

GENERAL AGREEMENT ON TARIFFS AND TRADE

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ARTICLE XIX - ACTION BY THE UNITED STATES

Stainless and Alloy Tool Steel

The following communication dated 23 June 1976 has been received from the Permanent Mission of the United States.

An Agreement limiting United States imports of specialty steel from Japan was signed on 11 June by Ambassador Frederick B. Dent, President Ford's Special Representative for Trade Negotiations, and His Excellency, Fumihiko Togo, the Ambassador of Japan, in Washington.

Japan has accounted for more than 50 per cent of recent United States imports of specialty steel. The orderly marketing agreement calls for United States imports of these products from Japan to be limited to 66,400 short tons for the twelve-month period from 14 June 1976 to 13 June 1977, with 3 per cent annual increases in each of the two subsequent years. Japan supplied 78,500 tons in 1975, and 30,900 tons in the first four months of 1976.

Following signature of the United States-Japan Agreement, Ambassador Dent announced that the President will proclaim, effective 14 June, three-year restraints on United States imports of specialty steel from other foreign suppliers, pursuant to his previous determination on 16 March 1976 (STR Press Release 220). These actions are based upon a USITC finding that imports are a substantial cause of serious injury to the domestic industry. The USITC proposed five-year quotas as a result of its investigation of an "escape clause" import relief petition filed by the Alloy Tool and Stainless (Specialty) Steel Industry and the United Steelworkers of America, under the Trade Act of 1974.

Quotas imposed are as follows:

The quota for the period 14 June 1976 to 13 June 1977 is 147,000 short tons, comparable to the overall level recommended by the USITC. For the 1977-78 period, the total quota is 151,500 tons, and for 1976-79, 155,900 tons. The relief programme determined by the President provides for immediate reductions in total imports from the 1974, 1975, and first third 1976 levels, over which period they increased markedly. Imports totalled 151,200 tons in 1974, 153,700 tons in 1975, and were running at an

annual rate of 168,900 tons for the first four months of 1976. The 1976-77 quota represents reductions from those levels of 3 per cent, 4 per cent, and 14 per cent, respectively.

Ambassador Dent explained that the programme provides for historical supplier market-shares, growth factors, new-supplier considerations, and authority to allocate specific product coverages and to reallocate shortfalls on a basis which will assure equitable utilization of the quotas. It is non-discriminatory, and takes into account both United States and foreign suppliers' trade interests. The programme was developed following thorough consultations with most exporting countries, including the principal suppliers - Japan, the European Community (EC), Sweden and Canada - and takes into account the concerns of exporting countries. The Agreement with Japan provides for additional consultations, and the United States remains open to consultations with others.

Allocations of the quotas generally are applied to supplier countries on the basis of their proportionate import shares of the United States market over the five-year period 1971-1975. Specific allocations are provided for Japan, the EC, Sweden, Canada, and "all other" suppliers. These quotas will cover five product categories: stainless steel sheet and strip, plate, bar, and rod; and alloy tool steel. Excluded from the quota programme is stainless steel strip imported for use in the manufacture of razor blades. The USITC found that currently this is not being produced domestically. This exclusion thus benefits consumers without jeopardizing effective import relief of injury to the domestic industry.

Under the programme, the EC is allocated an overall quota, covering all nine member States, of 32,000 tons. The Swedish quota is 24,000 tons, Canada, 12,600. The "basket" quota for all other countries as a group is 12,000 tons. Each of these quotas will be increased by an additional 3 per cent in 1978-79.

In announcing the President's action 11 June, Ambassador Dent noted that specialty steel tonnage represents less than 2 per cent of total United States steel imports.

After a review of the USITC findings and recommendations by the cabinet level Trade Policy Committee, the President last March instructed Ambassador Dent to seek orderly marketing agreements with principal supplier nations to remedy injury to the domestic industry in a manner meeting the special concerns of each of the nations affected.

Also in March, the President announced his intention to proclaim by 14 June 1976, import quotas at overall levels comparable to those recommended by the USITC, but not necessarily with respect to specific country or product category

allocations recommended by the Commission, in the event that orderly marketing agreements were not concluded. He also rejected as too inflexible the five-year quota system recommended by the Commission.

The President's March determination further provided that any import restraints imposed may be relaxed or removed at any time prior to June 1979 when he finds - upon the advice of the USITC and the Secretaries of Commerce and Labor - that the domestic industry is regaining a healthy production and employment position.

In order to record and review both the effectiveness of the restraint programme announced 11 June and the economic condition of the domestic industry, a monitoring system will be put into effect immediately. This system will provide current data on production, shipments, employment, man-hours worked, imports, exports, prices, and consumption, collected on a monthly basis and published quarterly. Additional data also will be collected and made public on profits, investment, capacity, inventories and orders.

FACT SHEET ON THE IMPORT RELIEF PROGRAMME FOR SPECIALITY STEEL

The quota levels provided in the Import Relief Programme are as follows:

Period and country	Sheet and strip	Plate	Bar	Rod	Alloy tool steel	Total speciality steel
(in '000 tons)						
14 June 1976- 13 June 1977						
Japan	38.6	5.6	13.0	5.7	3.5	66.4
EC	15.8	2.9	2.5	7.4	3.4	32.0
Sweden	6.7	3.3	1.5	4.0	8.5	24.0
Canada	8.8	0.4	1.5	-	1.9	12.6
All other	2.6	0.7	5.1	-	3.6	12.0
Total	72.5	12.9	23.6	17.1	20.9	147.0
14 June 1977- 13 June 1978						
Japan	38.9	5.9	14.0	5.9	3.7	68.4
EC	16.3	3.0	2.6	7.6	3.5	33.0
Sweden	7.1	3.4	1.5	4.1	8.6	24.7
Canada	8.9	0.5	1.6	-	2.0	13.0
All other	2.8	0.7	5.2	-	3.7	12.4
Total	74.0	13.5	24.9	17.6	21.5	151.5
14 June 1978- 13 June 1979						
Japan	39.8	6.3	14.5	6.0	3.8	70.4
EC	16.6	3.1	2.7	7.9	3.6	33.9
Sweden	7.4	3.6	1.6	4.2	8.7	25.5
Canada	9.2	0.5	1.7	-	2.0	13.4
All other	2.9	0.7	5.3	-	3.8	12.7
Total	75.9	14.2	25.8	18.1	21.9	155.9

In order to ensure that these quotas are fully utilized, apparent shortfalls will be reallocated during the last three months of each period to suppliers who can utilize additional tonnages. Such reallocations will have no effect on quota levels in the following period. As the Japanese quotas are administered under an agreement, any reallocation of shortfalls would be subject to agreement.

The effects of the Import Relief Program with respect to various suppliers are summarized below:

Japan

The quota levels for Japan represent the only cutback from recent levels for any major supplier. Compared with 1975, the total provided for the first year is 15 per cent less (over 12,000 tons) and on the basis of the first quarter of 1976 imports annualized represents a 29 per cent cutback. At the same time, the quota is considerably larger than the USITC's proposed level of approximately 56,200 tons.

The sheet and strip allocation is higher than annual shipments in any of the last four years, and slightly above the 1975 level (but close to a 50 per cent cutback from the 1971 level). In the other four categories, the amounts provided are 20-50 per cent below 1975 levels depending on the category. In all categories, however, the quotas are substantially more favourable to Japan than those calculated on the basis recommended by the USITC.

Additional features of the Japanese agreement provide some flexibility in meeting current market conditions. However, the principal latitude is to increase sheet and strip levels at the expense of the other four categories.

Economic Community

The quota established for the EC represents a special "basket" for the nine member States, in contrast to the USITC's proposal of separate quotas for each country. The benefits of this basket to the EC as a unit are that individual country quotas based on the 1971-75 average or the USITC formula would not reflect the recent large declines in imports from France and gains for Germany and the United Kingdom. Thus on the basis of individual country allocations, French quotas probably would have been artificially high, while German and United Kingdom quotas probably would have been low in terms of current shares of the United States market.

The first year total provided for the EC equals 1971-75 averages in all categories except sheet and strip. A reduction has been made for exclusion of razor blade strip which is exported by the United Kingdom, however, 1,000 tons more than the 1971-75 average.

The first-year level is 11 per cent higher than 1975 for the EC. The USITC would provide 19,600 tons for sheet and strip, more than the EC has ever shipped in one year and well in excess of the 11,000-14,000 levels of the last three years. The quota of 15,800 provides for reasonable growth for the EC in sheet and strip from recent levels, particularly in light of the razor blade strip exclusion. In other categories, the USITC formula and the proclaimed quotas provide similar amounts, with small reductions from recent levels in bar and tool steel.

Sweden

The Swedish quota appears favourable to that country in light of the steady decline in Swedish shipments since 1972, from 27,500 tons to 22,800 tons in 1975. The first-year level represents a 5 per cent increase from the 1975 level (adjusted for razor blade strip exclusion) and more than 40 per cent increase above the annual rate of importation in the first quarter of 1976.

The proclaimed quota amount has the appearance of being less generous than the USITC's recommendation of 26,970 tons but, in fact, may be more favourable to Sweden because of the product distribution recommended by the USITC. Specifically, the USITC would have assigned Sweden more plate than would be likely to be shipped because of an outstanding United States dumping finding, and more sheet and strip than Sweden has ever shipped.

The proclaimed quota is based upon the exclusion of razor blade strip, which is of major interest to Sweden. An appropriate reduction in the sheet and strip and total quotas is made because of the exclusion.

The total quota represents the 1971-75 share for Sweden adjusted to exclude razor blade strip and to take into account the lower level of plate shipments likely to occur as a result of the outstanding United States dumping finding. To avoid a serious shortfall in total tonnage, some of the potential shortfall in plate has been reallocated to the other four categories. The bulk of the tonnage has been added to rod (500 tons) and alloy tool steel (700 tons), both of considerable current trade interest to Sweden.

Canada

The Canadian quota in the first year is based on the 1970-74 average to avoid penalizing Canada for the fact that it suffered a drop in exports to the United States market comparable to the decline in the market in 1975. Because the Canadian and United States markets are integrated and operate in similar fashion, Canadian suppliers were more susceptible to the decline in the United States market than other exporters. The integration of the United States and Canadian market is reflected also in the large United States exports of specialty steel to the Canadian market.

The first-year quota provided to Canada is 3,300 tons higher than the 1975 import level, but only 900 tons higher than the 1971-75 average share and 1,100 less than the 1974 import level. Under the USITC's proposed quota, Canada would have received 2,000 tons more in the first year than is provided for above. In the third year, however, an amount equal to the peak Canadian exports in the last five years will be permitted under the proclaimed quotas.

In terms of product categories, the quota as allocated above is reasonably generous in light of recent trade flows and as compared with the USITC formula (except sheet and strip).

Other countries

At least fifteen other countries have exported specialty steel to the United States in recent years, including several new suppliers. A number of suppliers such as Korea, Finland, Argentina and Mexico expect to bring new capacity on stream during the relief period and had intended to ship large amounts to the United States market. In view of the depressed United States market conditions and the competitive situation, it is uncertain whether these amounts would actually have been shipped.

By using a basket quota for all other suppliers, all small suppliers have an opportunity to obtain market shares on a competitive basis. The size of the basket may be expanded in the event the principal suppliers fall short of quota levels and such shortfalls are reallocated. Traditional suppliers may be broken out of the basket in one or two categories if it appears that their historical levels are seriously threatened.

The basket level is 300 tons above the 1971-75 share, all of which is added to sheet and strip where the largest shortfalls are likely to occur. In other categories, the levels provided are more in line with recent trade patterns.

The basket quota is equal to the amount that would have been available individually to the countries under the USITC system. However, significantly smaller amounts were provided by the USITC in bar and tool steel which are the largest categories historically of interest to these suppliers.

Product categories

With respect to the five basic product categories, the effects of the Import Relief Programme are summarized as follows:

Sheet and strip

The quota provided is 10 per cent higher than 1975 imports but is 15 per cent below the annual rate of importation in the first quarter of 1976. This is the only category in which the quota is significantly higher than the 1975 levels, which is consistent with improving market conditions domestically.

Plate

The quota is 26 per cent below the 1975 peak levels, reflecting the continuing market decline in early 1976 and the likelihood that Sweden could not ship amounts available on the basis of its 1971-75 share.

Bar

A 19 per cent cut from the 1975 peak levels is effected by the quota provided, although a small increase is permitted from first quarter 1976 rates of importation. The bar market is still depressed near 1975 levels.

Rod

A slight increase above 1975 levels is permitted by the quota amount set, but that amount is still 23 per cent below peak imports in 1974. Compared with first quarter 1976, a small cutback would result.

Tool steel

Imports of tool steel are reduced 19 per cent from the 1975 peak, reflecting low demand conditions in the market and the long-term decline in consumption.

The following table provides figures by category on historical trends, USITC quota levels, and import relief levels proclaimed by the President.

AGGREGATE HISTORICAL IMPORT TRENDS, ITC RECOMMENDATIONS, AND RELIEF LEVELS

(Columns listing alloy tool steel and stainless and alloy tool steel - See Note 1 following end of table.)

Year(s)	Stainless steel					Alloy tool steel	Stainless and alloy tool steel
	Sheet and strip	Plate	Bar	Rod	Total		
	(in '000 tons)						
Historical							
1970	88.8	8.3	15.2	13.9	126.2	17.3	143.5
1971	107.2	10.3	16.2	13.4	147.1	12.6	159.7
1972	59.6	17.1	18.5	13.0	108.2	14.8	123.0
1973	44.7	11.3	20.1	16.8	92.9	23.1	116.0
1974	54.9	12.4	27.9	22.1	127.3	23.9	151.2
1975	66.0	17.5	29.2	16.9	129.6	24.2	153.7
1976 (IQANN)	84.8	17.5	23.1	18.1	143.5	23.2	166.7
1971-75 Average	68.5	13.7	22.4	16.4	121.0	19.7	140.7
USITC recommendation							
1976	79.0	13.0	19.6	16.0	127.6	18.4	146.0
1977 (min.)	73.1	11.9	19.6	15.9	120.5	18.4	138.9
Import Relief Programme							
First year	72.5	12.9	23.6	17.1	125.1	20.9	147.0
Second year	74.0	13.5	24.9	17.6	128.8	21.5	151.5
Third year	75.9	14.2	25.8	18.1	133.0	21.9	155.9
	(as per cent of 1975)						
First year	110	74	81	101	97	81	96
Second year	112	77	85	104	99	84	99
Third year	115	81	88	107	103	85	101

Year(s)	Stainless steel					Alloy tool steel	Stainless and alloy tool steel
	Sheet and strip	Plate	Bar	Rod	Total		
	(in '000 tons)						
	(as per cent of peak)						
First year	68	74	81	77	85	81	92
Second year	69	77	85	80	88	84	95
Third year	71	81	88	82	90	85	98
	(as per cent of 1971-75 average)						
First year	106	94	105	104	103	106	104
Second year	108	99	111	107	106	109	108
Third year	111	104	115	110	109	111	111

Note 1 - Historical data do not include the small portion of tool steel in TSUSA items not separately identified before 1 May 1976.

FACT SHEET ON UNITED STATES/JAPANESE SPECIALTY STEEL AGREEMENT

The orderly marketing Agreement on specialty steel between the United States and Japan, in the form of an exchange of notes signed today by Ambassador Dent and Ambassador Togo covers a three-year term beginning 14 June 1976. Major elements of the Agreement are as follows:

- (1) The United States will limit imports of specialty steel from Japan to 66,400 tons, 68,400 tons, and 70,400 tons respectively in the three annual restraint periods of the Agreement.
- (2) Imports in any category will be permitted to exceed the levels established in the Agreement by agreed percentages in each category and year, provided that an equivalent tonnage reduction is made in imports in other categories.

- (3) Carryover of shortfalls is permitted for a thirty-day period of an amount not to exceed 4 per cent of the base level (taking into account any reductions resulting from shifts among categories).
- (4) Provision for prompt consultations on problems arising under the Agreement.
- (5) Provision for termination by either Government with sixty-days' notice.

Additional elements deal with prior notification of restraints, spacing of imports over the year, equitable treatment of Japan vis-à-vis other suppliers, provision for amendment, rights and obligations under the General Agreement on Tariffs and Trade, and the exchange of trade statistics on specialty steel.

