Report Submitted to the United States Congress

Pursuant to Section 203(b)(1) of the Trade Act of 1974, as amended

Introduction

Free trade is a cornerstone of President George W. Bush's agenda to help generate jobs for American workers, open markets to American products and services, and spur economic growth. While free trade is an engine of economic growth, sometimes changes in global economic conditions and large increases in imports can have dramatic consequences on industries, and this has been the case with America's steel industry.

Foreign steel producers, often nurtured by government subsidies that have allowed them to build huge amounts of excess capacity, have flooded the U.S. market with imports. The Asian financial crisis further compounded distortions in global steel markets and precipitated a massive surge of imports. This combination of factors seriously affected U.S. steel producers, workers and communities.

Since 1998, firms accounting for thirty percent of U.S. steel-making capacity have filed for bankruptcy. Domestic steel prices in the last quarter of 2001 were at their lowest levels in 20 years, and a number of integrated and mini-mill producers posted significant fourth-quarter financial losses last year.

World Trade Organization (WTO) rules recognize that sudden and large increases of imports can overwhelm even the most competitive domestic industries, and that countries may need to take temporary actions to provide relief. Last June President Bush asked the International Trade Commission (ITC) to investigate the effects of imports on America's steel industry and its workers. The ITC found that imports were a substantial cause of serious injury to the U.S. steel industry.

Presidential Action

President Bush has decided to impose temporary safeguard measures on key steel products to provide appropriate relief to those parts of the U.S. steel industry that have been most damaged by import surges. This relief is being provided in response to the injury findings of the ITC and is consistent with the President's free trade agenda and his commitment to enforcing U.S. trade laws to help maintain the competitiveness of the U.S. economy.

America’s steel industry has long been a key component of the U.S. economy, and the relief that the President is announcing today will give the U.S. steel industry the breathing space it needs to restructure and adjust. The President has taken care to craft this relief to minimize the impact on steel consumers.

These types of temporary safeguard measures are expressly allowed by WTO rules -- in fact, international trade rules have provided such relief for more than 50 years. Many of our major trading partners -- including the European Union, Japan, Korea, Brazil, and India -- have imposed safeguard measures covering a wide range of products.

This relief does not end the Section 201 process. The President will impose an import licensing system to allow the U.S. government to obtain more timely information about changes in steel trade trends for products covered by this action. The President will monitor the extent to which other nations are eliminating global excess steel capacity. The President will also monitor economic conditions and the state of the U.S. steel industry to ensure that the industry is taking steps to restructure and increase its competitiveness. The President retains the right to modify or terminate the safeguard measures as appropriate.

The relief is intended to last for three years. Consistent with America’s free trade obligations and WTO rules, the Administration is excluding our free trade agreement partners. In addition, consistent with WTO rules, we are excluding developing countries that ship relatively small quantities of imports.

This relief represents just the latest in a series of actions President Bush has taken to help the U.S. steel industry in its efforts to meet the challenges of the global marketplace. Last June the President announced a comprehensive, three-pronged plan to reduce global excess steel-making capacity; to eliminate subsidies and market distorting practices globally; and to request the initiation of a Section 201 investigation.

RELIEF COMPONENTS

Products

Consistent with U.S. international trade obligations, the Administration is announcing temporary safeguard measures on key steel products. As required by U.S. law and international trade rules, the level of relief is reduced periodically throughout the duration of the measure:

- **Flat Products**: A tariff of 30% will be imposed on imports of plate, hot-rolled sheet, cold-rolled sheet, and coated sheet. This remedy provides substantial relief for the sector of the industry that has been hardest hit by imports and which is the anchor for many struggling U.S. companies. This tariff is higher than the 20% tariff recommended by the plurality of ITC commissioners. The higher tariff enhances the ability of U.S. producers to adjust to import competition without placing an undue burden on U.S. steel consumers or on the country as a whole.

- **Tin Mill Products**: A tariff of 30% will be imposed on imports of tin mill products. The ITC commissioners were evenly divided as to whether imports were a substantial cause of serious injury to the domestic industry. As permitted by the statute, the President has decided to treat the commissioners' findings as an affirmative determination, and has therefore decided that relief is appropriate. A tariff of 30% is appropriate for the same reasons that such a tariff is appropriate for other flat products.

- **Hot-Rolled Bar and Cold-Finished Bar**: A tariff of 30% will be imposed on imports of hot-rolled bar and cold-finished bar. This tariff is higher than the 20% tariff recommended by the plurality of ITC commissioners. The higher tariff enhances the ability of U.S. producers to adjust to import competition without placing an undue burden on U.S. steel consumers or on the country as a whole.

- **Rebar**: A tariff of 15% will be imposed on imports of rebar. This tariff is higher than the 10% tariff recommended by the plurality of ITC commissioners. The higher tariff enhances the ability of U.S. producers to adjust to import competition without placing an undue burden on U.S. steel consumers or on the country as a whole.

- **Certain Tubular Products**: A tariff of 15% will be imposed on imports of certain welded tubular products. This tariff will provide a higher level of relief than the tariff-rate quota recommended by a majority of ITC commissioners.

- **Carbon and Alloy Fittings and Flanges**: A tariff of 13% will be imposed on imports of carbon and alloy fittings and flanges. This tariff is equal to the tariff recommended by the plurality of ITC commissioners. This tariff is sufficient to facilitate industry restructuring without unduly burdening U.S. steel consumers or the country as a whole.

- **Stainless Steel Bar**: A tariff of 15% will be imposed on imports of stainless steel bar. This tariff is equal to the tariff recommended by the plurality of ITC commissioners. This tariff is sufficient to facilitate industry restructuring without unduly burdening U.S. steel consumers or the country as a whole.

- **Stainless Steel Rod**: A tariff of 15% will be imposed on imports of stainless steel rod. This tariff is lower than the tariff recommended by the three commissioner plurality. Given the conditions prevailing in the domestic stainless steel market, this tariff is sufficient to facilitate industry restructuring without unduly burdening U.S. steel consumers or the country as a whole.

- **Stainless Steel Wire**: A tariff of 8% will be imposed on imports of stainless steel wire. The commissioners were evenly divided as to whether imports were a substantial cause of serious injury to the domestic industry. As permitted by the statute, the President has decided to treat the commissioners' findings as an affirmative determination, and has therefore decided that relief is appropriate. This tariff is sufficient to facilitate industry restructuring without unduly burdening U.S. steel consumers or the country as a whole.

- **Slab**: Imports of slab will be subject to a tariff rate quota (TRQ). The in-quota volume will be set at 5.4 million short tons. The out-of-quota tariff will be 30%. A majority of ITC commissioners recommended a tariff-rate quota on slab, with an in-quota volume roughly equivalent to imports in 2000 and an out-of-quota tariff of 20%. Slab is an input for a key segment of the domestic industry. Given market circumstances, including the level of current demand, the TRQ announced today is sufficient to ensure continued access to slab without undermining the relief applied to other flat products.

Other Provisions

FTA partners. For those products where the ITC recommended the inclusion of a NAFTA partner, or reached a tie decision on whether NAFTA imports should be excluded, the Administration asked for supplemental information on whether imports from countries besides Canada and Mexico were by themselves a substantial cause of serious injury to the domestic industry or threat thereof. The ITC found in each case that they were. Based on these findings and the specific factors enumerated in the statute, and consistent with the obligations of the United States under its free trade agreements and the WTO, the President has determined that our FTA partners should be excluded from the relief on all products.

Imports from developing countries. Consistent with WTO rules, the Administration will exclude from the relief imports from developing countries that exported only small amounts of steel to the United States and that are WTO members.

Import licensing and surge protection. The President will impose an import licensing system to allow the U.S. government to obtain more timely information about changes in steel trade trends for products covered by the relief. The President will closely monitor imports to ensure that the purpose of the 201 remedy is not undermined, and retains the discretion to impose safeguard measures on products from excluded countries should imports of such products surge during the duration of the relief. This system will also help guard against transshipment.

Duration. The safeguard measures will remain in place for three years, rather than the four years recommended by the ITC. In light of the strength of the relief imposed, the President has determined that a remedy of three years is appropriate.

Product exclusions. The President retains the discretion to consider requests for product exclusions within 120 days after the date of the Proclamation and will consider requests for product exclusions each year thereafter. This will help ensure that U.S. consumers have access to needed products.

Trade remedy laws. The Administration will continue to enforce vigorously our anti-dumping, countervailing duty and other trade remedy laws.

THE PRESIDENT'S COMPREHENSIVE AGENDA TO HELP THE STEEL INDUSTRY MEET THE CHALLENGES OF THE GLOBAL MARKETPLACE

Last June the President announced a comprehensive, three-pronged plan to:

- **Reduce global excess steel-making capacity;**
- **Eliminate subsidies and market-distorting practices globally; and**
- **Initiate an investigation by the ITC (a Section 201 investigation) into the injury to the domestic steel industry caused by increased imports.**

Reducing global excess steel-making capacity. During ground-breaking multilateral discussions on steel in the Organisation for Economic Co-Operation and Development (OECD), the United States brought together the major steel-producing countries of the world for a series of high-level meetings aimed at reducing inefficient excess capacity in the global steel industry. The nearly 40 countries participating in this process -– including the European Union, Korea, Japan, China, Russia, Ukraine, Mexico, Brazil, and the United States -- recognized that excess steel capacity is perhaps the central underlying problem plaguing the global steel industry today. Most importantly, the countries have:

- Committed to work to facilitate the market-based reduction of excess capacity;

- Identified 117 million tons of cuts in global excess capacity, which represents nearly half of the estimated excess capacity;

- Agreed to establish mechanisms for reviewing current and future reductions; and

- Urged multilateral lending institutions to take account of the current situation regarding excess global steel capacity when considering any loans that might expand such capacity.

Eliminating subsidies and market-distorting practices globally. Many governments have long believed the development of a domestic steel industry is the cornerstone of industrial development, and most countries' steel industries have benefited from direct or indirect subsidies and other assistance. Longstanding and far-reaching government intervention by other nations in the steel market has subsidized capacity expansion, and distorted competition to such an extent that the international market no longer works as it should. Eliminating these foreign market-distorting practices is perhaps the single most important step in addressing the long-term problems of America's steel industry. Consequently the U.S. has launched international talks with nearly 40 major steel-producing countries aimed at eliminating subsidies and developing greater disciplines on market-distorting practices in the global steel industry. Meeting under the auspices of the OECD, countries have agreed to work toward:

- Halting further subsidies aimed at expanding steel production while talks proceed to establish additional disciplines;

- Developing an inventory of subsidies and other market-distorting practices in steel trade;

- Examining existing multilateral disciplines on subsidies and other market-distorting practices; and

- Determining what additional disciplines are needed that might be the subject of trade negotiations in the recently launched Doha Development Agenda in the WTO.

Initiating a Section 201 investigation. The President chose in June to initiate a Section 201 action to determine whether steel was being imported into the United States in such increased quantities as to be a substantial cause of serious injury, or threat thereof, to the domestic steel industry.

HELPING WORKERS & COMMUNITIES

Meeting the challenges and opportunities of the global steel marketplace will also require adjustment and restructuring of the American steel industry, to ensure its long-term competitiveness.

Restructuring will impact workers and the communities in which they live and we must help hard-working Americans adapt to changing economic circumstances. The President has proposed a major expansion of the National Emergency Grants program to assist workers affected by restructuring with effective job training and assistance. The President has also proposed direct assistance with health insurance costs that will be available to workers and retirees who lose their employer-provided coverage. And the President supports coordinated assistance for communities and a strengthened and expanded trade adjustment assistance program. America's workers are the most highly skilled in the world, and with effective training and adjustment assistance we will help them find better, higher paying jobs to support their families and boost our economy.

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