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## **International Trade - - Some New Thinking**

A recent cartoon in the Boston Globe shows four economists sitting around a table. One of them says that new data has caused him to rethink his position on globalization. “What data?” he is asked. “The pay scale of economists in India.” While hardly a knee slapper, the joke illustrates an important fact about international trade – where you stand on an issue depends on where you sit.

For example, many have applauded our trade pattern with China, noting that it brings cheaper prices to Americans and dampens inflation to boot. Initially, the main downside to this advantage was thought to be the plight of American workers and businesses that lose their jobs and profits to imports. Free traders tended to shuck off that problem as the inevitable consequence of efficient international trade, one offset by overall gains to the economy.

More recently, other interests have come to question just what are we doing with our China trade. Financial experts question the wisdom of a system where we borrow from China to finance our purchase of its exports. As a result, China’s foreign exchange reserves now total well over \$1,000,000,000,000, the great preponderance of which are in U.S. dollar denominated obligations. This number has grown so large that many fear that China can now easily influence our economic health by shifting its assets from dollars to other currencies. Whatever the risk of such a development, the possibility sits as an overhang to all U.S. – China policy issues.

Environmentalists also wonder about our China trade policy. China’s galloping industrialization, a great deal of which is devoted to the export market, will be a huge obstacle to making progress on global warming. While we in the U.S. are now the largest generators of carbon dioxide, we shall soon be losing that “honor” to China. Will our efforts to reduce pollution at home be undermined by our appetite for Chinese products?

These kinds of questions have caused a rethinking of American international trade policies. As we previously reported, the Doha Round of multilateral negotiations ran aground as meeting after meeting yielded no progress.

Recent efforts to extend the legal deadline for reaching a deal now look problematic, as more and more in Congress question the axioms of free trade. However, even if the talks regain viability, the rules of the game have changed. The Congress is likely to demand that other countries live by the rules, including international standards setting standards for the environment and the rights of labor.

As domestic producers of steel products, our stand on trade is absolutely colored by where we sit – as targets for over 35 years of foreign producers selling dumped or subsidized cold finished bar in the U.S. Since the early 1970s, foreign suppliers have more than tripled their share of our market, about half of the domestic producers have disappeared, and many of the remaining companies are not earning enough to replace their plant and equipment. Ominously, credible projections suggest that the future holds even more displacement of American producers.

Even so, we remain in favor of markets open to fair international competition. What we oppose is adhering to the outmoded idea that our country is so invincible, so dominating, that we can ignore our own workers and industries in reaching trade deals. Our negotiators and lawmakers must come to terms with unfair trade practices, domestic manufacturers abandoning the U.S. and the competitive inequalities now burdening American manufacturers. Otherwise, political support for trade agreements, bilateral and multilateral, will disappear, along with the livelihoods of a good many of our countrymen.

Here are some specifics for this month:

- Scrap and Pig Iron. Scrap prices eased off a bit last month. Number 1 dealer bundles declined from \$363 to \$335 per mt and #1 busheling (Chicago) dropped from \$370 to \$340. These prices are still high by recent historic standards, and at least one steel producer has reintroduced scrap surcharges. Pig iron prices remained level, with the spot price for the Brazilian product (cif New Orleans) at \$375 per mt.
- Natural Gas. The Nymex contract price was up a bit, at \$7.61 per mcf, an increase of twenty-five cents. Since March 2006, the price has bounced up and down within a range of about two dollars, with the present price at the top of that range.

- Exchange Rates. The dollar weakened significantly this last month. As of this writing, the euro was at \$1.36, up four cents from March, and the pound was at \$2.00, up six cents. The Canadian dollar has shed some recent weakness and now stands at 89¢, or four cents above last month's value.

As always, we are interested in your comments and suggestions. This letter will be posted on our website, [www.coreysteel.com](http://www.coreysteel.com) and on the international site [www.steelonthenet.com](http://www.steelonthenet.com).