EXECUTIVE SUMMARY
INVESTIGATION NO. TA-204-9

EXECUTIVE SUMMARY

BACKGROUND

On March 5, 2002, following affirmative determinations of serious injury or threat of serious injury by the Commission under section 202 of the Trade Act of 1974 (the Act), the President implemented safeguard actions to facilitate efforts by various domestic steel industries and their workers to make a positive adjustment to import competition with respect to certain steel products. The safeguard measures encompass 10 different product categories: certain carbon and alloy flat-rolled steel, tin mill products, hot-rolled bar and light shapes, cold-finished bar, rebar, certain welded pipe and tube, fittings and flanges, stainless steel bar, stainless steel rod, and stainless steel wire.

Presidential Proclamation 7529 implemented relief action in the form of tariffs and tariff-rate quotas, effective March 20, 2002, for a period of 3 years and 1 day. The principal provisions of the proclamation are detailed in the individual product discussions below. The safeguard measures apply to imports of subject steel products from all countries except Canada, Israel, Jordan, and Mexico, which have entered into free trade agreements with the United States, and most developing countries that are members of the World Trade Organization. The President's initial proclamation also excluded numerous specific products from the measures, and the U.S. Trade Representative subsequently announced three additional lists of product exclusions on July 12, 2002, August 30, 2002, and March 31, 2003. The first phased reduction of the relief action (generally, a lowering of tariffs) took effect on March 20, 2003.

The Commission instituted this monitoring investigation under section 204(a)(2) of the Act for the purpose of preparing a mid-point report to the President and the Congress regarding developments with respect to the pertinent domestic steel industries (the 10 industries producing products corresponding to those subject to the safeguard measures) since the imposition of import relief. Pursuant to section 204(a)(1) of the Act, the Commission's report includes information concerning the progress and specific efforts made by workers and firms in these domestic industries to make a positive adjustment to import competition.

The Commission collected data for the period April 2000 through March 2003 for purposes of this investigation. The final 12 months of this period, which correspond to the first year the safeguard measures were in effect, are called "the first relief year" in this Executive Summary. Descriptions below of how industry indicators changed in "the first relief year" compare data collected for the period April 2001 through March 2002, on the one hand, with data collected for the period April 2002 through March 2003, on the other.

The Commission sent questionnaires to approximately 800 firms identified as potential domestic producers of the products subject to the safeguard measures and received responses from 115 domestic producers. It sent questionnaires to approximately 300 importers and received responses from approximately 200. It also received questionnaire responses from nearly 500 U.S. purchasers, and more than 100 foreign producers.

The Commission conducted 4 days of hearings in this investigation in which it received testimony from U.S. steel producers, U.S. steel workers, foreign steel producers, U.S. importers of steel products, U.S. purchasers of steel products, and Congressional and state government witnesses. Numerous parties submitted pre-hearing and post-hearing briefs.

OVERVIEW OF U.S. AND GLOBAL STEEL DEVELOPMENTS

The United States economy was in recession from March 2001 to November 2001. In the period since imposition of the steel safeguard measures, U.S. demand for most steel products has been weak. In eight of the ten product categories subject to safeguard measures, most U.S. producers and importers reported that U.S. demand for steel has declined since March 2002; responses of market participants in the other two categories were mixed. The market participants that reported demand had declined often referred to the poor overall condition of the U.S. economy, citing in particular weak demand in those industrial sectors that use steel products. While U.S. prices for steel products generally increased for different products, albeit at different rates, many industries reported rising input costs as well.

Despite operating in a general environment of weak demand, U.S. raw steel production increased between calendar years 2001 and 2002, although it remained below 1999 and 2000 levels. U.S. steel production capacity declined in 2002 due to numerous plant closings. Because production increased while capacity declined, the capacity utilization of U.S. steel producers increased to 88.8 percent in 2002 from 79.7 percent in 2001.

The number of U.S. workers employed by manufacturers of basic steel products and in blast furnaces and steel mills declined by 17 percent and 19 percent, respectively, from 1999 through 2002. U.S. productivity, measured in tons of crude steel produced per employee, rose from 1999 to 2002.

World crude steel production also increased from calendar years 2001 to 2002, and was higher during the first quarter of 2003 than during the first quarter of 2002. During 2002, the United States remained a leading producer of raw steel, although its share of world production had fallen to 10.2 percent. By contrast, the U.S. share of world production was 12.4 percent in 1999. The concentration of the steel industry worldwide increased slightly from 1999 to 2002.

There have been considerable changes in the number and composition of U.S. steel producers both before and since imposition of the safeguard measures. Since January 1999, 31 steel companies producing products subject to the safeguard measures have filed for bankruptcy protection. Seven of these companies have sought bankruptcy court protection since imposition of the safeguard measures. Although most of these companies continued to operate while they developed and implemented reorganization plans, several have liquidated.

Since imposition of the safeguard measures, the industries producing steel products have undergone major restructuring and consolidation. The assets of several bankrupt steel producers have been acquired by other firms. For example, International Steel Group (ISG) acquired the steelmaking assets of LTV Steel (LTV), Acme Metals, and Bethlehem Steel. U.S. Steel Corp. (U.S. Steel) acquired the assets of National Steel. Nucor Corp. (Nucor) acquired the assets of Trico Steel and Birmingham Steel. In a significant merger, several producers of long products merged to form Gerdau Ameristeel.

Steel producers and the United Steelworkers of America (USWA), the principal union representing steelworkers in the United States, have negotiated groundbreaking collective bargaining agreements since imposition of the safeguard measures. In September 2002, the USWA adopted a new set of bargaining principles that it has used in subsequent labor negotiations. These principles were designed to reduce fixed costs, improve productivity, and protect retiree welfare. They served as the basis for agreements the USWA made in 2003 with ISG, U.S. Steel, and Wheeling-Pittsburgh Steel and are expected to serve as the basis for future agreements.

Many steel producers that sought bankruptcy protection have terminated or restructured employee pension and benefit programs that they had not fully funded. The USWA-ISG collective bargaining agreement discussed above contains provisions pertaining to some of the pension and benefit costs of the bankrupt producers whose assets ISG acquired. Since March 2002, the Pension Benefit Guaranty Corporation (PBGC), a U.S. government agency, has taken over pension plans of nine U.S. producers of steel subject to the safeguard measures. The estimated unfunded pension liabilities that the PBGC assumed from these producers exceeds $8 billion. Problems among U.S. steel producers pertaining to unfunded employee benefit liabilities are not, however, limited to bankrupt firms. In 2002, publicly-held steel producers whose reports the Commission examined stated that their total unfunded pension liabilities exceeded $8 billion and their unfunded liabilities of other post-employment benefits were almost $12 billion. Both these amounts were significantly higher than in 2001, the latest year these companies' pension benefits were fully funded.

State and local governments have implemented relatively few new programs to benefit steel producers since imposition of the safeguard measures, and the Federal government has implemented no such measures. By contrast, two federal and eight state programs were implemented between 1998 and 2002. The United States has been an active participant in multilateral discussions seeking to address overcapacity and steel subsidies coordinated by the Organisation for Economic Co-Operation and Development. As of July 2003, elements of an agreement for reducing or eliminating subsidies had been roughly defined, although further work remained to conclude the agreement.

CARBON AND ALLOY FLAT STEEL

The flat steel product categories subject to safeguard measures are certain carbon and alloy flat-rolled steel and tin mill products (tin). Developments in import trends, industry conditions, and pricing are summarized separately for these two product categories. Because several U.S. producers produce steel in both product categories, their adjustment efforts are discussed collectively.

Certain Carbon and Alloy Flat-Rolled Steel

There are several forms of certain carbon and alloy flat-rolled steel that vary by the nature of their processing. The semifinished form is slab. Further processed forms include plate, hot-rolled steel, cold-rolled steel, and coated steel. The Presidential Proclamation imposed the following safeguard measures on different forms of certain carbon and alloy flat-rolled steel:

- For slab, there is a tariff rate quota (TRQ) of 4.90 million metric tons (5.40 million short tons) in the first year of the measure, 5.35 million metric tons (5.90 million short tons) in the second year, and 5.81 million metric tons (6.40 million short tons) in the third year, with no increase in duties for imports below the within-quota level and an increase in duties of 30 percent *ad valorem* for imports above the within-quota level in the first year of the measure, 24 percent in the second year, and 18 percent in the third year.

- For the remaining forms of certain carbon and alloy flat-rolled steel, there is an increase in duties of 30 percent *ad valorem* in the first year of the measure, reduced to 24 percent in the second year, and to 18 percent in the third year.

In the first relief year, total imports increased, as the increase in imports from sources not covered by the safeguard measure was greater than the decline in imports from covered sources. The quantity of total imports increased from 15,998,677 short tons to 17,166,839 short tons, and their market share increased from 8.4 percent to 8.5 percent. Imports from countries covered by the safeguard measure declined from 11,065,158 short tons to 8,366,746 short tons, and their market share declined from 5.8 percent to 4.1 percent. The quantity of U.S. imports from countries not covered by the safeguard measure increased from 4,933,519 short tons to 8,800,093 short tons, and their market share increased from 2.6 percent to 4.4 percent. Imports from Canada and Mexico accounted for the bulk of the increase.

Semifinished forms of certain carbon and alloy flat-rolled steel are used to make further processed forms of the product. Further processed forms are used in such end-use applications as transportation equipment (such as automobiles, rail cars, and ships and barges), construction, appliances, heavy machinery, and machine parts. During the first relief year, demand for the end-use products in which certain carbon and alloy flat-rolled steel is used either rose very modestly or declined. The value of U.S. manufacturers' shipments of transportation equipment increased by 0.7 percent between the first quarter of 2002 and the first quarter of 2003. During the same period, the value of U.S. nonresidential construction that was put in place declined by 4.8 percent. Most of the responding U.S. producers and importers cited general weakness in the U.S. economy, as well as weaknesses in such sectors as automotive, construction, and capital goods, in reporting that demand for steel has decreased since March 2002.

Although growth in demand was at most modest and total imports increased, output-related indicators for the domestic industry such as production and shipments increased in the first relief year. Production increased by 6.8 percent and the quantity of U.S. shipments increased by 6.0 percent. Capacity utilization increased modestly in the first relief year, as the industry's capacity levels were affected by shutdowns of some mills, and the subsequent reorganization and restarting of certain operations. Employment declined by 10.0 percent in the first relief year. Productivity increased from 830.1 to 934.1 short tons per 1,000 hours in the first relief year. By contrast, for the period from April 2000 to March 2001, productivity was 771.2 short tons per 1,000 hours.

The average unit values (AUVs) that the industry received for commercial sales increased from $366 to $413 in the first relief year. Cost of goods sold (COGS) declined on a unit basis, notwithstanding an increase in unit raw materials costs. Because unit revenues increased while unit costs declined, and output increased, the industry's financial performance improved in the first relief year. Its operating margin in the first relief year was 3.1 percent. By contrast, the domestic industry recorded operating losses in the two prior 12-month periods for which the Commission collected data in this investigation.

The Commission collected quarterly pricing data for eight different products in the certain carbon and alloy flat-rolled steel category. Prices for most of these products increased sharply in the second and third quarters of 2002, following imposition of the safeguard measures, and then declined somewhat during the first quarter of 2003. For each of the products, prices for the domestically produced product were higher during the first quarter of 2003 than during the first quarter of 2002. For all but one of the eight domestically produced products, however, the first quarter 2003 price was below that of the second quarter of 2000. The trends in prices for most imports were similar, regardless of whether the imports were from sources covered or not covered by the safeguard measure. Prices increased from the first quarter of 2002 to the first quarter of 2003 for imports from sources covered by the safeguard measure for six of the eight products. During this period, prices for imports from sources not covered by the safeguard measure increased for six of the seven products for which observations were available. During the first relief year, imports from sources covered by the safeguard measure undersold the domestically produced product in 11 of 31 quarterly comparisons. Imports from sources not covered by the safeguard measure undersold the domestically produced product in 21 of 28 quarterly comparisons.

Tin

The Presidential Proclamation included an increase in duties on tin of 30 percent *ad valorem* in the first year of the measure, reduced to 24 percent in the second year, and to 18 percent in the third year.

In the first relief year, total imports of tin, as well as imports from covered sources, declined sharply, while imports from sources not covered by the safeguard measure increased. The quantity of total imports declined from 581,523 short tons to 326,280 short tons, and their market share fell from 16.8 percent to 9.6 percent. Imports from countries covered by the safeguard measure decreased from 437,045 short tons to 165,059 short tons, and their market share declined from 12.6 percent to 4.9 percent. The quantity of U.S. imports from countries not covered by the safeguard measure increased from 144,479 short tons to 161,221 short tons, and their market share rose from 4.2 percent to 4.7 percent.

Tin is used primarily in the manufacture of welded can containers for food, beverages, aerosols, and paint. During the first relief year, U.S. demand for tin was weak. The quantity of U.S. manufacturers' shipments of steel cans for food declined by 3.8 percent between the first quarter of 2002 and the first quarter of 2003. U.S. tin producers provided mixed responses when asked whether demand for steel products has increased since imposition of the safeguard measure, while most importers stated that demand had declined.

In the first relief year, the domestic industry increased its share of the U.S. market from 83.2 percent to 90.4 percent. Despite declining demand, output-related indicators such as production and shipments increased in the first relief year. These increases, however, were only sufficient to put production and shipments at roughly the same level they were in the period from April 2000 to March 2001. Capacity utilization increased from 78.1 percent to 88.0 percent in the first relief year. The capacity of the U.S. tin industry declined by 2.3 percent. Employment declined by 9.3 percent and productivity increased by 16.9 percent in the first relief year. There were fewer reporting tin producers in the first relief year than in the preceding 12-month period.

The AUVs that the tin industry received for commercial sales increased from $589 to $596 in the first relief year. COGS declined on a unit basis, notwithstanding an increase in unit raw material costs. Despite these improvements, as well as increased output, the industry continued to operate unprofitably. Its operating margin moved from negative 9.7 percent to negative 4.4 percent in the first relief year.

Quarterly prices for the domestically produced tin product for which the Commission collected pricing data rose by 1.8 percent from the first quarter of 2002 to the first quarter of 2003; the first quarter 2003 price differed only slightly from that of the second quarter of 2000. Prices declined for imports of this product from sources covered by the safeguard measure, as well as sources not covered, from the first quarter of 2002 to the first quarter of 2003. During the first relief year, imports from sources covered by the safeguard measure undersold the domestically produced product in two of four quarterly comparisons, and imports from sources not covered by the measure undersold the domestically produced product in all four quarterly comparisons.

Adjustment Efforts of the Industries Producing Flat Steel Products

Pursuant to section 204(a)(1) of the Act, the Commission collected information concerning the progress and specific efforts made by workers and firms to make a positive adjustment to import competition. During the section 201 investigation, the individual producers of certain carbon and alloy flat-rolled steel and tin submitted adjustment plans that included: (1) restoring financial stability; (2) investing in more efficient facilities and equipment; (3) developing new products and markets; and (4) pursuing market-based consolidation and rationalization.

Since the safeguard measures went into effect, there has been extensive restructuring of the domestic industries producing certain carbon and alloy flat-rolled steel and tin. There are fewer domestic producers. Four of the largest U.S. producers of certain carbon and alloy flat-rolled steel and tin – Bethlehem, National, LTV, and U.S. Steel – have been consolidated into two companies, which are now owned by ISG and U.S. Steel. ISG, U.S. Steel, and Nucor have invested a total of $3 billion to restructure and consolidate the industries by purchasing the assets of other companies. ISG was formed in March 2002 and purchased assets of producers LTV, Acme, and Bethlehem in 2002 and 2003. Nucor expanded by purchasing the assets of idled producer Trico Steel Company in July 2002. U.S. Steel finalized its purchase of National Steel in May 2003.

As part of the restructuring process, the USWA has reached innovative new collective bargaining agreements with several producers, including ISG, U.S. Steel, and Wheeling-Pittsburgh. USWA membership has ratified all three agreements. The agreements are designed to achieve goals such as reducing fixed costs, improving productivity, and protecting retiree welfare. For example, the agreement with ISG: (1) permits the company to cut the workforce by 40 percent, and includes a $125 million transition assistance program, (2) reduces job classifications from over 30 to five, (3) increases employee job flexibility and training programs, (4) introduces profit sharing, (5) restricts executive compensation, (6) requires company investment to maintain competitiveness, and (7) establishes a benefit trust to provide some health-care relief to retirees. Additionally, Weirton Steel Corp. and the Independent Steelworkers Union entered into a collective bargaining agreement in 2003 that provides for pay cuts and a pension plan freeze.

Additionally, several domestic producers have made or authorized capital investments, which in the aggregate exceed $500 million, to upgrade existing facilities and invest in new technologies to reduce costs and improve product quality. For example, U.S. Steel has invested $200 million, half of which is dedicated to steelmaking (i.e., blast furnace and basic oxygen furnace) operations. ISG invested $53 million to start up and begin modernizing its purchased LTV and Acme facilities; it recently announced investments of $272 million in its Burns Harbor facility. Nucor, Ispat Inland, and Gallatin have also committed significant funds to capital investments.

The legislative history of Section 204 of the Act directs that adjustment efforts should be evaluated in light of existing economic conditions. Domestic producers of certain carbon and alloy flat-rolled steel and tin described several factors that affected their adjustment efforts. As referenced in the product-specific discussions above, because of the condition of the U.S. economy, demand for these products was weak during the first relief year. Additionally, imports from countries not covered by the safeguard remedies increased. Further, several producers that are significant slab purchasers claimed that the measure on slab adversely affected the rolling capacity of the industry producing certain carbon and alloy flat-rolled steel. Other producers did not agree that the TRQ on slab was hurting the industry's adjustment efforts, noting that the quota has not been fully utilized, domestic sales of slab have increased, and rerollers' profitability has increased.

Parties opposed to the safeguard measures acknowledged that the domestic industries producing certain carbon and alloy flat-rolled steel and tin have restructured and consolidated, and that producers and labor had negotiated new collective bargaining agreements. They contended, however, that these changes were not the result of the safeguard measures. They argued that the safeguard measures had harmed steel users, and that a continuation of relief would hamper further rationalization and removal of inefficient capacity.

CARBON AND ALLOY LONG STEEL

The long steel product categories subject to safeguard measures are hot-rolled bar and light shapes (hot bar), cold-finished bar (cold bar), and rebar. Developments in import trends, industry conditions, and pricing are summarized separately for the three product categories. Because several U.S. producers produce more than one of these product categories, their adjustment efforts are discussed collectively.

Hot Bar

The Presidential Proclamation included an increase in duties on hot bar of 30 percent *ad valorem* in the first year of the measure, reduced to 24 percent in the second year, and to 18 percent in the third year.

In the first relief year, total imports of hot bar, as well as imports from covered sources, declined, while imports from sources not covered by the safeguard measure increased. The quantity of total imports declined from 1,989,880 short tons to 1,907,404 short tons, and their market share fell from 20.4 percent to 19.0 percent. Imports from countries covered by the safeguard measure decreased from 708,271 short tons to 480,517 short tons, and their market share declined from 7.2 percent to 4.8 percent. The quantity of U.S. imports from countries not covered by the safeguard measure increased from 1,281,609 short tons to 1,426,887 short tons, and their market share rose from 13.1 percent to 14.2 percent.

Major U.S. markets for hot bar are in automotive and construction applications. Hot bars are used in the production of parts of bridges, buildings, ships, agricultural implements, motor vehicles, road building equipment, and machinery. During the first relief year, demand in these segments either rose very modestly or declined. The value of U.S. manufacturers' shipments of transportation equipment increased by 0.7 percent between the first quarter of 2002 and the first quarter of 2003. During the same period, the value of U.S. nonresidential construction put in place declined by 4.8 percent, and the value of U.S. manufacturers' shipments of carbon steel forgings declined by 1.9 percent. Most of the responding U.S. producers and importers cited weakness in demand for vehicle parts, appliances, construction, and machinery in reporting that demand for steel has decreased since March 2002.

In the first relief year, the domestic industry increased its share of the U.S. market from 79.6 percent to 81.0 percent. Despite growth in demand that was at most weak, output-related indicators such as production and shipments increased in that period. They were, however, lower than they were in the period from April 2000 to March 2001. Capacity utilization increased modestly from 71.6 percent to 72.3 percent in the first relief year, but was below the 77.0 percent level of the period from April 2000 to March 2001. Capacity levels were affected by shutdowns of some mills and the subsequent reorganization and restarting of certain operations. Employment declined and productivity increased in the first relief year.

The AUVs that the industry received for commercial sales increased from $384 to $391 in the first relief year, but were still below the $409 AUV for the period from April 2000 to March 2001. COGS increased less on a unit basis than did AUVs. In the first relief year, unit raw materials costs increased sharply, but unit labor and other factory costs declined. Because unit revenues increased at a greater rate than unit costs, and output increased, the industry's financial performance improved in the first relief year. Its operating margin increased from 1.6 percent to 3.0 percent. The latter margin, however, was below the industry's 4.4 percent operating margin in the period from April 2000 to March 2001.

Quarterly prices for the domestically produced hot bar product for which the Commission collected pricing data rose by 8.1 percent from the first quarter of 2002 to the first quarter of 2003, but the first quarter 2003 price was below that of the second quarter of 2000. Prices increased from the first quarter of 2002 to the first quarter of 2003 for imports of this product from sources covered by the safeguard measure as well as sources not covered by the measure. In the first relief year, imports from sources covered by the safeguard measure, and from sources not covered, oversold the domestically produced product in every quarterly comparison.

Cold Bar

The Presidential Proclamation included an increase in duties on cold bar of 30 percent *ad valorem* in the first year of the measure, reduced to 24 percent in the second year, and to 18 percent in the third year.

In the first relief year, total imports of cold bar declined, while imports from covered sources declined sharply, and imports from sources not covered by the safeguard measure increased. The quantity of total imports declined from 266,423 short tons to 209,607 short tons, and their market share decreased from 15.7 percent to 12.2 percent. Imports from countries covered by the safeguard measure fell from 181,738 short tons to 99,304 short tons, and their market share declined from 10.7 percent to 5.8 percent. The quantity of U.S. imports from countries not covered by the safeguard measure increased from 84,685 short tons to 110,302 short tons, and their market share increased from 5.0 percent to 6.4 percent. Imports from Canada were responsible for the bulk of this increase.

Automotive and construction applications provide major U.S. markets for cold bar. Demand for transportation equipment increased by 0.7 percent between the first quarter of 2002 and the first quarter of 2003. By contrast, during this period the value of U.S. nonresidential construction put in place decreased by 4.8 percent. Most of the responding U.S. producers and importers cited weakness in demand, particularly in the construction and capital goods sectors, in reporting that demand for steel has decreased since March 2002.

In the first relief year, the domestic industry increased its share of the U.S. market from 84.3 percent to 87.8 percent. Despite weak to non-existent growth in demand, output-related indicators such as production and shipments increased in the first relief year. They were lower, however, than they were in the period from April 2000 to March 2001. Capacity utilization increased slightly from 54.5 percent to 55.1 percent in the first relief year. The latter level was considerably below the 67.2 percent capacity utilization for the period from April 2000 to March 2001. As with hot bar, capacity levels were affected by shutdowns and restarting of certain operations. Employment declined by 11.0 percent in the first relief year, and productivity increased by 17.4 percent.

The AUVs that the industry received for commercial sales increased only modestly, from $646 to $649, in the first relief year. These values were below the $670 AUV for the period from April 2000 to March 2001. Unit COGS declined in the first relief year, notwithstanding an increase in unit raw materials costs. Because unit revenues increased while unit COGS declined, and output increased, the cold bar industry's financial performance improved in the first relief year. Its operating margins increased from negative 0.4 percent to positive 1.5 percent. The latter figure was still below the modest 2.5 percent operating margin the industry recorded during the period from April 2000 to March 2001.

The Commission collected quarterly pricing data for two cold bar products. Prices for the first product increased by 1.2 percent from the first quarter of 2002 to the first quarter of 2003, and prices for the second product increased by 3.6 percent over the same period. Prices for both products were lower in the first quarter of 2003 than they were in the second quarter of 2000. Prices of imports from sources covered by the safeguard measure increased from the first quarter of 2002 to the first quarter of 2003 for both products; during this period, there were only isolated pricing observations of imports from sources not covered by the safeguard measure. During the first relief year, imports from sources covered by the measure undersold the domestically produced product in five of eight quarterly comparisons.

Rebar

The Presidential Proclamation included an increase in duties on rebar of 15 percent *ad valorem* in the first year of the measure, reduced to 12 percent in the second year, and to 9 percent in the third year.

In the first relief year, total imports of rebar declined, imports from covered sources declined sharply, and imports from sources not covered by the safeguard measure increased. The quantity of total imports declined from 1,851,865 short tons to 1,034,251 short tons, and their market share fell from 22.5 percent to 13.4 percent. Imports from countries covered by the safeguard measure decreased from 1,367,171 short tons to 304,938 short tons, and their market share declined from 16.6 percent to 4.0 percent. The quantity of U.S. imports from countries not covered by the safeguard measure increased from 484,694 short tons to 729,313 short tons, and their market share rose from 5.9 percent to 9.5 percent. There were particularly large increases in imports from Brazil, the Dominican Republic, and Egypt.

Rebar is used for structural reinforcement within cast concrete structures. Consequently, changes in demand for rebar are derived from and reflect changes in construction activity. The value of nonresidential construction put in place decreased by 4.8 percent between the first quarter of 2002 and the first quarter of 2003. Most responding U.S. producers and importers of rebar cited the weak construction market and reduced government spending on transportation projects in reporting that demand for steel has decreased since the imposition of safeguard measures.

In the first relief year, the domestic industry increased its share of the U.S. market from 77.5 percent to 86.6 percent. Because of its increased market share, the domestic industry showed increases in output-related indicators such as production and shipments in that period notwithstanding the decline in U.S. demand for rebar. U.S. rebar producers' capacity showed little change in the first relief year, increasing by 0.5 percent, and may have been affected by shutdowns. Because production increased while capacity changed only slightly, capacity utilization increased from 79.4 percent to 82.6 percent in the first relief year. Employment declined by 2.7 percent in the first relief year as productivity increased by 5.7 percent.

The AUVs that the industry received for commercial sales declined from $265 to $260 in the first relief year. Unit COGS increased on a unit basis from $237 to $247. This reflected a sharp increase in unit raw materials costs; by contrast, unit labor and other factory costs declined in the first relief year. Although the industry's total sales revenues increased in the first relief year because of its increase in shipments, the concurrent declines in unit revenues and increases in unit costs adversely affected the industry's operating margins. The operating margin declined from positive 3.8 percent to negative 0.7 percent in the first relief year. Additionally, the number of firms reporting operating losses increased.

Quarterly prices for the domestically produced rebar product for which the Commission collected pricing data increased by 0.2 percent from the first quarter of 2002 to the first quarter of 2003. The price for this product in the first quarter of 2003 was below its level in the second quarter of 2000. Prices of imports of this product from both sources covered by the safeguard measure and those not covered by the safeguard measure increased from the first quarter of 2002 to the first quarter of 2003. During the first relief year, imports from sources covered by the measure undersold the domestically produced product in all 4 quarterly comparisons. Imports from sources not covered by the measure undersold the domestically produced product in three of four quarterly comparisons.

Adjustment Efforts of the Industries Producing Long Steel Products

Pursuant to section 204(a)(1) of the Act, the Commission collected information concerning the progress and specific efforts made by workers and firms to make a positive adjustment to import competition. During the section 201 investigation, the individual producers of hot bar, cold bar, and rebar submitted adjustment plans that included: (1) making capital expenses to enhance efficiency and reduce costs; (2) resuming a more normal scope and pace of operations by increasing productive shifts, rehiring laid off workers, or paying down debt; and (3) installing equipment designed to permit producers to offer new product lines.

Since the safeguard measures have gone into effect, the U.S. hot bar, cold bar, and rebar industries have restructured. Most notably, there have been several mergers and acquisitions among the producers of these products; established producers of long products have spent over $700 million to acquire the assets of other producers. In particular, Nucor Corp., the largest U.S. producer of steel using the electric arc furnace, or "minimill," method, has acquired the assets of two separate producers that produce hot bar and rebar, although it has not reactivated all the assets that it has acquired. The North American operations of Gerdau combined with Co-Steel, to form Gerdau AmeriSteel, now the second-largest North American minimill producer. A major producer of hot bar and cold bar, Republic, restructured and emerged from bankruptcy, having reduced its hot bar capacity and closed permanently three cold bar facilities. Republic also entered into a new competitive labor agreement with its steelworkers that includes significant changes to work rules and incentive plans. Several companies have invested substantial sums in new technologies and made capital improvements. For example, Nucor totally revamped its Texas melt shop and improved finishing areas in several of its mills. Republic upgraded its Lorain, Ohio, plant to replace an inefficient facility it shuttered. North Star installed new rolling mill drivers and completed the first phase of a caster upgrade at its St. Paul, Minnesota, facility.

The legislative history of Section 204 of the Act directs that adjustment efforts should be evaluated in light of existing economic conditions. Domestic producers of hot bar, cold bar, and rebar described several factors that hindered their adjustment efforts. First, as referenced in the product-specific discussions above, demand for these products was weak during the first relief year. Second, prices rose only moderately for hot bar and cold bar, and were flat to declining for rebar. Third, raw materials costs rose steadily and adversely affected profitability.

In commenting on the adjustment efforts of the hot bar, cold bar, and rebar industries, parties opposed to the safeguard measures acknowledged that U.S. producers in these industries have achieved strong gains in productivity since imposition of the safeguard measures. They also acknowledged that there has been a significant degree of consolidation in these industries. Some of the parties, however, contended that these industries still have excess capacity, and expressed concern regarding the possible reopening of closed facilities.

CARBON AND ALLOY TUBULAR STEEL

The tubular steel product categories subject to safeguard measures are welded pipe and tube and fittings and flanges (fittings). Developments in import trends, industry conditions, and pricing are summarized separately for the two product categories. The adjustment efforts of the U.S. welded pipe and tube and fittings industries are discussed collectively.

Welded Pipe and Tube

The Presidential Proclamation included an increase in duties on welded pipe and tube of 15 percent *ad valorem* in the first year of the measure, reduced to 12 percent in the second year, and to 9 percent in the third year.

In the first relief year, total imports of welded pipe and tube declined, imports from covered sources declined sharply, and imports from sources not covered by the safeguard measure increased. The quantity of total imports declined from 2,988,231 short tons to 2,327,495 short tons, and their market share fell from 42.7 percent to 37.1 percent. Imports from countries covered by the safeguard measure decreased from 1,583,353 short tons to 809,695 short tons, and their market share declined from 22.6 percent to 12.9 percent. The quantity of U.S. imports from countries not covered by the safeguard measure increased from 1,404,878 short tons to 1,517,800 short tons, and their market share rose from 20.1 percent to 24.2 percent. There were substantial increases in imports from India, Turkey, and to a lesser extent, Mexico.

Welded pipe and tube is used in industrial, construction, automotive, and power generation applications, as well as in the oil market. Economic activity in the principal markets for welded pipe and tube generally declined during the first relief year. The value of U.S. construction of utilities, pipelines, and railroads put in place decreased by 5.1 percent from the first quarter of 2002 to the first quarter of 2003, and the value of U.S. nonresidential construction put in place decreased by 4.8 percent during this period. Most of the responding U.S. producers and importers cited poor economic conditions, particularly in the construction market and capital goods sectors, in reporting that demand for steel has decreased since March 2002.

In the first relief year, the domestic welded pipe and tube industry increased its share of the U.S. market from 57.3 percent to 62.9 percent. However, because of declining demand, the industry's output-related indicators were mixed. Production increased modestly in the first relief year, while the quantity of shipments declined modestly. Capacity utilization declined from 54.8 percent to 52.9 percent in the first relief year. Capacity levels were affected by the closure and opening of certain facilities. Employment increased in the first relief year, but productivity declined.

The AUVs that the industry received for commercial sales increased from $555 to $599 in the first relief year. The latter value was still below the $602 AUV for the period from April 2000 to March 2001. Unit COGS increased in the first relief year, due principally to an increase in unit raw material costs. Because unit costs increased by a greater degree than unit revenues, and the industry's sales volumes declined, its financial performance declined as well. The industry's operating margins declined from 5.4 percent to 3.3 percent. By contrast, the industry's operating margin was 5.7 percent during the period from April 2000 to March 2001.

The Commission collected quarterly pricing data for two welded pipe and tube products. Prices for the first product increased by 17.7 percent from the first quarter of 2002 to the first quarter of 2003, and prices for the second product increased by 14.5 percent over the same period. Prices for both products, however, were lower in the first quarter of 2003 than they were in the second quarter of 2000. Prices of both imported products increased from the first quarter of 2002 to the first quarter of 2003 from sources covered by the safeguard measure as well as from sources not covered by the safeguard measure. During the first relief year, imports from sources covered by the safeguard measure and imports from sources not covered by the measure undersold the domestically produced product in every quarterly comparison.

Fittings

The product category fittings encompasses fittings and flanges. The Presidential Proclamation included an increase in duties on fittings of 13 percent *ad valorem* in the first year of the measure, reduced to 10 percent in the second year, and to 7 percent in the third year.

In the first relief year, the quantity of total imports of fittings, imports from sources subject to the safeguard measure, and imports from sources not subject to the safeguard measure all declined, and the market share of total imports and imports from sources subject to the safeguard measure also declined. The quantity of total imports fell from 171,923 short tons to 131,121 short tons, and their market share decreased from 63.6 percent to 60.1 percent. Imports from countries covered by the safeguard measure declined from 136,164 short tons to 99,573 short tons, and their market share decreased from 50.4 percent to 45.6 percent. The quantity of U.S. imports from countries not covered by the safeguard measure declined from 35,759 short tons to 31,549 short tons, but their market share increased from 13.2 percent to 14.5 percent.

Demand for fittings is driven principally by demand in the utilities and construction sectors. Economic activity in the principal markets for fittings generally declined during the first relief year. The value of U.S. construction of utilities, pipelines, and railroads put in place decreased by 5.1 percent from the first quarter of 2002 to the first quarter of 2003, and the value of U.S. nonresidential construction put in place decreased by 4.8 percent during this period. Responses of U.S. producers and importers were mixed as to demand trends since March 2002, with a small majority of producers stating that demand was stable and a small majority of importers stating that demand had declined.

In the first relief year, the domestic fittings industry increased its share of the U.S. market from 36.4 percent to 39.9 percent. However, because of declining demand, output-related indicators such as production and shipments declined; additionally, both these indicators were considerably below the levels of the period from April 2000 to March 2001. The capacity of the U.S. fittings industry declined by 11.1 percent in the first relief year. Reflecting the decline in capacity, capacity utilization increased from 54.0 percent to 55.9 percent. The latter level, however, was considerably below the 71.9 percent capacity utilization rate for the period from April 2000 to March 2001. Coincident with the decline in capacity, employment also declined in the first relief year, and productivity increased.

The AUVs that the industry received for commercial sales increased in the first relief year. Unit COGS also increased, due principally to an increase in unit raw material costs. The increase in unit revenues was greater than that of unit costs. However, the industry's sales revenues declined because of the demand-related output declines, and the industry's operating margins declined in the first relief year.

Quarterly prices for the domestically produced fittings product for which the Commission collected pricing data increased during 2002, reaching a high for the three-year period for which data were collected, but declined between the fourth quarter of 2002 and the first quarter of 2003. The first quarter 2003 price was 0.1 percent below the first quarter 2002 price. Between the first quarter of 2002 and the first quarter of 2003, prices increased by 1.5 percent for imports from sources covered by the safeguard measure, and increased by 22.3 percent for imports from sources not covered by the measure. During the first relief year, imports from sources covered by the safeguard measure undersold the domestically produced product in all four quarterly price comparisons, and imports from sources not covered undersold the domestically produced product in two of four quarterly comparisons.

Adjustment Efforts of the Industries Producing Tubular Steel Products

Pursuant to section 204(a)(1) of the Act, the Commission collected information concerning the progress and specific efforts made by workers and firms to make a positive adjustment to import competition. During the section 201 investigation, the individual producers of welded pipe and tube and fittings submitted adjustment plans that contemplated additional investments. Sixteen producers of welded pipe and tube indicated that they intended to invest approximately $159 million over a four-year period to upgrade some facilities, relocate or close others, install new equipment, and invest in employee training and information systems. Four producers of fittings proposed investments over a four-year period of approximately $14 million to upgrade facilities and invest in worker training and retirement plans.

Since the safeguard measures have gone into effect, several tubular firms have closed one or more production facilities, including welded pipe and tube producers Olympic Steel Tube, Maverick Tube, and Copperweld, as well as fittings producer Trinity Mills. The remaining firms have made significant capital investments to adjust to import competition. These improvements include investments in new equipment that permits improved product quality and expanded product range. In addition, corporate restructuring has changed the structure of the domestic welded pipe and tube industry, as Wheatland Tube acquired Sawhill Tubular from AK Steel, Maverick Tube acquired LTV Tubular, and ISG sold its interests in its Steelton large diameter line pipe mill and in its joint venture, Bethnova Tube. Finally, both Maverick Tube (following its acquisition of LTV Tubular) and Bethnova Tube have reached collective bargaining agreements with members of their labor force containing elements similar to those described in the section entitled “Flat Steel Products.”

The legislative history of Section 204 of the Act directs that adjustment efforts should be evaluated in light of existing economic conditions. Domestic producers of welded pipe and tube and fittings described several factors that hindered their adjustment efforts. These included weak demand, particularly in industries such as construction and oil and gas, increased imports from countries not subject to the safeguard remedy, and adverse supply-side effects resulting from the higher level of relief granted to upstream flat-rolled steel producers as compared to tubular products producers.

In commenting on the adjustment efforts of the welded pipe and tube and fittings industries, parties opposed to the safeguard measures stated that several welded pipe and tube producers do not claim to have made adjustments, and that the investments that other producers have made were not in response to import competition. They also contended that the domestic welded pipe and tube industry’s condition is directly influenced by factors other than the safeguard measure, most notably general U.S. economic conditions, continued excess capacity, and raw material price trends. They contended that the domestic fitting industry’s efforts to make a positive adjustment to import competition have been inadequate and have had little impact on overall industry performance.

STAINLESS STEEL

The stainless steel product categories subject to safeguard measures are stainless steel bar (stainless bar), stainless steel rod (stainless rod), and stainless steel wire (stainless wire). Developments in import trends, industry conditions, and pricing are summarized separately for the three product categories. Because several U.S. producers produce more than one of these product categories, their adjustment efforts are discussed collectively.

Stainless Bar

The Presidential Proclamation included an increase in duties on stainless bar of 15 percent *ad valorem* in the first year of the measure, reduced to 12 percent in the second year, and to nine percent in the third year.

In the first relief year, total imports of stainless bar, as well as imports from covered sources, declined, while imports from sources not covered by the safeguard measure increased. The quantity of total imports declined from 108,627 short tons to 99,714 short tons, and their market share declined from 42.7 percent to 41.9 percent. Imports from countries covered by the safeguard measure decreased from 82,798 short tons to 63,739 short tons, and their market share fell from 32.6 percent to 26.8 percent. The quantity of U.S. imports from countries not covered by the safeguard measure rose from 25,829 short tons to 35,975 short tons, and their market share increased from 10.2 percent to 15.1 percent. India was the country not covered by the safeguards measure whose imports increased the most during this period.

Major U.S. markets for stainless bar are in the aerospace, automotive, chemical processing, dairy, food processing, and pharmaceutical equipment industries. During the first relief year, demand in these markets either increased modestly or declined. The value of U.S. manufacturers' shipments of transportation equipment increased by 0.7 percent between the first quarter of 2002 and the first quarter of 2003. During the same period, the value of U.S. manufacturers' shipments of stainless steel forgings declined by 6.1 percent. Most of the responding U.S. producers and importers cited poor economic conditions, including downturns in aerospace, power generation, petrochemical industries, and capital goods, in reporting that demand for steel has decreased since March 2002.

In the first relief year, the domestic stainless bar industry marginally increased its share of the U.S. market from 57.3 percent to 58.1 percent. Consistent with the decline in demand, output-related indicators such as production and shipments declined in the first relief year. The capacity of the U.S. stainless bar industry increased by 1.1 percent in the first relief year. Capacity utilization declined from 62.9 percent to 60.6 percent. By contrast, capacity utilization was 72.7 percent during the period from April 2000 to March 2001. Employment declined in the first relief year, and productivity increased.

The AUVs that the industry received for commercial sales declined in the first relief year. Unit COGS also declined, notwithstanding that unit raw materials costs increased. The unit decline in COGS was not as great as the decline in AUVs. As a result of this cost-price squeeze and declining output, the industry's financial performance deteriorated in the first relief year. Its operating margin declined from negative 3.4 percent to negative 7.9 percent. By contrast, the industry had a positive 3.6 percent operating margin during the period from April 2000 to March 2001. The number of U.S. producers reporting operating losses also increased in the first relief year.

The Commission collected quarterly pricing data for two stainless bar products. Prices for the first product increased by *** percent from the first quarter of 2002 to the first quarter of 2003, and prices for the second product declined by 4.4 percent during this period. Prices for the first product were *** percent lower in the first quarter of 2003 than in the second quarter of 2000 and prices for the second product were 1.5 percent higher. For the first product, prices of imports from sources covered by the safeguard measure declined from the first quarter of 2002 to the first quarter of 2003, and there was only one pricing observation of imports from sources not covered by the safeguard measure during this period. For the second product, prices of imports from sources covered by the safeguard measure increased from the first quarter of 2002 to the first quarter of 2003, and prices of imports from sources not covered by the safeguard measure declined. During the first relief year, imports from sources covered by the measure undersold the domestically produced product in six of seven quarterly comparisons and imports from sources not covered by the measure undersold the domestically produced product in all 3 quarterly comparisons.

Stainless Rod

The Presidential Proclamation included an increase in duties on stainless rod of 15 percent *ad valorem* in the first year of the measure, reduced to 12 percent in the second year, and to 9 percent in the third year.

In the first relief year, total imports, as well as imports from covered sources, declined, while imports from sources not covered by the safeguard measure increased. The quantity of total imports fell from 66,691 short tons to 45,610 short tons, and their market share also decreased. Imports from countries covered by the safeguard measure declined from 64,283 short tons to 40,558 short tons, and their market share also decreased. The quantity of U.S. imports from countries not covered by the safeguard measure increased from 2,408 short tons to 5,052 short tons, and their market share also rose. India was the only source not covered by the measure from which imports increased.

Most stainless rod is further processed into stainless wire. Stainless rod is also used in downstream products such as industrial fasteners, springs, medical and dental instruments, automotive parts, and welding electrodes. Demand for products in which stainless rod is used generally declined during the first relief year. The value of U.S. manufacturers' shipments of metalworking machinery declined by 9.5 percent between the first quarter of 2002 and the first quarter of 2003. Most of the responding U.S. producers and importers cited poor economic conditions, including downturns in aerospace, automotive, industrial, and consumer markets, in reporting that demand for steel has decreased since March 2002.

Notwithstanding the decline in demand, output-related indicators such as production and shipments increased in the first relief year, although production and total U.S. shipments were both below the levels of the period April 2000 to March 2001. The capacity of the U.S. stainless rod industry increased in the first relief year. Capacity utilization also increased, but was below the level of the period April 2000 to March 2001. Employment and productivity both increased in the first relief year.

The AUVs that the industry received for commercial sales declined in the first relief year. Unit COGS also declined, notwithstanding that unit raw materials costs increased. The unit decline in COGS was greater than the decline in AUVs. Because unit revenues fell less than unit costs, and output increased, the industry's financial performance improved in the first relief year. Nevertheless, it operated unprofitably; in contrast, the industry had profitable operating performance from April 2000 to March 2001.

Quarterly prices for the domestically produced stainless rod product for which the Commission collected pricing data declined from the first quarter of 2002 to the first quarter of 2003. During this period, prices increased for imports from sources covered by the safeguard measure, but declined for imports from sources not covered. During the first relief year, imports from sources covered by the safeguard measure undersold the domestically produced product in one of four quarterly price comparisons, and imports from sources not covered undersold the domestically produced product in all 4 quarterly comparisons.

Stainless Wire

The Presidential Proclamation included an increase in duties on stainless wire of eight percent *ad valorem* in the first year of the measure, reduced to seven percent in the second year, and to six percent in the third year.

In the first relief year, total imports increased in quantity but declined in market share. The quantity of total imports increased from 31,295 short tons to 33,251 short tons, but their market share declined from 46.9 percent to 46.2 percent. Imports from countries covered by the safeguard measure decreased from 26,759 short tons to 25,014 short tons, and their market share fell from 40.1 percent to 34.8 percent. The quantity of U.S. imports from countries not covered by the safeguard measure increased from 4,535 short tons to 8,236 short tons, and their market share rose from 6.8 percent to 11.4 percent. Imports from India accounted for the bulk of this increase.

Major U.S. markets for stainless wire are in the chemical, petroleum, medical instrument, paper, and food processing industries. Stainless wire is also used in the production of household appliances, nails, and staples. The value of U.S. manufacturers' shipments of metalworking machinery decreased by 9.5 percent between the first quarter of 2002 and the first quarter of 2003. Most of the responding U.S. producers and importers cited poor economic conditions, including weakness in the manufacturing sector, in reporting that demand for stainless wire has decreased since March 2002.

In the first relief year, the domestic stainless wire industry marginally increased its share of the U.S. market from 53.1 percent to 53.8 percent. Output-related indicators such as production and shipments increased in that period, but were below the level of the period from April 2000 to March 2001. The capacity of the U.S. stainless wire industry increased by 3.1 percent in the first relief year. Capacity utilization increased from 46.2 percent to 51.5 percent. By contrast, capacity utilization was 62.5 percent during the period from April 2000 to March 2001. Employment declined by 8.3 percent in the first relief year, and productivity increased by 25.6 percent.

The AUVs the stainless wire industry received for commercial sales declined in the first relief year. Unit COGS also declined, at roughly the same rate as AUVs. Because of the increase in output, the industry's financial performance improved in the first relief year. Nevertheless, it operated unprofitably; by contrast, the industry had profitable operating performance from April 2000 to March 2001.

Quarterly prices for the domestically produced stainless wire product for which the Commission collected pricing data declined by 6.4 percent from the first quarter of 2002 to the first quarter of 2003. During this period, prices increased for imports from sources covered by the safeguard measure, but declined for imports from sources not covered by the measure. During the first relief year, imports from sources covered by the safeguard measure as well as imports from sources not covered by the measure undersold the domestically produced product in every quarterly price comparison.

Adjustment Efforts of the Industries Producing Stainless Steel Products

Pursuant to section 204(a)(1) of the Act, the Commission collected information concerning the progress and specific efforts made by workers and firms to make a positive adjustment to import competition. During the section 201 investigation, the individual producers of stainless bar, stainless rod, and stainless wire submitted adjustment plans that included substantial investments in productive facilities to improve efficiency, product quality, and cost competitiveness. They also indicated that they intended to develop new product lines to increase demand for their products.

Since the safeguard measures have gone into effect, one producer, Slater Steels, has acquired one production facility and rationalized others in an effort to enhance integration of its production process and increase efficiency. Slater additionally entered into a new collective bargaining agreement allowing for increased flexibility in scheduling and performance-based pay initiatives. Several stainless steel producers have made capital investments in their facilities to increase product offerings and reduce lead times.

The legislative history of Section 204 of the Act directs that adjustment efforts should be evaluated in light of existing economic conditions. Domestic producers of stainless bar, stainless rod, and stainless wire described several factors that hindered their adjustment efforts. These included weak demand, increasing raw material costs, and the negative impact of low-priced imports from countries such as India not subject to the safeguard remedies.

In commenting on the adjustment efforts of the stainless bar, stainless rod, and stainless wire industries, parties opposed to the safeguard measures stated that they generally agree that U.S. producers have made positive efforts to adjust to import competition. They contended that the industry nevertheless must do more to close inefficient production facilities.

EXECUTIVE SUMMARY
INVESTIGATION NO. 332-452

EXECUTIVE SUMMARY

Introduction

Following receipt of a request on March 18, 2003, from the U.S. House of Representatives, Committee on Ways and Means (Committee), the U.S. International Trade Commission (USITC or Commission) instituted investigation No. 332-452, *Steel-Consuming Industries: Competitive Conditions with Respect to Steel Safeguard Measures*, pursuant to section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)).[1] As requested by the Committee, the investigation's analysis was conducted along sectoral lines, in order to assess the impact of the steel safeguard measures on differing segments of the U.S. manufacturing sector and to focus on steel products subject to the President's safeguard measures.[2]

The report addresses the effects of the safeguard measures on steel-consuming industries and on ports and their related services including the following competitive conditions:

- changes in employment, wages, profitability, sales, productivity, and capital investment of steel-consuming industries;
- an examination of the reported effects of the safeguard measures on factors such as prices for steel paid by consuming industries, steel shortages and availability, the ability of steel consumers to obtain required products or quality specifications, lead and delivery times, contract abrogation, sourcing of finished parts from overseas by customers of steel-consuming industries, and the relocation or shift of U.S. downstream production to foreign plants or facilities;
- the impact of international competitive factors, such as relative differences in steel costs to foreign steel-consuming industries not subject to the safeguard measures, and on steel consumers' exports and imports of steel-containing products;
- an examination of shifts in sourcing patterns in the United States, i.e., how much steel was purchased from domestic steel producers by domestic steel-consuming industries before the safeguard action, and how this sourcing has changed following the implementation of the safeguard measures; and

[1] On Mar. 5, 2003, the Commission instituted an investigation under section 204(a) of the Trade Act of 1974 (Inv. No. TA-204-9) in order to prepare a report to the President and the Congress on results of monitoring developments relating to the domestic steel industry since the President imposed tariffs and tariff-rate quotas on imports of certain steel products (68 FR 12380, Mar. 14, 2003). In its letter, the Committee requests that the Commission provide its report in this section 332 investigation and its monitoring report in the section 204(a) investigation in a single document. In a Mar. 27, 2003 letter to the Commission, the Office of the United States Trade Representative (USTR) referenced the format requested by the Committee and informed the Commission that USTR has no objection to receiving the section 204(a)(2) report and the section 332(g) report in a single document. A copy of the request letter from the Committee and the Commission's *Federal Register* notice of institution of this investigation are contained in appendix A.

[2] The President imposed import relief in the form of tariffs and tariff-rate quotas on imports of certain steel products for a period of 3 years and one day, effective March 20, 2002. A description of the import relief is presented in Chapter 1. Throughout this report, "steel" will refer to steel products subject to the safeguard measures announced by the President.

- a discussion of the likely impact on employment, profitability, capital investment, and international competitiveness of steel-consuming industries of (i) continuation of the safeguard measures for the period September 2003 to March 2005, and (ii) termination of the safeguard measures effective September 20, 2003.

In addition, as requested, an analysis of the economy-wide effects of these safeguard measures (e.g., on costs borne by steel consumers, tariff revenues entering the U.S. Treasury, income to steel producers, and the net effect on the U.S. economy) using a simulation model is provided.

Analytical Scope and Approach

It is difficult to isolate the effect of the steel safeguard measures on steel-consuming firms from other factors since the safeguard measures have been in place only for 18 months. In addition, the short term nature of these safeguard measures may discourage firms from making changes in terms of capital expenditures or employment in response to the safeguard measures. The impact of the safeguard measures on different steel-consuming industries depends on factors such as the portion of their total production cost represented by the cost of steel and the market power of firms in steel-consuming industries, which may limit their ability to pass on any steel price increase to their customers.

To examine the impact that the steel safeguard measures have had on steel-consuming industries, the Commission utilized information from a variety of sources, including U.S. industry data, current industry literature, questionnaire responses, and other materials developed by the Commission. The Commission received 419 detailed questionnaire responses from steel-consuming firms whose steel purchases accounted for 22 percent of steel sold during the first year of the safeguard measures.[3] Additional information was provided by public written submissions, hearing testimony, and from input provided by industry officials, trade associations, government officials, and other interested parties.

To provide advice on the economy-wide effects of the safeguard remedies, the Commission simulated the imposition of these tariffs using an updated version of its Computable General Equilibrium (CGE) Model of the United States. The model makes use of the most recent, 1997, benchmark table of the U.S. production technology (Bureau of Economic Analysis's input-output

[3] The Commission mailed out 1,800 purchaser questionnaires and received 644 responses, of which 485 indicated they purchased subject steel products. Of these respondents, 419 steel-consuming firms provided both quantity and value data for their purchases of subject steel products. These purchases totaled $18.8 billion for the year after the safeguards were implemented in 2002. Purchases by distributors totaling $4.6 billion were excluded from this total to avoid double counting. This accounts for almost 22 percent of the estimated $87.2 billion of steel purchased in 2002, $62.8 billion from the domestic industry and $14.6 billion of imported of steel. Domestic shipments compiled by USITC staff from official statistics of the U.S. Census Bureau, *Manufacturers' Shipments, Orders, and Inventories*. M3 Series A31AVS, not seasonally adjusted monthly data. Import data was from the U.S. Department of Commerce (USDOC).

At the June 19, 2003, hearing, the Commission announced that it was aware that an "ITC Questionnaire Tip Sheet" (Tip Sheet) had been sent to some companies that may have received Commission questionnaires. Information in the Tip Sheet urged recipients to reply to the questionnaire in a misleading way or to exaggerate estimates in their responses. The Commission investigated this Tip Sheet and found that while the responses of the 34 firms (7 percent of total) that received the Tip Sheet differed to varying degrees from the responses of all steel consuming firms, their responses were generally similar to that of other steel consuming firms in the same industry. Moreover, these 34 questionnaire responses generally support other information collected from hearing testimony, written submissions, and public sources. For further information on the Tip Sheet, see Appendix H.

accounts), using production and trade data for the year before the imposition of the safeguards; the 1997 benchmark data are projected forward to account for current economic conditions. The modeling analysis provides a framework for understanding the effects of the safeguard measures on downstream steel-consuming industries.

Principal Findings

Many responding firms had difficulty distinguishing between the effects of the safeguard measures and other changes in market conditions. Overall, changes in competitive factors after the safeguard measures were implemented varied in nature across steel-consuming industries and often across firms within industries. Of the steel-consuming industries examined, the motor vehicle parts and steel fabrication industries reported adverse changes in competitive conditions and firm performance after the implementation of the safeguards more frequently than did other industries. These sectors reported expected negative results from continuation of the safeguard measures and positive results from termination of these measures more frequently than other sectors. Industries such as distributors or steel product producers generally reported that they expected no change or positive results from continuation of the safeguards and no change or negative results from termination of the safeguard measures.

Impact on Steel-Consuming Industries and Ports

Steel Prices

Publicly available data and hearing testimony indicate that, for most products subject to the safeguards, prices paid by steel-consuming industries initially increased after the safeguards were implemented. However, prices for some of these products then declined after the initial increase. Although varying by industry, about one-half of responding steel-consuming firms faced increases in both contract and spot prices after the implementation of the safeguards. About 43 percent of responding purchasers (162 of 381) reported that they could not pass on these price increases while about 19 percent (71 of 381) of purchasers reported that they were able to pass the price increases on to their customers.

Contract Abrogation

Some responding steel-consuming firms (134 of 456 or about 29 percent) reported that contracts that they had in place to purchase steel were either modified or abrogated, while most steel-consuming firms (332 of 456 or 71 percent) reported that steel suppliers had not modified or abrogated any contracts with their firms since the implementation of the safeguard measures.

Steel Availability

A little under one-half of responding steel-consuming firms (229 of 471 or about 49 percent) reported some difficulty in obtaining steel in the quantities or qualities they desired since the implementation of the safeguard measures. The steel fabrication, motor vehicle, motor vehicle parts, steel barrel and canning, and home appliance industries had a higher percentage of firms reporting these difficulties than other industries.

About 32 percent of steel-consuming firms (150 of 472), predominately from the steel fabrication, motor vehicle, motor vehicle parts, furniture,

and steel barrel and canning industries, reported longer lead and delivery times after the safeguards were implemented.

Steel Sourcing Patterns

Almost one-half of steel-consuming firms (219 of 467 or 47 percent) shifted some of their purchases to domestically produced steel from imported steel after the safeguard measures were implemented. Overall, direct purchases of steel products from domestic producers increased from 65 percent to 73 percent of all purchases, while direct purchases from importers fell from 32 to 23 percent of all purchases.

Steel-Consuming Sourcing Patterns

A large number of steel-consuming firms (399 of 450 or 89 percent) reported that they did not shift to sourcing finished parts from overseas and most (399 of 445 or 76 percent) reported that their customers did not shift to sourcing from foreign plants or facilities since implementation of the safeguard measures. With regard to relocation of production facilities, 93 percent of steel-consuming firms (432 of 465) reported that they have not relocated or shifted U.S. production to foreign plants or facilities. Almost two-thirds of responding steel-consuming firms (270 of 430 or 63 percent) reported that they or other steel-consuming firms did not relocate or shift production to foreign plants or facilities after the implementation of the safeguards.

Financial Indicators

Overall sales and profits increased, while capital investment fell, for most steel-consuming industries in 2002/03 (the year following the imposition of the safeguard measures) compared with 2001/02 (the year preceding the safeguard measures).[4]

Employment

Overall employment of steel-consuming industries generally fell or remained flat in 2002/03 compared with both 2000/01 and 2001/02, while productivity and wages increased over the three year period. In many cases, employment fell by a greater amount (and percentage) in the year before the safeguard measures were implemented than in the first year after they were implemented.

International Competitiveness

Public data indicate that prices for steel in the U.S. market fell relative to prices in foreign markets since the imposition of the safeguard measures. However, based on these public data, prices for some steel products in some U.S. markets remained higher than those in foreign markets in May 2003. Questionnaire responses indicate that a majority of firms reported that the price of steel in the U.S. market was higher than steel prices in foreign markets after the imposition of the safeguards.

[4] Much of the data collected for this report was done so for three constructed years: (1) April 2000-March 2001, (2) April 2001-March 2002, and (3) April 2002-March 2003. Throughout this report, references to these constructed years will be 2000/01, 2001/02, and 2002/03. For example, if data are reported for 2000/01, the actual data period being referred to is April 2000-March 2001.

Imports of steel-containing products declined about 9.0 percent from 2000/01 to 2001/02 but then increased by about 6 percent the year after the safeguards were implemented (2001/02 to 2002/03). Exports of these products declined steadily from 2000/01 to 2002/03, falling about 11 percent from 2000/01 to 2001/02 and then an additional 3 percent the year after the safeguards were implemented (2001/02 to 2002/03). Except for a few industries, such as motor vehicles, metal cutting and forming, pipe, and bar producers, the growth in imports of steel-containing products was greater than the growth in exports in the year after the safeguards.

Ports

Steel imports constitute a significant portion of port trade tonnage in the Philadelphia, PA; Chicago, IL; and Houston-Galveston, TX port districts and also at the Port of New Orleans, LA.

Waterborne imports of steel of the types covered by the safeguard measures declined by 10 percent prior to the implementation of the safeguard measures (2000/01-2001/02) and by 10 percent after implementation (2002/03), for a total decline of 4.0 million short tons. However, imports by land from Canada and Mexico (countries exempt from the safeguard measures) rose by 1.1 million short tons after implementation of the safeguard measures. Overall, imports of all steel products, declined almost 7 percent in the year after the safeguards.

U.S. ports and related-service providers may have received modest benefits from increased imports of steel inputs and rising U.S. exports (exports are a fraction of the volume of U.S. steel imports). In questionnaire responses, U.S. ports and related-service providers reported a decline of approximately 28 percent in revenues from total steel imports during 2000/01-2001/02 and a further decline of 15 percent after implementation of the safeguards. The benefits that the U.S. ports and related-service providers may have received likely would be small in comparison to the decline in revenues from total steel imports, which explains the reported declines in revenues from total steel imports after implementation of the safeguard measures. Hours worked declined by about 10 percent before and after implementation of safeguard measures.

Economy-Wide Effects

The economy-wide analysis, designed to focus on those impacts that arise from the relative price changes resulting from the imposition of the safeguard measures, estimated that the effect of the safeguard measures on the U.S. welfare ranged from a welfare gain of $65.6 million to a welfare loss of $110.0 million, with a central estimate of a welfare loss of $41.6 million. Overall, the simulation results indicate that returns to capital fall by $294.3 million and returns to labor, based on the net effect on all labor in the U.S. economy, fall by $386.0 million as a result of the safeguard measures, but tariff revenues increase by $649.9 million. The offsetting impact results in an estimated annual GDP loss of $30.4 million.

The model estimates that earnings in industries where returns to capital fell, including steel-consuming industries, would decline by $601.2

million (0.01 percent), while earnings in other industries where capital income increases (e.g., iron ore mining, ferroalloy and related product manufacturing, coal mining, custom roll forming, energy and services) would experience increased capital returns of $67.4 million (0.04 percent). The impact of the safeguard measures varies by steel-consuming industry. Industries that are particularly affected include motor vehicle parts and several steel fabrication industries (metal tank manufacturing, railroad rolling stock manufacturing, and power boiler and heat exchanger manufacturing). These industries also reported larger impacts from the safeguard measures in their questionnaire responses and also exhibit market characteristics suggesting that they would be among the most affected steel-consuming industries.

Likely Impact of Continuing or Terminating Safeguards

A majority of steel-consuming firms indicated that neither continuation or termination of the safeguard measures would change employment, international competitiveness, or capital investment. Purchaser responses were split over whether profitability would increase or decrease if the safeguards continued with slightly more firms indicating that profitability would increase with termination of the safeguards than those who indicated that profitability would not change.

These results varied by industry, with firms in the motor vehicle parts and steel fabrication industries more frequently reporting changes in the conditions of competition than other steel-consuming industries in most cases. In particular, both industries indicated that employment, profitability, and international competitiveness would fall if the safeguards were continued but would increase if the safeguards were terminated.

While only a small number of ports and port-related services firms provided information, about 12 of 19 indicated that either continuation or termination of the safeguard measures would not change capital investment and wages. Over one-half of such respondents (7 of 12) expected steel import volumes and revenues to increase with termination and decrease with continuation of the safeguards.