

[6/16/80-Not Submitted-DF]

Folder Citation: Collection: Office of Staff Secretary; Series: Presidential Files; Folder:[6/16/80-Not Submitted-DF]; Container 166

To See Complete Finding Aid:

http://www.jimmycarterlibrary.gov/library/findingaids/Staff_Secretary.pdf

THE WHITE HOUSE

WASHINGTON

16 Jun 80

Zbig Brzezinski

The attached is forwarded to
you for inclusion in President's
briefing book for trip.

Rick Hutcheson

cc: Eizenstat

DF

3437

FOR STAFFING
FOR INFORMATION
FROM PRESIDENT'S OUTBOX
LOG IN/TO PRESIDENT TODAY
IMMEDIATE TURNAROUND
NO DEADLINE
FOR APPROPRIATE HANDLING
LAST DAY FOR ACTION

*to use to
include on trip
books + FBI cc
to SE*

ADMIN CONFID
CONFIDENTIAL
SECRET
EYES ONLY

	VICE PRESIDENT
	JORDAN
	CUTLER
	DONOVAN
	EIZENSTAT
	MCDONALD
	MOORE
	POWELL
	WATSON
	WEDDINGTON
	WEXLER
	BRZEZINSKI
	MCINTYRE
	SCHULTZE
	ANDRUS
	ASKEW
	BERGLAND
	BROWN
	CIVILETTI
	DUNCAN
	GOLDSCHMIDT
	HARRIS
	KREPS
	LANDRIEU
	MARSHALL

	MILLER
	VANCE
	BUTLER
	CAMPBELL
	H. CARTER
	CLOUGH
	CRUIKSHANK
	FIRST LADY
	FRANCIS
	HARDEN
	HERTZBERG
	HUTCHESON
	KAHN
	LINDER
	MARTIN
	MILLER
	MOE
	PETERSON
	PRESS
	SANDERS
	SPETH
	STRAUSS
	TORRES
	VOORDE
	WISE

THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON
20506

JUN 18 1980

MEMORANDUM FOR: THE PRESIDENT
FROM: AMBASSADOR REUBIN O'D. ASKEW
SUBJECT: Recent Developments in the Steel Industry

This is an information memorandum on recent steel industry developments that may be of assistance as you prepare for the Venice summit meeting.

Last week Bill DeLancey, Chairman of the American Iron and Steel Institute, raised with me the industry's concern over some of your remarks to out-of-town editors and broadcasters on May 13. They called particular attention to your statement that "The very difficult transition phase to a more modern plant and one that can comply with environmental standards is substantially over ...". The industry sees itself as entering a difficult period in which economic recession (including sluggish auto sales and depressed housing starts) and higher import penetration may force a further postponement of modernization projects and could threaten the survival of several steel producers.

The Steel Tripartite Committee, established as a result of the 1977 Solomon Report, is currently assessing the industry's capital requirements and sources. It has tentatively concluded, based on the industry's methodology and data, that over the next several years the industry will require \$3.8-\$4.1 billion (1978 dollars) annually for modernization and \$.8 billion to meet environmental and health and safety standards. The industry's present cash flow is not adequate to modernize at the rate it desires (approximately 4 percent of capacity a year).

In the past few months, there has been a striking deterioration in the industry's situation. Its operating rate has nose-dived to 61 percent, about one-third below normal for this time of year. (See the attached graph depicting weekly capability

utilization rates for the first 6 months of 1977-80.) Moreover, the prospects for the rest of this year are increasingly gloomy; new orders have stagnated at a very low rate since mid-March and already booked orders are being cancelled. As a result, industry forecasts for 1980 shipments have been revised sharply downward to 15-20 percent below last year's 100 million tons.

At the same time, unemployment in the industry is rising rapidly. Approximately 50,000 steelworkers, one-seventh of the industry's wage earners, have been laid off. More layoffs and plant closures are expected if orders continue to decline.

Imports are expected to fall, but at a slower rate than domestic production, suggesting higher import penetration in the months ahead. (The attached chart summarizes production and imports since 1975.) This is occurring despite the trade-chilling effects of the filing of U.S. Steel's massive antidumping complaints and the suspension of the trigger price mechanism. We understand, for example, that Japanese producers have raised their prices to the United States in an attempt to discourage the filing of an antidumping case, even though the higher price makes Japanese steel unattractive to buyers in a weak market. In addition, EC Commissioner for Industry Davignon told Bob Hormats last week that, if the U.S. Steel case continued beyond July, the Commission would come under great internal pressure as European exports begin to drop off in expectation of provisional antidumping measures.

Taken together, these factors are producing a poor profit picture for the industry. While overall industry profits rose sixtyfold in 1978 over the disastrous 1977 level, they fell slightly last year and sharply in the first quarter--in current dollars. Moreover, the second quarter, when production usually approaches capacity and the bulk of the year's profits are generated, will this year be far below normal. Thus, what had initially promised to be a reasonably good year for the steel industry now threatens to set back even further the major modernization that the industry requires to remain competitive with imports.

Attachments

STATISTICAL SUMMARY: U.S. IMPORTS OF STEEL MILL PRODUCTS (000 net tons)

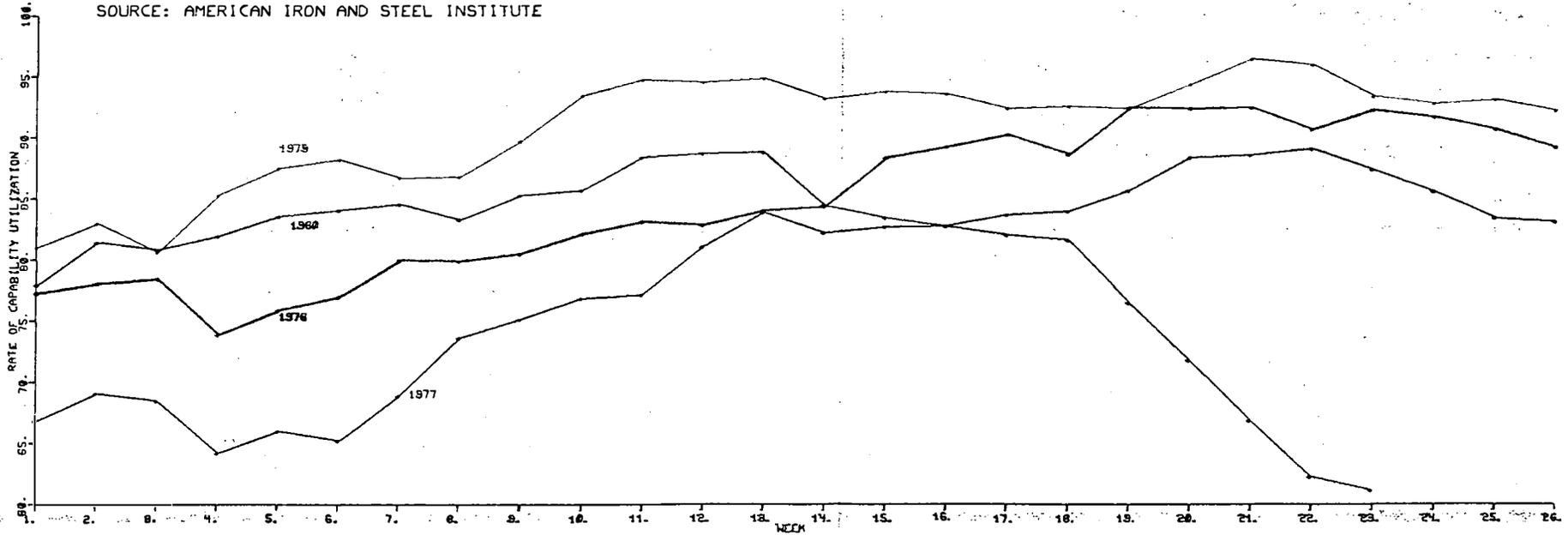
Year	IMPORTS					U.S. EXPORTS	U.S. Mill Shipments	Import % of Apparent Supply*
	Japan	EEC	Canada	Other	Total			
1975	5,844	4,118	1,009	1,041	12,012	2,953	79,957	13.5
1976	7,984	3,188	1,304	1,809	14,285	2,654	89,447	14.1
1977	7,320	6,833	1,892	2,762	19,307	2,003	91,147	17.8
1978	6,487	7,463	2,364	4,821	21,135	2,422	97,935	18.1
1979:	6,336	5,405	2,354	3,423	17,518	2,818	100,262	15.2
Jan.	516	324	169	255	1,264	193	8,206	13.6
Feb.	528	309	201	290	1,329	165	7,996	14.5
Mar.	411	233	212	239	1,096	217	10,293	9.8
Apr.	370	287	173	242	1,072	226	7,438	12.9
May.	627	482	237	308	1,655	237	10,187	14.3
June	428	495	208	234	1,366	255	8,977	13.5
July	504	519	187	303	1,514	234	8,319	15.8
Aug.	599	610	204	370	1,784	250	8,475	17.8
Sept.	592	548	180	320	1,641	244	7,929	17.6
Oct.	563	643	207	190	1,603	281	8,355	16.6
Nov.	626	533	207	285	1,652	227	7,385	18.8
Dec.	570	421	166	384	1,542	289	6,742	19.3
1980:								
Jan.	560	347	183	175	1,265	197	7,952	14.0
Feb.	726	384	195	361	1,667	296	7,690	18.4
Mar.	440	218	218	244	1,120	276	8,711	11.7
Apr.	526	291	193	240	1,250	321	NA	NA

* Commonly called Market Penetration

Sources: U.S. Dept. of Commerce and American Iron and Steel Institute: Apparent Supply of Steel Mill Products Year 1979, Imports and Exports of Steel Mill Products 1/30/80, Annual Statistical Report, 1978.

WEEKLY RAW STEEL PRODUCTION
BY RATE OF CAPABILITY UTILIZATION

SOURCE: AMERICAN IRON AND STEEL INSTITUTE



Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26
1977	66.8	69.1	66.5	64.2	66.0	65.2	68.9	73.6	75.1	76.8	77.1	81.0	83.8	82.1	82.6	82.7	83.6	83.9	85.6	88.3	88.5	89.0	87.3	85.5	83.3	89.0
1978	77.2	78.0	78.4	73.8	75.8	76.9	79.9	79.8	80.4	82.0	83.0	82.7	83.9	84.2	88.2	89.1	90.1	88.5	92.3	92.2	92.3	90.5	92.1	91.5	90.5	89.0
1979	80.9	82.9	80.5	85.2	87.4	88.1	86.6	88.7	89.6	89.9	94.6	94.4	94.7	93.0	93.6	93.4	92.2	92.4	92.2	94.2	96.3	95.8	93.2	92.6	92.9	92.0
1980	77.9	81.4	80.8	81.9	83.5	84.0	84.5	83.2	85.2	85.6	88.3	88.6	88.7	84.3	83.3	82.6	81.9	81.5	76.4	71.7	66.8	62.2	61.1			

USTR COMPUTER GROUP

Electrostatic Copy Made
for Preservation Purposes