

Steel decision threatens to spark trade war

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The decision by the Bush administration to impose tariffs as high as 30 percent on steel imports into the United States has met with an angry response from steel-exporting countries and warnings of severe consequences for world trade.

While it is not yet clear whether the measures, scheduled to last for at least three years, will provoke an all-out trade war, doubts have already been cast over the viability of the new trade round launched at the World Trade Organisation (WTO) ministerial meeting held in Doha last November. The Bush measures are being seen as the economic side of the increasingly unilateralist foreign policy stance of the US that has come into sharp relief following the “axis of evil” State of the Union address in January.

In the words of a *Financial Times* editorial on March 6: “It seems bound to fuel suspicions, particularly in Europe, that the unilateralist impulses that other governments increasingly discern in US foreign policy are now spreading to trade and economic policy.”

The European Union has already initiated action with the WTO to have the US move declared illegal. An EU spokesman confirmed on Thursday that it had started formal dispute procedures. Under WTO rules, a member country that believes another is breaking international trade rules must first ask for consultations over a period of 60 days following which the complaining country can then ask the WTO to appoint a panel to make an official ruling.

Japan, South Korea, China and Australia, all of which have complained bitterly about the US action, could join the action in the WTO.

But a final decision could take years. In the meantime the EU has warned it will look at measures to prevent cheap steel, blocked from entry into US markets, from finding its way into Europe.

While the US claimed its action was in line with WTO regulations, this assertion has been dismissed as

having no basis. Under WTO regulations a member country may impose tariffs if it experiences a sudden surge of imports. However, steel imports into the US have been declining over the past three years and fell by 20 percent in 2001.

But US officials are insisting that competition has been unfair for a long time. US Trade Representative Robert Zoellick claimed the EU had handed out as much as \$50 billion in support to the European steel industry over the past 50 years. “How can they say with clean hands that this is a fair steel market?” he said.

Critics of the decision have said Bush was trying to appease the steel lobby, comprising the major steel companies in alliance with the steel unions’ bureaucracy, with an eye to winning votes in the US Congressional elections in November. This view was echoed by EU Trade Commissioner Pascal Lamy who said the US was putting domestic politics above legal commitments.

The EU was the “foremost victim” of the decision, he said. “When the US is caught between domestic pressure and respecting its international commitments, the former prevails.” In a reference to Bush’s Texas background, he added: “The world steel market is not the wild west, where people do as they like. There are rules to guarantee the multilateral system.”

The measures will have a major impact on EU exports which were worth between \$2 billion and \$2.5 billion last year. About two-thirds of European exports to the US will face the full 30 percent tariff.

The only two countries to be exempted from the tariff increase are Canada and Mexico because of their membership with the US of the North American Free Trade Agreement (NAFTA). China, Russia and Brazil will also be affected, although not as severely as Europe and Japan. The Australian producer BHP Billiton expects that more than half of its \$400 million worth of steel exports will be affected by the 30 percent

tariff while the rest will be subject to a new quota.

While the EU voiced some of the strongest criticism, other comments were only a little less severe. British Prime Minister Tony Blair told parliament the new tariffs were “unacceptable and wrong”. Australian Minister of Industry Ian Macfarlane said: “We are not going to lie down on this. The Americans are doing what they always do, they put their own interests first.” A spokesman for the South Korean government warned that the US measures would “spread protectionism around the world.” Although it is not greatly affected, a Chinese foreign ministry spokesman said he did not believe the decision was in line with the principles of the WTO and the government would reserve the right to make an appeal.

There was also critical comment from sections of the press in the US, reflecting misgivings in American business and financial circles about the economic consequences and fears that the move could have political ramifications.

In a March 6 editorial the *Detroit News*, which speaks for the auto industry, a major consumer of steel, said it was a “terrible decision” that will “undermine the economy and America’s relations with key trading partners.” Expressing a widely-held view in US business circles, the editorial said the steel industry as a whole was not ailing, “only large integrated steel companies.” It warned that the decision could have foreign policy implications as well. “Even America’s staunch ally, Great Britain, is threatening retaliation against US products, as is Japan. This is no way to repay allies who have steadfastly supported the United States in its fight against terrorism.”

The *Chicago Tribune* called the decision “spineless” and said it “invites retaliation from European, Asian and Latin American countries.” It pointed out that the large integrated mills faced fiercer competition from mini mills in the US than they did from foreign competition.

A *New York Times* editorial, published on the eve of the decision, warned that increased tariffs would “hurt the American economy as it struggles to rebound.” “The move would cost far more jobs at companies that consume steel, such as auto parts makers, than those it might save at inefficient steel companies. Moreover, such brazen protectionism could plunge the world into a bruising trade war...”

While much comment has focused on immediate US considerations—Bush’s desire to bolster the position of Republicans in crucial steel states and the attempt to win support from Congress on other trade measures, including so-called “fast-track” powers—one of the most important underlying factors is the recessionary trend in the world economy.

This tendency is clearly visible in the steel industry. It is estimated to have excess capacity of roughly 200 million tonnes, pushing prices to 20-year lows. World demand for steel was 741 million tonnes in 2001 and is expected to decline to 736 million tonnes this year. This compares with production of more than 840 million tonnes last year.

According to World Steel Dynamics, a US consultancy firm, the outlook for the global steel industry is “highly adverse.” Even if prices rose between 10 and 15 percent this year they would still be below production cost for many companies, leading to a “worsening of the financial crises for steelmakers in many parts of the world.”

The implications of such a global slump and the trade conflicts to which it gives rise were reflected in two comments published in the *International Herald Tribune*.

On March 6 it reported: “European officials warned of retaliation against any US tariffs, in a threat reminiscent of the escalating cycle of protectionism that followed Washington’s imposition of the infamous Smoot-Hawley tariffs in the 1930s.”

This was followed by a similar report the day after: “Some Japanese officials privately warned of a possible spiral of retaliation similar to the one that preceded World War II. Many Japanese blame a global trade war ignited by US-imposed tariffs for the conflict.”

There is no suggestion, at this point, that trading relations have reached the state of extreme conflict which marked the 1930s. But the fact that historical parallels with that era are being drawn indicates the serious nature of the US measures and the marked escalation in trade tensions it signifies.



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