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NATIONAL SECURITY AND
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AUGUST 3, 1983



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The Honorable John Heinz
The Honorable Arlen Specter
United States Senate

Subject: Effect of Foreign Steel Purchases by
Domestic Steel Producers (GAO/NSIAD-83-40)

In your letter to the Comptroller General dated March 7, 1983, you asked us to examine the effects of foreign steel purchases by domestic steel producers on steel industry employment. To make this examination, we asked 10 major steel-producing firms to provide us with information about their steel imports during 1980-82, plus any actual or planned purchases in 1983. We obtained data to supplement this information from the International Trade Commission, the Customs Service, and the American Iron and Steel Institute's annual statistical report. In order to answer your request in a timely manner, we could not survey all steel companies; therefore our estimates do not include steel imports by all steel companies. We believe, however, that our estimates approximate the magnitude and impact of such imports.

The amount of estimated steel imports by steel companies was small, especially when expressed as a percent of total imports and domestic production. Although estimated imports by steel producers increased by 300 percent from 1980 to 1982, or from about 209,000 tons to 835,000 tons, these imports comprised only 1.4 percent of total steel imports in 1980 and 5.0 percent in 1982. Furthermore, these estimated imports were 0.2 percent and 1.1 percent of domestic raw steel production, respectively, in these years.

The most significant factor in the increase in steel imports from 1980 to 1982 by steel producers was Kaiser Steel's imports of semifinished steel. These accounted for 48.6 percent of our estimated 1982 imports. Kaiser used these imports to sustain its steel finishing operations after it greatly curtailed steelmaking at its Fontana, California, plant.

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Because estimated steel company imports were relatively small during 1980-82 in relation to domestic steel production, we believe that they had little if any impact on average employment in the steel industry, which declined by 27.4 percent during that period. Other factors, such as the depressed condition of the steel industry had a much more important impact on employment trends in the steel industry.

To accomplish the objectives of our review, we used information reported to us from U.S. Steel, Bethlehem, LTV (Jones and Laughlin), National, Inland, Armco, Republic, Wheeling-Pittsburgh, Kaiser, and Cyclops steel companies. These companies accounted for 75 percent of raw steel production in 1981. All of them voluntarily cooperated with our request for information on the amounts and reasons for their foreign steel purchases. Eight of the companies contacted reported importing some steel. We supplemented and attempted to verify the information received from the steel companies with information on finished steel imports they provided to the International Trade Commission as part of its 1982 injury investigation under the countervailing duty statute. We also attempted to verify our information on semifinished steel imports with import data from the Customs Service. We were unable to do so, however, because steel companies were generally not listed by the Customs Service as the ultimate consignees or importers of record. Therefore, to estimate industry imports, we assumed that all imports of semifinished steel were ultimately purchased by steel companies because they have the necessary finishing facilities to turn semifinished steel into finished products. Our semifinished steel import data was obtained from the American Iron and Steel Institute's annual statistical reports, which are based on Census Bureau data.

Additional information on steel companies' estimated steel imports is in the enclosure. However, the specific numbers are subject to the qualifications enumerated in that enclosure.

As arranged with your office, we plan no further distribution of this report until 5 days from the date it is issued. At that time, we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,



Frank C. Conahan
Director

Enclosure

FOREIGN STEEL PURCHASES BY DOMESTIC
STEEL COMPANIES HAD LITTLE IF ANY
EFFECT ON EMPLOYMENT TRENDS

BACKGROUND

In January 1982, seven U.S. steelmakers filed 94 countervailing duty petitions that alleged material injury by reason of subsidized imports of steel from eight European countries, Brazil and South Africa. The U.S. Government agreed with many of the petitioners' allegations, but before countervailing duties were to be imposed, the United States and the European Community (EC) concluded an import restraint agreement in October 1982 with the concurrence of all major producers in the U.S. steel industry. Under the agreement the EC will limit finished steel shipments to the United States from November 1, 1982, to December 31, 1985, to an average 5.46 percent of the U.S. market for 10 categories of steel. The Secretary of Commerce stated that the restraint agreement "removes one of the most severe trade frictions between the United States and the European Community * * *."

On March 7, 1983, Senators Heinz and Specter wrote to the Comptroller General requesting GAO to investigate the effects of purchases of foreign steel by the domestic steel industry on employment in that industry. The Senators stated that their constituents were speaking out about the irony of an industry which fought an aggressive battle against imports (using, for example, the countervailing duty statute) now turning to foreign products for its own purchases.

The objective of this report was to assess the magnitude of foreign steel purchases by domestic steel companies and to place such purchases within the context of employment trends in the domestic steel industry.

We found that domestic steel companies did indeed import foreign steel during the period covered by our assessment. We believe, however, that the relatively small amounts of such purchases had little, if any, effect on employment trends in the steel industry.

SCOPE AND METHODOLOGY

We believe the import data in this report captures the bulk of steel imports by domestic steel companies. We included all semifinished steel imports into the United States, as well as finished steel imports reported to us by 10 steel companies which represented 75 percent of domestic raw steel production in 1981. We supplemented information regarding finished steel with company-specific data gathered by the International Trade Commission

(ITC) as part of its injury determination in 1982 under the countervailing duty statute. However, there are several qualifications to our data on finished steel imports.

1. Neither the ITC's data nor ours covered all domestic steel producers. We requested information from 10 steel companies, including the 8 largest firms, and 8 of these 10 companies reported some purchases of foreign steel. The ITC requested information from 32 companies, including the 7 largest firms, and 9 of these 32 companies reported some purchases of foreign steel.
2. We were not able to verify or adjust data on imports by U.S. steel producers because the information provided by the Customs Service lists only the importers of record or ultimate consignees, which may not be the ultimate end users. Furthermore, the ITC's data covered only finished steel products which were part of its injury investigation in 1982. Some respondents to the ITC's and our surveys included steel imports by their subsidiaries and/or service centers. Other companies did not include this information. For example, one company maintains over 30 service centers but reported imports to us for only one in 1981. Another company's subsidiaries imported 39,975 tons of finished steel in 1980 and 1981, or 25.6 percent of our total estimated finished steel imports by steel companies for those years.
3. Our data covered a different timeframe than the data provided to the ITC. We asked for import data for 1980 to 1982 as well as any planned or actual imports for 1983. The ITC's data generally covered finished steel imports by steel companies for 1978-81, although some companies included preliminary 1982 data.
4. Two companies provided the value rather than quantity of steel imports to the ITC. The amount totaled \$16.2 million for 1980-82. We did not include this information in our estimates of steel company imports.
5. The ITC's data on finished steel imports by steel companies was not verified for accuracy by ITC's staff. They did not include this data in their report on the results of their injury determinations under the countervailing duty statute.

EMPLOYMENT IN IRON AND STEEL
INDUSTRY DECLINED DURING 1980-82

During 1980-82, the number of employees in the iron and steel industry decreased by about 110,000, or 27 percent. The decrease in employment was greater for wage earners than for salaried employees, as shown in table 1.

Table 1

Average Number of Employees Working
in the Steel and Iron Industries

<u>Average number</u> <u>of employees</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>Percent of changes</u>
Receiving wages	291,483	286,219	198,477	-31.9
Receiving salaries	<u>107,346</u>	<u>104,695</u>	<u>90,960</u>	-15.3
Total	<u>398,829</u>	<u>390,914</u>	<u>289,437</u>	-27.4

Source: American Iron and Steel Institute.

The number of steel and iron industry employees laid off increased substantially between 1981 and 1982. The American Iron and Steel Institute reported that as of December 31, 1981, 76,367 employees had been laid off and 16,388 were working less than full time; at the end of 1982, 166,653 employees had been laid off and 14,000 others were working less than full time. The Institute reported in 1983 that approximately 500,000 employees in supporting industries had lost their jobs as of December 31, 1982, because of the depressed condition of the steel industry in 1982. In that year, domestic raw steel production declined by about 46 million tons from 1981, or 39 percent. Imports of steel mill products also declined in 1982 by 3.2 million tons, or about 16 percent.

The depressed condition of the steel industry was marked by a number of plant closings. As an indication of the impact on employment of such closings, we obtained information from Kaiser Steel concerning its decision during 1981 and 1982 to close its steelmaking facility at Fontana, California. Kaiser Steel reduced its workforce from 9,632 employees at the end of 1981 to 5,000 in 1983.

In 1981, Kaiser began a program of importing relatively small amounts of semifinished steel for finishing at Fontana, and

in 1982 it accelerated these imports. Employment at Fontana became concentrated in steel finishing rather than in steel making. A representative of Kaiser told us that Kaiser will close its finishing facilities by December 1983. Kaiser expects that discontinuation of steelmaking and finishing operations will cause a substantial reduction in that workforce of 2,500.

STEEL COMPANIES IMPORT RELATIVELY
SMALL AMOUNTS OF STEEL

Steel imports by steel companies are a small percent of total domestic imports and production. As shown in table 2, imports by steel companies increased during 1980-82; however, our estimate of these imports comprised no more than 5 percent of annual imports during this period and averaged approximately 3.6 percent of total imports. Steel imports by steel companies averaged 0.7 percent of total domestic raw steel production from 1980 to 1982.

Table 2

Estimated Imports by Selected Steel Companies as a
Percent of Total Steel Imports and Raw Steel Production

	<u>1980</u> (tons)	<u>1981</u> (tons)	<u>1982</u> (tons)
GAO's estimate of imports by steel companies (note a)	209,283	891,386	834,885
Total imports of steel mill products (note b)	15,494,970	19,898,340	16,662,532
	(percent)	(percent)	(percent)
Selected steel companies' imports as percent of total imports	1.4	4.5	5.0
Selected steel companies' imports as percent of domestic raw steel production	0.2	0.7	1.1

^aData based on American Iron and Steel Institute statistics for semifinished steel imports and finished steel totals reported to GAO and ITC by individual steel companies.

^bAccording to the American Iron and Steel Institute.

Most steel imports by steel companies consisted of semi-finished steel. Semifinished steel is defined as steel used primarily as a raw material for other steel products and generally consists of ingots, blooms, billets, and slabs. We assumed that semifinished steel is ultimately imported only by steel companies who can convert it into finished products by further processing. Therefore, we attributed the Institute's totals for semifinished steel to U.S. steel companies.

In 1981 and 1982, semifinished steel imports were significantly higher than 1980 imports, but still represented a relatively small percent of total steel imports. (See table 3.) In 1980 and 1981, one company accounted for 15.2 and 19.5 percent, respectively, of total semifinished steel imports. A further 22.3 percent was imported by another major steel company in 1981. In 1982, Kaiser Steel accounted for 56.7 percent of total semifinished steel imports.

About 52 percent of U.S. semifinished steel imports in 1980-82 came from Canada. Some of this semifinished steel was exported from Canada to the United States for "conversion and return." Partially as a result of a strike in 1981 at Canada's largest steelmaker (Stelco), semifinished steel exports to the United States increased from 102,640 tons in 1980 to 579,267 tons in 1981. In 1982, Canada's exports of semifinished steel to the United States fell to 185,922 tons. During 1980 through 1982, 292,526 tons were exported for conversion and return, mostly in 1981, according to a Stelco official.

Table 3

Semifinished Steel Imports

	<u>1980</u>	<u>1981</u>	<u>1982</u>
Total imports of semi-finished steel in tons (note a)	155,343	790,062	716,588
Semifinished steel imports as percent of total steel imports (note b)	1.0	4.0	4.3

^aAccording to American Iron and Steel Institute.

^bSee table 2 for figures on total steel imports.

Semifinished steel imports for the first quarter of 1983 were 254,318 tons.

Finished steel consists of products which are ready to be sold or consumed in current form, and may only require slight modifications for final use. According to our estimates, steel companies accounted for less than 1 percent of total finished steel imports in 1980-82, as shown in table 4.

Table 4

Finished Steel Imports

	<u>1980</u> (tons)	<u>1981</u> (tons)	<u>1982</u> (tons)
Total imports of finished steel	15,339,627	19,108,278	15,945,944
Finished steel imports by steel companies (note a)	53,940	101,324	118,297
	(percent)	(percent)	(percent)
Finished steel imports by steel companies as percent of total finished steel imports	0.3	0.5	0.7

^aFigures based on finished steel imports reported to GAO and ITC. We adjusted the figures to eliminate duplicate reporting.

Imports by a few companies account for most of the finished steel imports by steel companies. For example, in 1981, one major steel producer imported approximately 55,000 tons of various finished steel products, comprising over 50 percent of our estimates. In 1982, the same company imported about 112,000 tons of finished steel products, accounting for 95 percent of our estimate of finished steel imports.

Some of the 10 steel companies we surveyed gave us such reasons for their steel imports as (1) testing foreign steel companies' products, (2) meeting increased demand for various steel products when domestic steelmaking capacity was fully utilized, (3) meeting increased demand which could not be met due to closed steelmaking facilities or because a particular product was not manufactured by the importing company.

OUR OBSERVATIONS

We believe that steel imports by steel companies had little, if any, impact on employment trends in the steel industry. Such imports are small compared with total steel imports and domestic raw steel production.

Two events accounted for relatively large shares of steel imports by steel companies in 1981 and 1982. Kaiser Steel's imports of semifinished steel for its Fontana facility accounted for 48.6 percent of total steel company imports in 1982. The strike at Stelco increased semifinished steel imports in 1981 when semifinished steel imports from Canada increased by 464 percent. According to an official at Stelco, Canadian firms are continuing to use U.S. plants to finish steel. This steel is then re-exported back to Canada. However, such transactions accounted for a relatively small share of Canadian semifinished steel exports to the United States, except in 1981.