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## **Buy American - - Take a Deep Breath**

It's hard to think of a time, short of war, where the Congress has acted with such dispatch on such a broad front as with the economic stimulus package. The end result has its supporters and critics, but today's prognoses will do little to change the ultimate report card, where the question will be, "Did it work?"

During congressional debate on the package, there was a lot of passion expended on particular items, and there was a good deal of controversy about short term vs. longer range projects. On most of these things, we shall just have to wait and see.

There is, though, one hotly discussed issue that can be addressed with the knowledge we have today. That is the "Buy American" requirement. Many around the world have viewed these measures as a sure ticket to the kind of protectionism that "worsened the Great Depression" and to a global, beggar-thy-neighbor trade war. Careful analysis shows, however, that the sky is not falling and that the doom peddlers should just take a deep breath.

What is Buy American? In the current legislation, it would require the use of American produced iron, steel and manufactured goods in the construction and upkeep of a "public building or public work." The requirement is waived when it would increase project costs by over 25%, where there isn't an adequate supply of the American material or where the responsible government official finds it not in the public interest. A late amendment requires that the provision be applied consistently with our international agreements.

Is this such an unreasonable requirement? Let us leave aside the easy arguments based upon the U.S. already being the world's largest market for imports and how our companies and workers are subject to foreigners' unfair trade practices. Let's instead look at some facts:

- It seems these days that just about any measure aimed at imports is being denounced as "protectionist," but what exactly does that mean? At a minimum, one would think that something should not be given the protectionist label unless it violates the international rules on trade. On that score, there is simply no merit

in the charges against the Buy American provision. The rules of the World Trade Organization expressly recognize that members are free to impose limits on procurement of “products purchased for governmental purposes.” Building roads, repairing schools, making government buildings energy efficient and the other public works projects contemplated in the recovery package fit easily in this WTO rule. (By the way, another provision in the WTO expressly permits paying subsidies “exclusively to domestic producers,” thus making the Big Three bailout measures also consistent with our international agreements.)

- Comparing this Buy American provision to Depression era protection is a stretch. In 1930, the average U.S. tariff on imported goods was around 40%; the Smoot Hawley Tariff Act of that year raised the average to over 60%; today’s effective rates are around 5%. Moreover, the amount of trade covered by the Buy-America provision is vastly smaller than the 3,500 products covered by Smoot Hawley. The recovery package assigns less than \$200 billion total to projects covered by the Buy American provision; even if every cent would otherwise be spent on imported products, the amount would represent less than 10% of our total imports in 2008. Of course, it would be very unlikely that even a large percentage of heavy road and building construction materials and equipment would be met by imports in the absence of the Buy American requirement. Thus, the trade effects of the requirement are likely to be quite small.
- Finally, it is hard to see how Buy American offends a sense of fair play in legislation requiring U.S. taxpayers to foot the bill for public projects, the purpose of which is to put people here back to work. It would be passingly strange to see other countries demand outright that we pay to reemploy their workers too, but that is what they are essentially arguing in challenging Buy American. Shouldn’t it be enough, they will benefit along with us if our stimulus works, because, then, America would again become an engine for economic growth around the world.

Turning to some of the cost data for this month:

- Scrap and Pig Iron. Scrap was down last month, probably reflecting the continuing downturn in steel demand and the influence of the general economy on commodity prices. Number 1 dealer bundles were \$25 lower, to \$215 per mt, and #1 busheling (Chicago) declined by \$35 to \$225 per mt. The spot price for Brazilian pig iron continued at the theoretical price of \$375 per mt – theoretical because the suppliers refuse to sell at that price.

- Natural Gas. Another reflection of the general economy can be found in the Nymex price for natural gas, down \$1.21 to \$4.68 per mcf. This is the lowest price we have seen since before 2003.
- Ocean Freight. After three months at an extremely low level, the Baltic Capesize Index rose a bit this month to 3822. This increase may mean that some modest increase in shipping activity may be taking place in the moribund ocean freight business.
- Exchange Rates. As of today, the dollar has continued to show strength. The euro has declined by 8 cents to \$1.27, while the pound dropped a nickel to \$1.42. The Canadian dollar was virtually unchanged at 80 cents.

We are always appreciative of your comments, but especially in the current economic stress. 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).