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TRADE TALKS COLLAPSE - - HERE WE GO, BUT WHERE?

Last month, we wrote about the collapse of the talks on a new international trade agreement, labeled the “Doha Round” after the city in Qatar where the negotiations started. The parties reached an impasse on July 24, but shortly thereafter, United States Trade Representative Susan Schwab stated that, “The spirit of Doha lives even if a formal agreement eludes us at this time.” She then embarked on a series of visits to important trading countries to seek new understandings.

Some have asked how the talks could be dead, when the chief negotiator for the U.S. is still beating the bushes. The answer lies in a provision of our trade laws, called the “fast track” authority. This provision means that Schwab’s discussions are not likely to lead to any agreement in the near future.

Ordinarily, the Congress has full freedom to require changes in the provisions of proposed executive agreements (like our trade agreements) submitted by the President for implementing legislation. If the Congress doesn’t like a particular provision, it can modify or eliminate it in the required legislation. (Treaties, which are sent only to the Senate, can be subject to “reservations” to ratification, which place limitations on U.S. acceptance of particular provisions.)

The fast track provision curbs these normal powers of Congress to amend with respect to specified trade agreements. In effect, fast track binds the Congress to vote up or down, without any amendment, on a covered trade agreement presented by the President.

The purpose of fast track is found in the realities of trade agreements. They have so many provisions, covering so many products and policy issues, that it would be impossible to reach agreement among the great number of participants if one country could thereafter start tinkering with individual items. Trade deals reflect a balancing of pluses and minuses that each country must weigh. Congressional amendment of individual items would destroy this overall balancing for other countries and could require a new round of negotiations.

The problem for the Doha Round is that the current fast track authority runs out on June 30, 2007. Given the complexity of multilateral trade agreements, it was simply not possible to reach a deal within the eleven months then remaining. Thus, barring a huge and rapid breakthrough or an extension of fast track authority (an unlikely prospect given the gloomy outlook for the talks) the entire round will have to be postponed for some time, probably years.

It is always hard to predict what comes next, but many observers suggest that major trading countries will turn to regional and bilateral trade agreements, like NAFTA and our free trade pact with Chile. But, as shown by the difficulties we are having in concluding a deal covering several countries in Latin America, progress on that front may be very slow. Moreover, the balkanization of trade relations does not have a happy history – the last time it occurred was in the period during the Great Depression leading up to World War II. At that time, the proliferation of bilateral trade agreements, often discriminating against third countries, exacerbated the growing political tensions that were developing, particularly in Europe.

One item of food for thought: You will recall that the Doha talks foundered over the issue of agricultural subsidies granted by the U.S. and the European Union. One newspaper subsequently reported that the U.S. has been paying subsidies to residents of an upscale community in Texas who live on multi-acre plots in splendid McMansions located on what used to be farmland. No one seems to know why these people, who raise no crops or animals, get an annual farm subsidy check from Uncle Sam.

Here are some specifics for the month:

- Scrap and Pig Iron. Prices for #1 dealer bundles and #1 busheling (Chicago) dropped last month to \$275 per mt. This \$70 (20%) decline was one of the largest in the recent past. Pig iron (Brazilian spot price, New Orleans) followed that lead; although the price fell by only about 10% to \$310 per mt.
- Ocean Freight. Despite the swings in prices for most raw materials, ocean freight rates have become a beacon of steadiness. Last month, the Baltic Capesize Index remained unchanged and has now averaged around the 3000 mark for seven months in a row. This suggests that the demand from China for bulk carriage has steadied as well and does not outstrip capacity availability.
- Natural Gas. After moderating over the course of seven months, the Nymex contract price for natural gas bounced up sharply last month to \$7.25 per mcf. This was an increase of more than 30% from the prior month.

- Foreign Exchange. At this writing, the dollar has lost ground against the euro, the pound and the Canadian dollar. The euro now stands at \$1.28, up two cents; the pound is worth \$1.89, up four cents; and the Canadian dollar stands at 90¢, up three cents.

This letter, along with all the previous ones can be found on our website, www.coreysteel.com and on the international site, www.steelonthenet.com. Please share with us your thoughts on the issues we discuss and give us your suggestions for the content and presentations of these communications.