CHAPTER IX

PROFILE OF THE IRON AND STEEL INDUSTRIES OF JAPAN AND THE UNITED STATES IN THE 1980's

9.1 INTRODUCTION:

After having examined the impacts of modern technology, energy procurement and consumption, labour-management co-operation and participation and the government-industry co-operation, on the steel industries of Japan and the United States for a period from the Second World War to the beginning of 1980, it is considered appropriate and timely to present the status of these industries in the 1980’s before drawing the final conclusions of this study. From the late 1970’s to the present day, the U.S. steel industry, off end on, raised the issue of dumping by foreign steel producers into the U.S. market. Since Japan is the major exporter of steel to the United States, it is appropriate to verify if Japan was involved in the alleged dumping. Therefore, an attempt has been made in this chapter to highlight the most important developments of these steel industries in the 1980’s and also to examine the veracity of the allegations of dumping.
9.2 THE UNITED STATES STEEL INDUSTRY:

In spite of the different protectionist measures such as the Voluntary Quotas and the Trigger Price Mechanism adopted by the government, the U.S. steel industry continued to face the problems in the 1980's. The condition of the industry got worse in the 1990's when Bethlehem Steel, U.S. Steel, LTV Steel and other steel companies registered record losses. Already some smaller steel firms went into bankruptcy. By the middle of 1996, LTV, the number two steel producer declared bankruptcy. There are other companies on the verge of bankruptcy.

In addition to the long standing problems, the steel industry was severely affected by the economic recession of the early 1980's. On account of the closure of plants the total capacity came down to around 130 million tons in 1986 from an average of 150 million tons during the 1970's. The relatively low consumption of steel during the 1980's forced the steel industry to utilize about 60 per cent of its rated capacity during this period. In the mean time, the imports averaged 22 per cent of the apparent supply of iron and steel products in the United States for the years from 1981 to 1985. The inability of the domestic producers to meet foreign competition resulted
in the upsurge of steel imports. The Department of Commerce came to the rescue of the steel industry by extracting some agreements from the European and Japanese steel producers in limiting their steel shipments to the United States.

What happened over the past decade and continues to happen even now to the U.S. steel industry is an unhealthy trend which can adversely affect the economic growth and the defense capability of the country. The country is increasingly becoming dependent on the external sources of supply of finished goods as well as some of the rare raw materials that the U.S. industries require to manufacture their output.

9.2.1 **DEFINING:**

Over the last twenty years, the U.S. steel industry had been complaining that the accelerated liquidation of the U.S. steel industry was caused by the large volume of dumped and subsidized steel imports in violation of the trade laws and international agreements and the failure of the U.S. government to enforce these laws. Since several factors contribute to the determination of dumping, the steel industry was unable to prove the precise nature and the extent of dumping by the major foreign steel producers. Nonetheless, it is true that the foreign
penetration into the domestic market has been steadily on the rise since 1959. The labour strike that lasted 116 days in 1959 was the starting point of the import penetration into the United States. After experiencing the vast potential of the American market, the foreign producers kept on increasing their share of the U.S. market. The U.S. steel industry estimates that the current share of the domestic market for imports is about 22 to 25 per cent.

The U.S. steel industry made a number of complaints against dumping of steel products by foreign companies. But since the U.S. government was not convinced of the seriousness of the problem, they did not act with the seriousness the problem demanded in the 1960's. However, persistent complaints and pressure by the industry at different government levels at last prompted the government to establish a Voluntary Restraint Agreement from several European and the Japanese steel producers. But this was not adequate to provide necessary protection to the home steel industry. Throughout the 1960's the steel industry deteriorated with more plant closings and layoffs. Since the condition of steel industry was getting worse, the Congress enacted the Tariff Act of 1974 by which some import relief was
promised provided the industry could prove that they are badly hurt by the imports. Then in 1976, some kind of quota system on import of foreign steel was imposed by the government. In 1977, President Carter appointed a commission to investigate the complaint and make suitable recommendations for the solution of the problem and the outcome was, that is later known as the Trigger Price Mechanism (TPM). Under the TPM, if foreign producers were found selling steel below the price fixed by the TPM, they are subject to penalty. Despite these protectionist measures, the problems of the domestic steel industry could not be solved.

9.2.2. NEW SOURCES OF IMPORT:

Currently, the U.S. steel industry is concerned about the surge of imports coming from "all other countries", who are outside the three traditional supply regions, namely, EEC, Japan and Canada. The trend as shown in table 9.1 below seems to indicate an altogether new problem for the already ailing steel industry.

Each source - the EEC, Japan, Canada and "all other" - has captured a substantially larger market share since the first half of 1985. All time record import tonnage was recorded in
### Table 9.1

**Import Sources by Region**

(Millions of Tonnes at Annual Rate)

<table>
<thead>
<tr>
<th>Year</th>
<th>BBC (10)</th>
<th>Japan</th>
<th>Canada</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979-80</td>
<td>5.3</td>
<td>6.2</td>
<td>2.5</td>
<td>3.6</td>
<td>17.6</td>
</tr>
<tr>
<td>1981</td>
<td>5.6</td>
<td>5.2</td>
<td>1.8</td>
<td>4.0</td>
<td>16.7</td>
</tr>
<tr>
<td>1982</td>
<td>4.1</td>
<td>4.2</td>
<td>2.4</td>
<td>6.3</td>
<td>17.1</td>
</tr>
<tr>
<td>1983</td>
<td>3.6</td>
<td>3.5</td>
<td>2.2</td>
<td>5.1</td>
<td>14.4</td>
</tr>
<tr>
<td>1984</td>
<td>4.7</td>
<td>5.0</td>
<td>2.5</td>
<td>7.5</td>
<td>19.8</td>
</tr>
<tr>
<td>4 months</td>
<td>5.6</td>
<td>6.7</td>
<td>3.4</td>
<td>10.3</td>
<td>26.1</td>
</tr>
</tbody>
</table>

**Source:** Bethlehem Review, Public Affairs Department, Bethlehem Steel Corporation, June, 1984, p.2

1984 from Mexico, Argentina and Sweden. The import surge from Brazil, South Korea, Mexico, Taiwan, Argentina and Venezuela is partly due to the changing pattern of the competitive advantage. The steel producing facilities of these countries are relatively much more modern, and owing to the availability of cheap labour the cost of production of steel in these countries is much lower...
There is also a reason to believe that the steel industries of competing countries receive support from their respective governments in the form of subsidy. Two main considerations seem to have weighed in favour of the governmental support: (i) to increase employment opportunities and (ii) to earn needed foreign exchange. The competitive threat of steel exports is not limited to the United States alone. South Korean steel is becoming a serious threat to the Japanese steel industry, and in no way the European Economic Community is free from such threat. At any rate such developments are a direct threat to the recovery of the U.S. steel industry. Unless the domestic steel industry can make substantial improvements in their operations and reduce the cost considerably without the least delay, the future looks very bleak and gloomy for the U.S. steel industry. These developments in the steel sector have forced the steel leaders to approach the government for immediate actions. Recently, the Reagan administration has imposed the restrictions on steel imports, but it is not clear why steel is barred from mergers while a large number of significant and disturbing horizontal mergers are taking place in some of the major industries. It is generally felt that relaxation
of anti-trust prosecution can lead to a healthy restructuring of ailing steel mills which have long been plagued by financial problems. The government can definitely tie their anti-trust relaxation to conditions such as demanding the steel industry to take adequate steps to meet foreign competition. Such a move will, no doubt, provide an incentive for the steel industry to modernize their plants and equipments. However, trade protection or exemptions from anti-trust prosecution without the binding on the steel producers to be competitive in the immediate future will not bring about any improvement in the existing conditions of the ailing steel industry. In passing, it may be mentioned that the protectionist measures in the past did not bring about the desired improvement. Then where is the guarantee that the new ones will produce the desired result?

9.2.3 GOVERNMENT PROTECTION

In response to the steel industry's request for protection, the Reagan administration which once devoted the free trade policy, has come up with one of the most powerful protectionist measures for the U.S. steel industry. The administration has established a set of most stringent restrictions that covers the
steel producers of Europe, Japan and the developing countries. It is a steel import quota system which prevents the imports to grow more rapidly than the growth of the domestic market. It is hoped that this measure will limit the imports to about 21 per cent to 23 per cent of the U.S. steel market.

Many steel industry analysts believe that this quota system is a temporary measure and it may not afford the protection expected of it because the domestic steel users can circumvent the quota system by using other devices such as buying fabricated steel parts from foreign producers instead of domestic part producers. This protectionist policy is bound to be reflected in the price the American will pay for every item manufactured out of steel. The U.S. consumers will pay higher prices for cars and appliances; and the businesses for the raw material they use to fabricate parts. The congressional Budget Office estimates that the price of steel will rise by 7 per cent over the five years the protectionist policy is expected to last. This policy is estimated to cost the American consumer around $18 billion. Foreign steel producers are not going to be hurt much because of the expected higher prices of steel in the U.S. market and the anticipated increase in the orders for fabricated
parts. In any case, this measure is not going to increase the employment in the U.S. steel industry. On the contrary, it would work the other way round because the domestic steel users will import more cheaper fabricated parts from foreign producers.

9.2.4 EMPLOYMENT COST:

According to the American Iron and Steel Institute, the biggest threat to the U.S. steel industry is the non-competing hourly employment cost which works out around 40 per cent of the total cost of production. The Bureau of Labour Statistics in 1962 reported that, while the American steel workers got $22.20 per hour in wages and benefits, their counterparts in Japan received only $10.15. To be competitive vis-a-vis the rest of the world, the labour cost must be reduced substantially.

But after the desire to maintain non-strike environment in steel industry after 1959, and the oligopolistic nature of the industry and relative absence of competition from abroad made the industry to take things easy till 1960's. However, soon the conditions in international market changed in such a way as to affect the U.S. steel industry very adversely. By that time the labour costs had risen very high and any attempt to reverse the
trend was met with militant labour threats. In late 1970's and 1980's, the exorbitant wages became a formidable threat to the growth and competitive status of the steel industry. Only recently, the management reversed its traditional stance and demanded considerable wage concessions from the union. In March 1983, the United Steel Workers of America agreed to forgo $1.25 an hour in return for a commitment on the part of the steel companies that the saving will be spent on modernisation of plants and equipments. This contract is estimated to effect the saving of $ 800 million to the steel industry.

Job security versus market security is another vexing problem for the U.S. steel industry. It is desirable to achieve both simultaneously. But the question is: can it be achieved? The past experience indicates that with the closure of numerous plants and for others going bankrupt, the industry cannot honor the job security provisions extracted by the union through strike-pressure-bargaining.

9.2.5 MISCELLANEOUS PROBLEMS:

Capital formation has been and still is a serious problem for the U.S. steel industry. The steel industry is a highly capital intensive industry. It is also a high energy user. The
industry has relatively old production facilities. Modernization has been slow. The implementation of major technological developments requires large amounts of capital and long gestation period to install them. But the industry's saving rate is not in commensurate with the required rate for survival and growth.

As a result of the low capital investments, the replacement cycle of steel facilities over the past twenty years averaged 30 years. The steel industry wants to bring down this rate to 25 years in the 1960's. For achieving this target, they need $6 billion per year for expansion and modernization of the existing capacity and for pollution abatement facilities.

The steel industry estimates that 12.5 per cent of its capacity is over 50 years of age, 20 per cent over 25 years of age, and 33 per cent over 20 years of age. Assuming a 25 year useful life for the capital facilities, at least 20 per cent of the facilities need to be replaced soon. New techniques of production are to be developed to improve energy efficiency, material usage, labour productivity and environmental quality. Unless capital spending increases, little improvement can be expected in these areas.

The Japanese Steel industry began to see a bright future in 1979 after a prolonged recession following the 1973 oil crises. Production and sales improved in 1980 and 1981. However, the condition changed during 1982 and 1983 when its total production fell below 100 million tons. In 1984, crude steel production exceeded the 100 million ton mark. Business took on a stronger tone, due to increase in export price and a roll back of prices for steel making raw materials. In 1984, steel makers made every effort to rationalize their business management and to improve their corporate structures. Priority was given to diversify their business through the development and marketing of chemicals, new materials and products in other promising fields. Equity participation in U.S. Steel mills and the establishment of joint ventures abroad were originated in the 1980's.

In the area of technology, the focus was on higher production efficiency and improved product quality. Research and development programmes were directed toward process technology, equipment and products. Further improvements were made in production control systems by the application of computers and sensors.

The steel industry increased the number of blast furnaces and hot-metal treatment equipment and secondary refining equipment.
Development had gathered momentum in the area of coated steel sheets, such as galvanized sheets. Looking into the 1990's, the Japanese steel producers are preparing to meet the users' needs for a growing multiplicity of steel products, higher grades of steel and the structural changes in both supply and demand that are taking place in the world steel trade.

9.3.4 PRODUCTION:

The Japanese steel industry is undergoing dramatic and fundamental changes. The Japanese economy has weathered through the 1973 and 1980 oil crises with cooperative ease. In the early 1970's, it was expected that the annual output of the steel industry would exceed 200 million tons in the 1980's. But for various reasons, it has not materialized. And it is not expected that it will reach that level of output in the foreseeable future. Now, they are struggling to maintain their production around 100 million tons and to maintain the practice of lifelong employment. Consequently, they have put the most stringent restrictions on quantity expansion. They are now upgrading their products.

In 1984, the Basic Oxygen Furnace produced 76.35 million tons of steel and electric furnace accounts for 29.23 million tons.
making a grand total of 105.58 million tons for the industry. Continuous casting is increasing at an annual rate of 7 per cent. In 1984 continuous casting accounted for 75.8 per cent of the total production of steel.2

9.3.2 EXPORTS:

The Japanese steel industry has already been experiencing some threats in the international markets especially from South Korea and Taiwan. South Korea and Taiwan can produce steel cheaper than Japan because of their low labour cost. Korean steel is becoming a threat in the Japanese domestic market. Japan will be hurt more when some of the less developed countries will begin to produce their own steel. In fact some countries, viz., Brazil, India, Mexico, and Argentina have already entered into the export market and are competing with Japan in the markets where hitherto Japan had been the best source of supply. As domestic production of steel expands in Canada, Spain, Austria, and South Africa, Japan is going to lose hold of these markets also. Secondly, the steel exports to the middle East, South East Asia, Central and South America have declined, but exports to U.S.A. and China are on the increase.
Several factors helped the Japanese steel industry to capture a substantial portion of the U.S. market. Besides being more efficient, the Japanese steel firms are forming close relationships with the U.S. buyers. They have built large networks of steel warehouses and finishing plants in the United States. The small U.S. steel users find that the Japanese are more service oriented and easier to work with. The Japanese also increased their investments in distribution centres or systems. Moreover, the Japanese producers have a bold and forward looking policy aimed at achieving competitive parity with major steel producers of the world.

9.3.3 EMPLOYMENT:

The Japanese Steel Industry has a current production capacity of 130 million tons a year. Due to the decline in domestic and international demand for steel, they are now utilizing less than 60 per cent of their capacity. In this situation they are left with an excess number of permanent employees. Yet, they are unwilling to terminate the lifetime employment pact.

9.4. CONCLUSION:

An examination of the latest condition of the U.S. steel industry reveals that there are a number of persistent problems
within the industry. The industry still claims that its problems are the direct results of imports. Hence the logical solution is to request the government for greater protection. Many steel industry critics believe that the government protection was more destructive than constructive to the steel industry because under the umbrella of protection the urge to become more competitive is much less than without protection. The U.S. steel industry was under some form of government protection from the middle of 1970's to the present. A close examination of the industry record indicates that there was very little improvement in the competitive position of the industry. On the contrary, the closure of number of plants, corporate bankruptcies and consequent losses in production and employment, give the impression that the competitive position of the industry has been declining over the last decade. The import penetration is only a symptom of the internal problems of the industry. The industry must address itself to the serious internal problems such as the excess capacity in outdated plants, poor labour management relationships resulting in high labour cost and poor productivity, and consciously work for the evolution of a comprehensive national policy on basic industries such as steel, and other industries concerned with energy conservation.
The Japanese steel producers on the other hand, are concerned about the excess capacity and the excess number of permanent employees on the rolls. They have adopted several measures to reduce the number of employees without creating any hardship to them. On the production front, they are quick to recognize the structural changes that are taking place in the demand and supply conditions in the world steel market.

Taking the cue from these developments they are steering their production away from the ordinary steel products to speciality products where the international competition is much less. They are already starting to diversify their production into other areas. It is heartening to note that in Japan plans are under way to cope with the challenges of the 1990's end beyond.