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Steel tariffs paint Bush into corner

Industries spar as controversial levy faces reappraisal

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Should President Bush give domestic steelmakers a break by keeping tariffs on imported steel in place, even if doing so hurts thousands of U.S. manufacturers?

That's the question at the center of a raging dispute between the nation's struggling steel producers and their steel-buying customers in the manufacturing sector. No matter which way Bush decides in this politically charged clash of interests, tens of thousands of American blue-collar jobs are at risk.

In part because the U.S. could face international sanctions unless it drops the tariffs, a number of observers predict Bush will use a federal agency's coming report as political cover to end the tariffs at the midpoint of their 3-year life span.

Steelmakers contend that the tariffs, imposed in March 2002, have worked well, providing the troubled sector with a chance to restructure and better compete with low-priced imports that had been threatening to topple the U.S. steel industry. They want the tariffs in place for another 18 months, as planned.

Ever since the tariffs were put into effect, however, U.S. makers of everything from barbecue grills to auto parts and bulldozers have complained loudly that the tariffs have disrupted steel supplies, raised their costs and made it harder than ever to compete with offshore competitors.

In many cases, these critics contend, the tariffs are giving U.S. manufacturers the last bit of encouragement required to shift production work, and American factory jobs, to other countries.

"We'll never know how many jobs were lost to China or Asia" as a result of the tariffs, said Bill Gaskin, head of the Consuming Industries Trade Action Coalition, an anti-tariff group. He concedes that the trend to offshore sourcing was well under way before the Bush administration stepped in.

"The ball was already rolling," said Gaskin. The tariffs "simply steepened the hill a little bit."

On Friday, the normally obscure federal agency known as the U.S. International Trade Commission will weigh in on the controversy, when it sends Congress and the president its

widely anticipated report assessing the matter.

The struggle over tariffs has pitted two ailing but politically powerful industrial groups against each other. And as the release date has neared, both have intensified their lobbying and public-relations campaigns.

Firmly in the corner of "Big Steel," the pro-tariff United Steelworkers of America union is planning "Stand Up for Steel" rallies Saturday in Washington, Pittsburgh, Gary and other steel-dependent regions, including Minnesota's Iron Range.

Steel users, including the automobile industry, have been just as vocal: This week, eight of Michigan's nine Republican members of the House of Representatives asked President Bush in a letter to eliminate the steel tariffs "at the earliest opportunity."

The trade commission is a quasi-judicial federal agency that investigates whether foreign companies are using unfair trade practices against U.S. industries. Often its reviews are low profile: One recent investigation examined Chinese crawfish-tail imports. The steel issue, loaded with political and economic overtones, has put the agency in the limelight.

Late in 2001, the commission closed a six-month review by reporting that overseas steelmakers were improperly "dumping" product in the U.S. at below-market prices. The agency recommended that President Bush impose tariffs of up to 40 percent for a four-year period. Bush could have ignored the finding and was widely expected to impose only very limited duties. Instead, he levied tariffs of up to 30 percent for three years.

The plan provides for the import tax to drop to a maximum of 24 percent after one year (that reduction has occurred) and to 18 percent after two years. The plan also called for the commission to review the situation after 18 months.

The tariff plan, predicted a Bush administration official at the time, "will give the U.S. steel industry the opportunity to get back on its feet but without having any detrimental effect on the U.S. economy."

In fact, there were effects. "Steel prices went nuts," after the tariffs were announced, said Gaskin.

Prices have eased

Prices that U.S. manufacturers pay for steel have eased significantly from their year-ago peak, he said, but they "are still impacting the ability of steel users to compete in the world market." Manufacturing rivals in other countries don't face similarly inflated material costs, he said, and U.S. factories are losing business as a result.

Initially, U.S. steelmakers found adjusting to the higher demand difficult. A year ago, Olson International Ltd., a Lombard-based metal-stamping concern that serves the automotive industry, began having trouble obtaining common types of steel, a company executive testified at trade commission hearings this summer.

On one occasion, purchasing manager Edward Farrer told the commission, Olson was forced to contact over 20 suppliers before it found one that could provide the 20,000 pounds of steel it was looking for.

"We paid 40 percent more for this material, had to pay for premium freight to deliver it and needed to work our plant overtime so we could deliver on time to our customer," Farrer said. Such a situation, he said, "is akin to 20 supermarkets being out of whole milk by the gallon."

Olson has responded to the situation by expanding output at its plants in Mexico.

Some outside observers suggest U.S. manufacturers may be blaming more of their troubles on tariffs than is justified. Economist Mark McMullen at the consulting firm Economy.com said that after the initial price spike and supply constraints, U.S. steel prices "have eased quite a bit."

But even if "steel-consuming industries weren't hurt all that much" by the tariffs, McMullen said, early 2002 "was a particularly inopportune time to hurt them at all," because the domestic economy was in the tank and a strong dollar rendered imported manufactured goods ultracheap.

Retaliation threatened

McMullen expects Bush to drop the tariffs relatively soon. Doing so, he said, would permit the U.S. to avert a potentially costly showdown with international trading partners.

In July, the World Trade Organization ruled that the administration's steel tariffs violate international trade rules. The U.S. has appealed that finding, but it is given little chance of winning when the appeal is heard in November. If the appeal fails, the European Union will have clearance to make good on a threat to strike back at the steel tariffs by imposing more than \$2 billion of retaliatory tariffs on U.S. exports.

Still, steelmakers are urging Bush to stay the course.

"The president's steel program is working," the American Iron and Steel Institute announced in an 11th-hour statement Thursday. In the first half of the program, the industry "has used the respite from illegally dumped imports to invest billions of dollars in consolidation" and increased efficiency, the institute said.

But work remains, the group said, and completing the industry's "work in progress" will require the tariffs to remain in effect for "the full three years promised."