

CONDITION OF DOMESTIC STEEL INDUSTRY

1. Employment - off 153,000 (or 38%) in three years and still dropping.
2. Domestic capacity to produce steel - off 13% since 1981.
3. Operating rate - 60% and falling in 3Q84, despite drastic reductions in capacity.
4. Financial losses of domestic companies - over \$6 bil. in 1982 and 1983. Losses likely again in 3Q84.
5. Credit Ratings - The credit rating of every major steel producer has fallen since 1981. Several are now on watch for possible downgrading below "investment grade" quality.
6. Investments required - \$5.5 bil. annually, cannot be supported under present conditions.
7. Productivity per man hour per ton of steel - increased 20% between 1981 and 3Q83 and still climbing.
8. Domestic consumption - off 3%, 1H84 vs. 1H81. The steel market is reasonably healthy, it's just the source that has changed.
9. Imports as a percent of domestic consumption - up more than 50% from 15.9% in 1H81 to 24.2% in 1H84. Up to 33% in July 1984.
10. Prices of imports - down 27%, from \$620 per net ton in 4Q81 (at end of TPM) to \$454 per ton in July 1984.
11. Imports are up 41% and have increased from most countries.

	1H81 (000 N.T.)	1H84 (000 N.T.)	<u>% Increase</u>
EEC	2,405	2,668	+ 11
Japan	2,846	3,219	+ 13
Canada	1,699	1,684	- 1
All Other	1,906	4,886	+156
	<u>8,856</u>	<u>12,457</u>	<u>+ 41</u>
Domestic Shipments	48,400	39,500	- 18

Everyone is gaining at expense of U.S. producers.

12. Steel trade deficit - \$6.1 billion to date this year, or about 9% of total U.S. trade deficit.

American Iron and Steel Institute

1000 16th Street N.W., Washington, D.C. 20036

Donald H. Trautlein
Chairman

August 31, 1984

The Hon. William E. Brock
U.S. Trade Representative
Office of U.S. Trade Representative
600 17th Street, N.W. - Room 209
Washington, D.C. 20506

The Hon. Malcolm Baldrige, Jr.
Secretary of Commerce
U.S. Department of Commerce
Room 5854
Washington, D.C. 20230

Gentlemen:

Steel imports in July have skyrocketed to 33%, and are causing ever increasingly serious injury to the domestic steel industry. A current example involves the planned shipment of 120,000 tons of plates from Romania into the United States in September and October at prices of \$290-300 per ton. In addition to Romania, East Germany, Poland and Czechoslovakia are also attempting to sell plates, cold rolled sheets, galvanized sheets and other products at similarly low prices in very substantial quantities. These are simply additional examples of transactions which, if allowed to continue, will bring about the eventual liquidation of the domestic industry.

As we have discussed, we need the President to establish a Program to deal with steel imports based upon certain specific principles, including the following:

1. Products Covered - The Program should cover all steel mill products, including semifinished. All products produced by each country should be covered.
2. Countries Covered - The Program should cover foreign steel mill products imported from all foreign steel producing countries, except those whose imports are insignificant.
3. Form of Relief - The Program should provide temporary relief in the form of quantitative restrictions by product and by country. The total import quota should not, realistically, exceed 16 1/2-17 1/2% of apparent U.S. consumption, which is about the 1979-81 average.
4. Duration - The Program should provide a five year period of temporary relief to permit domestic companies to adjust and further modernize.
5. Procedures to Establish the Program - The Program should be established through Orderly Marketing Agreements, Government to Government Arrangements, or Voluntary Restraint Agreements, as may be appropriate.
6. Enforcement - The quantitative restrictions should be enforceable under the laws of the United States. A new statute will be required, similar to 19 U.S.C.A. § 1626 which covers the European Arrangement.



Hon. William A. Brock
Hon. Malcolm Baldrige, Jr.
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August 31, 1984

What is important is not the particular procedure used, but the final result and the time within which it is accomplished.

The best solution for the long term is the Fair Trade in Steel Act which would cover all steel mill products from all countries. However, taking into account all factors, including the pending legislation, the International Trade Commission 201 Investigation and Report and the trade cases (including results in place) it is reasonable to believe that application of the principles listed above should cover more than 90% of foreign steel mill imports and be concluded on a "blended" results basis. The Program, however, would have to be on the understanding that dumping, countervailing duty, and other cases could be filed, and would be aggressively processed by the Administration, with regard to imports from that limited number of countries that might not be covered by an enforceable arrangement.

Since several different procedures may be required to achieve the "blended" result, it is crucial that the Administration agree upon, and the President announce, a comprehensive Program based on the principles outlined in this letter.

It is our understanding that decisions are scheduled to be made next week with respect to the Administration's plans for dealing with the crisis in our industry. It is imperative, therefore, that there be a meeting with you as soon as possible, certainly no later than Wednesday morning, September 5. Mr. Trautlein will telephone Mr. Brock to schedule the meeting.

Best regards.

Sincerely,

Harry Haliday
Chairman
Armco Inc.

Paul Kordel
President
Carpenter Technology Corporation

Franz Kussner
Chairman and President
Inland Steel Company

Brad Jones
Chairman
LTV Steel Company

Don Trautlein
Chairman
Bethlehem Steel Corporation

Pete Love
Chairman
National Steel Corporation

Dave Rodenick
Chairman
United States Steel Corporation

Bob Raughhead
Chairman and President
Weirton Steel Corporation

Jim,

Thanks for meeting

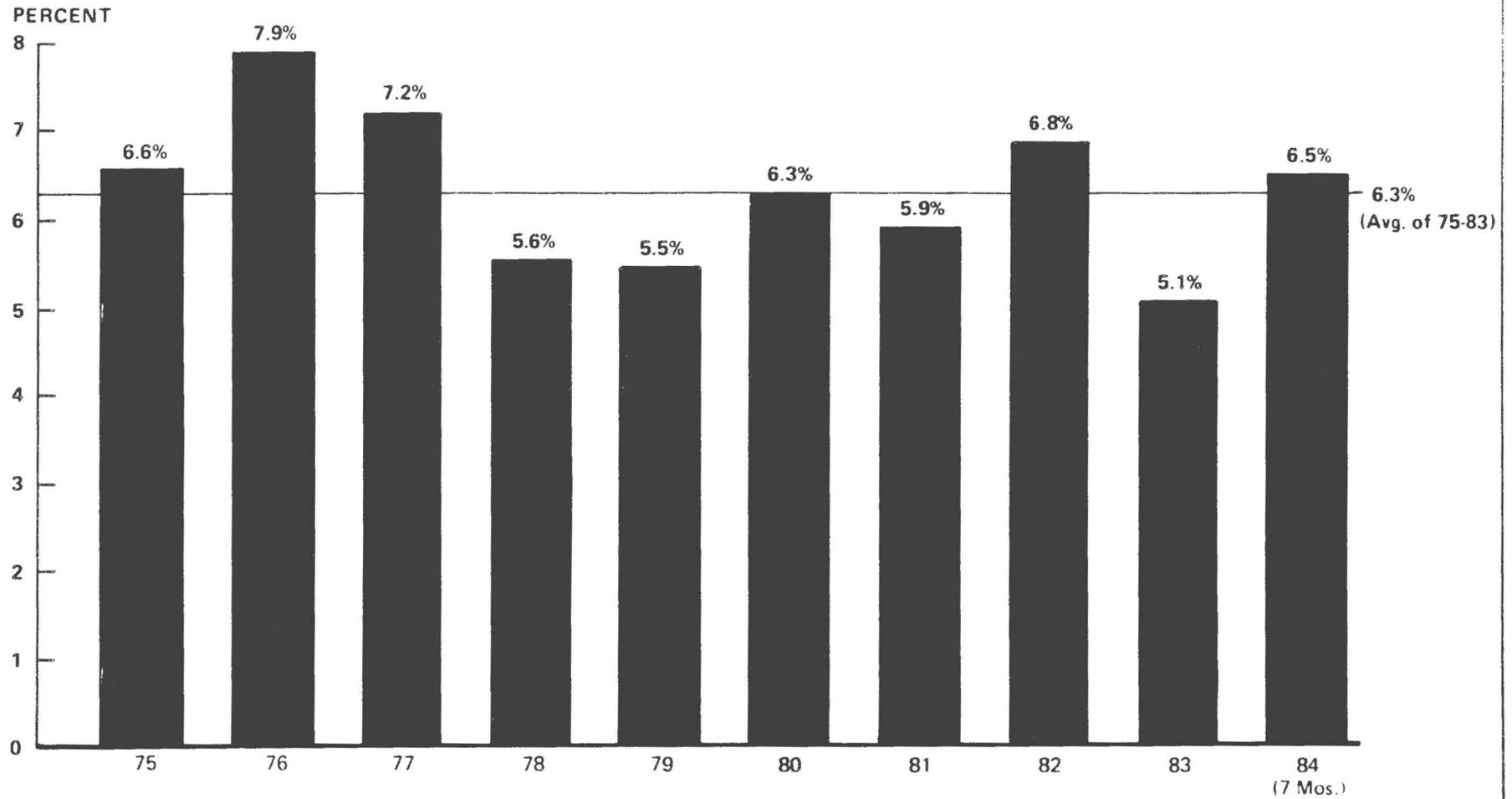
with me. I enclose a

graph of Japanese imports

(since some seem to
be raising it).

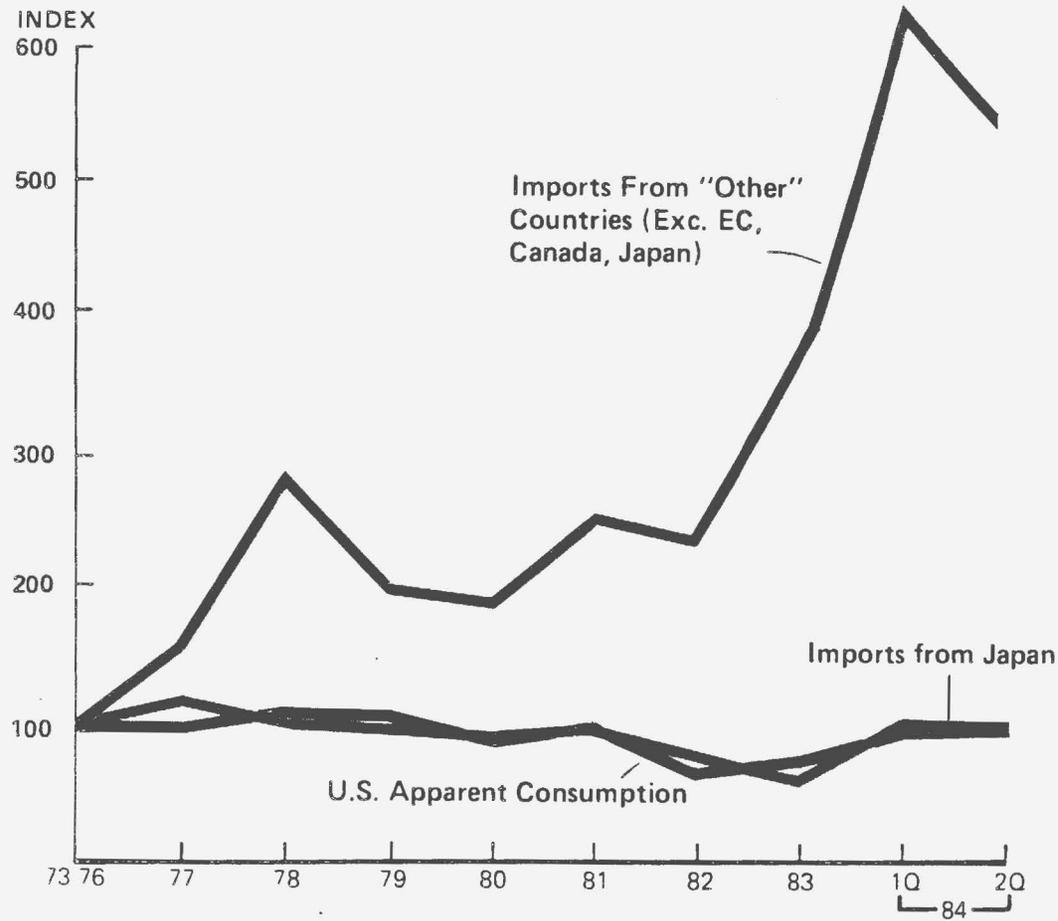
Gary Horlick

JAPAN'S SHARE OF U.S. APPARENT STEEL CONSUMPTION



Source: U.S. Dept. of Commerce

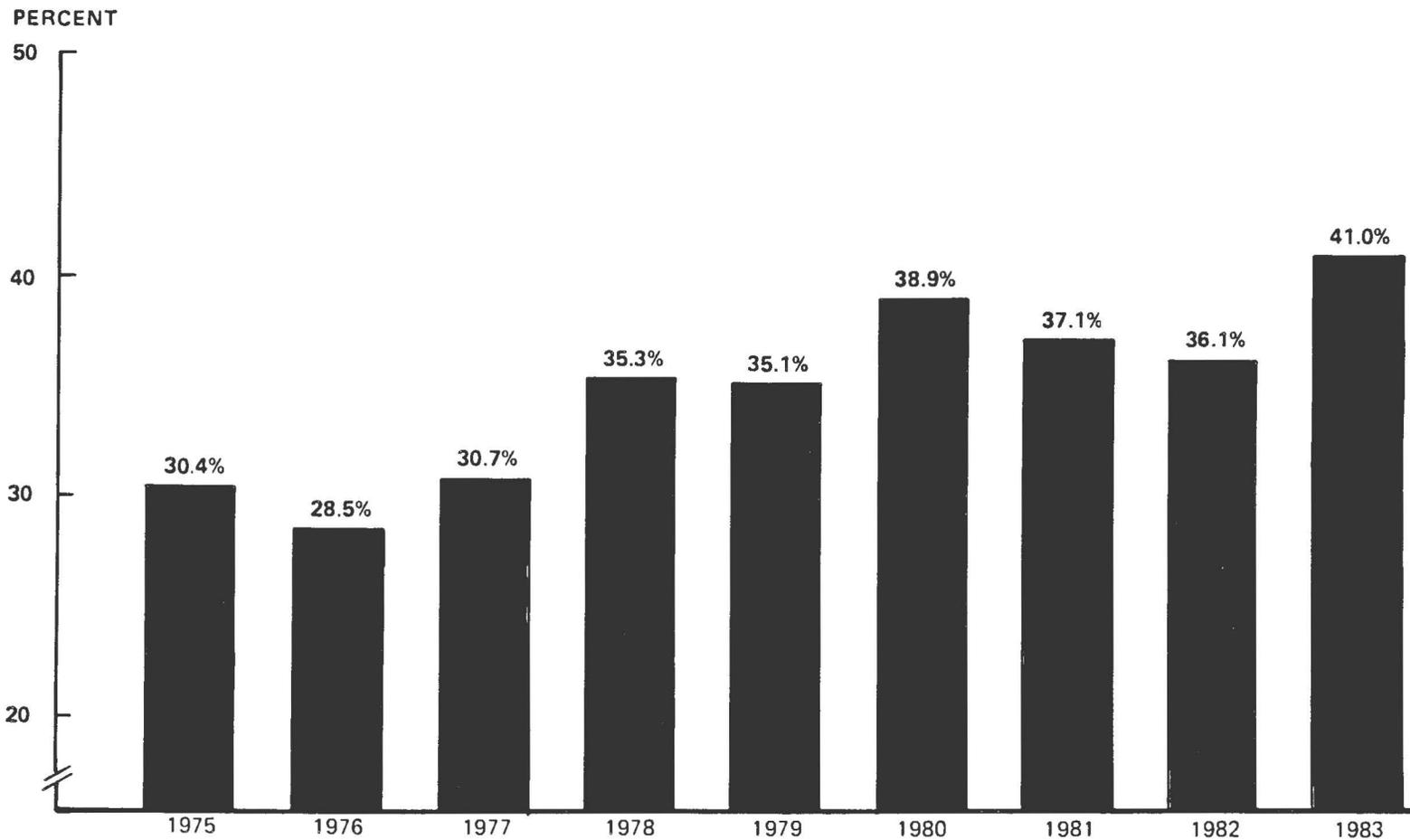
U.S. STEEL IMPORT TRENDS
 (1973 - 76 Average = 100)



Source: U.S. Dept. of Commerce

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PERCENT OF JAPAN'S U.S. STEEL IMPORTS SHIPPED TO WESTERN U.S.



Source: U.S. Dept. of Commerce

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1. The Japanese steel companies have traditionally exported steel to the U.S. in response to the American market situation.

Looking at the recent period of 1975 - 1983, the Japanese share of apparent steel consumption in the U.S. has been limited to the range of 5 - 8% and the yearly average was 6.3%.

2. In 1983, imports from Japan were at their lowest level in the last ten years, reflecting the demand drop last year. This year, they started to increase in direct response to the rapid economic recovery since the beginning of the year.

The Japanese share of U.S. apparent consumption during the first seven months of 1984 was 6.5%, which falls within Japan's traditional range.

The increase in Japanese shipments this year has been mainly to those industries in the U.S. (such as the automotive, oil and gas, and housing industries) where the recovery has been strongest. Domestic shipments in those areas have also increased.

	Rig Count	U.S. Ship- ments of Pipe and Tube	Auto Produc- tion	Housing Starts	Contracts for Non-Residential Construction	Machinery Orders
	Unit	1,000 Net Tons	1,000 Unit	1,000 Unit	Million Dollars	Million Dollars
'83 1-6 (a)	2,045	1,516	3,264	1,689	30,240	128,823
'84 1-6 (b)	2,309	2,159	4,216	1,931	34,765	160,980
(b)/(a) %	112.9	142.4	129.2	114.3	115.0	125.0

3. It is noted that there is always a certain time lag between the time of contracts which reflect the market situation in the U.S. and the time of shipments (exports) of those contracts from Japan.

Exports from Japan in June and July were of those orders that were actually placed in response to strong demand from U.S. customers in the March - May period; at that time, steel demand in the U.S. market was at an unusually high level before it slakened toward summer.

In fact, U.S. steel demand in March - May was at its highest level since the recovery started last year.

A provisional report on Japanese exports to the U.S. in August shows a decline of 17% in value from the July level.

Reports from the Japanese steel companies on the orders received from U.S. customers indicate that October - December exports will be even lower than those of July - September.



**Economic And Foreign Policy
Effects Of Voluntary Restraint
Agreements On Textiles And Steel**

B-179342

Department of State
Department of Commerce
Department of The Treasury

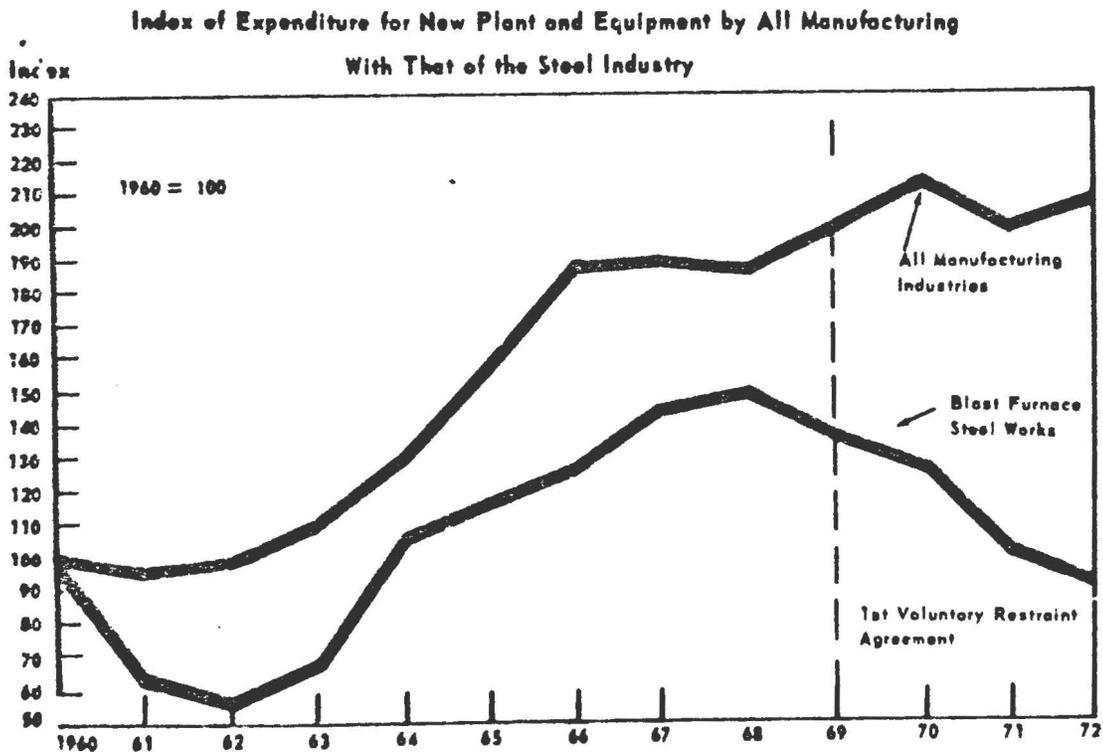
***BY THE COMPTROLLER GENERAL
OF THE UNITED STATES***

MARCH 21, 1974

STEEL

According to the Department of State, the Government's objective in negotiating the arrangements was to give the domestic steel industry an interim period in which to invest capital to improve its competitiveness with foreign producers, and thus avoid an inordinate U.S. dependence on foreign steel.

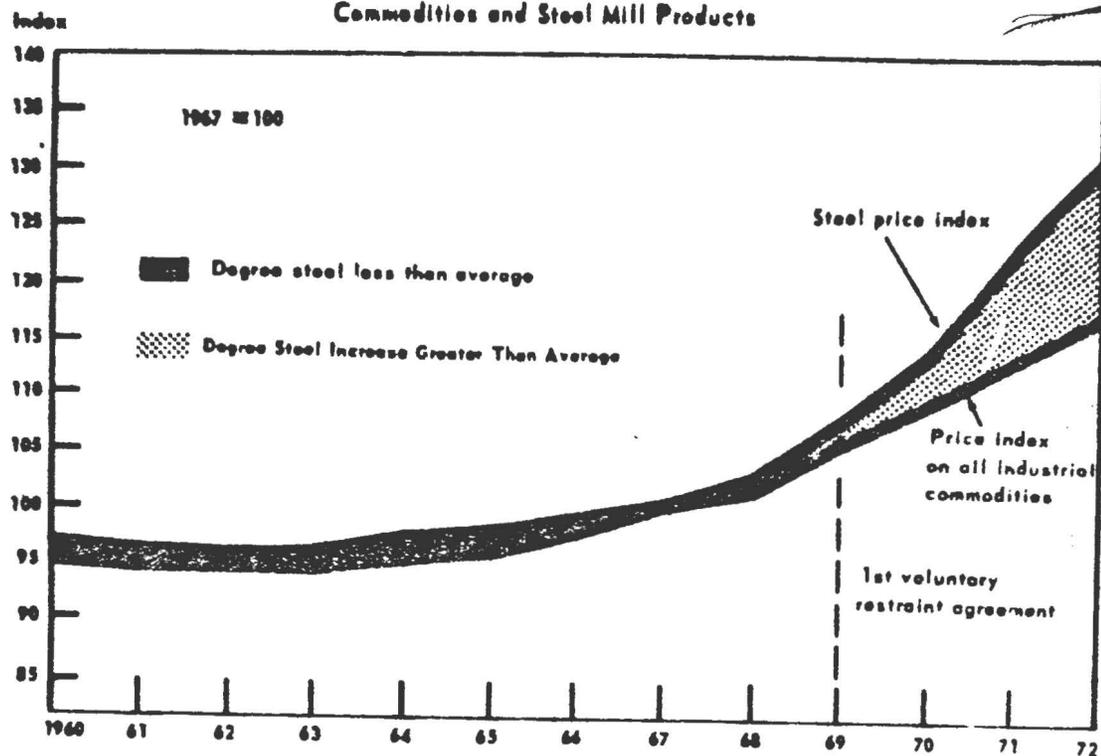
This objective has not been achieved because the steel industry has not used this period to expand its modernization programs. In fact, capital expenditures for new plant and equipment have declined since 1968 as shown in the following chart.¹



SOURCE: Prepared by GAO from information obtained from the Department of Commerce

¹A growing percentage of the capital expenditures each year is for pollution control equipment required by law rather than modernization.

Comparison of Wholesale Price Index for Industrial Commodities and Steel Mill Products



Source: Prepared by GAO from information obtained from the Department of Labor Bureau of Labor Statistics

According to domestic industry representatives, price increases are based on increased costs and are essential to profitable operations. They point to the low profit margins in the steel industry to justify the increases. Since 1968, steel industry profits have returned a 6-percent average on equity compared to an 11-percent average return for all manufacturing industries.

We could not estimate what the price of domestic steel would have been without the agreements, but we did find that 1969 arrangements reduced competition among Japanese steel companies and led to higher export prices to the U.S. market.

Japanese industry representatives stated that an exporters' association was functioning as a cartel, in some ways, before 1969 but was ineffective because of the competition for the U.S. market among Japanese steel companies. These representatives told us Japanese steel was selling between 20 percent and 25 percent lower than U.S. domestic

THE WHITE HOUSE

WASHINGTON

September 5, 1984

MEMORANDUM FOR JAMES CICCONI

FROM: ROGER B. PORTER *RBP*

SUBJECT: Steel Options

Following last week's meeting on the steel Section 201 petition, Bob Lighthizer of USTR was asked to draft statements of the two basic proposals discussed at the session. He has prepared the attached paper which outlines those two proposals and a third one which is supported by State, Treasury, and the NSC staff.

It is my understanding that this will be discussed at a meeting this morning at 10:00 a.m. in the Roosevelt Room and then with the President at a CCCT meeting tomorrow.

Attachment

5. the setting of a target for import penetration either specifically or qualitatively stated; and

6. a review after two years by the U.S. Trade Representative of the degree to which these actions have reduced unfair trade competition in domestic steel markets and the resulting progress made by the domestic industry toward adjustment.

Proposal II

This proposal would rely on existing import restraint commitments, unfair trade cases, three OMAs, and jawboning to move the level of import penetration down from its current level to a number somewhat below the 1983 level (1983=20.5 percent).

Proposal II would have the following elements.

1. The President would determine that action under Section 201 is appropriate. He would reject the proposed ITC remedy recommendation. In its place:

(a) The President would instruct the U.S. Trade Representative to negotiate orderly marketing agreements on the affirmative Section 201 products with three countries: Brazil, Korea, and Spain. The objective would be a reduction in import levels. The agreements would be for three years, renewable for two additional years. VRAs covering steel products on which there was no ITC injury determination could be simultaneously negotiated with the same three countries. Throughout the period of relief the President would have the option to order additional OMAs with countries whose exports surge.

(b) The President would adopt a somewhat liberalized ITC recommended remedy with respect to semi-finished products. This would be a tariff-rate quota that permits quantities of these products (higher than recommended by the ITC) to enter our market before the higher duty would become effective.

2. The President would direct the U.S. Trade Representative to contact the Governments of Canada and Japan and seek commitments that they exercise prudence when exporting to our market. The objective would be a reduction in their 1984 import level.

3. The U.S./EC Arrangement and the VRAs that have been announced by Mexico and South Africa would be continued.

4. The enforcement of countervailing and antidumping duty laws would address the problem of unfair imports from most other producing countries. Under existing unfair trade laws, VRAs may be appropriate alternatives to the imposition of countervailing duties, although it is not the policy to seek such restraint.

5. Administration officials would make public a target for import penetration.

6. Management and labor would commit to adjust in return for relief provided. The ITC would be asked to provide periodic reports on industry adjustment efforts.

Proposal III

This proposal would provide for the granting of relief under Section 201. The remedy of the ITC would be rejected and the President would instead order the U.S. Trade Representative to negotiate orderly marketing agreements with Brazil, Korea, and Spain, only on products on which the ITC found injury. A recent base year would be used to minimize the actual export reduction required by these countries.

The following elements are included in Proposal III.

1. Relief would be proclaimed under Section 201, but the ITC remedy would be rejected.

2. The U.S. Trade Representative would be directed to negotiate OMAS with Brazil, Korea, and Spain on products found to have been injured. The agreements would last three years but could be extended. If imports of products subject to the injury finding surge from other countries, we will consider proposing OMAS with those countries to eliminate such surges.

3. The U.S./EC Arrangement would continue as would the voluntary restraints announced by Mexico and South Africa, and as practiced by Japan. Trade with Canada is unaffected.

4. Interagency consultations would be required before the United States would accept any suspension agreement based on export restraints to settle antidumping or countervailing duty cases or would agree to drop a case based on a VRA by an exporting country.

5. The ITC would be directed to monitor the adjustment of the domestic industry and to report to the President after two years. This report would help the President decide whether to extend the relief.

6. Imports of steel (including pipe and tube) not covered by the ITC findings would be monitored by all sources, and the Administration would initiate action under Section 201 (or the unfair trade laws, if appropriate) if imports surge.

9/10/84

Steel Meeting: EM, CF, KC, JC, Brock, Baldridge, Svahn
Trantlein, Nancy Reynolds, Roderick

Don Trantlein: on "credit watch"; could mean lowered credit ratings -
credit rating of industry is largely contingent on Admin decision
"if action not taken, liquidation & losses will continue; massive new
filings of cases; renewed push for passage of quota legis."

USW Rep: concern re employment; polit pt: "union would communicate
a polit. decis in a posit way to our membership, regardless of other
political considerations"

Trantlein: domestic shipments down 18%; imports up 40%

Roderick: consid EC, Jap fairly responsible, but considers that they're in
violation of those understandings; July figures out of line
Example of Fairfield, Ala. plant = most modern, but at 1/3 of capacity

Trantlein: feels prices would not go thru the roof: might recover 10% or so,
could add \$50. to price of an alto
= wants it dealt w/ in comprehensive fashion; otherwise problem will
just shift to other countries - Comecon nations picking up now

Baldridge: various alt's known - no rec. = diff. sit. re EC, Jap, Cdns

Brock: frustration w/ fact we may not satisfy anyone
= need to approach w/ view toward investmt needs of ind for immed future
= what number is the right %?

Trantlein: clearly 24% means certid liquidation; real answer
is based on how "hard" the numbers are → does it transfer problem?
= need reasonable assurance over coming yrs that ~~whatever~~ we'll be
reas. close to whatever number we agree on: "can't allow big
loopholes for diversion = agree"

Roderick: sugg. some advance disc. of probable decis. before announcement to
avoid surprise, overly neg. reaction

June 14, 1984

REASONS WHY THE PRESIDENT SHOULD
DIRECT COMMERCE AND STR TO NEGOTIATE TRADE
SETTLEMENTS WHEN FOREIGN NATIONS
DESIRE SUCH A RESOLUTION OF LITIGATION

1. There is clear and present danger to the steel industry from imports, which are adversely affecting workers, communities, suppliers, and the very vitality of the steel industry. Such imports pose a threat to this nation's industrial base, its economic well-being, and potentially even its national security. Providing for the general welfare and national security is the direct responsibility of the President, and people expect him to preserve and protect such matters of national importance. The overall trade deficit is not sustainable at the present level, and some corrective action must be taken.

2. Steel imports specifically have become a national concern, in which there is broad base support from the electorate for the problem to be dealt with by the President; the present policy is not working and the body politic generally believes that the import problem can only be solved by creative involvement of the President.

3. The 200 members of Congress sponsoring the steel quota bill reflect the mood of the people, who desire that prompt and effective import relief be undertaken by the Administration as a matter of national self-interest and enlightened public policy.

To Avoid such tensions and conflicts with Congress over the quota bill, the President should direct the Secretary of Commerce and the Special Trade Representative to undertake negotiated import restrictions in steel cases whenever the foreign nation involved and the domestic petitioners desire such a solution to resolve the trade litigation dispute. Such action would help defuse the negative consequences that conflict with Congress over the quota bill will engender in Congress and around the country.

4. It has been argued by the Administration and was set forth in the President's letter to the American Iron and Steel Institute that a legislative quota complicates our foreign relations, diminishes the role of the United States in the GATT, undermines the principles of GATT, and raises the inevitable prospects of trade compensation being demanded by other countries. It has been argued that such international strife will be the outgrowth of such legislation.

To Avoid such foreign trade wrangling and GATT disharmony, the President should direct Commerce and STR to make direct and expeditious settlement of trade cases where foreign nations want trade peace on the basis of export limitations and the domestic petitioners involved desire the same objective. Such prompt settlements with a broad range of nations accused of dumping and subsidization would go far toward mooting the quota legislation in Congress.

5. Settlement of trade litigation on a negotiated basis with affected foreign countries would avoid the need to

provide any trade compensation under the GATT, which would be the inevitable consequence of legislative quotas or quantitative limitations imposed under a 201 proceeding. This would avoid the very real prospect of compensation being required in nonsteel-related trade, such as agriculture, chemicals, industrial equipment, etc., if a statutory quota were imposed or limitations placed on steel imports as a result of the 201.

6. The injury vote of the ITC on June 12 in the 201 proceeding may present a "no win" situation for the President. If the ITC recommends quantitative limitations, even though limited to the five steel product categories in which there were affirmative findings, the President risks grave political harm if he either rejects the ITC suggestions or if he follows them and they prove to be quite inadequate. And the President risks international tensions and demands for compensation if quantitative limitations are unilaterally imposed. There is the very real risk of the worst of all possible worlds -- presidential relief given under 201 which angers the domestic industry as being inadequate, angers affected foreign nations as being too much and discriminatory, and creates conflict in the GATT. There will be the inevitable demand by other nations for compensation in other trade areas with this country, which will pose political problems with the President with the constituency representing those industries which are the subject of trade compensation.

To Avoid these unpalatable consequences, the President should foreclose these threats by directing Commerce and the STR to actively seek settlement of trade cases under the conditions previously stated.

7. Such prompt settlements initiated by the President would enhance his image as a "take charge" chief executive in solving serious domestic problems and would bolster his reputation of taking statesmanlike action in dealing with domestic difficulties while maintaining cooperative relations with our trading partners.

8. Presidential action to resolve trade litigation on a prompt, peaceful, and effective basis would preempt the Mondale position on help for the steel industry. It would bolster the political position of the President in the heavy industrial states and would do much to stifle the Democrat claim that there must be an "industrial policy" to replace the "benign neglect" of the Administration.

9. It is essential that Secretary Baldrige and Ambassador Brock be directed to take every necessary action on a timely and continuing basis to enforce the ECSC agreement and the Japanese arrangement. Since the ECSC agreement and the Japanese arrangement were in response to unfair trade practice cases and the import problem has become even more severe, it is quite appropriate that our government should vigorously enforce these agreements and insist on strict adherence by our foreign trading partners. The imports from Europe and Japan this year

are greatly exceeding the agreements. The credibility of this Administration with the domestic industry, and indeed with the European Community and Japan, is on the line with respect to enforcement of those agreements. We cannot afford to have the domestic industry, its workers, and communities, lose faith in the ability of the Administration to deliver on its word that those arrangements would be effective and would be complied with. Neither can the Administration afford to have its major trading partners conclude that agreements with the United States can be violated while the United States stands helplessly by.

The European Community has not been able to eliminate the substantial subsidies they give to their steel industry, and their efforts to reduce them on a phaseout basis has generally been unsuccessful. The Japanese have not eliminated the bilateral agreements that were found by the STR to be violative of GATT, nor has there been a correction of the greatly undervalued yen. Therefore, it would be appropriate for Secretary Baldrige and Ambassador Brock to begin discussions with the EC and Japan looking toward an extension of those agreements, which are due to expire at the end of 1985. The EC agreement specifically provides that consultations will take place between the U.S. and the EC beginning in 1985 to review the desirability of extending the agreement. However, the timing seems most proper and appropriate for the Administration to begin the consultation process with both the EC and Japan right now.

10. Acting as a catalyst in effecting voluntary export limitations by foreign nations in settlement of international trade litigation is a proper constitutional role for the President in the conduct of foreign affairs and within his express and implied constitutional powers to deal with international relations of this country. And under the countervailing duty statute there is express authority to resolve trade disputes on the basis of quantitative limitations; furthermore, the trade statutes provide for settlement of trade cases to be accomplished by timely withdrawal of petitions by domestic producers if they are satisfied that a foreign government's response to settlement would accomplish the ultimate objective of the litigation.



D. M. RODERICK
CHAIRMAN, BOARD OF DIRECTORS

PITTSBURGH OFFICE
600 GRANT STREET
PITTSBURGH, PENNSYLVANIA 15230
412/433-1101

June 14, 1984

The Honorable James A. Baker, III
Chief of Staff and Assistant
to the President
1600 Pennsylvania Avenue, N.W.
Washington, D. C. 20500

Dear Mr. Baker:

In the past several years, U. S. Steel has undertaken far-reaching self-help measures to remain cost competitive as a supplier of quality steel in this country. We have reduced nearly 40% of our administrative staff; we have twice reduced the salaries of management employees and pared benefit costs for all of our workers; we have spent billions of dollars in streamlining our steel operations, and we have achieved remarkable cost savings and improved operating efficiencies; we have increased productivity so that measured on the basis of man-hour per ton of steel produced there is no one in the world that is any more efficient; we have reduced dividend payments to our stockholders in order to conserve much needed cash; and we have obtained meaningful help from our numerous suppliers in holding the line in reducing the costs of materials, energy, and services so that we could further advance our competitive position.

A concessionary labor contract was negotiated last year with the United Steelworkers of America which significantly curtailed the wage rate and fringe benefits. It is without parallel in its scope by any other industry in this country in reducing its labor rates with the unions. Changes in local working rules have been negotiated with the union that have helped in improving our productivity. All of this was done during the severe recession that the steel industry suffered through in 1982-83.

We at U. S. Steel have not been alone in making these major sacrifices and in improving productivity and efficiency -- all of the steel industry has done a remarkable job of self-help. We have done everything humanly possible to provide this country with a cost-competitive, world-class steel

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CHAIRMAN, BOARD OF DIRECTORS

industry; and we believe that our government must also do everything possible to assist the steel industry in dealing with its most serious problem -- steel imports. Indeed, constructive action by our government is essential to deal with the overwhelming steel import crisis.

In January of 1982, U. S. Steel and five other steel companies filed the most extensive series of antidumping and countervailing duty cases ever brought under our laws against several dozen producers in 11 countries of the world. There were a total of 132 complaints covering all the major steel products. In the vast majority of these cases, Commerce made preliminary and final determinations finding significant margins of dumping and subsidies, and final affirmative injury determinations were made by the International Trade Commission.

The cases against the Europeans were settled on the basis of an agreement between the United States and the ECSC, a major advance in the efforts undertaken by our government to deal with the serious steel import problem. Shortly thereafter, the AISI filed a Section 301 case against Japan. Although the Special Trade Representative found that agreements between Japan and several other countries violated GATT obligations, he found there was inadequate proof of injury to the United States as the result of the GATT violations. Nonetheless, the Section 301 filing served as the vehicle whereby the government of Japan announced a voluntary arrangement restraining steel exports to the U.S.; this was likewise a favorable development. It must be remembered that both the EC and Japanese arrangements are temporary in nature and will by their terms expire after just a few short years unless the governments involved choose to extend them for another year or two.

Although just a few years ago Japan and Europe were the principal steel exporters to the U.S., the decade of the 1980's saw the success of trade cases against the EC and Japan shift some of the problem to Third World countries. Although these trade cases must be filed against individual steel producers, it is a fact that nearly all of these foreign steel companies are either wholly owned by their government or their government owns a controlling equity position. In addition to the direct government ownership and control of its steel operations, the world steel situation is unique in the unprecedented government aid that is given directly and indirectly to its steel industry as a matter of social and political policy to maintain employment and preserve a steel

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CHAIRMAN, BOARD OF DIRECTORS

industrial base for the foreign nation involved. Government involvement with steel production is so pervasive that steel capacity has been wildly overbuilt without any economic justification and without regard to profitability or return on investment and most assuredly without any free market restraints on operating and selling practices. There is no other explanation for nations of the world expanding their steel industries in the face of over 200 million tons of excess world capacity. Indeed, the steel import problem today remains grave as Third World countries have rushed imports into the U.S. with a vengeance. U. S. Steel and several other steel companies have filed dozens of new antidumping and countervailing duty cases against steel producers in ten of the Third World countries. With few exceptions these trade cases have been successful in obtaining affirmative findings at both the Department of Commerce and the International Trade Commission. Despite these monumental efforts undertaken by us and others in vigorously pursuing trade litigation, the situation has become critical.

- At the end of the previous Administration, imports were taking 16.3% of the domestic market; three and one-half years after this Administration took office, imports took over 25% of our market.
- April was the fourth consecutive month that imports exceeded two million tons.
- April was the ninth consecutive month that import penetration exceeded 20% of our market.
- In the first four months of 1984 imports captured 25% of our market.
- Import tonnage during the first four months of 1984 had increased almost 100% over the first four months of 1983.
- While imports are significantly ahead of last year, our own exports are down 18% from 1983.
- In the first four months imports were 8.7 million tons -- a record high.

It is painfully apparent that litigation under our trade statutes on a product-by-product, producer-by-producer, country-by-country basis is slow, arduous, and expensive.

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CHAIRMAN, BOARD OF DIRECTORS

Although these steel producers are almost always government owned or controlled, our trade laws nonetheless require that we proceed against the individual steel producers as if they were privately owned and operated on a truly free market basis. The situation is somewhat ironic, although we basically face uneconomical foreign government competition, we nonetheless litigate with the individual steel entities. If the legal process must run to a final determination in every case, then such time consuming efforts and uncertain results just won't work in dealing with the life threatening problem of worldwide dumped and subsidized imports. Whenever our government has taken the eminently sound and pragmatic approach of settling trade litigation on the basis of negotiated import limits, such as the ECSC and Japanese arrangements, the system has worked well and trade litigation has demonstrated the potential to deal effectively with the import problem. Such government activism holds the promise of solving the import threat to the survival of the industry.

In nearly all the present trade cases, we believe the governments of the countries involved would welcome the opportunity of settling the litigation on a negotiated basis with our government by imposing import limitations patterned after the EC agreement. Many of these foreign nations sought to engage our government in negotiations, but were rebuffed because of the policy of the Administration not to involve itself in seeking settlements with these nations in a spirit of cooperation. We find this extraordinary.

Trade litigation forced to conclusion in everyone of these hundreds of cases must by the enormity of the proceedings be inadequate to deal with the global trade problems involved. Furthermore, such extensive litigation carried on over an extended period of time causes domestic political tensions, unrequited injury to the industry, and international aggravations; that just cannot be in the best interest of the United States in the proper conduct of its foreign relations. When friendly nations seek out our government to settle the festering trade disputes evidenced by trade litigation, we find it incredible that our government takes the position that a role in negotiating a sensible solution is to be avoided even though all of the parties -- domestic producers, foreign producers and foreign governments -- want our government to negotiate a settlement of the litigation.

We submit that it is perceived as an unjustified reaction when our government rejects other nations' efforts to

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seek a negotiated settlement. Such an approach offends other nations, ducks the responsibility of dealing with a critical problem, angers the domestic producers, and almost surely guarantees a defeat of meaningful relief under our trade statutes when the steel problem is global in nature. It must be kept in mind that trade cases carried to ultimate conclusion are very time-consuming and afford only prospective relief. The final determinations and entry of antidumping or countervailing duty orders are subject to administrative review on a continuing basis under our statutes and the foreign producers and importers are skillful in finding ways around final antidumping and countervailing duty orders. A negotiated import restraint by our government with the foreign governments involved would avoid most of these problems, would afford prompt and certain relief, and would be a welcome foreign policy action where the foreign government and all parties involved desperately want our government to take an active settlement role.

The strong support for the steel quota bill evidenced in Congress, where some 200 members of the House are sponsors, shows that the people of the country want our government to take an active role in dealing with the steel import problem in order to assure this nation a strong steel industry. And the 201 petition filed by Bethlehem and the United Steelworkers has raised the issue in a forum that will, in all likelihood, find some recommended solution being submitted to the President before the end of the summer. We believe that in steel trade litigation the President should deal with the import problem by engaging in bilateral negotiations where the foreign nations involved and all the parties in the case want such a solution. When everyone involved in trade litigation wants an appropriate settlement, a negotiated resolution will almost always be better for the domestic industry and will be far less trade disruptive or trade distortive than a knock down litigation battle to the end. The rationale for negotiated settlements by our government is so compelling that we have trouble understanding the reason for the present policy other than a theoretical abstraction that non-involvement constitutes the government as the champion of the free market system.

In light of the seriousness of the import situation that threatens the existence of the steel industry, we believe that all affected parties -- management, stockholders, workers, suppliers, and government -- must work to find a solution. We believe that our workers, the union, management, stockholders, and our suppliers have made important contributions to help the

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plight of the industry. To solve the import problem, we need the help of our government. Therefore, we earnestly feel that it would be timely and appropriate for the President to change the present policy of non-involvement and that he direct the Secretary of Commerce and the Special Trade Representative to negotiate with other nations to settle steel trade cases where the foreign countries involved desire such a solution. Imports have surged beyond anything we have ever known before, and the injury to our industry and workers grows as imports have now captured over 25% of this market. We therefore seek urgent action to help us cope with steel imports

Very truly yours,

 *United
States
Steel
Corporation*

D. M. RODERICK
CHAIRMAN, BOARD OF DIRECTORS

PITTSBURGH OFFICE
600 GRANT STREET
PITTSBURGH, PENNSYLVANIA 15230
412/433-1101

June , 1984

DEM KING
(412) 433-2927

The Honorable James A. Baker, III
Chief of Staff and Assistant
to the President
1600 Pennsylvania Avenue, N.W.
Washington, D. C. 20500

Dear Mr. Baker:

In the past several years, U. S. Steel has undertaken far-reaching self-help measures to remain cost competitive as a supplier of quality steel in this country. We have reduced nearly 40% of our administrative staff; we have twice reduced the salaries of management employees and pared benefit costs for all of our workers; we have spent billions of dollars in streamlining our steel operations, and we have achieved remarkable cost savings and improved operating efficiencies; we have increased productivity so that measured on the basis of man-hour per ton of steel produced there is no one in the world that is any more efficient; we have reduced dividend payments to our stockholders in order to conserve much needed cash; and we have obtained meaningful help from our numerous suppliers in holding the line in reducing the costs of materials, energy, and services so that we could further advance our competitive position.

A concessionary labor contract was negotiated last year with the United Steelworkers of America which significantly curtailed the wage rate and fringe benefits. It is without parallel in its scope by any other industry in this country in reducing its labor rates with the unions. Changes in local working rules have been negotiated with the union that have helped in improving our productivity. All of this was done during the severe recession that the steel industry suffered through in 1982-83.

We at U. S. Steel have not been alone in making these major sacrifices and in improving productivity and efficiency -- all of the steel industry has done a remarkable job of self-help. We have done everything humanly possible to provide this country with a cost-competitive, world-class steel

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industry; and we believe that our government must also do everything possible to assist the steel industry in dealing with its most serious problem -- steel imports. Indeed, constructive action by our government is essential to deal with the overwhelming steel import crisis.

In January of 1982, U. S. Steel and five other steel companies filed the most extensive series of antidumping and countervailing duty cases ever brought under our laws against several dozen producers in 11 countries of the world. There were a total of 132 complaints covering all the major steel products. In the vast majority of these cases, Commerce made preliminary and final determinations finding significant margins of dumping and subsidies, and final affirmative injury determinations were made by the International Trade Commission.

The cases against the Europeans were settled on the basis of an agreement between the United States and the ECSC, a major advance in the efforts undertaken by our government to deal with the serious steel import problem. Shortly thereafter, the AISI filed a Section 301 case against Japan. Although the Special Trade Representative found that agreements between Japan and several other countries violated GATT obligations, he found there was inadequate proof of injury to the United States as the result of the GATT violations. Nonetheless, the Section 301 filing served as the vehicle whereby the government of Japan announced a voluntary arrangement restraining steel exports to the U.S.; this was likewise a favorable development. It must be remembered that both the EC and Japanese arrangements are temporary in nature and will by their terms expire after just a few short years unless the governments involved choose to extend them for another year or two.

Although just a few years ago Japan and Europe were the principal steel exporters to the U.S., the decade of the 1980's saw the success of trade cases against the EC and Japan shift some of the problem to Third World countries. Although these trade cases must be filed against individual steel producers, it is a fact that nearly all of these foreign steel companies are either wholly owned by their government or their government owns a controlling equity position. In addition to the direct government ownership and control of its steel operations, the world steel situation is unique in the unprecedented government aid that is given directly and indirectly to its steel industry as a matter of social and political policy to maintain employment and preserve a steel

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industrial base for the foreign nation involved. Government involvement with steel production is so pervasive that steel capacity has been wildly overbuilt without any economic justification and without regard to profitability or return on investment and most assuredly without any free market restraints on operating and selling practices. There is no other explanation for nations of the world expanding their steel industries in the face of over 200 million tons of excess world capacity. Indeed, the steel import problem today remains grave as Third World countries have rushed imports into the U.S. with a vengeance. U. S. Steel and several other steel companies have filed dozens of new antidumping and countervailing duty cases against steel producers in ten of the Third World countries. With few exceptions these trade cases have been successful in obtaining affirmative findings at both the Department of Commerce and the International Trade Commission. Despite these monumental efforts undertaken by us and others in vigorously pursuing trade litigation, the situation has become critical.

- At the end of the previous Administration, imports were taking 16.3% of the domestic market; three and one-half years after this Administration took office, imports took over 25% of our market.
- April was the fourth consecutive month that imports exceeded two million tons.
- April was the ninth consecutive month that import penetration exceeded 20% of our market.
- In the first four months of 1984 imports captured 25% of our market.
- Import tonnage during the first four months of 1984 had increased almost 100% over the first four months of 1983.
- While imports are significantly ahead of last year, our own exports are down 18% from 1983.
- In the first four months imports were 8.7 million tons -- a record high.

It is painfully apparent that litigation under our trade statutes on a product-by-product, producer-by-producer, country-by-country basis is slow, arduous, and expensive.

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Very truly yours,

June 11, 1984

REASONS WHY THE PRESIDENT SHOULD
DIRECT COMMERCE AND STR TO NEGOTIATE TRADE
SETTLEMENTS WHEN FOREIGN NATIONS
DESIRE SUCH A RESOLUTION OF LITIGATION

1. There is clear and present danger to the steel industry from imports, which are adversely affecting workers, communities, suppliers, and the very vitality of the steel industry. Such imports pose a threat to this nation's industrial base, its economic well-being, and potentially even its national security. Providing for the general welfare and national security is the direct responsibility of the President, and people expect him to preserve and protect such matters of national importance.

2. Steel has become a national concern, in which there is broad base support from the electorate for the problem to be dealt with by the President; the present policy is not working and the body politic generally believes that the import problem can only be solved by creative involvement of the President.

3. The 200 members of Congress sponsoring the steel quota bill reflect the mood of the people, who desire that prompt and effective import relief be undertaken by the Administration as a matter of national self-interest and enlightened public policy.

To Avoid such tensions and conflicts with Congress over the quota bill, the President should direct the Secretary

of Commerce and the Special Trade Representative to undertake negotiated import restrictions in steel cases whenever the foreign nation involved and the domestic petitioners desire such a solution to resolve the trade litigation dispute. Such action would help defuse the negative consequences that conflict with Congress over the quota bill will engender not only in Congress but around the country.

4. It has been argued by the Administration and was set forth in the President's letter to the American Iron and Steel Institute that a legislative quota complicates our foreign relations, diminishes the role of the United States in the GATT, undermines the principles of GATT, and raises the inevitable prospects of trade compensation being demanded by other countries. It has been argued that such international strife will be the outgrowth of such legislation.

To Avoid such foreign trade wrangling and GATT disharmony, the President should direct Commerce and STR to make direct and expeditious settlement of trade cases where foreign nations want trade peace on the basis of export limitations and the domestic petitioners involved desire the same objective. Such prompt settlements with a broad range of nations accused of dumping and subsidization would go far toward mooting the quota legislation in Congress.

5. Settlement of trade litigation on a negotiated basis with affected foreign countries would avoid the need to provide any trade compensation under the GATT, which would be the inevitable consequence of legislative quotas or

quantitative limitations imposed under a 201 proceeding. This would avoid the very real prospect of compensation being required in nonsteel-related trade, such as agriculture, chemicals, industrial equipment, etc., if a statutory quota were imposed or limitations placed on steel imports as a result of the 201.

6. The pending 201 proceeding may present a "no win" situation for the President. If the ITC recommends quantitative relief, even if limited to some of the steel products, the President risks grave political harm if he either rejects the ITC suggestions or if he follows them and they prove to be quite inadequate. And the President risks international tensions and demands for compensation if quantitative limitations are unilaterally imposed. There is the very real risk of the worst of all possible worlds -- presidential relief given under 201 which angers the domestic industry as being inadequate, angers affected foreign nations as being too much and discriminatory, and creates conflict in the GATT.

To Avoid these unpalatable consequences, the President should foreclose these threats by directing Commerce and the STR to actively seek settlement of trade cases under the conditions previously stated.

7. Such prompt settlements initiated by the President would enhance his image as a "take charge" chief executive in solving serious domestic problems and would bolster his reputation of taking statesmanlike action in dealing with

domestic difficulties while maintaining cooperative relations with our trading partners.

8. Presidential action to resolve trade litigation on a prompt, peaceful, and effective basis would preempt the Mondale position on help for the steel industry. It would bolster the political position of the President in the heavy industrial states and would do much to stifle the Democrat claim that there must be an "industrial policy" to replace the "benign neglect" of the Administration.

9. Acting as a catalyst in effecting voluntary export limitations by foreign nations in settlement of international trade litigation is a proper constitutional role for the President in the conduct of foreign affairs and within his express and implied constitutional powers to deal with international relations of this country. And under the countervailing duty statute there is express authority to resolve trade disputes on the basis of quantitative limitations; furthermore, the trade statutes provide for settlement of trade cases to be accomplished by timely withdrawal of petitions by domestic producers if they are satisfied that a foreign government's response to settlement would accomplish the ultimate objective of the litigation.