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World Trade by Laurent Murawiec

Steel consumers next in line

The revised trigger price means trouble for American industry and European steel.

The Carter administration's steel industry revival program, unveiled at a Sept. 30 press conference, is likely to be of little benefit to the industry. But the program could be a major blow to steel-consuming industries, such as auto and machinery, which will experience sharp price increases as a result of the reinstitution of the trigger pricing mechanism for steel imports.

The key components of the Carter plan are: 1) A proposed amendment to the Clean Air Act allowing the Environmental Protection Agency (EPA) to extend deadlines for meeting pollution control standards for up to three years on a case-by-case basis. To qualify, a steel producer would have to show that the money saved would be used for modernization. Steel industry sources say that this is not much of a change from current EPA policy. 2) Tax breaks, including a 40 percent liberalization of depreciation schedules, an extra 10 percent credit for investment in depressed areas, and refundability of investment tax credits to companies which are not making profits. These tax cuts were already proposed by Carter as part of his August "reindustrialization" message and apply to all industry.

The steel industry requires at least $5 billion a year to replace its obsolete plant and equipment. The $150 million a year which they are likely to gain as a result of the proposed liberalization depreciation is a drop in the bucket.

The most important feature of the Carter plan is 3) the reinstatement of the trigger pricing mechanism, which establishes floor prices for imported steel. The system was suspended last March when the U.S. Steel Corporation filed an anti-dumping suit against European producers.

Trigger prices will be raised by 12 percent in exchange for U.S. Steel's dropping of this suit.

The reinstatement of trigger prices may reduce steel imports in the short run. The main effect of the program, however, will be to permit U.S. companies to raise their prices—by as much as 25 percent, according to some specialists. Japanese and other foreign steel companies are able to produce steel much more cheaply than the major American firms because they have invested in new facilities employing the most advanced technologies.

In the view of Joseph Wyman, a steel analyst with Shearson Loeb Rhoades, the trigger pricing system will merely "displace the import problem from steel to auto" and to other steel-consuming industries. Using the Japanese steelmaker Nippon Steel as an example, Wyman noted that Nippon Steel would gladly sell steel to Ford Motor Company at the higher prices mandated by the trigger price mechanism but it would sell to Toyota at Japanese prices. Can Ford then compete with Toyota? The next area in which Japan will pose a challenge to American industry, he predicted, will be machine tools and other types of sophisticated machinery. Japanese firms' investment strategy for the 1980s deemphasizes direct steel exports—since these have evoked a protectionist response and have also faced competition from producers in the newly industrialized countries—in favor of steel exports in the form of high-technology capital goods.

The reestablishment of trigger pricing has come at an inauspicious moment for European producers, many of whom have serious obsolescence problems, though not on the scale of the United States. In recent years, European Community (EC) exports to this country have been surpassed by exports from Canada and other (largely South Korean, Taiwan, and other Third World) producers employing more modern plants.

Meanwhile, the recession has unleashed a pricing war among European steel producers, which the *Financial Times* estimates will yield a collective 1980 loss for the industry of between $3 to $5 billion and could result in layoffs of 15 to 20 percent of the industry's 655,000 workforce. Viscount Étienne Davignon, the EC's Industry Commissioner, is attempting to convince the leading industrialists to agree to a 13 percent production cutback in the fourth quarter. West German and Italian producers have rejected this, however. As a result, Davignon is threatening to declare a state of "manifest crisis," in which he could impose mandatory production quotas and controls on prices and imports. Davignon has been urging European steelmakers to scrap so-called excess capacity for many years.

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