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February 22, 2007

Free trade policies are not working for the U.S.

At the recent international economic conference in Davos, Switzerland, several trade ministers in attendance strongly urged another effort to conclude the so-called Doha Round of international trade negotiations. You will recall from our earlier reports that those talks went from one failure to the next and were finally suspended last summer.

Under our trade laws, the President's ability to reach such a deal will expire on June 30, 2007. If the talks are revived, an extension of that legislative authority will be necessary, and, of course, once that box is opened, all kinds of proposals will be offered in the Congress. No doubt, many of those proposals would weaken existing bulwarks against unfair trade practices in the name of "free trade".

Historically, proponents of free trade have based their case on classical theories of economics that argue that open markets worldwide enhance prosperity in all countries. However, in recent years, many have questioned the validity of that contention. Today, the evidence against unalloyed free trade is striking:

- In 2006, the U.S. ran a record trade (goods and services) deficit of \$763.6 billion, 5.8% of our gross domestic product. This was the *sixth* consecutive year that our trade deficit set a record. Looking only at our trade in goods, the deficit was \$836 billion.
- Between 2000 and 2006, we lost over 3,000,000 manufacturing jobs. Over the ten year period 1997-2006, manufacturing wages increased by 27%, but inflation was up by 26%, thus leaving production workers with insignificant gains. There can be no doubt that imports played an important role in reducing jobs and limiting wages.
- Free trade may be the watchword for globalists, but it is hardly the practice on the ground. For example, China's currency is notoriously undervalued, making their exports to the U.S. unrealistically cheap and ours to them artificially high. China is also famous for ignoring intellectual property rights, even while promising to stop pirating. Recently, the U.S. took action in the World Trade Organization aimed at curbing China's subsidized exports. *In 2006, our trade deficit with China was \$233 billion, almost three times what it was five years ago.*

Given this evidence that free trade policies are not working for the U.S., it is not surprising that many in Congress are using the renewed interest in trade negotiations to offer legislation to address how our trade is actually conducted.

One such bill, S. 364 introduced by Senator Jay Rockefeller, would call for a series of steps to strengthen our trade laws. It would cure a defect that places non-market economies, like China, outside our laws against subsidized imports. It would close loopholes that permit the evasion of our laws against dumping. Finally, it would seek to correct an unfortunate trend in decisions on trade complaints before the World Trade Organization, where the ground rules for that decision-making have been ignored and deciding panels have exceeded their jurisdiction.

In another initiative, House leaders have recently written the President outlining an action plan they ask him to adopt. It would fight foreign barriers to our products by tougher enforcement of U.S. and international trade rules and by pursuing agreements to dismantle trade distorting practices. The plan would also make it easier for U.S. workers to receive benefits and training needed to become more competitive internationally. Congressman Phil English has introduced legislation on the latter point, which would amend existing law to conform to the realities of the dislocations caused by import competition.

A number of industries have gotten behind these efforts, and many have banded together in the Committee to Support U.S. Trade Laws ("CSUSTL"). At the present time, representatives of the steel, copper and brass, rubber, forestry, paper and lumber industries are working through the CSUSTL to back Senator Rockefeller's proposals. Corey Steel is a member of the group in order to make known its long-time opposition to trade distorting practices, which have seriously wounded our country's manufacturing base.

Here are some of the specific data this month:

- Scrap and Pig Iron. Prices for #1 dealer bundles and #1 busheling continued to climb last month, to \$295 and \$305 per mt, respectively. In the last three months, the prices for both have increased over 35%. The spot price for Brazilian pig iron (New Orleans) also was up, to \$345. That price has increased over 20% in the last two months.
- Natural Gas. The Nymex price for natural gas jumped up by \$1.22 to \$7.47 per mcf. Cold weather probably caused a good deal of that spike.
- Exchange Rates. The dollar lost ground against the euro, which is now over \$1.31, but it gained a couple of cents against the pound, which is now worth \$1.95. The Canadian dollar was essentially unchanged at 85¢.

- Steel Production. In 2006, world steel production topped one billion mt for the second straight year. China produced 419 million mt, an increase of almost 18% over last year. Japan was number 2 with 116 million mt of production, followed by the U.S. with 98.5 million mt.

We are always anxious to hear from you, so please give us your comments and suggestions. As usual, we are posting this letter on our web site, www.coreysteel.com and on the international site, www.steelonthenet.com.