Antidumping, the Steel Industry and the FTAA[1]

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1. Introduction

Antidumping is one of the most controversial issues on the negotiating agenda for the creation of a Free Trade Area of the Americas (FTAA). The current draft of the chapter on this topic shows the extent of the disagreement, as it includes all possible approaches to antidumping in a free trade area (see www.ftaa-alca.org). For instance, the bracketed text of Article 16 states: "When the free trade area is established and goods circulate among countries of the FTAA fundamentally free of restrictions, the *countries shall renounce the use of antidumping measures* for reciprocal trade." However, other parts of the chapter contain provisions that could accommodate the policy guidelines established by the US Trade Act of 2002, which lead to the opposite direction: "The principal negotiating objectives of the United States with respect to trade remedy laws are: (A) *to preserve the ability of the United States to enforce rigorously its trade laws, including the antidumping*, countervailing duty, and safeguard laws, and avoid agreements that lessen the effectiveness of domestic and international disciplines on unfair trade, especially dumping and subsidies, …." (p. 178). Besides these extreme positions, the text also has room for moderate proposals, such as those that seek to introduce substantive or procedural changes to the current WTO rules. For example, Article 15, if approved, would introduce several innovative mechanisms for preserving the public interest during antidumping investigations; and Article 14 would establish a series of new procedures in regard to consultations among parties and dispute settlement.

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[1] This paper is part of a study in progress at the Instituto de Pesquisa Econômica Aplicada (IPEA) on the export performance of Brazilian firms affected by antidumping actions. Besides the authors, the research team for this project includes Honório Kume and Guida Piani. We are grateful to Germano de Paula and Murilo Furtado for sharing with us their expertise on the steel industry, and to Camila Alves, Ana Claudia Loureiro, Fernanda Barradas and Soonhwa Yi for the research assistance.

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As Tavares (2002) showed, the FTAA negotiations on antidumping affect mainly the interests of the five largest parties. The United States, Brazil, Mexico, Canada and Argentina were targets in 435 of the 485 investigations initiated within the hemisphere during 1987–2000. On the other hand, these parties were responsible for 410 of those investigations. The other FTAA countries seldom use or are affected by this trade remedy. Indeed, if we exclude the participation of the smaller economies, either as targets or authors of the investigations, the outcome is that 78 percent of the investigations involved only the five largest economies in the region.

Among the main users of antidumping in the Americas, only Brazil and the United States have suffered more investigations than they have applied. Together, these countries have been affected by almost 60 percent of the antidumping measures in the hemisphere, while their initiatives represented less than 40 percent of the cases. In principle, this aspect should have implied convergent negotiating strategies, instead of the antagonist positions they have followed so far. While the public stance of the Brazilian government seeks to protect the interests of the exporting industries affected by antidumping, the US attitude addresses only the other side of the coin, i.e., the interests of the protected industries. The steel industry provides a radical illustration of this trade dispute, since Brazil is the leading exporter of steel products in the hemisphere and the US has the largest importing market for these goods.

This paper analyzes the impact of antidumping measures on the export performance of the Brazilian steel industry and highlights some consequences that may be relevant for the FTAA negotiations. Section 2 describes the profile of the investigations and the response by the Brazilian industry. Section 3 discusses other events that affected the competitiveness of steel making in Brazil during the nineties, such as trade liberalization, privatization and productivity growth. Section 4 examines the multilateral dimension of the protectionist pressures in this industry. It shows that steel making has nowadays all the characteristics of a declining industry: stable levels of world production, persistent problems of excess capacity and minimal rates of technical progress. However, in most countries, steel producers face competition patterns that are typical of infant industries, wherein global trade usually expands faster than world production. Finally, section 5 summarizes the main conclusions.

2. The impact of antidumping on the Brazilian steel industry

During the period 1990–2001, 133 Brazilian exporting firms were affected by antidumping investigations initiated by Argentina, Canada, Mexico and the United States. Among other peculiarities discussed below, one remarkable aspect of those investigations was the distribution of cases by affected firms. While 103 firms were cited in just one case, and 23 had two or three cases, a rather distinct treatment was reserved to seven firms from the steel industry, as table 1 indicates. Cia. Siderúrgica Nacional (CSN), Cia. Siderúrgica Paulista (COSIPA) and Usinas Siderúrgicas de Minas Gerais (USIMINAS) are the largest producers of flat-rolled steel products in Brazil, and the usual suspects in AD investigations. In the recent past, they have been cited together in 15 cases. Other important steel corporations, such as Belgo-Mineira, Gerdau, Mannesman and Villares, also had a similar experience, albeit in a smaller number of cases.

Table 1

Antidumping Investigations against Brazilian Exporters of Steel

Number of Cases by Firm and Country: 1990–2001

Country / Firm	Argentina	Canada	Mexico	United States	Total
Cia. Siderúrgica Nacional	2	4	4	5	15
Cia. Siderúrgica Paulista	4	4	4	6	18
USIMINAS	2	4	4	6	16
Indústrias Villares	-	-	1	5	6
Belgo-Mineira	1	-	1	3	5
Gerdau	2	-	2	3	7
Mannesmann	-	-	-	4	4

Sources: www.ia.ita.doc.gov; www.ccra-adrc.gc.ca; http://economia.gob.mx; www.mecon.gov.ar/cnce.

Most cases in this industry have had the same target, flat-rolled steel products, for a simple reason: Brazilian firms enjoy a long-lasting comparative advantage in this line of business. As several authors already noted, quality of raw materials and plant location are the key sources of international competitiveness in the steel industry, and the Brazilian firms are privileged in both aspects (see Bonelli, 2002; de Paula, 2002). Therefore, among the 12 countries listed in table 2, the only producers that nowadays have production costs close to the Brazilian levels are those from China and South Korea. Moreover, Brazilian firms still have room to improve their competitiveness by reducing financial costs. This would allow them to remain efficient in the near future, even under a scenario in which wage costs were growing ahead of productivity.

Table 2

Production Cost of Flat-Rolled Products in Selected Countries (April, 2001)

(US$/Metric Ton)

Country	***Raw materials***	***Labor***	***Total operational cost***	***Financial expenses***	***Pre-tax cost***
United States	287	154	441	39	480
Japan	256	142	398	60	458
Canada	299	118	417	35	452
Germany	257	136	393	40	433
France	254	132	386	44	430
United Kingdom	258	113	371	46	417
Mexico	259	76	335	68	403
Australia	221	101	322	74	396
Taiwan	251	86	337	52	389
Brazil	238	57	295	67	362
South Korea	246	62	308	42	350
China	270	26	296	50	346

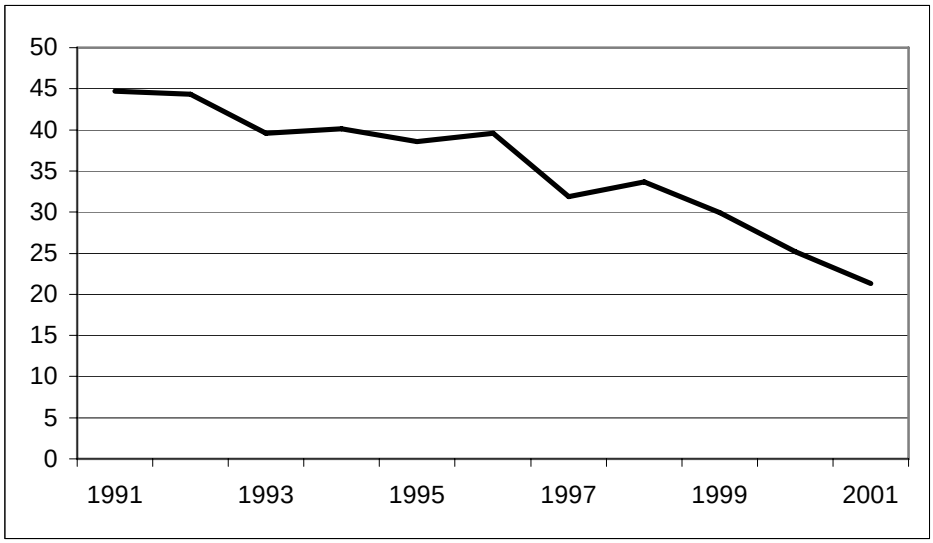
Source: World Steel Dynamics (2001).

The investigations have produced rather different results across countries. All cases initiated by Argentina were settled through price undertakings. In some instances, these arrangements compelled Brazilian firms to raise their export prices by 80 percent. Most Canadian and Mexican cases have ended with affirmative determinations that imposed duties within a range from 13 to 65 percent. The US profile has been more heterogeneous. A few petitions were withdrawn, others had negative determinations, but some cases ended with dumping margins of 150 percent.

Graph 1*

Share of Flat-Rolled Products in the Brazilian Exports of Steel: 1991–2001

(Percentage)



*****This graph includes only products affected by antidumping investigations, namely, the 4-digit groups 7208 to 7212, 7225 and 7226 of the Harmonized System.

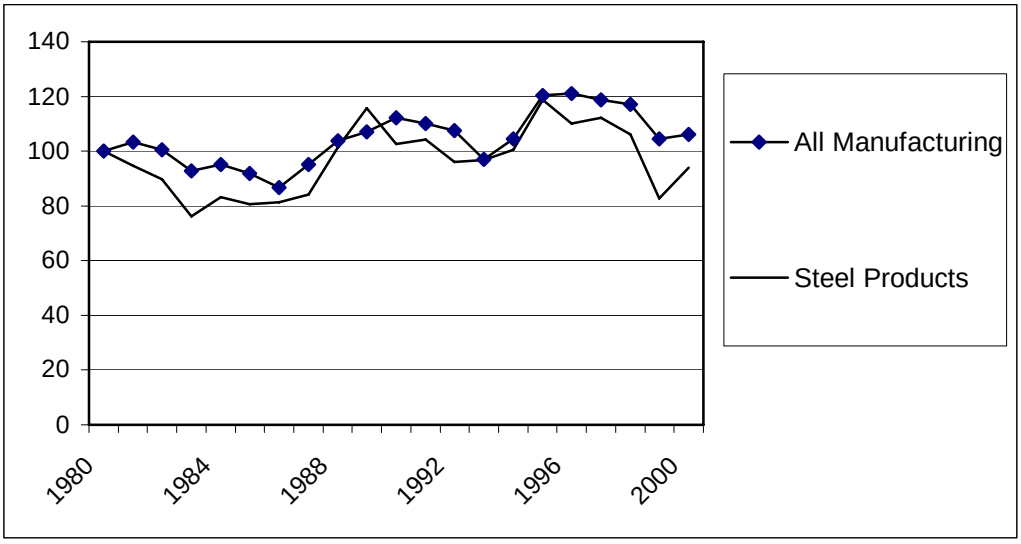
Source: www.iadb.org/intal.

Graph 1 describes the most perverse distortion provoked by those investigations on the export performance of Brazilian firms during the nineties, namely, the declining share of flat-rolled products in the country's exports of steel, which had reached 45 percent in 1991 and was reduced to 21 percent in 2001. If we examine graph 1 in tandem with graph 2 and the figures presented in table 3, we get a more accurate picture of this anomaly. Graph 2 reports the

comparative evolution of two Brazilian export price indexes over the last 20 years, one for all manufacturing and the other for steel products. These time series should reveal divergent trends between the two indexes if, as the amount of AD investigations suggests, the steel exporters had been systematically engaged in anticompetitive practices. However graph 2 shows that both indexes had a similar behavior and, consequently, reinforces a point made by Blonigen and Prusa (2001) in their comprehensive review of the economic literature on this trade remedy: Antidumping has nothing to do with "unfair" trade practices. It is simply a modern form of protection.

Graph 2

Price Indexes of Brazilian Exports: 1980–2000



Source: www.ipeadata.gov.br

Table 3 describes another aspect of the steel industry export performance during the nineties, which is the share of Brazilian goods in the total imports of steel by Argentina, Canada, Mexico and the US. Indeed, the market shares were not affected by the AD investigations initiated during that period, but this performance was attained through the substitution of semi-finished steel for flat-rolled products in the Brazilian export profile, as graph 1 has reported. Therefore, the ultimate impact of AD protection has been the creation of a paradoxical situation wherein the most efficient exporters are compelled to specialize in less sophisticated goods, while less efficient producers are allowed to exploit the most profitable niches of the market.

Table 3

Brazilian Exports of Steel: Market Share in Selected Countries, 1990–2000

(Percentage)

Country / Year	Argentina	Canada	Mexico	United States
1990	46.9	2.4	2.9	4.6
1991	52.0	2.2	4.9	5.3
1992	55.4	1.7	5.7	4.8
1993	54.3	2.0	4.3	4.1
1994	59.8	2.4	5.8	5.0
1995	52.7	2.8	6.8	5.3
1996	47.5	2.8	7.1	5.4
1997	39.9	2.8	5.6	5.1
1998	39.0	2.5	5.5	4.1
1999	41.2	1.8	4.5	5.0
2000	47.1	2.2	4.1	5.0

Sources: www.usitc.gov; http://strategis.gc.ca; www.iadb.org/intal.

3. Recent development of the Brazilian steel industry

During 40 years, from the fifties to the eighties, state-owned steel firms played a central role in the Brazilian industrialization process. Besides delivering subsidized inputs to other strategic sectors of the economy, such as the automobile industry, capital goods, shipbuilding and civil construction, the steel industry had additional tasks to perform, such as to promote the technological development of domestic engineering firms, provide carrier opportunities for skilled workers and support the export performance of the economy. On the other hand, the trade policies of the import-substitution regime ensured that steel firms were not supposed to face import competition in the Brazilian market and had access to the existing governmental programs for export promotion.

Table 4

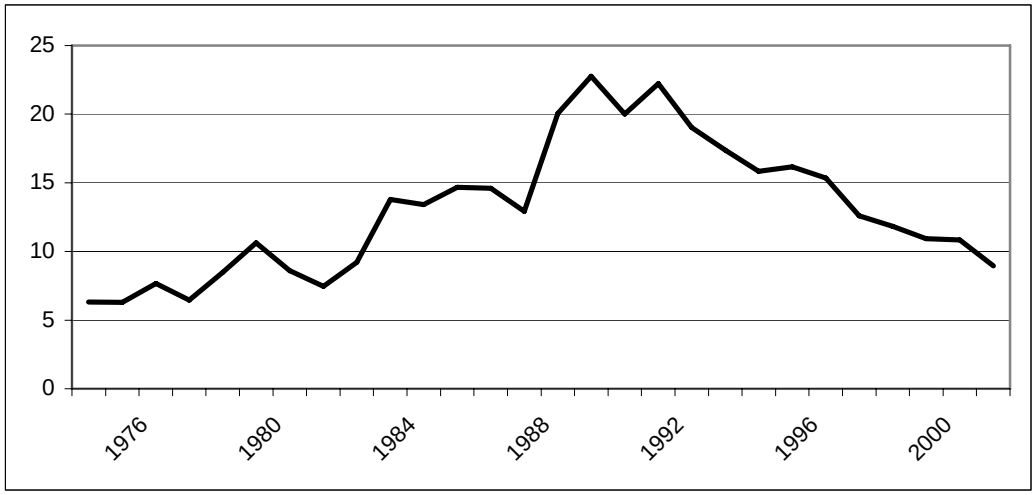
Brazilian Steel Production, Exports and Productivity: 1989–2000

Year	Production (Million tons)	Exports (Million tons)	Employment (Thousand)	Productivity
1989	25.1	10.8	167.4	150
1990	20.6	9.0	131.7	156
1991	22.6	10.9	121.5	186
1992	23.9	11.8	109.7	218
1993	25.2	12.2	101.5	248
1994	25.7	10.1	97.4	264
1995	25.1	9.7	89.2	281
1996	25.2	10.3	77.5	325
1997	26.2	9.2	73.6	356
1998	25.8	8.8	62.8	410
1999	25.0	10.0	58.9	424
2000	27.9	9.6	62.7	445

Source: Instituto Brasileiro de Siderurgia (IBS)

Graph 3

Share of Steel Exports in the Brazilian Exports of Manufacturing: 1974–2001



Source: www.ipeadata.gov.br

A new policy orientation toward privatization and trade liberalization became effective in the nineties. The privatization process started in 1988, with the selling of the smaller firms, and was concluded during 1991–1993, when COSIPA, CSN and USIMINAS were sold. By October 1993, all firms incumbent in the Brazilian steel industry were privately owned. On March 1990, all quantitative import controls were removed with the launching of the radical trade reform implemented by the Collor administration. In the following three years, the customs tariffs on steel were gradually reduced from a range of 35–45% to a modal rate of 10 percent.

Table 4 and graph 3 indicate some results engendered by these policy changes. So far, the most important innovation has been productivity growth, which jumped from 150 tons of crude steel per employee in 1989 to 445 in 2000. Steel production per employee is not a direct indicator of international competitiveness, because it does not measure other important cross-country differences in regard to labor skills, production shifts, technology, and output vectors. Nevertheless, it is a fair tool for watching efficiency trends inside national industries over time. Table 4 also shows that stagnant levels of production and exports have accompanied the remarkable rates of productivity growth during the nineties. Indeed, as graph 3 reports, the export performance of the Brazilian steel industry reached a turning point in 1989. After 15 years of dynamism, when the share of this industry in the country's exports of manufacturing soared from 6 to 23 percent, the nineties inaugurated a declining trend that led to a small share of 9 percent in 2001.

Another remarkable aspect of this process has been the geographic profile of flat-rolled steel exports in the recent past, as table 5 describes. Despite the protectionist initiatives by some trading partners in the western hemisphere, the region absorbed growing parts of Brazilian exports during the nineties, and a similar trend was observed in the European market. In contrast, the Asian economies, which constituted almost 70 percent of the Brazilian foreign markets in 1990, were reduced to less than 20 percent in 2000. While Brazilian export capabilities have been clearly constrained in recent years, these figures suggest that antidumping is not the only obstacle to be removed. Moreover, the FTAA negotiations regarding the steel industry may require a concurrent agreement at the multilateral level, as the next section discusses.

Table 5*

Geographic Profile of Brazilian Exports of Flat-Rolled Products: 1990–2000

(Percentage)

Country \ Year	1990	1992	1994	1996	1998	2000
Argentina	3.6	15.0	7.5	6.9	14.2	11.7
Canada	1.1	0.4	0.6	0.3	1.3	5.2
Mexico	1.5	3.9	3.0	4.8	7.0	6.9
United States	11.1	7.3	18.9	17.4	26.5	17.6
Others (L.A & Caribbean)	7.1	16.6	21.3	15.0	18.5	20.9
European Union	6.2	4.9	5.4	7.7	19.0	18.5
Rest of the World	69.4	51.9	43.3	47.9	13.5	19.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

*****This table includes only products affected by antidumping investigations, namely, the 4-digit groups 7208 to 7212, 7225 and 7226 of the Harmonized System.

Source: www.iadb.org/intal.

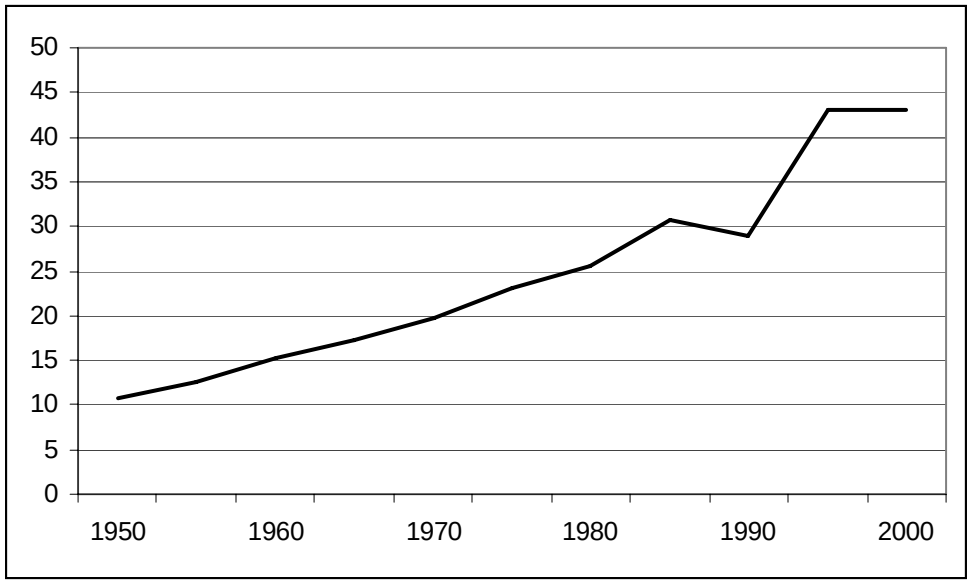
4. Competition patterns of a declining industry

During the second half of the twentieth century, the evolution of the world steel industry comprised three different periods (see Bonelli, 2002; D'Costa, 1999). The first period, which lasted until the mid-seventies, was marked by high rates of capacity expansion in many countries and steady growth of international trade. In 1945, world crude steel production was about 100 million tons and global trade represented 10.7 percent of that amount. Thirty years later, world production had reached 700 million tons and the trade share was 23.2 percent. The second period, from the late seventies to the early nineties, inaugurated new trends, in which stagnant levels of production and demand were followed by growing levels of idle capacity, protectionist pressures in industrialized economies, and export promotion efforts by some developing countries. The third period is yet to be concluded. Its main feature has been the worldwide restructuring process that includes privatization, cross-border mergers and acquisitions, and partial elimination of excess capacity.

Graphs 4, 5 and table 6 highlight some features of the current restructuring process. Graph 4 reports the most enduring peculiarity of steel making over the last fifty years, namely, the growing share of international trade in world steel production. Indeed, only for a brief moment in recent decades that share did not expand, when it stayed at around 30 percent during 1985–1990. But it returned to the long run trend in the nineties, and reached the remarkable level of 44 percent by the end of the decade. Therefore, while steel making has acquired all the symbols of a declining business – stagnant demand, persistent problems of excess capacity and absence of major technological innovations – it has at least one characteristic that is typical of dynamic industries: a fierce import competition. Besides generating protectionist pressures in developed countries, these mixed conditions of competition have also paved the way to the ongoing worldwide efforts toward modernization and structural adjustment.

Graph 4

Exports as a Share of World Steel Production: 1950–2000



Source: International Iron and Steel Institute.

Table 6

Employment in the Steel Industry, Selected Countries: 1975–2000

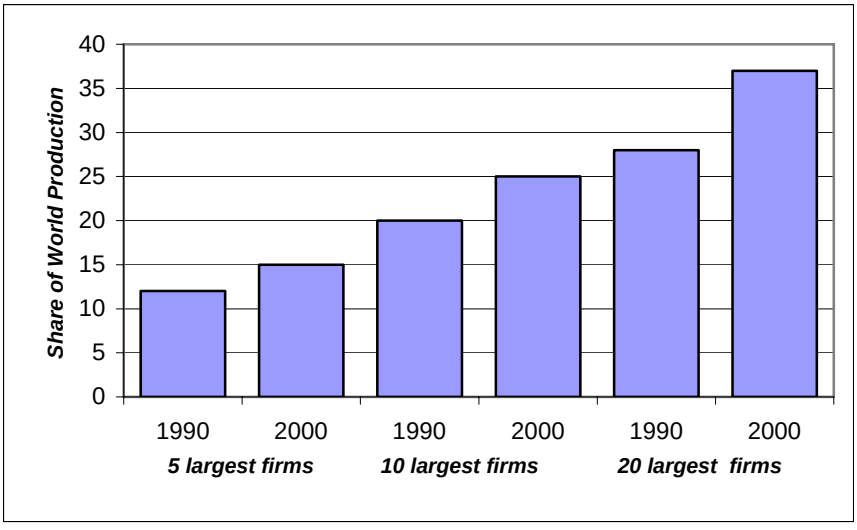
(Thousand)

Country \ Year	1975	1980	1985	1990	1995	2000
Canada	54	61	69	53	54	56
European Union	958	792	561	434	321	277
Japan	447	380	349	305	252	197
United States	457	399	238	204	171	151

Source: www.worldsteel.org

Graph 5

Market Structure of World Steel Production



Source: USITC (2001).

The modernization efforts have been attained mainly through managerial improvements within the limits imposed by the existing technological base of steel making. This implies a particular type of productivity growth, which is achieved by incremental labor saving innovations in tandem with the closure of inefficient production facilities. The inevitable outcomes are those presented in table 6. Between 1975 and 2000, employment in the steel industry declined by 70 percent in the European Union and the United States, and by 55 percent in Japan. As we saw in section 3, the Brazilian industry followed a similar trend during the nineties, when its labor force was reduced by 63 percent (see table 4). In fact, Canada has been one of the few countries in the world that maintained a stable labor force throughout the last quarter of century.

The above changes have been complemented by a growing number of cross-border mergers, acquisitions and strategic alliances, but world steel production remains fragmented, as the persistent levels of idle capacity indicate. According to the USITC (2001), estimates of global annual production capacity for 2000 range from 1.1 to 1.2 billion tons, while world crude steel production reached 934 million tons in that year, which implied about 15 to 22 percent of overcapacity. However, clear trends toward industry concentration have been recorded during the last decade, as graph 5 shows.

While the problem of excess capacity has been on the OECD agenda since September 2001, some critics argue that the WTO would be the appropriate forum to address this subject, due to its global dimensions and the multilateral negotiating issues provoked by export subsidies and other forms of state aids that are pervasive in the steel industry (see de Paula, 2002). On the other hand, there is a wide consensus among governments and representatives from the private sector about the measures that would lead to the conclusion of the restructuring process and, henceforth, eliminate the current trade distortions. A key step would be to provide further incentives to cross-border mergers, which in turn would facilitate the closure of the remaining uneconomic plants, while dissolving protectionist pressures.

Nowadays, two obstacles that limit cross-border mergers in the steel industry are the pension liabilities of some large firms, particularly in the United States, and the legal costs to

comply with antitrust regulations in different jurisdictions. The OECD agenda is dealing with the first obstacle through the discussion on business transparency and the negotiation of a new state aid code for the steel industry, but the second obstacle is yet to be included on the agenda.

A possible solution for the antitrust obstacle could be offered by a newborn institution, the International Competition Network (ICN), which is the only existing body devoted exclusively to the multilateral enforcement of competition laws. All of the 65 ICN members are national or multinational antitrust authorities, which are engaged in a project-oriented initiative. One of their initial projects is, precisely, the merger control process in the multi-jurisdictional context. This project will generate guidelines on best practices and it will be left to ICN members to decide whether and how to implement the recommendations, through unilateral, bilateral or multilateral arrangements, as appropriate (see www.internationalcompetitionnetwork.org). In this context, the ICN should focus on the peculiarities of the steel industry and eventually examine the costs and benefits of the following temporary rule: over the next decade, cross-border mergers in this industry shall not be challenged by any national or multinational authority, but steel producers should be aware that their international competition practices will be watched by governments. The ICN should set up a steering committee to implement this rule and assess its results periodically.

5. Conclusion

The aging problems of the steel industry constitute one of the main sources of the Brazil–US divergences regarding the antidumping rules to be established in the FTAA. The foregoing discussion showed that AD investigations in the steel industry affected not only the export performance of Brazilian firms, but, more importantly, have damaged the trade patterns in the western hemisphere, wherein the most competitive suppliers are compelled to specialize in semi-finished goods while the more sophisticated market segments are reserved for less efficient producers. Although the evidence on the steel industry may favor the argument that antidumping is incompatible with the FTAA project, it also reveals that an eventual abolishment of this instrument would not settle the current disputes on steel trade, whose roots are multilateral.

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