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The U.S. joins the Davignon Plan: a shrunken cartel for world steel

by Leif Johnson

On Jan. 11, 1982 the U.S. International Trade Commission and the U.S. Department of Commerce's Office of Investigations received from the seven largest domestic steel producers 34 cartons of briefs and documents totaling more than 3,000,000 pages. These documents charged seven European nations plus Brazil and South Africa with massive subsidizing and "dumping" of carbon steel products on the United States market, and demanded retaliation from the federal government.

The estimated cost of this paperwork to the steel companies—not counting the processing and evaluation by the ITC and Commerce Department—was $30 to $50 million. This does not include the legal fees of the U.S. Steel Company house lawyers: Eugene L. Stewart, representing Bethlehem Steel; and Cravath, Swaine and Moore representing Republic, Inland, Jones & Laughlin, National, and Cyclops. Adding in similar actions by domestic steel companies since 1977, the total cost to the companies is conservatively estimated at $120 million.

On June 10, the steel companies finally got what they wanted—or most of it: the Department of Commerce issued preliminary judgments against seven of the nine nations, finding them guilty of subsidizing, and imposed countervailing duties or penalties as high as 40 percent, as in the case of British Steel. Even with the lower penalties of 30 percent against the French Sacilor company, 18 percent against the Italian Italsidor, and 20-21 percent against the Belgian Cockerill-Sambre, practically all steel named in the Commerce Department report would be excluded from the U.S. market. We shall see what this entails.

The steel companies were very pleased. A spokesman for U.S. Steel, the largest American producer, said that the preliminary finding was "very good, but not everything we had hoped for." A spokesman for the United Steel Workers union said the union "was tickled pink with the ruling" and now American steel would begin to bounce back from current disastrous production levels. In early June the industry was operating at only 42 percent of capacity.

Although champagne bottles may be popping in steel company boardrooms and the union's leaders may be trumpeting the decisions to their hard-hit members, the truth is that the Commerce Department and the country's steel producers have signed what may be the death sentence for the industry.

The results will be the opposite of what is being advertised. From the labor standpoint, jobs will *not* be protected, because the entire steel sector of the Western world is being placed under a policy of forced contraction. Anyone interested in honestly producing steel also loses: even in the short run, using imports as a scapegoat will barely affect the domestic industry's ability to sell—and in the long run, will only further contribute to the crippling of American steel.

And perhaps the biggest loser of all is the United States as a sovereign nation. The endorsement of the producers' petition is likely to result in a trade war far beyond the bounds of duties on steel products. As we will show, the deck is being cleared for placing American output under the supranational control of an international steel cartel.

The only beneficiaries of the June 10 decision by the Commerce Department are the old anti-industrial oligarchic elite and their U.S. retainers, who have stated their intentions of shoving the United States into a "post-industrial" dark age.

The import scapegoat

Last year the United States imported just under 20 million metric tons (mt) of steel, while total American consumption of steel mill products was 104 million mt. Imports thus accounted for about 19 percent of total U.S. consumption. The Commerce Department rulings cover only 3.9 mt of carbon steel products, a mere 3.75 percent of all U.S. consumption. Even if every ounce of the steel covered by the ruling were to be completely excluded from the U.S. market, the early June capacity-operating rate of the U.S. steel industry would only move from 42.5 percent to 47 percent.

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By the very nature of the rulings, it is impossible to expect that the entire 3.9 mt of "unfair" imports will be excluded. For example, although structural, plate, and hot-rolled sheet and strip steel from Belgium's Cockerill-Sambre was hit by a 20-21 percent penalty, plate and hot-rolled sheet and strip from three other Belgian producers was assessed only 2 to 6 percent penalties, leaving their selling price FOB still under that of U.S. producers' list price and possibly even below their discount prices.

Similarly, eight German producers received penalties, but six of them were for less than 1 percent. Even the most penalized company, Stahlwerke Rochling-Burbach GmbH, at 8.6 percent, is expected to be able to sell in the U.S. market at $40-$60 a ton less than domestic discount price in the United States. Thus, total excluded steel may amount to no more than 2.5 mt, which, if not replaced by other exports, would boost U.S. production by less than 3 percent.

Furthermore, this assumes that the American steel buyers do not switch to other foreign suppliers. The Commerce findings do not cover 80 percent of all imports, and many countries—including Canada, West Germany, Korea, and Taiwan—are presently bidding to fill the orders lost by Italy, Britain, and France. Canada alone could fill the orders, thus nullifying the entire effort of the steel companies.

What do the companies really want?

Since the seven U.S. producers certainly knew that even if the Commerce rulings granted most of their petition—which it did—they would not be much better off than before, the question remains what the companies are actually up to. Even their claim that a successful conclusion of the suits (and only the subsidization portion, not the dumping charges, has been determined) will allow domestic producers to halt the discounting of prices is untrue. Since buyers will turn to other foreign suppliers, given the existing price advantage, domestic producers will be forced to continue heavy discounting.

The steel-company actions, confirmed by Commerce, have unleashed two major processes: an evolving trade war with the European Community (EC), and a rapid movement toward a world steel cartel based on huge cutbacks in every nation's steel production. Whether a trade war with our European allies is intended, there can be no question that Commerce and the companies *had to have known that their actions would create exactly such a potential.* On the question of a world steel cartel, there is no doubt that they want such an outcome.

The steel companies took action under Section 701 of the 1930 Tariff Act, which declares that export subsidies are unfair trade and subject to penalties. The 1930 law, known as the Smoot-Hawley Tariff, is justly blamed for ruining U.S. exports, provoking international trade war, and helping plunge the world into the first Great Depression. The June 10 Commerce Department ruling marks the first time the steel companies and the Commerce Department have pursued the legal remedies under this act to their conclusion: previous action under Smoot-Hawley, including the mammoth 1977 filing, resulted in negotiated solutions with the authorities of affected nations.

Investment deemed 'unfair'

More remarkable than the use of the Smoot-Hawley Tariff and the conspicuous unwillingness by the Commerce Department to negotiate the dispute with America's European allies is the logic of the Commerce Department findings under the law. The steel-company action did not attack export subsidies, but rather claimed that government investment in steel industries of the various nations constituted a de facto subsidy to losing companies rather than bona fide investment, and therefore should be regarded as an export subsidy, even if it was not called such. This leap in logic, grossly stretching the wording of the 1930 Tariff Act and going entirely beyond the language of the GATT agreements to which all parties are signatories, leaves the United States open to widespread retaliation—if EC members or other countries choose to do so.

For example, all federal loans to U.S. farmers, from the Commodity Credit Corporation to the Farmer Home Mortgage Administration, down through numerous agricultural support programs, could, by the logic of the steel case, be judged export subsidies and in violation of fair trade practices. So too could the U.S. aircraft industry, which depends on the foreign market for half its sales. Indeed, any company that receives government funds, including labor training or tax breaks, could be classified as subsidized and become a target of retaliation.

U.S. agriculture is the most immediate potential victim of a European backlash. As one steel analyst pointed out, even if the Europeans do not suddenly "discover" that U.S. agriculture is subsidized, they may impose an internal European tax on processing of American agricultural raw materials. "If, for example, they pass a tax on soybean refining and production of margarine, sales of U.S. soybeans to Europe will plummet, and the Europeans will be more predisposed to consume their oversupply of butter. For a long time, the Department of Agriculture has held such an internal tax to be a de facto trade barrier, but this time the Europeans could actually go through with it. They could also retaliate on textiles."

This kind of trade war would accelerate the "Fortress America" plan of the European financial oligarchs, represented by the Swiss-based Bank for International

Settlements, (and by U.S. Ambassador to West Germany Arthur Burns).

This Malthusian elite intends to reverse population growth, scientific momentum, and nationalist commitments. The "Fortress America" plan is designed to pervert nationalism, wreck international trade and force the United States into economic autarchy, as was Germany in the early 1930s, with similar political consequences.

The Europeans are aware that they were the sole targets of the U.S. steel company suit. By the logic used, every other steel exporting nation could have been found to be "subsidizing" its steel exports.

Cutting output in half

Trade war is not inconsistent with the second intended result of the steel companies' action. U.S. producers want to halve production of domestic steel over the next four years, with all companies but two—Bethlehem and Inland—diversifying into other areas usually defined as the "post-industrial sector." Bethlehem and Inland themselves will curtail operations—Bethlehem has cut its workforce from 115,000 to 78,000 and expects the final employment to be as low as 60,000, or about half the 1978 level.

In the rest of the sector—particularly U.S. Steel, which now receives only 8 percent of its revenues from steel production—the move into non-industrial areas is being accelerated. Retirement of senior U.S. Steel management over the past two years, particularly in the company's financial department, has been wholesale, clearing the way for incoming business-school graduates who know little of steel production and care less. U.S. Steel's current scramble to sell properties to raise cash has nothing to do with the liquidation of debts incurred in the takeover of Marathon Oil in January, contrary to press reports. The company is scrounging cash for the next leap out of steel, which means, quite ironically, that if the steel union gives wage and work rule concessions to the industry, it will hasten the permanent loss of their members' jobs.

In the eyes of one strategist involved in the "rationalization," the fact that the companies cannot promise some form of permanent employment, even at reduced levels, as the auto companies have, makes labor negotiations difficult. The union will have nothing to hold out to its members; yet, according to this planner, the unions will do nothing to prevent rationalization.

Rationalizing the U.S. steel industry—if not blocked by political forces who refuse to tolerate the disappearance of American industry—will occur in two phases. The first is a fast four-year shutdown based on a continuation of the present depression. Steel capacity and employment would be chopped by 25 percent—taking account of a possible minor recovery in production and employment from present levels in the beginning of 1983. The second stage, occurring over the remainder of the decade, is the phase-out of most integrated steel production, except for parts of Sparrows Point, some Chicago-area capacity like Burns Harbor, and the buildup of mini-mills producing mainly specialty steels from scrap and employing non-union labor at 50 percent of current union wages.

Plants scheduled for shutdown or for early closing include Lackawanna Fairfield (already shut), Braddock, Edgar Thomson, Weirton (to be shut even if the employees "purchase" it), Crucible (closed), River Rouge, Geneva, Homestead, and parts of Southworks. Three companies, McClouth, Kaiser, and Wheeling Pittsburgh, are expected to dissolve in bankruptcy (see *EIR*, July 6).

What cartelization means

What must be emphasized is that none of these U.S. rationalization plans could be carried out unless there were consent from foreign steel makers. Not only is consent required to reduce world steel production, but also to allow the demand for steel to rise, which would, in turn, tend to increase steel production. The Jan. 11 steel suit and the Commerce Department findings are designed to force the Europeans into a world steel cartel based on cutting industrial-sector steel production by half.

American cartel planners are convinced on very good evidence that Japan will accept any terms dictated by the United States. "They would accept even a drastic cutback on the basis that half a loaf is better than none. The problem is the Europeans. Not the companies, but the governments who insist that their nation should have a steel industry."

The European nations have a well-known tradition of supporting their steel industries as the basis of their industrial growth. This tradition was strengthened after World War II when the Allies, led by the British and using America's huge production capacity, attempted to suppress the rebuilding of German, Italian, and Japanese steel. By 1960, the world steel policy of the British changed to using the growing German, Japanese, and the lesser capacities of other European nations against the American steel industry.

Now the supranational steel policy of the British and their allies in the Organization for Economic Cooperation and Development (OECD), the controlling body of NATO run by the European anti-industrialist financiers, is to dismantle steel production in all industrial countries, substituting some of the lost production with imports from the Newly Industrializing Countries (NICs).

This policy was described in the 1981 volume pub-

Courtesy of Inland Steel

Sheet steel imports from West Germany: not the problem for the United States.

lished by the New York Council on Foreign Relations (CFR) entitled, *The Reform of Global Economic Organizations: Collective Management.* The CFR argues that "management" of world industry and trade must come under control of such institutions as the World Bank and International Monetary Fund, both subsidiaries of the United Nations.

"It seems safe to predict that in the decades ahead there will be important changes in the global location of industry. There will be . . . a dramatic increase in manufacturing in the LDCs by the year 2000. And there will be the actual pressure of increasing exports from the LDCs as they industrialize," says the Council on Foreign Relations.

This will cause distress in the industrial nations, but "it is important to try to reach a more widespread understanding of the efficiency benefits all can derive from structural change. . . ." In the euphemisms of the CFR, a "more widespread understanding" means the creation of cartels governed by the OECD, World Bank, or IMF; "structural change" is the process of de-industrialization of the advanced countries.

It was Gianni Agnelli, a leader of the Italian branch of the European financial oligarchy, who delivered the call for the creation of a world steel cartel at the International Iron and Steel Institute meeting in Rome in 1978. He told the assembled steel executives that integrated steel-making (in mills that combine every process from reduction of the iron ore to finished steel products) would be phased out in the industrial nations, and that the "Newly Industrialized Countries" would become exporters to the so-called advanced sector in a drastically reduced world market.

Assembling the puzzle

What have the steel company suit and the Commerce

Department findings to do with the creation of a steel cartel?

In 1977 Viscount Etienne Davignon, a senior representative of the feudal financiers for whom Agnelli speaks, became a commissioner of the European Community's Industrial Commission. Davignon developed a new approach to curbing Europe's industrial growth.

In contrast to the 1970 Memorandum of Industrial Policy drafted by Guido Colonna de Paliano, a member of the Colonna oligarchic banking family which traces its ancestral fortune to the Roman Empire, Davignon realized that the nations of Europe were not willing to give up industrial sovereignty to the supranational European Commission.

Davignon proposed that the nations would only do so in industries that were "distressed," such as textiles, shipbuilding, and steel. He began to establish cartel arrangements—monitoring of the steel market, investment clearance procedures for the European Community, mandatory minimum prices for reinforcing-bars, voluntary reference prices for six other products, and voluntary production quotas for individual firms. Then the Viscount sponsored negotiations with the major non-EC steel exporting countries to maintain 1976 import levels. That move was coordinated with the U.S. steel companies and the Carter administration. It resulted in a similar agreement between the United States and Japan in 1978, and in other import barriers, like the trigger-price mechanism.

Thus, while the American steel companies told the public and the steelworkers that the actions initiated against foreign producers were taken to protect domestic steel production, in fact the companies were using the general collapse of the world economy, sparked by the Kissinger oil hoax of 1973, to enforce the halving of steel production in the advanced economies of Europe, the United States, and Japan. The next major ratchet: October 1979 imposition of the U.S. Federal Reserve's insane interest rates. After one year of Volcker's rates, European steel was producing at only 55 percent of capacity; present utilization of shrunken capacity is 42 percent.

The Davignon Plan takes effect

On the U.S. side of the developing world cartel—a world Davignon Plan—the steel companies used whatever relief they obtained from import curbs to continue to diversify out of steel into energy companies, insurance, banking, and related financial operations. The important move of that period was the U.S. Steel decision to cancel its plans for building the 5-million-ton advanced technology integrated steel plant in Canneaut, Ohio.

In Europe, Davignon began accepting the subsidization of steel companies on the condition that the European nations agree to curb production. By late 1980, the European steel market was in sufficient disarray for Viscount Davignon to invoke Article 58 of the European Coal and Steel Community, declaring a "manifest crisis," which put into effect production quotas, minimum prices, and import controls, and large fines against companies which violated the restrictions. The system worked poorly. It was replaced in June 1981 and renewed again this year, making 75 percent of European steel subject to quotas and strict price discipline.

The U.S. Commerce Department's preliminary decision on subsidization was intended to enforce the Davignon Plan decisions of 1981 and 1982. The Commerce Department found little or no subsidization against Germany and the Netherlands, the two nations that had strenuously objected to production quotas while at the same time also objecting to subsidies to domestic industries. In 1981, Germany succeeded in passing a phase-out of EC subsidies by 1985. Davignon threw in a $200 million subsidy for the early retirement of steel workers.

Thus the only lasting effect of the 3 million pages of filings by the U.S. steel companies with the Commerce Department will be to enlarge the supranational control of European steel production, and to hasten the shutdown of European mills, preparatory to formalization of a full-blown Davignon-controlled world steel cartel.

The British were ecstatic over the Commerce Department ruling. The London *Financial Times* editorialized that now was the time to end all European subsidies and effect the kind of rationalization that Britain and Davignon had long advocated. The Thatcher government dispatched Trade Minister Peter Rees to last month's European Community foreign ministers' meeting to argue for a "unified EC position toward the U.S. steel trade actions."

British Steel Corporation also demanded a unified European position that would preclude rate-cutting and enhance a cartel agreement, first among the Europeans, then with the United States.

The British demands to the EC were part of the diplomacy the British consider themselves so clever at. Because British Steel was found to have the highest subsidization—just over 40 percent—they were thus in the best position to demand that the Europeans move quickly to reach an accord with the United States, the very cartel they had wanted from the outset.

Of course, protests against the Commerce Department ruling were in order. The June 16 London *Guardian* reported that "Trade Secretary Lord Cockfield yesterday called the U.S. Ambassador, Mr. John Louis, to the Department of Industry and asked him to relay to the U.S. government the British reaction to the findings of the Department of Commerce. . . . He said U.S. action could jeopardize the restructuring of BSC

[British Steel Corporation]." The last was a bit of British humor. No one could have jeopardized British Steel more than the policy of the British government, which made this corporation less than half as efficient as even the obsolete American producers.

The British gloated over another effect of the Commerce ruling. Coming just before the European finance ministers meeting, it caused harsh feeling against the United States, with rumblings of trade war between the Atlantic partners. At the finance ministers' meeting, Belgian Prime Minister Wilfried Martens thundered that "We were apparently misled by the constructive climate at Versailles [the early-June summit]." The Belgian foreign minister, Leo Tindemans, announced that "It seems the world's two biggest trading units are taking stands heading toward a conflict." The possibility was raised of challenging U.S. federal tax advantages for U.S. companies in foreign trade.

Why should American steel companies aid the creation of a world steel cartel run by a supranational organization? Because the American steel industry is itself a cartel dominated by the Morgan banking group which in turn is a U.S. front organization for British and European financiers. The steel cartel has existed since the great trustification in the United States in the late 1880s and early 1900s.

For example, Republic Steel was created in the trustification of 42 steel producers and as many ore and coal properties by August Belmont, the American financial front man for the European Rothschilds. So was American Bridge, which was later transferred to U.S. Steel, the trust created by J. P. Morgan, the Meyers, and the Moores. The Morgans also controlled Bethlehem Steel, and have a board member on the company to this day, as they do on the U.S. Steel board. The Moores, together with the Hannas, Gilberts, Humphreys, the Swiss Batelle family, and the Mellons, created the other companies, including Inland, Wheeling-Pittsburgh, Armco, and National.

Eighty years later, the same financial group controls both American steel production through ownership and European production through the policy-making powers of the European Coal and Steel Community and the European Council.

The shutdown of steel and other industries is accelerating now because political conditions are considered favorable. The prolonged steel crisis by the oil hoax and the Volcker depression have convinced those in America and Europe who would have fought the destruction of industrial capacity that sharp production declines are inevitable. Convinced that "market forces" necessitated the cutbacks, the unions and steel company management on both continents, as well as European governments, have halted effective opposition to a world-wide Davignon Plan.

Currency Rates