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The Effects of the US Steel Tariffs on Australian Steel Exports to the US

The decision of the Bush administration to impose tariff increases on steel imports threatened to cause further harm to the global steel industry, already suffering from oversupply and depressed prices. However, with the majority of Australian steel exports exempted from the tariff increases, the result for the Australian steel industry has been generally positive.

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Executive Summary

The Australian steel industry has long faced difficult challenges. After the United States (US) imposed tariffs on steel imports in March 2002, the crisis confronting the industry threatened the closure of its most important export market. But in the wake of the tariff increase, Australia successfully negotiated exemptions for 85 per cent of its steel exports to the US. Around 7 per cent of exports did not qualify for exemption because exports of cold-rolled steel to the US market were at dumped prices.

In 2002, the volume of Australian steel exports to the US rose by 9 per cent. While exports of steel slab and hot-rolled coil, which are unaffected by the tariffs because of quotas and exemptions, increased by 26 per cent in 2002, exports of cold-rolled steel, plate and tin plate products have been affected by the tariffs. BHP Steel's export losses are estimated at A$62 million annually, while other companies between them are estimated to have lost A$5.4 million of exports. However, BHP Steel's losses are more than offset by increased US demand for hot-rolled coil and higher steel prices.

In early 2002, US prices for some steel products including hot-rolled coil began to rise as a result of domestic supply shortages. The US tariffs, which apply to only one–quarter of all US imports, gave a further stimulus to rising steel prices by shifting the supply–demand balance. Since then, US and international steel prices have increased significantly. This price increase, which begun before the US tariffs were announced, has lifted BHP Steel's revenue and raised its half-year net profit for the six months to 31 December 2002 to A$242 million. BHP Steel has also forecast a record full-year profit of more than A$400 million.

Following the US decision, a succession of countermeasures by steel producing countries threatened a return to trade protectionism. The reaction to the US tariffs was immediate and draconian. The large steel producing countries, the European Union (EU) and China introduced their own steel tariffs which have since led to higher steel prices in those markets. In Australia, tariffs or anti-dumping duties were imposed on imports of structural steel, raising prices and expanding domestic sales. As a result of the duty increase, OneSteel has increased sales volume and doubled its half-year net profit for the six months to December 2002.

The current trade tensions between the US and EU over steel are a symptom of the structural problems of excess world capacity, a problem not unique to the steel industry. Much of the world's excess steel production is sustained by government subsidies that distort the global steel trade. Steel producers tend to discount steel prices in export markets while their domestic markets are protected by tariffs or maintained through subsidies. The first significant step in reducing excess steel capacity was taken in February 2002 when representatives of 39 steel producing countries agreed to reduce inefficient capacity by 14 per cent by the end of 2005.

Introduction

The global steel industry has long been facing difficulty due primarily to global overcapacity—an issue increasingly affecting international trade in sectors as diverse as sugar, semi-conductors and pharmaceuticals. The financial health of the steel industry has suffered from inefficient production, fuelled by company and government support of high-cost local capacity, and market intervention in the form of quotas, subsidies and tariffs.

The effect of overcapacity particularly affected sectors of the US steel industry. The promise to protect the US steel industry became a key component in the success of President Bush in the 2000 presidential elections in the steel production states of West Virginia and Ohio. On 5 March 2002, President Bush confirmed what was widely anticipated after a US International Trade Commission (ITC) investigation confirmed the negative effect of imports on sectors of the US steel industry—the imposition of temporary safeguard measures on steel products most damaged by global overcapacity and associated import surges.

The decision by the US Administration to impose tariffs on steel imports had repercussions around the world. Restrictive trade measures spread immediately to the EU and China, which introduced their own steel tariffs in retaliation for the US decision and in Australia, anti-dumping duties were imposed on steel imports from Korea, South Africa and Thailand. The European Union also responded by appealing to the World Trade Organisation (WTO), but in November 2002, the WTO Appellate Body rejected the challenge. The WTO's decision has been portrayed in the US as a philosophical victory for the multilateral trading system.[1]

The US tariff decision was greeted with protest by other steel producing countries which faced a drastic reduction in their exports to the US and substantial trade diversion from third countries affected by the US tariffs. Many were also convinced that the tariffs would depress steel prices and disrupt global trade. But in the period since the decision, world demand for steel has increased and steel prices have risen significantly. Steel producers in Canada, Mexico, Africa and South America have seen higher prices for their exports to the US and higher profits. As one commentator observed:

> Virtually all producers from countries exempted from the tariffs have expanded sales to the US. The higher selling prices have attracted suppliers from the Middle East, Africa and South America. Canadian and Mexican mills have also been able to gain both price and volume. It is like Christmas Day every day for these steelmakers. Current prices and increased exports could only have been a distant dream for them just six months ago.[2]

For Australia, the tariffs have not harmed BHP Steel's exports to the US which constitute the bulk of Australian steel exports. The US decision has also had a dual effect for BHP Steel through its joint ownership of North Star BHP Steel, a US steel producer. Even BHP Steel has acknowledged that the higher steel-pricing environment has lifted its half-year profit result for the 2002 December by more than 50 per cent. Steel exports to the US by

OneSteel Ltd were also exempted from the US tariffs, although the volume of these exports is very low. But OneSteel, a major producer and supplier of structural steel in Australia, stands to benefit through increased tariffs in the form of anti-dumping duties on competing steel imports.

The main focus of this paper is the effect the US tariffs have had on Australian exports to the US and the short to medium term prospects for BHP Steel and OneSteel. The paper also examines the impact of the US tariffs on steel prices.

US Steel Tariffs

On 5 March 2002, the US imposed tariffs on imports of certain steel products following a Section 201 safeguard investigation into increased steel imports.[3] The tariffs range from 8 to 30 per cent, phasing down each year and falling to zero after three years and one day.

Table 1: Steel Products Subject to US Tariffs, Commencing 20 March 2002

	Year 1	Year 2	Year 3
Certain Flat products			
a) Slab	Quota of 5.4 million tonnes, plus a tariff of 30% for shipments in excess of quota	Quota of 5.9 million tonnes, plus a tariff of 24% for shipments in excess of quota	Quota of 6.4 million tonnes, plus a tariff of 18% for shipments in excess of quota
b) Finished flat products (plate, hot-rolled sheet and coil, cold-rolled sheet and coil, coated sheet)	30% tariff	24% tariff	18% tariff
Hot-rolled bar	30% tariff	24% tariff	18% tariff
Cold-finished bar	30% tariff	24% tariff	18% tariff
Rebar	15% tariff	12% tariff	9% tariff
Certain welded tubular products	15% tariff	12% tariff	9% tariff
Carbon and alloy fittings and flanges	13% tariff	10% tariff	7% tariff
Stainless steel bar	15% tariff	12% tariff	9% tariff
Stainless steel rod	15% tariff	12% tariff	9% tariff
Stainless steel wire	8% tariff	7% tariff	9% tariff
Tin mill products	30% tariff	24% tariff	18% tariff

Source: Office of the US Trade Representative, 'Background Information', 5 March 2002.

While the import tariffs affect a wide range of steel products used by US steel producers and manufacturers, they apply to less than one–third of all US steel imports.[4]

International Reaction

A succession of countermeasures by steel producing countries threatened a return to trade protectionism as other countries, faced with a flood of imports as a result of the closure of the US market, raised their import barriers. Beginning with the European Union (EU) safeguards, reaction to the US steel tariffs was immediate and draconian.

Australia

New arrangements for monitoring steel imports were announced in April 2002 to screen imports for any changes in trading patterns—a prerequisite for safeguard or anti-dumping action.[5] In addition, anti-dumping duties on structural steel imports from Korea, South Africa and Thailand were imposed on 5 July 2002, raising steel prices and expanding domestic sales by OneSteel.

Canada

Fearful of a trade diversion of steel imports from countries affected by the US decision, Canada launched its own safeguard investigation on 22 March 2002 which recommended the introduction of a tariff rate quota for steel imports.[6]

China

China, which is the world's largest steel producer and a net importer of steel, followed the EU and imposed temporary safeguard measures on 24 May 2002. Although Chinese steel producers were not directly impacted by the US tariffs, China imposed quotas for imports of various steel products and tariffs ranging from 7 to 26 per cent.[7] BHP Steel's exports of painted steel products to China were affected by the quota restrictions but have since been exempted from the measures.[8] The exemption from China's safeguard measures will allow BHP Steel to increase its exports to China from 60 000 tonnes to an expected 100 000 tonnes in 2003.

European Union

Barely three weeks after the US decision, the EU announced safeguard measures to protect its steel industry. On 25 March 2002, the EU imposed restrictive tariff quotas based on the average of the annual level of steel imports in the years 1999, 2000 and 2001, plus 10 per cent thereof. Tariffs were also imposed on 15 steel products, ranging from 15 to 26 per cent.[9] At the same time, the EU initiated a global safeguard investigation to examine whether more extensive import restrictions should be imposed.

Indonesia

On 21 October 2002, Indonesia increased tariffs on hot-rolled coil and cold-roll coil to 20 and 25 per cent, from the previous range of 5 to 15 per cent.[10]

Mexico

Although exempt from the US tariffs, Mexico increased tariffs by 25 to 35 per cent on steel imports from third countries with no free-trade agreements with Mexico, mainly from Asia and Eastern Europe.

New Zealand

On 21 June 2002, New Zealand announced the establishment of a joint government and steel industry–monitoring group to closely monitor imports so that "appropriate safeguard or anti–dumping action can be taken wherever it is justified." [11] Volumes and values of steel imports would be under close scrutiny to enable the early detection of cheap imports.

Thailand

In May 2002, Thailand imposed a temporary price freeze on domestic steel products. It had earlier introduced an import surcharge of 25 per cent and a 10 per cent tariff on all hot-rolled and cold-rolled products. The surcharge was later replaced with an anti-dumping duty of 30 per cent.

Exemptions Granted to Australian Exports

Australian steel exporters, supported by the Commonwealth Government, successfully negotiated exemptions for the majority of steel exports to the US. The exemptions cover around 85 per cent of Australia's exports in 2001 by volume and about 70 per cent by value (see Table 2). In total, nine out of ten requests for exclusion from the tariffs were granted. The exemptions apply to a range of steel products and include Australia's most significant steel exports: steel slab to US West Coast steel mills and hot-rolled coil for re-rolling by Steelscape, a cold-roll mill located at Kalama in Washington State.[12] Both products are manufactured by BHP Steel and represent around 80 per cent of Australia's steel exports to the US market.[13]

Table 2: Australian Steel Exports to the United States, 1989 to 2002
By volume (thousand tonnes)

Year	Slabs	Coated flat	Hot-rolled coil	Cold-rolled	Other	Total
1989	55.7	135.1	4.6	3.0	17.5	215.9
1990	125.7	149.3	2.0	19.6	24.0	320.6
1991	160.1	145.7	0.3	27.2	20.0	353.3
1992	160.5	169.4	0.1	37.5	25.7	393.2
1993	260.5	24.9	10.3	71.4	27.1	394.2
1994	358.0	12.0	17.4	47.1	26.3	460.9
1995	269.2	7.4	1.8	2.6	30.3	311.3
1996	469.0	5.2	0.1	0.1	33.5	507.8
1997	361.3	5.1	5.1	21.6	29.4	422.5
1998	714.2	8.3	114.2	3.0	60.7	900.5
1999	635.9	4.9	256.7	6.7	81.6	985.8
2000	403.1	0.6	218.8	49.0	65.9	737.5
2001	281.9	8.9	218.4	42.8	69.7	621.7
2002	357.5	2.4	275.5	6.0	11.3	677.2

Note: 2000, 2001 and 2002 figures are US imports ex Australia obtained from the US Bureau of Census. Other data is Department of Industry, Tourism and Resources (DITR) analysis of ABS data. Table courtesy of DITR.

By value — A$m

Year	Slabs	Coated flat	Hot-rolled coil	Cold-rolled	Other	Total
1989	12.8	104.0	2.1	1.9	10.3	131.1
1990	37.8	107.7	0.2	8.1	13.5	167.3
1991	47.9	116.0	0.0	13.4	10.8	188.1
1992	51.1	129.6	0.0	18.8	15.6	215.1
1993	94.0	21.2	2.8	39.0	21.0	177.9
1994	115.5	9.3	6.6	23.2	21.2	175.9
1995	94.8	5.9	0.9	1.3	26.5	133.0
1996	148.5	3.2	0.0	0.0	33.6	185.3
1997	135.7	2.3	2.1	11.1	27.5	178.7
1998	269.5	3.0	46.5	1.9	50.4	371.2
1999	157.8	4.6	95.1	3.6	48.0	309.2
2000	162.9	0.8	116.3	32.8	59.1	371.8
2001	91.3	8.3	92.3	25.5	48.7	266.1

Note 2000 and 2001 are US imports ex-Australia converted at US$1=A$0.51. Table courtesy of DITR.

Steel Slab

In the first round of exclusions announced immediately after 5 March 2002, Australia was allocated a favourable tariff rate quota for steel slab (354 000 tonnes in Year 1, 387 000 tonnes in Year 2 and 420 000 tonnes in Year 3.) Tariffs would only apply to tonnages in excess of the quotas. In 2001, slab exports to the US were 282 000 tonnes and were valued at A$91.3 million.

Low value steel slab exports comprise over 40 per cent of BHP Steel's exports to the US and until recently were its most important export. The primary reason for the exclusion of steel slab was that shipments to steel mills on the US West Coast are made under long-term supply contracts. The full effect of a 30 per cent tariff would raise costs considerably for the US steel mills which rely on slab imports as feedstock.

Hot-rolled Coil

Less than a week before the tariffs went into effect, an exemption was granted for BHP Steel's hot-rolled coil which is used mainly in the automotive industry. The exclusion allows BHP Steel to continue supplying one of its key US customers, Steelscape, a formerly BHP-owned steel operation.

BHP began supplying hot-rolled coil to its US subsidiary in 1998 and continued to supply feedstock after it was sold to Mexico's Grupo IMSA in May 2000. In 2001, exports of hot-rolled coil were valued at A$92 million.

Box 1: Other Steel Exemptions

In 24 June, 18 July and 22 August 2002, respectively, the US granted exemptions for low volume steel exports of DuraGal channels, DuraGal hollow sections and DuraGal angles and flats. DuraGal is an innovative product manufactured by OneSteel. Exports of these products to the US were less than A$2.5 million in 2001 (or less than one per cent of exports in 2001) reflecting the product's newness.[14]

On 12 August 2002, a further exemption was granted for hydraulic hose couplings manufactured by RYCO Hydraulics (estimated at A$2 million annually). The Melbourne-based company began selling its coupling and hose in the US in July 2001.

On 25 March 2003, further exemptions were granted to OneSteel's DuraGal products, covering channels, angles, square sections and rectangular sections. An additional 35 000 tonnes of hot-roll coil to Steelscape was also exempted.[15]

However, exports of other steel products, principally BHP Steel's exports of cold-rolled steel (worth around A$30 million annually), plate and tin plate products are affected by the tariffs. BHP Steel's lost sales are estimated at A$62 million in total while other companies between them are expected to lose A$5.4 million of exports.[16]

Australian Steel Exports in 2002

Exempt Products

BHP Steel continues to supply 250 000 tonnes of hot-rolled coil a year to Steelscape tariff-free. In fact, its exports to Steelscape in 2002 increased by 26 per cent to 275 000 tonnes (see Table 2). The exclusions have also allowed the continuation of BHP Steel's annual slab exports of over 350 000 tonnes tariff free. These exports increased by 26 per cent in 2002.

Smaller steel exporters such as OneSteel and RYCO Hydraulics are also able to supply product to US customers on a competitive basis. Although exports of their products are small, the exemptions are nevertheless important for both companies.

Cold-rolled Steel

However, the 30 per cent tariff on flat products has impacted negatively on BHP Steel's exports of cold-rolled steel. Exports have fallen sharply since the tariff was imposed from 42 800 tonnes in 2001 to 6000 tonnes in 2002. But exports of cold-rolled steel had been declining before the end of 2001 in response to dumping allegations by US steel producers.

Unlike hot-rolled coil and slab exports, BHP Steel's cold-rolled steel was sold on the open market to one or two end-user customers. The steel entered the US through the West Coast and was not sold anywhere else in the US. Exports had risen by more than 500 per cent since 1999, increasing BHP Steel's share of the US market from less than 0.05 per cent in 1999 to 0.2 per cent in 2000 and 2001.

In September 2001, BHP Steel's exports of cold-rolled steel were the subject of an anti-dumping investigation by the US International Trade Commission (USITC) which also examined exports of cold-rolled steel products from Thailand, India, Japan and Sweden.[17] BHP Steel did not contest the claim that it was dumping product in the US nor did it contest the 24.06 per cent dumping margin assigned to its exports by the Commerce Department.[18]

In its Final Determinations, the USITC noted the declining levels of exports by BHP Steel during the investigation period (September 2000 to August 2001) and in the first quarter of 2002 when exports fell to 6505 tonnes, compared to 12 912 tonnes in the first quarter of 2001. It also found that exports had fallen sharply in the second quarter of 2002 to a mere two tonnes. The USITC concluded:

> Although the record shows that the Australian producer has excess capacity and some ability to shift exports from other markets to the United States, we find it unlikely that it will do so in the near future in light of the Section 201 remedy, as already reflected in the

> sharp decline in the volume of those imports in 2002. We conclude that it is unlikely that the volume of subject imports from Australia will increase to significant levels in light of the nature and magnitude of the subject import declines in 2002 in response to the Section 201 remedy, and the availability of other markets to the subject producer.
>
> Based on the above, we find that material injury by reason of subject imports from Australia will not occur absent issuance of an anti-dumping order against those subject imports. We therefore conclude that the domestic certain cold-rolled steel industry is not threatened with material injury by reason of the subject imports from Australia.[19]

There have been no exports of cold-rolled steel to the US since the second quarter of 2002. BHP Steel's loss of exports—estimated at A$30 million annually—has been more than offset by increased US demand for hot-rolled coil and higher steel prices. In addition, BHP Steel has benefited from the US tariffs through its 50 per cent interest in North Star BHP Steel, a low cost mini-mill operation located in Delta, Ohio which, after making a loss in 2001, returned to profitability in 2002.

The Effect of US Tariffs on Steel Prices

US Prices

At the end of 2001, US prices for steel fell to new historical lows. At the same time, total US domestic shipments fell by 12 per cent from 7.8 million tonnes in November 2001, to 6.9 million tonnes in December 2001 and by 9 per cent for the full-year 2001.[20]

Box 2: Effects on Prices for Certain Steel Products

An economic analysis of the effects of the safeguard tariffs in July 2002 showed similar dramatic increases in spot prices of hot-rolled, cold-rolled and coated steel—imports of which are subject to the 30 per cent tariff, unless exempted (see Table 3).[21] The analysis examined price data for hot-rolled, cold-rolled and galvanised sheet, as well as coiled plate, and long products such as rebar, cold-finished bar, beams and wire rod. It found that rebar, cold-finished bar and coiled plate showed modest prices increases despite the tariffs, unlike hot-rolled, cold-rolled and galvanised sheet. But each of these products is distinct. Rebar is subject to only 15 per cent tariffs and most of the imports to the US were exempted. Cold-finished bar is also distinct, given the exemptions for imports from Canada and Mexico under the North American Free Trade Agreement (NAFTA). Coiled plate prices also increased in 2002, but prices in general were less volatile. Finally, beam prices increased even though beams are not subject to tariffs. This is attributed to anti-dumping and countervailing duty orders on imports from Japan and Korea, the largest foreign suppliers of beams. On the whole, hot-rolled prices showed the greatest response to the tariff increase.[22]

Table 3: Spot US Steel Prices, June 2000 to June 2002

Product	June 2000	June 2001	June 2002
	Value ($US per tonne)		
Hot-rolled	325	240	340
Cold-rolled	430	340	435
Coated	440	360	445
Coiled plate	336	297	320
Rebar	310	305	307
Cold-finished bar	480	440	460
Wide flange beams	300	320	350
Wire rod	300	295	315

Source: *Purchasing Magazine,* Transaction Pricing Service

The reduction in US steel-making capacity reflected plant closures over recent years, with the shut down of LTV Steel, one of the largest US steel producers, in December 2001. The reduction in capacity and increase in US manufacturing activity at the end of 2001 lead to temporary supply shortages and some price increases in early 2002, well *before* the tariffs were announced. Tariffs contracted import supply, creating additional shortages. The effect of the tariffs, particularly on imports of flat products (hot-rolled and cold-rolled steel), was to give a further stimulus to rising prices due to a supply shortage problem as importers stopped ordering steel awaiting the Presidential decision:

> Domestic steel supplies were so tight that in May 2002 US producers supplied over 90 per cent of the market, when 80–85 per cent is more typical. The results: shortages and very high prices…According to price tracking data from Purchasing magazine, hot-rolled sheet transaction prices were 81.8 per cent higher in July 2002 than in January 2002; cold-rolled sheet prices were 69.4 per cent higher, and hot-dipped galvanized prices 61.2 per cent higher. These are key products, used to make products ranging from cars to lawn-mower blades. [23]

International Prices

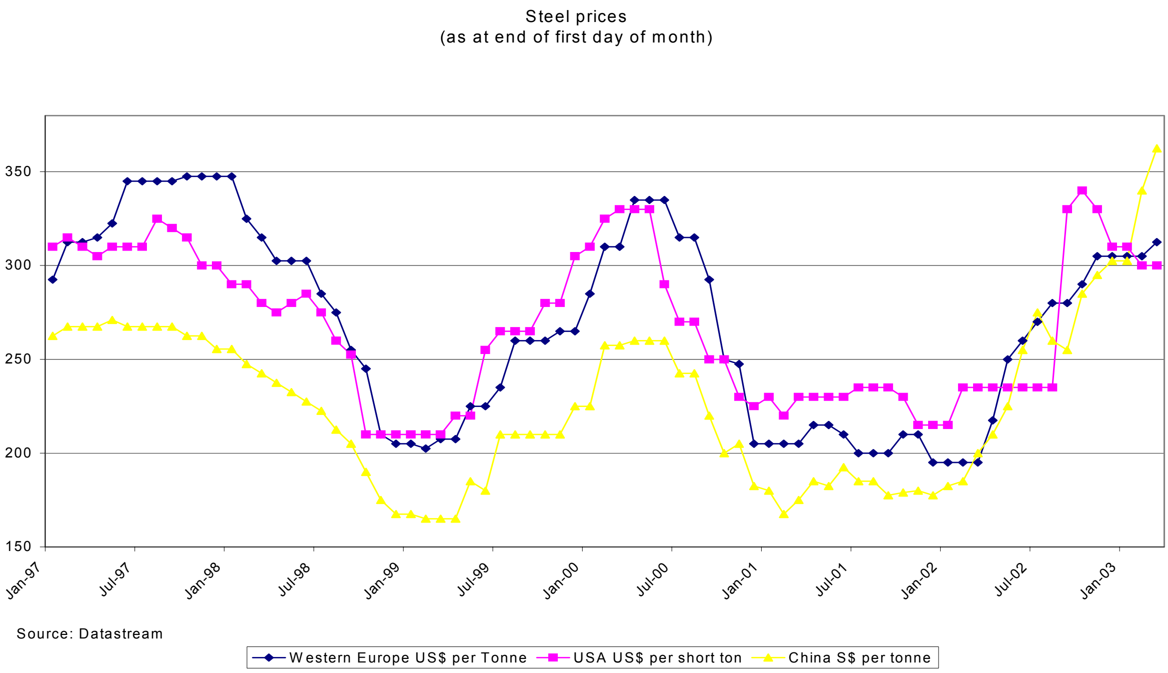
Since the US announced its decision on tariffs in March 2002, world prices for many steel products, including hot-rolled coil have risen sharply. Antwerp prices increase for hot-rolled coil was 52.6 per cent (US increase of 59.9 per cent). Hot-rolled band world export prices increased 35 per cent from last quarter 2001 to last quarter 2002, in the same period prices in Japan rose 26 per cent and 11 per cent in the EU, Brazil, Russia and Taiwan.[24] As an economic analysis noted:

> It would seem that rather than driving prices in markets outside the United States down, the 201 relief has had little if any affect upon them. Bruno Bolfo, chairman of Duferco SA, a producer with mills in Italy and Russia, recently explained that foreign producers expected the Section 201 remedy would create problems for them. Instead, he said "the exact opposite happened, with flat-rolled prices soaring more than $100 per ton in three

months after the trade remedy took effect." Other steel producers, such as the president of Nippon Steel USA, have agreed.[25]

Prices for hot-rolled coil in the US which began rising in early 2002 have since fallen back off their November 2002 peak, while EU prices continue to rise as a result of restrictions on steel imports and production cut-backs (see figure 1 below)

Figure 1



Global Steel Production and Overcapacity

A major factor contributing to the US decision is excess of world steel production capacity.[26] In 2000, world steel production increased 7 per cent to a record 843 million tonnes, while prices fell to a 15-year low. Steel production in 2001 remained high, with only a 0.7 per cent fall from the previous year. In 2002, steel production was forecast to increase further to 865 million tonnes and in 2003 world steel production is expected to increase by a further 2.8 per cent and reach a new record of 890 million tonnes.

The current trade tensions in world steel markets have been sustained by government subsidies that distort the global steel trade. Steel producers tend to discount steel prices in export markets while their domestic markets are protected by tariffs or maintained through subsidies. This trade distorting effect is reflected in global anti-dumping and countervailing activity. Steel is the leading sector targeted for anti-dumping and anti-subsidy action. Over 30 per cent of global anti-dumping investigations involve steel products and close to half (44 per cent) of anti-subsidy cases are in the steel sector.[27]

OECD Initiative

The first significant step in reducing world overcapacity was taken in early February 2002. In a move designed to achieve a favourable outcome of the Section 201 investigation, representatives of the 39 steel producing countries agreed to reduce inefficient capacity by 14 per cent. The meeting of steel producing countries on 11 February 2002, held under the auspices of the Organisation for Economic Cooperation and Development (OECD) set a total of 117.5 million tonnes of capacity for closure by 2005.[28] Based on an agreed framework tabled at the meeting, overall production would be cut by 78.6 to 82.6 million tonnes by the end of 2002, while 24.9 to 34.9 million tonnes would be reduced in the next three years. The meeting also outlined a proposal to further reduce capacity by 18.8 to 28.0 million tonnes from 2006 to 2010 if conditions did not improve.

While representing a significant reduction in world overcapacity, doubts exist whether the proposal would ensure that closures were permanent and whether actual levels of operating capacity would be reduced. One of the major obstacles to the removal of excess capacity is the continuation of steel subsidies. A further difficulty involved defining and reporting closures. At their most recent meeting in mid December 2002, government representatives agreed to institute a peer review process for notifying steel plant closures and improve reporting generally. They also agreed to begin discussions on the elements of a steel subsidies agreement that would be ultimately negotiated through the WTO.[29]

Steel Imports

Steel imports to Australia reached their peak in 2001, increasing by 12 per cent over the previous year to a record level of 1.36 million tonnes, slightly higher than the previous record year of 1.33 million tonnes in 1999 (see Table 4). Although Japan and Korea remain the major sources of imports, South Africa, Thailand and Malaysia have become significant sources of steel imports in recent years. As steel imports from these countries increased, demand in Australia for certain types of steel products decreased.

In the case of structural steel used in engineering construction, the Australian market contracted severely in the period from the March quarter 1998 through to the June quarter 2001, with the local industry experiencing a 30 per cent decline in sales. At the same time, imports doubled in volume. The growth of low priced imports from Korea, South Africa and Thailand resulted in an almost equivalent loss of market share by OneSteel Ltd, the major producer and supplier of structural steel.

Table 4: Australian Steel Imports by Country, 1997 to 2001

By volume – thousand tonnes

	1997	1998	1999	2000	2001
Japan	266.2	379.9	434.0	343.7	353.3
Korea	148.8	191.1	237.8	207.5	182.5
New Zealand	113.9	105.4	91.5	90.9	114.5
Malaysia	34.5	30.6	55.6	37.4	70.4
Taiwan	59.2	53.0	59.0	68.4	59.6
South Africa	46.2	94.0	44.7	55.0	58.3
Thailand	7.4	19.3	38.5	57.3	49.0
Indonesia	118.9	8.4	22.7	15.5	38.7
China	37.6	38.1	22.2	28.7	36.9
Singapore	7.8	6.1	6.1	14.9	32.7
United Kingdom	66.0	54.5	47.3	38.6	32.0
Germany	22.1	34.6	35.8	19.9	21.8
Other	308.1	220.0	240.0	235.2	313.5
Total	1236.7	1235.0	1335.2	1213.0	1363.4

Source: Table courtesy of DITR

Anti-dumping Action by Australia

While anti-dumping disputes have been a feature of world steel trade for many years, the incidence of anti-dumping complaints by Australia firms has been relatively minor. Steel and metals account for only 10 per cent of all anti-dumping cases.[30]

On 30 November 2001, Customs responded to a request by OneSteel Manufacturing Pty Ltd, a subsidiary of OneSteel Ltd, to initiate an anti-dumping investigation into structural steel imports from Korea, South Africa and Thailand. In its request, OneSteel claimed it had suffered material injury as a result of the dumped imports and cited dumping margins ranging from 30 to 46 per cent (30 per cent for Korea, 46 per cent for South Africa and 40 per cent for Thailand).[31]

Box 3: Definition of Dumping

The Australian Customs Service defines 'dumping' as the selling of a product in Australia at a lower price than the price charged in the country from which it is exported. Dumping will often occur where competition in international markets is intense. Where it has all the information, Customs will determine a normal value or a market price in the country of origin with adjustments for selling expenses, inventory and warranty costs, marketing, freight and insurance. The adjustments to the market price allow for a comparison between the normal value or ex-factory gate price and the export price.

In March 2002, Customs released a Statement of Essential Facts outlining its findings which confirmed that imports were at dumped prices and did injure OneSteel:

> Customs is satisfied that exports from Korea, South Africa and Thailand have been at dumped prices. This has enabled these goods to be sold at prices that undercut OneSteel's prices, forcing OneSteel to lower its prices to try and maintain market share …Customs concludes that the dumping of structural steel from Korea, South Africa and Thailand has caused material injury to the Australian industry.[32]

As a temporary measure Customs imposed securities on future imports until the Minister for Customs made a final decision. Dumping duties were subsequently imposed on 5 July 2002 and will expire in 2007.

Prospects for Australian Steel Producers: BHP Steel and OneSteel

BHP Steel Ltd

Until its demerger and public listing on the Australian Stock Exchange on 15 July 2002, BHP Steel was a wholly owned subsidiary within the BHP Billiton group. BHP Billiton's steel segment (effectively the demerged entity BHP Steel Ltd) generated sales revenue of US$2495 million and yielded a profit before tax of US$91 million during 2001–02. Sales and profit on a comparable basis for 2000–01 were US$3271 million and US$234 million.[33]

Box 4: BHP Steel Flat Products

BHP Steel specialises in the manufacture of flat steel products (steel that includes flat-rolled steel – semi-finished products such as slab and hot-rolled coil and finished products such as plate and tin plate). The company has two major business units, Flat Products and Coated Products. Its main production facility is an integrated steelworks at Port Kembla, which has an annual production capacity of 5.0 million tonnes.

The Port Kembla Steelworks manufactures and distributes a range of semi-finished and finished products, with semi-finished products being supplied to export markets and the vertically integrated Coated Products business. The business also has a 50 per cent interest in North Star BHP Steel, a steel mini mill located near Delta, Ohio.[34]

Half-year Net Profit

On 27 February 2003, BHP Steel reported a net profit of A$242 million for the six months to 31 December 2002 and forecast that it would exceed the full year profit of $400 million, as advised at the November 2002 AGM.[35] The A$291 million increase in revenue reflected higher world steel prices (for both steel slab and hot-rolled coil), higher export slab sales and stronger domestic demand.

Box 5: Summary of Financial Results

Earnings before interest and tax (EBIT) was A$332 million, compared to a pro-forma EBIT for the half year ended 31 December 2001 of A$95 million. The 249 per cent increase in EBIT was due principally to higher international steel prices and the performance of North Star BHP Steel, which returned to profitability in 2002 with a net profit of A$63 million in 2002. Like most US steel producers, North Star BHP Steel ran at a loss in 2001 (A$14 million).

The half year results and projected full year profit of more than $400 million reflect higher international steel prices and the sensitivity of the business to hot-rolled coil prices, and to a lesser extent the impact of the stronger A$/US$ exchange rate. [36] Every US$25 per tonne rise in average hot-rolled steel has around a A$100 million impact of BHP Steel's EBIT. Since the tariffs were imposed average hot-rolled prices have risen from around US$260 to the present price of US$340 a tonne.

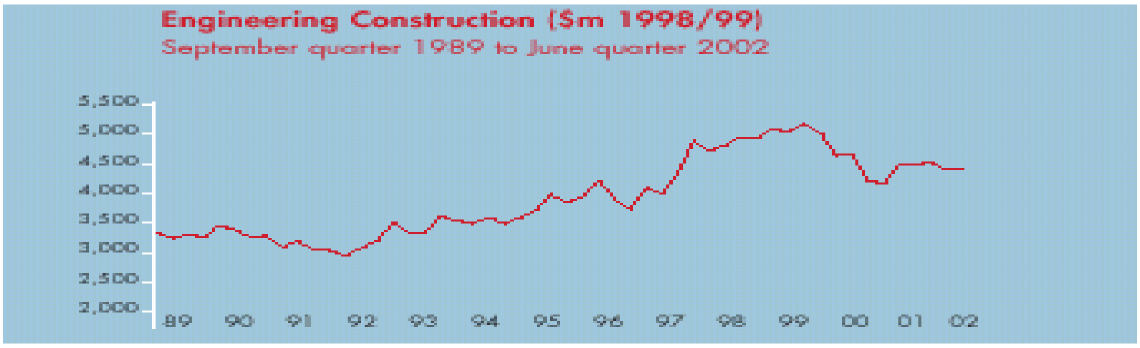
Despite the scheduled fall in tariffs from 30 per cent to 24 per cent in March 2003, prices for hot-rolled coil prices are expected to average US$330 for the current half of 2003.[37] High steel prices are expected to contribute an anticipated record full year result:

OneSteel Ltd

The engineering construction sector provides around 21 per cent of OneSteel's sales and along with non-residential construction is the main business driver. Structural steel (hot-rolled steel comprising universal columns and beams, channels and angles which is used in engineering construction) is produced at OneSteel's Whyalla Steelworks in South Australia.[38]

Activity in the engineering construction sector rebounded in 2001–02 reversing the year by year decline that began in 1999 as Figure 2 below indicates.[39]

Figure 2



Source: The National Institute of Economic and Industry Research (NIEIR)

> …[the] second half performance will be tempered by issues such as scheduled maintenance down time at several sites, less favourable exchange rates and higher scrap prices. These higher scrap prices coupled with lower USA Midwest Hot Rolled Coil prices are expected to reduce North Star BHP Steel's second half result. In all other markets and across most products we expect prices in the second half to be at least equivalent to those realised in the first half.[40]

In 2002, OneSteel's revenue and sales increased by 1.7 per cent and 9 per cent respectively compared to the 2001 financial year. Increased demand in the sector also affected pricing with prices for structural steel rising by about 15 per cent, although prices remain below the level of inflation for the decade. The short to medium term outlook for OneSteel's structural steel business is positive:

> The turnaround in market activity that began mid way through 2001 and built momentum during that year is expected to continue over the next three to four years. The activity will be primarily focused around the non-residential and engineering construction sectors, both of which are driven by an increase in the number of large projects both current and planned. [41]

Box: 6 OneSteel Half-year Profit Result

On 18 February 2003, OneSteel announced a net profit of A$54.9 million for the December half compared to A$19.7 million in the previous corresponding period and A$47.1 million net profit for the 2001–02 financial year. The profit result was achieved on a 3.5 per cent increase in sales and increased demand for steel products from infrastructure projects such as the Alice Springs to Darwin railway and the Seagas pipeline. OneSteel advised the market:

> Given the large amount of project activity, we expect market conditions in the non-residential construction and engineering sectors to continue to build momentum over the next six months. This will more than offset the expected decline in the residential and rural sectors, while the areas of mining and manufacturing are expected to remain stable.[42]

Engineering construction contributed significantly to OneSteel's domestic sales of A$1.5 billion and offset the slowing in the housing and rural sectors. It has helped OneSteel to more than double its half-year net profit and the strong demand in the sector is expected to continue through to the end of the year.

Conclusions

The US decision to erect tariffs was widely depicted as protectionist and likely to disrupt global steel trade and depress international steel prices still further. Large steel producing countries like the EU and China, concerned that their steel industries would be injured by the diversion of exports from the US, responded by raising import barriers. In Europe and Asia, the retaliatory tariffs signalled an end to unsustainable, record low prices with prices for many products rising sharply in almost all the major markets.

US steel prices were more supply-demand sensitive than anticipated and the prediction of further price decreases proved wrong. Tariffs acted as a price stimulus by restricting imports of steel products and shifting the supply-demand balance. Other factors sustaining high US prices were domestic supply driven—reduced production capacity, industry restructuring and supply shortages. The major beneficiaries of the higher prices are US steel producers that now have an incentive to consolidate and foreign steel producers unaffected by the tariffs.

The reasons for the exemption of most of Australia's exports to the US from the tariffs were many but principally commercial. With the exception of cold-rolled steel exports to the US West Coast, Australian steel exports were subject to supply agreements with longstanding US customers and were not opportunistic. BHP Steel's key US customers would have incurred higher input costs without the exemptions.

The conclusion to be drawn from BHP Steel's half-year profit announcement of 27 February 2003 and forecast of A$400 million full-year net profit[43] is that the effect of the US tariffs has been generally positive for BHP Steel.[44] Similarly, for OneSteel the effect of anti-dumping action has been positive both in terms of sales and pricing, and the outlook for OneSteel is for continued growth in the engineering construction sector for the duration of the duties.

Endnotes

1. Office of the United States Trade Representative, Media Release, 'WTO Appellate Body Upholds Key Provisions of US Anti-Subsidy Law Involving Steel Case', 28 November 2002
2. 'Rocketing steel prices make US import restraints ineffective', September 2002, web site: http://search.sheetmetalworld.com/news/articles/316.cfm.
3. Section 201 of the US Trade Act of 1974 provides for an investigation to establish whether the imported products are a substantial cause of serious injury or a threat of serious injury to a US industry—here the steel industry.
4. Tariffs cover only selected steel products. A number of countries (Canada, Mexico, Israel and Jordan) are exempted, as are developing countries of the World Trade Organisation (WTO). Most South American countries are also exempted because they account for less than 3 per cent of US steel imports. In addition, over 720 products that would otherwise be subject to the tariffs are currently exempted. The US International Trade Commission estimated that the tariffs apply to only about 29 per cent of all US steel imports. Other estimates of the impact of the tariffs are slightly lower at 25 per cent (see 'US steel firms urge tariffs on developing countries', *Reuters*, 13 January 2003).

5. 'Government Introduces Tough Arrangements for Monitoring Steel Imports', Joint News Release—Minister for Trade, Minister for Justice & Customs, 5 April 2002.
6. See 'Importation of Certain Steel Goods', Canadian International Trade Tribunal, Reference No. GC-201-001, 4 July 2002. The Canadian Government is yet to respond to the recommendations.
7. 'Steel Dispute Escalates in Asia', *The Washington Post*, 23 May 2002.
8. 'Win for Australian Steel Exports to China', Media Release, Minister for Trade, 29 January 2003, MVT04/2003.
9. Commission Regulation (EC) No. 560/2002 of 27 March 2002. A WTO dispute panel was subsequently established to review the EU's temporary safeguards measures.
10. ANTARA, Press Report, 30 October 2002.
11. 'Steel Imports Under Close Scrutiny', Press Release, New Zealand Customs Service, 21 June 2002.
12. Steel slab is the most common type of semi-finished steel. After casting, slabs are sent to the hot-strip mill to be rolled into coiled sheet (hot-rolled coil) and plate products.
13. BHP Steel specialises in the manufacture of flat steel products (steel that includes flat-rolled steel—semi-finished products such as slab and hot-rolled coil and finished products such as plate and tin plate).
14. OneSteel's exports to the US of DuraGal steel channels are worth about $800 000 annually. Its DuraGal hollow sections (pipe and tube fittings) are worth $1.4 million, and its angles and flat worth $82 000 annually.
15. 'Further Australian steel exclusions granted by the US', Media Release, Minister for Trade, 25 March 2003, MVT21/2003.
16. Dr Peter Ferber, The Australian Steel Industry in 2001, Department of Industry, Tourism and Resources, May 2002, p. 8.
17. USITC, 'Certain Cold-Rolled Steel Products from Australia, India, Japan, Sweden and Thailand', Investigation Nos. 731-TA-965, 971-972, 979, and 981 (Final), Pub. No. 3536, September 2002.
18. See US Department of Commerce, 'Notice of Final Determination of Sales at Less than Fair Value: Certain Cold-Rolled Carbon Steel Flat Products From Australia', 67 Fed. Reg. 47509-47518 (19 July 2002).
19. ibid., pp. 48-9.
20. '2001 shipments down 8.8 per cent', Press Release, AISI, 7 February 2002.
21. Dr P. Morici, The Impact of Steel Import Relief on US and World Steel Prices: A Survey of Some Counterintuitive Results, University of Maryland, July 2002, pp. 2-4. Spot prices generally tend to fluctuate more than contract prices for steel.
22. ibid., p. 3.

23. Dr J. Francis and L. M. Baughman, The Unintended Consequences of US Steel Import Tariffs: A Quantification of the Impact During 2002, February 2003, Consuming Industries Trade Action Coalition Foundation, pp. 5–6.
22. ibid., p. 12
25. ibid., p. 12.
26. See 'Global Steel Market Development', OECD Presentation, 12 September 2002. In Australia, the steel industry has reduced inefficient capacity with several plant closures. The closure in 1999 of the Newcastle steel mill represented a 20 per cent reduction in Australia's steel making capacity.
27. Cliff Stevenson, *Global Trade Protection Report 2002*, Mayer Brown Rowe & Maw, April 2002, pp. 7–9.
28. The steel tariffs were softened in response to the proposed reductions at the meeting. The US International Trade Commission (USITC) delivered its report on the section 201 investigation in December 2001, finding that increased imports of certain steel products were a substantial cause of serious injury to the US steel industry. It recommended a four-year program of tariffs. (See USITC, 'Steel', Investigation No. TA–201–73, Pub. No. 3479, December 2001).
29. 'Steel-producing countries agree to begin subsidy talks', US Mission to the European Union, 19 December 2002.
30. Productivity Commission, *Trade & Assistance Review 2001–02*, Table K.2: Anti-dumping and countervailing cases by industry 1996–97 to 2001–02, December 2002.
31. See Australian Customs Service, 'Consideration of an Application for Dumping Duties: Certain Hot Rolled Structural Sections Exported from the Republic of Korea, The Republic of South Africa and Thailand', November 2001.
32. Australian Customs Service, Statement of Essential Facts No.55, Certain Hot Rolled Structural Sections From The Republic of Korea, The Republic of South Africa and Thailand, 20 March 2002, p. 27.
33. BHP Billiton Limited, *Annual Report 2002*, Combined Financial Statements, p. 20.
34. The mini mill, which began production of flat-rolled steel products in 1997, is a joint venture between BHP Steel and North Star Steel, a subsidiary of Cargill Inc.
35. BHP Steel Limited, 'Half Year Results Presentation Period Ended 31 December 2002', 27 February 2003.
36. A one cent movement in the A$/US$ exchange rate will have a $10 million impact.
37. 'BHP Steel shows its mettle and investors respond', *The Australian Financial Review*, 4 March 2003.
38. The Whyalla Steelworks produces up to 1.2 million tonnes of steel annually. About 55 per cent of the steel is transferred to Market Mills in billet form and the balance is used in the manufacture structural steel, rail products and steel slabs.
39. OneSteel Limited, *Annual Review 2002*, p. 10

40. BHP Steel Limited, 'Half Year Results Presentation Period Ended 31 December 2002', 27 February 2003, p. 6.

41. ibid., p. 6. OneSteel's current large projects include the Alice Springs to Darwin railway, the Comalco Plant, Gladstone, World Square, Sydney and the Seagas pipeline. Proposed projects include the Roma Goods Yard, Brisbane, AMC Magnesium Plant, and the Western Orbital, Sydney.

42. 'Infrastructure boom girds OneSteel', *The Australian Financial Review*, 18 February 2003.

43. BHP Press Release, 'BHP Steel upgrades profit outlook by over 50%', 18 November 2002.

44. On 13 May 2003 in a speech to the Securities Institute Breakfast, BHP Managing Director, Kirby Adams, confirmed that the company was on track to *exceed* a full year net profit of $400 million.