

SECTION: Business; Pg. E3

Bush repeals U.S. steel tariffs: Administration backs down under threat of global trade war

SOURCE: The Associated Press

BYLINE: Martin Crutsinger

WASHINGTON -- Facing the threat of a trade war, President George W. Bush lifted 20-month-old tariffs on foreign steel yesterday, a move that will hurt steelmakers in states critical in next year's election. To soften the blow, the administration announced a beefed-up monitoring program to guard against any flood of foreign steel into the country.

Within minutes of the announcement, the 15-nation European Union announced in Brussels that it was lifting its threat of sanctions on \$2.2 billion U.S. of American-made products that would have taken effect mid-month based on a ruling from the World Trade Organization that the tariffs violated global trade rules. However, lawmakers from U.S. steel states expressed disappointment at Mr. Bush's decision, accusing him of reneging on promises to help the steel industry and caving in to foreign pressure.

Mr. Bush said the tariffs had been imposed to give the domestic industry critical time to modernize and to protect jobs. Canada and Mexico had been exempt from the U.S. measures as NAFTA partners. The tariffs, covering a wide range of steel products, were to have remained in effect for three years, until 2005, to protect U.S. steelmakers from foreign competition.

Mr. Bush acted after the European Union and other trading partners threatened to impose billions of dollars in sanctions on a wide range of U.S. products made in states considered to be critical in next year's presidential race.

While those states -- ranging from Florida to California -- will escape foreign retaliation on their products, other key states, including West Virginia, Ohio and Pennsylvania, are home to domestic steel makers who now face greater foreign competition. Mr. Bush said the tariffs had enabled U.S. steel companies to compete both at home and globally. He said U.S. negotiators would continue to push the U.S.'s trading partners to put in place "new and strong disciplines on subsidies" that foreign governments provide to their domestic steel producers.

U.S. Trade Representative Robert Zoellick said the situation facing the U.S. steel industry has improved greatly since Mr. Bush imposed the tariffs. Sales of domestic steel and company profits are up dramatically.

The EU carefully chose its target list to cover a range of products from oranges to pyjamas that would inflict maximum political pain in key swing states that Mr. Bush is hoping to win in next year's presidential race. Japan and South Korea have also said they were considering retaliation.

SECTION: Washington News

HEADLINE: Bush Faced Conflicting Political Pressures As He Made Decision On Steel Tariffs.

The AP (12/8, Crutsinger) reports, "There is no sign of a quick easing of pressure on President Bush to provide trade protection for besieged US industries, especially with his re-election race ahead and manufacturing employment still in free-fall. Experts say, however, that the Bush administration's hasty

turnabout over steel may foreshadow more careful picking of future trade battles. As for steel, they said Bush wanted to honor a 2000 campaign pledge to the domestic industry, and the tariffs were imposed despite overwhelming evidence they could not survive a challenge from the World Trade Organization." The AP adds, "Trade analysts also said Bush leveraged the trade penalties on steel into congressional passage of legislation that gave the president power to negotiate new trade agreements, including one that would create a hemisphere-wide free trade zone." Bush "has resorted to selected protectionism while espousing allegiance to free trade. In doing so, he is using the same tactics as many of his predecessors, seeking to win votes for free trade by offering measured doses of protecting industry." The AP also reports, "A top Bush aide said the potential trade penalties from abroad were 'minuscule' in the context of the overall US economy. Explaining the president's decision, chief of staff Andrew Card also told 'Fox News Sunday' that it took into account 'the restructuring that had to take place and did take place in the steel industry.'" Bush "will face a political backlash from the steel industry, a critical force in Pennsylvania, West Virginia and Ohio, even though the decision appeases a larger collection of states upset by the tariffs."

The Christian Science Monitor (12/8, Ford) reports, "Though the end to tariffs of up to 30 percent will be politically unpopular in big steel producing states such as West Virginia, Pennsylvania, and Ohio, Mr. Bush was clearly unwilling to risk trade relations with America's largest partner. The US and the EU do more than \$1 billion worth of trade a day." Bush "was also under pressure from US exporters who would have suffered from EU sanctions: Brussels had tailored its sanctions to hit 'products that are sensitive to important US constituencies' such as Florida oranges and textiles from California because 'they are very vocal sectors that would make their case to the administration,' says Arancha Gonzales, an EU spokeswoman." Florida and California "are also key states in next year's presidential elections, which gave Bush a domestic political rationale for ending the tariffs."

Bush's Decision Could Impact Global Talks On Overcapacity.

The Wall Street Journal (12/8, Tejada) reports, "The elimination of US steel tariffs could have an impact on global talks aimed at cutting world-wide industry subsidies and overcapacity, say US steelmakers and others watching the negotiations." Bush's decision "to drop the tariffs came as officials from more than three dozen big steel-producing economies, with steelmaking companies' assistance, met in Paris under the auspices of the Organization for Economic Cooperation and Development. The meeting was to discuss ways to curb government support of inefficient or unneeded steel factories. Joseph Spetrini, a deputy assistant secretary at the U.S. International Trade Administration and a leader of the talks, said Friday that progress had been made in negotiations that include how to monitor government aid and how to settle any resulting disputes." Bush's elimination of the tariffs "has spurred speculation among some industry officials that the urgency behind the negotiations could decline. Though they predate the steel tariffs, global steel talks gained momentum after Mr. Bush's move reminded steelmakers and world trade officials that trade fights are a potential hazard of the global steel capacity glut." Bush "pressed to make talks on the issue a priority, declaring that the tariffs are only one part of a three-pronged approach to problems in the steel industry. Talks to end government subsidies and to close overcapacity comprised the other two approaches."

EU Trade Commissioner Expresses Dismay Over US "Abuse Of Internationally Agreed Safeguard Rules."

EU trade commissioner Pascal Lamy writes in the Wall Street Journal (12/8), "Those of us, including the European Union and seven other countries, who have called consistently on the World Trade Organization to condemn US safeguard tariffs on steel feel no sense of triumph that the US has now lifted those safeguard measures. A sense of relief, perhaps, for European steel companies and workers as the immediate threat to their livelihoods and jobs posed by this deeply unfair and unwarranted trade barrier has been lifted. Perhaps a sense of reassurance that the rules of the road, of the international trade system, are being respected -- at least in this case -- and that our firmness of purpose in being ready to impose counter-measures has played a role in this decision. A continuing sense of dismay over what has amounted to an abuse of internationally agreed safeguard rules, in the form of additional tariffs of up to 30% unilaterally imposed by the US for a year and a half. And finally, perhaps, a sense of hope: hope that this really does mean a turning of the corner for the US on steel -- that it has now begun the internal process of restructuring and consolidation which will lay the foundations of a more competitive industry. And hope that we will see the U.S. swiftly put its house in order to avert two other steel-related WTO cases, the Byrd amendment and the 1916 Anti-Dumping Act." Lamy adds, "The sad fact is that this abuse has

undermined the case for trade defense measures, such as safeguards"

Card Denies Claims Shift On Steel Tariff Policy Was Influenced By Threats From Europe, Japan.

White House Chief of Staff Andrew Card was asked on "Fox News Sunday" (12/7) if there was any connection in the timing of the president's plan to lift steel tariffs to the threats from Europe and Japan of trade retaliations. Card said, "First of all, the president said that he was going to institute these safeguard measures for the steel industry to allow the steel industry a chance to reorganize. And they did that. There were changing economic circumstances over the course of the months that that program was in place. And we did see positive changes. ... Well, the president considered what was happening in our economy. It wasn't about Europe, it wasn't about Japan. It was about the United States economy and the restructuring that had to take place and did take place in the steel industry."

Card Lauds Bush Steel Tariffs For Allowing Industry To "Catch Up."

Card said on "Fox News Sunday" (12/7), "I would point out that the value of the steel industry in America has actually increased over the past several months, and so I think that means that the people who are investing in the steel industry are demonstrating more confidence than maybe the steelworkers are. But the president is committed to making sure our economy can grow. And we did allow the steel industry to have an opportunity to catch up and make some changes. And it's been a good decision. It was a good decision for the consumers, and it was a good decision for the restructuring in the steel industry."

Emanuel Calls Bush Steel Decision A "Political Strategy In Search Of An Economic Rationale."

Rep. Rahm Emanuel said on CNN's "Capital Gang" (2/6) that President Bush's decision on steel tariffs is "a political strategy in search of an economic rationale. That's true of when the first time he made the decision. It's true this time. And it's fitting as a metaphor for the administration. After three years, they've added \$3 trillion to the nation's debt and 3 million Americans have lost their jobs. That is going to be the epitaph of their administration, and it's going to be what it's remembered for. I think it was bad when he made the decision early on, and it's worse now. Once you make a decision, you should stick with it. I think it's going to look horrible."

EU Set For New Showdown Over Exporter Tax Breaks.

The Financial Times (12/8, Bucks) reports, "Only days after Brussels and Washington narrowly averted a costly transatlantic trade war, European Union foreign ministers are on Monday set to agree a law that will threaten the US with sanctions in another long-running dispute. Brussels will give the US Congress until March next year to repeal special tax breaks for US exporters -- or face punitive tariffs worth hundreds of millions of dollars on US goods shipped to Europe." The Times adds, "The tax breaks, enshrined in the so-called Foreign Sales Corporations (FSC) provision, benefit large US exporters such as Microsoft, Boeing and Caterpillar."

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Kerry hits Bush on steel tariffs - but would not re-impose them

BYLINE: By LARA JAKES JORDAN, Associated Press Writer

DATELINE: WASHINGTON

Democratic presidential front-runner John Kerry said Monday the White House should not have scrapped steep tariffs on foreign-made steel last year - but would not put them back in place if he is elected.

A spokesman for President Bush's re-election campaign said Kerry's comments highlight his ever-changing position on the controversial trade issue.

The tariffs, imposed in March 2002 to shield beleaguered U.S. steel producers from foreign competition, were declared illegal last summer by the World Trade Organization. The White House pulled down the tariffs in December, halfway through their three-year program, under threat of \$2.2 billion in retaliatory sanctions from the European Union.

Kerry, speaking to about 17 reporters from political battleground states on both sides of the matter, said he supported the tariffs because "under the circumstances, it was an important grabbing-air moment."

"I wouldn't re-impose them, but I would have let them play out the way they were promised," he said. "Once you put them in place, people have expectations. ... And if you, all of a sudden, upset that, you're really wreaking havoc in the market."

Bush-Cheney spokesman Kevin Madden said Kerry's "position on steel tariffs is that he doesn't have a position."

"His statements are inconsistent and absent any core policy beliefs on what he would do to help the steel industry," Madden said. "The only thing consistent about John Kerry is his inconsistencies."

Forty-one steel companies nationwide have declared bankruptcy since 1997.

The tariffs were politically popular in the key steel-producing states of Pennsylvania, West Virginia, and Ohio, which account for a total of 46 of the 270 electoral votes needed to win the Nov. 2 presidential election. But they angered small businesses that manufacture steel products in Michigan, Minnesota and Wisconsin - which collectively hold 37 electoral votes.

Kerry said he would seek other ways, under WTO rules, to fight subsidized foreign steel from flooding the U.S. market. "Tariffs are the clumsiest of the tools," he said. But "the long-term solution is not to sit there and say, 'I'm going to reinstate them.' The long-term solution is to help the industry be more competitive by enforcing the trade laws on dumping."

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SECTION: MONEY; Pg. 1

Commerce chief defends steel tariff; He says move hurt local docks but they aided nation overall

BYLINE: By Keith Darcé, Business writer

U.S. Commerce Secretary Donald Evans defended controversial steel tariffs imposed for 18 months by the Bush administration, saying Thursday in New Orleans that the trade barriers that strangled local docks were beneficial to the nation as a whole.

The tariffs, which were lifted in December, achieved the goal of boosting steel prices and prompting new investment into the nation's moribund steel manufacturing industry, he said in a late morning interview. "We tried to provide a little breathing space (for U.S. steel producers), to create an environment to bring capital into the industry," Evans said. "And guess what?" he added. "It worked."

Earlier in the morning, Evans delivered a keynote address at the Nuclear Energy Assembly, an annual meeting sponsored by the Nuclear Energy Institute. The meeting ends today at the Ritz-Carlton New Orleans hotel.

Evans was a key adviser to President Bush when the president decided in March 2002 to impose sweeping tariffs on imported steel. The move was cheered by steel-producing states such as Pennsylvania and West Virginia, but it drew harsh criticism from steel consumers and from the Port of New Orleans, which handles most of the foreign steel shipped into the United States.

The impact of the tariffs on local docks was almost immediate. Steel cargo volumes dropped 47 percent, from 3.6 million tons in 2002 to 1.9 million tons in 2003, according to port statistics. The tariffs reduced visits from Japanese steel ships from three a week to one every two or three weeks, said Mark Ellis, secretary of International Longshoremen's Association Local 3000, the largest labor group at the port. Each ship requires about 50 workers to unload it, he said.

Evans acknowledged that the tariffs caused pain locally, but he said the measures were necessary to punish countries with long histories of subsidizing their steel industries and selling their products at discounted prices in the United States.

Some critics of the tariffs said the measures were a veiled attempt by Bush to shore up support in steel-producing states. But Evans said Thursday the decision to impose the tariffs was driven by Bush's deeply held beliefs in trade policies. However, Evans variously described the Bush administration as "free-trade" oriented -- meaning the government basically steps back from trade disputes and lets markets sort it out -- and "fair-trade" oriented -- meaning the government more actively involves itself in trade matters including using tariffs and quotas. When asked to elaborate on how the administration can hold opposing views at once, Evans said the administration basically holds free-trade principles but uses fair-trade tactics when the situation and the political realities call for it. "You have to be able to look the American people in the eye and tell them that you are going to fight to keep the playing field level for them," the secretary said. "The president said, 'I'm going to enforce our trade laws.' We took a principled position."

Today, the U.S. steel industry is in much better shape than before the tariffs were imposed. Steel prices are substantially higher, and demand has risen sharply thanks to recovering economies around the globe and surging steel consumption by China.

Evans said the tariffs helped raise steel prices in the United States, at least temporarily, to levels that made domestic producers competitive, and they prompted investors to sink millions of dollars into revitalizing old, inefficient steel mills. "I'm not trying to say the tariffs were the sole reason for the restructuring. I'm saying they were a factor," he said.

Bush lifted the tariffs five months ago after the European Union and other nations threatened to impose stiff tariffs on U.S. exports in retaliation.

The Port of New Orleans is still recovering from the lower steel import volumes. Even with the tariffs lifted, volumes have continued to fall at local docks. The port handled 483,000 tons of steel in January and February, down 14 percent from the same period a year earlier.

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SECTION: Political News

Tariffs give Bush pockets of unlikely support: steelworkers

BYLINE: By CONNIE MABIN, Associated Press Writer
DATELINE: CLEVELAND

President Bush is getting support from unlikely people in battleground states: some steelworkers who are grateful for temporary tariffs that helped the struggling steel industry begin rebounding. While experts say steel unions as a whole will support Democrat John Kerry, some pockets of workers liked how Bush handled the tariffs - a key campaign issue in such states as Ohio, West Virginia and Pennsylvania.

The 201 tariffs were imposed in March 2002 to shield struggling U.S. steel producers from foreign competition. The tariffs were supposed to be in place for three years, but the Bush administration ended them in December, angering the unions.

But some steelworkers were happy with the relief they got, including Bob Hoover, of New Cumberland, W.Va. He donned a black and gold "Steelworkers for Bush" T-shirt in August when he stood with about 20 others from West Virginia and Ohio at a rally in Wheeling. "Mainly, it was to let him know that not all steelworkers believe he's not doing a good job," Hoover said Friday. "The 201 tariffs did help." Hoover is a member of the Kerry-endorsing Independent Steelworkers Union at ISG-Weirton in West Virginia. The United Steel Workers of America also endorsed Kerry.

Despite the endorsements, Bush has won over support from some laborers in steel-producing Ohio, West Virginia and Pennsylvania that have a combined 46 of the 270 electoral votes needed to win the presidency. Peter Morici, a professor at the University of Maryland College Park and steel industry consultant, said it makes sense even though steel unions typically support Democrats, who have harped on Bush for an overall loss of manufacturing jobs during his term. That's because during Bush's presidency, steelworkers have been called back to work in Ohio and Indiana, and their jobs have been saved in West Virginia, he said. "That has a powerful impact on people's psyche."

Forty-two U.S. steel producers have filed for bankruptcy since late 1997, when foreign-made steel began flooding the market at prices below the cost of production. The tariffs helped steelmakers earn more money while the industry reinvented itself through consolidation and cutting labor and other costs. At the same time, the U.S. industry boomed because it's been able to charge higher prices for steel that's in high demand as a shortage of raw materials used to make steel has kept production costs up. China has been buying all the raw materials it can get for its rapidly growing steel industry.

The Bush administration ended the tariffs early under pressure from big steel buyers such as automakers in other battleground states like Michigan and to avoid a trade war with the European Union. That reversal is a sticking point for most steelworkers, said Wayne Ranick, USWA spokesman. "We polled members in battleground states and 90 percent disapprove of the president's decisions to withdraw the tariffs," he said.

The Kerry campaign says its not worried by what they call sporadic steel support for Bush. "The steelworkers in Ohio are some of our most stalwart supporters. I will take 'John Kerry's Army of Steel' over the few workers the Bush campaign has managed to squeeze into their photo ops any day," said Jennifer Palmieri, a spokesman for the Kerry campaign in Ohio.

Bush's side points out that he was the first president to deliver on the tariffs, no matter how short-lived. The tariffs "were intended to provide the industry the support it needed to restructure and that's what happened," said Bush spokesman Kevin Madden. "The industry has come back healthier because of that."

Morici said the threat of another flood of cheaper, foreign imports, known as dumping, is still a big deal for steelworkers and companies. But now the debate is focused on where the candidates stand on trade laws, not tariffs.

Kerry has said he would have kept the promise to keep the 2001 tariffs in place for three years. But he said he would not reimpose them because he thinks there are better ways to help American manufacturers fight off unfair trade, including enforcing trade rules.

Bush has said he views free trade, including tearing down barriers to U.S. exports, as the answer to protecting manufacturing jobs.