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Steele: The Propensity of Advanced Free World Economies to Import Steel

# The Propensity of Advanced Free World Economies to Import Steel

by Peter J. B. Steele\*

## INTRODUCTION

THE THEME OF this conference is the dumping of steel into Canada and the United States. The theme of this paper is the propensity of steel-producing countries in the Organisation for Economic Cooperation and Development (OECD)<sup>1</sup> to import steel. The choice of a general subject matter for the paper as opposed to the specific emphasis of the conference is quite deliberate.

First, the term "dumping" implies, at the very least, the release of goods onto foreign markets at prices which do not reflect the true cost of producing and exporting them, with a view to making sales by thus putting local producers at an unfair competitive disadvantage. Usually, a determination of dumping is made when export prices are below home market prices. Dumping also carries with it the notion of the domestic industry suffering positive damage as the result of such practices. As such, it can be a useful term to condemn all imports which compete effectively with local products and thus inconvenience local producers. A prime example of this latter attitude was provided in the United Kingdom by a certain Labour member of Parliament, commenting recently on the possibility of a Japanese manufacturer setting up a plant in the United Kingdom to assemble lorries. He asked for such a move to be opposed on the grounds that the Japanese could sell their products in the United Kingdom at £3,000 below the British Leyland price, and that this was manifestly unfair competition. This typifies the thinking—or should I say the gut reaction—that bedevils the whole question of competitive imports and the appropriate response to them.

To return, however, to my *apologia* for not discussing dumping at this particular conference, whether it is used in its strict legal sense or as a vague word to damn certain kinds of activity, the notion of dumping begs many questions, the answers to which can often differ according to whether they are considered from the viewpoint of the exporter or the domestic producer which is displaced. It seemed better for the Economist Intelligence Unit (EIU) as a dispassionate observer, therefore, to avoid taking a stand on the issue in

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\* Manager, Market Research Division, Economist Intelligence Unit Ltd., London, England. This paper was delivered at the Canada-United States Law Institute's Conference on Steel Dumping into Canada and the United States, held September 29 & 30, 1978, at the University of Western Ontario, London.

<sup>1</sup> The Member States of the OECD are Australia, Austria, Belgium, Canada, Denmark, Finland, West Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

particular cases, and to consider imports of steel and the reasons for them in general terms.

Second, it seemed worthwhile at this initial stage to consider particularly high levels of steel imports as a problem not for the industries in Canada and the United States alone, but as one that can affect the business of steelmakers in any country where steel consumers are, to a greater or lesser extent, free from official direction in the selection of the sources of their supplies. The OECD countries include all the countries which combine steel production with reasonably liberal trade policies—certainly the most important of them—hence the use of this term, umbrella-fashion, to define the countries covered by the review. Needless to say, not all OECD countries have steel industries, and not all OECD countries with steel industries suffer extensively from imports. Therefore, this paper will be largely concerned, first, with identifying countries which seem particularly prone to import large quantities of steel both in absolute terms and in relation to their total consumption, and to determine the internal reasons for this weakness—if weakness it is—and, second, to indicate the main sources of such imports, and discuss how such countries are able to compete so successfully on the world market, without at the same time attempting to tackle the essentially legal question of unfair practices. To some extent the enquiry will be historical, but attention will be focused mainly on the background to the present crisis of the steel industry in Europe and, to a lesser extent, North America, as well as addressing likely future developments.

### *Trends in Steel Demand*

Dumping, however that term is defined, is usually associated with a market situation in which there is an excess of international production capacity in relation to the demands made upon it, with the consequent temptation to manufacturers to lower their prices in order to increase their market share and thus maintain capacity utilisation. This temptation is stronger in the case of steelmakers than with most other industrialists, partly because the bulk of the basic material—crude steel—is produced in very large units, which means that it is difficult to adjust demand to output merely by closing down plant. Furthermore, the nature of steel production is such that if a smelter has to be taken out of commission, the supporting blast furnaces, coke ovens and other auxiliary equipment also have to be run down or shut down—the latter usually involving the collapse of expensive refractory linings—and iron ore and coal has to be stockpiled. In other words, the steel industry is very capital intensive and the inducement to maintain production as long as fixed costs can be covered is high. It seems appropriate, therefore, to begin by examining the demand factors underlying the present weakness of the market.

**CHART I**  
**TRENDS IN THE CONSUMPTION OF FINISHED STEEL IN MAJOR**  
**OECD ECONOMIES**

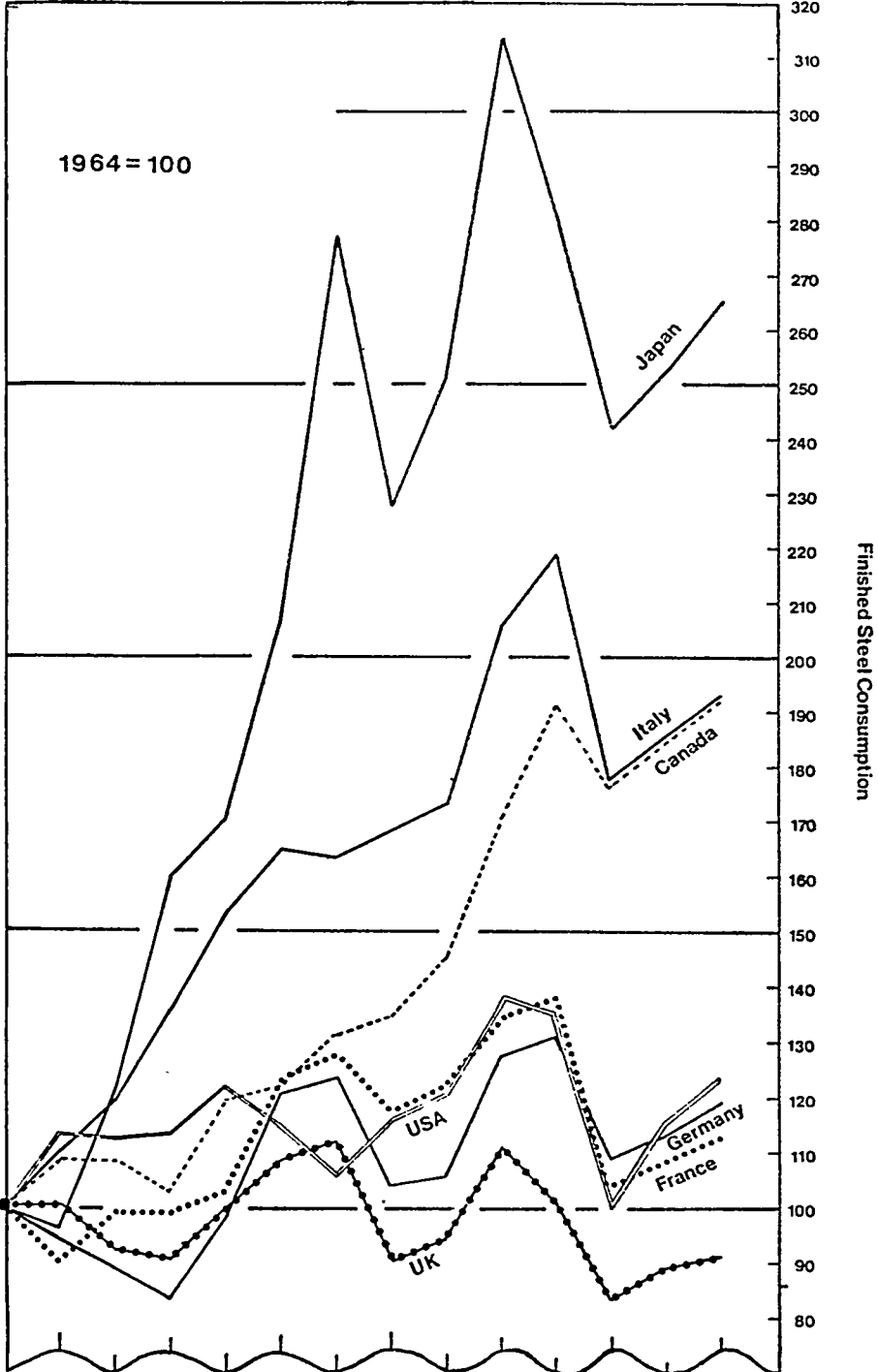


Chart I illustrates in graphic terms trends in steel consumption by the major steel consuming nations in the OECD group—the United States, Japan, Germany, the United Kingdom, France, Italy and Canada. The main feature of the steel market as revealed by this chart is the similarity in the patterns of demand-trend in each country. From 1964 to 1974, the pattern is generally one of growth, subject to cyclical fluctuations. In 1974 and 1975 demand plummets in all countries in quite an unprecedented manner. In 1976 and 1977 demand recovers, although the ground lost in the previous years is by no means made up. It may be deduced from this that, even though demand grows at different rates in different countries, the steel market is ultimately subject to international pressures, and the extent to which individual country markets can vary the timing of their response to such pressures is limited.

The major influence on steel demand arises from the nature of the material and the uses to which it is put. The distinctive qualities of the metal are its high impact strength and its excellent ductile and tensile properties. This means that upon impact it does not break, shatter or easily distort, and that it can be rolled into shapes and subjected to temporary or continuous tensions without its ability to perform being seriously affected. In short, without dwelling too long on this matter, it is an unmatched engineering raw material, no other substance offering this combination of properties can to the same degree—certainly not at a comparable price—compete with it across the full range of its end uses, although many, such as aluminum, copper, iron, wood, plastics, concrete, etc., can compete in specific areas. It is impossible to imagine the modern world without this versatile metal which has so many applications in every sector of economic activity, ranging from mechanical and structural engineering to packaging. It is not too much to say that it is a basic raw material of industrial civilisation and, as industrial development is the main factor underlying all significant economic development, it is reasonable to presume, *prima facie*, a very close relationship between economic growth and steel consumption.

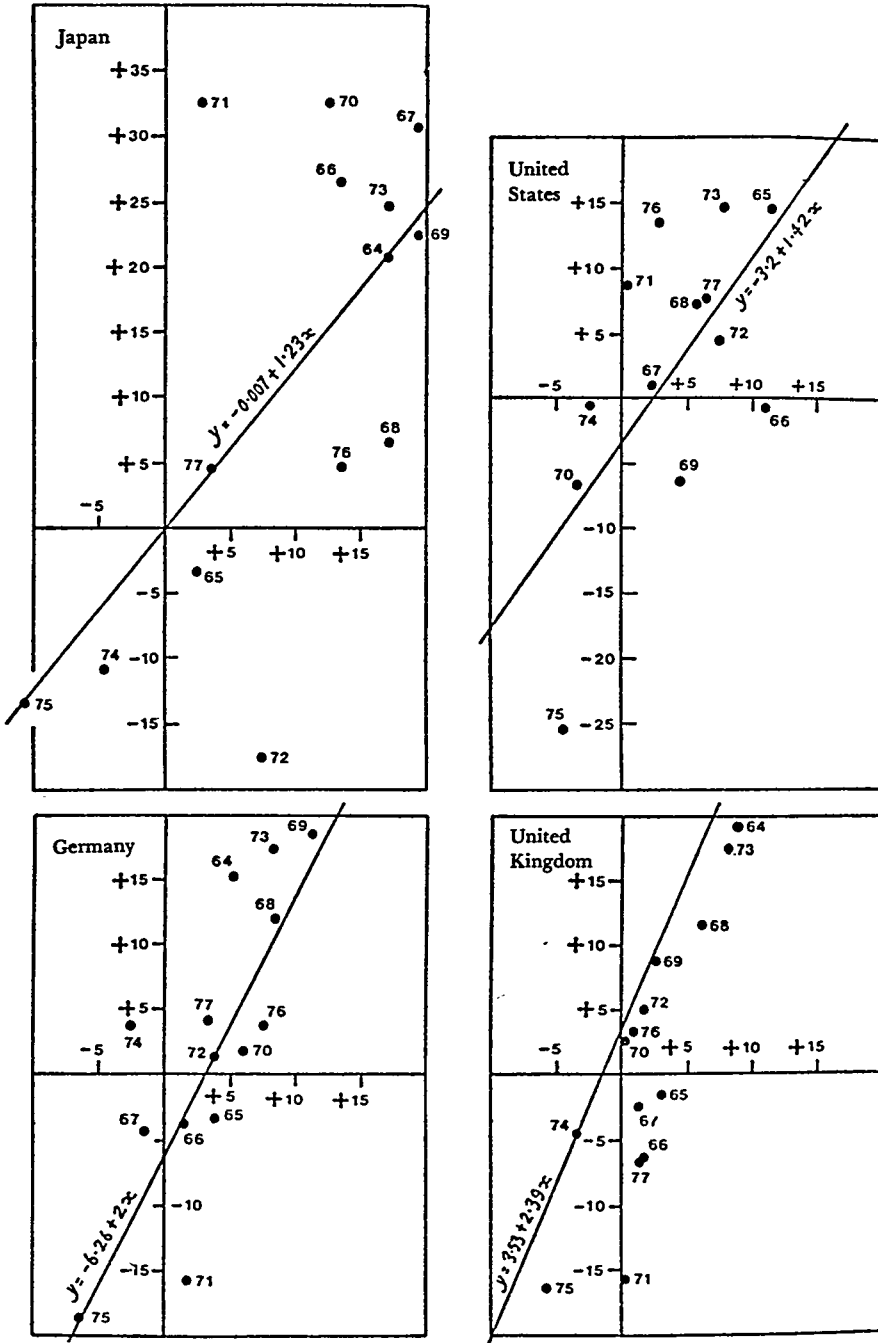
Demand for steel is, of course, directly dependent on the behavior of the various sectors of the market it serves. This market may be divided into the following broad sectors:

- (1) *consumer durables* (motor cars, washing machines, etc.);
- (2) *packaging* (cans, drums, etc.);
- (3) *capital equipment* (lorries, ships, industrial machinery);
- (4) *infrastructural investment* (construction generally, transport and communications systems, public service equipment, etc); and
- (5) *defence equipment*.

The relative importance of these various sectors tends to vary from country to country. In the older industrialised countries of the OECD, consumer durables manufacture, particularly of private motor vehicles, is the major consumer of steel, whereas in Communist countries capital equipment, infrastructural investment and defence equipment absorb proportionally larger amounts of the total, and in the "Third World," infrastructural investment is

usually the major end use sector. Nevertheless, in every country the general health of the economy is ultimately linked to the level of activity in these industrial sectors and *vice versa*. This claim is made in full awareness of the increasing importance of the contributions of service sectors to total economic activity in all OECD countries. It is still true to say, however, that the health of the service sectors depends to a very considerable extent on the behavior of industrial sectors, insofar as the latter are purchasers of services such as banking, insurance, haulage, shipping, etc., or are creators of the wealth which governments and citizens spend on other types of services. To link the health of the industrial sectors with the health of the economy as a whole seems quite unexceptionable in general terms.

**CHART II**  
**RELATIONSHIP OF ANNUAL CHANGES IN STEEL CONSUMPTION AND**  
**INDUSTRIAL PRODUCTION FROM 1964 TO 1977**



Scales: Percent change from previous year  
 Horizontal—Industrial production (x axis)  
 Vertical—Steel Consumption (y axis)

To return to the theme, there are strong arguments in favor of a close relationship between steel consumption and industrial output. These arguments are reinforced by the fact that it is possible to demonstrate a reasonably close mathematical relationship between the two. If industrial output, 'x', moves by so many points, steel consumption, 'y', will usually move in the region by so many points. Chart II plots annual changes in steel consumption between 1964 and 1977 against similar changes in industrial production in the case of a number of major steel using countries. For each country the line of regression is also calculated. Without going into the mathematics involved, it is sufficient to say that if there were perfect correlations between the two factors, the points resulting from the plotting of 'x' against 'y' for each year would all lie on the single line of regression. In fact, the points tend to be scattered on either side of the line of regression, although in close enough relationship to support the logical hypothesis that the one factor does strongly influence the other.

In considering these diagrams, I would draw your attention in particular to the balance of the points on either side of the regression lines, which is highly suggestive of a long-term mathematical relationship, albeit with yearly fluctuations. The relationship is particularly pronounced in the case of Germany and the United Kingdom, less so far Japan and the United States. Leaving aside the effect of variations in the way the data are collected in each country, I would hazard the opinion that the greater fluctuations in the case of Japan reflect the effects of steel-intensive, export-oriented industries, which maintain a higher level of output in the down-turns in the industrial cycle than industries more oriented to serving the domestic market. With regard to the United States, I suspect that the fluctuations here are at least in part due to the fact that United States industrial output is less steel-intensive than in other Free World economies because it is more developed. Nevertheless, in both these countries a major mathematical relationship between steel consumption and industrial production is manifest.

Having, I hope, persuaded you to accept this as a working hypothesis, I should like to consider the consequences of the relationship for the world steel market. Industrial production as the main element in general economic activity is subject to broad international forces, insofar as all modern economies—certainly in the Free World—exist largely by taking in each other's washing. To use a more precise analogy, in the words of St. Paul, the comity of nations are all "members one of another." Necessary imports have to be paid for by exports, and exports depend on the ability of recipients to pay for them, *i. e.*, on their level of economic activity. The cycles of economic activity have, therefore, tended to be international in their manifestation, the pace being set by the major free economy, that of the United States, although in recent years Japan and Germany have become increasingly important in this respect.

The international character of industrial activity explains, therefore, the common characteristics of the consumption patterns in the major steel using countries, that is, why demand tends to be strong or weak at about the same time everywhere. This is particularly evidenced by the virtually simultaneous



collapse in steel consumption in the period 1974 to 1975 and by the sluggish nature of its recovery since then, which can be related to the general economic recession, the immediate cause of which was the energy crisis of 1973 to 1975.

The consequences for the supply situation, including imports, of the international character of the steel demand cycle and, in particular, the slow recovery of the OECD steel market since the end of 1974 must now be considered.

#### IMPORTS OF STEEL INTO OECD COUNTRIES

##### *The Pattern of the Trade*

The pattern of imports into OECD countries has the following established characteristics:

- (1) The greatest part of the finished steel imported by OECD Member Countries taken together comes from other OECD sources. In each year between 1965 and 1975, the proportion of the total originating from such sources was consistently over ninety percent. Although full data are not available, there is no reason to believe that there was any subsequent significant decline in this proportion. Of the non-OECD sources, the most important collectively were the Soviet bloc countries, although in recent years sources such as South Africa, Brazil and the Republic of Korea have become more important.
- (2) Within the OECD market, the largest market for imported steel is provided by the European Coal and Steel Community (ECSC). In fact, by far the greater part of its imports represent inter-Community transfers. It should be noted, however, that whereas in 1975 about seventy-six percent of total ECSC imports were of this nature, in 1976 and 1977 the proportions were seventy-one percent and sixty-nine percent respectively. The other main sources were the other European OECD members, taken together, followed by Japan and the Soviet bloc. Tonnages from South Africa and Third World countries were relatively small, but nevertheless significant in what they foreshadowed.
- (3) The second largest flow of trade is into the United States, originating in Japan and the ECSC group. Unlike the ECSC group, the United States is not a substantial supplier of OECD markets.
- (4) In relation to its total consumption of steel, Canada is also a substantial importer. The largest single source is the United States, with whom its trade is roughly in balance. It is, however, a net importer from Japan and the ECSC.
- (5) Japan is the main single source of imports within the OECD group. Its inward trade is negligible. The ECSC collectively is as important a source as Japan. Unlike Japan, however, as already noted, its members take substantial imports from Third World countries.

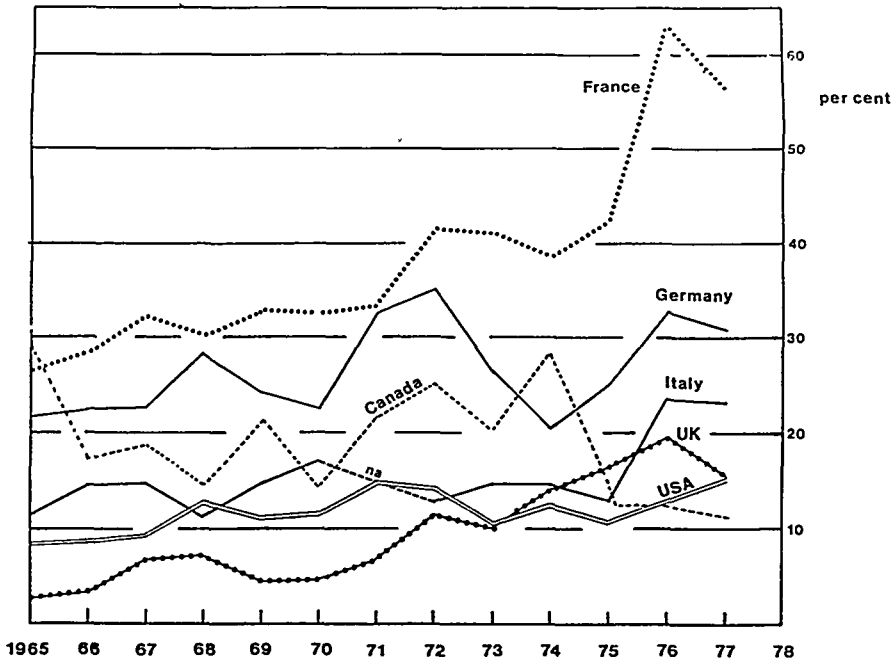
Taking this as the pattern of trade in steel imports in the OECD, it becomes obvious that the principal necessity in any consideration of the propensity of advanced Free World economies to import steel is an examination of the ECSC and the United States as importers and the ECSC and Japan as exporters.

### *Imports and the Net Supply of Steel*

It is important to bear in mind that imports have long formed a substantial proportion of the total supplies of steel coming onto the market in nearly all the major consuming countries. They are, in other words, part of a settled pattern, not an aberration. In part, of course, this reflects exchanges of steel between steelmakers themselves for further processing and finishing. Even excluding this element, however, and taking account of only finished steel sold to steel users, the fact remains that imports comprise a substantial proportion of total domestic steel supplies.

CHART III

### STEEL IMPORTS AS A PROPORTION OF NET SUPPLIES





A consideration of the seven largest finished steel consumers—the United States, Japan, Germany, France, the United Kingdom, Italy and Canada which, with the exception of Japan, are also the largest steel importers, shows that in the period 1975 to 1977, only in the case of Japan were imports a negligible proportion of net supplies. (See Chart III and Table I) There is, admittedly, an overall upward trend, but this is most pronounced in the case of France and Germany where it mainly reflects the growing interdependence of what might be called the innter-ECSC bloc; those countries bordering on Europe's industrial heartland on the lower Rhine. The United Kingdom also has become markedly more dependent on imports, but this mainly reflects the special circumstances of the 1970's, when for various reasons the United Kingdom had to import a great deal of finished steel, such as large diameter pipe for the oil extraction industry and sheet for the automotive industry.

More significant than the perceptible overall growth of imports over the period as a whole has been the marked upturn seen in the case of most countries during the present recession. Although in most cases this only represents a return to the relative levels prevailing before the 1973 to 1974 boom, it is still a curious trend in view of the weakness of the market already noted, being altogether disproportionate to the recovery which has taken place. In the United States for instance, where the net supply of finished steel increased by 13.6% over the previous year in 1976 and by 7.9% in 1977, imports increased by 13.3% in 1976, which was about what would be expected, but by 24.1% in 1977, which meant the domestic industry's share of its own market was being seriously eroded.

The record considered here poses two questions:

- (1) Why do countries with sophisticated steel industries import substantial quantities of steel, most of which could be supplied from local resources?
- (2) Why did imports tend to increase in relative terms—and often absolutely—in the period of recession after 1974?

To deal with the first question, there seems to be four basic reasons why steel producing countries import steel:

- (1) the inadequacy of the supply of a particular material in one country, which can be a permanent or a temporary factor;
- (2) the wish of some consumers to vary their sources of supply;
- (3) the greater convenience of relying on external sources which are geographically closer than sources within the country itself, or provide better service; or
- (4) the lower prices for imported steel.

These factors vary in their relative importance according to the country concerned and the period under consideration. In Germany and France, both of which depend on other EEC sources for the greater part of their imported supplies, convenience and price are the main considerations. It is often more

convenient for consumers in Northern France, for instance, to take supplies from Germany or Luxembourg than from Lorraine or Provence, and the basing-point price system operating in all ECSC countries can mean that the prices are lower as well. Germany, in particular, also takes substantial tonnages from Eastern Europe. To some extent this reflects the lower prices of materials from this area, but Germany is also understood to take some steel for further processing or in payment for earlier capital goods sales to Soviet bloc countries.

The imports of Italy and the United Kingdom are also to a large extent explained by their European location and their membership in the ECSC. In the case of the United Kingdom, however, it has become a tradition of the automotive industry to rely on overseas sources for at least a proportion of its supplies of cold-reduced sheet for car bodies. The inability of the British Steel Corporation (BSC) to supply this material has been a major factor in the absolute growth of imports in recent years—BSC has had to import hot-rolled coil for re-rolling and cold-reduced sheet for direct supply to its customers.

The imports of the United States and Canada from Japan and the ECSC have been inspired by all the factors outlined above. In many West Coast locations, for instance, supplies from Japan may be more readily available than materials from the main domestic steelmaking areas. Some Japanese products are said to be of superior quality because they are made on more up-to-date equipment, although the overall importance of this factor is uncertain. There is also the exchange of material between Canada and the United States resulting from their proximity and the close commercial links of those countries. There is no doubt, however, that price-competitiveness has always been the main factor underlying the bulk of the imports into North America from both the ECSC countries and Japan. To some extent, the ability of these countries to compete with local producers in terms of price has reflected their willingness to price their products aggressively, while the tendency in the United States has always been to reduce output in the face of weakening demand. (This does not mean, of course, that importers have failed to service the United States market during times of high demand—an accusation often levelled against them. An examination of historical statistics suggests that the only period when imports failed to increase during the up-cycles of the United States market was in 1973 to 1974. This was probably due to the fact that the action of the United States Government in imposing wage and price controls had the effect of holding domestic prices below world levels at that time. The effect of this is illustrated by a ninety-six percent increase in United States *exports* at this time of peak home demand.) The point I am trying to make is that trade of this nature is a permanent feature of the world steel market and, as such, is acceptable if not always welcome to local producers. In the period before 1974, only when some imports threatened to drive local producers from some specific section of the market were there objections and demands for artificial protection. This occurred in the case of the United States special steel industry in the late 1960's, when it seems the

Japanese and some others made this a target for low-cost exports and had taken up a very substantial proportion of the market before the government arranged voluntary quotas with the importers in 1968.

The general increase in imports in 1976 and 1977, at a time when markets were only slowly recovering from the recession of 1974 to 1975, presented problems of an entirely different magnitude. In general terms, the flood of imports can be explained, of course, as a classic response to a situation in which the availability of supplies exceeds the requirement for them: Producers are tempted to put material onto the international market at very low prices which producers in individual domestic markets find very difficult to match. As already suggested, the capital intensive nature of steel production creates a peculiar incentive for steelmakers to adopt this approach. This leads us to consider the actual situation of the OECD market in this period, and, in particular, the extent of under-utilisation of capacity. It is difficult to measure capacity-utilisation on a standard basis for all countries. By applying standards uniform to each country or producing area, however, it is possible to say that utilisation in the ECSC, the United States and Japan ranged from eighty-five to ninety-five percent for most of the period from 1960 to 1973, climbing even higher in the boom of 1973 to 1974. In the recession of 1975 to 1976 it fell very substantially, as indicated in Table II. Data for 1977 are not yet available for all the countries, but it is known that in the ECSC the average rate of utilisation in that year was not far above sixty percent. A report to the European Parliament in the middle of 1977 recorded that as a consequence of the low level of usage, jobs were being lost at the rate of 3,000 per month and 100,000 men were on short-time. The political temptation in this situation to export at any price merely to maintain employment can be easily understood. More significant, however, is the pressure it generates for the introduction of measures to reduce the level of imports.

TABLE II

## RATE OF UTILISATION OF CRUDE STEEL PRODUCTION CAPACITY

	1960	1965	1970	1973	1974	1975	1976
ECSC	95.6	85.0	87.9	86.3	97.0	66.1	67.8
United States	. . .	88.0	86.0	96.0	94.0	76.2	(80.1)
Japan	(88)	86.8	90.6	92.1	85.9	65.1	(71.1)

Source: OECD and other sources.

The reasons for this low level of utilisation reflected, of course, the understandable failure of those who were responsible for steel investment decisions in the 1960's and 1970's to foresee the recession of the mid-1970's and its consequences for steel demand. Other factors were, however, tending to exacerbate the situation. First, the Japanese and ECSC industries, in planning new capacity, had usually built-in a margin intended for the export

market. They therefore had to face the consequences of recession not only in their domestic markets, but also in overseas markets. Second, in the ECSC the tendency during the 1960's had been to develop relatively large works at coastal sites. This new capacity did not, however, replace the older existing capacity, but was superimposed upon it, reflecting the reluctance of governments to countenance the creation of massive redundancies, usually in regions where unemployment was already at a high level. This created particular problems in the United Kingdom, but was common to all ECSC Member Countries to a greater or lesser extent. Japan, on the other hand, had always tended to scrap obsolescent capacity, no doubt secure in the knowledge that the workforce could be absorbed elsewhere in new plant. The United States industry also was far less hesitant to run down out-dated plant. The situation created by the high level of unused domestic capacity in the ECSC, Japan and the United States was exacerbated, at least as far as the ECSC and Japan were concerned, by the downturn in domestic demand in smaller producing countries such as Australia, South Africa and Spain, which encouraged them to increase their pressure on world markets. This was augmented by competition from new sources, notably the Republic of Korea and Brazil. At the same time, demand also was reduced in non-steelmaking countries where Japan and the ECSC had been accustomed to finding much of their export markets.

As already implied, the excess supply of steel tended to exert considerable downward pressure on prices, both in the world market and, less directly, in domestic markets.

### *The Effect on Prices*

The best indicators for world steel prices are usually taken to be those published in *Metal Bulletin* which refer to products sold by ECSC producers onto the world market. It seems a reasonable assumption that these products would have to be at least competitive with products from other major sources. Chart IV illustrates the trend in prices of cold-rolled coil and universal beams based on quotations in *Metal Bulletin* in recent years, taking two reference points per year.

Although the references are not complete, it can be seen how closely prices tended to firm in those periods when demand was also strong and decline when demand fell away. Thus, they were on a rising trend during the cyclical upturn of 1972 to 1974, fell away to low levels with the onset of the recession, firmed up with the recovery, especially in the United States in 1975 to 1976, and fell away again when the rate of recovery of the market declined in the latter part of 1977. The recovery since then reflects in part the decline of the value of the dollar against other major currencies; there has been no marked upturn in steel demand which could have influenced prices, although this was expected. On the other hand, the introduction of the United States trigger price mechanism (TPM) system in April 1978, and the cut back in Japanese production which was, in part, due to TPM, could have played its part in this trend.

CHART IV  
TRENDS IN STEEL PRICES: DOLLARS PER METRIC TON

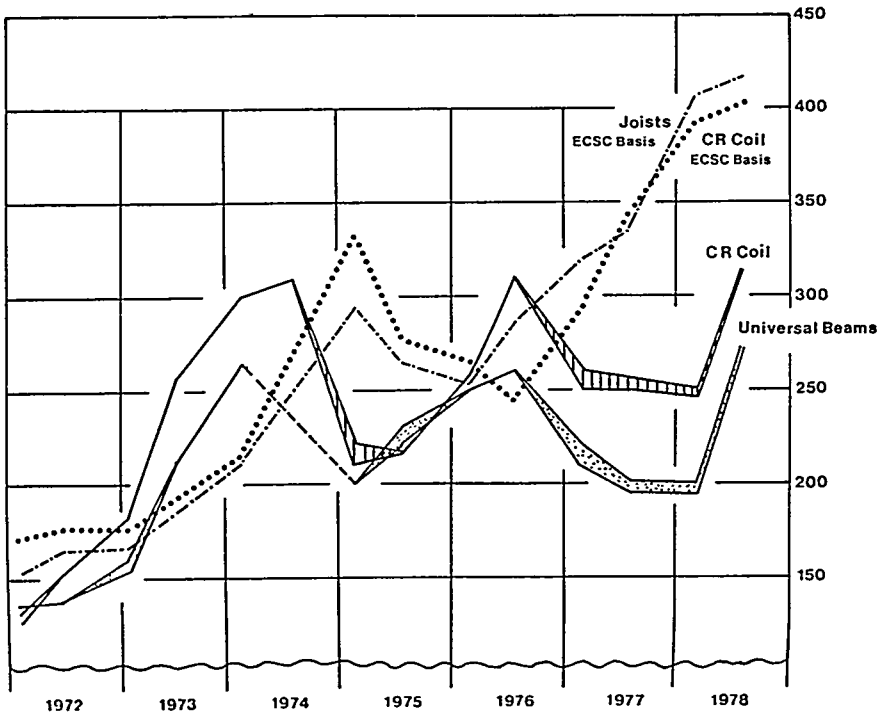


Chart IV also shows basing-point prices for ECSC home sales. These are, in fact, rather misleading, as ECSC suppliers were permitted to align their prices downward to match those of imports, so that for major products like coil and universal beams the actual differential between home and import prices would have been less pronounced. The result of this was the introduction of schemes to hold up domestic prices by cartelising the market and also the introduction of minimum guidance prices, and, in the case of some products, mandatory prices. At this time, the ECSC schemes to maintain domestic prices do not seem to be having much success, and the ECSC price levels shown in Chart IV are more reflective of wishful thinking than of the actual situation.

In the United States, it has been the general practice for steelmakers to cut back production rather than reduce prices. Thus, in current market terms, there is rarely any fallback such as has been noted in the case of the ECSC. On the other hand, apart from the unsettling effect of plant closures, it is generally recognised that import competition tends to hold down the level of prices, preventing increases necessitated by increases in production costs. I understand that United States domestic prices have firmed considerably as a result of TPM and the upturn in local demand.



Japan also has been affected by the downward pressure on prices exerted by excess production, although no foreign steelmaker can compete with Japanese suppliers in their own market. It would seem as though demand was sufficiently strong to maintain the prices for sheet, plate and heavy sections, but it has been estimated that in the early months of 1977, producers were losing sixty dollars on each ton of small sections sold on the home market. It was pressure of this sort which encouraged producers to intensify their aggressive export market policies. (It is worth noting however, the findings of the United States President's Council on Wage and Price Stability that, in general terms, Japanese realised export prices remained above home market prices even in 1976. Prices for shipments to the United States also increased in the first half of 1977.) Nevertheless, the recession now has been going on for a long time, and it is possible that the aggressive selling which obviously was a short-term measure in a normal cyclical downturn is not acceptable as a continuing policy. The Japanese have been exporting something like forty percent of their output in recent years, and it is my very private view that it is this factor as much as anything else that has caused them to turn their export market drive this year. I find evidence of this in their obvious willingness in the last eighteen months to enter into voluntary quota agreements with both the ECSC and the United States.

#### *The Reaction to the Cheap Import Onslaught*

The recession in steel demand in 1974 to 1975 and its limited recovery since then have served to emphasise the problems of the steel industries in the ECSC and the United States. The inability of both to compete with the Japanese industry has been starkly displayed and, certainly in Europe, the need to close down obsolete capacity for good has been clearly demonstrated.

All the governments involved have shown themselves reluctant to increase the protection against import competition already enjoyed by their domestic industry. To consider first the ECSC, several factors seem to have been involved in formulating official opinion:

- (1) the general commitment of ECSC governments to liberal trading policies under the General Agreement on Tariffs and Trade (GATT);
- (2) the fear that blatantly protectionist measures would start a trade war covering not only steel products but also products containing steel (perhaps half of all manufactured goods traded include steel); and
- (3) an acknowledgement that protection would relieve the pressure to do something about the manifest inefficiencies of the steel industries.

Counterbalancing this is the understandable wish of the European governments to ease the pain of eliminating as many as 200,000 jobs, which is necessary if the industries there are to take full advantage of the introduction of modern technology. There is also the usually unspoken fear that if the

ECSC is exposed to the full blast of foreign competition, the change in the balance of imports to total net supplies could involve the loss of as many as 100,000 more jobs.

In the United States, the government has tended to adopt attitudes towards the steel industry which, if not motivated by actual hostility, have had much the same effect. Anti-pollution legislation has, for instance, borne particularly heavily on the industry and has added to the problem of financing capital replacement programs. Successive administrations also have been reluctant to countenance steel price increases, regarding these as a primary cause of inflation. This hereditary attitude alone would probably have made the administration reluctant to yield to pressures for protection against low-priced steel imports, even without its formal obligations under GATT. The wish to protect established patterns of employment also has been less pressing than with European governments. In fact, traditionally, the only necessity the United States Government has seemed to recognise with respect to shielding the steel industry against imports has been that of maintaining United States industrial capacity in certain strategic areas—as in the case of special steels already noted.

The protection given to the steel industries in the ECSC and the United States has, therefore, usually been limited. In Europe, tariffs range between four to eight percent and in the United States between six to thirteen percent. The highest duties are attached to high value products, while for lower value bulk steel products the chief protection has been that afforded by the cost of shipping them. This however, has become an increasingly fragile shield against Japanese competition. It will be recalled that last autumn the United States President's Council on Wage and Price Stability found that Japanese steelmakers could export profitably, absorbing transport and tariff costs, and still undercut American producers by five percent in the United States market. Since then, the devaluation of the dollar against the yen has probably reduced this advantage, although it is understood that it also has substantially reduced the raw material costs of the Japanese.

Other protective measures in recent years have included the voluntary agreements regulating exports. In the periods 1968 to 1972 and 1972 to 1974, ECSC and Japanese producers accepted quotas for the import of stainless steel, tool steel and other alloy steels into the United States. In 1975, Japan agreed to limit its exports of steel into the ECSC. Again, in 1976, the United States agreed to quotas on special steel imports with Japan. Other suppliers, who refused voluntary agreements—including the ECSC, Sweden and Austria—had them imposed by the United States Government. The effectiveness of these agreements is, however, doubted by steelmakers in Europe and the United States. The 1976 agreement with the ECSC reduced Japanese imports in that year to 1.5 million tons from 1.6 million tons in 1975. Japanese exports to non-ECSC European countries, however, rose from 2.4 million to 3.6 million tons, and ECSC steelmakers suspected that much of this material eventually found its way into their markets. (Spanish exports to the ECSC, for instance, increased from about 500,000 tons in 1975 to over

900,000 tons in 1976.) In the United States it is understood that the Japanese would willingly have guaranteed sales at 1976 levels in 1977, but United States steelmakers were naturally reluctant to see the Japanese consolidate in this way the gains they had made in 1976.

The year 1977 saw the steel industries in both the United States and the ECSC making increasing use of existing antidumping legislation. In the United States in particular, test cases showed that this might be a more effective remedy than had previously been suspected. European exports appeared particularly at risk, partly because it was common knowledge that the ECSC industry was far less efficient than the Japanese, and partly because the ECSC Commission was trying to maintain domestic prices at levels above those obtained for exports to the United States.

It is suggested that it was this trend, to make increasing use of the anti-dumping acts, that forced the United States Government into a more protectionist posture in order to forestall a wider threat to its attempts to negotiate more orderly trading agreements with other major steel producers under GATT. It would appear that this is the broad strategic aim of both the North American and ECSC governments.

It seems likely that the preference of the United States Government would be an arrangement limiting exports along the lines of the GATT multi-fibre agreement for the textile industry, although such an agreement would be considerably more complicated in the case of steel, because of the sheer numbers of products involved. It also would have been far too rigid. In Europe, there seems to be some pressure in favor of a World Steel Conference to cartelise steel trade. Already such a system had begun to operate within Europe under the so-called Simonet Plan, under which the EEC Commission makes short-term market forecasts and then divides the market amongst the major steelmakers in a cartel known as Eurofer.

The weakness of both these approaches was that their effective application would inevitably be delayed, while by the Autumn of 1977 more immediate action was necessary to reduce the flow of imports and yet protect the principles of free trade in steel. The result was the adoption by the United States Government of the Report of the Treasury Task Force, headed by Anthony Solomon, which involved the introduction, after a short period, of a trigger price mechanism. This action effectively by-passed the fear of the Europeans that protective measures would encourage retaliatory action against their exports in the United States, and the second phase of the Davignon Plan was introduced in December 1977, just in time for Christmas.

I suspect that others following me will wish to discuss the United States TPM and its Canadian counterpart, so I will not dwell on it here. Under the Davignon Plan, the ECSC introduced reference prices for major steel products for a period of three months, based upon the practice of the most efficient foreign producers, *i.e.*, the Japanese. Imports priced below these levels were subject to antidumping measures. The import prices were established at an average of seven percent below internal minimum prices, and ECSC steelmakers were not permitted to align downward to compete with them.

Behind this screen, the ECSC negotiated bilateral agreements with the main suppliers—Japan, Spain, South Africa, Brazil, the Republic of Korea and Sweden—to limit their share of the market to agreed levels, such agreements then taking the place of instant antidumping action. (I understand that most East European countries have yet to negotiate agreements with the ECSC. This lack of agreement and the reluctance of the West German government to take tough counter-measures are probably the main weaknesses of this aspect of the Davignon Plan.) Thus, almost in spite of themselves, the authorities in two of the three major OECD steel markets were forced by the circumstances of 1977 to take action to protect their steel industries against low-priced imports.

### *Conclusions and Future Outlook*

My purpose in this paper has been to demonstrate that imports constituted a significant proportion of the net supplies of steel to major OECD steel-consuming countries—other than Japan—for many years and, as such, were not a threat to the position of local industries. The growth in the volume of low-cost imports in the years since the oil crisis recession, and especially in the last couple of years, has, on the other hand, created severe problems for the industries in the two major importing economies, the ECSC group and the United States. While the immediate cause of this flood of imports was the general weakness of demand in all the industrially-advanced Free World economies, I have attempted to argue that the vulnerability of these industries was a consequence in part of internal structural defects and in part of developments in the world steel market, both of which would have created problems that eventually would have confronted them. These factors may be summarised as follows:

- (1) the need of the Japanese steel industry to find a market for about ninety-five million tons of finished steel, with domestic requirements reduced from nearly eighty million tons in 1973 to a little over sixty million tons in 1975, rising to sixty-seven million tons in 1977;
- (2) the inability of the ECSC and North American industries to compete with materials exported by the more efficient and lower cost Japanese industry in their own markets. (This competitive edge has been eroded in the case of exports to the United States);
- (3) the excess steelmaking capacity in the ECSC protected from rationalisation by social considerations; and
- (4) the reduction of traditional markets for ECSC steel as a result of recession and the development of local industries in many countries, all of which became more serious competitors in the ECSC home market.

It can be seen that if this analysis of the present situation of the world steel trade is accepted, the flood of low-priced steel imports in 1976 and 1977 was not a cause, but a symptom of the malaise of the United States and

ECSC markets. By repressing the symptoms, the fundamental malaise is not cured; at best, conditions are created in which the malaise can be subjected to less drastic treatment.

There remains the consideration of whether the protection given the European, the American and the Canadian steel industries at the end of 1977 has worked, or, in view of the shortness of the time involved, whether it looks like it is working. This is a difficult question and I, like the Scottish divine confronted with the doctrine of predestination, am tempted, having faced the problem squarely, to move on. Balking at such a cavalier approach however, I consider it most appropriate to proceed by considering what alternatives were available:

- (1) *Doing nothing* (always a tempting formula). By the end of 1977, the volume of exports in both the ECSC countries and North America had reached such levels that all except the most perfervid free trade advocates were convinced that the very bases of the steel industries in these areas were threatened.
- (2) *Leaving it to the private initiation of existing antidumping legislation*. This course was already being pursued with some success in North America by mid-1977. Two major objections could, however, be raised:
  - (a) it threatened the grand strategy of all the governments hoping to achieve some effective control over trade flows within the confines of GATT; and
  - (b) there was no way of knowing whether it would succeed in reducing the volume of imports and restoring prices.
 This latter point, I maintain, must be the basic object of antidumping measures; if it is not achieved, all the rest is little more than "a sounding brass and a tinkling cymbal."

To move from the sublime to the profane, the same criticisms can, I think, be laid against protecting markets by relying on antidumping legislation as Lord Chesterfield once made of the active pursuit of Venus. You will recall his words: "The position is ridiculous, the pleasure is uncertain, and the expense is damnable." More specifically, the antidumping remedies are long-winded in their employment, uncertain in their effect, and selective in their application. They also can be positively damaging to innocent parties, as I think unbiased parties might agree on considering, say, the *Algoma* case.

Without going into the situation too deeply, I would suggest that the general threat of action posed by the North American TPM systems and the Davignon Plan has been more effective in curbing imports from Third World countries than half a hundred antidumping actions. (Do I hear the hiss of a thousand quills leaping from their ink wells in deadly protest at such a suggestion at this lawyers' conference? Maybe, maybe.) In any event, I would admit that the willingness of the Japanese to draw in their horns at the time when Canada and the United States introduced TPM was a significant factor in securing a favorable outcome—as was the upturn of the United States market. In Europe, however, the Davignon Plan has been widely recognised

as successful, especially where stiffened by unilateral action against the Soviet bloc. Of course I do not mean to suggest that the problems of competitive trading have been resolved. In the ECSC, for instance, I have already mentioned that, for political reasons, West Germany has been unwilling to put pressure on the Soviet bloc countries to agree to voluntary quotas on an ECSC basis, forcing the United Kingdom, for one, to threaten very tough action to secure unilateral agreements. In the United States, however, I gather that a number of antidumping actions have been abandoned as plaintiffs begin to appreciate the virtues of TPM. I mention the *National* and *Georgetown* cases. I also understand that other actions may well be abandoned, although the disappointing July 1978 trade figures may lead to third thoughts in the United States. TPM also is said to be even more successful in Canada than in the United States, partly because it is less specific.

It remains to be seen however, whether the will exists to take advantage of the improvement in the situation to carry out reforms of the industries in the ECSC and the United States which are necessary if they are to be able to compete effectively with the Japanese in their own markets without protection. Such reform is probably easier in the United States, where the industry has already shown itself willing to slim down—losing over 100,000 jobs in the period 1965 to 1976 and the difficulty is mainly one of financing the necessary investment. The Solomon Report was of the opinion that the industry could generate the necessary funds, given protection from low-priced imports and a more favorable tax regime. (Against this however, I must draw your attention to the doubts expressed by the President's Council on Wage and Price Stability as to whether the United States industry could ever become as efficient as the Japanese, given the continuation of the recession.) In the ECSC however, the industry stands to lose over 200,000 jobs, as well as undertaking substantial investment in more modern capacity, and the former requirement creates an immense obstacle to reform, as any student of the lamentable fortunes of the British Steel Corporation in recent years will realise. Nevertheless, it seems obvious that without permanent protection—which would be a monstrous admission of failure—bulk steelmaking in the ECSC will have to slim down voluntarily or be cut down by the effect of foreign competition.

The problems of reforming the European and North American industries would be greatly eased by an upturn in the world market. In this context the present improvement in the United States market seems most encouraging. It would be unwise, however, to look for any sustained improvement.

Economic growth in the Free World is likely to continue slower than before the energy crisis, and is also likely to be less steel-intensive than in the past. The ECSC also will have to accept that the consequences of the increase in productive capacity in the smaller OECD countries and some industrially advanced Third World regions will mean a permanent reduction in traditional export markets, whatever the future pattern of demand. The necessity for rationalisation and modernisation cannot be avoided in the ECSC; in the

United States, the industry has already been greatly trimmed down and modernisation seems to be the major requirement.

Antidumping measures constitute only a limited response to the problems facing the ECSC and North American steel industries. The TPM systems and the Davignon Plan were introduced to meet a desperate situation and, for one reason or another, they have enjoyed a fair measure of success. The breathing space must be used, however, to create a climate in which these industries can reform and restructure themselves, to face a situation which has undergone permanent and radical change in a very short time. The worst thing that could happen would be for these industries to become addicted to protection, demanding tougher and tougher measures. This would lead to the creation of permanent steel curtains, behind which European and American manufacturing industry would be cut off from the cheapest sources of a basic raw material, with all that that implies for their competitiveness in the world market, and the European and American steel industries would become insulated from the best-known stimuli to the efficient fulfilment of their economic functions.