*. Trade law legislation related to Section 201 has yet to be submitted for a vote.

Representative Peter Visclosky of Indiana introduced legislation to establish quotas on all steel mill products based on the average import level from mid-1994 to mid-1997. The Administration, along with farm organizations and a number of industry groups, opposed the bill, citing the detrimental impact a quota would have on the U.S. economy and noting that it would violate international commitments, making the United States vulnerable to economic retaliation by other countries. This bill passed the House but was defeated in the Senate.

Steel Consumer Views on Trade Law Changes

In March 1999, J. B. Porter of Caterpillar, Inc. testified before the Senate Finance Committee that the U.S. steel industry's efforts to obtain special relief from steel imports—through legislated quotas or changing U.S. trade remedy statutes—could undermine U.S. competitiveness by subjecting U.S. exports to the risk of retaliation.

Representing both Caterpillar (one of America's largest importers of steel) and the Emergency Committee for American Trade (comprising leading American companies with global operations), Porter urged that any amendments to U.S. trade remedy statutes must maintain a balanced approach which takes into account the interests of not only the domestic steel industry, but of U.S. steel users, U.S. exporters, and U.S. importers as well. Thomas Belot of Vollrath Company (another representative of the steel-consuming industry) argued at the hearing that adequate protection already exists in Section 201.

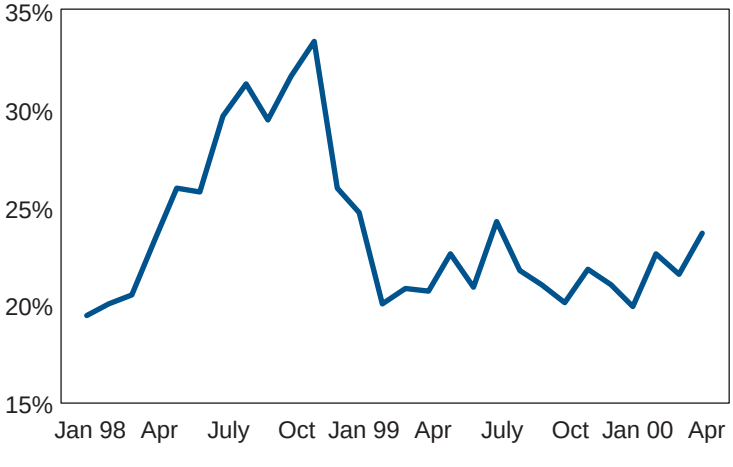
The Road to Recovery

Actions taken by the Administration and Congress produced significant results that helped put the industry on the road to recovery. By late 1999, the decline in unfairly traded imports had a beneficial impact on the domestic market.

However, the road to recovery has been slow. While import volumes dropped significantly during the first half of 1999, there was a substantial lag before any recovery of prices and production.

Imports Ebb, With Some Notable Exceptions

Steel imports fell significantly from 1998 to 1999, with total steel imports falling 14 percent and finished steel product imports dropping 22 percent. As a result, import penetration for finished steel products declined from a peak of 33 percent in November 1998 to 20 percent in February 1999 and then stayed between 20 percent and 22 percent for most of 1999 and early 2000 *(Chart 4-3)*.



Source: American Iron and Steel Institute.

4-3. Import Penetration: Finished Steel (1998–2000YTD)

Reports of Tightened Supply

The impact of the trade cases on steel imports has caused some steel consumers to fear that markets may tighten, leading to shortages or long lead times. In particular, consumers have raised concerns about potential disruptions in the heavy structurals market. One president of a major steel distribution firm reported that inventories have declined, and that, unable to meet demand for wide flange beams (a heavy structural product), mills have responded by instituting a "controlled order booking system," better known as "allocation."[13]

However, there have also been indications that any tightness or disruptions in the heavy structurals market may have been temporary. Recently, prices for heavy structurals have fallen, an indication that shortages in this product are unlikely.[14] In addition, in a letter to the editor, H. Louis Gurthet, President of the American Institute of Steel Construction (AISC), stated, "Considering the overall market, it appears that supply is reasonably meeting current market demand."[15] Gurthet's letter responded to an article that indicated that trade cases may be causing supply problems in the market for beams. AISC represents fabricated structural producers, which purchase heavy structurals to further process for construction purposes.

Imports Continue to Increase in Some Product Categories

While overall steel imports declined, there were some notable exceptions.[16]

- Imports of concrete reinforcing bar (rebar) increased 49 percent in 1999 compared to 1998, on top of a 75 percent increase from 1997 to 1998.
- Imports of wire rod products increased 17 percent in 1999 over 1998. However, imports of this product in future years will be affected by the President's decision to grant Section 201 relief.
- Imports of semifinished steel, used by U.S. steel producers to manufacture finished steel products, increased 27 percent in 1999 over 1998, an increase of 1.6 million MT, the largest volume increase for any product category that year.

Steel Prices Begin to Rebound in the Second Half of 1999

While prices fell sharply in the face of surging imports, their rebound has been much slower. Prices remained flat for much of the first half of 1999 and began to show signs of recovery only in the second half of the year. As the pressure from unfairly traded imports subsided, companies have been able to raise prices for a number of products. However, as of first quarter 2000, prices for most products remained below 1997 levels, and there are recent indications that some of the latest announced price increases are not taking hold.[17]

> Today, as a result of the elimination of illegally imported steel, we are experiencing a very good hot-rolled and cold-rolled market. Our order book is full and lead times are extended. Prices are definitely improving.
>
> John Duncan
> Vice President for Flat-Rolled Products
> Gulf States Steel at Sunbelt Steel 2000
> (December 1999)

- As of March 2000, U.S. spot prices for wide flange beams, wire rod, and galvanized sheet were still down by roughly 15–30 percent from December 1997 levels.[18]
- Spot prices for rebar, cut-to-length plate and stainless cold-rolled sheet were also down for the same period.[19]
- Although by May 2000, hot-rolled and cold-rolled prices were at December 1997 levels, they were still down 10 percent from levels earlier in 1997.[20]

Effect of Excess Inventories

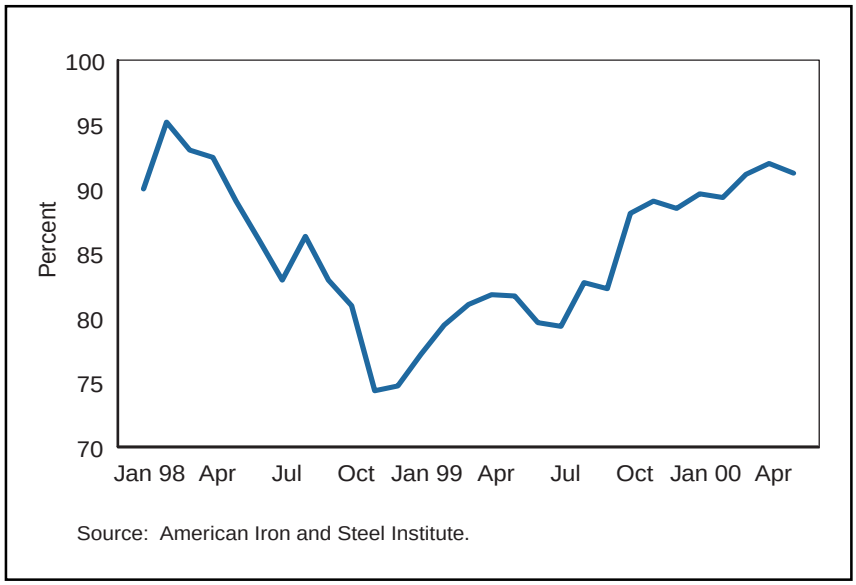
Much of the sluggishness in prices can be attributed to increases in inventory levels during the crisis—estimated to range upwards of 5 million MT. Excess inventories continued to depress prices for several months after imports began to decline. One noted industry observer recently commented that as much as 4.5 million MT of the inventory bulge in 1998 was worked off in just the first half of 1999.[21]

Production Resumes, But Financial Recovery Is Slow

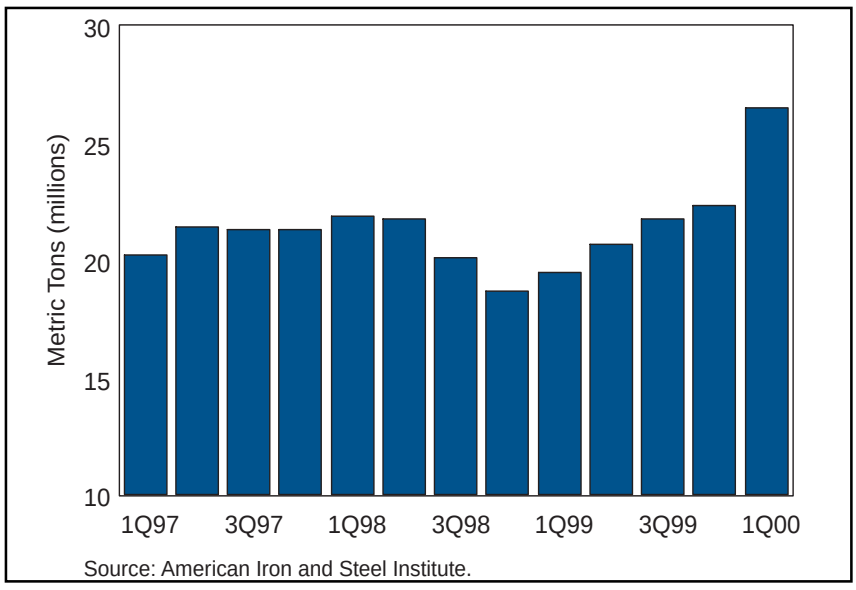
With imports declining and prices rising, domestic production and capacity utilization have been on the upswing. Capacity utilization rates, which fell from more than 90 percent in early 1998 to below 75 percent by year's end, returned to roughly 89 percent by the end of 1999. By the first quarter of 2000, capacity utilization rates were again above 90 percent *(Chart 4-4)*.

Having fallen 11 percent in the second half of 1998, domestic shipments returned to pre-crisis levels by the third quarter of 1999. In the first quarter of 2000, domestic shipments rose 18 percent compared to the previous quarter and exceeded 26 million MT, their highest quarterly level in twenty-six years *(Chart 4-5)*.

While production levels were recovering, the financial health of the industry remained lackluster throughout most of 1999. By the end of the year, major integrated mills still faced losses. The top six U.S. integrated mills had a cumulative operating loss of $27 million during the fourth quarter of 1999.[22] The situation for mini-mills appeared to be better—net income for a group of ten U.S. mini-mills rose 18 percent in the fourth quarter of 1999, compared with the same quarter of 1998. However, Nucor accounted for much of the improvement; excluding Nucor, the remaining firms collectively had essentially no income in the fourth quarter of 1999.[23] By the first quarter of 2000, the industry's financial

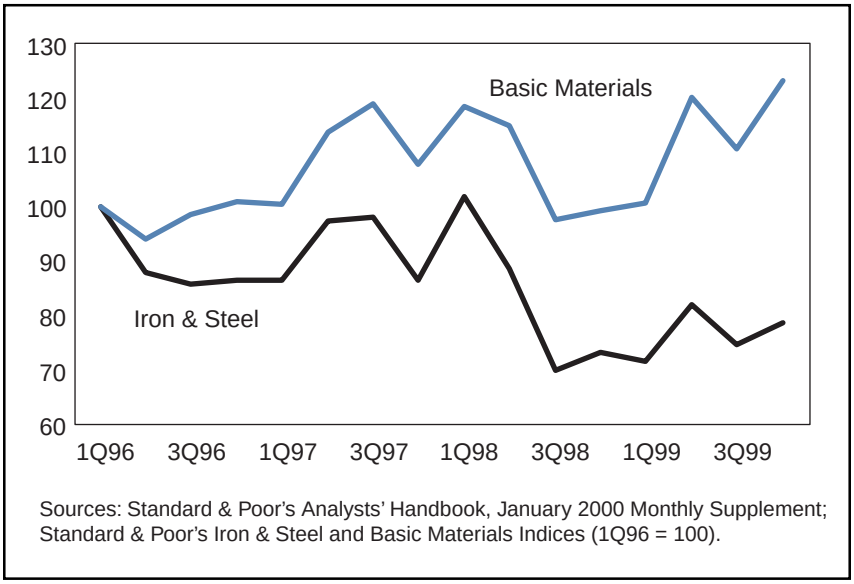


4-4. Monthly Capacity Utilization Rates



4-5. U.S. Shipments of Steel Mill Products (1Q97 to 1Q00)

health had improved significantly. The top six U.S. integrated mills had a cumulative operating profit of $189 million, up roughly 425 percent from first quarter 1999 (when four of the six companies had operating losses).[24]



Sources: Standard & Poor's Analysts' Handbook, January 2000 Monthly Supplement; Standard & Poor's Iron & Steel and Basic Materials Indices (1Q96 = 100).

4-6. Stock Prices: Iron and Steel vs. Basic Materials (1996–1999)

The industry's financial difficulties have been evident in slumping stock prices. A composite index of U.S. steel company stock prices increased about 30 percent between early 1997 and spring 1998. By late summer 1998, the index had lost all of these gains and plummeted another 30 percent, where it remained for the rest of 1998 and most of 1999.[25] An examination of Standard & Poor's Iron and Steel and Basic Materials indices provides further illustration of the industry's difficulties in 1998 and 1999. Down 15 percent in 1998 compared to the previous year, iron and steel stock prices rose 7 percent in 1999, compared to a decline in basic material stock prices of 8 percent in 1998 and an increase of 24 percent in 1999 *(Chart 4-6)*.[26]

Employment Remains Flat Through 1999 but Starts to Recover in 2000

Despite signs of recovery in the steel industry, overall employment levels remained flat through most of 1999. However, recently there have been some encouraging signs as workers laid off during the crisis return to work.[27]

- At Weirton Steel, 150 employees—the final group of roughly 1,000 employees laid off in 1998—were recently called back to work following Weirton's posting of profits in the first quarter 2000.
- Many employees have been called back at Geneva Steel, although approximately 130 workers remain laid off.
- At Acme Steel, workers laid off in 1998 and 1999 who have not retired are being rehired.

Input Producers Are Also Affected by the Steel Crisis

Semifinished steel products are imported by U.S. mills and rerollers to produce into finished products such as hot-rolled steel. Some saw the increase in semifinished steel imports as a positive sign of recovery, *i.e.*, in order to meet increasing demand, the domestic industry needed to supplement its production of finished steel by rolling imported semifinished steel products. Others were alarmed that imports of low-priced slabs were replacing blast furnace production and translated into lost jobs not only at the blast furnace, but at iron ore mines, pellet plants, and coke ovens that supplied these mills.[28]

Unlike the steel industry, which began to see signs of recovery in 1999, the situation in the input industries remained depressed or continued to deteriorate in 1999, due not only to low-priced imports of iron ore and

coke but also to the large increase in low-priced imports of semifinished steel. Prices remained depressed and layoffs continued into 1999 and 2000. Most recently, 1,400 workers in northern Minnesota were facing layoffs with the announcement by LTV that it was closing its Hoyt Lakes mine and taconite plant.[29]

These upstream industries were as concerned by the long-term impact of the increase in imports of low-priced semifinished steel as by the immediate pressure on iron ore and coke prices. The iron ore and coke industries were concerned that the continued presence of low-priced semifinished steel might encourage integrated steel mills to retire rather than reline blast furnaces that were temporarily shut down during the crisis or that need modernization.[30] Once retired, these furnaces are rarely reopened, resulting in a permanent loss of domestic demand for iron ore and coke.[31]

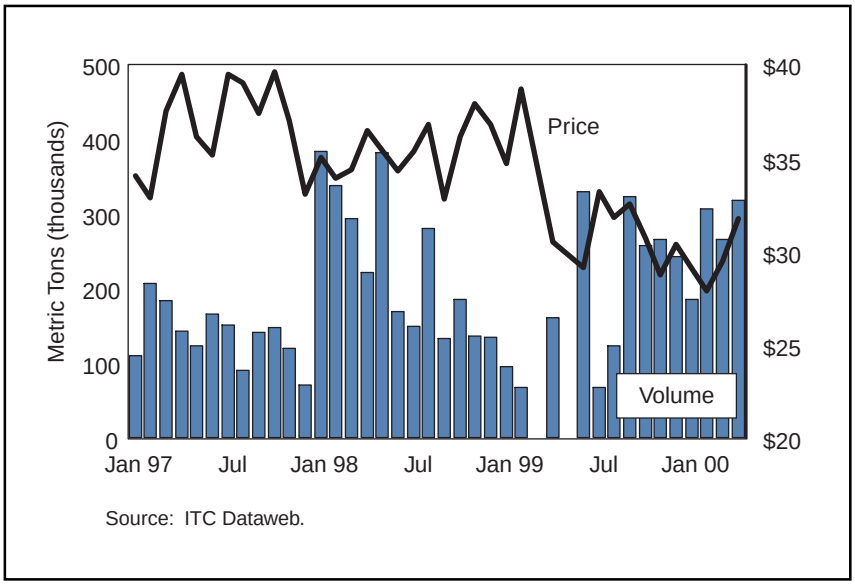
The Iron Ore Industry

The domestic iron ore industry is concerned about imports of both semifinished steel and iron ore, particularly from Brazil.[32] Although Australia, Canada, China, India, Russia, and Ukraine are also significant producers of iron ore, the U.S. iron ore industry views Brazil as its major foreign competitor, due to its position as a major producer of both high grade ore and semifinished steel slabs.

According to the U.S. industry, competition occurs across the spectrum—ranging from unprocessed iron ore to semifinished steel. While certain iron products may not be directly substitutable, aggressive pricing of one product may prompt shifts in production or investment that reduce demand for the other product. In the case of semifinished steel slabs, low-priced imports can have a greater impact on the iron ore industry than imports of iron ore itself. Unlike the one-to-one relationship between domestic and imported iron ore, one ton of imported slab typically displaces one and one-half tons of domestic iron ore.[33]

The Role of Brazilian Iron Ore and Slab

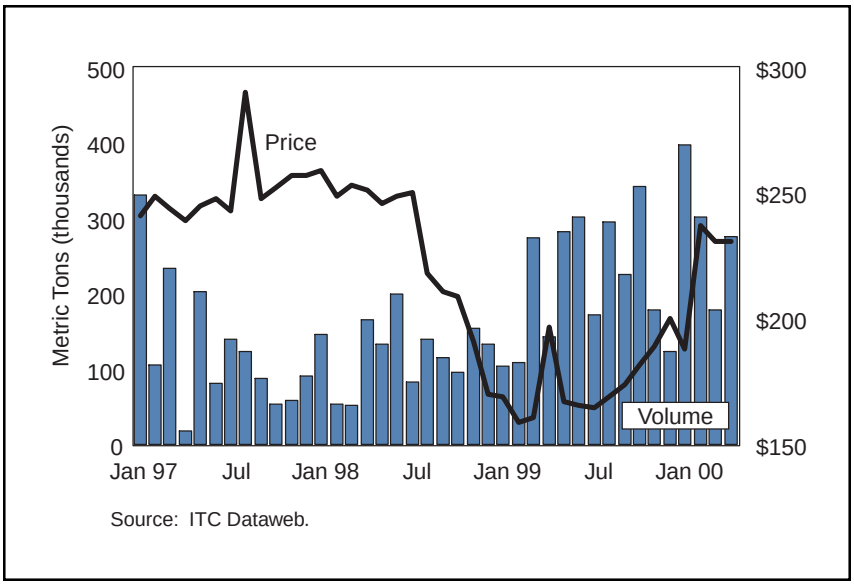
The iron ore industry has raised concerns that imports of Brazilian iron ore and slab have slowed the industry's recovery from the 1998 steel crisis.



4-7. U.S. Imports of Iron Ore Pellets: Brazil (1997–2000YTD)

- With the decline in U.S. steel production in the second half of 1998, imports of Brazilian iron ore pellets fell dramatically. As U.S. steel production recovered in the spring of 1999, imports of Brazilian iron ore pellets resumed, but at lower prices, averaging $32 per MT in 1999, compared to $37 per MT in 1997 and $35 per MT in 1998 *(Chart 4-7)*. During the first four months of 2000, average Brazilian iron ore pellet prices fell further, to $30 per MT.[34] Data provided by the iron ore industry on individual Brazilian iron ore pellet shipments shows prices as low as $26 per MT in January 2000.[35] The prices in these shipments are considerably below the industry's constructed "world price" for a similar shipment of iron ore pellets at $29 per MT.[36]

- Of equal concern to the industry was the dramatic increase in low-priced slab imports from Brazil. Prices for Brazilian slab fell from $250 per MT in July 1998 to $170 per MT by December, a drop of 32 percent in less than six months *(Chart 4-8)*. Sharply falling prices combined with recovery in the U.S. steel industry led to rapidly rising imports of Brazilian slab—1999 imports were up 73 percent from 1998, an increase of more than 1 million MT.[37] Imports of Brazilian slab continued to climb in 2000. During the first four months of 2000 alone, slab imports from Brazil exceeded 1 million MT, roughly 75 percent of the total amount imported throughout all of 1998. However, import prices have also risen significantly—slab import prices in April were up 45 percent from their low point in 1999.[38]



4-8. U.S. Imports of Slab from Brazil (1997–2000YTD)

According to the U.S. iron ore industry, the ability of Brazilian producers to price aggressively in both products stems from the strong ties between major Brazilian producers of iron ore and slab and between these industries and the Brazilian government—a remnant of the days when both industries were government-owned or -controlled.[39] Companhia do Vale do Rio Doce (CVRD), Brazil's major iron ore producer and the world's largest, was partially privatized in 1997.[40] However, BNDES, the government-owned development bank, still owns 32 percent of CVRD. While there have been no recent U.S. antidumping or countervailing duty cases on iron ore or slab from Brazil,[41] the U.S. iron ore industry has raised concerns that the Brazilian iron ore and slab industries may be benefitting from government research and development assistance, regional development programs, infrastructure projects, and preferential financing.[42]

The Coke Industry

The coke industry is divided into two parts: One produces furnace coke, and the other produces foundry coke. The two types of coke have very different properties; they must be produced separately and cannot be used in the same applications. Furnace coke is used in steelmaking, while foundry coke is used in industrial castings, such as engine blocks.

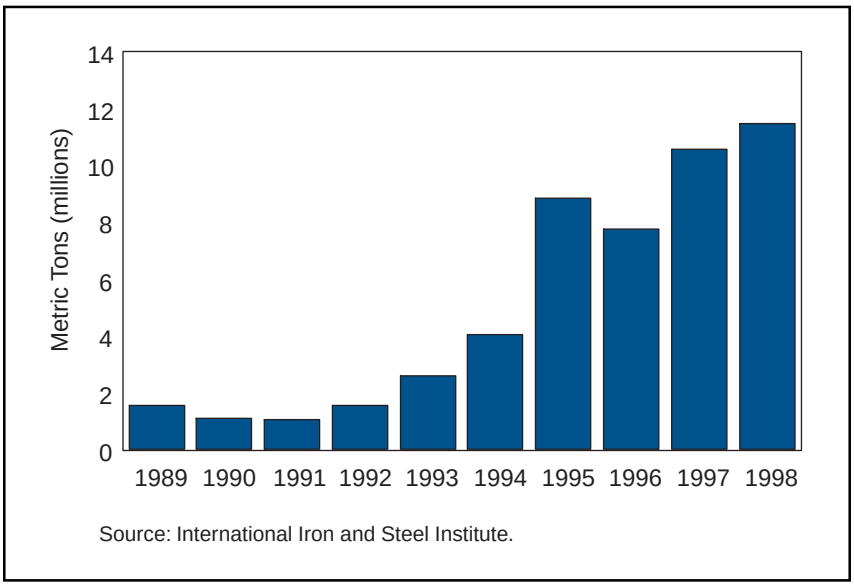
Furnace coke accounts for the vast majority of coke production and imports. As a result of reductions in the number of coke plants over the past two decades, the U.S. coke industry no longer completely supplies the needs of the domestic steel industry. However, because the tariff schedules did not distinguish between furnace and foundry coke until recently, accurate import figures on foundry versus furnace coke imports are unavailable.[43]

Like their counterparts in the iron ore industry, furnace coke producers are concerned about developments in the steel industry over the past two years that may lead to the retirement of blast furnaces. In addition, furnace coke producers, particularly those that produce for the merchant market, are becoming increasingly concerned about imports of furnace coke from China, a concern they share with producers of foundry coke.

The Role of the Chinese Coke Industry

In recent years, China has become the world's largest coke producer, displacing Japan.[44] The Chinese coke industry has undergone a rapid expansion. In 1980, China produced 43 million MT of coke; by 1997, production had increased to 137 million MT.[45] In Shanxi, China's largest coke-producing province, the number of coke plants increased from five in 1980 to 1,500 by 1995.[46] Coke production correspondingly increased from 1.6 million MT to more than 50 million MT.[47] Chinese coke production is predicted to increase to approximately 40 percent of world capacity by the end of the year, up from 28 percent just six years ago.[48]

Increasingly, China has turned to export markets as an outlet for its coke production. China's coke exports increased tenfold between 1988 and 1997 *(Chart 4-9)*.[49] Major markets include the United States, Europe, Japan, and India. U.S. imports of Chinese coke increased steadily from 1996 through 1998, but fell back by about the same amount in 1999. During that period, import prices for Chinese coke fell by roughly 30 percent.[50]



4-9. Exports of Coke from China (1989–1999)

A substantial portion of Chinese coke is produced in beehive ovens, a process long since abandoned in the United States because of high pollution and inefficient use of energy.[51] While other major coke producing countries have been retiring these ovens in favor of cleaner, more efficient mechanical coke ovens, China has dramatically boosted beehive oven production. Conversely, U.S. coke producers incur significant costs associated with environmental compliance. The U.S. coke industry is concerned about the effect of China's environmental standards on that country's export competitiveness. According to Mr. Yan Suling, Deputy General Manager of the Fifth Department, China National Coal Industry Import and Export Commission:

> To expand coke exports, China will tolerate the pollution involved in beehive coke oven production for a short period of time. …[C]heap labor cost, adequate cokemaking capacity and relatively lenient environmental protection regulations will enable Chinese coke exports, with sufficient and stable supply and most competitive prices, to continue to win a large share of the world coke market.[52]

U.S. coke producers are concerned that continued inroads into both the furnace and foundry coke markets by low-priced Chinese coke producers will precipitate the closing of U.S. coke facilities or discourage new investment in U.S. coke ovens.