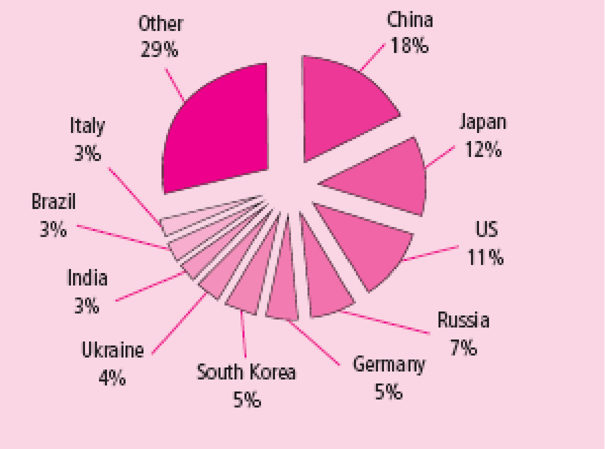
Trade war averted over steel tariffs

Case taken from The International Business Environment, second edition (Palgrave, 2006), by Janet Morrison

At the outset of 2002, the US steel industry was suffering from a number of woes. Costs of pensions and healthcare for some 600,000 retired workers had spiralled. Thirty-one steel companies were bankrupt and the list was growing. Many remaining companies were uncompetitive, but stronger companies were deterred from taking over weaker ones because of the potential bills for pensions and healthcare they would incur. Meanwhile, steel production in China has grown rapidly in response to domestic demand, gaining China an 18 per cent share of global steel production (see figure). Moreover, China's new plants produce steel of good quality and low price, giving the industry an edge in global markets.



Share of world steel production by country
Source: *Financial Times*, 9 April 2003.

US steel makers asked for a government bail-out of $21bn., along with other support for the industry, including the imposition of tariffs of up to 40 per cent on imported steel. Steel makers in other parts of the world were alarmed by this prospect, which looked like outright protectionism, prohibited under WTO rules. The US authorities pointed to the rule which would allow protectionist measures in the case of dumping, but there was no evidence of dumping – indeed, US steel imports had fallen by a third in the previous two years. Nonetheless, the US president announced tariffs of between 8 and 30 per cent on steel imported from a number of countries, including the EU, Japan, China, and South Korea, but not Canada and Mexico (which are NAFTA members) or some 80 developing countries.

The reaction of the EU was to launch a complaint to the WTO. It also announced emergency tariffs of between 14.9 and 26 per cent on imported steel, to prevent a flood of imports diverted from other markets. In the EU, the prevailing view was that US protectionism was masking problems in its steel industry which had evolved over the years: while European companies had gone through painful restructuring in the 1970s and 80s, to make them more competitive, the American steel industry had remained essentially the same structure for 25 years. Most of the companies, which are heavily unionized, suffered from high costs and overstaffing. Smaller, non-unionized 'mini-mills' were in fact much more competitive. The government, they argued, was seeking to protect the older inefficient plants.

A WTO dispute settlement panel was set up, following complaints by the EU and several other trading partners, including Japan, China and South Korea. The WTO ruled that the tariffs were in breach of trade rules, paving the way for retaliatory action against the US by the trading partners who brought the complaints. An increasing worry among European governments was the rise in imports diverted from Asia and South America, which had been destined for the US.

The EU announced sweeping trade sanctions on all manner of products, including citrus fruits from Florida and steel from Pennsylvania, designed to have maximum impact. Late in 2003, the US government backed down and rescinded the tariffs, which had been in place for nearly two years, following a final ruling by the WTO's Appellate Body that the tariffs violated WTO rules. Complaints by American steel-using manufacturers was a factor, which the government had to weigh against its wish to support the steel makers. The move was welcomed in Europe and Japan, as an indication of the robustness of the WTO when confronted with protectionism on the part of the world's most powerful trading nation. On the other hand, it was felt that the dispute had weakened the American position in calling for international trade liberalization. At the height of the dispute, the heads of the world's three main multilateral organizations, the IMF, the World Bank and the WTO, had issued a statement, condemning US protectionism, saying that it sent 'the wrong signal, threatening the ability of governments everywhere to build support for market-oriented reforms', and asking: 'How can leaders in developing countries or in any capital argue for more open economies if leadership in this area is not forthcoming from wealthy nations?' (de Jonquières, 17 May 2002).

Sources: Alden, E., 'Washington puts high price on steel industry bail-out', Financial Times, 14 February 2002; Smith, D., 'Steeling away', Sunday Times, 10 March 2002; de Jonquières, G., 'US attacked over trade curbs', Financial Times, 17 May 2002; Alden, E., de Jonquières, G. and Sanchanta, M., 'Bush bows to WTO and ends tariffs on steel', Financial Times, 5 December 2003; Kynge, J., 'Poised to undercut the world', Financial Times, 9 April 2003.

Case questions

What were the main factors which caused the steel dispute?

How would you assess its resolution in terms of strengthening worldwide adherence to the WTO's fair trade rules?

@ A website on the steel industry is at http://www.steelnews.com