Office and Plant:
2800 South 61st Court
Cicero, Illinois 60804-3091

(708) 735-8000
(800) 323-2750

Corey®
STEEL COMPANY

Mailing Address:
P.O. Box 5137
Chicago, Illinois 60680-5137

Facsimile:
(708) 735-8100

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Is the Sky Really Falling?

When China was seeking to become a member of the World Trade Organization, it faced a number of concerns by WTO members about just how a communist country could operate under rules designed for capitalist, private enterprise economies. To ease these concerns, China negotiated a number of side agreements, including one with the U.S.

One of the provisions of the deal with the U.S., which was signed in 2001, permitted us to impose import restraints in cases where rapidly increasing Chinese imports were causing market disruption here. That provision was subsequently incorporated into U.S. law, giving American companies and workers the right to seek relief by petitioning the International Trade Commission, an independent agency. The law requires the Commission to conduct an investigation to determine whether imports are increasing, whether they are injuring a U.S. industry and what, if anything, should be done about it.

Last April, workers in the U.S. tire industry brought a petition alleging that Chinese imports had been rising substantially and were injuring the domestic industry. Based upon its investigation, which covered the years 2004-2008, the Commission determined that:

- Imports of Chinese tires had more than tripled in quantity and in penetration of the U.S. market;

- Chinese imports were being sold at prices on the average about 25% below the U.S. competition;

- Chinese production was increasing dramatically beyond its domestic requirements, thus demonstrating the intention to devote that capacity to exports, principally to the U.S.;

- Chinese competition was a material cause of the closure of seven production facilities as well as reduced profits and unemployment in the American industry;

- In 2008, in particular, Chinese underpricing prevented American companies from passing on substantial cost increases due to skyrocketing petroleum prices.

Based on these findings, the Commission recommended to the President that he impose additional duties on Chinese tires for three years, starting at 55% the first year, 45% the second, and 35% the third. In the end, the President adopted the recommendation, reducing the duties to 35%, 30% and 25% for the three years.

As with most trade issues, one can argue the merits of this decision. But that is why the initial determination is given to an independent agency, whose career staff is charged with ferreting out and providing an objective analysis of the facts. (The President cannot act without an affirmative finding by the Commission.) While the Chinese have, not surprisingly, complained about the President's action, this case addresses precisely the circumstances covered in the agreement they reached with the U.S. back in 2001. Thus, the case and its resolution are fully consistent with our own law and the international understandings on which that law is based.

But, along come the Chicken Littles of international trade. The *Economist* labeled the decision "economic vandalism," "wrongheaded" and "evidence of a weak president." Moreover, they suggested that the decision will harm our efforts to limit the nuclear ambitions of North Korea and Iran, interfere with efforts to address climate change, and could lead the Chinese to abandon its purchases of U.S. government securities.

One should not undervalue the importance of international trade, but wild charges about the consequences of decisions under our trade laws make free trade advocates look as if they have a different agenda. It is one thing to take a gratuitous swipe at all imported products (as many countries did during the Great Depression); it is quite another to follow the international rules, to submit narrow complaints to independent, objective tribunals and then to seek implementation of the recommendations made by those decision-makers. The failure to see that distinction could lead to dangerous results.

Those who would forfeit the use of international and domestic rules aimed at assuring fair trade should be aware that the would-be beneficiaries of those rules will have legitimate doubts about the worth of assurances from their government. For the steel industry, which has been exposed to more dumping and subsidization of imported products than perhaps any other, the abandonment of those rules could only be viewed as extremely ominous. Thus, the importance of the preservation and enforcement of the U.S.'s trade laws cannot be understated.

Turning to some of the specifics on input costs for this month:

- Scrap and Pig Iron Prices for #1 dealer bundles and #1 busheling (Chicago) continued to climb to $330 and $340 per mt, respectively. Those prices have about doubled since last April, suggesting that steel prices may be on the path to improvement. The spot price for Brazilian pig iron (cif New Orleans) also continued to rise, this month up to $350 per mt. The latest level is $100 above prices for April and May, but they still are $25 below the "absolute minimum" that producers sought to impose last November.

- Natural Gas After a small increase last month, the Nymex contract price fell 89 cents (25%) to $2.72 per mcf. These are the lowest prices since 2002, but there is some evidence of firming.

- Ocean Freight The Baltic Capesize Index declined again this month to 3607, 22% below last month. This could represent a reduction in Chinese imports of ore, scrap, etc.

- Exchange Rates The dollar has experienced another significant slide. Currently, the euro is worth $1.48, up seven cents from last month, and the Canadian dollar is at 94¢, up three cents. Only the pound is worth less this month, down 2 cents to $1.64.

Please remember that this is the last month that we shall be sending our monthly letter by regular mail, unless you specifically request us to do so. For those who want to receive the letters by e-mail, please go to our website www.coreysteel.com and click on "Join Our Mailing List". You will be sent to a contact information form; once you fill it out, we shall automatically add your information to the new e-mail data base. If you want the letter by regular mail or cannot access the contact information form, please call us at (708) 735-8000 and ask the Operator to be directed to a mailing list coordinator.

Also, please remember that we are anxious to have your thoughts on these letters, which appear on our website and on the international site, www.steelonthenet.com.