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OA/ID Number: 29171
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Folder Title:
Steel VRA Program (1989) [2]

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Withdrawal/Redaction Sheet
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Doc. No. / Type	Subject/Title	Date	Restriction	Classification
01. Memo	From Michael Boskin to John Sununu Re: Steel VRAs (1 pp.)	7/5/89	P-5	
02a. Memo	From Roger Porter to John Sununu Re: Steel Antidumping and Countervailing Duty Remedies (1 pp.)	7/19/89	P-5	
02b. Memo	From Stephen Farrar to Roger Porter Re: Antidumping and Countervailing Duty Laws (7 pp.)	7/7/89	P-5	
03. Memo	From Roger Porter to John Sununu Re: The Steel Import Decision (2 pp.)	6/30/89	P-5	
04a. Memo	From Roger Porter to John Sununu Re: Steel Decision (3 pp.)	6/28/89	P-5	
04b. Statement	Draft Statement by the President Re: Steel Trade Liberalization Program (2 pp.)	6/89	P-5	
05. Memo	From the Economic Policy Council to President Bush Re: Steel VRA Program (13 pp.)	6/26/89	(b)(1)	C
06a. Memo	From the Economic Policy Council to President Bush Re: Steel VRA Program (13 pp.)	6/26/89	(b)(1)	C

Collection:

Record Group: Bush Presidential Records
Office: Chief of Staff, White House Office of
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WHORM Cat.:
File Location: Steel VRA Program (1989) [2]

Pinksheet Number: KO0564
OA/ID Number: 29171-009
Date Closed: 12/3/2004
FOIA/Sys Case #: 1998-0004-F[1]
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P-2/P-5 Review Case #:

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Doc. No. / Type	Subject/Title	Date	Restriction	Classification
06b. Memo	From Nicholas F. Brady to President Bush Re: Steel VRA Program (2 pp.)	6/17/89	~~(b)(1)~~	
06c. Memo	From Nicholas F. Brady to President Bush Re: Steel VRA Program (3 pp.)	7/3/89	~~(b)(1)~~	
07. Memo	From Carla Hills to John Sununu Re: Steel Liberalization Program (1 pp.)	7/7/89	~~(b)(1)~~	

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P-2/P-5 Review Case #:

THE WHITE HOUSE

WASHINGTON

July 19, 1989

MEMORANDUM FOR GOVERNOR SUNUNU

FROM: ROGER B. PORTER RBP

SUBJECT: Health of the Steel Industry

You should be aware of two new pieces of information confirming the health of the U.S. steel industry.

1. The GAO has found that the industry has returned to normal profitability, and expiration of the quotas would have little immediate effect on the market as a whole.

In a July 12 report to Senator Wilson (summary at Tab A), the GAO finds that the steel industry has regained competitiveness since 1985. This is mainly the result of the substantial decline of the value of the dollar, improvements in labor productivity, and reductions and slower growth in wages and benefits. The GAO also finds that the effect of the steel quotas has declined substantially and the vast majority of them are going unfulfilled.

2. VRA extension is not a major factor to securities analysts in evaluating the steel industry.

Attached at Tab B is a recent Wall Street Journal column on the uncertainties surrounding steel stocks. Among the uncertainties are the effect of off-balance sheet liabilities for pensions and medical costs, and the strength of future demand. Interestingly, the column makes no mention of uncertainty due to pending expiration of VRAs. I take this to reinforce the GAO's conclusion that expiration of the quotas would have very little effect on the market.

Attachments

Tab A	Summary of GAO Report
Tab B	Wall Street Journal column

GAO United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-236037

July 12, 1989

The Honorable Pete Wilson
United States Senate

Dear Senator Wilson:

Title VIII of the Trade and Tariff Act of 1984 grants authority to the President to enforce the trade quotas currently protecting the U.S. steel industry. This provision is scheduled to expire on October 1, 1989, and the Congress is considering its extension. As you requested, this report provides data and analysis regarding the health of the industry and the quotas and other factors affecting it.

BACKGROUND

Poor financial performance has long plagued the U.S. steel industry for a number of reasons. For several decades, the dependence of the U.S. economy on steel mill products has declined steadily and competition from domestic minimills and foreign producers has increased. Causes of the competitive problems include slow productivity growth brought on in part by slow implementation of new technologies and little effort at research and development, disproportionately high labor costs, global overcapacity, foreign subsidies, falling international shipping costs, air-pollution abatement costs, deterioration of the U.S. advantage in raw material costs, inland locations for many U.S. plants which increase the expense of importing high-quality iron ore from abroad, old integrated plants that are too small for efficient production using modern technologies, and an abundance of cheap steel scrap available for use by minimills.

Policies to protect the industry from import competition also have a long history. Tariffs existed prior to the 1960s at a time when imports, fair or otherwise, were negligible. Import quotas were negotiated in December 1968, and various quotas have been in effect for 12 1/2 of the 20 1/2 years since. Trigger-price mechanisms, in which imported steel sold below specified trigger prices was subjected to expedited antidumping investigations, were in effect for another 3 1/2 of those years.

In the early 1980s, the severe economy-wide recession resulted in major losses for the steel industry. As recovery began in 1983 and 1984, the substantial rise in the value of the dollar put U.S. producers at a competitive disadvantage, resulting in a surge of imports of steel (and other products). After conducting an investigation under Section 201 of the Trade Act of 1974, as amended, the International Trade Commission concluded in 1984 that the U.S. steel industry was being harmed by this import surge and recommended a 5-year program of quotas and tariffs covering imports from all countries. Fairness of trade is not an issue in Section 201 cases. The purpose of this section is to provide temporary relief from import competition, whether fair or unfair. However, the industry had also filed many unfair trading cases against foreign producers.

Emphasizing his desire to avoid protectionism, the President rejected the Commission's recommendations on September 18, 1984 and set forth his own program aimed at countering unfair trade. He directed the U.S. Trade Representative to negotiate "surge control" arrangements with countries whose exports to the United States had increased significantly in recent years due to unfair trading practices. Title VIII of the Trade and Tariff Act of 1984 provided enforcement authority through October 1, 1989. The Trade Representative implemented his instructions by negotiating quotas on exports of steel to the United States. Unfair trading cases were withdrawn in accordance with provisions of these quota agreements. As of 1987, 29 countries supplying over two thirds of U.S. steel imports were covered by quota agreements.

RESULTS IN BRIEF

The primary cause of the loss of sales by the U.S. integrated steel producers has been declines, both long-term and cyclical, in domestic consumption of steel. According to one study, annual shipments by integrated and specialty steel producers declined from 1974 to 1985 by 44 million tons, of which 54.5 percent can be attributed to reduced U.S. consumption of steel, 18.2 percent to increased imports, 15.9 percent to increased shipments by minimills, and 11.4 percent to reduced exports.

The primary problem in the 1980s was the economy-wide recession, the effects of which were aggravated by the import surge that followed as a result of the high value of the dollar. Since 1985, the industry has regained competitiveness principally as a result of the substantial decline in the value of the dollar, improvements in labor productivity, and reductions and slower growth in wages and benefits. Consequently, the import surge has subsided and the import market-share goals set by the Congress and the President for the quota program have been met. Furthermore, the recovery of the U.S. economy from the recession has increased the demand for steel in the United States. As a result, the industry has returned to normal levels of profitability.

With the passing of the import surge, the effect of the quotas has declined substantially and the vast majority of them are now going unfilled. Thus, while expiration of the quotas might affect the market for a few individual steel products (particularly semifinished products), it would likely have little immediate effect on the market as a whole. Should the steel industry need protection from injury caused by subsidized or dumped imports, remedies are available under existing unfair-trade laws. The main effect of extending the quotas would be to protect the steel industry from possible future adverse exchange-rate changes or wage increases.

THE STEEL INDUSTRY IN THE U.S. ECONOMY

The importance of the steel industry and its products to the U.S. economy has declined fairly steadily and very substantially over the past 40 years. The United States now consumes less than half as much steel per dollar of real gross national product as in 1950. The industry's share of total manufacturing employment is only one third of its share in that year, and its share of nonagricultural employment is less than one fifth its share in that year. Its share of the value added by all manufacturing is less than one third of what it was in 1958 (the earliest year for which we found data).

Not all of the industry has suffered seriously. The problems have been concentrated in the integrated-mill sector, which consists of the traditional steel firms with large operations that produce steel products from iron ore. The minimill sector, which consists of smaller-scale operations that produce new steel products from recycled steel scrap, has grown fairly consistently over the past 30 years. While production by integrated producers declined by 28.1 percent during the difficult years from 1980 to 1985, minimill production increased by 30.4 percent.

IMPORT COMPETITION

Though less important than declining demand, increasing import competition has been a problem for the U.S. steel industry. Several long-term factors contribute to this increased competition. The large amounts of labor required to produce steel make the industry's profitability sensitive to labor costs. Hence, low-wage developing countries have a competitive advantage over the industrialized countries. Furthermore, the wages and benefits in the U.S. steel industry are very high even after factoring out the high U.S. standard of living. After 1982, average hourly earnings (excluding benefits) in the industry declined some; however, in 1988 they were still over 38 percent higher than the average for all manufacturing, a higher margin than in any post-World War II year prior to 1974 except for 1959. Including benefits raises the margin substantially (to 68 percent in 1987--the most recent year for which data is available).

Adding to the labor-cost advantage of developing-country steel industries is the growing demand for steel in developing countries that results from the process of development. Thus, it is not surprising that the steel industries of the United States, Japan, and the European Community are declining while those in developing countries are expanding. Still other factors, both positive and negative, affect the competitiveness of developing countries' steel industries. Some are inefficient; many receive subsidies and protection (as do the steel industries of many other countries). However, the pattern of growth and decline in the industry around the world is broadly consistent with what would be expected from considerations of labor cost and differences in growth of demand for steel.

The huge minimum efficient scale for modern integrated steel plants makes it likely that a developing country will be able to absorb only part of the output of a new plant, leaving the rest for export. Thus, considerations of labor cost, differences in growth of steel demand, and minimum efficient scale of steel plants suggest that developing countries may continue to build new plants and to export part of their output.

The U.S. steel industry's problem with imports has undoubtedly been exacerbated by its slow labor productivity growth over the years. The industry's labor productivity grew slowly relative to that of the rest of U.S. manufacturing for most of the post-World War II period, and little was done to improve it. The industry was slow to implement new technologies used in many foreign operations, such as the basic oxygen process and continuous casting; and in comparison to most other U.S. manufacturing industries, it invested little in research and development for most of the past three decades. Only since the early 1980s has the industry begun to recover lost ground.

RECESSION IN THE EARLY 1980s

The problems in the 1980s were cyclical, resulting primarily from the deep economy-wide recession. Sales of both domestically produced and imported steel are very sensitive to the business cycle and decline substantially during recessions. Accordingly, domestic-industry sales and imports generally fluctuate in the same direction rather than in opposite directions as would occur if imports were the industry's primary problem.

In the 16 years prior to the fourth quarter of 1981, only two quarters were unprofitable and no entire year was. Then declining demand for steel in the United States resulting from a severe recession began to cause losses. From the fourth quarter of 1981 through the fourth quarter of 1986, the industry lost money in 18 of the 21 quarters and 4 of the 5 years. Production and employment declined drastically. The industry hit bottom along with the rest of the economy in 1982. As it began to recover, imports began to surge, reaching a new high of 26.1 percent of the market in 1984.

THE IMPORT SURGE AND THE QUOTAS

The most likely cause of the import surge was the rise in the value of the dollar against other currencies in conjunction with the recovery in U.S. steel consumption resulting from the general economic recovery. By one measure, the inflation-adjusted trade-weighted value of the dollar increased by over 35 percent from 1980 to 1985, making U.S. steel products that much more expensive relative to foreign products. At first, foreign products could not make much headway because the recession resulted in low demand for all steel, domestic and foreign. Then as the recovery began, both domestic sales and imports surged, and foreign producers were able to take advantage of the high dollar to gain market share.

At the peak of the import surge in 1984, the quota program was initiated to contain it. The quotas performed as intended, contributing to a slight decline in import market share in 1985. Since 1985, the value of the dollar has declined back below its level in 1980. As a result, the import surge has subsided, and the effect of the quotas has declined considerably. In 1985, quotas covering 79.2 percent of the total tonnage allowed under all of the quotas were completely filled and binding; in 1986, the figure dropped to 42.6 percent; and in 1987, it was only 28.4 percent. Preliminary data indicates the quotas were substantially less binding in 1988 than in 1987.

Import market share has declined every year since 1984, marking the longest string of consecutive declines since World War II. In 1988 it was down to 19.6 percent, which is below the levels in 1982 and 1983 when the surge first began.

RECOVERY OF THE STEEL INDUSTRY

As a result primarily of the economy's recovery from the recession and secondarily of the declining share of imports in the U.S. market, the demand for U.S.-made steel products has increased considerably. Further, the U.S. steel industry has taken steps to reduce its costs. Consequently, the industry has recovered strongly, returning to historically normal levels of profits in 1987 and 1988.

The recovery in profits has been accompanied by a significant but less than complete recovery in production and almost no recovery in employment. Substantial further recovery in production and employment is unlikely because of retirement of excess capacity and improvements in labor productivity. Capability utilization in 1988 averaged 89.6 percent, its highest level in 14 years.[1] The length of the average workweek for production workers set new post-World War II highs in both 1987 and 1988, suggesting that the industry is trying to avoid employing more workers.

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[1]Production capability is a concept used in the steel industry. It is defined as the tonnage capability to produce raw steel for a full order book based on the current availability of raw materials, fuels, and supplies, and on the industry's coke, iron, steel making, rolling, and finishing facilities. The capability utilization rate is production expressed as a percentage of production capability.

Though still suffering some ill effects, the major steel-producing states have adjusted to the reductions in production and employment in the industry. Civilian unemployment rates in these states have declined to levels near the national average, and per capita personal incomes have stabilized, though at somewhat lower levels, relative to the national average.

OBJECTIVES, SCOPE, AND METHODOLOGY

To assess the health of the steel industry and the factors which affect it, we collected and analyzed data from a number of different sources, including the American Iron and Steel Institute, the International Iron and Steel Institute, the Office of Agreements Compliance at the Department of Commerce, the Bureau of Economic Analysis, the Bureau of the Census, the Department of Labor, and the National Science Foundation. We also reviewed analyses of the industry produced by the Brookings Institution, the American Iron and Steel Institute, the Congressional Research Service, and others. Because we did not audit the performance of any government agency or department, we did not obtain agency comments.

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The data you requested and more detailed analysis are presented in the appendices to this report. The appendices are organized according to types of data, with the first covering financial data; the second covering operational data, such as production and employment; the third covering conditions in the steel market, such as prices, shipments, and imports; the fourth covering minimills; and the fifth covering the factors affecting imports, such as the quotas.

As agreed with your office, we plan no further distribution of this report until 30 days after its issuance date unless you release its contents earlier. At that time, we will provide copies to executive agencies, congressional committees, and other interested parties.

Major contributors to this report were Bruce G. Arnold, Project Manager and Economist, and James McDermott, Assistant Director. I can be reached at (202) 275-4812 if you need any additional information.

Sincerely,

Allan I. Mendelowitz

Allan I. Mendelowitz, Director
Trade, Energy, and Finance Issues

Steel Stocks Attract Money Manager Smith, Using Shopworn Value School of Investing

HEARD ON THE STREET WSJ 7/11/89

By Roger Lowenstein
Staff Reporter of The Wall Street Journal

NEW YORK—Spitting in the face of recession, money manager **Donald Smith & Co.** is 17% invested in steel stocks. These, says the Paramus, N.J., stock picker, are what Benjamin Graham and David Dodd, founders of the value school of investing, would be buying if they were alive today.

Mr. Smith, who claims to be one of the few Graham & Dodders still around, picks stocks that trade at discounts to tangible book value. This has led him into **Bethlehem Steel, Inland Steel Industries, Armco** and newly public **Weirton Steel.**

Tangible book value—the difference between a company's tangible assets and liabilities—is out of fashion as a guide to picking stocks. More managers prefer the current hit tune, "Find That Takeover Candidate."

But in the five years through June 30, Mr. Smith ranked third out of 194 investment managers, with a 226.8% return, according to CDA Investment Technologies Inc. of Rockville, Md.

Remarkably, none of his winners included takeovers—the source of many of Wall Street's recent profits. (One hit was **BankAmerica**, purchased in 1987 at about 50 cents on the dollar of book assets.)

Wall Street, however, considers Mr. Smith passe. The Street, in general, is neutral to bearish on big steel stocks, and unimpressed that they are cheap relative to book values. Even Salomon Brothers' Michelle Galanter Applebaum, a contrarian bull on steel, says Mr. Smith's approach "is interesting, but I don't look at book value."

Bethlehem at 21¼, Inland at 41¼, Armco at 11 and Weirton at 14¼ trade roughly at per-share book value. The stock market as a whole sells for about 2½ times book.

But analysts aren't convinced. Some say steelmakers' book values are overstated because of off-balance-sheet liabilities for pensions and medical costs. Mr. Smith, while recognizing this, says their book values are *understated*, because the cost of replacing steel assets is many times the value at which they are listed on companies' books.

Replacement value isn't always meaningful. (Some assets aren't worth replacing). But in this case, Mr. Smith says, the stock market should eventually recognize the assets' scarcity value.

"Supplies of raw steel will be in shortage"—some say a slight scarcity exists today—"and no one is focusing on increasing the supply," says Richard Greenberg, vice president of Smith & Co.

Though steel companies are investing heavily in making finished and semifinished steel, capacity for making raw steel has sunk to 115 million tons a year from a high of 160 million tons a decade ago.

"Their greatest assets are the coke [processed coal] facilities, the blast furnaces, the iron ore facilities that nobody focuses on and are on the books for next to nothing," Mr. Greenberg says.

Of the steel stocks, Smith & Co. says, Bethlehem has the most steelmaking assets per dollar of share price and is "the purest play." **USX**, big in oil, is the least pure.

Analysts say the cost of building new "integrated" steel plants is prohibitive. Thus, the Japanese aren't deemed likely to spoil the Americans' fun, as they have in autos, by building operations Stateside. Most, instead, are buying pieces of existing plants.

Recession is a risk. But Mr. Smith's holding period is long term, and much of the risk is already reflected in the shares (Bethlehem trades at 4 times trailing 12-month earnings; Armco and Inland have P-Es of 6 to 7).

Also, analysts expect steel to weather the next recession better than in the brutal early '80s. Steelmaking capacity is lower than it was then. Exports are rising. The dollar is weaker, cutting into imports of steel and of products made with steel. And the industry learned in its lean years to hold down inventories and costs.

So how did steel companies come to be cheap? "Poor management," Mr. Greenberg says. They may be smarter now, but he still fears one might make "a dumb acquisition." That is another risk. At least, he says, buying at book provides "a margin for safety."

Value-minded investors differ on how meaningful book values are. Michael Price, president of Mutual Shares Corp. of Short Hills, N.J., says book value "is a kind of a starting point. Once [a security] passes that test, you keep kicking the tires."

Mr. Smith says the Graham & Dodd notion of value gets distorted. He chides **Berkshire Hathaway** Chairman Warren Buffett, a former Graham apprentice and his best-known follower, for buying **Coca-Cola** shares far above book. Mr. Buffett, in Berkshire annual reports, says "intrinsic business value"—the present value of a company's estimated future cash output—"is the measurement that really counts." Book value is easier to calculate and can be a proxy for intrinsic value, he says—but in some cases it is way off the mark.

Mr. Graham wasn't as rigid on book values as some suppose. The 1934 edition of Graham & Dodd's "Security Analysis" says that "there are indeed certain presumptions in favor of purchases made far below asset value and against those at a high premium above it."

But it adds that, because of various accounting artifices, "in any particular case, book value may be . . . unworthy of attention."

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By JJ (NLGB) on 5/12/05

Date Closed: 12/3/2004	**OA/ID Number:** 29171-009
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AR Disposition:	**MR Disposition:**
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RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P-1 National Security Classified Information [(a)(1) of the PRA]
P-2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P-3 Release would violate a Federal statute [(a)(3) of the PRA]
P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

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(b)(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
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THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

July 5, 1989

MEMORANDUM FOR GOVERNOR SUNUNU
CHIEF OF STAFF

FROM: MICHAEL BOSKIN MJB
CEA CHAIRMAN

SUBJECT: Steel VRAs

Since it was not one of the original options, I wanted to reiterate what I believe to be the strong case for the "2-1/2 year" duration of the extension of VRAs. I believe it has three crucial advantages. First, it would end the VRA program at the least sensitive time politically--in the first few months of 1992, well before the Presidential race heats up, and well after the targeted date for completion of the Uruguay Round of the GATT and Congressional up or down approval of our GATT position. In contrast, four years would put the President exactly back where he was before the last election, and three years is immediately prior to the Presidential election.

Second, it will be very difficult to market any decision as long as four years as a "liberalization." Although the previous program was five years, everyone but the domestic steel industry will view the relevant comparison as no extension, not an automatic renewal of a five year program that was supposed to be the final solution to the mess in the steel industry. Two and a half years has the virtue of being able to say that it extends the program for enough time both for negotiations for international consensus and for the steel industry to continue its reinvestment program (it would be about 2-3/4 years from the time announced), but it would be only one half as long as the original program. I believe anything longer, such as four years, would just dwarf all the other decisions which might lead to some modest liberalization in the program in the public and media perception of the decision. History indicates that it becomes increasingly difficult as the Administration progresses to resist protectionist pressure from Congress.

Third, in the current tight worldwide steel market with most of the advanced world growing decently, and capacity utilization rates of about 90 percent in most of the industrialized economies' steel industries, the likely economic harm done by VRAs will be substantially greater than the modest effect they had over the last five years when many of the world's economies were lagging, and capacity utilization was far lower in most of the world's steel industries.

I hope you will keep these factors in mind in considering the various options.

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THE WHITE HOUSE

WASHINGTON

July 19, 1989

MEMORANDUM FOR GOVERNOR SUNUNU

FROM: ROGER B. PORTER RBP

SUBJECT: Steel Antidumping and Countervailing Duty Remedies

At my request, my staff has examined the steel industry's complaints about the adequacy of U.S. antidumping (AD) and countervailing duty (CVD) procedures.

The industry contends that the AD/CVD laws fail in three respects: (1) the investigations take too long; (2) AD/CVD orders simply lead to "diversion; and (3) AD/CVD litigation is too expensive. Consequently, it argues that the only solution is quotas.

As set out in the attached memorandum, these complaints are unfounded. While the AD/CVD procedures are not airtight, they provide effective relief against unfairly traded imports. Many U.S. industries have filed AD/CVD cases and the popularity of these procedures is proof of their credibility and cost-effectiveness. While the steel industry will always prefer across-the-board quantitative restrictions, which shut out fairly and unfairly traded goods alike, the AD/CVD laws provide an effective means of identifying and remedying injurious dumping and subsidization, as opposed to all imports. Accordingly, once the VRAs terminate, the industry will have a credible remedy procedure available and will not be left exposed to unfair trade practices.

The attached analysis will not persuade Senator Heinz, who will continue to insist that AD/CVD remedies are inadequate. In a telephone conversation yesterday, I pointed out to him that U.S. law had been amended in 1984 and again in 1988 to address steel industry concerns. He contends that the amendments did not do the job and is unlikely to change his position. While he may be prepared to propose further amendments to make it easier for the steel industry to prevail in AD/CVD litigation, these amendments are likely to pose problems under GATT and to have broader trade policy implications.

Attachment

Withdrawal/Redaction Sheet
(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
02b. Memo	From Stephen Farrar to Roger Porter Re: Antidumping and Countervailing Duty Laws (7 pp.)	7/7/89	~~P5~~	

Collection:

Record Group: Bush Presidential Records
Office: Chief of Staff, White House Office of
Series: Sununu, John, Files
Subseries: Issues Files
WHORM Cat.:
File Location: Steel VRA Program (1989) [2]

Open on Expiration of PRA
(Document Follows)
By JP (NLGB) on 5/12/05

Date Closed:	12/3/2004	**OA/ID Number:**	29171-009
FOIA/SYS Case #:	1998-0004-F[1]	**Appeal Case #:**	
Re-review Case #:	2005-0426-S	**Appeal Disposition:**	
P-2/P-5 Review Case #:		**Disposition Date:**	
AR Case #:		**MR Case #:**	
AR Disposition:		**MR Disposition:**	
AR Disposition Date:		**MR Disposition Date:**	

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P-1 National Security Classified Information [(a)(1) of the PRA]
P-2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P-3 Release would violate a Federal statute [(a)(3) of the PRA]
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C. Closed in accordance with restrictions contained in donor's deed of gift.

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Freedom of Information Act - [5 U.S.C. 552(b)]

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THE WHITE HOUSE
WASHINGTON

July 7, 1989

MEMORANDUM FOR ROGER B. PORTER

FROM: STEPHEN P. FARRAR SPF
WARREN MARUYAMA WM

SUBJECT: Antidumping and Countervailing Duty Law

As requested, this memorandum discusses three concerns raised by the U.S. steel industry about the adequacy of U.S. antidumping (AD) and countervailing duty (CVD) remedies. These are: (1) the time required for AD/CVD investigations, (2) "diversion," and (3) the expense of pursuing unfair trade cases. While there is some basis for these concerns, they do not represent fundamental flaws in U.S. AD/CVD procedures that warrant corrective legislation or permanent recourse to VRAs.

1. <u>While AD/CVD investigations can take over a year, provisional import relief is almost always imposed on a much shorter timetable and Commerce has authority to impose additional retroactive duties in "critical circumstances."</u>

AD/CVD remedies consist of offsetting duties on imports. The normal AD case takes 280 days. The normal CVD case takes 205 days. (See attached chart.) These deadlines can slip to between 330 and 420 days, if the case is designated "extraordinarily complicated," petitioners and respondents request extensions, or various complex allegations, <u>e.g</u>. "upstream subsidies," are made.

In both AD and CVD investigations, however, provisional relief is automatically imposed after affirmative preliminary determinations by the ITC and Commerce. Once provisional relief is in effect, the importer is liable for duties if the final determinations are affirmative. As a practical matter, this means that, if all goes well, AD/CVD relief normally becomes effective 160 days into a antidumping case and 80 days into a CVD case.

In addition, under its "critical circumstances" authority, the Commerce Department can reach back an extra 90 days from the date of provisional measures in imposing final duties. Thus, the importer is potentially liable for increased duties 70 days after the filing of an AD petition, and for CVDs on the day a petition is filed.

While there is a risk that a massive steel AD/CVD case could take over a year, we are skeptical that this would lead to irreparable injury to the steel industry. In a worst case scenario, there could be a gap of 210 days between filing and the imposition of provisional measures, assuming critical circumstances are found. The gap, however, can be significantly reduced if Commerce pushes the cases along and the U.S. industry does not ask for extensions. In addition, while importers generally try to enter merchandise before a decision, they are constrained by lead times and the risk that duties will be imposed before the merchandise clears customs. Thus, while import surges occur, there are limits and they end once duties are imposed.

We note that, as a practical matter, the steel industry had ample opportunity to further shorten the statutory timetables in the 1984 or 1988 trade bills, but chose not to press the issue. Tighter deadlines hurt importers and domestic industries alike, since neither side has enough time to review the complex financial data involved in AD/CVD cases.

2. <u>While some "diversion" is inevitable because of the product-specific nature of AD/CVD remedies, U.S. law has been amended to address these concerns where legitimate</u>.

Because AD/CVD is an exception to the normal GATT rule that tariffs cannot be increased on a bound item, it must be shown that the imported product is being dumped or subsidized and that imports are causing material injury to a domestic industry producing a "like product." Thus, a steel AD/CVD case will necessarily involve something of a "mix and match" situation, where some products are subject to AD/CVD orders and others are not because of negative findings on dumping, subsidization, or injury. This can lead to "diversion" into products not covered by AD/CVD orders. Consequently, the steel industry has always filed broad petitions covering the entire universe of steel products.

Obviously, if Commerce finds that the imports were not being dumped or subsidized, the U.S. industry has nothing to complain about, since the goods are being fairly traded. Similarly, if the ITC finds that imports are not causing or threatening injury, the industry has nothing to worry about, since the "material injury" threshold for AD/CVD is relatively low. In addition, the possibility of diversion from negative injury findings was sharply reduced in 1984, when U.S. law was amended to provide that a "threat" of material injury can exist if there is a real and imminent threat of "product-shifting," <u>i.e</u>. that issuance of an AD/CVD order on one product will lead the exporter to switch to a related product that is also being dumped or subsidized. To the extent that unanticipated problems arise after issuance of an order, the industry can always file new cases.

Totally eliminating diversion, however, implies a fundamental change of policy. The intent of the AD/CVD laws is to attack narrowly identified unfair trade practices and avoid hindering legitimate trade. The product-specific nature of AD/CVD remedies makes some diversion inevitable. While across-the-board restrictions would provide more effective protection against imports, this implies going beyond attacking injurious dumping or subsidization and setting up a comprehensive import regime to prevent any leakage whatsoever, e.g. a steel MFA.

3. Diversionary dumping is primarily a user problem.

The industry has also complained about another type of diversion known as "diversionary dumping." This term refers to the importation of a dumped or subsidized good as a part or component of another product. U.S. protection often has the effect of raising U.S. prices for inputs above those of the rest of the world. The steel VRAs, for example, require U.S. steel users to pay more for key steel inputs than their foreign competitors. In this situation, imports can be "diverted" into downstream products incorporating dumped or subsidized inputs. This is primarily a user problem that affects pipe and tube manufacturers, steel fabricators, and other steel-intensive consuming industries.

While the steel and semiconductor industries supported diversionary dumping amendments in the 1984 and 1988 trade bills, the Administration succeeded in keeping it out of both bills. The provision was GATT-illegal and would have been very difficult to administer.

As an alternative, however, the Administration proposed an amendment in the 1988 Act to address the "circumvention" of AD/CVD orders. The anti-circumvention amendment was adopted and should partially address concerns about diversionary dumping. If an importer is assembling a product in the U.S. or shipping it through a third country with only "small" value-added, the Commerce Department can treat the product as subject to the antidumping or countervailing duty order. To go the additional step, however, of creating a broad right to put extra duties on any product that contains a dumped or subsidized input would greatly expand the scope of U.S. AD/CVD law. It would also generate serious political friction with U.S. multinationals, e.g. IBM, who import extensively and would be subject to liability.

4. AD/CVD cases are expensive, but will not bankrupt the steel industry.

Some industry representatives have gone so far as to claim that their legal expenses for AD/CVD cases will undercut their ability to pay for modernization of outmoded plants. Although legal fees for AD/CVD cases are exorbitant, they are unlikely to bankrupt the industry. In 1982, Cravath, Swaine & Moore charged LTV about $5 million to pursue the EC steel case. (USX did the work in house, using four or five lawyers on its staff.) While $5 million is a lot of money, it is insignificant compared to the $2.3 billion made by the steel industry last year. While inflation and adding more countries to the petition could drive up fees in 1993, the total fee would still be a fraction of the cost of a new continuous caster.

Attachment

Chart 2

SUBSIDY/CVD CASES

(Statutory Deadlines)

DAY 1—PETITION FILED WITH THE ADMINISTERING AUTHORITY AND THE ITC
(If self-initiated by Administering Authority no action required on day 20)

DAY 20—INITIATION DECISION BY THE ADMINISTERING AUTHORITY (The ITC is informed)
(If the decision is negative the case is terminated)

DAY 45—REASONABLE INDICATION OF MATERIAL INJURY DETERMINATION BY THE ITC
(If the decision is negative the case is terminated)

DAY	PRELIMINARY DETERMINATION OF SUBSIDY	FINAL AFFIRMATIVE DETERMINATION OF SUBSIDY (If negative, case terminated)	ITC INJURY DETERMINATION
A)-85 (normal case)	→ AFFIRMATIVE (suspension of liquidation) →	DAY 160 →	DAY 205
	→ NEGATIVE →	DAY 160 (suspension of liquidation) →	DAY 235
or *B)-150* (extraordinarily complicated case or at petitioner's request)	→ AFFIRMATIVE (suspension of liquidation) →	DAY 225 →	DAY 270
	→ NEGATIVE →	DAY 225 (suspension of liquidation) →	DAY 300

Source: These charts were developed by the Economic Bureau of the Department of State and the author during his tenure as Deputy Assistant Secretary of the Treasury (1977–1979).

Chart 1
ANTIDUMPING CASES
(Statutory Deadlines)

DAY 1—PETITION FILED WITH THE ADMINISTERING AUTHORITY AND THE ITC
(If self-initiated by Administering Authority no action required on day 20)

DAY 20—INITIATION DECISION BY THE ADMINISTERING AUTHORITY (The ITC is informed)
(If the decision is negative the case is terminated)

DAY 45—REASONABLE INDICATION OF INJURY DETERMINATION BY THE ITC
(If the decision is negative the case is terminated)

DAY	PRELIMINARY DETERMINATION OF SLFV	FINAL AFFIRMATIVE DETERMINATION OF SLFV (If negative, case terminated)	ITC INJURY DETERMINATION
A)-110 (if verification waived)	AFFIRMATIVE[1]	Day 185	Day 230
		Day 245 (if exporters request an extension)	Day 290
	NEGATIVE	Day 185[1]	Day 260
		Day 245[1] (if petitioner requests an extension)	Day 320

or *B)-160* (normal case)	AFFIRMATIVE[1]	Day 235	Day 280
		Day 295 (if exporters request an extension)	Day 340
	NEGATIVE	Day 235[1]	Day 310
		Day 295[1] (if petitioner requests an extension)	Day 370
or *C)-210* (extraordinarily complicated case or at petitioner's request)	AFFIRMATIVE[1]	Day 285	Day 330
		Day 345 (if exporter requests an extension)	Day 390
	NEGATIVE	Day 285[1]	Day 360
		Day 345[1] (if petitioner requests an extension)	Day 420

[1] Liquidation suspended.

Withdrawal/Redaction Sheet
(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
03. Memo	From Roger Porter to John Sununu Re: The Steel Import Decision (2 pp.)	6/30/89	P5	

Collection:

Record Group: Bush Presidential Records
Office: Chief of Staff, White House Office of
Series: Sununu, John, Files
Subseries: Issues Files
WHORM Cat.:
File Location: Steel VRA Program (1989) [2]

Open on Expiration of PRA
(Document Follows)
By JH (NLGB) on 5/12/05

Date Closed:	12/3/2004	**OA/ID Number:**	29171-009
FOIA/SYS Case #:	1998-0004-F[1]	**Appeal Case #:**	
Re-review Case #:	2005-0426-S	**Appeal Disposition:**	
P-2/P-5 Review Case #:		**Disposition Date:**	
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AR Disposition:		**MR Disposition:**	
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THE WHITE HOUSE

WASHINGTON

June 30, 1989

MEMORANDUM FOR GOVERNOR SUNUNU

FROM: ROGER B. PORTER RBP

SUBJECT: The Steel Import Decision

The overriding objective in making a decision on steel, without question, is getting out of the voluntary restraint program. It makes no sense for the U.S. government to be subsidizing and providing protection for this industry.

Other things being equal, my personal preference would be to have VRAs extended for as short a time as possible, such as two years. The industry is profitable, operating at high capacity utilization rates, and does not deserve continued protection.

There are, however, several factors that suggest considering carefully an extension beyond two years, given the ultimate objective of a permanent end to protection for steel.

- <u>Congressional Backlash</u>. A two or three year extension will be fought by industry supporters. The industry will undoubtedly attempt to include a mandatory four or five year program in the legislation we need to authorize Customs to enforce the VRAs.

- <u>The Election Cycle</u>. An extension for two or three years could lead to heavy political pressure on the President to extend the VRAs before the 1992 elections, particularly if there is a downturn in demand.

- <u>The Uruguay Round</u>. If restrictions expire concurrent with the end of the Uruguay Round (targeted for December 1990), Congress will be tempted to include a mandatory extension in legislation approving the Uruguay Round results. This risk applies to extensions of between two and three years, since the Uruguay Round could slip somewhat and since Congress could take up to six months to enact enabling legislation.

- <u>Negotiating Leverage</u>. Ambassador Hills has a reasonable point that supplying countries will have much less incentive to agree to a consensus to end subsidies if they know VRAs will last only two more years.

The draft press statement sent to you separately emphasizes the key points needed to provide the political balance that will insure that we achieve the objective of ending steel restraints. These points are as follows:

- o This is a program designed to phase out steel restraints in a responsible way.
- o The international consensus will curtail government intervention in the steel sector.
- o The program includes concrete steps to address the concerns of steel-consuming industries.
- o The steel industry must continue to adjust.

Finally, we need to keep in mind that any four year approach should include liberalization from the outset. Higher quotas will be needed selectively to induce some countries to agree to extensions. In addition, over the first two years, countries agreeing to a consensus would be given additional quota allocations. During the final two years, fair-trading countries would be completely exempted from the VRA program.

Withdrawal/Redaction Sheet
(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
04a. Memo	From Roger Porter to John Sununu Re: Steel Decision (3 pp.)	6/28/89	~~P5~~	

Collection:

Record Group: Bush Presidential Records
Office: Chief of Staff, White House Office of
Series: Sununu, John, Files
Subseries: Issues Files
WHORM Cat.:
File Location: Steel VRA Program (1989) [2]

Open on Expiration of PRA
(Document Follows)
By JP (NLGB) on 5/12/05

Date Closed: 12/3/2004	**OA/ID Number:** 29171-009
FOIA/SYS Case #: 1998-0004-F[1] **Re-review Case #:** 2005-0426-S **P-2/P-5 Review Case #:**	**Appeal Case #:** **Appeal Disposition:** **Disposition Date:**
AR Case #: **AR Disposition:** **AR Disposition Date:**	**MR Case #:** **MR Disposition:** **MR Disposition Date:**

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Rec'd COS
JUN 29 1989
9:30 A.M.

THE WHITE HOUSE

WASHINGTON

June 28, 1989

MEMORANDUM FOR GOVERNOR SUNUNU

FROM: ROGER B. PORTER RBP

SUBJECT: Steel Decision

In making his decision on steel, the President will need to consider how a decision might be presented and the timing for announcing his decision.

Presentation

The attached draft Presidential Statement is a modification of a draft prepared by USTR and the Department of Commerce. This draft incorporates the following key USTR/Commerce points:

- It describes the program as the "Steel Trade Liberalization Program."
- It emphasizes the need to restore market-driven trade and production through an international consensus.
- It conditions the liberalization and eventual phase-out of the VRAs on acceptance by foreign governments of consensus disciplines.

The draft goes beyond the USTR/Commerce version in the following respects:

- It emphasizes adjustment by the U.S. industry as an important goal of the program. Industry adjustment is already taking place and will provide a strong rationale for eventually terminating the program. The Heinz letter mentions the need for further adjustment, so this is nothing new.
- It states specifically that the quotas for semi-finished and specialty steel will increase and emphasizes the President's concern about American steel consumers. This is designed to address user concerns and encourage them to support, or at least not oppose, the President's decision.

- It adds new monitoring responsibilities for the U.S. International Trade Commission (ITC). The ITC already monitors conditions in the industry at the request of Congress. The draft makes monitoring an Administration initiative and adds wage settlements, executive compensation, and the impact on steel consumers as issues to be reviewed.

Timing

With respect to the timing of the decision, I believe that Ambassador Hills' presence is crucial. She leaves Thursday afternoon for her son's wedding in Denver. It is not feasible to make an announcement before then.

The President will be in Kennebunkport until next Wednesday. The following weekend, we are leaving for Europe. Accordingly, there is a window from Wednesday to Friday, July 5-7. After Friday, the announcement must be put off until after the Economic Summit.

In my view the advantages and disadvantages of an announcement next week are as follows:

Advantages

- The industry and their Congressional supporters believe that an announcement is already long overdue. We could appear indecisive if there is further delay.
- USTR needs to get the VRA negotiations underway as soon as possible if it is to have new agreements in place by the September 30 expiration date.
- Congress is out for the July 4 recess so it reduces the likelihood of negative Congressional reaction, if any, getting media attention.
- The President can cite his decision in Paris as an example of his commitment to opening markets.

Disadvantages

- Introduces some risk that the President will be attacked at the Economic Summit for continuing VRAs.

<u>Decision on Timing</u>

______ Prepare to announce during July 5-7.

______ Wait until after the European trip.

Attachment

Withdrawal/Redaction Sheet
(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
04b. Statement	Draft Statement by the President Re: Steel Trade Liberalization Program (2 pp.)	6/89	~~P~~-5	

Collection:

Record Group: Bush Presidential Records
Office: Chief of Staff, White House Office of
Series: Sununu, John, Files
Subseries: Issues Files
WHORM Cat.:
File Location: Steel VRA Program (1989) [2]

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By ___ (NLGB) on 5/12/05

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DRAFT

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release June ___, 1989

STATEMENT BY THE PRESIDENT

Today, I am instituting a [ ]-year Steel Trade Liberalization Program. The program has two goals. First, it promotes continued adjustment and modernization by the U.S. steel industry. Second, it provides for a smooth return to reliance on market forces in global steel trade, an end to government aid to the steel sector, and the eventual phasing out of U.S. Voluntary Restraint Agreements (VRAs) that currently limit steel imports to our market.

I am directing U.S. Trade Representative Carla A. Hills to negotiate a free and competitive trading environment for steel -- in the United States and throughout the world. Market-driven forces, not restraint agreements or other forms of government aid and intervention, should determine the patterns of trade, and the price and quantity of steel.

Accordingly, USTR will negotiate, through the Uruguay Round and complementary bilateral agreements, an international consensus to discipline trade-distorting government practices in steel. The international consensus will contain three elements:

-- Strong disciplines over trade-distorting government subsidies;

-- Removal of trade barriers so as to guarantee full access to each other's markets; and

-- Swift and effective enforcement measures to deal with violations of consensus obligations.

The consensus will provide a long-term solution to the problems that have plagued world steel trade for the last two decades and a basis for phasing out U.S. VRAs. For too long, governments, including the United States, have supported their steel producers through subsidies and import restrictions. World steel trade and the international trading system as a whole have suffered. This self-defeating competition must end.

While our long-term objective is to restore unrestricted trade in steel, temporary extensions of the VRAs are necessary to provide time for negotiation of the consensus and breathing space for further adjustment by the U.S. industry. Accordingly, as an interim measure while this consensus is put into place, I am

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directing Ambassador Hills to negotiate transitional extensions of the existing Voluntary Restraint Agreements (VRAs). Consistent with our overall aim of limiting government intervention in the steel sector and attacking unfair trade practices, the VRA extensions will provide for progressive liberalization, and the eventual phasing out of, restraints -- where countries undertake and abide by agreements to remove unfair trade practices and barriers that restrict the free flow of steel worldwide.

Although I am extending the VRAs, I am mindful of the concerns raised by steel-consuming industries. In negotiating the VRAs, USTR will reexamine the appropriate restraint levels for products of interest to American steel users. The quotas for imports of semi-finished steel will be liberalized to address shortages that occurred last year. While specialty steel will remain in the program, the quota levels will increase, since that part of the industry has had a longer period of import protection and thus more time to adjust. Finally, to ensure that steel is available on a timely basis, the Department of Commerce will speed up and streamline the existing short supply mechanism to address user concerns.

Since 1984, the steel industry has made considerable progress toward improving its competitiveness and modernizing its production facilities. It has reduced capacity, cut costs, and modernized its equipment and technology. These efforts must continue. Accordingly, the Administration will support the extension of legislation requiring the major domestic carbon and specialty steel producers to reinvest substantially all of their net cash flow in the continued modernization of their industries and worker retraining. USTR will also ask the U.S. International Trade Commission to monitor and report regularly on developments in the carbon and specialty steel industries, including wage settlements and executive compensation. This program to promote a recovery by the steel industry requires shared sacrifice by those who are its intended beneficiaries.

In line with my commitment to restore market forces to steel trade, all Voluntary Restraint Agreements will be terminated no later than September 30, 19__. After that time, U.S. steel producers will rely on our domestic trade laws to protect themselves from unfair foreign competition. The Department of Commerce will rigorously enforce the laws against injurious dumping and subsidization to final orders.

I call on our trading partners to join with us to reach an agreement on measures to restore free and fair steel trade. We have an opportunity to take a sector that is rife with trade-distorting practices and bring it back into the international trading system. We look forward to working with other nations to this end.

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Withdrawal/Redaction Sheet
(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
05. Memo	From the Economic Policy Council to President Bush Re: Steel VRA Program (13 pp.)	6/26/89	(b)(1)	C

Collection:

Record Group: Bush Presidential Records
Office: Chief of Staff, White House Office of
Series: Sununu, John, Files
Subseries: Issues Files
WHORM Cat.:
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(b)(9) Release would disclose geological or geophysical information

THE VICE PRESIDENT
WASHINGTON

November 4, 1988

The Honorable John Heinz
United States Senator
Washington, D.C. 20510

Dear Senator Heinz:

One of the significant successes of the Reagan Administration has been the President's Steel Program. During its first four years the steel industry has reduced capacity, cut costs, and modernized its equipment and technology to the point where it is now one of the most efficient producers in the world on a man hour per ton basis.

This Administration's success in pursuing the goal of a privately owned, internationally competitive steel industry was made possible by the reduction in subsidized and dumped steel imports provided by the voluntary restraint agreements we have negotiated. A comprehensive VRA program has proven to be more effective in offsetting unfair trade practices than trying to counter these practices on a case-by-case basis.

Unfortunately, while the voluntary restraints have clearly had a positive impact on the U.S. industry, we have not at the same time made as much progress toward eliminating market distorting practices. Global overcapacity remains a serious problem, and there is still substantial dumping and subsidizing. The only way to produce a permanent solution to the domestic steel industry's problems is to bring an end to these unfair practices and restore a competitive market in steel.

One of the key trade policy goals of a Bush Administration will be to achieve an international consensus on eliminating these practices, and, pending that, I can assure you of my intention to continue the voluntary restraint program after September 30, 1989. As Vice President, I worked to prevent the sacrifice of our industry to those who choose not to subject themselves to the discipline of the market, and I have no intention of abandoning that commitment if I am elected President.

At the same time, I also endorse the requirement that major steel firms substantially reinvest their cash flow because much more needs to be done. The industry's future progress will depend on both the voluntary restraints and the further investment and modernization steps that are undertaken. I intend to make sure that such further progress is made.

I am also encouraged by the recent growth in U.S. steel exports. If elected President, I will work vigorously to encourage growth by pressing to open up steel markets abroad.

Sincerely,

George Bush

George Bush

THE WHITE HOUSE

WASHINGTON

June 26, 1989

ECONOMIC POLICY COUNCIL MEETING

DATE: Tuesday, June 27, 1989
LOCATION: Roosevelt Room
TIME: 1:45 pm - 2:45 pm

FROM: David Q. Bates DQB

I. PURPOSE

To review the steel VRA program, which expires on September 30, 1989. You must decide in what form the program should be extended.

II. BACKGROUND

The EPC met once to review this issue. EPC members generally agree on the need to commit now to ending the program by a certain date, the nature of the international consensus that should be sought, the coverage of countries under the VRA program, and the requirement to reinvest cash flow.

Issues requiring a decision by you include: (a) the duration of extension -- two, four, or five years; (b) whether increases in country import quotas should be automatic or conditioned on commitments to remove unfair trade practices; (c) whether to eliminate coverage of semifinished steel under the program; and (d) whether to eliminate coverage of specialty steel from the program.

While some will argue that you need to decide this issue by the end of this month or before the Economic Summit, there is no specific date by which you need to decide this issue. We can provide you any additional information you want after the meeting.

III. PARTICIPANTS

The President	The Vice President
Secretary Brady	Secretary Yeutter
Secretary Mosbacher	Secretary Dole
Secretary Kemp	Director Darman
Ambassador Hills	Undersecretary McCormack
Chairman Boskin	

IV. PRESS PLAN

White House Photographer only.

V. SEQUENCE OF EVENTS

-- Secretary Brady will open meeting
-- Ambassador Hills will make the presentation
-- The meeting will be open for discussion

Withdrawal/Redaction Sheet
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Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
06a. Memo	From the Economic Policy Council to President Bush Re: Steel VRA Program (13 pp.)	6/26/89	(b)(1)	C

Collection:

Record Group: Bush Presidential Records
Office: Chief of Staff, White House Office of
Series: Sununu, John, Files
Subseries: Issues Files
WHORM Cat.:
File Location: Steel VRA Program (1989) [2]

Date Closed: 12/3/2004
FOIA/SYS Case #: 1998-0004-F[1]
Re-review Case #: 2005-0426-S
P-2/P-5 Review Case #:

OA/ID Number: 29171-009
Appeal Case #:
Appeal Disposition:
Disposition Date:

AR Case #:
AR Disposition:
AR Disposition Date:

MR Case #:
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Unfortunately, while the voluntary restraints have clearly had a positive impact on the U.S. industry, we have not at the same time made as much progress toward eliminating market distorting practices. Global overcapacity remains a serious problem, and there is still substantial dumping and subsidizing. The only way to produce a permanent solution to the domestic steel industry's problems is to bring an end to these unfair practices and restore a competitive market in steel.

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I am also encouraged by the recent growth in U.S. steel exports. If elected President, I will work vigorously to encourage growth by pressing to open up steel markets abroad.

Sincerely,

George Bush

Mr. President -- On issue #2, Treasury believes that a better option may exist, which we are now discussing with other members of the EPC. If appropriate, we will be sending you this new option over the weekend.

RTR

THE WHITE HOUSE

WASHINGTON

June 27, 1989

MEMORANDUM FOR THE PRESIDENT

FROM: NICHOLAS F. BRADY NFB
Chairman Pro Tempore
Economic Policy Council

SUBJECT: Steel VRA Program

The EPC members make the following recommendations on the steel VRA issue. OMB is not expressing a position on these issues.

Issue 1: Duration of VRA program

_____ Option A: Extend for two years.

Supported by Treasury, CEA (could support 2 1/2 if politically advantageous), and NSC.

_____ Option B: Extend for four years.

Supported by State, Defense, Agriculture, Commerce, Labor, Transportation, USTR, and OPD.

_____ Option C: Extend for five years.

Not supported by any agency.

Issue 2: Liberalization of VRA program

_____ Option A: Liberalize through automatic quota increases.

Supported by Treasury (if 4 year program).

_____ Option B: Liberalize through conditional quota increases.

Supported by State, Treasury (if 2 year program), Defense, Agriculture, Commerce, Labor, Transportation, USTR, CEA, NSC, and OPD.

<u>Issue 3</u>: <u>Semifinished steel</u>

_____ Option A: Eliminate semifinished steel from program.

Not supported by any agency.

_____ Option B: Keep semifinished steel in program, but increase quotas for semifinished steel.

Supported by State, Treasury, Defense, Agriculture, Commerce, Labor, USTR, CEA, NSC, and OPD (only if a substantial increase).

Transportation is not expressing a position on this issue.

<u>Issue 4</u>: <u>Specialty steel</u>

_____ Option A: Eliminate specialty steel from program.

Supported by Treasury.

_____ Option B: Keep specialty steel in program, but increase country quotas for specialty steel.

Supported by State, Defense, Agriculture, Commerce, Labor, USTR, CEA, NSC, and OPD (only if a substantial increase).

Transportation is not expressing a position on this issue.

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THE WHITE HOUSE

WASHINGTON

July 3, 1989

MEMORANDUM FOR THE PRESIDENT

FROM: NICHOLAS F. BRADY
Chairman Pro Tempore
Economic Policy Council

John E Robson for

SUBJECT: Steel VRA Program

A brief paper supplementing the earlier decision memo and reviewing the issue of liberalizing the steel VRA program is attached. The EPC agrees on the importance of liberalizing the VRA program. However, there is strong disagreement over how best to liberalize the program.

The EPC presents two approaches for your consideration. The first approach would liberalize the import quotas conditionally. The Treasury Department proposes that, if you decide to extend the program for four years, a second approach would be to liberalize the import quotas through a **combination** of automatic and conditional increases. This second approach is different from the decision memo, which would liberalize the import quotas only automatically.

Issue 2: Liberalization of VRA program

_____ Option A: Liberalize through conditional increases.

Supported by State, Agriculture, Commerce, Labor, and USTR.

If 2 year extension, supported by Treasury and CEA.

_____ Option B: Liberalize through a combination of automatic and conditional increases.

If 4 year extension, supported by Treasury and CEA.

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By SS NARA, Date 11/30/23

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Issue 2: Liberalization of VRA program

Option A: Liberalize through conditional increases.

Under this approach, the goal would be to increase import penetration by roughly one percent each year. However, these increases would be given only to countries that make binding agreements through either an international consensus or bilaterally to eliminate practices distorting steel trade. These agreements would include ending egregious subsidies, opening markets to steel trade, and participating in an enforcement mechanism. In order to achieve an international consensus, the Administration negotiators would seek commitments that are realistic and achievable.

Advantages

- Because the Administration would seek commitments that are realistic and achievable, the negotiators believe that the probability of achieving a consensus is high and thus the program would be liberalized.

- Offering quota increases only to those countries making commitments to eliminate trade distorting practices provides needed leverage to achieve an international consensus.

- Linking quota increases to commitments to eliminate trade distorting practices is arguably more consistent with your campaign commitment to continue the program pending achievement of an international consensus.

Disadvantages

- If the Administration seeks an international consensus with unrealistic objectives, it could fail to reach a consensus, which could produce strong pressure to continue the VRA program after the extension.

- Some US steel users would argue that offering quota increases conditionally would result in less steel being available in the US than under automatic increases and thus hurt their competitiveness.

- Opponents of conditional increases believe that automatic increases would be easier to defend as liberalization of the VRA program.

Option B: <u>Liberalize through a combination of automatic and conditional increases.</u>

Treasury proposes that, if you decide to extend the VRA program for four years, it should be liberalized through a combination of automatic and conditional increases.

Half of the quota liberalization would take place gradually, but automatically, over the duration of the extension.

The other half would be available to increase quotas for those countries agreeing to a consensus to limit trade distorting practices.

<u>Advantages</u>

- This approach would enable the Administration to liberalize the VRA program while also providing some leverage to negotiate an international consensus.
- Some liberalization of the VRA program is more certain under this approach than under Option A and, to that extent, would help wean US steel producers off the program.
- Some US steel users would argue that the automatic increases would provide them greater supplies of steel at more competitive prices in a timely fashion.
- Supporters of this approach believe that automatic increases would be easier to defend as liberalization of the program.

<u>Disadvantages</u>

- This approach gives away half the leverage the negotiators believe they need to obtain commitments to eliminate trade distorting practices.
- US steel producers would argue that automatic increases in import quotas would hurt their ability to obtain financing to increase efficiency.
- By not tying quota increases to the elimination of trade distorting practices and rewarding fair and unfair traders alike, the automatic increases could be perceived as inconsistent with your campaign commitment to eliminate trade distorting practices.
- US steel producers and their supporters in the Congress would perceive this approach as potentially increasing import penetration to a degree that could encourage the filing of hundreds of unfair trade cases at the first downturn, which would jeopardize the Uruguay Round.

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THE UNITED STATES TRADE REPRESENTATIVE
Executive Office of the President
Washington, D.C. 20506

July 7, 1989

DECLASSIFIED
PER NSC WAIVER, ISOO 2021-02
By SS NARA, Date 11/30/23

MEMORANDUM FOR JOHN H. SUNUNU

FROM Carla A. Hills CAH

SUBJECT Steel Liberalization Program

We seek to terminate permanently the existing voluntary restraint arrangements (VRAs), while obtaining commitments from countries to eliminate the unfair trade practices that gave rise to the VRAs. It is only by eliminating the underlying cause that we will succeed in resisting future industry and Congressional pressure for continued protection.

Accordingly, I recommend that in extending the VRAs we should condition the liberalization of quotas on countries committing to eliminate the unfair trade practices that the industry and its Congressional supporters use to justify those quotas. In short, we should use the leverage of quota increases to reward those who commit to play fair and punish those who do not.

In order to ensure liberalization, some agencies are advocating that quotas should be increased automatically by one percent per year. This would compel us to reward countries whether or not they commit to play fair, seriously undermining our ability to create a truly free and competitive world market for steel.

If, however, some automatic liberalization is deemed necessary, a viable compromise would be to commit to an automatic increase in the aggregate quota level of, say, four percent over the duration of the program, (assuming a four-year program), rather than a strict one percent per year. In the first two years, the timing and amount of individual quota increases would be conditioned on obtaining country commitments to eliminate unfair trade practices. In the last two years, which is after the end of the Uruguay Round, USTR would distribute whatever quota remains, giving a preference to the "fairer" traders. This suggestion could easily be tailored to a three-year program.

cc: Roger B. Porter

Classified by: Harry R. Cl—
Declassify on: OADR

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