

CATO INSTITUTE

POLICY FORUM

WHAT'S WRONG WITH THE STEEL INDUSTRY -- AGAIN?

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Moderator:

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Cato Institute

With:

Thomas Danjczek, Steel Manufacturers Association;
Charles Bradford, Steel Analyst; and
David Phelps, American Institute for International Steel

The Cato Institute

F.A. Hayek Auditorium

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P R O C E E D I N G S

MR. IKENSON: Welcome to the Cato Institute's F.A. Hayek Auditorium. I'm Dan Ikenson. I'm an analyst with the Center for Trade Policy Studies here at Cato. The mission of the Center is to educate the public and policymakers about the benefits of free trade and the cost of protectionism. Some of the Center's efforts to date in advancing this mission are documented in policy papers, op ed columns, interviews, and excerpts located on our Web site at www.freetrade.org.

This event is being broadcast live, and a recording will be available for viewing and downloading later this afternoon from that site.

Brink Lindsey, the Center's Director, brought me on in October to coordinate the project on anti-dumping reform. The purpose of the project is to bring continuous attention to the economic irrationality, dubious administration, and unfair consequences of the anti-dumping laws. In the spring, we will release a policy paper on the proliferation of foreign anti-dumping orders against U.S. companies, which is currently a fairly under-appreciated side effect of the government's support for anti-dumping measures at home.

Several other studies highlighting the burden placed on various U.S. constituencies by the government's support of

anti-dumping will be forthcoming as part of that project. Of course, the largest abuser of the U.S. anti-dumping laws, the steel industry, may be spotlighted more than others.

While the focus of today's discussion is not anti-dumping specifically, we are here to address "What's Wrong with the Steel Industry -- Again?" Yes, this is deja vu all over again. In fact, just over two years ago, the Center for Trade Policy Studies hosted an event to discuss the steel "crisis" of 1998. At that time, much like today, the steel industry was trying to force quotas upon imported steel, badgering Americans into feeling false guilt and obligation in its Stand Up For Steel Campaign.

Then, as now, the cause for steel's woes was a combination of poor corporate decisions and macroeconomics. Then, as now, hundreds of firms in dozens of industries experienced falling profitability, layoffs, and even bankruptcies. Then, as now, workers in the steel-using industries, who outnumber steel workers by a margin of at least 40 to 1, will bear an enormous burden if steel's wish list of quotas, surcharges, and loan guarantees prevails.

And why should it prevail? There is nothing unique about steel's woes. Rather, it is its insistence on blaming foreign competition that is uniquely steel's approach, and its refusal to weed out and prune back inefficient capacity that has

this industry tumbling over backward whenever it faces even moderate financial head winds. What is puzzling is that steel's perspective still carries enough weight to pose a credible threat to the process of multilateral trade liberalization and the WTO itself.

The industry employs less than 200,000 workers in a 135-million-worker economy. The industry's collective market capitalization is smaller than many individual American companies in other industries. And it accounts for only \$30 billion of value added in a \$10 trillion economy. Yet, steel's problems are hyper-magnified through an elaborate, well-organized network of public relations and lobbying efforts. It's no wonder resources to address the real problems are scarce.

Now, more than ever, for reasons that transcend steel, it is time to see these issues resolved. The past 15 months, commencing with the meltdown in Seattle, have brought U.S. laws into question and leadership under stress. Certain features of the anti-dumping regulations, the Anti-dumping Act of 1916 itself, crucial aspects of Section 201, the CVD law's approach to privatization, and the Foreign Sales Corporation law have all been found to violate various WTO agreements. And the incendiary Byrd Amendment is currently under challenge. This session, Congress will have to bring these measures into compliance or renege on our obligations at the WTO.

Meanwhile, about 100 regional free trade agreements have commenced since passage of the URAA, the Uruguay Round Agreements Act, to which the U.S. is a party in exactly zero. As multilateral negotiations have stalled, other nations have moved forward to continue realizing the benefits of liberalized trade. It appears certain that USTR will have to agree to at least put anti-dumping on the table if a new round is to be launched later this year in Qatar.

The steel industry, which has virtually no stake in foreign markets, will be lobbying to ignore our obligations and oppose a new round at enormous expense to the majority of Americans who benefit from free and open markets here and abroad. Because the process of multilateral trade liberalization hangs in the balance, steel's problems are our problems, so we struggle together in search of ideas.

Here to discuss the problems and potential solutions is a highly regarded panel of experts. David Phelps is President of the American Institute for International Steel; Tom Danjczek is president of the Steel Manufacturers Association; and Charles Bradford is a Wall Street steel analyst, whose reports are widely circulated and valued in the industry. Each of the panelists will be allotted approximately 15 minutes to make his presentation. After each has spoken, there will be an opportunity for panelists to rebut, refute, elaborate upon, or

challenge any points made by other panelists. After that, the panelists will take questions from the audience.

Our first speaker today is David Phelps, President of the American Institute for International Steel. Phelps joined the AIIS in 1996, and is responsible for helping AIIS fulfill its mission to support free trade and economic growth through competition in the steel trade, and to oppose protectionist barriers to trade, including tariffs, non-tariff barriers, and subsidies.

Prior to joining AIIS, Mr. Phelps worked as a Customs and steel products consultant. He was also an officer at the American Iron and Steel Institute, where he was employed for nearly 15 years. Mr. Phelps holds an M.A. in economics from Virginia Tech and a B.S. in economics from George Mason University. Please join me in welcoming Mr. Phelps.

(Applause.)

DAVID PHELPS,

AMERICAN INSTITUTE FOR INTERNATIONAL STEEL

MR. PHELPS: Good morning. I am pleased to be able to address the Cato Institute and guests on this rather vexing problem.

The announcement for the forum today says, "For the second time in less than three years, the U.S. steel industry is in crisis mode." This would make it seem that the domestic steel industry has had a couple of tough years, and that somehow the sequence of events is an unusual occurrence that requires and deserves special attention by the government.

Well, as I'm sure everybody here must know, it's not an unusual occurrence for the steel industry to be in crisis. But this time the crisis is serious. The number of bankruptcies makes it different. Why? We believe that the chickens have come home to roost. Thirty years of living in a protected market have given us a classic example of why protection does not create competitive industries. We believe that there is a role for the government to play, fashioning a market-based incentive program that would encourage the consolidation of some companies and facilities and the shutting down of non-economic capacity.

It seems to many observers that the history of the steel industry is one of lurching from crisis to crisis. Each time the steel markets soften, the domestic industry has successfully persuaded presidents that they need protection to survive. The problem was always imports, and the solution was protection.

We have a different view, outlined in a book we sponsored in June 2000, "Paying the Price for Big Steel: \$100

Billion in Trade Restraints and Corporate Welfare". This book outlined the history of steel trade policy, how the domestic industry has skewed investment, competition and risk at crucial points in the last half of the 20th century, and instead chose the siren song of protection.

Not only has the industry received various forms of protection since the last 1960's, there have also been direct and indirect subsidies at the Federal, State and local levels. According to our study, the value of this special treatment was from between \$90 billion and \$151 billion. Who pays for the protection? Steel consumers, who employ over 40 times more people than the steel industry itself. From the perspective of trade and economic policy, this is a clear case of the tail wagging the dog.

Our study has been criticized on the basis that it was written "by lawyers representing the Japanese steel industry." Let me read to you the five-and-a-half-year-old quotation:

"Our larger integrated steel producers spend millions in lobbying Congress for protection. In addition, steel company political action committees and the Steel Workers Union contribute more than \$700,000 a year to favored congressmen. Justifiably, they expect this to provide the best protection money can buy." That was Kenneth Iverson, then chairman of Nucor

Steel. I don't think he was representing the Japanese industry at that time.

So, what's wrong with the steel industry -- again? How did we get to this, the 2001 chapter of the steel trade saga? First of all, there are some underlying causes affecting not only steel but all of manufacturing: the strong dollar, the explosion of energy prices last year, and the softening of demand in some sectors.

However, for steel, the short answer is price increases. Demand was strong and lead times were increasing at the end of 1999, the beginning of 2000. The domestic industry announced a series of price increases during this period, with the last one scheduled for July 1st, 2000. The specter of increasing prices created a buying frenzy by customers. In fact, exactly one year ago today, domestic mills were heavily booked, with long lead times, and many customers were on allocation.

Consumers tried to avoid price increases by stepping up buying of both domestic and imported material. By the time summer came, it was clear that the bloom was off the rose. Inventories were way too high and prices began to tumble. After the market began to soften, imports ordered earlier when the market was strong continued to arrive.

Unfortunately, these imports added more pressure to the market. Panic selling at any price by weakened producers who

were trying desperately to stave off bankruptcy added significantly to the pressure on prices, as did the new mini-mill capacity that came on line last year at this particularly disadvantageous time. By the end of the year, inventory levels were high, bankruptcies were making the headlines, including the fourth largest company, LTV.

As usual, the domestic industry refrain focused on imports. And now, in addition to the perennial demands for more and more liberal trade laws, in some quarters there is a renewed call for yet another round of quota protection and subsidies.

Well, after nine years of dumping cases, what have we learned? The same lesson as always: protection does not create a competitive industry. The steel industry stands out as the clearest example of the folly of protectionism.

We have heard steel companies argue that their foreign competition is unfair, illegal, and now I've even heard import competition described as criminal. Of course, it is also argued that if only the industry's foreign competitors would trade fairly, there would be no problem. There are two problems with this argument.

First, the domestic industry can only meet 75 percent of steel demand in the United States; and, second, there's not one foreign steel producer of any consequence left in the entire world that has not been sued for illegally dumping in the United

States. Yes, even our Canadian and Mexican NAFTA partners. Of course, the industry itself is the largest importer of foreign steel products, doing what steel customers are condemned for: getting the best price as possible.

Finally, it is interesting to note that at current price levels, the vast majority of steel exported by the domestic industry is below total costs. In other words, U.S. steel producers are dumping.

It should now be clear to everyone that, simply put, some steel companies' survival has been due solely to protection. The large number of bankruptcies in this downturn underscores the truth of that statement. Several adverse circumstances mentioned above, along with the downturn in prices in the second half of 2000, triggered a march to bankruptcy -- companies that were so weak that they couldn't survive this downturn that occurred during a period of strong demand. And if the market doesn't turn, and turn quickly, we believe that there will be even still more Chapter 11 bankruptcy announcements.

Somehow it's difficult to argue that the problems are all the fault of imports. Consider two companies, LTV and U.S. Steel. They have the same union, the same iron ore, the same coal, the same limestone, essentially the same products for similar customer lists. There is much longer list than even that. And LTV came out of bankruptcy in the early 1990's

essentially debt free. Yet, one had a good year for profits in 2000, at least on an operating basis, even with a poor fourth quarter; and the other one is in Chapter 11, again.

Under the circumstances, how can it be argued that imports are the determining factor and even more protection is needed?

Is this the entire story? No. It's clear that some companies don't want or need special treatment. They have used the time under protection to become internationally competitive. Look at AK Steel. It was one of the weakest companies in the 1980's and now it's the strongest. Just two weeks ago, AK blasted a plan by the State of Ohio to funnel over a \$100 million to the weak steel companies of that State. On the other side, some complain that it was not enough money.

We believe that had we lived in a free and open market over the last 30 years, there would have been an orderly exit of steel companies who lost their ability to compete. Arguably, other producers would have acquired the good parts of those companies. Thirty years of protection have delayed the day of reckoning for now. For some, it has now come, or come again.

The new Bush administration has inherited this difficult situation. As discussed above, the desperate actions of the weak companies played a significant in creating the current weak steel market, and they also played a role in

depressing the share values of virtually all steel-producing companies -- some to absurd levels.

It is clearly not in the interest of the strong companies' customers or the workers to repeat the mistakes of the past and, through protection and subsidies, prop up the weak U.S. producers for yet one more business cycle. We believe that doing that for the weak players in the market will only result in continued price suppression as they strive for cash flow. The strong will be hurt.

So, with all this history as background, what should the government do? If not protection, then what?

We believe that it is important for the government to play a role in cleaning up this mess. It was, after all, the government's support, via protection, that put us on the course that brought us here. However, any actions taken by the government to alleviate the situation should have as their primary goal encouraging the restructuring and consolidation of the industry using market incentives. Tax incentives, such as accelerated depreciation, similar to the systems of most of the U.S. industries' foreign competitors, should be considered as one element of the solution. Such proposals would help make the stronger companies stronger, improving their ability to participate in the restructuring.

Another idea put forward by the SMA, involving legacy costs, also deserves serious consideration. At no time should the government even consider any action that is contrary to our WTO obligations. The Bush administration will have enough trouble cleaning up the mess created by the steel industry protectionists before launching a new round of trade negotiations; we do not need to make that job any more difficult.

In the end, what we do know for sure is that trade protection has not worked in the past, and it will not work again if we try it. Steel customers and suppliers have to compete in the rough-and-tumble world of international competition, and international competition has forced some out of business. Remember the U.S.-based ferroalloy industry, or even the equipment supplier, Mesta. It is time for the domestic steel industry to compete on the same basis as their suppliers and customers.

Finally, we at AIIS have as our basic trade policy opposition to trade barriers and trade-distorting practices, including subsidies. We know that many in the domestic industry believe that there are both trade-distorting practices in a non-economic capacity overseas. To the extent that these allegations are true, such practices distort free trade and hurt U.S. producers.

We would support international efforts, perhaps in line with the failed multilateral steel agreement originally suggested by President Bush, Sr., that would have as its goal elimination of subsidies and true free trade. We encourage President Bush to take decisive steps to solve this, the most vexing trade and industrial problem facing his administration.

Thank you for your time and attention.

(Applause.)

MR. IKENSON: Thank you, Dave, for that often smothered perspective on trade.

Our next speaker is Thomas Danjczek. Mr. Danjczek joined the Steel Manufacturers Association as President in February of 1998. The SMA consists of 53 North American companies that operate 128 steel plants and employ approximately 70,000 people. The SMA is the primary trade association for the scrap-based electric arc furnace steel makers, i.e., the mini-mills, representing approximately half of the steel produced in the United States. The SMA has 147 associate members that supply goods and services to the steel industry.

Prior to the SMA, Mr. Danjczek was an executive with Wheeling-Pittsburgh Steel Corporation, which he joined as General Superintendent of steel making in 1983. From 1970 to 1983, he was a supervisor with Bethlehem Steel Corporation and Kaiser Steel Corporation.

Tom earned his bachelor's degree in mechanical engineering at Villanova University and a master's degree in industrial management at Perdue University.

Please join me in welcoming the current President of the Steel Manufacturer's Association here in Washington, Mr. Thomas Danjczek.

(Applause.)

THOMAS DANJCZEK, PRESIDENT,
STEEL MANUFACTURERS ASSOCIATION

MR. DANJCZEK: Thank you, Dan, very much.

I would like to thank Dan and Brink Lindsey for inviting us today. When he was kind enough to call for the invitation, I asked if I should bring my own rope to hang myself with. And his reply was, "Bring a wire rope." So, there was a little humor there.

(Laughter.)

MR. DANJCZEK: But we are pleased to be here today. We changed our title a little bit, from "What's Wrong with the Steel Industry," and I don't know if you can see that or not -- it's awfully bright. Briefly, what I'd like to do today is tell you who I represent, talk for a moment about the impact of the trade situation to our segment of the industry, discuss a few

recommendations, and conclude with some long-term and some short-term actions.

First, let me tell you who I represent and the group that I'm with. The Steel Manufacturers Association represents 53 North American companies, in Canada, the U.S., and in Mexico. We have 146 associate members. We operate 125 plants. We employ about 120,000 people. We represent mini-mills, and mini-mills are electric arc furnace scrap-based producers, with continuous casters.

Today we represent approximately half of U.S. steel made. And to put that in context for a moment, last year our industry domestically made about 109 million short tons. We made 47 percent of that, or approximately, I think, about 48 million tons, something in that magnitude, or 50 million. And last year we imported about 35-37 million tons. So, it gives you an idea of our size.

We're very proud of our contribution to recycling. We are the largest recycler in the U.S., and last year we recycled over 70 million tons of steel.

Our members continue to grow due to their efficiency and quality, due to very flexible organizations, and we're expected to surpass 50 percent of the industry this year. And there are projections out there by people smarter than I am who say that it we'll hit 60 percent by 2010.

This slide isn't for the details but just to show you the context of the lay of the land of where we are in our industry. Our domestic shipments are about 110 million tons. And you can see that since 1990, domestically, we've exceeded per capita consumption. And we were low, 80 million tons back in the early nineties, and that has had about a 20-percent increase to today in domestic shipments. You can see that imports have grown from the 20-million-ton class to approximately 35 to 40 million tons. And so that change of market share of imports has grown from about 20 percent to approximately 30 percent. And that's just done to give you a tone of the magnitude of the numbers we're talking about.

This is a quote by Alan Greenspan. It's the one thought that I do want to get across to you today. Dan's comments would put us all under one tent as a steel industry. I would offer to you that it is not one steel industry. I would read this quote: "As you know, we really have two steel industries in this country. One is based on older technologies, and the other is the mini-mills, which are evolving at a very dramatic pace." And somebody named Alan Greenspan said that about a year ago.

It's difficult to tell you what's going on in trade in one slide, but I'm going to try. The core problem, like an albatross hanging around our neck, is that, in a word, except for

North America, there's too much world steel-making capacity to serve too little world steel demand. That problem occurs not only in somebody else's backyard; it occurs in our backyard also.

The magnitude of that problem is that we as a world, and I talk now in metric tons, ship about 750 to 800 million tons. Approximately 200 to 300 million tons, or a magnitude of 25 percent by some, is viewed as excess capacity. The effect of that, even for the efficient mini-mills, is that it limits our ability to promote shareholder value, to maintain production facilities, and to provide adequate supplies of steel.

We went through a lot of bumps in the last three years. And the solution is here. And there will be disagreement on our panel. And Mr. Bradford and I and Mr. Phelps and I have had many interesting conversations. We are going to show some actions that we think need to be done in terms of prompt, coordinated, comprehensive, and equitable.

Before I do that, let me take you through, I think, six trade principles. Some of them will agree with the principles of the Cato Institute, some might disagree.

But, first and foremost, markets involved in fair trade -- not the government -- must determine, in the steel industry, the winners and losers. But the salient words on that first statement is markets involved in "fair trade." And that's

where there will be some disagreements: in the definition of what is "fair trade."

Second, and very important to us -- but not agreed to by the entire steel industry but agreed to by the members of the Steel Manufacturers Association -- government assistance to troubled steel companies for continued operations or legacy costs is unacceptable. That assistance is unfair to those steel companies who are not troubled. Government funding to aid displaced workers from closed facilities, for retraining and relocation is encouraged. No bailouts. It's not fair. It's just blatantly not fair.

Third, the government should prevent the provision of loan or grant fundings from any U.S. agency or international financial institution in which it participates for maintenance or expansion of foreign steel-making capacities and also oppose availability of such funds from other governments through their financial institutions. Building new mills when we already have 25 percent capacity doesn't make a lot of sense to us.

Three more. Trade relief accorded to the steel industry should be nondiscriminatory and industry-wide, with the exception of the relief provided under unfair trade cases. We don't think that we're special, to use my children's expression. We're part of an overall manufacturing base.

Fifth, American mills must remain as free as possible, consistent with standards of fair competition, to consolidate, specialize, rationalize, restructure, merge, acquire, or be acquired. This is a statement somewhat opposed to what the steel workers came out with recently, where they wanted to limit foreign ownership.

Sixth, and finally, to achieve a truly level playing field, it is essential that trade measures be consistent with the multilateral trade agreements that the U.S. is a party to. While I have certain members who would love to say to hell with the WTO, it's not going to get us anywhere. It's not going to get us anywhere with this administration, and we're going to have to play by the rules.

I'm going to talk of three short-term actions and a couple of longer-term actions following that. We do believe that import relief that returns to pre-crisis levels should be accomplished as soon as possible and remain in place for a sufficient number of years to permit the steel industry to adjust to serious injury sustained from imports of the three years, 1998 to 2000.

I do not expect my two co-panelists to agree with that. They might agree that the U.S. steel industry in 1998 got hit with 11 million tons of imports in a five-month period that absolutely cut the legs out of our market. The administration

should designate a senior White House official to coordinate the work of USTR -- who I see in the audience here -- and executive branches to achieve prompt, significant, and lasting relief for steel imports. It does need, as Mr. Phelps suggested, a more comprehensive solution.

Third, the administration should implement a transparent system of automatic import licensing modeled after the Canadian system that they've used in Canada for several years. This is WTO-acceptable.

Three, longer-term actions. We do believe, under whatever words you all choose to use, whether it be multilateral steel agreement or whatever the terminology is, with that excess capacity I've referred to previously being a core problem, not the sole problem, the administration should undertake concerted efforts to negotiate international steel agreements, whose principle objective is to eliminate or at least substantially reduce the uneconomic or excess capacity overhanging domestic demand in countries outside of North America, which, as I said, is the root cause of the predatory imports flooding the American market.

Second, the administration should ensure that it coordinates the steel adjustment program with NAFTA trading partners, to choose the greatest possible equity of conditions within this NAFTA region.

And the final point is what Mr. Phelps I believe touched on a little bit, and that is another possibility is to alter business tax policy. That could take place in several areas. A change in depreciation schedules would foster obsolescence, and to initiate a border adjustable tax just makes good sense. But the reason it's on the long-term actions is that we do not believe those things are going to occur very quickly, but it makes sense for us as a country to do it.

Let me conclude with three thoughts. First, mini-mill competitiveness is only a partial solution. Why? I stand before you today and tell you that some of the mills that I am employed by are some of the most efficient mills in the country. Scrap-based electricity, man-hours less than one man-hour per ton, et cetera, close to their markets. That by itself, in view of the trade impact we've gone through the last three years, doesn't solve the problem.

Even Nucor, who Dave quoted earlier -- Mr. Iverson, the chairman -- has recently gone through significant trade changes. And I found it interesting to look and to try to evaluate why they went from an organization that said no trade actions, never, to a group that filed recently two cases -- one on rebar and previously on heavy structural -- and their basic thought was that things have changed. That it's a logical progression that if they did not go after those markets relative to the use of the

trade laws, they would not be exercising their fiduciary responsibility to the shareholders.

To quote Paul Wilhelm from U.S. Steel, dumping like smuggling is illegal, and if it's illegal you have the right to go after it. If it's wrong, you have the right to go after it. You may not like it, but it's certainly within our prerogative to do so, and it is legal to do so.

I find it somewhat amazing the criticism of the number of trade cases that are filed when I see even a higher number being filed in Europe. We are the only place in the world that steel comes. Our doors are open.

Second point: Survival of an economically efficient competitive steel industry to supply the majority of its domestic steel requirements is of national interest. I am obviously a little prejudiced because that's who I'm paid by, but I would offer to you that we need a competitive steel industry. That 70 million tons I talked about that is recyclable, you don't want that in your landfills. It makes good economic sense to recycle that material, both from an energy point of view and from a recycling point of view.

I would offer that a vibrant, competitive steel industry, not a subsidized steel industry, is a core component of our manufacturing base. I would offer that domestic supply -- and there are several customers I know who are in the audience

today and I would love to hear them comment on the fluctuations that occurred in their markets -- that you need both imports and domestic supply.

And the final point I'd like to make, which if you want to look through what we're doing and what is our motivation, it's really summed up in this last point. We need to ensure access of domestic steel producers to private debt and equity markets to maintain this sector. We're not terribly important on Wall Street. I think you're going to hear Mr. Bradford commenting on that. We need a competitive industry to be able to continue to support the businesses that we're in.

Thank you very much.

(Applause.)

MR. IKENSON: Thank you, Tom. I didn't mean to blur the distinction between the integrated mills and the mini-mills. There are clearly some differences and, judging from the SMA proposal, certainly some similarities.

Our next speaker is Charles Bradford. He is the President of Bradford Research. Chuck has been a metals analyst for more than 30 years, and most recently he was the senior steel analyst at Smith Barney, and prior to that with UBS Securities. He has been the senior metals analyst with Merrill Lynch for 14 years.

Besides being President of Bradford Research, Inc., an international consulting firm, he is Chairman of Steelswap.com, and Internet startup, focused upon logistical cost savings for steel service centers.

Chuck has been placed on Institutional Investor Magazine's All American Research Team 26 times. In 1996 he was ranked as the number one metals analysts for stock picking by the Wall Street Journal. On six separate occasions, he was ranked as the number one steel analyst on Wall Street.

He has also represented the United States at various U.N. metals conferences, and has been an advisor to various companies, both domestic and foreign, and U.S. government agencies, including the Office of Technology Assessment and the Pension Benefit Guarantee Corporation. Chuck was the President of the Steel Analysts Group in New York for the 1998-1999 year.

He has an MBA in finance from the Wharton Graduate Division of the University of Pennsylvania, and a B.S. degree from the University of North Carolina.

Please join me in welcoming the current President of Bradford Research in New York, Mr. Charles Bradford.

(Applause.)

CHARLES BRADFORD,
STEEL ANALYST

MR. BRADFORD: Good morning. You all have copies of my presentation, so I am not going to read it to you. If you don't have a copy, it's outside on one of the tables. I figure you can read as well as I can. I do have a number of slides and a number of points that I would like to make, and, basically, let's get started.

As Dan said, I've been an analyst, covering the steel industry, for 36 years. I can't remember any time during that period, beginning in 1965, when the steel industry hasn't sought protection from imports. Every time they've been weaker after protection than before.

Well, what is the story? Clearly, a lot of companies are in financial trouble -- again. In reality, some never got out of trouble. There are lots of reasons for the problems. I think the strong dollar is maybe as critical as any. Government subsidies generally at the State and local level have been very harmful. Managements and unions have also been a contributor.

But let's talk about some of the fallacies. First of all, one of the comments you'll hear very often about the steel industry is that we have the lowest costs in the world. Patently not true. There are some low-cost producers here, such as

members of Tom's mini-mill industry, but there are an awful lot of very high-cost producers. If you were to look at a cost curve -- one of our competitors publishes it quite often; other people publish cost curves -- you'll see that U.S. integrated producers among the highest costs in the world. Now, some of that is because of the dollar. But it is fact, they are high cost.

Secondly, a lot of the mill people, a lot of the union people, claim they have the highest qualities in the world. Also patently wrong. Now, it varies a lot by grade of product, and most of the product in the U.S. is perfectly acceptable. But to say that we've got the highest quality is just not factually accurate. In fact, the U.S. mills have gotten a lot of aid from foreign producers to improve quality.

If I were to rank quality today, I'd say Japan is number one; Usinor, of France, is number two; Dofasco, in Canada, is number three; and number four would be AK Steel, of the U.S. But that is in particular products called coated steel, which happen to be one of the better value-added products.

Military use, that's another big one. I mean, we've had senators get up before Congress, especially on the Don Evans hearings, on his appointment, and talk about how steel is so important for the military defense of the United States. According to the American Iron and Steel Institute, the segment called ordnance and military accounted for 0.0 percent of the

market last year -- 0.0 -- all of 28,355 tons, against an industry that shipped 109.6 million tons domestically. And that's not counting imports. If you added imports, it would be less than 0.0 percent -- if that's possible.

The last fallacy that I'd like to hit upon is that imports are the cause of the problem. I think they're a symptom; they are not the cause. A lot of situations that the mills caused themselves encouraged imports last year. They ran up spot prices very rapidly, beginning in late 1999. Their customers, a lot of whom are service centers or warehouses, hedged to beat the price increases. They double-ordered steel from domestic mills. Domestic mills aren't stupid. They saw some double-ordering and they cut back on sales to certain of their customers or new customers.

What did those people do? They bought foreign steel. The problem is it takes five to six months for the foreign steel to come. So, what happens? The market turns weaker in the U.S. because of the excess inventories in place; at the same time, the foreign steel keeps coming. No matter what the administration does today, or Congress does today, we're going to see lower imports. It's already preordained, because orders fell beginning in May. Add five months, six months, later to that and you see lower imports. This is a natural event. It is not the catastrophe people make it out to be.

Let's talk about what the industry really is, because there really are three steel industries. Mr. Danjczek's industry, the mini-mills, melt scrap. They melt scrap. More than half their cost at times is the cost of scrap. The beauty of scrap is that the price goes down in an economic downturn. So their costs are variable. In a downturn like we have had -- and the steel industry has had quite a downturn since last May -- the cost of scrap has fallen. Therefore, mini-mill costs go down.

The integrated steel companies, by contrast, have very, very high fixed costs. If they lose any volume, their cost per ton soars. So, they are in a situation where, in a downturn when prices fall, their costs go up. I can't think of a worse situation to have. With mini-mills, when their prices fall, their costs fall. There may be a bit of a margin squeeze, but they don't get destroyed.

Then the third segment of the industry are the specialty steel companies, who usually get sacrificed whenever there are import quotas or other import relief because of the way these programs tend to work. These are the better growth companies. It really should be called the nickel or chrome industry. Steel is the wrong word for it, because the nickel and chrome determines the value of the product. But there are three separate industries that are called steel.

Now, let's talk about the problem. We would say that the overall problem, sort of on a macro basis, is maybe 60 to 70 percent caused by the government and maybe the rest is split evenly between the managements and the unions. I should point out that there is an interesting correlation. Now, this correlation -- and I'm being kind of facetious a bit -- but it really works. Of all the steel companies that have failed, with one sort of exception that really never got started, they've all have United Steel Workers of America representing the membership, or the employees.

There's actually a much higher correlation between USWA membership at failed steel companies than there is between lung cancer and tobacco smoke. Now, it doesn't mean you get rid of the steel workers union and you save the industry. That just happens to be an interesting correlation. There's also one that says 98 percent of all children eat bread and half of them will be below average.

(Laughter.)

MR. BRADFORD: Anyway, we can play with numbers a lot. A lot of people play with numbers. One of the problems in the steel industry is you've got to be really careful in the numbers you use. There are a lot of bad numbers out there.

But the strength of the dollar, I think, is the biggest problem. Excess capacity, frankly, I don't think it's as bad as

people say it is; it does exist, however. Let me give an example. The official Japanese capacity figure is 145 million tons. Last year they did 106. They couldn't have done 110 if they had wanted to. The problem is the definition of capacity. They used the biggest piece of equipment in the mill. They can never, ever achieve that. We use, in this country, a much better definition, which is the bottleneck, what you really supposedly can produce. So, some of the excess capacity doesn't exist.

Okay, let's go on to State and local subsidies. I've given you a couple of examples in my talk about products that are a problem, where the State has subsidized reopening of old mills, built new mills, and, of course, imports are blamed.

Permit delays I think is something the government can do something about. Steel Dynamics, one of Tom's member companies, has been delayed two years in building a new mill by delays in permits. I'm not saying change the environmental laws, just speed up the processing of the permits. Every year that's 15 percent added to costs. That's a huge amount of money.

I said management has made a lot of mistakes getting into the wrong products. A good example is rail. There are three companies today that want to build new rail mills in the U.S., when the two existing producers are running at 50 percent of capacity. And each one of the three new ones would have

enough capacity to meet 100 percent of the market. Now, this doesn't make any sense, but they'll blame imports.

And then, as I said, inaccurate data. One of the best examples last week was a silver company that closed its mine in Idaho. What did they do? They blamed imports. I mean, it's a commodity.

Let's talk about a few of the other issues that I think are important. For example, there are steel companies that make money in the U.S. Okay, let me do "Solutions" first. This is a list of them. They're in your handout. You can see them as well as I can.

Okay, what can the industry do? Consolidate. Consolidate. Consolidate. Reduce costs. Consolidate. Consolidate.

I want to get to a slide that shows comparative costs. This shows you that there are some companies that make money. Look at the ones that are above the line. You can see that. Clearly there are differences within companies. They're all selling to the same market at the same price with the same imports. Imports aren't the problem; they're just a symptom of the problem.

Let's talk a bit about why other situations, quotas, and all won't work, or 201 cases at the same time of quotas won't work. They'll shelter the industry. They'll keep the

inefficient around. They won't let normal economics cull the bad acts.

And then let me end up, since I'm about of time, with a quote from a former Secretary of Commerce, Philip Klutznik, who I believe was back in the Carter administration. His solution for the steel industry -- and this is a very rough quotation -- was to use a bull dozer, flatten the industry, start over again, and build it correctly.

Now, that's part of the problem. We've got a lot of issues here to raise. We've got a lot of funny numbers. Last year volume was good. Actual spot prices were up. Why did the industry do so badly? Costs were up and the big customers took their strength out on the relatively weaker steel companies. That's why consolidation is important.

And with that, let me close.

(Applause.)

MR. IKENSON: Thank you, Chuck. Thanks very much.

Each of the speakers left some materials out, and I hope that everybody was able to collect them. I know Chuck may not have been able to get to everything that he had intended to say, which may be the case with the other speakers as well, but I want to give the panelists an opportunity to address one another. A lot of information was presented here, and I was curious as to whether anybody has a question for another panelist.

MR. PHELPS: I'll start. Tom, there's absolutely no question that there is -- and I prefer the term "non-economic capacity" as opposed to "excess" -- there is non-economic capacity in the world. Would you acknowledge that that also was a problem in the U.S.?

And as sort of a second part of that, to kick off a discussion, our concern with a 201, particularly if it's a 201 layered over the existing dumping orders, is that you're really putting in place a system that's going to keep alive the very non-economic mills that need to go by the wayside.

MR. DANJCZEK: On your first point, if I may, David, in terms of excess capacity occurring in the U.S., I heard a quote that I'll steal from somebody else who said that "It's not that we're overbuilt, it's that we're under demolished." And so there may be some truth to that.

I would offer that in the segment of the industry I represent, just in the last six weeks or so, there were two significant announcements of capacity going out. All-Steel, Lamont, said they're closing their doors, and GS Industries, who just went into Chapter 11, announced the shutdown of their Kansas City facility. So, that excess or non-economic capacity can happen not just around the world; the U.S. has some also, integrated and mini.

Your second question was what?

MR. PHELPS: One of the concerns we have is that among the solutions being kicked around is that a quota scheme under the 201 statute, which at least has some arguable benefit of being WTO-consistent, would layer another scheme of protection over this market and would do nothing more than give a lifeline to some of these companies that we truly need to see get out of the market.

MR. DANJCZEK: Among my membership there is a very mixed advocacy of a 201. I had 12 of my members go through a 201 a year ago this time when I arrived. And the remedy they received, due to the politicalness of the process, was like kissing your sister. Imports today of wire rod are higher than they were a year ago. However, the 201, as you all know better than I do -- I know there are a lot of trade lawyers out there and I'm not -- the 201 is not just against unfair or dumped steel, but it's against the surge. And I suspect that we could show that surge. I think it's a question of how well we can show that injury or not. So, I think time will tell there, David, but the reason it's advocated is because of its WTO consistency.

MR. PHELPS: And your organization does therefore advocate adding the 201 to existing dumping orders that are in place now? Or you haven't addressed it?

MR. DANJCZEK: We have addressed it. And I think, because of the politicalness of the 201 process, we will have to

determine the degree of support both from this administration, which is unknown, and from the congressional pressures. We view it as a viable option and do not want to take it away, but no case has been filed yet.

MR. BRADFORD: I'd like to add just one comment. It has been my experience, especially in quotas that have been put into place in the past, that you get usually unintended consequences, and usually you end up doing more harm than you saw.

For example, there were quotas, I guess in the early sixties, after a surge of imports following a 115-day strike in the U.S., that caused the stainless steel companies to almost go belly up because quotas were put in tons not in value. And what is someone going to do when they import product? They're going to import the higher-value tons. So, you end up losing your most profitable market. That's what happened. I think that will happen again.

Even in quotas that have become more sophisticated in subsequent times, where they have defined different product categories, there are still products within categories that have various and substantial differences in value and in profitability. You'll give the importer the high-profit products, and the domestic mills will be left with the low-profit products -- a very, very bad error.

MR. DANJCZEK: May I ask a question, please?

MR. IKENSON: Please.

MR. DANJCZEK: I'd like to ask either Dave or Chuck whether either thinks we need a domestic competitive steel industry.

MR. PHELPS: I'd be happy to answer that. Most of my members believe -- and I think you'd be hard pressed to argue to the contrary -- that without an efficient, competitive industry, our customer base would be strangled. We simply can't rely on imports to supply the majority of the market. Members who are involved in trading have different numbers that they think would be the ceiling for imports -- 30-30 percent.

Whatever that number is, there is clearly a point at which the domestic consuming sector relying on imports would be rendered less competitive. That said, the alternative is also true. We simply can't manufacture sufficient quantities or varieties or qualities of different kinds of steel. We need to import. Imports do two things. One, obviously they fill the void; and, two, they give the domestic consumer of steel leverage on his domestic suppliers. And I don't think too many people in business like to be without leverage when they're buying anything.

MR. BRADFORD: Well, the way you worded your question, you sort of loaded it a bit by talking about a competitive

industry. And of course a competitive industry is fine. I mean, I think we all encourage it. I know we will do better financially. The problem is, do we have a competitive industry?

I think a point was made that your group represents half of the steel shipped in the U.S., but you only have a third the number of employees. Now, that should tell you something right there. The other half has two-thirds of the employees. Let me give you a couple of numbers.

Bethlehem Steel's employment cost as a percent of sales -- and you have to be a little careful with just man-hours per ton because there are some companies that make a very simple product and have very low man-hours versus other companies that make a much more sophisticated product and have much higher man-hours -- so, employment cost as a percent of sales is a reasonable measure. Bethlehem Steel and LTV have over 30 percent employment cost as a percent of sales. Nucor is 10 percent. There is a huge difference.

POSCO in South Korea has maybe 20 percent more people than LTV does but three times the output. That is within the same product category or the same integrated steel process. That tells you the whole story. The U.S. mills, the integrated mills, are not terribly competitive. Now, I happen to think this is a good time for them to have to become competitive. Because the people who would be let go -- and maybe it's 20 or 25 percent of

the work force -- actually happens to correspond very well to the number of steel workers, union members, who are already eligible for retirement. Roughly 20-25, maybe as many as 30 percent, of the existing work force is eligible for retirement today.

The other reason why it's a good time is the low unemployment figure. You're not putting people out on bread lines. There are jobs out there. I might not say the same thing if we were at 6 percent unemployment.

MR. DANJCZEK: If I may, I would like to make one point back on David's question on the 201, which I failed to do. And that is, David, that 201 is viewed by my organization as a stopgap measure until some longer-range solutions can be done. That's why it's on our short-range hit list or work list, because certainly long-range there are some international problems that need to be resolved.

MR. BRADFORD: I would suggest that quotas and some of these programs are not likely to be looked upon very favorably on Wall Street. Clearly, I can't talk for all Wall Street firms, but I know all the analysts on Wall Street, and we all recognize that you're looking at a long-term issue. And any program that has a short-term duration, you have to anticipate what will happen at the end. And it generally does not look very good.

MR. DANJCZEK: Chuck, you mean it can get worse?

MR. BRADFORD: Oh, yes.

MR. IKENSON: This is a very intelligent, enlightened conversation, and I think at this time we would like to perhaps try to get the audience involved. If there are any questions out there, if anyone has a question, please raise his or her hand, and a man or a woman will come over with a microphone. And before presenting your question, please state your name and affiliation. And please limit it to one question.

MR. BORE: I'm Christian Bore, with American Metal Market.

Given the Bush administration's unknowns concerning steel policy and the recent edicts that are coming out of OMB that so-called corporate welfare should be, at the very least, a low priority and at the worst, completely cut from budgetary matters, and also the fact that the Bush administration seems to be willing to support any type of corporate tax breaks, can you in any way address where you think this may go? It varies on both sides, in terms of their support for this issue.

MR. DANJCZEK: I'd be happy to address it, if that's all right.

I think there are probably three columns, Christian. I think there's a column that we can probably project is going to happen. There's probably a column that we could project is not going to happen. And then there are some unknowns. To think that this current administration is going to do something about

bailouts and grow subsidies is pretty highly unlikely. On the one side, I would say no. On the other side, it is likely, I think, in view of what Mr. Zoellick and others have said, that some degree of international negotiations and dialog, in terms of his background, is certainly going to take place.

So, now, somewhere between the two, I do not know personally where this administration stands on the 201, and I am not ready to put that in either column yet, because I just don't know. We're waiting for some lieutenants to be named and we're waiting for a dialog to be established.

MR. PHELPS: It's hard to come to much of a different conclusion, but I think there's one fairly significant items and it needs to be added to the mix here. And that is the ambitions of the Bush administration on trade, both hemispheric and at the WTO. President Bush made it very, very clear during the campaign that these were very important items for his tenure in the White House.

It is also very clear that right now the biggest problem facing a successful addressing of those challenges is, in fact, steel industry protectionism. And not just because of the problems in the United States, but particularly because of the problems at the WTO, whether it's the 1916 dumping act, the CVD, the 201 injury issue, the Japanese hot-rolled margin case. I

mean, the list is very, very long at the WTO of complaints against the United States.

It's absolutely clear to anyone who looks at it with even a reasonably unbiased -- and I confess I don't have that -- but even a reasonably unbiased eye that we have a serious problem primarily caused by abusive trade laws in the United States. It needs to be addressed before our trading partners are really going to feel free to give the U.S. back sort of the leadership mantle at the WTO. I think that became very clear in Seattle, and I think it has to be addressed.

Then the conclusion is that something is going to have to be done to get the steel industry out of the way. And I think that percentage is very difficult to come up with, but it argues for some kind of what we hope is a market-based package that provides incentives to the industry as opposed to bailouts and relief.

MR. DANJCZEK: I personally think that there are a lot of things that the administration can do somewhat relatively easily that could be helpful to the industry. And I have listed some of them in that presentation. But we have situations, for example, where one steel mill has had a strike, therefore a lockout, after the union decided to go back to work, for three and a half years. Well, the railroad union involved wouldn't

cross the picket line of the Steel Workers Union because of the violence of the United Steel Workers of America.

The Railway Labor Act arbitrator just ruled they were within that right because the Steel Workers of America is a violent union. At the same time, the NLRB rules that they're not a violent union. You can't have it both ways. These are things that can be straightened out, I would hope, relatively easily. Maybe I'm just naive, and I don't live in Washington, but there is a whole series of these kinds of things that could be helpful.

MR. IKENSON: A question, sir?

MR. GRISWOLD: Dan Griswold, with the Cato Institute, and I have a question for Mr. Danjczek.

Your first proposal is import quota relief and a system of rolling back imports to where they were at a previous point and then holding that for four years. Now, the steel industry has had protection on and off for the last 30 years, and mostly on. And I believe from 1984 to 1992 we had a system of voluntary quotas. And during that time the steel industry was consolidating and losing about 10,000 jobs a year. Why would quotas this time around lead to an adjustment that doesn't seem to have happened over the last 30 years?

MR. DANJCZEK: I think it goes back to the premise, Dan, that our industry, including the mini-mills sector, has been damaged by predatory imports. And it merely -- "merely" may be

too strong a word -- is a reaction for a timeout to get a breath. We are, in North America, the only place that I know of in the world -- and I've traveled to most of the Japanese mills, European mills, Eastern European mills, South African mills -- that is open.

While I do agree with Mr. Bradford that we may not be the lowest cost, we certainly among the lowest cost. And as demonstrated by that book on the global steel trade that Mr. LaRusso did last year, there had been some gross harm done to our industry. And, therefore, based on that, it's a period of time for this industry to get its breath, to go forward. That may not be acceptable to you, but I hope I've answered your question.

MR. DANJCZEK: There's a question right here.

MR. OSTROFF: Yes, I'm Jim Ostroff, with Kiplinger. Actually, a question for all three panelists.

As you all know, at the request of members of Congress, the Commerce Department is investigating to determine whether the importation of steel slabs as well as taconite should be restrained, restricted, banned, whatever, on national security grounds. And I'm just interested from each of you for your position on this, whether there is any merit to this, any merit to limitation, and what such a limitation would mean for the industries. Thank you.

MR. BRADFORD: I'd like to start off by pointing out that it might be the taconite industry itself that may be a major part of the cause of the lack of competitiveness of the U.S. steel industry. It takes one and a half tons of steel pellets to make a ton of pig iron. U.S. taconite costs are outrageously high compared to what the Japanese or Europeans or Brazilians or South Africans or Koreans use for iron ore.

The fact of the matter is we used up all of our good iron ore. So, they process stuff that is worse than waste in other parts of the world in order to make it usable. That is not competitive. And, by the way, I know that costs are a key part of the cost structure of the integrated industry. Military use is 0.0 percent. It was 28,355 tons last year. This is the year 2000 according to the American Iron and Steel Institute. I don't think it's a real issue.

I do have a slide, which I didn't show, that sort of gets at that issue a bit. I know they took it away, but maybe you can sort of see it. And what it is is two lines. There's one line, the blue line, that shows the price of Brazilian slabs FOB Brazil. And this starts in the year 1989 and goes through the year 2001, actually, our first quota data in there. The red line is the price of hot-rolled coils in the U.S. They're almost identical. The two go together.

So, there isn't any problem in my mind with imports of slabs, which the mills are doing. I mean, it really relates to the price of finished product. If you didn't have slab imports, there would be a real problem in the U.S. We don't have enough steel to make the capacity; we shouldn't build it. We don't have the good iron ore to support it. If you were to eliminate slabs as an import, you would have a more volatile work force in terms of number of employees. You'd have much bigger layoffs and much bigger swings, because the slab imports are used to take the peaks out of the cycle. I think it makes sense.

MR. DANJCZEK: I'll comment briefly on it. And I'm going to read from something that Mr. Johns from Nucor did last week, David, with you down in Tampa. And he makes three points, and I think I'll steal his because it's smarter than what I can do.

"In today's environment an integrated mill would have to have his head examined to invest in a new hot end or a facility even if they could get the financing." So, that's reason one. You're not going to invest in a front end. Point two that he makes is, do we like the notion of dump semi's? Certainly not. Do we understand the motivation? We certainly do.

And the final point I'd like to make is a personal one, having been involved in this industry in bringing in semi's for

the last 20 years. Those finishing end jobs that those semi's provide are very important to us. So, that has to be understood also. Thank you.

MR. IKENSON: I don't know exactly where we are in time. We got started a little bit late, but I imagine we have time for a couple more questions.

MR. DANJCZEK: It was not the domestic industry that caused us to start late.

(Laughter.)

MR. IKENSON: Dave, comments?

MR. PHELPS: Yes, just a quick one because there are some other questions.

First of all, a 232 investigation on slabs and taconite, or whatever it is, is just pure silliness. It doesn't make any sense. Slabs are imported because customers need them for the same reason that hot-rolled sheets and cold-rolled sheets and galvanized sheets and pipes and tubes are imported. Customers want them. They want to buy them. They generally get a discount off domestic prices. You have to. You have to have a small discount in order to import larger quantities with a longer pipeline. One of the things that I haven't had a chance to say is imports come in because people buy them, not because there's some grand, vast conspiracy to undermine the U.S. steel industry.

MR. BRADFORD: I would like to make one point that I frankly should have made before. There may be a solution coming to a lot of these issues. And that involves Enron. You probably know Enron as a large natural gas pipeline and gas-producing company, but they're also very active in trading various commodities. And they are beginning to trade steel as a commodity, such that you would have one price worldwide.

Now, they're going to do it initially on hot-rolled, cold-rolled, and coated. It will spread. The difference between what they're doing and other e-commerce solutions is that they're actually acting as the principal. They're not just trying to interface between a steel maker and a customer. They will buy the steel from anybody. Initially they're starting in the U.S., but if it works it will be worldwide at one price. They will adjust it for freight. They will sell to anybody with, I think, a \$10-per-ton spread. No commission. That would, if it is successful, eliminate a lot of these issues. There would be no dumping because you can always sell to Enron.

MR. IKENSON: Yes, another question?

MR. SOLARZ: Thank you. I'm Barry Solarz with the American Iron and Steel Institute.

I would say that, notwithstanding Tom Danjczek's comment that we really have two steel industries in the United States, and leaving aside some pretty obvious facts about what

companies are currently able to do in terms of production vis-a-vis the U.S. auto industry in the Great Lakes area, that when it comes to dumped, subsidized, and disruptive steel imports, we really have only one steel industry in the United States. And, in fact, the position, whether it's AIIS or SMA or whether it's the specialty steel industry, is pretty much the same right now. And that is that we need a period of import stability.

So, I would ask this question of Mr. Phelps in particular and then give Tom, I think, a chance, if that's acceptable to you all, for a rebuttal to what I'm sure Dave will say. But I would ask Dave why he believes that whether it's Nucor, leaving aside your 10-year-old quotes for Mr. Iverson, whether it's Nucor today, whether it's SDI, which had extremely good profits, whether it's AK Steel, which has been cited several times before, or whether it's other specialty steel producers as Mr. Bradford put it, all of them, all of them are supporting the retention of an effective U.S. anti-dumping law. In fact, a number of those companies, including SDI and others are very much for more.

MR. IKENSON: Mr. Solarz, is there going to be a question?

MR. SOLARZ: Yes. Would you comment on those observations.

MR. PHELPS: I want to make this quick because I'm really dying to hear what Charlie is going to ask. He's coming out of his chair. Don't let him leave without getting Charlie's question.

It's pretty simple, Barry. The domestic steel industry has become accustomed to sort of client treatment from the government. They like protection. It generally results in higher prices in the U.S. market. The weaker companies can continue to exist and produce and limp along or, as I said in my comments, lurch from crisis to crisis. I heard years ago Mr. Iverson acknowledge that it was the steel quota system that built the first flat-rolled mill that Nucor produced.

I would argue that the integrated mills ought to think very carefully about this issue in much the same way that the auto companies who got quotas on imports of cars from Japan ended up inflating the balance sheets dramatically of the Japanese industry and causing the Japanese industry to have so much money they invested in the United States and took another bite out of the U.S. car industry.

I think that the excess profits made at the expense of U.S. steel consumers as a result of protection, holding the prices up higher than they are in the world markets, is inflating the balance sheets of the mini-mills. And I think if you look at the growth of mini-mills in the United States versus the growth

of the mini-mill anywhere else in the world you will see that the U.S. mini-mills are very, very different.

There isn't a mini-mill industry virtually anywhere else like the U.S., and it's due to the excess profits they were able to make in a wonderfully protected market. So, I would caution the integrated -- not that I expect they'll take my advice -- but I would caution the integrated steel producers that they're sowing the seeds of their own destruction with these quota programs.

MR. DANJCZEK: I'd like to make a point. I thank you for making the point. It was a very good point, and I may have failed to make it. The entire domestic steel industry, whether integrated, mini-mills, or specialty steel groups, the SSINA -- the Committee on Pipe and Tube happens to be in the room today, and others, Bar Products, et cetera -- all do support that form of import restraint.

The argument that this room could go on with all afternoon is how much those imports damaged us over the last three years. I cannot disagree with Mr. Bradford in his analysis of a strong dollar, et cetera, et cetera. But, clearly, when you have the surge that we went through the last three years, it affected our industries. And the entire industry is supportive of the one measure, of import restraints.

MR. IKENSON: We have time for one last question.

Charlie?

MR. BLOOM: I am Charles Bloom. I have a consulting company in town.

And this question is not the question I intended to ask, but I think it might be useful to introduce this. Americans have a limited, let's say, sense of history. And we're talking about this problem today as if this were the first time in human history that these problems have been faced. And I would really appreciate the comments of the panelists on the European experience.

Since 1985, the Europeans have, in a mixed series -- this was not sequential -- they have eliminated subsidies. They have opened their market. They have privatized their companies. They have dismantled all the support systems of the European union and the member states. And they have radically -- "radically," to take Chuck Bradford's word -- consolidated their industry.

Yesterday, the largest merger in the history of the steel industry was announced in Europe. It's only the beginning of what will be a process within Europe and around the world. But I'm wondering what the panel sees as the differences between the European approach and the U.S. approach. And I would

particularly go to the issue of legacy costs and the issue of subsidies. Thanks very much.

MR. DANJCZEK: Charlie, if I can, I'll take first shot at it. And that is, as you know, in the time I have spent in Europe studying that, the Europeans have a very fundamental difference. Their legacy costs, be it medical or be it retirement, are borne by the states. In Germany, France, et cetera, when you retire, your retirement and your medical are borne by the state. That is not our system in this country. So, that's a very fundamental difference.

Second, you know the size of those subsidies. We may argue the dollar amount that occurred between the sixties and the eighties in Europe. And you're well aware, as I previously mentioned, of a number of cases. It's hard to believe that the European Union beat us out in a number of cases filed in the last couple of months. So, things aren't perfect there either.

MR. PHELPS: I have a couple of comments. First, on the European system. Those cases were filed. It will be interesting to see how they're handled, because the dumping law in Europe is fundamentally different. And I would be very happy to adopt a number of its provisions, such as minimum duty and prospective duty payments and a few other technical things that glaze my eyes over when I get too far into the discussion.

But, fundamentally, the difference between the U.S. and the European experience, I think, is the Europeans -- this is an American perspective, and I apologize if I step on any toes -- I think they learned their lesson. The taxpayers finally figured out that subsidizing the steel industry is a never-ending proposition.

Billions upon billions of dollars, or tens of billions of dollars, later, they did the right thing. They privatized the firms and they cut off the subsidies. And they're rather unforgiving when it comes to requests for subsidies anymore.

What we see is a strange, inverted universe in the United States, where just the opposite is happening. I would give the Europeans credit. At least when they subsidized, every time there was an equity infusion into a -- pick a firm -- Usinor, British Steel -- the government said, "Well, now we own part of your firm." They took a piece of the action. It got to the point where the subsidies overwhelmed the private equity and then the government owned the firm.

In the United States, we just seemed to shovel money with no accountability. So, there is a difference in the way we subsidize. And subsidies simply are not the way to go. I don't think there's any question. Ask a European official from the 1970's or 1980's whether he thinks it's a good idea to subsidize

the steel industry. I don't think you'll get an equivocal answer.

The bottom line is, as one of my friends once said, "If you subsidize something, you get more of it." I think that's absolutely appropriate and clear here. If you subsidize something, you will get more of it. And what we're getting now is very, very poor marginal capacity operating in the U.S. market. When things go south, they are the most desperate. They are the ones who, during this past cycle, we believe were a major cause in over shipping to our customers and price suppression. If we protect them for another business cycle, we'll be back here in two or three more years having the very same discussion -- as we were two years ago.

MR. BRADFORD: Let me make a couple of points. First of all, the whole issue of legacies and legacy costs vary dramatically by the company and by the country. I mean, clearly, Canada has national medical insurance. Companies don't pay now; they don't pay later.

In the U.S. we've got some companies that have fully funded pension plans and some companies with grossly under funded pension plans. We have some companies with retiree medical care liabilities that run into the billions of dollars on the balance sheets, and some with none. A lot depends upon the way you're structured.

Canada doesn't pay for this medical insurance out of printing paper money. The taxes cover that money. So it gets paid out of some other pocket. But it still gets paid for. The same thing is true in Europe.

As one sort of side comment, if you want to look at Europe as a whole, you can say, yes, they're a net exporter. But look at individual European countries. Germany is a gross importer to a greater extent than we are. They also export a lot. But steel does move around. It's very bad to generalize. And I think quotas -- 201 or whatever -- will make the matter worse, not better.

MR. IKENSON: I know there are more questions out there, but I'm afraid time is up. But if you have questions, feel free to corner any of the panelists upstairs in the Winter Garden. You're all invited to have lunch with us. Thanks once again to the panelists, and thank you all for coming.

(Applause.)

(Whereupon, the Cato Institute Policy Forum concluded.)