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 announced the safeguard measures that he planned to implement 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 encompassed 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 the safeguard measures, principally in the form of tariffs and a tariff-rate quota, effective March 20, 2002, for a period of 3 years and 1 day. The measures applicable to the various product categories are described in detail in the individual product discussions below. The safeguard measures applied 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. Pursuant to authority in Proclamation 7529, as supplemented by Proclamation 7576 (of July 3, 2002), 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 President also instructed the Secretary of the Treasury and the Secretary of Commerce to establish a system of import licensing to facilitate the monitoring of imports of certain steel products. The Department of Commerce published regulations establishing such a system on December 31, 2002.

As required by statute, the Commission, effective March 5, 2003, instituted an investigation under section 204(a) of the Act for the purpose of preparing a mid-point report to the President and the Congress on the results of its monitoring of developments with respect to the domestic steel industries since the imposition of import relief. The Commission's report included information concerning the progress and specific efforts made by workers and firms in the 10 domestic industries to make a positive adjustment to import competition. The Commission issued its report to the President on September 19, 2003.

On December 4, 2003, the President issued Proclamation 7741 that terminated the tariff-rate quota and the increased import duties on certain steel products, but directed the Secretary of Commerce to continue the monitoring system until the earlier of March 21, 2005, or such time as the Secretary establishes a replacement program. On March 11, 2005, the Department of Commerce published an interim final rule to implement a replacement program for the period beyond March 21, 2005, with modifications to be implemented on June 9, 2005.

On March 21, 2005, the Commission instituted this investigation for the purpose of preparing the report to the President and the Congress required by section 204(d) of the Act on its evaluation of the effectiveness of the safeguard action in facilitating positive adjustment by the domestic industry to import competition, consistent with the reasons set out by the President in his report to the Congress under section 203(b). The Commission sent questionnaires to approximately 200 U.S. companies believed to produce the subject steel products during January 2001-March 2005. Although the Commission initially received 12 requests to appear at a public hearing, all such requests were subsequently withdrawn and no one appeared to give testimony at the hearing. Finally, the Commission reviewed an extensive body of public information as well as submissions, including prehearing and posthearing briefs, from parties and nonparties.

OVERVIEW OF U.S. AND GLOBAL STEEL DEVELOPMENTS

The United States economy was in recession from March 2001 to November 2001 and subsequently entered into a period of expansion. During the period for which data were collected for this evaluation, U.S. demand for steel products recovered and has been especially strong since the first quarter of 2004. A slight majority of responding producers reported that demand for steel remained relatively flat from March 2002 to December 2003. Most responding producers reported that demand for steel increased from January 2004 to March 2005, generally citing growing demand in China, the improving U.S. economy, and the attractiveness of U.S. exports to the rest of the world due to the weak dollar. While U.S. prices for steel products increased for all of the products for which the Commission collected pricing data from 2002 to 2005, most producers reported rising input costs as well.

Despite operating in a fluctuating demand environment, U.S. raw steel production increased between calendar years 2001 and 2004, rising by 9.3 million short tons (9.4 percent). Although U.S. steel production capacity declined in 2002 due to numerous plant closings, much of the capacity has been restored to active status.

The number of U.S. workers producing steel declined by 30,000 between 2001 and 2004. U.S. productivity, however, increased during this period as a result of increasing production and declining employment.

World crude steel production also increased from calendar years 2001 to 2004, increasing in each year by 6-7 percent. Two-thirds of the increase in world production took place in China. During this period, the United States remained a leading producer of raw steel, although its share of world production had fallen from 10.7 percent in 2001 to 9.5 percent by 2004. Worldwide, steel production capacity continues to exceed steel production needs.

Global trade in steel has continued to grow in recent years, increasing by 12 percent between 2001 and 2003, the most recent year for which complete data are available. During this period, the United States, the European Union, and a half dozen other countries applied safeguard measures to imports of certain steel products, although most of the import restraints had been lifted by early 2004.

The concentration of the steel industry worldwide increased from 2001 to 2004, particularly among the very largest global producers. Contributing to this trend is the continued integration of steel production operations across national borders as well as the acquisition of upstream operations to ensure a secure supply of raw materials in the face of tightening availability and rising costs. These latter concerns have contributed to substantially higher steel prices in markets worldwide in 2004 and 2005.

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, 33 steel companies producing products subject to the safeguard measures have filed for bankruptcy protection. Nine 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, Bethlehem Steel, Georgetown Steel, and Weirton Steel. U.S. Steel Corp. (U.S. Steel) acquired the assets of National Steel. Nucor Corp. (Nucor) acquired the assets of Trico Steel, Birmingham Steel, and Tuscaloosa Steel. In a significant merger, Ameristeel, Co-Steel, Gerdau Courtice Steel, and Gerdau MRM Steel 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 14 U.S. producers of steel subject to the safeguard measures. The estimated unfunded pension liabilities that the PBGC assumed from these producers exceeds $9 billion. Problems among U.S. steel producers pertaining to unfunded employee benefit liabilities are not, however, limited to bankrupt firms. In 2004, publicly-held steel producers whose reports the Commission examined stated that their total unfunded pension liabilities exceeded $3 billion and their unfunded liabilities of other post-employment benefits were almost $7 billion. Both of these amounts were significantly lower than in 2002 and 2003.

State and local governments (most notably those of Ohio and West Virginia) have implemented a limited number of new programs to benefit steel producers since imposition of the safeguard measures, but the Federal government has implemented no new measures. 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 September 2005 elements of an agreement for reducing or eliminating subsidies had been roughly defined, although further work remains to conclude the agreement and further discussion had been postponed.

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, 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, 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.

The TRQ and the increased duties were reduced on March 20, 2003 (as scheduled), and subsequently terminated on December 4, 2003. Import licensing, however, remained in place through March 21, 2005, and continues in modified form at this time.

In 2002, the first year import relief was in effect, total imports of certain carbon and alloy flat-rolled steel, as well as imports from covered and especially noncovered sources, increased. In contrast, in 2003 such imports from all sources decreased. Between 2001 and 2003 the quantity of total imports declined from 14.9 million short tons to 10.8 million short tons, and their market share fell from 8.6 percent to 6.2 percent. Imports from countries covered by the safeguard measure decreased from 9.9 million short tons to 4.8 million short tons, and their market share declined from 5.8 percent to 2.8 percent. The quantity of U.S. imports from countries not covered by the safeguard measure increased from 4.9 million short tons to 6.0 million short tons, and their market share rose from 2.8 percent to 3.4 percent.

In 2004, following the termination of increased duties and the TRQ, total imports of certain carbon and alloy flat-rolled steel increased by 74.4 percent to 18.8 million short tons (9.6 percent of the U.S. market). Imports from covered sources increased by 126.7 percent to 10.9 million short tons (5.6 percent of the market), while imports from noncovered sources increased by 32.1 percent to 7.9 million short tons (4.0 percent of the market). Total imports of certain carbon and alloy flat-rolled steel, imports from covered sources, and imports from noncovered sources were higher in the first quarter of 2005 than in the first quarter of 2004. Imports from covered sources accounted for 4.9 percent of the U.S. flat-rolled market in January-March 2005 while U.S. imports from noncovered sources accounted for 4.7 percent.

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. The value of U.S. manufacturers' shipments of transportation equipment increased by 7.6 percent from the first quarter of 2002 to the first quarter of 2005. Most recently, the value of U.S. manufacturers' shipments of transportation equipment have dropped by 5.8 percent from first quarter 2004 to first quarter 2005. The value of U.S. nonresidential construction put in place remained virtually unchanged from the first quarter of 2002 to the first quarter of 2005. A slight majority of the responding U.S. producers reported that U.S. demand for certain carbon and alloy flat-rolled steel remained the same from March 2002 to December 2003. Most producers reported that U.S. demand increased from January 2004 to March 2005, generally citing the improving U.S. economy, particularly in the manufacturing sector; the attractiveness of U.S. exports to the rest of the world due to the weak dollar; and growing demand in China.

In 2002, the first year import relief was in effect, the domestic industry decreased its share of the U.S. market from 91.4 percent to 90.0 percent. In 2003, the domestic industry held 93.8 percent of the U.S. market. Consistent with trends in apparent U.S. consumption, production increased in 2002, then declined in 2003. Capacity utilization increased from 76.7 percent in 2001 to 83.7 percent in 2002, then declined to 79.4 percent in 2003. The capacity of the U.S. flat-rolled industry declined in 2002 and increased in 2003, while employment decreased each year and productivity increased. The average unit value (AUV) that the flat-rolled industry received for commercial sales increased from $385 per short ton in 2001 to $409 in 2002, then increased to $412 in 2003. Cost of goods sold (COGS) declined on a unit basis, notwithstanding an increase in unit raw material costs, reflecting lower direct labor and overhead costs. The domestic industry's operating margin moved from negative 12.4 percent to negative 3.3 percent between 2001 and 2002, and reached negative 4.1 percent in 2003.

The domestic industry held 90.4 percent of the U.S. flat-rolled market in 2004 and 90.4 percent in the first quarter of 2005 (down from 93.4 percent in the first quarter of 2004). Consistent with trends in apparent U.S. consumption, production and shipments increased in 2004 but were lower in January-March 2005 than in January-March 2004. Capacity utilization reached 82.6 percent in 2004 but was 77.9 percent in the first quarter of 2005. During this period, capacity increased and employment continued to decline, while productivity continued to increase. The AUV that the flat-rolled industry received for commercial sales increased sharply in 2004 to $604 per short ton (from $412 in 2003) and to $702 in the first quarter of 2005. COGS also increased on a unit basis, reflecting an increase in unit raw material

costs. The domestic industry's operating margin increased from negative 4.1 percent in 2003 to positive 13.2 percent in 2004 and was 16.3 percent in the first quarter of 2005, up strikingly from 6.1 percent in the first quarter of 2004.

The Commission collected quarterly pricing data for five different domestically produced products in the certain carbon and alloy flat-rolled steel category. Prices decreased for all but one of these products from the first quarter of 2001 to the first quarter of 2002, ranging from a decrease of *** percent for the slab pricing item to a negligible increase for the plate pricing item. Prices for all of these products increased from the first quarter of 2002 to the first quarter of 2003, ranging from an increase of *** percent for the plate pricing item to an increase of 37.4 percent for the cold-rolled pricing item. Quarterly prices increased again for all of the products from the first quarter of 2003 to the first quarter of 2004, ranging from a negligible increase in the cold-rolled pricing item to an increase of *** percent for the slab pricing item. Prices then increased significantly from the first quarter of 2004 to the first quarter of 2005, ranging from an increase of 36.1 percent for the coated pricing item to an increase of *** percent for the plate pricing item.

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. The increased duties were reduced on March 20, 2003 (as scheduled), and subsequently terminated on December 4, 2003. Import licensing, however, remained in place through March 21, 2005, and continues in modified form at this time.

In 2002, the first year import relief was in effect, total imports of tin, as well as imports from covered sources, declined sharply, while imports from sources not covered by the safeguard measure increased modestly. Likewise, in 2003, total imports and imports from covered sources declined, while imports from noncovered sources increased. Between 2001 and 2003 the quantity of total imports declined from 540,254 short tons to 392,946 short tons, and their market share fell from 16.0 percent to 13.5 percent. Imports from countries covered by the safeguard measure decreased from 386,093 short tons to 218,133 short tons, and their market share declined from 11.5 percent to 7.5 percent. The quantity of U.S. imports from countries not covered by the safeguard measure increased from 154,161 short tons to 174,813 short tons, and their market share rose from 4.6 percent to 6.0 percent.

In 2004, following the termination of increased duties, total imports of tin increased by 20.2 percent to 472,216 short tons (13.5 percent of the U.S. market). Imports from covered sources increased by 43.3 percent to 312,565 short tons (9.0 percent of the market), while imports from noncovered sources decreased by 8.7 percent to 159,650 short tons (4.6 percent of the market). Total imports of tin, imports from covered sources, and imports from noncovered sources were higher in the first quarter of 2005 than in the first quarter of 2004. Imports from covered sources accounted for 11.6 percent of the U.S. tin market in January-March 2005, while U.S. imports from noncovered sources accounted for 5.6 percent.

Tin is used primarily in the manufacture of welded can containers for food, beverages, aerosols, and paint. The quantity of U.S. manufacturers' shipments of steel cans for food increased by 9.7 percent from the first quarter of 2002 to the first quarter of 2005. Half of the responding tin mill producers reported that U.S. demand for tin remained the same from March 2002 to December 2003 and most responding producers reported that demand increased from January 2004 to March 2005, citing increased demand in China.

In 2002, the first year import relief was in effect, the domestic industry increased its share of the U.S. market from 84.0 percent to 88.5 percent. In 2003, the domestic industry held 86.5 percent of the U.S. market. Consistent with trends in apparent U.S. consumption, output-related indicators such as production and shipments increased in 2002, then declined in 2003. Capacity utilization increased from 77.5 percent in 2001 to 87.4 percent in 2002, then declined to 74.8 percent in 2003. The capacity of the U.S. tin industry declined in 2002 and in 2003, as did employment, while productivity increased. The

AUV that the tin industry received for commercial sales increased from $593 per short ton in 2001 to $598 in 2002, then declined to $527 in 2003. COGS declined on a unit basis, notwithstanding an increase in unit raw material costs, reflecting lower direct labor and overhead costs. The domestic industry's operating margin improved from negative 6.7 percent to negative 3.6 percent between 2001 and 2002, and reached positive 4.3 percent in 2003.

The domestic industry held 86.5 percent of the U.S. tin market in 2004 and 82.8 percent in the first quarter of 2005 (down from 90.5 percent in the first quarter of 2004). Consistent with trends in apparent U.S. consumption, production and shipments increased in 2004 but were lower in January-March 2005 than in January-March 2004. Capacity utilization reached 88.4 percent in 2004 but was 84.5 percent in the first quarter of 2005. During this period, capacity remained stable and employment continued to decline, while productivity continued to increase. The AUV that the tin industry received for commercial sales increased to $630 per short ton in 2004 and to $708 in the first quarter of 2005. COGS also increased on a unit basis, reflecting an increase in unit raw material costs. The domestic industry's operating margin increased to positive 4.8 percent in 2004 and was 6.0 percent in the first quarter of 2005, up slightly from 5.9 percent in the first quarter of 2004.

Quarterly prices for the domestically produced tin product for which the Commission collected pricing data were virtually unchanged from the first quarter of 2001 to the first quarter of 2002, rose by *** percent from the first quarter of 2002 to the first quarter of 2003 and then decreased by *** percent from the first quarter of 2003 to the first quarter of 2004. Prices increased significantly, by 28.0 percent, from the first quarter of 2004 to the first quarter of 2005.

Adjustment Efforts of the Industries Producing Flat Steel Products

Pursuant to section 204(d)(1) of the Act, the Commission collected information concerning the progress and specific efforts made by workers and firms to effect 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.

The legislative history of section 204 of the Act directs that adjustment efforts should be evaluated in light of existing economic conditions. As described above, demand for the products at issue was weak at the outset of the period of import relief, but then recovered, as demonstrated by rising consumption in the United States and abroad. The recovery in demand was accompanied by rising raw material costs. Over time, domestic prices rose as well, most noticeably during the period subsequent to termination of the increased duties.

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 Mittal Steel ISG and U.S. Steel. Mittal Steel ISG, U.S. Steel, and Nucor have invested billions of dollars 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, Bethlehem, Weirton Steel, and Georgetown Steel. In April 2005, ISG merged with Mittal Steel Company, forming the largest steel company in the world. Nucor expanded by purchasing the assets of idled producer Trico Steel Company and Birmingham Steel. In 2004, Nucor acquired a cold-rolling mill from Worthington Industries and substantially all of the assets of Corus Tuscaloosa. U.S. Steel acquired 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, North Star, Oregon Steel, U.S. Steel, WCI Steel, and Wheeling-Pittsburgh. Negotiations for a new agreement are ongoing between the USWA and Ispat

Inland. The new agreement is reportedly expected to be similar to the agreements ratified between ISG and the USWA in 2003. These agreements are designed to achieve goals such as reducing fixed costs, improving productivity, and protecting retiree welfare. To reach these goals the agreements incorporate workforce restructuring, variable and competitive cost structures, reduced healthcare costs, and fewer job classifications. 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.

Several domestic producers have made or authorized capital investments 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 to rebuild a major blast furnace. IPSCO Steel opened the newest flat-rolled minimill in the U.S. in 2001 and recently made a significant investment in a new 170,000 ton-per-year heat treat line. SDI invested in a galvanized sheet mill, paint coating line, a sections and rail facility, and a bar minimill. ISG invested $53 million to start up and begin modernizing its purchased LTV and Acme facilities; and committed to invest $272 million in its Burns Harbor facility. AK Steel, Gallatin, Ispat Inland, Mittal Steel ISG, and Nucor have also committed significant funds to capital investments.

In commenting on the import relief and adjustment efforts of the carbon and alloy flat-rolled steel and tin industries, domestic producers generally viewed the safeguard measures as effective, although impaired by what some producers viewed as early termination. Domestic producers pointed to investment in new capacity, value added products, the maintenance and upgrading of existing facilities, the pursuit of market-driven consolidation opportunities, and the negotiation of new labor agreements which resulted in reduced costs and increased productivity. Some producers, however, expressed concern that the effectiveness of import relief had not been observed over an entire business cycle, and worried that the industry might remain vulnerable during an economic downturn. Their concern was heightened by the view that conditions outside the United States have not changed substantially, particularly with respect to capacity and subsidies.

Foreign producers and consumers focused on the steel industry broadly defined. Some commenters viewed the import relief and adjustment efforts as largely beneficial (despite some misgivings about their actual necessity), but sounded cautionary notes with respect to re-opened capacity and to the legacy costs that remained unaddressed. Other commenters questioned whether the remedy had, in fact, been necessary; whether it had inflicted greater social and economic costs than benefits; and whether industry consolidation, pension issues, and labor issues reflected the safeguard measures or longer term market and industry trends. Represented consumers groups, in particular, stressed the impact of the import relief on steel consumers in terms of direct costs and in terms of supply concerns, leading in some cases to bankruptcy or relocation outside the United States.

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. The increased duties were reduced on March 20, 2003 (as scheduled), and subsequently terminated on December 4, 2003. Import licensing, however, remained in place through March 21, 2005, and continues in modified form at this time.

In 2002, the first year import relief was in effect, total imports of hot bar remained relatively stable, as imports from covered sources declined, while imports from sources not covered by the safeguard measure increased. In 2003, total imports as well as imports from covered sources decreased, while imports from noncovered sources again increased. Between 2001 and 2003 the quantity of total imports increased from 1,950,917 short tons to 1,996,476 short tons, and their market share rose from 18.2 percent to 18.6 percent. Imports from countries covered by the safeguard measure decreased from 703,816 short tons to 555,230 short tons, and their market share declined from 6.5 percent to 5.2 percent. The quantity of U.S. imports from countries not covered by the safeguard measure increased from 1,247,100 short tons to 1,441,246 short tons, and their market share rose from 11.6 percent to 13.4 percent.

In 2004, following the termination of increased duties, total imports of hot bar increased by 12.7 percent to 2,250,220 short tons (18.8 percent of the U.S. market). Imports from covered sources increased by 28.2 percent to 711,627 short tons (6.0 percent of the market), while imports from noncovered sources increased to 1,538,593 short tons (12.9 percent of the market). Imports of hot bar from covered sources were higher in the first quarter of 2005 than in the first quarter of 2004, while imports from noncovered sources were lower and total imports were virtually unchanged. U.S. imports from covered sources accounted for 6.4 percent of the U.S. hot bar market in the first quarter of 2005, while U.S. imports from noncovered sources accounted for 12.8 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. The value of U.S. manufacturers' shipments of transportation equipment increased by 7.6 percent from the first quarter of 2002 to the first quarter of 2005. Most recently, the value of U.S. manufacturers' shipments of transportation equipment has dropped by 5.8 percent from first quarter 2004 to first quarter 2005. The value of U.S. nonresidential construction put in place remained virtually unchanged from the first quarter of 2002 to the first quarter of 2005. Most responding U.S. producers reported that demand for hot bar increased from March 2002 to December 2003, citing worldwide economic growth. Most responding producers reported that demand increased from January 2004 to March 2005, citing particularly strong demand in China, the improvement of the U.S. industrial sector, and a weak dollar that made U.S. exports more attractive to the rest of the world.

In 2002, the first year import relief was in effect, the domestic industry's share of the U.S. market declined from 81.8 percent to 81.5 percent, and in 2003, the domestic industry held 81.4 percent of the U.S. market. Consistent with trends in apparent U.S. consumption, output-related indicators such as production and shipments were generally stable in 2002 and in 2003. Capacity utilization increased from 70.2 percent in 2001 to 74.9 percent in 2002, then to 77.8 percent in 2003. The capacity of the U.S. hot bar industry declined in 2002 and in 2003, as did employment, while productivity increased. The AUV that the hot bar industry received for commercial sales decreased from $383 per short ton in 2001 to $377 in 2002, then increased to $404 in 2003. COGS increased modestly on a unit basis, reflecting an increase in unit raw material costs. The domestic industry's operating margin increased from 0.7 percent to 1.5 percent between 2001 and 2002, and reached 2.9 percent in 2003.

The domestic industry held 81.2 percent of the U.S. hot bar market in 2004 and 80.8 percent in the first quarter of 2005 (down from 82.0 percent in the first quarter of 2004). Consistent with trends in apparent U.S. consumption, production and shipments increased in 2004 but were lower in January-March 2005 than in January-March 2004. Capacity utilization reached 88.2 percent in 2004 but was 82.2 percent in the first quarter of 2005. During this period, capacity increased and employment recovered. Productivity continued to increase in 2004 but was lower in the first quarter of 2005 than in the first quarter of 2004. The AUV that the hot bar industry received for commercial sales increased to $578 per short ton in 2004 and to $709 in the first quarter of 2005. COGS also increased on a unit basis, reflecting an increase in unit raw material costs. The domestic industry's operating margin increased to 10.2 percent in 2004 and was 14.8 percent in the first quarter of 2005, up from 7.3 percent in the first quarter of 2004.

Quarterly prices for the domestically produced hot bar product for which the Commission collected pricing data decreased by 5.0 percent from the first quarter of 2001 to the first quarter of 2002, then rose by 8.3 percent from the first quarter of 2002 to the first quarter of 2003. Prices then increased significantly by 26.2 percent from the first quarter of 2003 to the first quarter of 2004 and continued to increase by 27.2 percent from the first quarter of 2004 to the first quarter of 2005.

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. The increased duties were reduced on March 20, 2003 (as scheduled), and subsequently terminated on December 4, 2003. Import licensing, however, remained in place through March 21, 2005, and continues in modified form at this time.

In 2002, the first year import relief was in effect, total imports of cold bar declined, while imports from covered sources declined sharply, and imports from sources not covered by the safeguard measure increased. Likewise, in 2003, total imports and imports from covered sources declined, while imports from noncovered sources increased. Between 2001 and 2003, the quantity of total imports declined from 265,037 short tons to 214,000 short tons, and their market share decreased from 21.6 percent to 18.0 percent. Imports from countries covered by the safeguard measure fell from 185,953 short tons to 102,067 short tons, and their market share declined from 15.2 percent to 8.6 percent. The quantity of U.S. imports from countries not covered by the safeguard measure increased from 79,084 short tons to 111,932 short tons, and their market share increased from 6.5 percent to 9.4 percent.

In 2004, following the termination of increased duties, total imports of cold bar increased by 25.4 percent to 268,437 short tons (18.6 percent of the U.S. market). Imports from covered sources increased by 52.6 percent to 155,765 short tons (10.8 percent of the market), while imports from noncovered sources increased by 0.7 percent to 112,673 short tons (7.8 percent of the market). Total imports of cold bar and imports from covered sources were higher in the first quarter of 2005 than in the first quarter of 2004, while imports from noncovered sources were lower. U.S. imports from covered sources accounted for 13.3 percent of the cold bar market in January-March 2005, while U.S. imports from noncovered sources accounted for 7.4 percent.

Automotive and construction applications provide major U.S. markets for cold bar. The value of U.S. manufacturers' shipments of transportation equipment increased by 7.6 percent from the first quarter of 2002 to the first quarter of 2005. Most recently, the value of U.S. manufacturers' shipments of transportation equipment has dropped by 5.8 percent from first quarter 2004 to first quarter 2005. The value of U.S. nonresidential construction put in place remained virtually unchanged from the first quarter of 2002 to the first quarter of 2005. All responding producers reported that demand for cold bar increased from March 2002 to December 2003, citing worldwide economic growth. Nearly all responding producers reported that demand increased from January 2004 to March 2005, citing increased demand in China in particular.

In 2002, the first year import relief was in effect, the domestic industry increased its share of the U.S. market from 78.4 percent to 81.5 percent, and in 2003, the domestic industry held 82.0 percent of the U.S. market. Consistent with trends in apparent U.S. consumption, output-related indicators such as production and shipments were relatively stable in 2002 and in 2003. Capacity utilization increased from 66.4 percent in 2001 to 69.0 percent in 2002, then declined to 68.4 percent in 2003. The capacity of the U.S. cold bar industry declined slightly in 2002 and increased slightly in 2003, while employment declined in both years and productivity increased in both years. The AUV that the cold bar industry received for commercial sales decreased from $647 per short ton in 2001 to $642 in 2002, then recovered to $645 in 2003. COGS declined modestly on a unit basis, notwithstanding an increase in unit raw material costs, reflecting lower direct labor and overhead costs. The domestic industry's operating margin increased from 4.8 percent in 2001 to 5.7 percent in 2002 and to 6.1 percent in 2003.

The domestic industry's share of the U.S. cold bar market slipped to 81.4 percent in 2004 and to 79.3 percent in the first quarter of 2005 (down from 85.4 percent in the first quarter of 2004). Consistent with trends in apparent U.S. consumption, production and shipments increased in 2004 and were stable or higher in January-March 2005 than in January-March 2004. Capacity utilization reached 79.8 percent in 2004 and was 70.9 percent in the first quarter of 2005. During this period, capacity was stable or increasing and employment rose, while productivity was stable or increasing. The AUV that the cold bar industry received for commercial sales increased to $864 per short ton in 2004 and to $945 in the first quarter of 2005. COGS also increased on a unit basis, reflecting an increase in unit raw material costs. The domestic industry's operating margin increased to 12.2 percent in 2004 and was 10.9 percent in the first quarter of 2005, up from 6.4 percent in the first quarter of 2004.

Quarterly prices for the domestically produced cold bar product for which the Commission collected pricing data decreased by *** percent from the first quarter of 2001 to the first quarter of 2002, then increased by *** percent from the first quarter of 2002 to the first quarter of 2003 and rose further, by *** percent, from the first quarter of 2003 to the first quarter of 2004. Prices then increased significantly by *** percent from the first quarter of 2004 to the first quarter of 2005.

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. The increased duties were reduced on March 20, 2003 (as scheduled), and subsequently terminated on December 4, 2003. Import licensing, however, remained in place through March 21, 2005, and continues in modified form at this time.

In 2002, the first year import relief was in effect, total imports of rebar declined, imports from covered sources declined sharply, and imports from sources not covered by the safeguard measure increased. U.S. imports of rebar exhibited a similar trend in 2003. Between 2001 and 2003 the quantity of total imports declined from 1,758,208 short tons to 1,019,007 short tons, and their market share fell from 21.0 percent to 11.7 percent. Imports from countries covered by the safeguard measure decreased from 1,246,359 short tons to 226,248 short tons, and their market share declined from 14.9 percent to 2.6 percent. The quantity of U.S. imports from countries not covered by the safeguard measure increased from 511,850 short tons to 792,760 short tons, and their market share rose from 6.1 percent to 9.1 percent.

In 2004, following the termination of increased duties, total imports of rebar increased by 88.1 percent to 1,916,854 short tons (21.4 percent of the U.S. market). Imports from covered sources increased by 388.8 percent to 1,105,947 short tons (12.3 percent of the market), while imports from noncovered sources increased by 2.3 percent to 810,907 short tons (9.0 percent of the market). Total imports and imports from noncovered sources were lower in the first quarter of 2005 than in the first quarter of 2004, while imports from covered sources were higher. U.S. imports from covered sources accounted for 6.8 percent of the U.S. rebar market in January-March 2005, while U.S. imports from noncovered sources accounted for 7.5 percent.

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 U.S. nonresidential construction put in place remained virtually unchanged from the first quarter of 2002 to the first quarter of 2005. Most responding producers reported that demand for rebar was flat from March 2002 to December 2003. Most responding producers reported that demand increased from January 2004 to March 2005, generally citing strong demand in China.

In 2002, the first year import relief was in effect, the domestic industry increased its share of the U.S. market from 79.0 percent to 83.8 percent. In 2003, the domestic industry held 88.3 percent of the U.S. market. Consistent with trends in apparent U.S. consumption, output-related indicators such as production and shipments decreased in 2002 (although to a lesser extent than apparent U.S.

consumption), and then increased notably in 2003. Capacity utilization increased from 74.9 percent in 2001 to 75.4 percent in 2002, then to 89.6 percent in 2003. The capacity of the U.S. rebar industry declined slightly in 2002 and in 2003. Employment increased in 2002 and decreased in 2003 whereas productivity first decreased then increased. The AUV that the rebar industry received for commercial sales decreased from $265 per short ton in 2001 to $257 in 2002, then rose to $282 in 2003. COGS first declined and then increased on a per unit basis. The domestic industry's operating margin hovered around zero between 2001 and 2002, then increased in 2003 to 3.8 percent.

The domestic industry held 78.6 percent of the U.S. rebar market in 2004 and 85.7 percent in the first quarter of 2005 (down from 86.7 percent in the first quarter of 2004). In contrast with trends in apparent U.S. consumption, production and shipments decreased in 2004 and were lower in January-March 2005 than in January-March 2004. Capacity utilization was 84.9 percent in 2004 and 80.6 percent in the first quarter of 2005. During this period, capacity remained stable, while employment increased, and overall industry productivity declined. The AUV that the rebar industry received for commercial sales increased to $436 per short ton in 2004 and to $470 in the first quarter of 2005. COGS also increased, but to a lesser extent, on a per unit basis, reflecting an increase in unit raw material costs. Therefore, the domestic industry's operating margin increased to 16.8 percent in 2004 and was 14.7 percent in the first quarter of 2005, up from 11.8 percent in the first quarter of 2004.

Quarterly prices for the domestically produced rebar product for which the Commission collected pricing data decreased by *** percent from the first quarter of 2001 to the first quarter of 2002, then increased by *** percent from the first quarter of 2002 to the first quarter of 2003. Prices then increased significantly by 41.7 percent from the first quarter of 2003 to the first quarter of 2004 and continued to increase by 24.9 percent from the first quarter of 2004 to the first quarter of 2005.

Adjustment Efforts of the Industries Producing Long Steel Products

Pursuant to section 204(d)(1) of the Act, the Commission collected information concerning the progress and specific efforts made by workers and firms to effect 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.

The legislative history of section 204 of the Act directs that adjustment efforts should be evaluated in light of existing economic conditions. As described above, demand for the products at issue was weak at the outset of the period of import relief, but then recovered, as demonstrated by rising consumption in the United States and abroad. The recovery in demand was accompanied by rising raw material costs. Over time, domestic prices rose as well, most noticeably during the period subsequent to termination of the increased duties.

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. In particular, Nucor Corp., the largest U.S. producer of steel using the electric arc furnace, or "minimill," method, has acquired all or part of the assets of four separate producers of hot bar, cold bar, and rebar (Birmingham Steel, North Star Steel, Slater Steel, and Fort Howard Steel). The North American operations of Gerdau acquired assets from Republic Technology, combined with Co-Steel to form Gerdau AmeriSteel, and acquired assets of North Star Steel. Gerdau AmeriSteel is now the second-largest North American minimill producer. In contrast, North Star Steel ended long product production and Republic Engineered Products restructured and emerged from bankruptcy substantially smaller, having reduced its hot bar capacity and closed permanently several 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. Finally, several companies - including

Nucor, Gerdau-Ameristeel, SDI, and Republic Engineered Products - have invested substantial sums in new technologies and made capital improvements.

In commenting on the import relief and adjustment efforts of the hot bar, cold bar, and rebar industries, domestic producers generally viewed the safeguard measures as effective, although impaired by what some producers viewed as early termination. Domestic producers pointed to rationalization of products and consolidation of operations, new investment, increasing productivity, and cost reduction. Some producers, however, expressed concern that the effectiveness of import relief had not been observed over an entire business cycle, and worried that the industry might remain vulnerable during an economic downturn. Their concern was heightened by the view that conditions outside the United States have not changed substantially, particularly with respect to capacity and subsidies.

Foreign producers and consumers focused on the steel industry broadly defined. Some commenters viewed the import relief and adjustment efforts as largely beneficial (despite some misgivings about their actual necessity), but sounded cautionary notes with respect to re-opened capacity and to the legacy costs that remained unaddressed. Other commenters questioned whether the remedy had, in fact, been necessary; whether it had inflicted greater social and economic costs than benefits; and whether industry consolidation, pension issues, and labor issues reflected the safeguard measures or longer term market and industry trends. Represented consumers groups, in particular, stressed the impact of the import relief on steel consumers in terms of direct costs and in terms of supply concerns, leading in some cases to bankruptcy or relocation outside the United States.

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. The increased duties were reduced on March 20, 2003 (as scheduled), and subsequently terminated on December 4, 2003. Import licensing, however, remained in place through March 21, 2005, and continues and continues in modified form at this time.

In 2002, the first year import relief was in effect, 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. In 2003, total imports decreased, as imports from noncovered sources declined modestly and imports from covered sources declined sharply. Between 2001 and 2003, the quantity of total imports declined from 2,829,403 short tons to 2,127,143 short tons, and their market share fell from 38.4 percent to 33.7 percent. Imports from countries covered by the safeguard measure decreased from 1,488,531 short tons to 623,188 short tons, and their market share declined from 20.2 percent to 9.9 percent. The quantity of U.S. imports from countries not covered by the safeguard measure increased from 1,340,871 short tons to 1,503,955 short tons, and their market share rose from 18.2 percent to 23.8 percent.

In 2004, following the termination of the increased duties, total imports of welded pipe and tube increased by 22.5 percent to 2,604,972 short tons (37.5 percent of the U.S. market). Imports from covered sources increased by 37.1 percent to 854,348 short tons (12.3 percent of the market), while imports from noncovered sources increased by 16.4 percent to 1,750,624 short tons (25.2 percent of the market). Total imports of welded pipe and tube and imports from covered sources were higher in the first quarter of 2005 than in the first quarter of 2004, while imports from noncovered sources were lower.

U.S. imports from covered sources accounted for 15.9 percent of the welded pipe and tube market in January-March 2005, while U.S. imports from noncovered sources accounted for 25.1 percent.

Welded pipe and tube is used in industrial, construction, automotive, and power generation applications, as well as in the oil market. The value of U.S. construction of utilities, pipelines, and railroads put in place decreased by 20.4 percent from the first quarter of 2002 to the first quarter of 2005. The value of U.S. nonresidential construction put in place remained virtually unchanged from the first quarter of 2002 to the first quarter of 2005. Nearly half of responding producers reported that demand for welded pipe and tube was flat from March 2002 to December 2003. Most responding producers reported that demand increased from January 2004 to March 2005, generally citing worldwide economic growth, strong demand in Asia, and an increase in domestic pipeline construction.

In 2002, the first year import relief was in effect, the domestic industry increased its share of the U.S. market from 61.6 percent to 62.4 percent. In 2003, the domestic industry held 66.3 percent of the U.S. market. Consistent with trends in apparent U.S. consumption, output-related indicators such as production and shipments decreased in 2002, then declined further in 2003. Capacity utilization increased from 60.4 percent in 2001 to 62.2 percent in 2002, then declined to 56.8 percent in 2003. The capacity of the U.S. welded pipe industry declined in 2002 and increased in 2003, as employment declined each year, while productivity decreased. The AUV that the welded pipe industry received for commercial sales increased from $570 per short ton in 2001 to $605 in 2002, and was $604 in 2003. COGS increased on a unit basis in 2002-03, reflecting an increase in unit raw material and overhead costs, despite lower direct labor costs. The domestic industry's operating margin moved from 5.6 percent to 6.8 percent between 2001 and 2002, and was 2.5 percent in 2003.

The domestic industry held 62.5 percent of the U.S. welded pipe market in 2004 and 59.0 percent in the first quarter of 2005 (down from 68.8 percent in the first quarter of 2004). Consistent with trends in apparent U.S. consumption, production and shipments increased in 2004 but were lower in January-March 2005 than in January-March 2004. Capacity utilization was 59.0 percent in 2004 but was 53.0 percent in the first quarter of 2005. During this period, capacity remained stable and employment declined overall, while productivity fluctuated. The AUV that the welded pipe industry received for commercial sales increased sharply to $887 per short ton in 2004, (versus $604 in 2003) and to $1,087 in the first quarter of 2005. COGS also increased on a unit basis, reflecting higher raw material, direct labor, and overhead costs. The domestic industry's operating margin increased to 13.7 percent in 2004 and was 9.1 percent in the first quarter of 2005, down from 14.6 percent in the first quarter of 2004.

Quarterly prices for the domestically produced welded pipe and tube product for which the Commission collected pricing data decreased by 8.1 percent from the first quarter of 2001 to the first quarter of 2002, then increased by 40.6 percent from the first quarter of 2002 to the first quarter of 2003. Prices continued to increase by 10.7 percent from the first quarter of 2003 to the first quarter of 2004 and then rose significantly by 54.6 percent from the first quarter of 2004 to the first quarter of 2005.

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. The increased duties were reduced on March 20, 2003 (as scheduled), and subsequently terminated on December 4, 2003. Import licensing, however, remained in place through March 21, 2005, though it has subsequently been modified to exclude fittings.

In 2002, the first year import relief was in effect, 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. Likewise, in 2003, the quantity of total imports and imports from covered and noncovered sources declined. Between 2001 and 2003 the quantity of total imports fell from 169,605 short tons to 127,459 short tons, and their market share decreased from 64.9 percent to 58.2 percent.

Imports from countries covered by the safeguard measure declined from 132,078 short tons to 99,661 short tons, and their market share decreased from 50.5 percent to 45.5 percent. The quantity of U.S. imports from countries not covered by the safeguard measure declined from 37,527 short tons to 27,798 short tons, and their market share deceased from 14.4 percent to 12.7 percent.

In 2004, following the termination of increased duties, total imports of fittings increased by 19.1 percent to 151,769 short tons (59.4 percent of the U.S. market). Imports from covered sources increased by 19.0 percent to 118,604 short tons (46.4 percent of the market), while imports from noncovered sources increased by 19.3 percent to 33,165 short tons (13.0 percent of the market). Total imports of fittings, imports from covered sources, and imports from noncovered sources were all higher in the first quarter of 2005 than in the first quarter of 2004. Imports of fittings from covered sources accounted for 49.8 percent of the U.S. market in January-March 2005, while imports from noncovered sources accounted for 13.1 percent.

Demand for fittings is driven principally by demand in the utilities and construction sectors. The value of U.S. construction of utilities, pipelines, and railroads put in place decreased by 20.4 percent from the first quarter of 2002 to the first quarter of 2005. The value of U.S. nonresidential construction put in place remained virtually unchanged from the first quarter of 2002 to the first quarter of 2005. A small majority of responding producers reported that demand for fittings was flat from March 2002 to December 2003. Most responding producers reported that demand increased from January 2004 to March 2005, citing strong demand in China.

In 2002, the first year import relief was in effect, the domestic industry increased its share of the U.S. market from 35.1 percent to 39.5 percent. In 2003, the domestic industry held 41.8 percent of the U.S. market. Consistent with trends in apparent U.S. consumption, production declined overall between 2001 and 2003, as did U.S. shipments. Capacity utilization decreased from 62.4 percent in 2001 to 56.5 percent in 2002, then declined to 52.7 percent in 2003. The capacity of the U.S. fittings industry increased in 2002 and in 2003, as did productivity, while employment decreased overall. The AUV that the fittings industry received for commercial sales decreased from $2,214 per short ton in 2001 to $2,160 in 2002, and was $2,175 in 2003. COGS declined on a unit basis in 2002, and increased in 2003, notwithstanding a decrease in unit raw material costs and direct labor, but reflecting higher overhead costs. The domestic industry's operating margin moved from 3.1 percent to 3.0 percent between 2001 and 2002, and fell to 0.3 percent in 2003.

The domestic industry held 40.6 percent of the U.S. fittings market in 2004 and 37.2 percent in the first quarter of 2005 (down from 44.5 percent in the first quarter of 2004). Consistent with trends in apparent U.S. consumption, production and shipments increased in 2004 and were higher in January-March 2005 than in January-March 2004. Capacity utilization reached 65.7 percent in 2004 and was 76.6 percent in the first quarter of 2005. During this period, capacity remained relatively stable and employment fluctuated, while productivity continued to increase. The AUV that the fittings industry received for commercial sales increased to $2,534 per short ton in 2004 and to $2,964 in the first quarter of 2005. COGS also increased on a unit basis, reflecting an increase in unit raw material costs. The domestic industry's operating margin increased to 9.4 percent in 2004, (versus 0.3 percent in 2003) and was 12.7 percent in the first quarter of 2005, almost double the 6.4 percent in the first quarter of 2004.

Quarterly prices for the domestically produced fittings product for which the Commission collected pricing data rose by *** percent from the first quarter of 2001 to the first quarter of 2002, then decreased by *** percent from the first quarter of 2002 to the first quarter of 2003. Prices then rose by 4.1 percent from the first quarter of 2003 to the first quarter of 2004 and increased significantly by 25.6 percent from the first quarter of 2004 to the first quarter of 2005.

Adjustment Efforts of the Industries Producing Tubular Steel Products

Pursuant to section 204(d)(1) of the Act, the Commission collected information concerning the progress and specific efforts made by workers and firms to effect 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.

The legislative history of section 204 of the Act directs that adjustment efforts should be evaluated in light of existing economic conditions. As described above, demand for the products at issue was weak at the outset of the period of import relief, but then recovered, as demonstrated by rising consumption in the United States and abroad. The recovery in demand was accompanied by rising raw material costs. Over time, domestic prices rose as well, most noticeably during the period subsequent to termination of the increased duties.

During the period of import relief, several tubular firms 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 (now Mittal Steel) 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.”

Domestic pipe and fitting producers did not submit additional comments on import relief and adjustment efforts by the respective industries.

Similarly, foreign producers and consumers did not directly address these industries, but rather focused on the steel industry broadly defined. Some commenters viewed the import relief and adjustment efforts as largely beneficial (despite some misgivings about their actual necessity), but sounded cautionary notes with respect to re-opened capacity and to the legacy costs that remained unaddressed. Other commenters questioned whether the remedy had, in fact, been necessary; whether it had inflicted greater social and economic costs than benefits; and whether industry consolidation, pension issues, and labor issues reflected the safeguard measures or longer term market and industry trends. Represented consumers groups, in particular, stressed the impact of the import relief on steel consumers in terms of direct costs and in terms of supply concerns, leading in some cases to bankruptcy or relocation outside the United States.

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 9 percent in the third year. The increased duties were reduced on March 20, 2003 (as scheduled), and subsequently terminated on December 4, 2003. Import licensing, however, remained in place through March 21, 2005, and continues in modified form at this time.

In 2002, the first year import relief was in effect, total imports of stainless bar, as well as imports from covered sources, declined, while imports from sources not covered by the safeguard measure increased. In 2003 total imports declined, as imports from covered sources decreased sharply and imports from noncovered sources decreased modestly. Between 2001 and 2003 the quantity of total imports declined from 115,392 short tons to 83,555 short tons, and their market share declined from 44.6 percent to 36.6 percent. Imports from countries covered by the safeguard measure decreased from 88,890 short tons to 50,975 short tons, and their market share fell from 34.4 percent to 22.3 percent. The quantity of U.S. imports from countries not covered by the safeguard measure rose from 26,501 short tons to 32,580 short tons, and their market share increased from 10.2 percent to 14.3 percent.

In 2004, following the termination of increased duties, total imports of stainless bar increased by 27.8 percent to 106,790 short tons (38.4 percent of the U.S. market). Imports from covered sources increased by 55.6 percent to 79,327 short tons (28.5 percent of the U.S. market), while imports from noncovered sources decreased by 15.7 percent to 27,463 short tons (9.9 percent of the market). Total imports of stainless bar, imports from covered sources, and imports from noncovered sources were higher in the first quarter of 2005 than in the first quarter of 2004. Imports from covered sources accounted for 31.0 percent of the U.S. stainless bar market in January-March 2005, while imports from noncovered sources accounted for 8.7 percent.

Major U.S. markets for stainless bar are in the aerospace, automotive, chemical processing, dairy, food processing, and pharmaceutical equipment industries. The value of U.S. manufacturers' shipments of transportation equipment increased by 7.6 percent from the first quarter of 2002 to the first quarter of 2005. Most recently, the value of U.S. manufacturers' shipments of transportation equipment dropped by 5.8 percent from first quarter 2004 to first quarter 2005. The value of U.S. manufacturers' shipments of stainless steel forgings increased by 25.5 percent from the first quarter of 2002 to the first quarter of 2005. Responses from producers were mixed regarding demand for stainless bar from March 2002 to December 2003. Most responding producers reported that demand increased from January 2004 to March 2005, citing worldwide economic recovery, particularly in the aerospace industry, and strong demand in China.

In 2002, the first year import relief was in effect, the domestic industry increased its share of the U.S. market from 55.4 percent to 57.6 percent. In 2003, the domestic industry held 63.4 percent of the U.S. market. Despite decreases in apparent U.S. consumption, output-related indicators such as production and shipments were generally stable in 2002 and 2003. Capacity utilization, however, decreased from 62.0 percent in 2001 to 60.0 percent in 2002, then declined further to 56.9 percent in 2003. The capacity of the U.S. stainless bar industry increased in 2002 and in 2003, although employment declined, while productivity increased. The AUV that the stainless bar industry received for commercial sales decreased from $3,431 per short ton in 2001 to $3,105 in 2002, then declined further to $2,929 in 2003. COGS declined on a unit basis as well, notwithstanding an increase in unit raw material costs, reflecting lower direct labor and overhead costs. The domestic industry's operating margin moved from negative 1.4 percent to negative 8.1 percent between 2001 and 2002, and was negative 6.3 percent in 2003.

The domestic industry's share of the U.S. stainless bar market decreased to 61.6 percent in 2004 and 60.3 percent in the first quarter of 2005 (down from 62.3 percent in the first quarter of 2004). Consistent with trends in apparent U.S. consumption, production and shipments increased in 2004 and were higher in January-March 2005 than in January-March 2004. Capacity utilization reached 77.0

percent in 2004 and was 79.7 percent in the first quarter of 2005. Capacity decreased in 2004 but was higher in the first quarter of 2005, as was employment. Productivity continued to increase. The AUV that the stainless bar industry received for commercial sales increased to $3,267 per short ton in 2004 and to $3,821 in the first quarter of 2005. COGS also increased on a unit basis, reflecting an increase in unit raw material costs. The domestic industry's operating margin increased to 4.8 percent in 2004 and was 11.6 percent in the first quarter of 2005, up from 6.6 percent in the first quarter of 2004.

Quarterly pricing for the domestically produced stainless bar product for which the Commission collected pricing data decreased by 9.4 percent from the first quarter of 2001 to the first quarter of 2002, then remained virtually flat from the first quarter of 2002 to the first quarter of 2003. Prices then increased by *** percent from the first quarter of 2003 to the first quarter of 2004 and continued to increase by *** percent from the first quarter of 2004 to the first quarter of 2005.

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. The increased duties were reduced on March 20, 2003 (as scheduled), and subsequently terminated on December 4, 2003. Import licensing, however, remained in place through March 21, 2005, and continues in modified form at this time.

In 2002, the first year import relief was in effect, total imports of stainless rod, as well as imports from covered sources, declined, while imports from sources not covered by the safeguard measure increased. In 2003, imports from all sources declined. Between 2001 and 2003 the quantity of total imports fell from 61,599 short tons to 33,519 short tons, and their market share decreased from *** percent to *** percent. Imports from countries covered by the safeguard measure declined from 58,045 short tons to 31,389 short tons, and their market share decreased from *** percent to *** percent. The quantity of U.S. imports from countries not covered by the safeguard measure decreased from 3,554 short tons to 2,129 short tons, and their market share decreased from *** percent to *** percent.

In 2004, following the termination of increased duties, total imports of stainless rod increased by 31.0 percent to 43,913 short tons (*** percent of the U.S. market). Imports from covered sources increased by 35.8 percent to 42,629 short tons (*** percent of the market). Imports from noncovered sources decreased by 39.7 percent to 1,284 short tons (*** percent of the market). Total imports of stainless rod and imports from covered sources were higher in the first quarter of 2005 than in the first quarter of 2004, while imports from noncovered sources were lower. U.S. imports from covered sources accounted for *** percent of the U.S. stainless rod market in January-March 2005, while U.S. imports from noncovered sources accounted for *** percent.

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. The value of U.S. manufacturers' shipments of metalworking machinery increased by 49.9 percent from the first quarter of 2002 to the first quarter of 2005. Half of the responding producers reported that demand for stainless rod increased from March 2002 to December 2003 as well as from January 2004 to March 2005, citing worldwide economic growth. Responses from the remaining producers were mixed.

In 2002, the first year import relief was in effect, the domestic industry increased its share of the U.S. market from *** percent to *** percent. In 2003, the domestic industry held *** percent of the U.S. market. Despite an overall decline in apparent U.S. consumption, output-related indicators such as production and shipments increased noticeably in 2002, then declined only modestly in 2003. Capacity utilization increased from *** percent in 2001 to *** percent in 2002, then declined to *** percent in 2003. The capacity of the U.S. stainless rod industry increased moderately in 2002 and in 2003, although employment declined, while productivity increased sharply. The AUV that the stainless rod industry received for commercial sales decreased from *** per short ton in 2001 to *** in 2002, then declined

further to *** in 2003. COGS also declined on a unit basis, reflecting a decrease in unit raw material costs as well as lower direct labor and overhead costs. The domestic industry's operating margin moved from negative *** percent to negative *** percent between 2001 and 2002, and was negative *** percent in 2003.

The domestic industry held *** percent of the U.S. stainless rod market in 2004 and *** percent in the first quarter of 2005 (down from *** percent in the first quarter of 2004). Consistent with trends in apparent U.S. consumption, production and shipments increased in 2004 but were lower in January-March 2005 than in January-March 2004 despite stable apparent U.S. consumption. Capacity utilization reached *** percent in 2004 but was *** percent in the first quarter of 2005. During this period, capacity increased but employment continued to decline, while productivity increased in 2004 but was lower in the first quarter of 2005. The AUV that the stainless rod industry received for commercial sales increased to *** per short ton in 2004 and to *** in the first quarter of 2005. COGS also increased on a unit basis, reflecting an increase in unit raw material costs. The domestic industry's operating margin increased to *** percent in 2004 and was *** percent in the first quarter of 2005, down from *** percent in the first quarter of 2004.

Quarterly prices for the domestically produced stainless rod product for which the Commission collected pricing data fell by *** percent from the first quarter of 2001 to the first quarter of 2002, then decreased by *** percent from the first quarter of 2002 to the first quarter of 2003. Prices then increased by *** percent from the first quarter of 2003 to the first quarter of 2004 and continued to increase by *** percent from the first quarter of 2004 to the first quarter of 2005.

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. The increased duties were reduced on March 20, 2003 (as scheduled), and subsequently terminated on December 4, 2003. Import licensing, however, remained in place through March 21, 2005, and continues in modified form at this time.

In 2002, the first year import relief was in effect, total imports increased in quantity, as imports from covered sources decreased modestly but imports from noncovered sources increased. Likewise, in 2003, total imports increased as imports from covered sources decreased but imports from noncovered sources increased. Between 2001 and 2003 the quantity of total imports increased from 31,101 short tons to 34,306 short tons, and their market share increased from 52.5 percent to 53.8 percent. Imports from countries covered by the safeguard measure decreased from 26,439 short tons to 22,806 short tons, and their market share fell from 44.6 percent to 35.7 percent. The quantity of U.S. imports from countries not covered by the safeguard measure increased from 4,662 short tons to 11,500 short tons, and their market share rose from 7.9 percent to 18.0 percent.

In 2004, following the termination of increased duties, total imports of stainless wire increased by 22.4 percent to 41,982 short tons (55.4 percent of the U.S. market). Imports from covered sources increased by 16.7 percent to 26,623 short tons (35.1 percent of the market). Imports from noncovered sources increased by 33.6 percent to 15,359 short tons (20.3 percent of the market). Total imports and imports from covered sources were higher in the first quarter of 2005 than in the first quarter of 2004, while imports from noncovered sources were lower. Imports from covered sources accounted for 44.3 percent of the U.S. stainless wire market in January-March 2005, while imports from noncovered sources accounted for 17.4 percent.

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 increased by 49.9 percent from the first quarter of 2002 to the first quarter of 2005. Most responding producers reported that demand for stainless wire was unchanged from March 2002 to December 2003. Most

responding producers reported that demand increased from January 2004 to March 2005, citing worldwide economic growth and improvement in the aerospace industry.

In 2002, the first year import relief was in effect, the domestic industry maintained its share of the U.S. market at approximately 47 percent. In 2003, the domestic industry's share of the U.S. market declined from 47.3 percent to 46.2 percent. Consistent with trends in apparent U.S. consumption, output-related indicators such as production and shipments increased in 2002, whereas in 2003, output-related indicators for U.S. producers declined at the same time that apparent U.S. consumption rose. Capacity utilization increased from 50.2 percent in 2001 to 53.7 percent in 2002, then declined slightly to 53.3 percent in 2003. The capacity of the U.S. stainless wire industry increased in 2002 and declined in 2003, while employment decreased and productivity increased. The AUV that the stainless wire industry received for commercial sales decreased from $4,742 per short ton in 2001, to $4,331 in 2002, and to $4,308 in 2003. COGS declined on a per unit basis, notwithstanding an increase in unit raw material costs in 2003. The domestic industry's operating margin moved from negative 1.9 percent to negative 6.8 percent between 2001 and 2002, and then reversed to a positive 0.4 percent in 2003.

The domestic industry held 44.6 percent of the U.S. stainless wire market in 2004 and 38.3 percent in the first quarter of 2005 (down from 46.1 percent in the first quarter of 2004). Consistent with trends in apparent U.S. consumption, production and shipments increased in 2004 but were lower in January-March 2005 than in January-March 2004. Capacity utilization reached 62.5 percent in 2004 but was 58.4 percent in the first quarter of 2005. During this period, capacity remained relatively stable until 2005 and employment first rose in 2004 and then was lower in January-March 2005 than in January-March 2004. Productivity followed the same pattern as employment. The AUV that the stainless wire industry received for commercial sales increased to $4,583 per short ton in 2004 and to $5,418 in the first quarter of 2005. COGS also increased on a unit basis, reflecting an increase in unit raw material costs. The domestic industry's operating margin decreased to breakeven in 2004 and was negative 3.1 percent in the first quarter of 2005, down considerably from the positive 5.2 percent in the first quarter of 2004.

Quarterly prices for the domestically produced stainless wire product for which the Commission collected pricing data decreased by *** percent from the first quarter of 2001 to the first quarter of 2002, then increased by *** percent from the first quarter of 2002 to the first quarter of 2003. Prices decreased by *** percent from the first quarter of 2003 to the first quarter of 2004 and then rebounded with an increase of *** percent from the first quarter of 2004 to the first quarter of 2005.

Adjustment Efforts of the Industries Producing Stainless Steel Products

Pursuant to section 204(d)(1) of the Act, the Commission collected information concerning the progress and specific efforts made by workers and firms to effect 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.

The legislative history of section 204 of the Act directs that adjustment efforts should be evaluated in light of existing economic conditions. As described above, demand for the products at issue was weak at the outset of the period of import relief, but then recovered, as demonstrated by rising consumption in the United States and abroad. The recovery in demand was accompanied by rising raw material costs. Over time, domestic prices rose as well, most noticeably during the period subsequent to termination of the increased duties.

During the period of import relief, one producer, Slater Steel, 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. Although Slater's facilities subsequently were idled when the company's parent entered bankruptcy, they have been acquired by Nucor and

Valbruna Corp. Several other stainless steel producers have made capital investments in their facilities to increase product offerings and reduce lead times.

In commenting on the adjustment efforts of the stainless bar, stainless rod, and stainless wire industries, U.S. producers focused on improved productivity, labor and other production cost reductions, R&D, and investment. Nonetheless, producers noted the lower level of import relief relative to carbon steel producers, and expressed concern about the expense of the investigative process, as well as product exclusions, country exemptions, and the timing of the ending of increased import duties.

Foreign producers and consumers focused on the steel industry broadly defined. Some commenters viewed the import relief and adjustment efforts as largely beneficial (despite some misgivings about their actual necessity), but sounded cautionary notes with respect to re-opened capacity and to the legacy costs that remained unaddressed. Other commenters questioned whether the remedy had, in fact, been necessary; whether it had inflicted greater social and economic costs than benefits; and whether industry consolidation, pension issues, and labor issues reflected the safeguard measures or longer term market and industry trends. Represented consumers groups, in particular, stressed the impact of the import relief on steel consumers in terms of direct costs and in terms of supply concerns, leading in some cases to bankruptcy or relocation outside the United States.