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## **Trade Talks Today --- The Perils of Pauline?**

Last month, we reported on the state of negotiations with other countries on new sets of rules for international trade. In the interim, there have been some developments that you may find of interest.

- The Bush Administration has reached a deal with the Democratic leadership in the Congress on moving forward with pending trade agreements. The accord covers agreements with four countries – Columbia, Panama, Peru and South Korea – that are either before the Congress or close to it. In return for supporting those pacts, the congressional leaders extracted commitments that the Administration will add provisions covering several areas important to getting Democratic votes. The most important of these are new rules on the rights of labor and various requirements related to the environment.

The labor rules would require that trade agreement partners accord their workers the right to form unions, to engage in collective bargaining, to eliminate forced and child labor and to end discrimination in employment. The Administration had opposed these steps, fearing they could lead to the expansion of workers' rights in the U.S.; apparently, these concerns have calmed. The rules would not affect state labor laws, like right to work statutes.

The environmental provisions would require trade partners to observe several multilateral agreements covering trade in endangered species, ozone depletion, marine pollution, tuna fishing, wetlands, whaling and marine life. (No word about measures to limit global warming.)

In addition, new rules will cover foreign investment (no greater rights than enjoyed by domestic companies), intellectual property (mostly directed to permitting easier sales of generic drugs in developing countries), port security and government procurement.

- On another front, U.S. and Chinese negotiators are meeting this week to discuss current trade tensions. On the agenda will be cargo and passenger airline flights and Chinese limits on foreign investment in banks and securities firms. Another item will be using American technology to reduce pollution in China.

Last week, China announced that it would permit its currency to trade within wider limits than before. In practice, this change should permit an increase in the current value of the yuan, making foreign products cheaper and Chinese exports more expensive. The effects of these measures will probably be modest, but they, with some other changes the Chinese have been adopting, show some sensitivity to the concerns of other countries about the huge trade surplus the country is running.

- Trade negotiators from the U.S., the EU, Brazil and India met in Brussels last week to try to revive the “Doha Round” of multilateral trade negotiations under aegis of the World Trade Organization. As we have previously reported, those talks were stalled so long that new legislation will be required to reach a deal. The key issue remains the extent to which the U.S. and the EU will reduce their subsidies for agricultural exports, but access to developing country markets is another area of contention.

A WTO ministerial meeting will take place in June, which will tell us if the talks can succeed.

While each of these developments bodes well for progress on international trade negotiations, none directly confronts the 900 pound gorilla for U.S. trade policy – how to deal with critical problems for U.S. manufacturers. These include U.S. companies fleeing to low wage countries, the difficulties of competing with producers in those low wage countries, the high cost of worker benefits in the U.S. and the disruption caused by unfairly traded imports. It appears that politicians are more and more concerned with these matters, and congressional support for trade deals may well turn on whether new agreements address those problems.

Turning to some specifics:

- Scrap and Pig Iron. Scrap prices dropped significantly from recent highs last month. Number 1 dealer bundles and #1 busheling (Chicago) were at \$283 and \$285 per mt, respectively, well under the \$375 range they posted in March. In contrast, the spot price for Brazilian pig iron (cif New Orleans) remained at \$375 per mt, the same record high as in March and April.
- Natural Gas. The Nymex contract price hasn't changed much in recent months, creeping up slightly from \$7.47 per mcf in February to \$7.69 in May. This relative stability is in sharp contrast to what has been happening to gasoline prices, which seem to be on an endless climb as we hit the summer driving season.
- Exchange Rates. As of this writing, the dollar has strengthened slightly against the euro and the pound, both of which slipped one cent from last month's level and now stand at \$1.34 and \$1.98, respectively. New French president Sarkozy recently stated his belief that the euro is overvalued. The Canadian dollar continues to go up, reaching 92¢ this month.

We look for your feedback on these letters, so please let us have your thoughts. As usual, we are posting this letter on our website, [www.coreysteel.com](http://www.coreysteel.com) and on the international site, [www.steelonthenet.com](http://www.steelonthenet.com).