Biography Brief

USX

PAUL J. WILHELM

President
U.S. Steel Group
a unit of USX Corporation

Paul J. Wilhelm is president of the U. S. Steel Group of USX Corporation and a member of the corporation's board Of directors. His responsibilities include the steel and domestic ore operations as well as the diversified businesses of the corporation.

A Pittsburgh native, Mr. Wilhelm began his career with U. S. Steel at the former National Plant in McKeesport, Pa, following graduation in 1964 from Carnegie Mellon University with a bachelor's degree in mechanical engineering. Moving through a series of production positions at the National Plant, he became assistant superintendent of the seamless pipe mill in 1975. He held that post until 1980, when he was transferred to the Texas Works near Baytown as superintendent of the 48-inch pipe mill. The following year, he moved to Fairfield Works in Alabama to head the two-year construction of a stateof-the-art seamless pipe mill there.

Mr. Wilhelm served as manager of the pipe mill until 1986, when he was promoted to general manager of Fairfield Works. He was named general manager-tubular products in Pittsburgh in 1987. and was promoted to the post of vice president-technology and management services for the U.S. Steel Group in 1992. In 1993, he was named president of USS/Kobe Steel Company, the partnership formed by USX Corporation and Kobe Steel,

-more-

USX

Ltd. to own and operate the Lorain (Ohio) Works. He was named vice president-operations for U. S. Steel Group in 1994 and was elected president later that year. He was elected to the USX board of directors in 1995.

Mr. Wilhelm is a member of the Association of Iron and Steel Engineers (AISE), chairman of the American Iron and Steel Institute (AISI), chairman of the board for the Greater Pittsburgh Council Boy Scouts of America and chairman of the Japan-America Society of Pennsylvania He is a member of the board of trustees of Carnegie Mellon University, a member of the board of directors of the Pittsburgh Regional Alliance and president of the board of directors of the Duquesne Club. He also serves on the board of Union Carbide Corporation, and is a member of the University of Pittsburgh's board of visitors for the Katz School of Business and College of Business Administration.

-o0o-

1999-7-19

Testimony of

Paul J. Wilhelm
President
U.S. Steel Group,
a unit of USX Corporation

Before the
U.S. Trade Deficit Review Commission

Pittsburgh, PA
October 29, 1999

Thank you, Commissioner Becker. I appreciate the opportunity to appear at this hearing, which deals with one of the most critical areas of public policy facing U.S. Steel and the American steel industry in general today: trade and the trade deficit.

Some economists are fond of arguing that the trade balance is a macroeconomic phenomenon and that deficits with any particular country or in any particular industry are irrelevant. The trade deficit and its composition -- especially the deficit in merchandise trade -- may be irrelevant to some economists, but it is highly relevant to the workers and firms of our manufacturing sector. It is especially relevant to U.S. steelworkers and steel companies, who over the years have been hit with twin deficits in both steel and steel-containing products such as autos. Our industry is characterized by high fixed costs of production. That means that during times of economic difficulty abroad foreign steel firms are prone to dump excess production at prices as low as their variable cost of production. The United States, with our open market, has been and continues to be a focal point for such dumping.

Last year finished steel imports increased by over 40 percent from 1997 levels, and 1997 was already a record year for steel imports. Of the 10 million-ton increase in U.S. imports, over 61 percent came from Japan and Russia. Japanese exports to the United States surged by 164 percent. Russian exports increased by 68 percent. These two countries by themselves account for almost 60 percent of the excess steel capacity that exists in the world today (chart 1). When the Asian economic crisis struck and these countries lost export markets in Asia, they dumped excess production in foreign markets -- primarily in the United States (charts 2 and 3) -- rather than cut back on production,

The Nature of World Steel Trade

The Asian economic crisis at some level may be considered a macroeconomic phenomenon, but the decisions by Japanese and Russian producers to target the U.S. market with their excess production was a steel industry specific phenomenon that has happened all too often in our industry. Why is the U.S. market a focal point for dumping? First, because the world steel industry has-been characterized by chronic excess capacity, fostered in large part by foreign government policies and subsidies. Massive world-wide overcapacity, estimated on the basis of data from the Organization for Economic Cooperation and Development, is approximately 250 million tons. This enormous world overcapacity ensures a vicious cycle of further continued dumping and other unfair trade. Second, because much of world steel is subject to private and public restraints on trade -- a web of restraints in which the U.S. industry does not participate. (Appendix A describes these public and private restraints in more detail.)

Domestic cartels in a number of major steel markets like Japan foster endemic dumping in world markets. Cartel arrangements between mills in different countries -- for example between integrated mills in the European Union and Japan and Korea -- restrict trade flows between national markets and between world regions. These arrangements have the effect of channeling dumped steel products into the U.S. market.

Fornal government restrictions on imports are another factor limiting international steel trade flows. These restrictions limit access to some of the world's largest steel markets, including the European Union, China and Brazil.

Because of these factors affecting world steel trade, the U.S. market has been subject to sustained surges of steel imports, especially during times of depressed market conditions overseas.

The Steel Crisis in the 1980s

The U.S. steel industry went through a painful restructuring in the 1980s as you well know Chairman Becker. That was a time when the dollar was considered overvalued even by economists. As a result the U.S. trade deficit increased enormously and U.S. manufacturing bore the brunt of the adjustment costs associated with the effects of the overvalued dollar. The U.S. trade deficit increased continuously from $25 billion in 1980 to $160 billion in 1987 (chart 4). The steel industry was hammered as imports of both steel and steel-containing goods surged. Unfair trade cases and import relief actions were initiated by the industry to stem the surge. To settle the cases and address the import surge, the Reagan administration eventually negotiated voluntary restraint agreements with most steel exporting countries in 1984 and 1985. These agreements remained in place until 1992.

This industry transformed itself during this time into a cutting-edge, world-class competitor. But tough decisions were made. Thousands of steelworkers lost their jobs as industry employment was cut by almost two-thirds. Mills were shut down and industry production capacity declined by over one-fifth. As a result labor productivity more than doubled, quality improved and new products were introduced. The industry succeeded because it invested in itself – $50 billion of capital investments in the 1980s and billions more every year since then – not only in equipment and technology, but in worker retraining and environmental activities.

The Overall Trade Deficit and the Steel Trade Deficit

The United States has been enduring another sustained period of sharply increasing trade deficits in the 1990s -- rising from $74 billion in 199 1 to $247 billion last year (chart 4). The trade deficit has been growing because the increase in imports continues to outpace the increase in exports. U.S. imports over this period increased 87 percent compared to export growth of only 61 percent. Based on official data through July, the trade deficit will likely exceed $300 billion this year.

This deficit is the sum of many parts, and steel is an important part. Steel imports have grown by 162 percent since 1991, from 15.8 million tons in that year to 41.4 million tons in 1998 (chart 5).

The so-called Asian economic crisis has been a significant factor in the sharp rise in the U.S. trade deficit in 1998 and 1999. The trade deficit has soared not only because imports have continued to increase but also because exports have stagnated. Total U.S. imports expanded in 1998 by 4.7 percent while exports fell by 1.4 percent. Since imports were already so much larger than exports, these different growth trends sharply increased the overall trade deficit. The trade deficit increased by $50 billion, from $196.7 billion in 1997 to $246.9 billion in 1998.

The deterioration in the steel trade situation, however, was much more severe. The import surge in 1998 triggered by the Asian economic crisis was unprecedented in both its swiftness and magnitude. Imports of finished steel products increased 40.1 percent while exports declined 8.5 percent. To put this in perspective, if total U.S. imports and exports had changed by the same amount as steel imports and exports, the overall U.S. trade deficit in 1998 would have ballooned to over $600 billion.

The Steel Import Crisis of 1998

As I've already indicated, total finished U.S. steel imports surged by 10 million tons in 1998 over 1997, an increase of 40 percent. Finished steel imports in 1997 were already at a record level. Imports from Japan, Russia and Korea accounted for three-quarters of the volume increase. The import surge was especially severe in the last half of 1998 as imports from Asian and Russian steel producers exploded. The major reason behind the surge in steel imports was the collapse in demand in Asia and the continued economic problems in Russia which led producers in those countries to dump excess production in the United States, which was an open market experiencing strong demand for steel.

The surge in import volume was accomplished by a sharp fall in import prices that diverted sales away from U.S. producers, sharply expanded inventories in the United States, and drove down domestic prices. Finished steel import prices declined by over $120/ton from the fourth quarter of 1997 to the fourth quarter of 1998, an unprecedented fall of 22 percent in one year, while import volume grew by 60 percent (chart 6).

Five U.S. steel companies filed for chapter 11 bankruptcy protection as a result of the steel crisis:

- Acme Metals (Riverdale, IL) on September 28, 1998
- Laclede Steel (St. Louis, MO) on November 30, 1998
- Geneva Steel (Vineyard, UT) on February 1, 1999
- Qualitech Steel (Pittsboro, IN) on March 22, 1999
- Gulf States Steel (Gadsden, AL) on July 1, 1999

Actions Taken to Address the Crisis

As in the 1980s, the import surge was abated only as a result of trade remedy cases. U.S. producers filed antidumping cases against carbon hot-rolled sheet (including

plate in coil) from Japan, Russia and Brazil on September 30, 1998. A countervailing duty case was also filed against Brazil. The Department of Commerce announced an affirmative preliminary critical circumstances determination in November, after which hot-rolled imports from Japan and Russia were potentially liable for duties. Hot-rolled imports from Japan, Russia and Brazil, which had reached 1.2 million tons in November 1998 fell to 192,000 tons in December and were down to 4,300 tons by March 1999 (chart 7).

The recent decline in finished steel mill imports is due almost entirely to the decline in hot-rolled imports from Russia, Japan and Brazil (chart 8). Average 1999 monthly imports of other finished steel mill products have not declined as sharply as hot-rolled imports, and some products like steel rails and structural shapes remain above pre-crisis levels. Almost all of the import products that have declined in 1999 have been or currently are subject to investigation under U.S. trade remedy laws.

The Effects of Steel Crisis Continue in 1999

The effects of the steel import crisis, which began in the spring of 1998, remain with the U.S. steel industry in 1999. The record import volumes of 1998 have declined from their peaks, primarily as a result of trade cases brought by domestic producers (chart 9). Yet domestic prices have barely begun to recover (chart 10) because the large import inventory overhang persisted through the first three quarters of 1999. As a result, profits remain severely depressed (chart 11) and domestic shipments have not fully recovered (chart 12). Some laid off workers are finally being recalled to their jobs, but industry employment is still down almost 9,000 workers compared to the beginning of 1998 (chart

13). Most troubling of all, import prices still remain over $100 per ton below pre-crisis levels, and import volumes are now beginning to increase again (chart 14).

Crisis conditions in the world steel industry still exist. There has been some recovery in demand in Asia, but Russia is still mired in recession and growth in Latin America is now slowing significantly. The bottom line is that pressure is still there to dump excess steel in whatever open markets can be found. Prices are reported to be increasing in some markets, but only marginally. Prices are still well below where they were before the crisis began.

Even with swift action on the steel industry's part in using trade remedies, the U.S. industry has had to endure an extended period of poor operating margins (and first quarter losses) because of the steel import crisis of 1998.

Policy Implications: Strong and Effective Trade Laws

The steel industry's experiences with the import crisis of the mid-1980s and the current steel import crisis have confirmed to the industry the importance of strong, and vigorously enforced, trade remedies. The Congress also must update and enhance U.S. trade laws to make sure that they continue to be responsive to new conditions in the world economy. And finally, the Administration and the Congress must ensure that other countries do not succeed in weakening U.S. antidumping and countervailing duty laws in the upcoming WTO negotiations. The United States should not participate in a new round of negotiations on the antidumping and countervailing duty laws.

I should note that the industry is pleased that the Administration has acknowledged that the steel crisis is not over and that a strong response is still needed. As a part of this response, the Administration has committed to vigorous enforcement of

existing trade laws, and it has assured the industry that U.S. fair trade laws will not be undermined in the WTO negotiations. Specific actions, however, are needed.

1. Vigorous Enforcement of Existing Laws

There must be uncompromising enforcement of our trade laws. The President, in his August Steel Action Program, committed to "zero tolerance of unfair trade," and he insisted that his Administration will "continue to vigorously enforce our trade laws to ensure that our trading partners play by the rules."

The Administration must follow through on this promise. For example, we suggest an internal directive by the Secretary of Commerce to Import Administration staff to take every action possible to ferret out all dumping and subsidization. This means strengthening regulations and methodologies where permitted by WTO rules, and fully implementing the President's policy of zero tolerance of unfair trade.

2. Updatine U.S. Trade Laws

At the same time, we must commit to make improvements in our laws. To remain effective, the trade laws must be updated to reflect current conditions in the global economy. Congress has not done this for more than a decade, and the result is a very real risk to our manufacturing base. The current trade laws are poorly designed to respond to the kinds of sudden and dramatic import surges that now seem to be part of the international economic scene. To that end the steel industry strongly supports H.R. 1505 and S. 174 1, which seek to put meaningful reforms in place so that nothing like the current crisis can ever again plague our industry – or any other industry. It does this in a fully WTO-consistent manner.

The President's Steel Action Program proposes to establish an informal group to meet to discuss legislative proposals, and we hope this will be implemented. The bottom line is this: the U.S. Government should state as a matter of principle that no U.S. trade-remedy law should be more restrictive, in terms of the burdens placed on domestic industries seeking relief, than required by international agreements. How can we possibly justify domestic laws that are weaker than our international agreements allow?

3. No Weakening of Trade Rules in Negotiations

Finally, the Administration must assure that there is no weakening of U.S. trade rules in any new multilateral negotiations. I note the widespread support for a Congressional Resolution introduced by Representative Visclosky and Representative Ney – and nearly 200 other Members of Congress – stating that trade laws should not be on the table in any of the negotiations. And Congress should continue to communicate a clear message that it will not accept weakening changes to the antidumping and anti-subsidy rules.

The United States should refuse to participate in any international negotiation in which antidumping and anti-subsidy rules are part of the negotiating agenda. And the President should commit now not to submit for Congressional approval such agreements that require changes to the United States' current antidumping and countervailing duty laws and enforcement policies. And fast track implementing procedures should never be used to change the antidumping or countervailing duty law.

Conclusion

I'm sure you'll find these recommendations quite different from most that you will gather from your deliberations. I am not here as an expert on macroeconomics, and

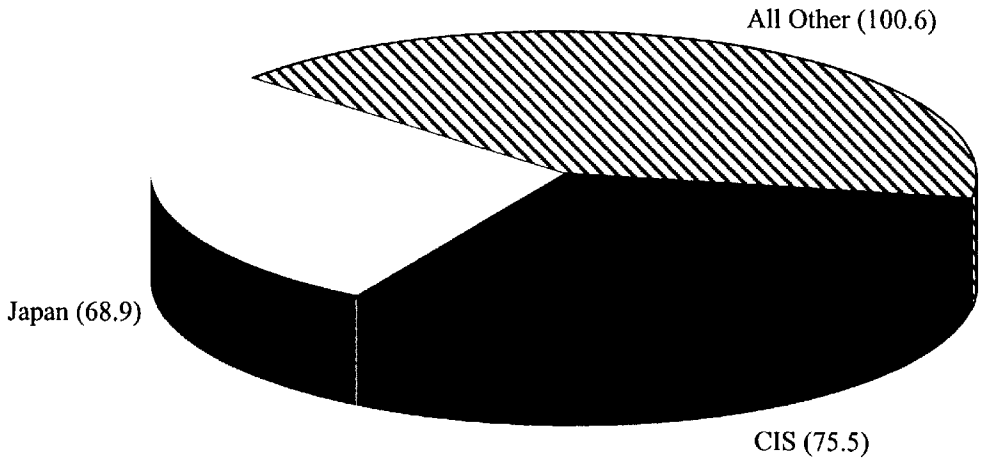
frankly the steel industry understands that policymakers cannot, by themselves, eliminate all of the causes and consequences of U.S. trade deficits. Fluctuations in economic growth between countries, international financial crises and gyrating exchange rates have persisted for decades. Steel trade remains subject to both public and private restraints. The U.S. market remains a focal point for dumping of steel products. Some day, perhaps, all of this will change. But for the foreseeable future, the U.S. steel industry and the U.S. Government must stand ready to act against unfair trade and injurious surges of imports.

The steel crisis has been -- and continues to be -- an extraordinary burden on American steel companies and steelworkers. But I am hopeful that out of this crisis will come renewed commitments to the American steel industry. Commitments that we will enforce our trade laws. Commitments that we will not destroy our industry in the name of elusive foreign-policy goals. And commitments that we will improve our laws to make them at least as strong as our international agreements allow them to be.

Appendix **A**

Estimated World Excess Capacity for Finished Steel Products in 1998 Was 245 Million Metric Tons

Excess Capacity is Capacity in Region that Exceeds Demand in Region



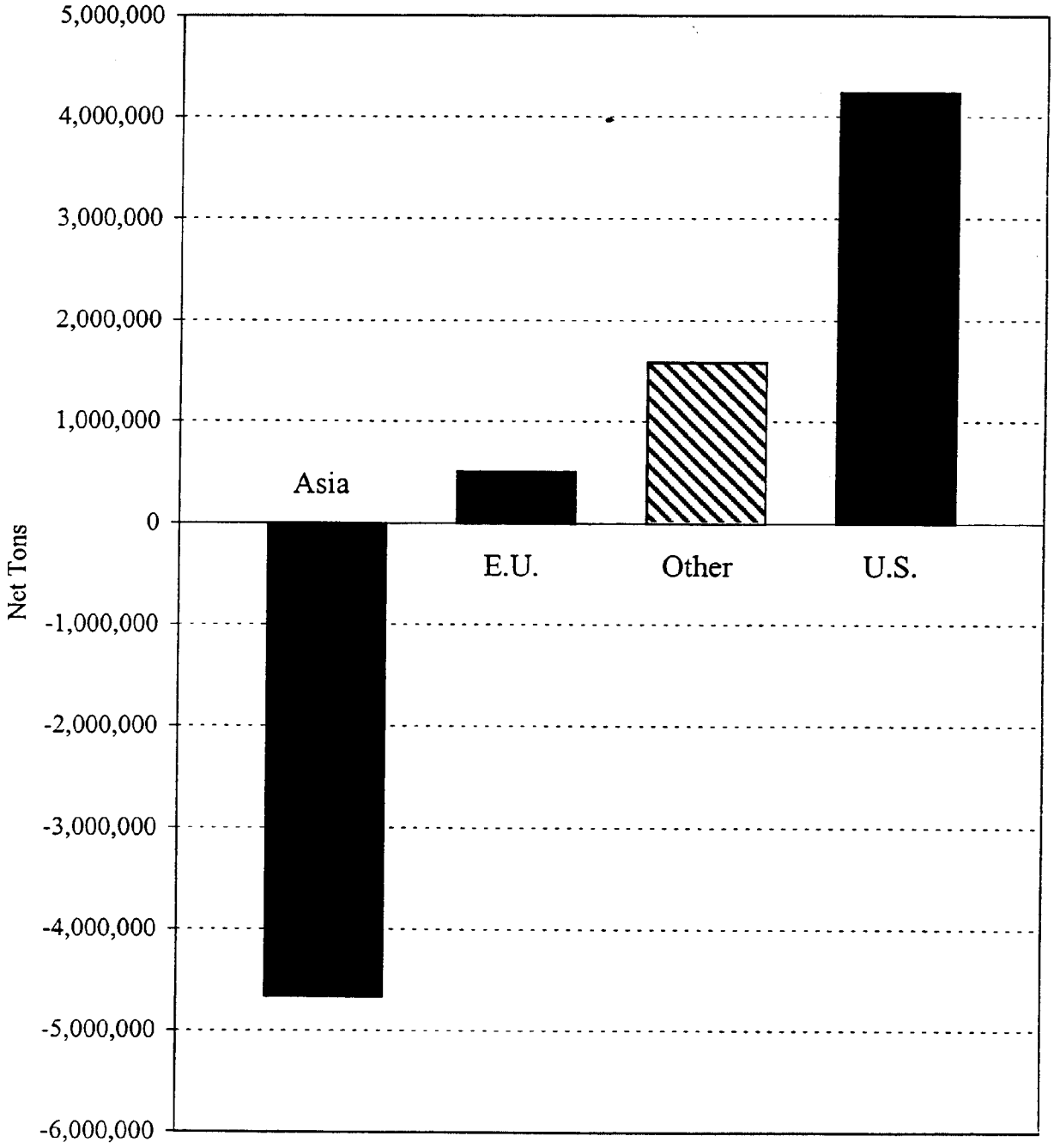
Source: Capacity: OECD, The Steel Market in 1997 and Outlook for 1998 and 1999 (OECD, 1998); Demand: IISI, Short and Medium Term Outlook for Steel Demand (October 4, 1999).

O:\DATA\...\STEEL\AISI\Trade Deficit Review Commission Charts.xls

Chart 1

Change in Japanese Export Volume of Finished Steel Mill Products

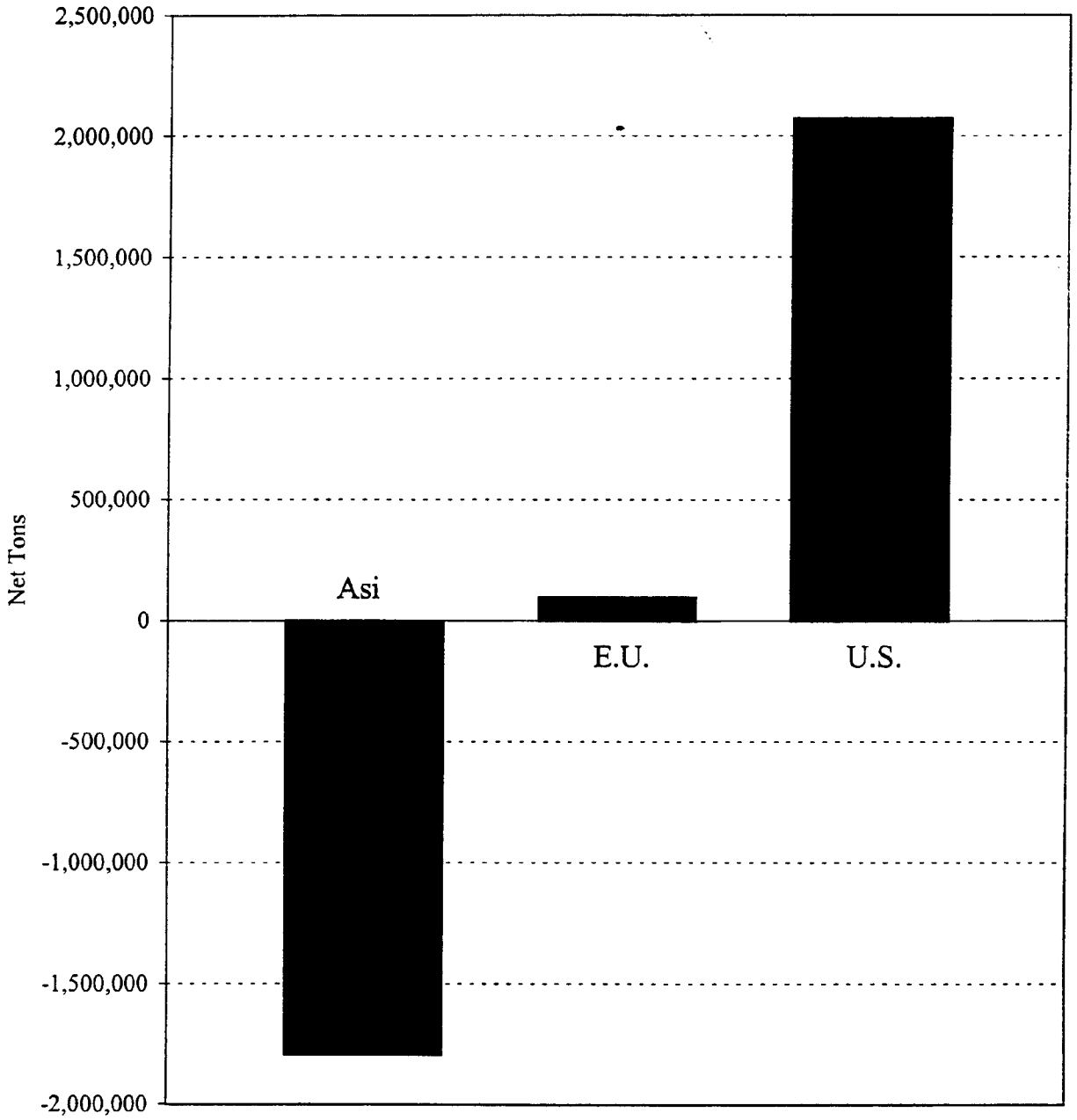
Change in Export Volume in 1998 Compared to 1997



Source: WTA from Japan Tariff Association. HTS codes included: 7208, 7209, 7210, 7211, 7212, 7213, 7214, 7215, 7216, 7217, 7219, 7220, 7221, 7222, 7223, 7225, 7227, 7228, 7229, 730110, 730210, 730220, 730240, 7304, 7305, and 7306.

Change in Russian Export Volume of Finished Steel Mill Products

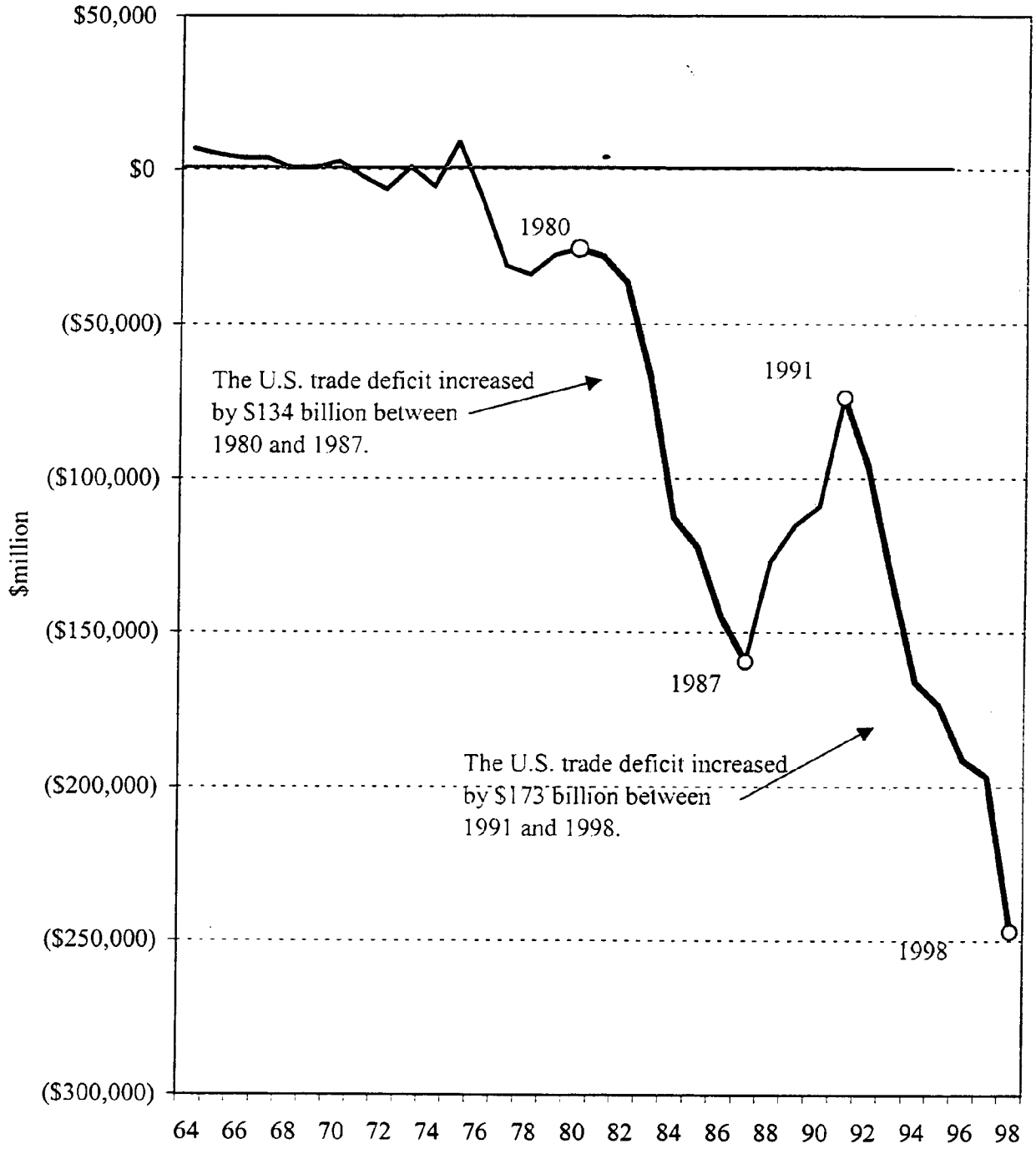
Change in Export Volume in 1998 Compared to 1997



Source: U.S. imports from U.S. Department of Commerce. Asia and EU data from Tradstat.

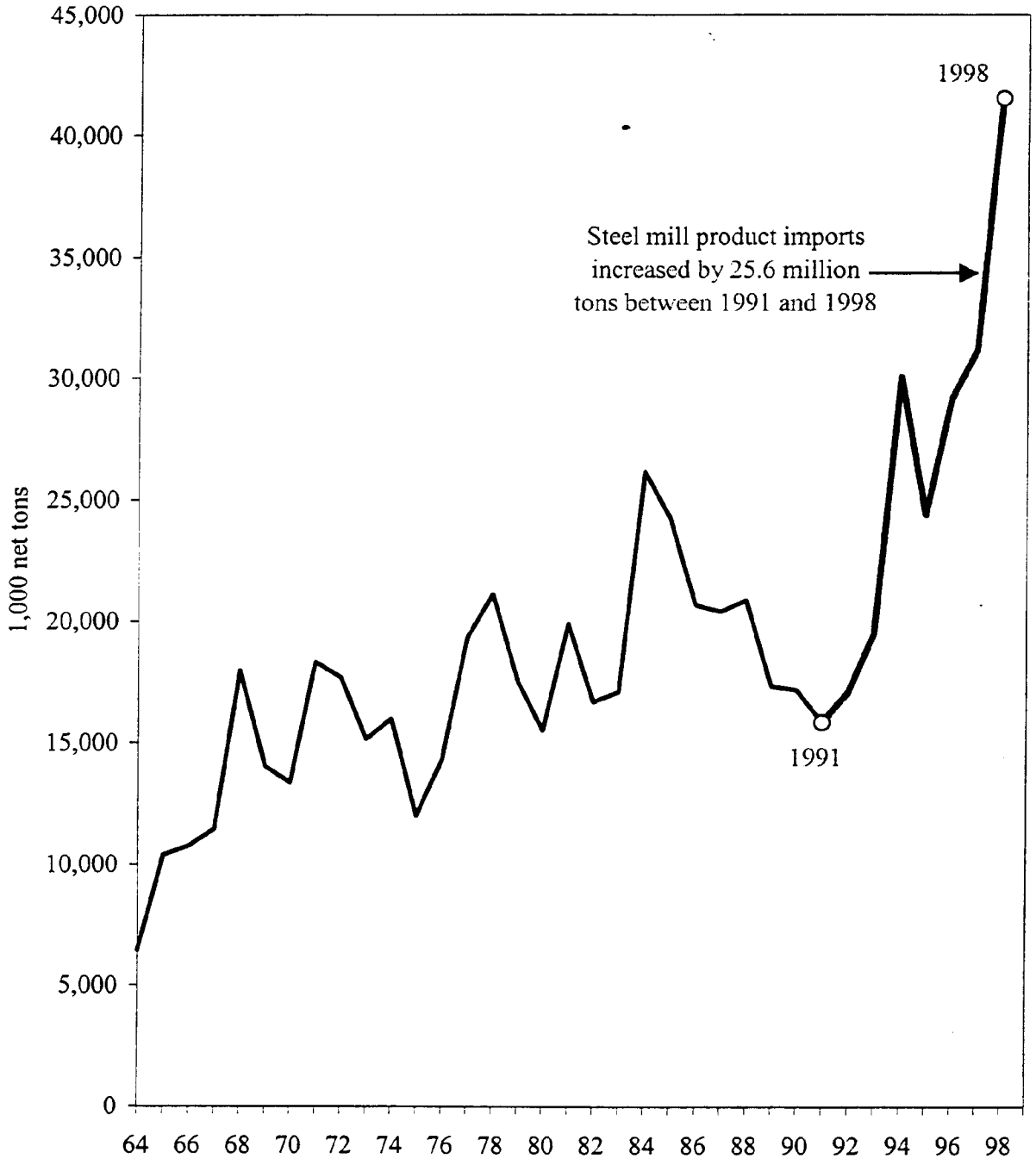
Notes. Asia includes only Japan, China, Taiwan, Hong Kong, and South Korea. EU does not include Greece due to data availability. TradStat indicated that some of the commodities included were not reported in weight, and, therefore, have been excluded from the analysis. HTS codes included. 7208, 7209, 7210, 7211, 7212, 7213, 7214, 7215, 7216, 7217, 7219, 7220, 7221, 7222, 7223, 7225, 7227, 7228, 7229, 730110, 730210, 730220, 730240, 7304, 7305, and 7306.

U.S. Merchandise Trade Balance
1964 to 1998



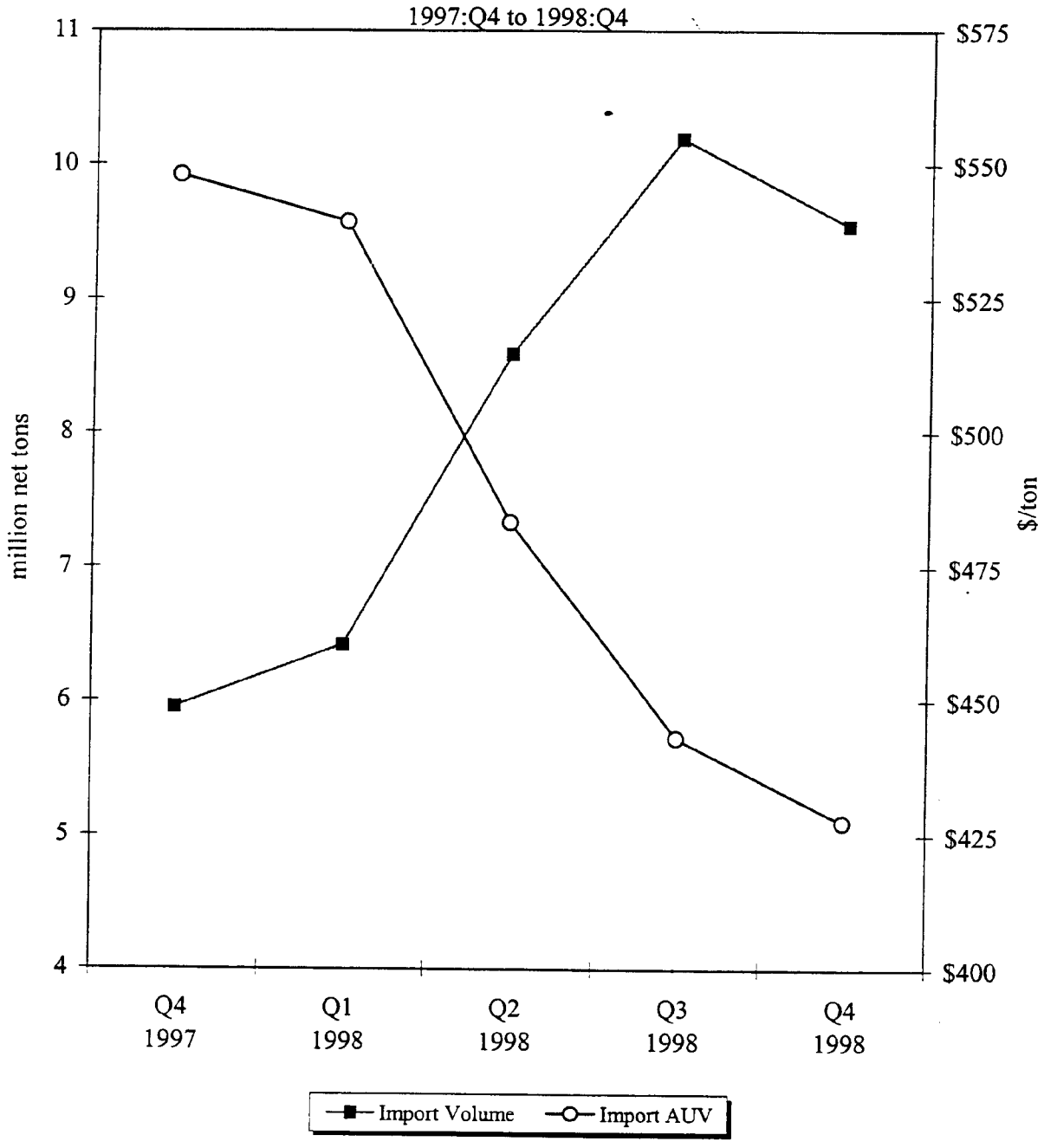
Source: U.S. Department of Commerce

U.S. Steel Mill Product Imports
1964 to 1998



Source: American Iron and Steel Institute.

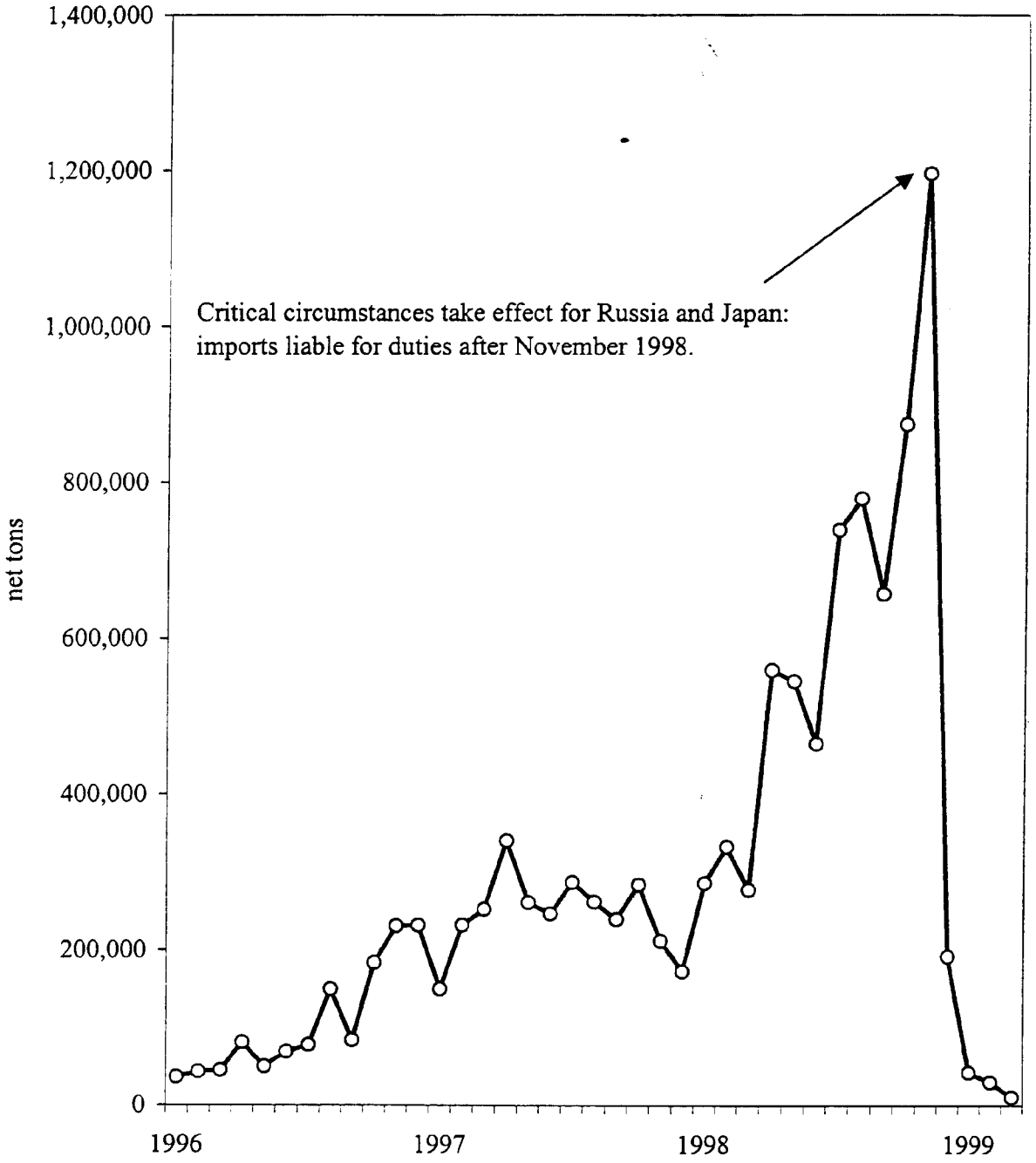
As A Result of the Asian Economic Crisis, U.S. Imports of Finished Steel Mill Products Surged by Over 60 Percent in Volume While the Average Unit Value Declined by Over $120/Ton



Source: U.S. Department of Commerce, IM-145.

Hot-Rolled Imports from Russia, Japan & Brazil

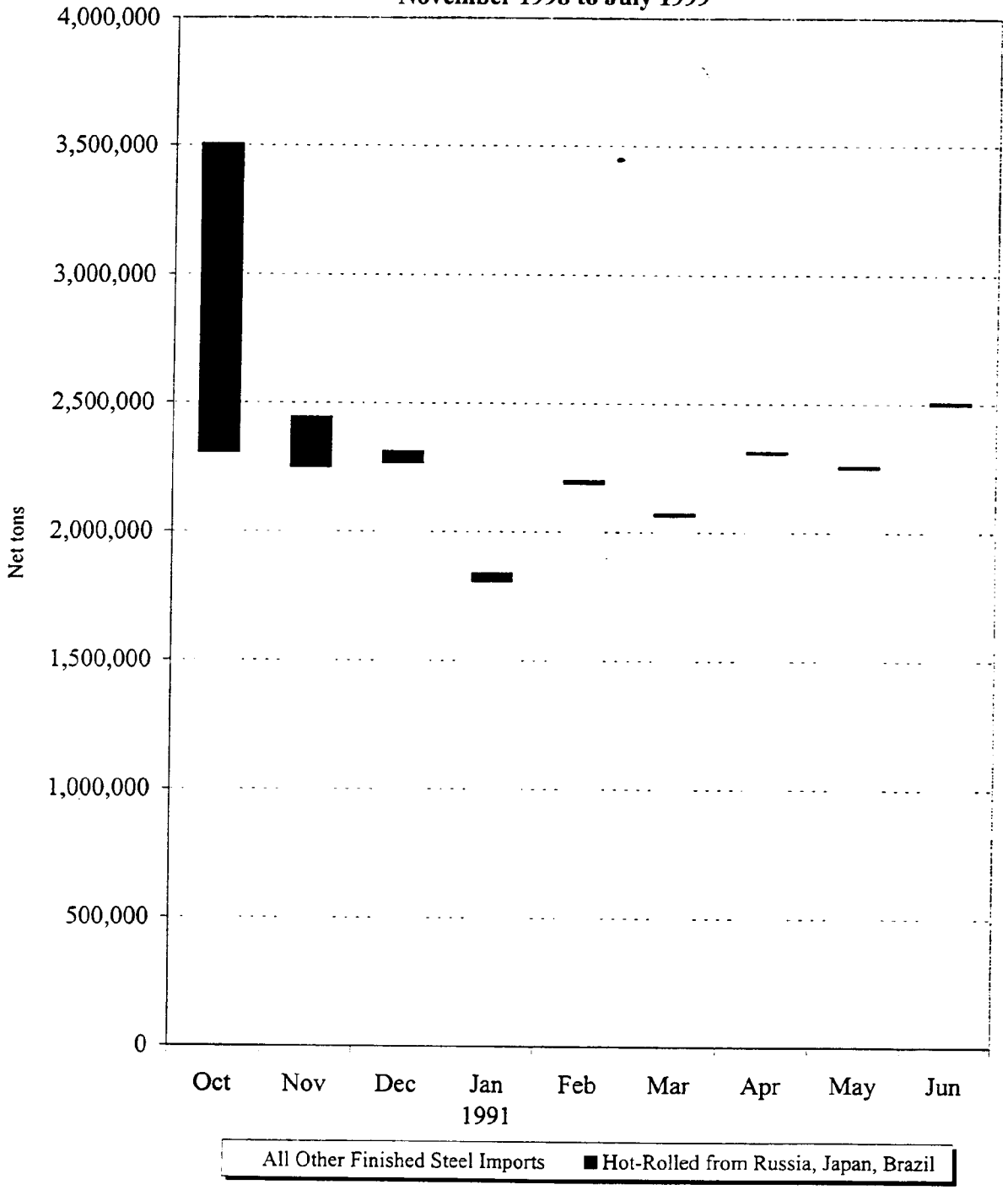
January 1996 to February 1999



Source: U.S. Department of Commerce, IM-145.

The Recent Steel-Import Decline Is Due Almost Entirely to the Hot-Rolled Cases

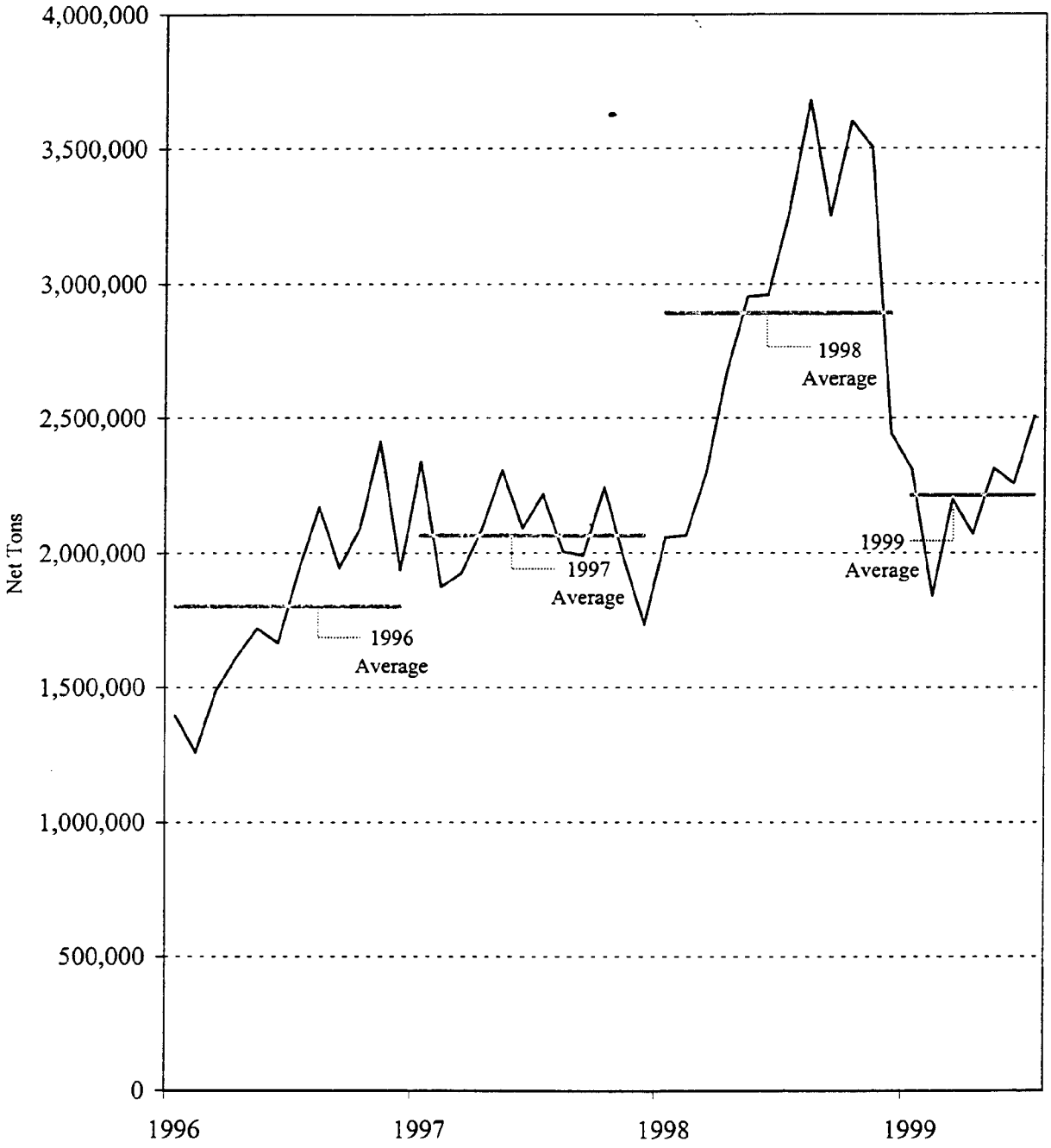
November 1998 to July 1999



Source: U.S. Department of Commerce, IM-145.

o:\trade\steel\new cases\nucor prices.xls Chart 2

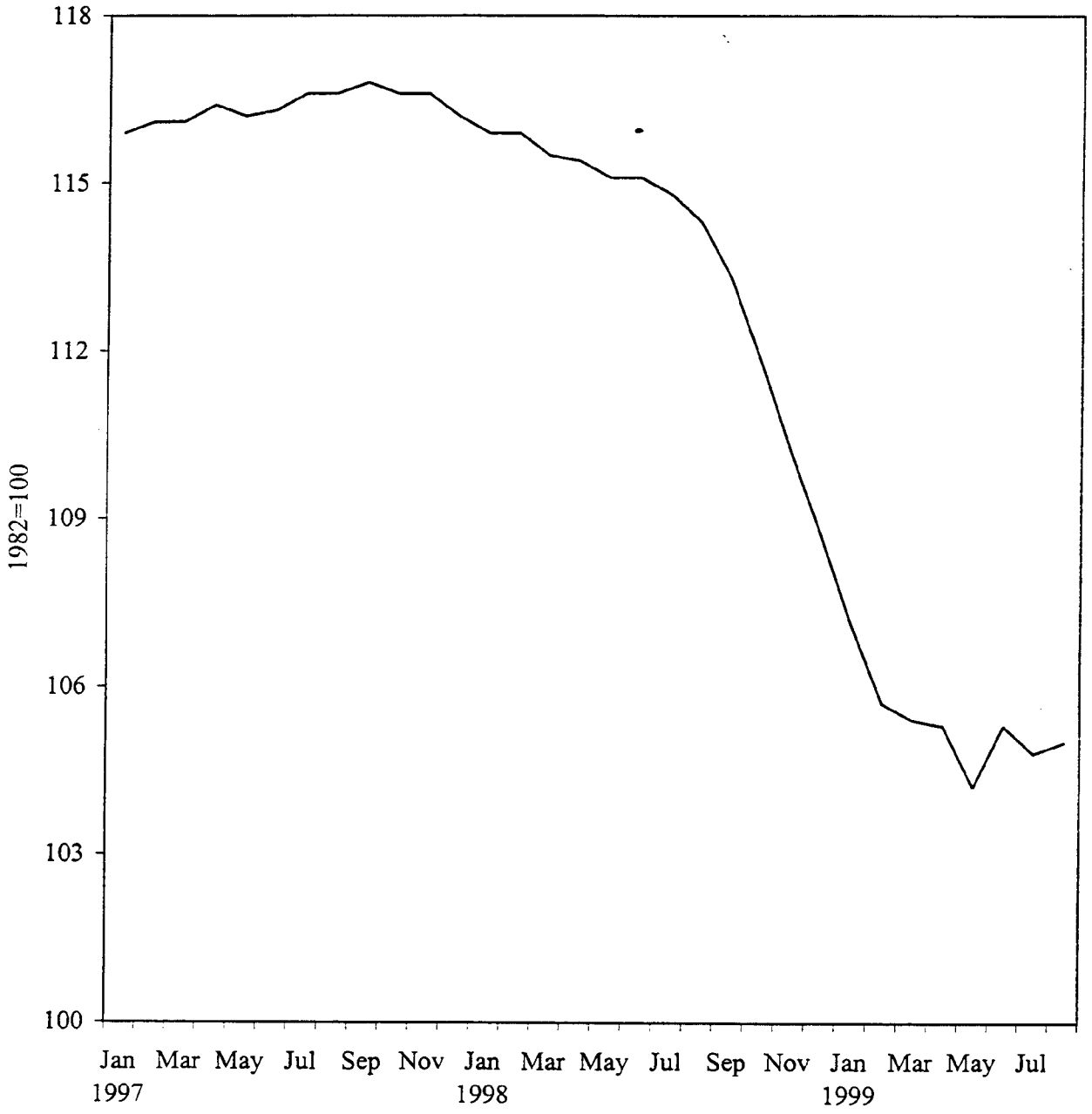
Finished U.S. Steel Imports
January 1996 to July 1999



Source: U.S. Department of Commerce, IM-145.

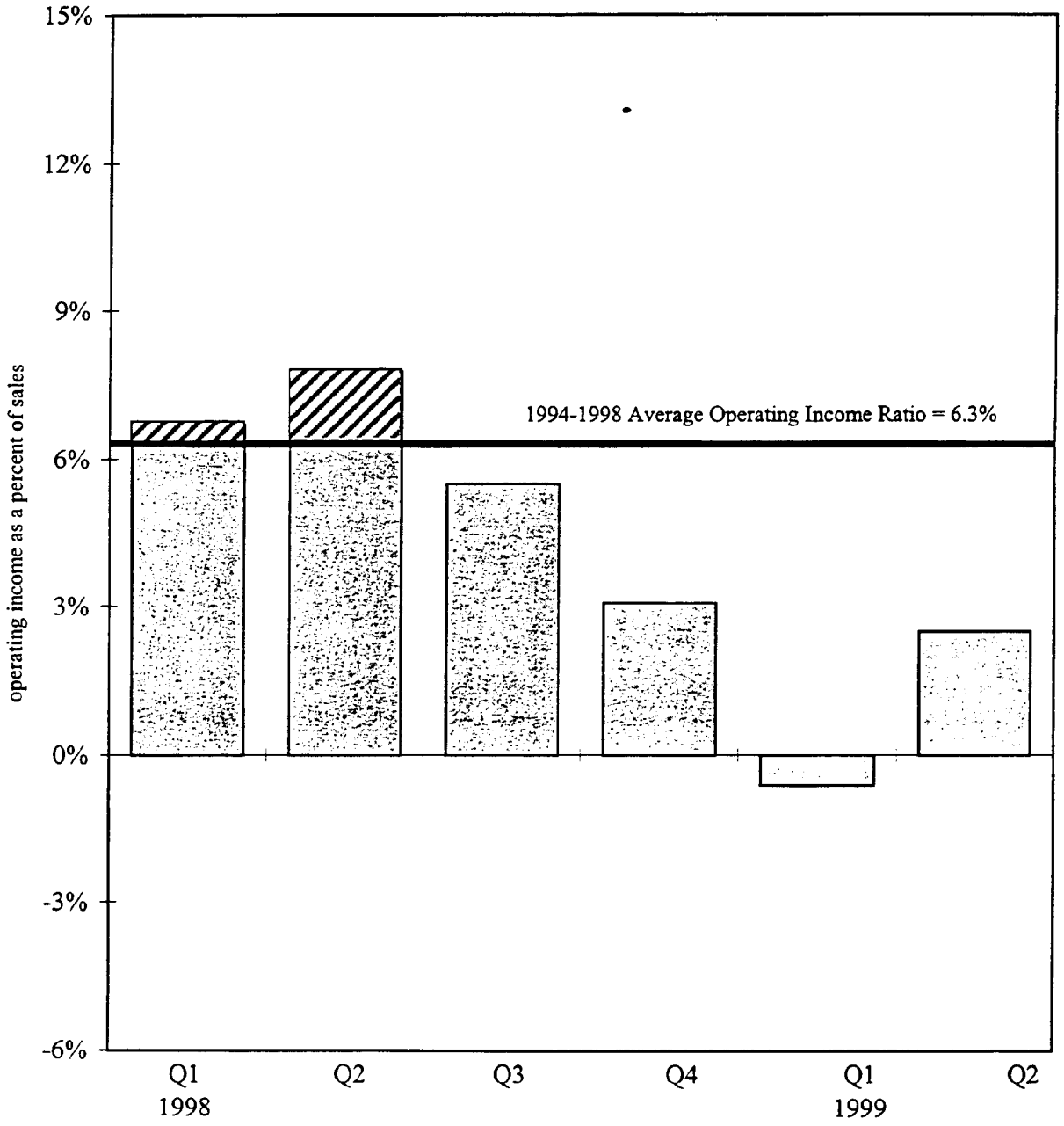
Producer Price Index for U.S. Steel Mill Products

January 1997 to August 1999



Note: Series ID: WPU1017
Source: Bureau of Labor Statistics

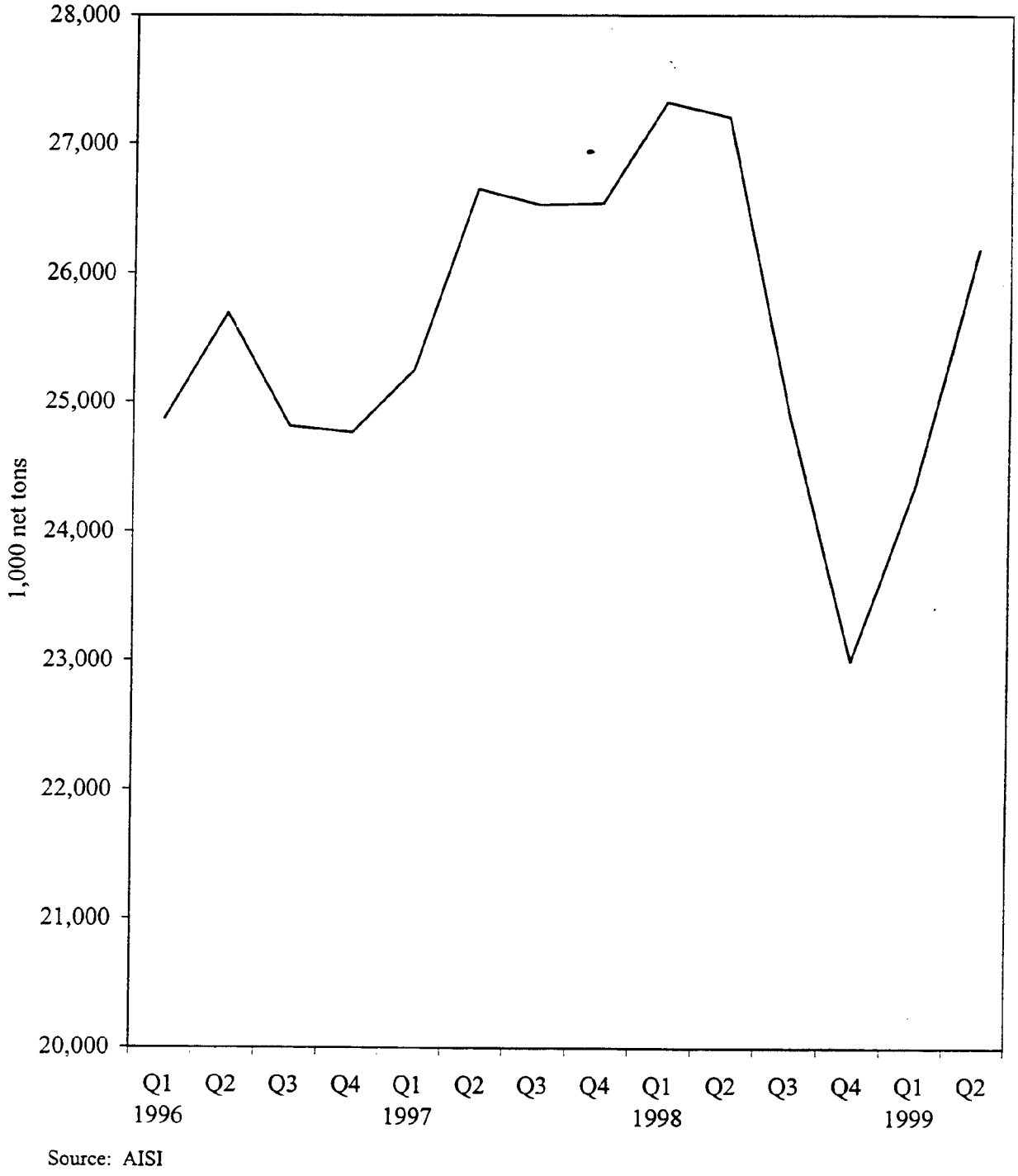
Operating Income Ratio for Major U.S. Steel Producers
1998:Q1 to 1992:Q2



Source: Company 10-Q reports
Data included for U.S. Steel, Bethlehem, LTV, National and Nucor.

Total U.S. Steel Mill Product Shipments

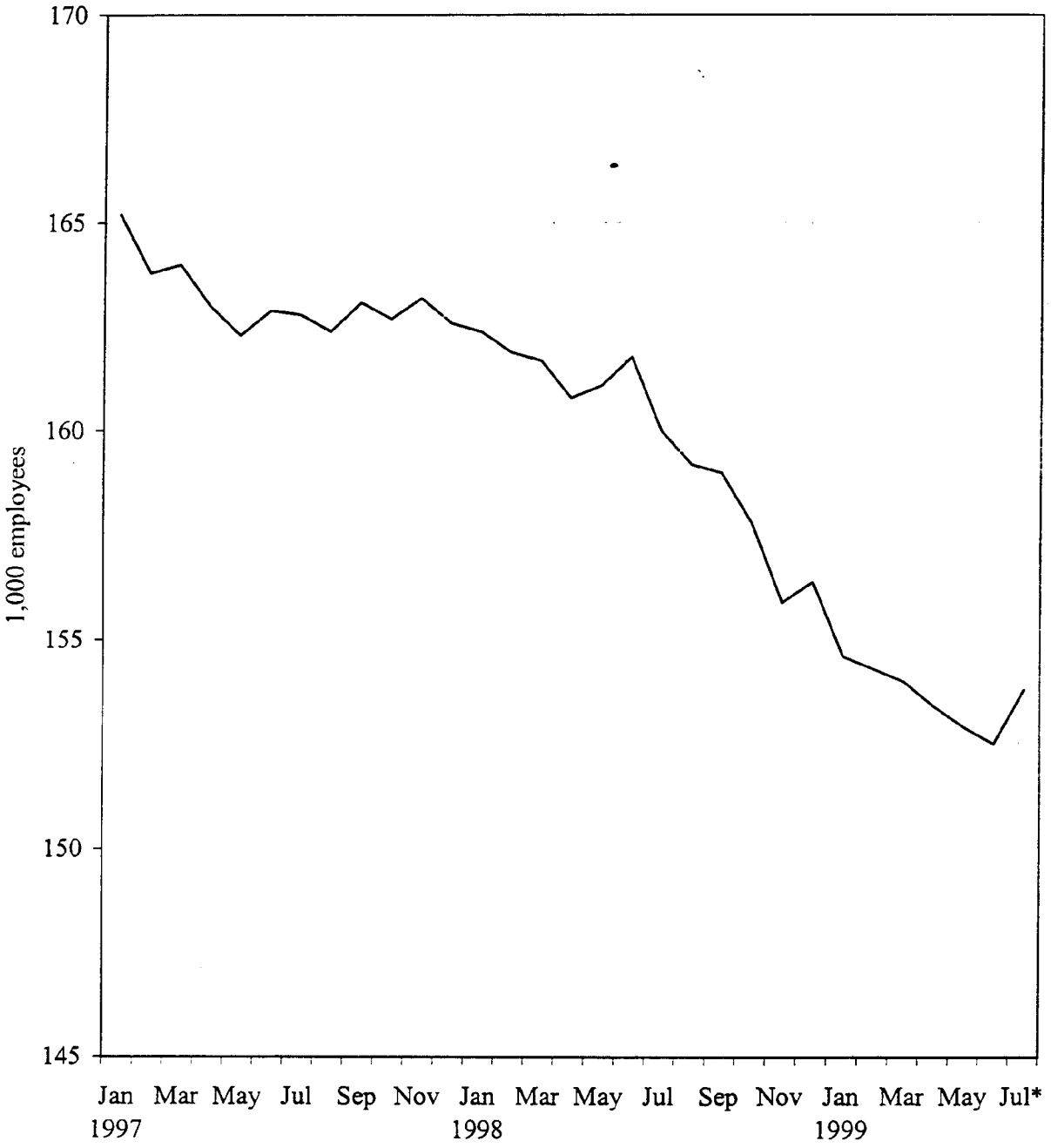
1996:Q1 to 1999:Q2



Source: AISI

Steel Industry Employment

January 1997 to July 1999

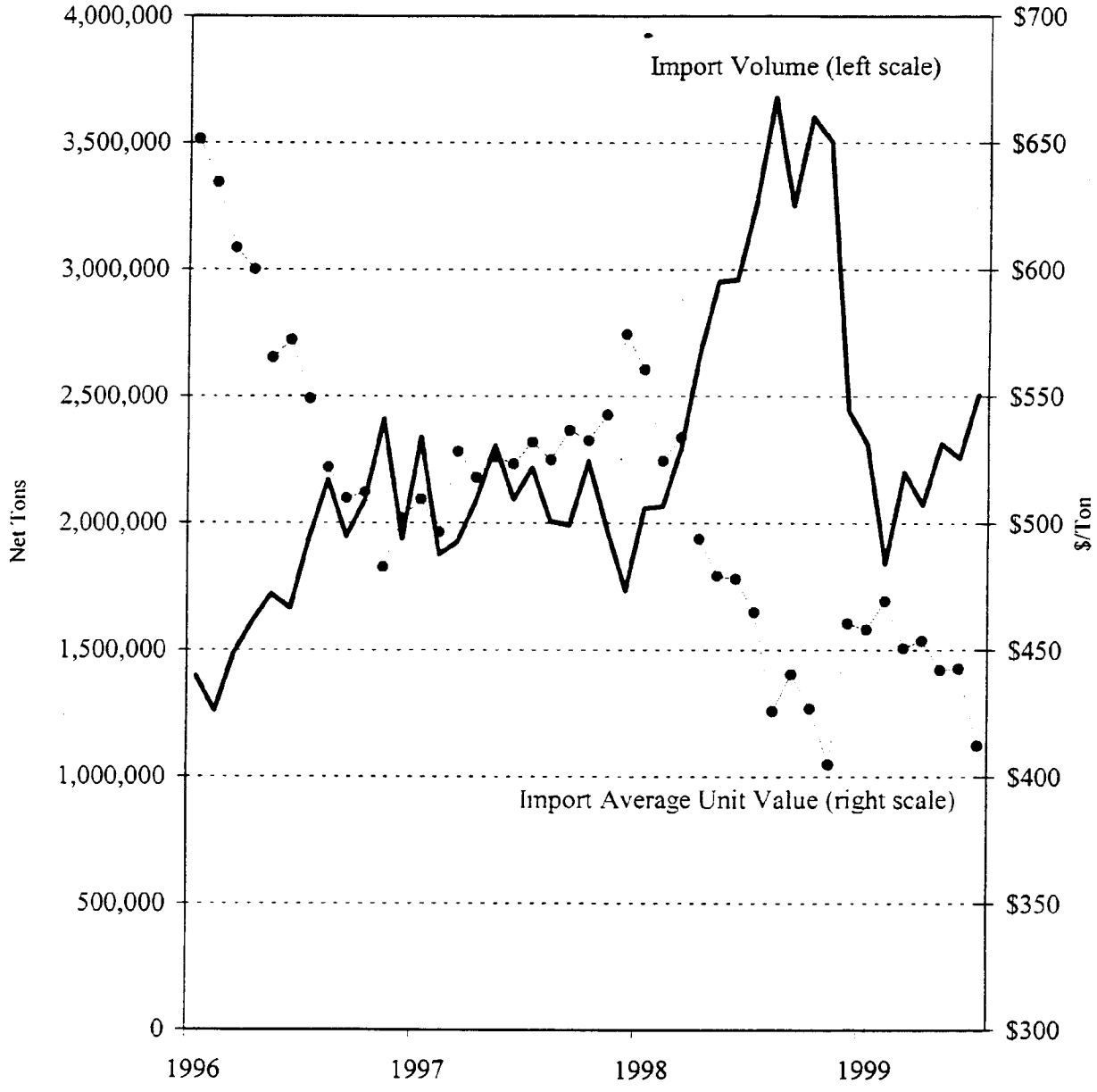


*Preliminary. Series ID: EEU31331201

Source: Bureau of Labor Statistics.

Finished Steel Import Volumes Initially Declined From Peak Levels of 1998 But Average Import Prices Remain $100 Per Ton Below Pre-Crisis Levels and Import Volumes Are Again Increasing

January 1996 to July 1999



Source: U.S. Department of Commerce, IM-145.