The original documents are located in Box C36, folder "Presidential Handwriting, 3/15/1976 (1)" of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

THE WHITE HOUSE

WASHINGTON

March 15, 1976

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR
THE HONORABLE FREDERICK B. DENT
The Special Representative for Trade Negotiations

SUBJECT: Specialty Steel Import Case

Confirming verbal advices to your office, the President reviewed your memorandum of March 1, 1976 on the above subject and approved the following:

OPTION III. On March 16, the President would announce:

(1) that he would proclaim import quotas for a period of three years, effective from June 14, 1976 to June 13, 1979, comparable to the overall levels (but not the product category levels) of the first three years of the USITC recommended remedy (see Attachment A);

(2) that during the following 90 days the United States would seek to negotiate orderly marketing agreements with exporting countries, which would better accommodate our mutual needs and which would be substituted for the intended import quotas; and

(3) that under the Trade Act's authority, the President would, after taking into account advise received from the USITC, and the Secretaries of Labor and Commerce, reduce or terminate the import relief provided either in the form of quotas or under agreements, if due to improvements in the economic position of the domestic industry, he determined that it was in the national interest to do so.

The documents attached to your memorandum of March 1 to implement the President's decision are being prepared for the President's signature and you are requested to follow-up with any additional action that is necessary.

cc: L. William Seidman
Dick Cheney

James E. Connor
Secretary to the Cabinet

USITC Recommended Remedy

Quantitative restrictions would be imposed for five years, on the following basis:

Product	1976	1977-1980 (in short tons) Minimum	Maximum*
Stainless Steel			
Sheet and Strip	79,000	73,100	13%
Plate	13,000	11,900	15%
Bar	19,600	19,600	13%
Rod	16,000	15,900	52%
Alloy tool steel	18,400	18,400	18%
TOTAL	146,000	138,900	

*Amount equal to specified percent of preceding year's apparent consumption.

[redacted]

THE PRESIDENT HAS SEEN....

THE WHITE HOUSE

WASHINGTON

March 12, 1976

MR PRESIDENT:

<u>Specialty Steel Import Case</u>

The Vice President has submitted the attached memorandum in response to the materials forwarded to him.

Jim Connor

Attachment

MEMORANDUM

OFFICE OF THE VICE PRESIDENT

WASHINGTON

March 12, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: The Vice President

SUBJECT: Specialty Steel Import Case

I have reviewed the materials submitted to you on the specialty steel import case and concur that the issue narrows to a judgment on whether to:

-- announce three-year import quotas effective in 90 days (Option III),

or

-- announce that you will seek agreements with exporting countries over the next 90-day period and, in the absence of agreement, will provide import relief (which the materials call the Scowcroft alternative).

Although it is a tightly balanced judgment, I perfer the latter option for the following reasons:

1. It is a more flexible approach and does not overtly threaten our trading partners with a specific action.

2. There are signs that the Western European countries and Japan are beginning to follow our economic upswing.

    -- Imposing quotas immediately will suggest that the United States is reverting to a protectionist position, and will induce a cycle of counterproductive protectionist and retaliatory actions.

-- Retarding the recovery of our free world trading partners could ultimately reflect back on our own economy, resulting in much greater unemployment.

3. Although many feel Congress would quickly override your action and impose a five-year quota, I do not believe that the affected groups or Congress will act if the broad aspects of the case are fully presented to the American people. Congress would be confronted by a reasonable request from you for time to bargain.

I note that a Wall Street Journal article this morning assessed that the impact of such a delaying action might not generate as severe repercussions as some predict. The writer argues that:

> "Publicly the industry and United Steelworkers have adopted a seemingly inflexible stance....
>
> Privately, however, there are indications that a compromise solution might be acceptable, if the President set a firm and not-too-distant date by which quotas would go into effect should efforts to negotiate voluntary reductions in imports fail."

RECOMMENDATION: That you not announce what type of import relief you will seek at the end of 90 days.

THE WHITE HOUSE

WASHINGTON

March 9, 1976

MEMORANDUM FOR RICHARD CHENEY

FROM: WILLIAM GOROG WG

SUBJECT: Specialty Steel Case

Ambassador Dent called today and reemphasized the importance of an early Presidential decision if our action will be to accept the recommendation of the Trade Policy Committee. STR and State agree that a fast visit to Tokyo and Brussels would be in order prior to a public announcement. Such a visit would pave the way for establishing orderly marketing agreements and perhaps would forestall a bad initial response from Japan and the EC.

I have advised Ambassador Dent to make the necessary travel plans, and that we would attempt to expedite the decision.

THE WHITE HOUSE

WASHINGTON

March 6, 1976

MR PRESIDENT:

Specialty Steel Import Case

The attached memorandum from Ambassador Dent was staffed to members of the senior staff. Messrs. Marsh, Buchen, Cannon, Friedersdorf and Morton concur with Ambassador Dent's recommendation of Option III.

Max Friedersdorf adds the comment - "We have received a request for a meeting with the President by a number of Congressmen and Senators from Ohio, Pennsylvania, New York and West Virginia to discuss this subject."

Jim Cannon adds the comment - "It is troubling to note, however, that Attachment D - "Specialty Steel Case Background" indicates that "the specialty steel industry is suffering to a large extent from the domestic recession." Thus, it appears that the industry suffers primarily from cyclicality, not imports. This certainly throws into substantial question the USITC finding that the industry was seriously injured substantially due to increased imports."

Brent Scowcroft recommends still another alternate to the solutions stated in Ambassador Dent's memo. His comments are attached at Tab #1.

Should you select Option III, the necessary documents to implement your decision will be prepared for your signature.

Jim Connor

ITEM WITHDRAWAL SHEET
WITHDRAWAL ID 00708

Collection/Series/Folder ID No. ..... : 004700498
Reason for Withdrawal .... : NS,National security restriction
Type of Material .... : MEM,Memo(s)
Creator's Name .... : Frederick Dent
Receiver's Name .... : President
Description .... : re recommended action on specialt
y steel
Creation Date .... : 03/01/1976
Volume (pages) .... : 2
Date Withdrawn .... : 05/16/1988

THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS
WASHINGTON

1 MAR 1976

~~CONFIDENTIAL~~

MEMORANDUM FOR THE PRESIDENT

FROM : Frederick B. Dent, Chairman
Trade Policy Committee

SUBJECT: Decision Memorandum - Specialty Steel Import Case

On January 16, 1976, the U.S. International Trade Commission (USITC), in its first affirmative injury finding under the Trade Act of 1974, found that the industries producing certain stainless and tool steel were being seriously injured by imports. These industries produce approximately one and a half percent of total domestic steel tonnage.

Your determination of whether you will provide import relief for these industries must be published by March 16. If you determine that you will provide relief, you have the authority to impose tariff increases, tariff-rate quotas, or quotas, for up to a period of five years. Alternatively you can announce an intention to negotiate orderly marketing agreements, in which case import relief must be effective by June 14, 1976.

You also have the option of deciding that imposing import relief would be contrary to the national economic interest, and you can decide not to grant relief.

The USITC recommended the imposition of quotas for a five year period. (See Attachment A). You do not have to accept this recommendation, but must report to the Congress your reasons for taking a different action, and your decision would be subject to a potential Congressional override by a majority of those present and voting in both Houses. If the override resolution were voted, the Trade Act would require you to impose the USITC recommended quotas. After seeking the views of many interested Senators and Congressmen, I am of the opinion that if you decided to provide little or no import relief in this case, the chances for an override are very great.

~~CONFIDENTIAL~~

I am setting forth below for your decision the options recommended by one or more agencies that participate in the Trade Policy Committee (see Attachment B for list of members) at a meeting held on February 27, 1976. This committee has the statutory responsibility to make recommendations to you on import relief actions that you may take. No agency recommended that you impose the USITC's suggested remedy of quotas for five years.

OPTION I: Deny relief on grounds of national economic interest, and seek unilateral, voluntary restraint on the part of foreign suppliers.

This option is proposed by the State Department. It is strongly opposed by the Justice Department. While this option may have the least impact on international trade relations, it is the consensus of the Trade Policy Committee that it will be overridden by the Congress, causing the imposition of the USITC's five years of relief.

OPTION I: Approve________ Disapprove GRF

OPTION II: Impose import quotas for basically two years, comparable to the overall level reached in 1975.

State and CEA recommend that, if Option I is not accepted, relief be provided for one year, with an automatic extension for a second year if conditions in the industry have not improved, and with a possible third year of relief provided, if it is determined at that time that conditions still have not improved. (Under the Trade Act, the President does have the authority, after seeking USITC advice, to extend relief for a maximum of an additional three years beyond the relief initially provided.) This option is proposed in view of the cyclical nature of the problem faced by the industry, and the impact on our international economic relations of a longer period of relief. The consensus of the other agencies is that while relief is only warranted for less than a five year period, there is an unacceptably high risk that limiting relief to a much shorter and indefinite period would be overridden by the Congress, resulting in mandatory imposition of the USITC quota relief for five years.

OPTION II: Approve________ Disapprove GRF

OPTION III. On March 16, the President would announce:

(1) that he would proclaim import quotas for a period of three years, effective from June 14, 1976 to June 13, 1979, comparable to the overall levels (but not the product category levels) of the first three years of the USITC recommended remedy (See Attachment A);

(2) that during the following 90 days the United States would seek to negotiate orderly marketing agreements with exporting countries, which would better accommodate our mutual needs and which would be substituted for the intended import quotas; and

(3) that under the Trade Act's authority, the President would, after taking into account advice received from the USITC, and the Secretaries of Labor and Commerce, reduce or terminate the import relief provided either in the form of quotas or under agreements, if due to improvements in the economic position of the domestic industry, he determined that it was in the national interest to do so.

Because of the cyclical nature of the industries' problem in periods of economic recession, namely over-capacity combined with increases in imports, the provision of import relief of long duration is felt by all agencies to be inappropriate. Therefore it has been recommended that any import relief would be terminated when there is a sufficient upswing in specialty steel production and employment.

Announcing on March 16 that orderly marketing agreements will be sought extends by 90 days the period for the imposition of import relief. This period will allow negotiations to take place which can take into account the trade interests of exporting countries, and attempt to avoid payment of compensation or possible retaliation.

This basic option is strongly supported by STR, Commerce, OMB, Labor, Treasury, Agriculture, the Acting Executive Director of the Council on International Economic Policy, and the Assistant to the President for Economic Affairs.

OPTION III: Approve ~~M~~ Disapprove________

Subsidiary Issues Involved in Option III

The quotas that are recommended are consistent with our international obligations under the GATT (General Agreement on Tariffs and Trade). However, the GATT also authorizes affected exporting countries to retaliate by increasing comparable restrictions on any U.S. exports. To avoid this result, the United States would generally offer compensation in the form of additional reductions in existing U.S. trade barriers on an amount of trade comparable to that of the steel imports adversely affected by the U.S. restrictions. This compensation exposes other U.S. industries to increased foreign competition to pay for the temporary relief granted to the specialty steel industry. Orderly marketing agreements are designed to avoid retaliation or the payment of compensation, by agreement of the affected parties. The motive for supplying countries entering into these agreements is to obtain more favorable treatment for their steel exports than would be obtained under quotas.

The Justice Department would prefer that the remedy be limited to the imposition of quotas, without the offer to negotiate agreements, due to the heavy concentration of this industry. The Department of Agriculture strongly urges the negotiation of orderly marketing agreements to limit the risk of retaliation against U.S. agricultural exports in response to U.S. unilateral import restraints on steel.

The Treasury Department proposed that quotas be proclaimed for two years, rather than three. Treasury further suggests, with CEA concurring, that the conditions for terminating the import relief be stressed in the President's March 16 announcement. The Labor Department suggests that these conditions receive little emphasis, and prefers that these conditions not be made a part of this option. The attached draft press release does indicate conditions for terminating the import relief.

STR and Commerce strongly recommend that you announce that any orderly marketing agreements entered into would be terminated upon negotiation of a steel sector agreement (described in Attachment C). The Trade Act stipulates that articles governed by import relief actions are to be exempted from trade liberalization in the Multilateral Trade Negotiations. Unless a termination clause (related to progress in the Multilateral Trade Negotiations) is built into the orderly marketing agreements, there cannot be trade liberalization for the products covered.

The State Department suggests that consultations be held with Japan and the EC prior to presentation of a recommendation to you for the negotiation of agreements. This was not possible due to the lack of time, but the Committee recommended that these consultations be held after your decision and prior to March 16, if feasible, if you choose Option III. I also strongly recommend that consultations on specialty steel be held in the OECD as soon as possible after bilateral consultations are held. All of these consultations would precede, and be preparatory to, the negotiation of orderly marketing agreements.

Finally, you have the authority to order the Secretary of Labor to expedite his processing of trade adjustment assistance petitions, to assist the large number of unemployed specialty steel workers. About 3400 workers of 8500 laid off are already eligible for such assistance. I recommend that you issue such an order in this case.

Attached for your information is a background paper on the specialty steel industry, a draft press release and Federal Register notice for Option III, and letters notifying the Congress of your decision (if Option III). If you choose either Option II or III, I will prepare any other necessary implementing documents, and convene an interagency group to devise a quota allocation scheme and, in the case of Option III, a negotiating plan for the orderly marketing agreements.

ATTACHMENTS

A. USITC Recommended Remedy

B. Trade Policy Committee Membership

C. Steel Sector Negotiations

D. Specialty Steel Case Background

E. Draft Press Release

F. Draft Federal Register Notice

G. Notification letters to the Congress

H. Adjustment Assistance Directive to the Secretary of Labor

A

Trade Policy Committee

The Trade Policy Committee is established by Section 242 of the Trade Expansion Act of 1962, as amended. Its membership is designated by Executive Order 11846 of March 27, 1975. These members are:

(1) The Special Representative, Chairman
(2) The Secretary of State
(3) The Secretary of the Treasury
(4) The Secretary of Defense
(5) The Attorney General
(6) The Secretary of the Interior
(7) The Secretary of Agriculture
(8) The Secretary of Commerce
(9) The Secretary of Labor
(10) The Assistant to the President for Economic Affairs
(11) The Executive Director of the Council on International Economic Policy

Pursuant to the Trade Expansion Act the Trade Policy Committee is required to make recommendations to the President as to what action, if any, he should take on reports with respect to import relief submitted to him by the U.S. International Trade Commission.

STEEL SECTOR NEGOTIATIONS

The United States is currently preparing for a steel sector negotiation in the MTN by pressing for analyses of steel and several other product sectors. Progress has been slow towards negotiations on a sector basis and little in the way of concrete results can be expected during 1976 absent high-level agreement to move forward more quickly.

It would be to the advantage of the United States, and the other major steel trading countries, to avoid the unilateral imposition of import restrictions or bilateral restraint agreements which do not take into account the interests of others. It would therefore be useful to expedite a steel sector negotiation to arrive at an agreed international approach to steel problems at the earliest possible time. A steel sector negotiation need not set a pattern for carving the MTN into numerous sector negotiations. Steel trade is characterized by cyclical decreases in demand and resulting excess capacity as well as by pervasive government intervention in the form of ownership and subsidization.

The basic thrust of the international steel agreement that we would seek would be trade liberalization with steel tariffs and nontariff barriers substantially reduced or eliminated. One of the key NTBs to be dealt with should be subsidization, with the results incorporated in the MTN subsidies code. Provisions could also be incorporated governing the application of export restrictions on raw materials and steel scrap, and the allocation of steel supplies in times of shortage. A committee could be provided to monitor developments in steel trade and to provide a forum for multilateral consultations under the agreement.

Recognizing the special cyclical nature of problems of trade in steel, the relationship of steel to national defense, and the necessity for stable market conditions for long-range investment planning, the agreement could contain a safeguard clause separate from GATT Article XIX. Particularly during periods of recession, the clause could allow the temporary imposition of import restrictions to avoid sharp and substantial increases in market penetration through price-cutting, especially where government intervention was distorting normal competitive relationships. To avoid the agreement leading to the imposition of unwarranted restrictions, internationally-agreed constraints on trade measures would be necessary. These could include the following:

(a) Import restrictions could only be applied where there was substantial domestic capacity to meet domestic demand at reasonable prices, and would call for a national judgment that substantially increased imports would damage the domestic industry. Factors that would be taken into account could be under-utilization of capacity, unemployment or under-employment, depressed sales and profits, planned capacity and investment, etc.

(b) Restrictions could not be used to cut back imports beyond their level during the most recent two or three year period.

(c) There could be a requirement of international justification of restrictions before the surveillance committee (with or without prior international approval of restraints).

(d) The duration of the restraints could be limited to one initial period, followed by one renewal period. Further restraints might require international approval, be subject to an international veto, or be subject to payment of compensation.

The United States would submit a steel agreement of this kind to Congress for approval of implementing legislation under the NTB procedures of Trade Act sections 102 and 107.

ATTACHMENT D

SPECIALTY STEEL CASE BACKGROUND

Specialty steel imports amounted to nearly $200 million in 1975. This represented a nearly two-fold increase compared with 1970 imports of about $110 million.

In tonnage terms, imports of stainless and alloy tool steel in 1975 were the second highest level since 1968. Import penetration rates were about 20% in 1970, 1971, and 1975, substantially higher than for the intervening years.

Domestic production and shipments more than doubled from 1970 to 1974. However, in 1975, a decline of roughly 45% occurred. Employment trends over the last several years have also been generally upward. However, in 1975, approximately 8500 workers were in lay-off status representing approximately 25% of the industry's work force.

The specialty steel industry is geographically concentrated in the eastern half of the United States with the largest number of plants located in Pennsylvania. Substantial production also is found in New York, Ohio, Maryland, Michigan and Indiana. Pennsylvania in particular has been hard hit by cut-backs in domestic shipments.

The specialty steel industry is suffering to a large extent from the domestic recession and is expected to recover substantially as the domestic economy recovers. Long-run prospects for the U.S. market appear favorable with a higher growth rate likely than for carbon steel products. Further, the domestic industry appears to be cost competitive with Japan and the EC, the principal sources of imports aside from Sweden. A major question mark on the horizon is Korea which has purchased a large specialty steel facility from the U.S. and plans to begin production in late 1976, which could lead to exports to the U.S. market amounting to roughly 1/5 total U.S. imports.

The USITC case involves only specialty steel and not the much larger carbon steel industry. Specialty steel imports account for only 5% of U.S. steel imports by value and 1% in tonnage terms. However, the entire steel industry suffers from similar problems, cyclical swings in demand resulting in excess capacity in periods of recession, aggravated by governmental actions abroad. While the impact on domestic specialty steel production has been much sharper than with respect to carbon steel, the effect on the whole steel industry has been substantial.

The specialty steel industry has urged the U.S. Government for many years to grant protection against import competition. Such pressure in 1971 led to negotiation of stainless steel subceilings under the steel voluntary restraint agreements (VRAs) with Japan and the European Community. Experience under those restraints indicates that Japan did not fill the levels allocated--probably due to high demand in other world markets--and that the EC probably exceeded the levels provided for under the VRA.

Attached is a detailed interagency paper on specialty steel if further information is required.

B

ATTACHMENT B

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C

STEEL SECTOR NEGOTIATIONS

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It would be to the advantage of the United States, and the other major steel trading countries, to avoid the unilateral imposition of import restrictions or bilateral restraint agreements which do not take into account the interests of others. It would therefore be useful to expedite a steel sector negotiation to arrive at an agreed international approach to steel problems at the earliest possible time. A steel sector negotiation need not set a pattern for carving the MTN into numerous sector negotiations. Steel trade is characterized by cyclical decreases in demand and resulting excess capacity as well as by pervasive government intervention in the form of ownership and subsidization.

The basic thrust of the international steel agreement that we would seek would be trade liberalization with steel tariffs and nontariff barriers substantially reduced or eliminated. One of the key NTBs to be dealt with should be subsidization, with the results incorporated in the MTN subsidies code. Provisions could also be incorporated governing the application of export restrictions on raw materials and steel scrap, and the allocation of steel supplies in times of shortage. A committee could be provided to monitor developments in steel trade and to provide a forum for multilateral consultations under the agreement.

Recognizing the special cyclical nature of problems of trade in steel, the relationship of steel to national defense, and the necessity for stable market conditions for long-range investment planning, the agreement could contain a safeguard clause separate from GATT Article XIX. Particularly during periods of recession, the clause could allow the temporary imposition of import restrictions to avoid sharp and substantial increases in market penetration through price-cutting, especially where government intervention was distorting normal competitive relationships. To avoid the agreement leading to the imposition of unwarranted restrictions, internationally-agreed constraints on trade measures would be necessary. These could include the following:

(a) Import restrictions could only be applied where there was substantial domestic capacity to meet domestic demand at reasonable prices, and would call for a national judgment that substantially increased imports would damage the domestic industry. Factors that would be taken into account could be under-utilization of capacity, unemployment or under-employment, depressed sales and profits, planned capacity and investment, etc.

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The United States would submit a steel agreement of this kind to Congress for approval of implementing legislation under the NTB procedures of Trade Act sections 102 and 107.

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ATTACHMENT D

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The specialty steel industry is suffering to a large extent from the domestic recession and is expected to recover substantially as the domestic economy recovers. Long-run prospects for the U.S. market appear favorable with a higher growth rate likely than for carbon steel products. Further, the domestic industry appears to be cost competitive with Japan and the EC, the principal sources of imports aside from Sweden. A major question mark on the horizon is Korea which has purchased a large specialty steel facility from the U.S. and plans to begin production in late 1976, which could lead to exports to the U.S. market amounting to roughly 1/5 total U.S. imports.

The USITC case involves only specialty steel and not the much larger carbon steel industry. Specialty steel imports account for only 5% of U.S. steel imports by value and 1% in tonnage terms. However, the entire steel industry suffers from similar problems, cyclical swings in demand resulting in excess capacity in periods of recession, aggravated by governmental actions abroad. While the impact on domestic specialty steel production has been much sharper than with respect to carbon steel, the effect on the whole steel industry has been substantial.

The specialty steel industry has urged the U.S. Government for many years to grant protection against import competition. Such pressure in 1971 led to negotiation of stainless steel subceilings under the steel voluntary restraint agreements (VRAs) with Japan and the European Community. Experience under those restraints indicates that Japan did not fill the levels allocated--probably due to high demand in other world markets--and that the EC probably exceeded the levels provided for under the VRA.

Attached is a detailed interagency paper on specialty steel if further information is required.

CONFIDENTIAL

OUTLINE OF SPECIALTY STEEL PAPER

I. Problem

II. Recommendations

III. Discussion

A. Background

1. ITC Report
2. Products and Their Uses
3. U.S. Tariffs
4. Import Trends and Sources
5. Import Penetration
6. Geographic Concentration of Imports
7. Domestic Producers
8. Production, Shipments and Exports
9. Employment
10. Capacity, Investment, and Profitabliity
11. Outlook and Long Term Prospects

B. Domestic Considerations

1. Adjustment Assistance for Workers
2. Adjustment Assistance for Firms
3. Effectiveness of Import Relief to Promote Adjustment
4. Effect of Relief on Consumers and Competition
5. Costs to Employees, Communities, and Taxpayers
6. National Security Interests
7. U.S. Industry and Labor Views

CONFIDENTIAL

C. International Considerations

1. Foreign Restraints on Trade
2. Potential Compensation and Its Impact
3. Effect of Relief on International Economic Interests
4. Foreign Industry Conditions
5. Foreign Government Involvement in Their Steel Industries

D. Options and Their Implications

1. Contextual Considerations
2. The ITC's Proposal
3. Modified Quantitative Restrictions
4. Orderly Marketing Agreements
5. Tariff Increases or Tariff Rate Quotas
6. Adjustment Assistance
7. No Relief

PROBLEM

On January 16, 1976, the International Trade Commission (ITC) issued a report containing an affirmative finding, under Section 201(b) of the Trade Act of 1974, that increased imports have been a substantial cause of serious injury or threat thereof to domestic producers of bars; wire rods; and plates, sheets, and strip, not cast, not pressed, and not stamped to nonrectangular shape; all of the foregoing of stainless steel or alloy tool steel. The President has 60 days after receiving the ITC report (until March 16) to:

> determine what method and amount of import relief he will provide or determine that the provision of such relief is not in the national economic interest of the United States and whether he will direct expeditious consideration of adjustment assistance petitions and publish in the Federal Register that he has made such determination - Sec. 202 (b) (1).

In reaching his determination the President must take into account nine considerations specified in Section 202(c) of the Trade Act as well as such other considerations as he may deem relevant.

Under the Trade Act the President has nine basic options to choose among and announce publically by March 16:

(1) Proclaim the ITC's proposed remedy.

(2) Proclaim imposition of quantitative restrictions differing from those the ITC proposes.

(3) Negotiate an orderly marketing agreement (OMA) with foreign countries limiting their exports to the U.S.

(4) Proclaim an increase in duties.

(5) Proclaim a tariff rate quota (i.e., higher tariffs on imports in excess of specified quotas).

(6) Any combination of actions (2) through (6) above.

(7) Actions (1) and (6) combined.

(8) Determine that import relief is not in the national economic interest and announce what other steps he is taking to help the industry overcome serious injury and the workers to find productive employment.

(9) Order expedited adjustment assistance (can be ordered in conjunction with any of the above options).

Import relief must take effect within 15 days after a determination is reached, unless a decision is made to negotiate an orderly marketing agreement, in which import relief must take effect within 90 days.

If the action taken by the President differs from the ITC recommendation, the House and Senate may by an affirmative vote of a majority of both houses within 90 working days, disapprove the President's decision and force implementation of the ITC recommendations.

The TPSC is charged with initiating recommendations for the President. The Special Representative has set a deadline of March 2 to transmit recommendations and accompanying documentation to the President.

RECOMMENDATIONS

DISCUSSION

ITC Report

The Commission's determination is based on affirmative determinations by three Commissioners on all of the products indicated and an affirmative determination by one Commissioner with respect to stainless steel bars and wire rods and alloy tool steel in all forms (who determined in the negative on stainless steel plates, sheets and strip). A fifth Commissioner determined in the negative on all products under investigation and the sixth Commissioner abstained. A negative determination was made by five Commissioners with respect to one product category under investigation -- ingots, blooms, billets, slabs, and sheet bars.

The individual Commissioners reflected differences in the definition of what constituted an industry, the time period analyzed, the criteria applied, and the conclusions reached. Among the differences with respect to key questions are the following:

Industry Definition - Two Commissioners found four identifiable domestic industries producing articles comparable to those under investigation. Three Commissioners (including one finding in the negative) determined that there was only one industry producing all of these articles.

Increased Imports - Three Commissioners used 1964 to 1975 (9 mos.) import trends in reaching their findings. One Commissioner used 1968 to 1975 (9 mons.) and found affirmatively on all products except stainless steel sheet and strip. The other participating Commissioner used 1970 to 1975 (6 mos.) and found no increase in imports for the products investigated (as a whole).

Injury or Threat of Injury - All four Commissioners analyzing this question use 1970 to 1975 (9 mos.) as a base period. Two Commissioners found both injury and threat of injury for all products on the basis of factors such as low capacity utilization and profitability; high unemployment; high importer inventories; and unused capacity abroad. One Commissioner found serious injury on similar grounds for all products except stainless steel plate where he found threat of serious injury due to a decreasing domestic market share, widening price gap between domestic and foreign products and large unused capacity abroad.

The remaining Commissioner considered only profitability in determining serious injury. He found injury for all products except stainless steel plate where he found no injury. He did not consider sheet and strip because of an earlier finding of no increased imports.

<u>Imports a Substantial Cause of Injury</u> - Two Commissioners determined substantial cause affirmatively for all products based on the 1970 to 1975 (9 mos.) time period. One Commissioner joined them on stainless steel plates using the same period; used 1973-1975 (9 mos.) in analyzing stainless steel sheet and strip, and found affirmatively on all other products using the 1964 to 1975 (9 mos.) period. The fourth Commissioner found affirmatively using the 1964 to 1975 (9 mos.) period for stainless steel bar and rod and alloy tool steel.

The Commission recommended imposition of quantitative restrictions on imports for the next five years to prevent or remedy injury. Four Commissioners voted for the remedy, including one who had found only stainless steel bar and rod and alloy tool steel to meet the requirements for import relief. The quantitative restrictions recommended are as follows:

Product	1976	1977-1980	
	(in short tons)	Minimum	Maximum*
Stainless Steel			
Sheet and Strip	79,000	73,100	13%
Plate	13,000	11,900	15%
Bar	19,600	19,600	13%
Rod	16,000	15,900	52%
Alloy tool steel	18,400	18,400	18%
TOTAL	146,000	138,900	

*Amount equal to specified percent of preceding year's apparent consumption.

Quotas would be allocated to supplier countries on the basis of their average annual market share during the period 1972 to 1974. Countries that do not fulfill their quotas in a particular year lose that portion of the quota in the following year and the difference is reallocated to all other countries.

Products and Their Uses

The product categories on which affirmative ITC determinations were reached encompass more than 1,000 clearly identifiable products which are used in a wide variety of applications.

Stainless steel is an alloy steel containing, by weight, less than one percent of carbon and over 11.5 percent of chromium. Tool steel is alloy steel containing any of five combinations, by weight, of chromium, carbon, molybdenum and/or tungsten.

Stainless steel sheets are used in manufacturing chemical fertilizer and liquid gas storage tanks and food processing and hospital equipment. Plates are used in the manufacture of equipment for the chemical processing, petroleum refining, textile, paper and industrial heating industries. Strip finds application in a multitude of products such as catalytic convertors, automotive trim, and appliances. Bars also are widely used for pump shafts, bearings, fasteners, medical and surgical instruments, and aircraft landing gear components. Wire rod is used by producers or sold to convertors to be drawn into wire.

Tool steel is produced principally in the form of bars and rods and is used primarily to make tools (e.g., shears, drills, dies, chisels) capable of cutting, forming or otherwise shaping materials. The major markets are independent tool producers and captive tool producers of automotive and farm equipment companies. Tool steels are typically made in small lots with very high quality control levels.

U.S. Tariffs

The imported stainless steel and tool steel articles covered by the Commission's affirmative determination are classified under eight TSUS items and include 21 complete TSUSA items as well as a small portion of seven additional TSUSA "basket" items.* All products are subject to a basic rate of duty plus an additional duty on alloy content as shown in the tabulation below. The ITC has estimated that the duty on alloy content in all cases adds less than one percent ad valorem to the duties paid.

(Cents per pound; percent ad valorem)

	Col. 1 rate applicable on Dec. 31 --		Col. 2 rate
	1967 1/	1975 1/	
Bars (608.54)	14.5%	10.5%	28%
Wire Rods:			
Not tempered, treated, or partly manufactured (608.76)	0.25¢+4%	0.25¢+4% 2/	0.6¢+8%
Other (608.78)	0.375¢+4%	0.375¢+4% 3/	0.85¢+8%
Plates and Sheets:			
Not pickled or cold rolled (608.85)	12%	9.5%	28%
Other (608.88)	0.1¢+12%	10%	0/2¢+28%
Strip, in thickness --			
Not over 0.01 inch (609.06)	10%	8%	33%
Over 0.01, but not over 0.05 inch (609,07)	12.5%	10.5%	33%
Over 0.05 inch (609.08)	13.5%	11.5%	33%

1/ Imports are also subject to duty on alloy content as follows (in cents per pound):

* All of the partial items included are alloy tool steel. The ITC estimated that about six percent of alloy tool steel imports enter under these codes.

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	December 31 --	
	1967	1975
Chromium content in excess of 0.2 percent (607.01)	1.5¢	0.75¢
Molybdenum content in excess of 0.1 percent (607.02)	35¢	17.5¢
Tungsten content in excess of 0.3 percent (607.03)	50¢	25¢
Vanadium content in excess of 0.1 percent (607.04)	40¢	20¢

2/ Ad valorem equivalent for 1974 was 5.6%
3/ Ad valorem equivalent for 1974 was 5.1%

Most of the rates of duty applicable to products covered by the ITC findings were reduced pursuant to the Kennedy Round negotiations. In the case of wire rods (stainless and tool steel), no reductions were made.

Imports Trends and Sources

Import trends for the products covered by the affirmative ITC decision are summarized on the following page for the last eight years:

(in thousands tons)

Year(s)	Stainless steel					Alloy tool steel*	Stainless and Alloy tool steel
	Sheet and Strip	Plate	Bar	Rod	Total		
1968	81.3	5.2	12.6	15.9	115.0	13.5	128.5
1969	78.7	7.2	12.6	14.9	113.4	14.7	128.1
1970	88.8	8.3	15.2	13.9	126.2	17.3	143.5
1971	107.2	10.3	16.2	13.4	147.1	12.6	159.7
1972	59.6	17.1	18.5	13.0	108.2	14.8	123.0
1973	44.7	11.3	20.1	16.8	92.9	23.1	116.0
1974	64.9	12.4	27.9	22.1	127.3	23.9	151.2
1975	65.5	17.6	29.2	16.9	129.2	24.2	153.4
Averages							
1970-74	73.0	11.9	19.6	15.8	120.3	18.4	138.7
1970-75	71.7	12.9	21.2	16.0	121.8	19.0	140.8
1972-74(VRA)	56.4	13.6	22.2	17.3	109.5	20.6	130.1

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1975 as Percentage of 1974	100.9%	141.9%	104.7%	76.5%	101.5%	101.3%	101.5%
Highest year	61.1	100.0	100.0	76.4	87.8	100.0	96.1
Lowest year	146.5	338.4	231.7	130.0	139.1	192.1	132.2

* Understated by approximately 6 percent due to exclusion of alloy tool steel imports not separately identifiable.

For three of the categories -- stainless steel plate and bar and alloy tool steel -- 1975 imports were the highest ever but for stainless sheet and strip, which is the largest volume category, imports were considerably lower than 1968-71 levels and stainless rod imports fell off sharply from their 1974 peak. Only stainless steel bar imports have increased steadily throughout the period -- other categories have been up and down. Comparing 1974 and 1975, the only notable volume shifts were a 42 percent increase in stainless steel plate and a 23.5 percent decrease in stainless steel rod imports. Quarterly import trends during 1975 were characterized by sharp declines from the first to second quarter; smaller declines between the second and third quarters and third and fourth quarters (except for an increase in plate in the third quarter and an increase in sheet and strip in the fourth quarter). Imports in the second half of 1975 were 25 percent less than in the first half (an annual rate of 134,000 tons).

A substantial value of trade is involved in this ITC decision. The value of imports averaged about $130 million annually for 1970-74. 1974 imports hit $177 million and 1975 imports were $198 million.

The principal foreign supplier of stainless steel sheet, strip, plate, bar, and rod in the U.S. market is Japan. In the first nine months of 1975 Japan's share of U.S. imports was in excess of 50 percent for all product categories. This is significantl higher than during the 1972-74 period when the Voluntary Restraint Agreement (VRA), which included a subceiling on specialty steel products, was in effect and world demand was generally high. Japan did not export as much stainless steel to the U.S. market as was permitted under the VRA. Japan's 1975 import share is comparable to that achieved in 1970 and 1971 -- which reflected the effects of the original 1969-71 VRA that did not contain specific stainless steel quotas and thus encouraged a Japanese shift from carbon steel into higher value stainless steel exports to the United States.

Several EC countries -- particularly France, the U.K., Germany, and Belgium -- are significant suppliers in the U.S. stainless steel market, accounting for about one-sixth of U.S. imports for nine months of 1975. The EC also participated in the VRA, however, in contrast to Japan, the EC's market share in 1975 was substantially less than during the 1972-74 period, although comparable to 1970 and 1971 shares (indicating the VRA had little effect) The French position in particular has eroded steadily from a high poin of 17 percent of 1972 U.S. imports to 7.2 percent in 1975.

The other notable suppliers of U.S. imports are Sweden (about 11 percent of the total for nine months of 1975), Canada (ten percent), Spain (four percent), Brazil (one percent), and Korea (one percent). All other suppliers together represent less than two percent of U.S. imports.

Alloy tool steel imports come primarily from Sweden which has accounted for about 40 percent of the total for the last four years. Japan was the second largest supplier in 1975 with about 20 percent of the total, up sharply from 1974 but comparable to its 1971 and 1972 shares. Austria and Germany each supply about ten percent of U.S. imports, however, Germany's share represents an increase over its share in the early 1970's while Austria's share has been generally in a range of 10-13 percent. Smaller suppliers include Canada, Spain, the U.K., Poland, and Finland.

For the first nine months of 1975 imports of speciality steels from Japan increased by more than the total increase from the comparable 1974 period. Thus Japan's increase accounts for the fact that imports did not share in the sharp 1975 consumption decline in the U.S. market. During the same period, EC sources generally increased their exports to the U.S. but French exports dropped substantially. Imports were up from Sweden and Korea; stable from Austria and Brazil; and down from Canada.

Import Penetration

The ratio of imports to U.S. apparent consumption increased from insignificant levels in the early 1960's to quite substantial levels in 1970 and 1971. For stainless steel sheet, strip, plate, and rod the ratio declined sharply from 1970 to 1974 while stainless steel bar and alloy tool steel import penetration ratios rose slightly. In 1975, imports remained stable as domestic shipments and exports declined sharply, so import penetration ratios increased for all categories. As the year progressed, however, and imports stabilized at lower levels while shipments began to recover, import penetration ratios either stabilized or began to decline. With the exception of stainless sheet, strip, and plate, import penetration ratios during the first three quarters of 1975 were higher than for any recent annual period. Import penetration ratio data are summarized below:

	1964*	1970	1974	1975 (9 mos)
Stainless steel				
Sheet & Strip	NA	21.1	7.9	15.6
Plate	1.3	12.9	8.9	14.0
Bar	2.1	13.1	15.0	23.1
Rod	40.3	57.0	48.0	69.8
Alloy Tool Steel	8.3	17.9	19.3	27.5

*Industry data -- not exactly comparable to later years.

In value terms, the rate of import penetration in the first nine months of 1975 was about 16 percent and in 1974 less than ten percent. For comparative purposes, the import penetration ratio for the goods producing sector of the U.S. economy was about 14.5 percent in 1975.

There is no evidence that any significant share of imports represents noncompetitive products. There are a couple of minor exceptions -- razor blade steel and flapper valve steel. The ITC estimated razor blade steel imports (under the strip category) at 500 tons valued at $1 million annually. All major U.S. razor blade producers have indicated that razor blade steel is not available from domestic sources.

<u>Geographic Concentration of Imports</u>

Imports of stainless steel are distributed unevenly among all the major customs regions. The Atlantic Coast received nearly 60 percent of total stainless receipts in 1974. As shown on the next page, the New York customs district accounted for

30 percent of total stainless steel imports. The following table presents total stainless steel imports according to major regions with the most important customs districts indicated.

U.S. Imports of Stainless Steel
by Major Geographic Region (1,000 net tons)*

		% of Total
Total	176	100.0%
1. Atlantic Coast	106	59.1%
New York	53	30.1%
Philadelphia	22	12.5%
Baltimore	16	9.1%
2. Gulf Coast-Mexican Border	11	6.3%
Houston	8	4.5%
3. Pacific Coast	22	12.5%
Los Angeles	18	10.2%
4. Great Lakes-Canadian Border	39	22.2%
Chicago	16	9.1%
Ogdensburg, New York	12	6.8%
5. Off-Shore	1	0.6%

* Includes some products not covered by ITC finding.

Domestic Producers

Domestic producers of the products covered by the ITC decision produce a variety of other products such as silicon electrical steels, superalloys, and exotic metals which account for about 30 percent of the sales of plants producing stainless and alloy tool steels. For individual plants, these products may represent as much as 80 to 85 percent of sales.

Twenty companies produce alloy tool and stainless steel -- nine producing only stainless steel, five producing alloy tool steel, and six producing both. Operations are conducted at about 40 plants, 20 of which are in Pennsylvania (including 12 around

Pittsburgh), five in Ohio, and four in New York. The other plants are scattered through Connecticut, Maryland, Michigan, Indiana, and Illinois, with none further west than Illinois.

Most producers manufacture more than one of the types of products under consideration, often at the same plant. Stainless sheet and strip and plate are normally produced on different rolling mills. Bar and rod are normally produced at different facilities from sheet, strip or plate. With some modifications, both stainless and alloy tool steel bar and rod may be manufactured at the same facility.

The two largest firms in stainless steel by far are Allegheny-Ludlum and Crucible Specialty Metals. Bethlehem Steel is the largest domestic alloy tool steel producer. Five of the 20 producers are also large carbon steel producers for whom stainless and alloy tool steel represent an insignificant portion of total company sales. Together they account for one third of domestic stainless and alloy tool steel shipments.

For individual product categories, a few firms typically account for a preponderance of sales as follows:

	Largest Producers	
Product	Number	% of Domestic Shipments
Stainless steel:		
Sheet and strip	4	62
Plate	3	67
Bar	4	65
Rod	5	100
Alloy tool steel	4	58

Production, Shipments, and Exports

Domestic production increased in each year from 1970, a recession year, to hit an all time peak in 1974. The recession beginning in 1974 resulted in sharp cutbacks in production in 1975. For the first nine months of 1975, compared with the same 1974 period, production of stainless sheet and strip and rod fell more than 50 percent, while plates, bars, and alloy tool steel were off by 25-50 percent.

The value of domestic shipments of products covered by the ITC finding was $2 billion in 1974 reflecting a doubling of sales since 1971. Shipments in 1975 for nine months were $975 million reflecting substantial tonnage declines and lower selling prices than in 1974.

Generally, production and shipments are comparable and move in a similar fashion. The major exception is wire rods where more than half of domestic production is captively consumed in wire drawing.

Shipments trends for 1970-74, according to ITC data, were similar to those for production (see table on following page). Annual data from the American Iron and Steel Institute (AISI) indicate sharp shipment declines in 1975 for all product categories including a 60 percent decline in stainless rod shipments, 49 percent for sheet and strip, 41 percent for bars, 39 percent for alloy tool steel, and 29 percent for plate (Annual 1975 data are not available from ITC). In tonnage terms the 1974 to 1975 drop was about 590 thousand tons overall. Imports rose by two thousand tons between those years. Total imports in 1975

Item and period	U.S. producer shipments	Exports	Imports	Apparent consumption	Ratio imports to consumption
	Tons	Tons	Tons	Tons	Percent
Stainless steel sheet and strip					
1970	393,900	62,721	88,832	420,011	21.1
1971	444,219	37,976	107,188	513,431	20.9
1972	552,037	38,957	59,645	572,725	10.4
1973	734,876	60,796	44,701	718,781	6.2
1974	825,298	67,105	64,888	823,081	7.9
January-September					
1974	639,134	49,773	37,948	627,309	6.0
1975	283,605	21,449	48,529	310,685	15.6
Stainless steel bars:					
1970	105,887	5,365	15,195	115,717	13.1
1971	107,344	3,477	16,229	120,096	13.5
1972	120,539	3,585	18,509	135,463	13.7
1973	155,795	6,405	20,137	169,527	11.9
1974	168,460	9,949	27,892	186,403	15.0
January-September					
1974	128,488	5,962	18,624	141,150	13.2
1975	83,181	5,734	23,265	100,712	23.1
Stainless steel plates					
1970	59,285	3,089	8,341	64,537	12.9
1971	50,534	2,968	10,321	57,887	17.8
1972	56,681	2,054	17,116	71,743	23.9
1973	82,030	4,076	11,251	89,205	12.6
1974	140,167	6,936	12,351	145,582	8.9
January-September					
1974	103,358	5,803	6,699	104,254	6.4
1975	89,356	3,099	14,046	100,303	14.0
Stainless steel rods					
1970	11,142	663	13,890	24,369	57.0
1971	10,341	302	13,399	23,438	57.2
1972	12,832	580	13,006	25,258	51.0
1973	21,027	509	16,764	37,282	45.0
1974	25,816	1,804	22,069	46,081	48.0
January-September					
1974	19,139	1,211	14,594	32,522	44.9
1975	6,777	235	15,092	21,634	69.8
Stainless steel, all covered categories					
1970	570,214	71,838	126,258	624,634	20.2
1971	612,328	44,723	147,137	714,742	20.6
1972	742,089	45,176	108,276	805,189	13.4
1973	993,728	71,786	92,853	1,014,795	9.1
1974	1,159,741	85,794	127,300	1,201,147	10.6
January-September					
1974	890,119	62,749	77,865	905,235	8.6
1975	462,919	30,517	100,932	533,334	18.9

Item and period	U.S. producer shipments	Exports	Imports	Apparent consumption	Ratio imports to consumption
	Tons	Tons	Tons	Tons	Percent
Alloy tool steel					
1970	81,188	1,730	17,349	96,807	17.9
1971	68,051	2,084	12,601	78,568	16.0
1972	79,405	1,929	14,811	92,287	16.0
1973	97,797	3,819	23,083	117,061	19.7
1974	104,555	4,709	23,940	123,786	19.3
January-September					
1974	82,521	3,320	17,052	96,253	17.7
1975	55,709	4,129	19,521	71,101	27.5
Specialty steel, all covered categories					
1970	651,402	73,568	143,607	721,441	19.9
1971	680,379	46,807	159,738	793,310	20.1
1972	821,494	47,105	123,087	897,467	13.7
1973	1,091,525	75,605	115,936	1,131,856	10.2
1974	1,264,296	90,503	151,140	1,324,933	11.4
January-September					
1974	972,640	66,069	94,917	1,001,488	9.5
1975	518,628	34,649	120,453	604,435	19.9

(153 thousand tons) were roughly one-fourth the magnitude of the decline in domestic producer shipments from 1974 to 1975 (approximately 590 thousand tons).

Exports represent a small proportion of U.S. producer shipments ranging from 4-8 percent in 1974 depending on the product category. In the early 1960's the U.S. was a net exporter but became a net importer in the late 1960's. In recent years, U.S. exports of stainless and alloy tool steel products have approached the level of U.S. imports. In 1973 and 1974, stainless sheet and strip exports actually exceeded imports. In all other categories, the U.S. has consistently run a significant trade deficit in recent years. With the general world recession in 1975 U.S. exports dropped off sharply particularly for stainless sheets and strips, plates, and rods. The tonnage decline in exports (70,000 tons) from 1974 to 1975 was equivalent to 12 percent of the decline in U.S. producer shipments as reported by AISI.

Major U.S. export markets include Canada, Belgium, the U.K., Brazil, and Germany -- all of which are exporters in some volume to the U.S. market. Other large U.S. markets are Taiwan, Australia, Italy, and Venezuela.

Employment

Employment attributed to production of covered stainless and alloy tool steel products increased steadily from 1971 to 1974 (by more than 25 percent) but fell in 1975 to below 1971 levels.

	(000 persons)					
	1970	1971	1972	1973	1974	1975 (9mos.)
All employees attributed to stainless and alloy steel production*	27.6	25.6	26.0	30.2	32.5	22.9
Production workers attributed to stainless and alloy steel production*	21.1	19.4	20.4	24.4	26.2	17.2

* Includes a small number of employees engaged in producing other products for one company.

The principal impact of the recent decline has been on production workers which averaged 26,200 in 1974 but only 17,200 for the first nine months of 1975--a drop of 35 percent.

There have been two significant contractions of stainless steel and tool steel employment over the past six years--in 1970 and 1975. In 1970, net layoffs were approximately 3,100. There was little improvement in 1972 but in 1973 net recalls totaled about 3,700. In 1975, layoffs exceeded recalls by almost 4,500. About 8500 workers are now in layoff status. In late 1975, workers were being recalled in significant numbers at Armco's Baltimore plant, Latrobe Steel's Latrobe (Pa.) plant, and Jessop Steel's Washington (Pa.) plant. The Labor Department expects no more large layoffs and gradual rehiring of most workers currently in layoff status over the coming year, provided current economic trends continue. However, a substantial number of workers are still likely to be unemployed for most of 1976.

The state most affected by layoffs is Pennsylvania, particularly in the Pittsburgh area. In three counties between

750 and 1000 persons were laid off from stainless and alloy tool steel plants, and in another three counties 300-500 persons were laid off. About 1500 persons are laid off in New York, 1250 in Ohio, 600-700- in Maryland and Michigan, 300 in Indiana, and 100 in Connecticut.

In most areas where layoffs have occurred, the unemployment rate is higher than the national average. Further, the mobility of workers is limited by the highly specialized skills needed in specialty steel plants and the fact that a majority of the workers are 45 years of age or older. As a result, the prospects of separated workers finding comparable alternative employment are generally not favorable.

The number of layoffs that appear to be attributable to increased imports in 1975 is minor as imports increased by only 2,000 tons -- equivalent to about 60 jobs. If imports had been excluded totally from the U.S. market in 1975, perhaps as many as 3600 additional layoffs might have been avoided. If imports had not increased their market share in 1975, the number of layoffs might have been reduced by 1400.

Capacity, Investment, and Profitability

Domestic producers have added to production capacity for melting stainless steel (+6 percent from 1970 to 1974), stainless sheet, plates, and strip (+13 percent), rods (+7 percent), and bars (+15 percent). Tool steel capacity, however, has declined by 3 percent. Virtually all producers have improved existing facilities and increased yields and productivity. No new plants have been built in the last five years.

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A considerable amount of domestic capacity has been unutilized during the 1970-75 period. Utilization rates of more than 75 percent or more were achieved only in 1973 and 1974. During most of 1974, producers were reported to be operating at capacity but the annual rates varied from 76 percent for stainless sheet, plate, and strip to 89 percent for alloy tool steel. This may be accounted for by the 97 percent capacity utilization rate for melting (which provides input to all other operations) and declining operating rates in late 1974. In 1975, operating rates dropped back to 30-50 percent depending on the product category.

Despite low capacity utilization rates, only stainless steel rod operations have operated consistently at a loss during the last six years (in four of the six years). Stainless bar and alloy tool steel production also resulted in losses in two of the six years (1970 and 71). In 1974, all products generated record high profits totaling $224 million--13 percent of net sales. Despite the sharp drop in sales and operating rates for January-September 1975, only sheet and strip operations recorded a loss and stainless plate and alloy tool steel continued to produce substantial profits on sales (15 percent and eight percent respectively). Recent performance contrasts with that of the 1970-71 recession when only stainless plate, sheet, and strip produced any profit despite significantly higher operating rates on all product lines than prevailed in 1975.[1/]

1/ All profit and loss data are based on 16 producers accounting for about 90 percent of production.

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On the basis of overall plant operations, including products not covered by the ITC investigation, aggregate performance has consistently been profitable with return on sales ranging from a low of 1.7 percent in 1971 to 11.1 percent in 1974 (3.3 percent for January-September 1975).

With respect to stainless and tool steel operations, none of the 20 companies in the industry operated at a loss in 1974 and only one had a return on sales of less than five percent. None of the largest firms (over $75 million sales) have operated at an annual loss at any time between 1970 and 1975 (the number of companies in this category ranging from two to nine during the period). Six firms recorded profits on sales in excess of five percent (including only one firm below $25 million in sales), while five recorded losses (all with sales less than $25 million). The 1975 performance of firms in the industry was somewhat better than in the 1970-71 recession when only three firms made over five percent on sales and as many as nine firms operated at a loss.

Capital expenditures by domestic producers on facilities used in the manufacture, warehousing, and marketing of stainless steel and alloy tool steel averaged annually about $50 million for 1971-73 and $81 million for 1974-75. 1/ Expenditures for 1976 were estimated at $113 million although there are reports that firms are stretching out schedules and postponing projects, which may reduce that figure significantly. The increase in

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1/ Based on reports from 17 producers representing 90 percent of production.

capital expenditures in recent years reflects inflation in equipment costs, required environmental control expenditures and also suggests that producers expect a reasonable return on their investments and that capacity utilization rates will recover sufficiently to create the need for more capacity.

Research and development expenditures are minor--amounting to less than one percent of sales.

Outlook and Long Term Prospects

A critical factor in evaluating the need for and the amount and duration of relief needed by domestic stainless and alloy tool steel producers and the impact of such relief, is the outlook for the domestic and world markets and the competitiveness of U.S. firms in those markets.

Recovery of the domestic economy is underway and is forecast by the Council of Economic Advisors to result in a 6-6.5 percent increase in real GNP for 1976. Favorable prospects for automobiles, appliances and other consumer goods should be reflected in increased demand for stainless and alloy tool steels. However, because of generally low capacity utilization rates new plant and equipment expenditures will probably not rise markedly during 1976. The capital goods industry is a major market for stainless and alloy tool steels and there will be some lag in improvements in this market.

World economic activity generally appears to have bottomed out but recovery in most major economies is lagging behind that of the United States. As a result, the stainless and alloy tool steel industries of most of these countries will continue to be under pressure to maintain export markets through competitive pricing during most of 1976.

The extent of recovery in the U.S. stainless and alloy tool steel market in 1976 is difficult to predict because the market tends to expand and contract rapidly and over a wide range. One industry estimate for 1976 calls for a gain of 20-25 percent for stainless steel sales. Even such a substantial gain would imply production by the domestic industry for the year only two-thirds of 1974 record levels although operating rates might be at much higher levels by the end of the year.

In view of the continuing world economic slowdown, it is unlikely that U.S. exports will contribute significantly to domestic production gains in 1976.

Given the cyclical nature of the industry it is difficult to forecast trends during the 1977-80 period. It is unlikely, however, that the conditions that led to shortages experienced in 1973-74 will recur.

Over the long term the U.S. stainless and alloy steel market is expected to grow more rapidly -perhaps 4-5 percent annually- than the overall steel market. It has been stated by industry representatives that U.S. firms are currently cost competitive with foreign firms. Therefore, it would appear that they are in a position to participate fully in that growth. In terms of scrap availability for melting (the industry's basic raw material) and energy supply, the U.S. is in a better position than Japan or most European competitors. All major producers are dependent to a large extent on imported materials such as chromium -- so none has a distinct advantage. Labor costs generally appear to be rising more rapidly abroad. Finally, in terms of technology the U.S. industry is an advanced as any other in the world.

Adjustment Assistance for Workers

The Department of Labor (DOL) has received 14 petitions for certificates of eligibility to apply for worker adjustment assistance from the stainless and tool steel industry. Four petitions have been certified to date and none have been denied. An estimated 3000 workers may apply as a result of the four certifications, and 432 had actually applied by December 15, 1975. The petitions that have been received cover about 6,400 workers.

If certified, a large proportion of the displaced workers is likely to draw maximum trade allowances. The Act provides that workers may receive allowances equal to 70 percent of their average weekly wage (but not in excess of the average weekly manufacturing wage). Because specialty steel is a high wage industry ($7.94 per hour in 1975), the benefits for many workers may be less than 70 percent of their average weekly wages (the current national average for all manufacturing would limit workers' allowances to 60 percent of the industry's average wage).

The DOL estimates that over the next 12 months about 1600 workers may apply for certification. If economic conditions continue to improve it is believed that no additional workers would be likely to apply.

A number of workers may enroll in training programs and consider relocating because recalls in specialty steel plants will not be rapid enough to avoid long periods of unemployment for many workers. The Department of Labor has determined that the Comprehensive Employment and Training Act (CETA) programs in impacted areas are not capable of meeting the needs of the displaced workers in view of high general unemployment rates in these areas.

Adjustment Assistance for Firms

No applications for trade adjustment assistance have been received from specialty steel firms. Applications are not expected in significant numbers -- in part because only the four or five smaller independent producers would likely be found eligible.

Effectiveness of Import Relief to Promote Adjustment

The purpose of import relief under "escape clause" proceedings, as stated in Section 203(a) of the Trade Act, is "to prevent or remedy serious injury or the threat thereof to the industry in question and to facilitate the orderly adjustment to new competitive conditions by the industry in question."

The ITC reported that large gains in productivity have been achieved by domestic producers through cost reduction programs, modernization, close review of product mix with increased specialization and elimination of unprofitable lines, and closer control of inventory and energy costs. Between 1970 and 1974 output per man-hour increased by about one-third. At the same time wages per hour rose by 62 percent which suggests that unit labor costs increased.

As a result of rising costs abroad and dollar devaluations, however, U.S. producers feel that they are now generally competitive with major foreign producers on a cost basis (although import prices are generally significantly lower). The principal argument by the petitioners is rather that the conditions of international trade in specialty steel products should be adjusted to prevent "recurrence of the devastating economic effects of unrestrained imports currently entering the American market." Specifically, the petitioners asked that quotas be established as an interim measure to provide time to negotiate a permanent multilateral arrangement to protect against market disruptions caused by sharp or substantial import increases or the threat thereof or by offering prices below those prevailing for similar goods of comparable quality in the U.S. market.

If there are no adjustments to be made by the domestic industry to meet import competition, then import relief will be ineffective as a means to promote adjustment.

The industry is particularly vulnerable to changes in the business cycle and is faced with compounded difficulties when imports do not respond as quickly as domestic shipments occur during downward swings in the cycle. Import relief could result in greater profitability for the specialty steel industry, which was found by the International Trade Commission to be a low profit industry. Increased profits could be reinvested to improve existing facilities and to increase efficiency in production. It could also permit increased expenditures on research and development so that the producers not only could reduce costs, but could deliver new, higher quality products as well.

Domestic producers have indicated that a quota system would permit them to plan future capital expansion with some assurance that there will be a market for their increased capacity. This is a questionable assertion in economic terms because the principal cause of swings in capacity utilization is the domestic business cycle. Quotas will have no effect on business cycles but under the ITC's proposed remedy will provide for importers to take some share of the decline during a recession. The import volumes involved, however, are relatively insignificant in relation to the swings in domestic consumption and shipments. Further, given the temporary nature of import relief it would probably not provide adequate long term assurance of markets to justify large scale investments that are not otherwise sound economically.

Effect of Relief on Consumers and Competition

The effect of relief that restricts imports would be higher prices to consumers and reduced domestic competition. The effect of increased prices on the economy would be small but competition could be seriously affected depending on the level and type of restrictions adopted.

The U.S. industry is highly concentrated in all of the product categories covered by the ITC determination. During 1975, price levels declined in some categories (e.g., stainless sheets and bars) but were maintained or increased in others (e.g., stainless plate and rod and alloy tool steel), despite a precipitous drop in sales. Cost pressures have been severe in the industry from rising wages, energy costs, and materials costs among other factors. Because of the concentrated structure of the industry there is considerable resistance to price reductions and a longer term tendency to pass on increased costs to consumers. Competition from imports serves to hold prices below levels they might otherwise attain. Price differentials between domestic and imported products are substantial in most product categories--ranging as high as 50 percent but generally from 20-35 percent during 1975. Should imports be limited to smaller volumes, there will be an incentive for foreign suppliers to raise prices toward domestic levels to maximize profits, although some differentials would be maintained. However, assuming import prices had been comparable to domestic prices in 1975, the value of imports would have been substantially higher, costing consumers about $40 million more.

Without the limitation of import competition, the U.S. industry would be freer to raise prices. Increases are especially likely in concentrated industries, such as specialty steel. Import prices would follow, so the prices of all specialty steel consumed in the U.S. would rise. While it is unlikely that the total demand for specialty steel would fall off significantly as prices rise--because substitutes are limited and the cost of specialty steel is a small part of the final price of goods incorporating them--this does not preclude a substitution of domestic output for imports. The inflationary impact on the overall economy would be small (the weight of specialty steels in the BLS Wholesale Price Index is .00175).

It should be noted also that increased prices for specialty steels may affect the competitiveness of industries that may be in the future under investigation under escape clause provisions and there might be some snowball effect on determinations in such cases. Stainless steel flatware and stainless steel wire are currently under investigation by the ITC.

The price benefits to consumers of specialty steel imports exist despite some of the disadvantages to consumers relying on foreign sources. The foreign producer of specialty steel is in some cases not the preferred supplier of domestic users because of the long lead-times involved in obtaining imported supplies and the volatile nature of domestic demand for finished goods containing these steels. Under such circumstances, reliance on foreign suppliers entails the risk of extensive inventory-carrying costs or interruption of supplies. However, some importers do maintain substantial inventories in the United States which permit them to overcome this shortcoming.

Not only would consumers pay higher prices, but also their access to foreign sources during peak demand periods such as 1974 would be restricted.

In addition to serving as a general supplement to domestic production during peak periods, imports broaden the range of specialty steels available to U.S. industrial users. The most prominent instances of this in the specialty steel case involve the importation of stainless razor blade and flapper valve steels which are not produced in the U.S. There also are reported cases of the willingness of foreign producers to fill orders involving unusual specifications of dimensions, weight and grade of steel so that they might enter the U.S. market.

Imports also are a source of supply of rods for independent U.S. stainless wire producers, who would otherwise have to purchase the bulk of their rods from their integrated U.S. competitors.

The effects of import restraints on competition in domestic markets would likely be to reduce competition with the long term consequence of encouraging inefficient use of resources in the economy. Historically, imports have been an important spur to domestic efforts to improve productivity and hold down costs.

Constraints on imports would reduce incentives to do so in the future.

The Federal Trade Commission (FTC) has submitted a memorandum expressing its concern about the economic and competitive implications of the ITC's recommendations. The FTC's view is that "specialty steel producers have not made a case for quotas and that establishing quotas . . . would result in higher prices, promote the cartelization of international markets, and establish a precedent for a wave of importunings for further government regulation on behalf of essentially healthy domestic industries." In the FTC's judgment this "would constitute a substantial cause of serious ultimate injury to competition and to American consumers."

Costs of Employees, Communities and Taxpayers

Import relief no more restrictive than the ITC recommendation would have little beneficial effect for those workers and communities hardest hit by recent layoffs. Imports in the second half of 1975 were only 47 percent of the quota for 1976, so increases in imports from present levels could occur before the effect of quotas is felt. It is only as the domestic economy recovers that significant recalls and reductions in local unemployment will occur. Failure to provide such relief therefore would probably have the effect of delaying temporarily some recalls.

Import relief in the form of adjustment assistance to workers would be of substantial benefit to workers and communities by providing income to laid off workers for a sufficient period of time to permit the domestic recovery to take hold. Such relief would be particularly significant for workers if their unemployment benefits or SUB-benefits provided by the union run out. On the other hand, the additional costs to taxpayers might be substantial (on the order of $25 million).

Failure to provide adjustment assistance might create hardships for substantial numbers of workers awaiting recall by the stainless and alloy tool steel industry.

In terms of costs to taxpayers, import relief might have the effect of reducing the amount of unemployment insurance paid out and increasing taxes paid by recalled workers and by specialty steel firms. Adjustment assistance could represent a substantial outlay by the government to laid off workers whether or not other forms of relief are granted. Any compensation granted would reduce import duties collected. The effect of import relief on duty collections for products affected is uncertain.

National Security Interests (DOD)

The Department of Defense/estimates that their direct consumption (the amount of material that is actually incorporated into weapons' systems and equipment) of stainless steel and alloy tool steel is less than 4 percent of total domestic production. During a national emergency, of course, defense demands upon the mobilization base would increase substantially. Clearly however, there is an inseparable national security inter-relationship between these direct national defense needs and "indirect" essential civilian requirements such as transportation, communications, and energy, all of which are vital to the defense establishment.

While the direct defense production requirements can be satisfied from the domestic market place, the D.O.D. is concerned as to the general economic condition of the industry. A healthy, domestic industry is required to continue to support a viable U.S. research and development effort in the low-volume, high performance special metals needed for national defense purposes.

U.S. Industry and Labor Views

At oversight hearings on trade policy and administration held in early February 1976 by the Senate Finance Committee, representatives of the steel and specialty steel industries and the United Steelworkers of America all testified that they are strongly in support of the ITC findings and proposed remedy.

The labor representative indicated that the specialty steel case is a test case with implications much broader than for this one industry. He referred to the recent creation of barriers to trade by Sweden, Australia, Britain, and the EEC and he stated that:

> "It's hard to believe that the President will not endorse the Commission's recommendations. In this first major test, we must make the Trade Act work."

This view was given in the context that organized labor did not support the Trade Act and its belief that the Federal Government has not carried out the spirit or the letter of the law in its implementation.

The steel industry representative contrasted the European's approach to their steel problems, to the open U.S. process that provided all affected parties an opportunity to provide inputs and to the slowness of the U.S. process which permits damage to continue for as long as eight months. He argued for an international agreement on steel that would provide for consultations and prompt actions to safeguard national steel industries from future market disruption.

The specialty steel industry representative stated that although the ITC:

> "did not go as far as the specialty steel companies had recommended during the hearings . . . /but the companies/ totally, unanimously and without reservation support the Commission's recommendation to the President."

He expressed concern that foreign competitors are attempting by political means to achieve what they were unable to accomplish despite their full participation in the ITC investigation and hearings. The industry's view is that the ITC proposed remedy is reasonable and moderate in its treatment of importers. The industry's representative also argued that the President's decision in this case would "establish clearly whether the intent of Congress and the intent of the legislation is to be carried out."

Foreign Restraints on Trade

No significant barriers to imports or restraints on exports of specialty steel products which have diverted trade to the U.S. market have been identified.

During the period of the U.S. VRA's with the EC and Japan trade reports indicated an agreement also existed between the EC and Japan. This agreement was never officially acknowledged.

Since the exports to the U.S. were already being limited during that period, there would have been no appreciable trade diversion from such an agreement.

The 1976 EC-Japanese arrangement apparently applies to the big six Japanese producers, only three of whom produce specialty steels. There are sixteen Japanese specialty steel producers that are reportedly not participating in the restraint agreement. The EC also is trying to negotiate an agreement with Spain, but without success to date.

The Swedes and the EC, as part of their free trade agreement included a special platform system on specialty steel -- essentially a tariff rate quota. This system permits a five percent per year increase in tonnage volume. Swedish exports above that level are duitable at the tariff level existing prior to the agreement.

Tariff rate quotas were imposed recently by Australia which might have a very small diversionary effect.

<u>Potential Compensation and Its Impact</u>

Article XIX of the GATT permits adversely affected countries having a substantial export interest in the products affected by escape clause actions to withdraw substantially equivalent concessions if required consultations do not result in agreement. It does not require the granting of compensatory concessions when a country takes emergency action to curb imports of particular products. However, the United States has consistently insisted on compensation when it is the affected party and has offered compensation when it acts under escape clause provisions.

Under several of the bases normally used for calculation of compensation the United States could maintain that little or no compensation is due other countries since the proposed quotas for 1976 are larger than average U.S. imports in the most recent three-year period, the most recent five-year period, or even a three-year period which includes a projection for 1975. If the ITC recommended floors for quotas for subsequent years govern imports, it becomes more difficult to argue that compensation is not owed since imports could be cut back by 7,100 tons to the 1970-74 level.

In view of the existence of voluntary export restraints by some countries from 1972-74, other countries well may consider that the period upon which the quotas is based is not a representative one. They may request compensation based on trade of another period -- for example, the most recent 12 months. The quotas for 1976 represent a cut back of 30,700 tons from October 1974 - September 1975. At a calculated unit value of $1315 a ton, trade to be compensated for could be valued in the neighborhood of $40 million. On the same basis, if the 1977-80 quota floors are in effect trade to be compensated for would be valued at nearly $50 million annually.

Even if the U.S. were able to persuade most countries that compensation is not required, it is likely that Japan will claim compensation or alternatively resort to retaliation. Japan could claim that the overall size of the quotas is too small since U.S. imports in the period upon which they are based were abnormally low because of voluntary export restraints by Japan and others.

Japan will certainly claim that it is further penalized by the use of the three-year 1972-74 period as the basis for country allocations. In this period, Japan supplied 38 percent of U.S. specialty steels imports and in the five-year period used as the base for determining the size of the quotas it supplied 47 percent. It could claim compensation on this basis, or if Japan were to adopt the position that its exports of 89,700 tons in October 1974 - September 1975 were normal, it might claim compensation for a cut back of 35,700 tons, with an estimated value of $47 million. It seems clear that some accommodation would have to be found for Japan.

With respect to most other major suppliers aggregate 1976 quotas are sufficiently lberal to argue against compensation (one possible exception being Spain). However, on a product category basis there may be some basis for compensation particularly with respect to alloy tool steel from Sweden, Canada, the U.K., Germany, and Spain; and stainless plate from Canada. The problem with alloy tool steel is aggravated by the fact that the ITC's proposed quota does not provide for an estimated 1,100 tons imported previously under "basket" categories. Thus the quota i understated by that amount.

To date there have been no specific threats of retaliation so the impact on other industries cannot be predicted.

Should an orderly marketing agreement be negotiated normal practices would not call for retaliation or compensation. Tariffs or tariff rate quotas, on the other hand, would be subject to retaliation or compensation.

Effect of Relief on International Economic Interests

The countries which would be principally affected by this institution of the proposed import control program for specialty steel are Japan, Sweden, Canada, and, in the European Economic Community, France, Belgium, the United Kingdom and West Germany. They are of the unanimous opinion that the alleged difficulties of the United States specialty steel industry have not been caused by import competition and therefore the proposed imposition of quantitative limitations on imports of specialty steel could not be justified. In their view, the unsatisfactory operations being experienced by sectors of the United States steel industry are of a short term cyclical nature, like those currently being experienced by producers in other industrialized countries and do not reflect a permanent or fundamental deterioration in the competitive position of the United States industry.

It seems abundantly clear that the affected exporting countries, which include all of our major trading partners, do not find the International Trade Commission's rationalization persuasive. Thus, the unhappiness that would naturally follow the imposition of restrictions on imports would be supplemented by a very strong feeling abroad that the United Stated had acted out of sheer protectionism. Restrictive action would inevitably be compared with our statements at Tokyo, in the OECD, and, more recently at Rambouillet, calling for a more open international exchange of goods and urging governments to resist protectionism or other inward looking policies in formulating measures to stimulate internal economic expansion.

Presidential acceptance of the International Trade Commission proposal would probably impair our relations with Japan, Sweden, the EEC countries, and Canada. There have been a number of developments in the trade field disturbing to the Japanese. Aside from the case in question, the ITC is currently engaged in seven investigations under the Escape Clause provisions of the Trade Act. In most of these cases Japan is the predominant supplier. Shortly after the Commission made public its determination in the specialty steel investigation, it announced the initiation of an investigation of round stainless steel wire. Japan supplies more than one-half of total U.S. imports of this commodity. Moreover, the ITC has made one recent dumping finding against the Japanese in an investigation. Other dumping investigations, including the very important automobile case, are now pending. These actions are being interpreted in Japan as being directed primarily against Japanese exports. In late November the Japanese Government formally expressed to us its concern about what is termed "an unprecedented number" of investigations affecting 20 percent of total Japanese exports to the U.S. It requested that the U.G. Government avoid to the greatest extent possible the adoption of restrictive measures in implementing the Trade Act. (Note: There has been a negative ITC finding on iron and steel nuts and bolts which is of substantial interest to Japan.)

The Japanese Government has argued that the allocation of quotas under the ITC recommendation on the basis of market shares during the 1972-1974 period would discriminate against Japan since her exports of the items were held down under the Voluntary Restraint Agreement with the United States during a substantial portion of that period, while favoring some European and third country suppliers.

Following the announcement of the ITC recommendation, stories appeared in the Japanese press implying possible retaliation if the recommendation were accepted. Although these reports have been denied by Japanese officials, the Government of Japan has a variety of ways in which to demonstrate its displeasure. During the past few years Japan has moved ahead steadily in liberalizing foreign access to its economy. By the end of 1975 Japan had eliminated all import quantitative restrictions not in conformity with GATT for industrial products other than leather goods. Restrictions on computers, together with peripherals and parts, were dropped in December. If Japanese policy-makers draw the conclusion that the United States is proceeding on a protectionist course, the continuation of the pattern of liberalization could be jeopardized. Furthermore, a decision to accept the ITC recommendation in the steel case could seriously complicate our efforts in the Multilateral Trade Negotiations to obtain removal of a number of Japanese agricultural quotas. It is also conceivable that Japan could impose unilateral restrictions on a variety of U.S. exports to Japan.

Sweden, the source of 40 percent of total United States tool steel imports in 1974, is the second ranking supplying country of the articles of interest. Japan and Sweden together accounted for more than half of the total United States import tonnage covered by the Commission's proceeding and nearly 60 percent of their total value. In addition to the problem that would be created by the adoption of the specialty steel proposal, we would also have outstanding, as with the Japanese, a major difference in view stemming from United States policy in the application of the antidumping provisions of our trade legislation to imports of Swedish automobiles. As a result, the Swedes are already upset over pending United States actions affecting nearly a third of the value of their total shipments of goods to the United States in 1974.

France, Belgium, the United Kingdom and West Germany are key countries in EEC decisions in the Multilateral Trade Negotiations. We will need EEC cooperation to achieve the kind of broad agreement on the trade liberalization we are seeking. The member states are upset over the countervailing case on their value added tax system and the threat to their multibillion dollar trade in automobiles arising from the antidumping investigation. Press reports indicate that the proposed import control program has evoked widespread industry protest in the EEC with hints that industry spokesmen would press for trade reprisals if the Commission's proposal were to be adopted.

Canada is also importantly affected. We are currently engaged in exchanges with the Canadians on a broad front of issues. Some recent exchanges have received extensive publicity charging the political atmosphere in Canada. The adoption of controls on shipments of Canadian specialty steel will complicate the resolution of outstanding problems in a manner which accommodates our interests.

The Canadians, who view the problem in the same perspective as the interested officials in other exporting countries, state that there is only one firm producing specialty steel in Canada and that adoption of the Commission's proposal would have a serious effect on its operations. Further Canada is a net importer of stainless and alloy tool steels with respect to the United States.

The OECD Trade Pledge, renewed in May 1975, was designed to (a) promote consultations on international trade problems and (b) avoid unilateral trade measures taken to correct economic problems (although GATT Article XIX actions are not precluded). In the specialty steel case, assuming relief would be pursued in the context of Article XIX, it would be consistent with the spirit of the Trade Pledge to discuss the case in the OECD.

The economic summit at Rambouillet produced a confirmation of commitment to the anti-protectionist principles of the OECD Pledge with an exception for "industries suffering or threatened with serious injury as a result of increased imports, on the basis of particularly acute and unusual circumstances."

Granting of any form of relief would preclude MTN negotiations on such items while relief is in effect. If the Administration were to decide to pursue sectoral negotiations on all steel, such negotiations might be impaired since specialty steels are of significant trade interest to major countries that would be involved.

Foreign Industry Conditions

Foreign stainless and alloy tool steel producers apparently are suffering severely from the current world recession.

In Japan, it has been reported that all non-integrated specialty steel producers are in financial difficulties and that its largest producer lost money in the most recent accounting period. While capacity utilization rates have not fallen as far as in the United States or the EC for steel generally, the Japanese are experiencing for the first time significant cutbacks in steel production (down 12 percent for 1975).

In Sweden, fourth quarter specialty steel production in 1975 was one-third less than in the same 1974 period. (off 9% for 1975 overall).

In the EC, total steel production was off sharply in 1975 (-20 percent) with larger than average declines in France, Germany, and Belgium.

Most of these countries are much more dependent on trade than the United States. The ratio of exports to production of stainless steel in 1974 were over 40 percent for France and Sweden; 20-40 percent for Germany and the U.K.; and about 19 percent for Japan; and only 5-6 percent for the United States. In 1974, exports to the United States generally represented less than 20 percent of total exports by these countries, however, more than 10 percent of Swedish, Japanese, and British exports of stainless steel were directed to the U.S. market and in the case of the Japanese, particularly, the importance of the U.S. in total exports undoubtedly was much higher in 1975. Thus, U.S. action on specialty steel could significantly impact on several of the foreign industries, which are already experiencing difficulties.

It should be noted that while Japan and Sweden are large net exporters of specialty steels, most other suppliers rely heavily on imports.

Data are not available on unemployment in foreign specialty steel industries although there are indications that layoffs are probably less extensive than in the U.S. industry.

Foreign Government Involvement in Their Steel Industries

It has been argued by industry representatives that their principal concern is foreign government involvement with their producers, which gives those producers an artificial competitive advantage. In Japan cartels have been organized to allocate export business among domestic producers. It has been reported in the press that such a cartel is being formed on specialty steels. There have been reports of efforts by MITI on behalf of at least one company to get the Bank of Japan to provide financial assistance and, in general, MITI is believed to have a significant role in allocating investment capital to Japanese industries.

The Japanese appear to follow a market clearing price policy designed to maintain high employment levels, and as a result sell considerable volumes at a loss. At the same thme, the industry maintains a highly leveraged financial position compared with the U.S. industry. To a considerable extent, government policy in Japan appears to help the industry over rough spots and provide guarantees needed to expand capacity and production.

The Swedes also attempt to maintain employment levels during recessions and employers are partially reimbursed for the added costs.

The EC enjoys certain benefits through the European Coal and Steel Community Treaty such as lower than market interest rates on loans. Within the EC, of course, the nationalized component of the British steel industry operates with direct government support which subsidizes operating losses and provides substantial funds for expansion. Despite unprofitable operations recently, British Steel Corporation has announced substantial expansion plans for specialty steel to reduce the 50 percent of the domestic market now held by imports. Thus a substantial amount of diversion from the U.K. market may result from what is essentially a political decision. The British Government is also financing steel stockpiles to help maintain production levels.

Whatever the actual competitive effects of various forms of government involvement in foreign industries, the perception by the domestic industry that there is a substantial threat to their future operations appears to influence their decisions on investment and other matters. It should be noted that the U.S. Government provides at least one significant form of support to the domestic specialty steel industry--preferential U.S. Government procurement policies which effectively exclude about four percent of U.S. shipments from import competition.

In considering the U.S. industry's allegations of government assistance to foreign firms and that foreign firms sometimes sell at a loss, it should be kept in mind that these allegations concern unfair trade practices. Under our trade legislation, relief from such practices is to be obtained by use of the countervailing, antidumping, or other provisions of U.S. law, not by use of escape clause provisions

which apply to this case. In fact, Section (201)(a)(6) of the Trade Act states:

> ". . . whenever in the course of its investigation the Commission has reason to believe that the increased imports are attributable in part to circumstances which come within the purview of the Antidumping Act, 1921, section 303 /the countervailing duty law/ or 337 of the Tariff Act of 1930, or other remedial provisions of law, the Commission shall promptly notify the appropriate agency so that such action may be taken as is otherwise authorized by such provisions of law."

The ITC has not notified Treasury, which has responsibility for administering those laws, of any countervailing or dumping evidence found by the ITC in its investigation.

Further, the U.S. industry has not filed antidumping or countervailing petitions for relief from most of the practices described above (except for three antidumping petitions for certain steel products) although the criteria for eligibility is easier. No injury would have to be shown in a countervailing case, but foreign "bounties or grants . . . upon the manufacture, or production or export of any article or merchandise manufactured or produced" in the foreign country would have to be found by the Secretary of the Treasury. In a dumping case the injury test is also easier to meet than in the escape clause, but "sales at less than fair value," which may include sales at below cost, do have to be found by the Secretary of the Treasury.

Contextual Considerations

This is the first case in which the ITC has reached an affirmative determination under the modified escape clause provisions of the 1974 Trade Act. These provisions were modified the Congress to make escape clause actions easier to obtain than under the previous law. To some extent, industry support for the trade liberalizing aspects of the Act was obtained by making various safeguard procedures easier to use. Some elements of industry that supported the bill and labor unions, who didn't, can be expected to view this case as the first clear indication of whether the Administration will be willing to utilize the import relief provisions. There are additional escape clause cases under ITC investigation including footwear (a much larger trade volume than this case) and stainless steel wire.

Granting of import relief likely will be interpreted abroad as a misapplication of the escape clause to assist an industry whose principal problem they believe to be recession. A significant backlog of actions has built up under escape clause and other safeguard procedures with respect to the exports of our major trading partners--particularly Japan and the EC. These nations would perceive import relief for specialty steels as a signal that the U.S. Government is succumbing to protectionist interests. Such perceptions could have adverse implications for the MTN. Further, should relief be granted, these products would have to be reserved from trade negotiation concessions.

<u>The ITC's Proposal</u>

Acceptance of the ITC's proposed scheme of quantitative restrictions is the only option that is not subject to Congressional override.

There are several technical problems with the proposal including understating alloy tool steel quotas by six percent, an effective date which cannot be implemented (i.e., Jan. 1, 1976), failure to provide for new suppliers, and the inclusion of razor blade steel, which is not produced domestically, within the quota. These problems are relatively minor and would not preclude the President from accepting the ITC recommendation.

The effect of the proposed quotas on imports will vary from product to product as summarized below (not taking the one year lag in applying percentage share of consumption into account):

<u>Stainless sheet and strip</u> - Quotas are quite generous in total and provide sufficient room for import growth once consumption recovers. Another peak demand period like 1974 would be unlikely to result in serious shortages of imports due to quota constraints, provided sources other than Japan

are willing to expand their exports to fulfill their quota potential.

<u>Stainless plates</u> - Quotas are restrictive in 1976 but reasonably generous for 1977-80, provided Sweden can expand exports substantially to fulfill its share of the quota. Japan's exports are severely constrained.

<u>Stainless bar</u> - Imports would be cut back sharply in 1976 and probably constrained well below the 1974-75 average through 1980. Japan again is the big loser, with significant increases required from Spain, Germany, Brazil and Canada to fulfill overall quota levels.

<u>Stainless rod</u> - 1976 imports would be reduced slightly but imports from Japan would be deeply cut so that Sweden, Belgium, and France must increase their exports significantly to reach the total quota. During 1977-80, the quotas provide room for growth and higher imports than in 1974 should another similar peak demand occur.

<u>Alloy tool steel</u> - The quota for 1976 represents a substantial cut, particularly for Sweden. Volume would be lower than any year since 1972. For 1977-80, growth would be possible but even if the record 1974 consumption level recurs, imports would be constrained below the 1973-75 annual average.

On the major volume of imports, the quotas are not seriously constraining even if a peak demand period occurs while they are in effect, assuming some flexibility in applying the market share criterion and that suppliers who have room to expand exports to the U.S. market actually do so. The principal exceptions are stainless plate in 1976, stainless bar for 1976-80, and alloy tool steel for 1976-80. Also, the assumption that sheet and strip imports will be able to expand to meet more generous quota levels is open to question.

Given this pattern of constraint or lack thereof it appears that the proposed restrictions would:

- probably have little effect on domestic production levels in 1976 and hence generate little acceleration in recalls of workers. Gains that would occur as a result of effective import constraints on stainless plate and bar, and alloy tool steel are small in tonnage terms (perhaps 10-15,000 tons) and may be offset by losses due to increases in sheet and strip imports (which can expand by 13,500 tons)
- be likely to reduce price competition on stainless plates and bars and alloy tool steel while maintaining some price competition for other products, particularly sheet and strip. In the former categories there would be an incentive for both domestic and import prices to rise. This would imply higher costs to consumers with a good deal of the benefit going to foreign suppliers.
- definitely result in retaliation or negotiations for compensation involving the Japanese. A substantial amount of trade (e.g., $40-50 million) would be involved.

Modified Quantitative Restrictions

To take care of some of the technical problems of the ITC proposal and provide a better balance in terms of the constraining effects of quotas, a different mix of quotas could be designed within the same overall quotas provided by the ITC. Thus, razor blade steel would be excluded from quotas and the excess in stainless sheet and strip could be distributed among plate, bar and alloy tool steel to ameliorate 1976 cutbacks in those areas. This would probably have little net effect on domestic production and jobs but would reduce domestic price pressures and distortions in import product mix from recent patterns.

Another alternative would be to set a total quota only --not for product categories--which would permit imports to flow where competitive pressures drive them. This might adversely affect certain producers in product areas where importers would receive the highest profit.

Further, the restrictions could be modified to provide another basis for country allocations (e.g., 1970-74 or 1975) that is more realistic in terms of likely availability of supply and less discriminatory against the Japanese. This would improve possibilities for fulfilling quotas provided and minimize the compensation bill with the Japanese.

Rather than distributing to the foreign countries, the right to sell specialty steel, such right under the quota could be distributed to American importers. This alternative eliminates the cash transfer to foreign producers implicit in a country by country allocation system. The administrative problems involved, however, would be more serious than any other quota system discussed. It also would complicate the negotiation of compensation.

Another possible revision might be semi-annual or quarterly quota estimates that would be more sensitive to shifts in this volatile market.

Orderly Marketing Agreement

The President may announce his intention to negotiate orderly marketing agreements (OMA), which in this case would involve at least Japan, Sweden, the EC, Korea, and Spain. Other countries could be permitted to import freely although this would cause significant international problems (e.g. discrimination); be subject to quotas; or OMA's. A series of OMA's could be negotiated within the quota limits proposed by the ITC but with much greater flexibility to respond to particular country concerns (e.g. allowing different product mix within same total). This flexibility could serve to reduce the dissatisfaction of foreign producers while keeping U.S. producers more conscious of import competition as a damper on price increases. The terms of such agreements can be subject to regular review and revisions or discontinuance as appropriate (e.g., in the event of domestic shortages).

In this case, it is unlikely that the level of imports under OMA's could be held to levels comparable to the ITC's proposed quotas.

Orderly marketing agreements traditionally do not require compensation meaning that no increases in foreign barriers to U.S. exports or decreases in U.S. barriers would result. Other domestic industries thus would not be adversely affected although consumers would be denied the benefits of lower cost imports in other product areas.

A danger of OMA's for specialty steel is that they may spread to carbon steel.

The imposition of country-by-country quotas, or orderly marketing agreements, will virtually force foreign producers to cartelize their shipments to the United States, thus reducing competition among importers themselves. This is indirect opposition to our strong anti-cartel policy. Furthermore, by encouraging foreign firms to form cartels for the purpose of allocating shipments to the United States, we may undermine the developing antitrust policies of other nations.

Historically, once quotas or OMA's are in effect, it has been difficult to remove them; however, under escape clause provisions there is a time limit on such restrictions based on the authority of the Trade Act.

Quotas allocated on a country-by-country basis have the additional disadvantage of allowing foreign producers to capture the increase in import prices that results from the import limitation.

Tariff Increases or Tariff Rate Quotas

Tariff increases or tariff rate quotas would normally provide benefits to the consumer in the form of lower costs and greater availability of supply during heavy demand periods, compared with an equivalent quota. To the extent that foreign producers would absorb tariff increases, consumers would receive savings as compared with a quota. Importers would have an incentive to compete and not form export cartels and domestic producers would be somewhat constrained in raising prices.

Due to the relative price inelastic demand for specialty steel, the tariff increase required to affect import volumes and provide some domestic production incentive would be large. Price differentials between imported and domestic prices recently have been primarily in a range of 20-35 percent. Tariff increases of that magnitude, however, might prove quite costly to consumers if demand picks up worldwide and world prices rise accordingly.

(e.g. during 1974 import prices exceeded domestic prices in many instances) but supplies would be available in contrast to a quota.

Price increases of imports with increased tariffs are more likely to be one-time as contrasted with quotas where prices would be expected to continue to increase. Once the initial increase is absorbed and domestic prices rise, import prices can again become competitive.

Tariff increases would also result in a very large compensation bill for the U.S. to negotiate. Whatever increased customs duties might be collected would be at least partially offset by concessions in other areas. Tariffs have an added disadvantage compared to quotas/ or OMA's in that they can not be directed primarily at those countries that are the major source of increased imports. The higher cost foreign producers would be more adversely affected.

Tariff rate quotas might have a similar effect to tariffs although initial costs to consumers would be reduced if importers practice average cost or mark up pricing, and the compensation bill would be smaller.

Adjustment Assistance

Adjustment assistance for workers is available without Presidential action, but the President can order expedited handling of adjustment assistance. In view of the substantial layoffs in the domestic industry and the prospect for gradual recalls of workers, expedited assistance would be of substantial benefit to workers. Expedited assistance for firms would probably be of little value in view of the basic health of the industry and the limited number of firms that would be eligible (none of whom have applied).

No Relief

The President may determine that import relief is not in the national economic interest. In this case it appears that import relief (aside from adjustment assistance) will provide little benefit to the industry and its workers and may entail substantial costs to consumers while adversely affecting U.S. international economic interests. On the other hand, it is certain that an attempt would be made to obtain a Congressional override, probably with a much broader base of support than the firms and workers of the specialty steel industry. In the event of a Congressional override, the ITC remedy would automatically go into effect. At that point the President might still have the option to negotiate OMA's to supplant quotas.

It may be impractical for the President to declare no import relief in this case without also announcing steps he will take that will respond to the basic concerns of petitioners. He could expedite adjustment assistance to workers which would provide funds to most laid off workers in the industry until they are recalled. In recognition of petitioners' basic concern that foreign government involvement in their steel industries represents a threat of disruption in the U.S. market, there are several actions the President could announce including his intention to negotiate an international safeguard agreement for steel that would protect the U.S. market from sudden or marked disruptions. Such an arrangement was part of the solution proposed by petitioners and has also been proposed by the steel industry. This could include carbon steel, 90 percent of U.S. steel production by value, which was not covered by the ITC finding. Foreign uncertainty about the pending decision in the case could be used as leverage to get agreement from them to enter into negotiation before the President's announcement. Another option would be to initiate consultations within the OECD to work toward international solutions to steel trade problems.

E

DRAFT PRESS RELEASE

FOR RELEASE MARCH 16, 1976

PRESIDENT FORD ANNOUNCES IMPORT RELIEF FOR SPECIALTY STEEL INDUSTRY AND WORKERS

President Ford announced today that he has decided to grant import relief to the specialty steel industry. This is the first affirmative action taken under the escape clause provisions of the Trade Act of 1974.

The United Steelworkers of America and the Tool and Stainless Steel Industry Committee petitioned the U.S. International Trade Commission (USITC) on July 16, 1975 for import relief. On January 16, 1976 the USITC found that the industry was seriously injured substantially due to increased imports. During most of 1975, 25 percent or more of the industry's 30,000 person workforce were laid off and less than half of the industry's production capacity was utilized, causing profits to plummet. At the same time imports rose slightly in tonnage terms and significantly increased their share of the U.S. market. Thus, the President has determined that the industry and its workers need relief.

The President intends to negotiate orderly marketing agreements with key supplying countries for specialty steel products covered by the USITC's affirmative finding of injury. It is intended that these agreements limit imports over a three year period, while the domestic specialty steel industry recovers from the high unemployment and depressed operating levels of 1975. Should orderly marketing agreements not be negotiated successfully the President will proclaim import quotas for a period of three years to take effect no later than June 14, 1976. The quotas will be set at overall levels comparable to those recommended by the USITC.

International consultations have been requested by the United States in the OECD to discuss the problems of our specialty steel industry and the proposed U.S. actions. Bilateral discussions with key supplying countries will be initiated as soon as possible.

In recognition of the special problems of our specialty and carbon steel industry - the President has directed his Special

Representative for Trade Negotiations, in the Multilateral Trade Negotiations, to deal on a sectoral basis with the problems of cyclical distortions in steel trade, while liberalizing the conditions of this trade.

Finally, the President has ordered the Secretary of Labor to expedite processing of trade adjustment assistance petitions, to assist the large number of unemployed specialty steel workers. About 3400 workers of 8500 laid off are already eligible for such assistance.

The decision not to implement at this time the USITC's proposed remedy of quotas for the next five years is based on several considerations. This remedy is too inflexible in view of the rapid expansions and contractions of the specialty steel market and is not well suited to the needs of the industry during recovery from a recession period. The U.S. Government also desires to avoid unilateral restrictive action by trying to resolve specialty steel import problems through agreements with the other major nations involved. In this manner, the disruption to trade can be reduced and the special concerns of other nations can be taken into account, while the injury to the domestic industry is remedied.

Relief will be provided for a period sufficient for the industry to recover a healthy employment and profit position and will be reduced or discontinued when the President determines, with the advice of the USITC and the Secretaries of Commerce and Labor, that this recovery is taking place.

F

DRAFT FEDERAL REGISTER NOTICE

Note: [The statute states that the President shall publish in the Federal Register that he has made a determination of the method and amount of import relief he will provide, or that he has determined import relief is not in the U.S. national economic interest.]

TITLE 3 - THE PRESIDENT

Presidential Determination
Under Section 202(b)
Of the Trade Act of 1974

Specialty Steel

[INSERT TEXT OF PRESS RELEASE]

THE WHITE HOUSE

March __, 1976

G

DRAFT LETTER SUBMITTING PRESIDENTIAL REPORT

Dear Mr. Speaker:

In accordance with Section 203(b)(1) of the Trade Act of 1974, enclosed is a report to the Congress setting forth the action I am taking on specialty steel imports pursuant to Section 203(a) of the Trade Act of 1974.

The Honorable Carl Albert
Speaker of the U.S. House of Representatives
Washington, D. C. 20515

March 16, 1976

IMPORT RELIEF ACTION

STAINLESS STEEL AND ALLOY TOOL STEEL

As required under Section 203 (b)(1) of the Trade Act of 1974, I am transmitting this report to the Congress setting forth the actions I will take with respect to stainless and alloy tool steel (also referred to as specialty steel) products covered by the affirmative finding on January 16, 1976 of the United States International Trade Commission (USITC) under Section 201 (d)(1) of the Trade Act. As my action differs from that recommended by the Commission, I have included the reason for my decision.

I have determined that import relief should be provided to permit the industry to recover from its recent depressed operating levels (less than 50% of capacity) and high unemployment rates (25% or more).

Relief will be continued until such time as I determine, with the advice of the USITC and Secretaries of Labor and Commerce, that the industry has regained healthy production and employment levels.

I intend to negotiate orderly marketing agreements with key supplying countries within the next 90 days. It is intended that these agreements limit imports, of those stainless and alloy tool steel items which are covered, to recent levels while the domestic industry recovers from the high unemployment and depressed operating levels of 1975. If satisfactory orderly marketing agreements are not negotiated successfully, I will proclaim import quotas for a period of three years to take effect on June 14, 1976. The quotas will be set at overall levels comparable to those recommended by the USITC.

I have decided to seek orderly marketing agreements in order to work with the principal nations involved, resolving the immediate problems of our domestic industry in a manner which meets the special concerns of each of the nations affected, while injury to domestic industry is remedied.

To assist the large number of workers who have been laid off, I have ordered the Secretary of Labor to expedite processing of applications for trade adjustment assistance. The income benefits of such assistance for these unemployed workers, should reduce the hardships suffered particularly in cases where unemployment benefits have expired.

In addition to the above actions to be taken under Section 202 of the Trade Act of 1974, I have directed the Special Representative for Trade Negotiations, in the Multilateral Trade Negotiations, to deal on a sectoral basis with the problems of cyclical distortions in steel trade, while liberalizing the conditions of this trade.

My decision not to accept the USITC's proposed remedy of quotas for a five year period is based on two major considerations. First, the remedy is too inflexible in view of the rapid expansions and contractions of the specialty steel market. During a recession period, imports would not be sufficiently constrained to prevent a recurrence of the problems encountered last year. On the other hand, in the event of a peak demand period with our domestic industry operating near capacity, imports could be held below levels needed by domestic consumers, particularly for certain product categories. Second, the USITC remedy does not take into account special factors affecting certain foreign supplying countries.

Announcements of the actions outlined above will be made in the Federal Register.

DRAFT LETTER SUBMITTING PRESIDENTIAL REPORT

Dear Mr. President:

In accordance with Section 203(b)(1) of the Trade Act of 1974, enclosed is a report to the Congress setting forth the action I am taking on specialty steel imports pursuant to Section 203(a) of the Trade Act of 1974.

The Honorable Nelson Rockefeller
President of the U.S. Senate
Washington, D. C. 20510

March 16, 1976

IMPORT RELIEF ACTION

STAINLESS STEEL AND ALLOY TOOL STEEL

As required under Section 203 (b)(1) of the Trade Act of 1974, I am transmitting this report to the Congress setting forth the actions I will take with respect to stainless and alloy tool steel (also referred to as specialty steel) products covered by the affirmative finding on January 16, 1976 of the United States International Trade Commission (USITC) under Section 201 (d)(1) of the Trade Act. As my action differs from that recommended by the Commission, I have included the reason for my decision.

I have determined that import relief should be provided to permit the industry to recover from its recent depressed operating levels (less than 50% of capacity) and high unemployment rates (25% or more).

Relief will be continued until such time as I determine, with the advice of the USITC and Secretaries of Labor and Commerce, that the industry has regained healthy production and employment levels.

I intend to negotiate orderly marketing agreements with key supplying countries within the next 90 days. It is intended that these agreements limit imports, of those stainless and alloy tool steel items which are covered, to recent levels while the domestic industry recovers from the high unemployment and depressed operating levels of 1975. If satisfactory orderly marketing agreements are not negotiated successfully, I will proclaim import quotas for a period of three years to take effect on June 14, 1976. The quotas will be set at overall levels comparable to those recommended by the USITC.

I have decided to seek orderly marketing agreements in order to work with the principal nations involved, resolving the immediate problems of our domestic industry in a manner which meets the special concerns of each of the nations affected, while injury to domestic industry is remedied.

To assist the large number of workers who have been laid off, I have ordered the Secretary of Labor to expedite processing of applications for trade adjustment assistance. The income benefits of such assistance for these unemployed workers, should reduce the hardships suffered particularly in cases where unemployment benefits have expired.

In addition to the above actions to be taken under Section 202 of the Trade Act of 1974, I have directed the Special Representative for Trade Negotiations, in the Multilateral Trade Negotiations, to deal on a sectoral basis with the problems of cyclical distortions in steel trade, while liberalizing the conditions of this trade.

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Announcements of the actions outlined above will be made in the Federal Register.

H

MEMORANDUM FOR THE SECRETARY OF LABOR

In conjunction with my determination today, under section 202(b) of the Trade Act of 1974, regarding import relief for the specialty steel industry, I hereby direct that you give expeditious consideration to petitions by workers in this industry for trade adjustment assistance under chapter 2 of Title II of the Trade Act of 1974. A copy of the Federal Register notice of my determination is attached.

March 16, 1976

T
A
B

#1

March 11, 1976

MEMORANDUM FOR
THE VICE PRESIDENT

SUBJECT: Specialty Steel Import Case

The President requested that you be provided a copy of the complete package he is presently studying on the Specialty Steel Import Case.

The package consists of the following:

TAB A - Original Memorandum dated March 1, 1976 from Special Representative for Trade Negotiations plus comments from White House staff reflected in my memorandum of March 6, 1976 to the President.

TAB B - Memorandum from Ambassador Dent dated March 8, 1976 - "Timetable for Recommended Steel Decision".

TAB C - Briefing Paper for Presidential Meeting with I. W. Abel and Richard Simmons on March 10, 1976.

TAB D - Briefing Paper for Presidential Meeting with Congressional Delegates on Specialty Steel on March 11, 1976.

TAB E - Undated memorandum from Brent Scowcroft received March 11, 1976 suggesting an additional option in this case plus comments from White House staff members.

James E. Connor
Secretary to the Cabinet

A

March 6, 1976

MR PRESIDENT:

<u>Specialty Steel Import Case</u>

The attached memorandum from Ambassador Dent was staffed to members of the senior staff. Messrs. Marsh, Buchen, Cannon, Friedersdorf and Morton concur with Ambassador Dent's recommendation of Option III.

Max Friedersdorf adds the comment - "We have received a request for a meeting with the President by a number of Congressmen and Senators from Ohio, Pennsylvania, New York and West Virginia to discuss this subject."

Jim Cannon adds the comment - "It is troubling to note, however, that Attachment D - "Specialty Steel Case Background" indicates that "the specialty steel industry is suffering to a large extent from the domestic recession." Thus, it appears that the industry suffers primarily from cyclicality, not imports. This certainly throws into substantial question the USITC finding that the industry was seriously injured substantially due to increased imports."

Brent Scowcroft recommends still another alternate to the solutions stated in Ambassador Dent's memo. His comments are attached at Tab #1.

Should you select Option III, the necessary documents to implement your decision will be prepared for your signature.

Jim Connor

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

~~CONFIDENTIAL~~

March 4, 1976

MEMORANDUM FOR: JAMES CONNOR

FROM: BRENT SCOWCROFT

SUBJECT: Specialty Steel Import Case

I concur with Fred Dent's recommendation to the President on the specialty steel import case, subject to one reservation. I strongly recommend that the President's announcement be modified so as not to unnecessarily limit the President's flexibility and complicate our negotiations by committing ourselves to specific actions if we are unable to reach satisfactory Orderly Marketing Agreements.

Option 3, as currently framed, recommends that the President:

-- Proclaim import quotas, effective in 90 days, for a period of three years;

-- State that he will seek to negotiate Orderly Marketing Arrangements during the 90-day period; and

-- Note that he can reduce or terminate the quotas if the economic position of the domestic industry improves.

I recommend that the President instead:

-- Announce his intention to seek Orderly Marketing Agreements with exporting countries over a 90-day period; and

-- State firmly that in the absence of a satisfactory agreement he will provide import relief at the end of that period.

The difference is that by not announcing in advance specifically what import relief he would provide, the President would:

-- Remove the element of duress which specific threats would bring to the negotiations, yet put the exporting nations on notice that we will take corrective measures if no agreement is reached.

~~CONFIDENTIAL~~

-- Maintain through the period of the negotiations his flexibility as to form of relief.

The third element of Fred Dent's recommendation, that the President announce that the remedy could be reduced or terminated depending upon developments, would be included in a Presidential statement announcing the imposition of quotas should negotiations fail.

I realize that this modified option may not be as satisfactory to the steel industry and to the Congress as would the original. It is vital to our relations with our industrialized allies, however, that we maintain the spirit of consultation which we have so carefully nurtured, and I think we can make a strong defense of this course of action to Congress and the industry. Assuming the President would wish his advisors to speak to the steel industries, an effective argument could be made to them that the President:

-- was indeed firmly committed to impose significant remedies if satisfactory OMAs could not be reached; and

-- was not asking the industry to commit itself in advance, since Congress would still have the opportunity to override if the OMAs or quotas were not satisfactory.

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

~~CONFIDENTIAL~~

March 4, 1976

MEMORANDUM FOR: JAMES CONNOR

FROM: BRENT SCOWCROFT BD

SUBJECT: Specialty Steel Import Case

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-- State firmly that in the absence of a satisfactory agreement he will provide import relief at the end of that period.

The difference is that by not announcing in advance specifically what import relief he would provide, the President would:

-- Remove the element of duress which specific threats would bring to the negotiations, yet put the exporting nations on notice that we will take corrective measures if no agreement is reached.

~~CONFIDENTIAL~~

DECLASSIFIED
E.O. 13526 (as amended) SEC 3.3
NSC Memo, 3/30/06, State Dept. Guidelines
By HR NARA, Date 9/11/12

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-- was indeed firmly committed to impose significant remedies if satisfactory OMAs could not be reached; and

-- was not asking the industry to commit itself in advance, since Congress would still have the opportunity to override if the OMAs or quotas were not satisfactory.

THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS
WASHINGTON

~~CONFIDENTIAL~~

1 MAR 1976

MEMORANDUM FOR THE HONORABLE WILLIAM F. GOROG

FROM : Frederick B. Dent

SUBJECT: Steel Decision Memorandum

Attached is a decision memorandum for the President on the specialty steel import case reflecting the Trade Policy Committee meeting on February 27.

If the President makes his decision this week, it would enable us to consult with the major supplying countries, and with key industry and labor representatives, as well as with members of the Finance and Ways and Means Committees, before the decision becomes public. I would urge strongly that the issue be put before the President as soon as possible.

You may wish to transmit the attached memorandum to Bill Seidman and Bill Simon through secure limited-access channels, as they were both very interested in this matter.

You should note that the President's determination must be published in the Federal Register by March 16.

~~CONFIDENTIAL~~

B

THE PRESIDENT HAS SEEN....

THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS
WASHINGTON

~~CONFIDENTIAL~~

March 8, 1976

MEMORANDUM FOR THE PRESIDENT

FROM : Frederick B. Dent

SUBJECT: Timetable for Recommended Steel Decision

If you choose Option III presented in the earlier memorandum, the following schedule would be likely:

March 10	Presidential decision to seek orderly marketing agreements, and impose quotas for three years if agreements are not concluded by mid-June.
March 10-15	Negotiations initiated by the Special Trade Representative with principal supplying countries.
March 16	Presidential announcement that import relief is to be granted, that negotiations are in progress and quotas will be imposed if the negotiations fail, that imports are being monitored to detect disruption during the period of negotiations, and that any restrictions imposed will be lifted when the industry recovers or when a steel sector agreement is concluded in the Multilateral Trade Negotiations (MTN).
	STR, Commerce, and Labor consult with those in business, labor, and Congress directly interested in this decision.
	U.S. calls for consultations in OECD and urges priority treatment for a steel sector negotiation in the MTN.

~~CONFIDENTIAL~~

	90 "legislative" day period for Congressional override begins.
June 14	Statutory deadline for conclusion of agreements, or imposition of quotas by U.S.
mid-September	Approximate expiration of period for Congressional override.

C

THE WHITE HOUSE

WASHINGTON

March 9, 1976

MEETING WITH I. W. ABEL AND RICHARD SIMMONS
March 10, 1976
4:30 p.m.
The Oval Office

From: William F. Gorog

I. PURPOSE

To allow Messrs. Able and Simmons to present their views in support of the U.S. International Tariff Commission (ITC), recommendation that five year quotas be placed on foreign specialty steel imports.

II. BACKGROUND, PARTICIPANTS, AND PRESS PLAN

A. Background: Both labor and management are strongly united in support of maximum possible import relief and favor the ITC decision. Congressman Green, who is seeking Senator Scott's seat, is particularly vocal and is strategically situated as Chairman of the Trade Policy Subcommittee. A summary of the economic situation and your options are attached.

The specialty steel industry has urged the U.S. Government for many years to grant protection against import competition. Such pressure in 1971 led to negotiation of stainless steel subceilings under the steel voluntary restraint agreements (VRAs) with Japan and the European Community. Experience under those restraints indicates that Japan did not fill the levels allocated--probably due to high demand in other world markets--and that the EC probably exceeded the levels provided for under the VRA.

The domestic industry feels that it has followed the processes required by the Trade Act of 1974 and that foreign interests have had an opportunity to make their case and have lost. The industry feels, therefore, that it is entitled to relief. The principal objective of the industry appears to be a permanent international arrangement safeguarding against disruptive imports. Given the depressed level of activity and high levels of unemployment in the industry, it is expected that a decision to grant no relief would be likely to be overridden by Congress thus implementing the ITC's proposed quantitive restrictions. Those restrictions are deficient in several respects and would have adverse effects on prices to consumers and on international relations (with Japan particularly).

B. Participants: I. W. Able, President, United Steelworkers of America; Richard Simmons, President, Allegheny-Ludlam Steel Corporation; William F. Gorog

C. Press Plan: David Kennerley

III. DISCUSSION POINTS

A. Economic Outlook

I am very pleased that both of you were able to come today and share your views on the specialty steel case with me.

I am interested in your assessment of the outlook for the specialty steel sector as the economy recovers.

Is the forecast for improvement likely to remove some of the economic problems which were at their height when ITC had the case before it last year?

Why is specialty steel so much more vulnerable to imports than some other products?

B. Impact on Trade Negotiations

I am also interested in your views on how import relief may affect our overall trade relations and pending trade negotiations. Specifically, what retaliatory action do you think is likely from Japan and European producers if we grant the type of relief recommended by the ITC? And do you see any prospect of negotiating an acceptable orderly marketing agreement in lieu of quotas or tariffs?

THE WHITE HOUSE

WASHINGTON

March 9, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: WILLIAM F. GOROG WFG

SUBJECT: Summary of Specialty Steel Imports Case

Economic Background

Specialty steel imports total nearly $200 million, doubling in value since 1970. They represent 5 percent of U.S. steel imports by value and 1 percent in tonnage. The U.S. specialty steel industry comprises 1.5 percent of domestic steel production. After doubling production and shipments since 1970, a 45 percent decline was experienced in 1975, in part caused by the recession. In 1975, about 8,500 persons, or about 25 percent of the work force, were laid off. Nineteen companies, with 40 plants (one-half in Pennsylvania) are affected.

Action by the International Trade Commission (ITC)

The ITC, in its first affirmative injury finding under the Trade Act of 1974, found serious injury and recommended imposition of 5-year quotas at 1974 levels. You must announce your intention by March 16. If you choose any form of quotas, tariffs, or a combination, they must be put into effect by March 31. If you seek negotiation of orderly marketing agreements, or an alternative form of relief, they must be in effect by June 14. Within 90 working days after the effective date of relief, both Houses, by simple majority, may override your action, in which case the ITC decision stands. There is no middle ground.

Presidential Options and Recommendations of the Trade Policy Committee

The Trade Policy Committee considered three options:

(1) Deny relief on grounds of national economic interest and seek unilateral, voluntary restraint by foreign suppliers.

(2) Impose import quotas for 1 or 2 years comparable to 1975 levels.

(3) Announce, March 16:

-- Intention to impose 3-year quotas.

-- Initiative to seek orderly marketing agreements as a substitute for quotas.

-- Intention to terminate import relief by quotas or orderly marketing agreement if there are improvements in the industry's economic position based on advice from Secretaries of Labor and Commerce.

The Trade Policy Committee recommends Option 3. The State Department suggests a fourth option involving Option 3 but without announcement of final decision on the form of import relief action until June 14.

Considerations

Congressional interest and pressure is strongly in favor of the relief proposed by ITC and views this case as a test of Executive conformance to the spirit of the Trade Act of 1974. STR and the Trade Policy Committee believe that Congressional override is likely if your decision varies significantly from the ITC's.

A major consideration, however, is the nature and extent of possible foreign retaliation or U.S. payment of compensation resulting from action granting import relief. This can be avoided by attempts to negotiate orderly marketing agreements.

Timing is important. The object of a Presidential announcement on March 16 should be to avoid sharp criticism of alleged Administration foot dragging which might lead to politically motivated rejection of your final decision. Also, a decision in advance of March 16 would permit consultations with affected foreign governments such as Japan and the European Community.

THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS
WASHINGTON

~~CONFIDENTIAL~~

March 8, 1976

MEMORANDUM FOR THE PRESIDENT

FROM : Frederick B. Dent

SUBJECT: Timetable for Recommended Steel Decision

If you choose Option III presented in the attached memorandum, the following schedule would be likely:

March 10	Presidential decision to seek orderly marketing agreements, and impose quotas for three years if agreements are not concluded by mid-June.
March 10-15	Negotiations initiated by the Special Trade Representative with principal supplying countries.
March 16	Presidential announcement that import relief is to be granted, that negotiations are in progress and quotas will be imposed if the negotiations fail, that imports are being monitored to detect disruption during the period of negotiations, and that any restrictions imposed will be lifted when the industry recovers or when a steel sector agreement is concluded in the Multilateral Trade Negotiations (MTN).
	STR, Commerce, and Labor consult with those in business, labor, and Congress directly interested in this decision.
	U.S. calls for consultations in OECD and urges priority treatment for a steel sector negotiation in the MTN.

~~CONFIDENTIAL~~

	90 "legislative" day period for Congressional override begins.
June 14	Statutory deadline for conclusion of agreements, or imposition of quotas by U.S.
mid-September	Approximate expiration of period for Congressional override.

D

THE WHITE HOUSE

WASHINGTON

March 10, 1976

MEETING WITH CONGRESSIONAL DELEGATES ON SPECIALTY STEEL
March 11, 1976
9:30 a.m.
Cabinet Room

From: William F. Gorog WFG

I. PURPOSE

To allow concerned Members of Congress to present their views in support of the U.S. International Tariff Commission (ITC), recommendation that five year quotas be placed on foreign specialty steel imports.

II. BACKGROUND, PARTICIPANTS, AND PRESS PLAN

A. Background: Labor, management, and many Members of Congress are strongly united in support of maximum possible import relief and favor the ITC decision. A summary of the economic situation and your options are attached. at Tab A.

The specialty steel industry has urged the U.S. Government for many years to grant protection against import competition. Such pressure in 1971 led to negotiation of stainless steel subceilings under the steel voluntary restraint agreements (VRAs) with Japan and the European Community. Experience under those restraints indicates that Japan did not fill the levels allocated--probably due to high demand in other world markets--and that the EC probably exceeded the levels provided for under the VRA.

The domestic industry feels that it has followed the processes required by the Trade Act of 1974 and that foreign interests have had an opportunity to make their case and have lost. The industry feels, therefore, that it is entitled to relief. The principal objective of the industry appears to be a permanent international arrangement safeguarding against disruptive imports. Given the depressed level of activity and high levels of unemployment in the industry, it is expected that a decision to grant no relief would be likely to be overridden by Congress thus implementing the ITC's proposed quantitive restrictions. Those restrictions are deficient in several respects and would have adverse effects on prices to consumers and on international relations (with Japan particularly).

The import problem of the U.S. specialty steel industry is to some extent a result of foreign government and business practices quite different from those followed in the United States, which involve ownership, subsidies, and financing assistance. These practices reflect a philosophy of maintaining employment levels (and thus production levels) during a recession so that excess supplies flow into world markets at very competitive prices. In the United States, producers cut back production and employment levels during a recession and laid-off workers receive unemployment benefits.

The variety of methods of support provided and the indirect and frequently temporary nature of such support, makes it extremely difficult for the domestic industry to pursue remedies under other provisions of the Trade Act (such as the countervailing duty law). The time required for investigations under such provisions (e.g., normally one-year in countervail cases) also appears to be unreasonable in light of ITC's findings that the industry already has suffered injury due to increased imports.

B. Participants: Attached at Tab B.

C. Press Plan: White House Photo Opportunity.

III. DISCUSSION POINTS

A. Economic Outlook

I am very pleased that all of you were able to come today and share your view on the specialty steel case with me.

I am interested in your assessment of the outlook for specialty steel and other industry in your districts and states as the economy recovers.

Is economic recovery likely to remove some of the problems which were at their height when ITC had the the case before it last year?

B. <u>Foreign Subsidies and Preference</u>

What are the factors that make specialty steel so much more vulnerable to imports than some other products? What are the longer range implications for world trade and U.S. industry in terms of possible retaliations if we consistently seek import relief from products enjoying foreign government support?

C. <u>Impact on Trade Negotiations</u>

I am also interested in your view on how import relief may affect our overall trade relations and pending trade negotiations. Specifically, how will we handle any retaliatory action from Japan and European producers if we grant the type of relief recommended by the ITC? Do you see any prospect of negotiating an acceptable orderly marketing agreement in lieu of quotas or tariffs?

THE WHITE HOUSE

WASHINGTON

March 10, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: WILLIAM F. GOROG WFG

SUBJECT: Summary of Specialty Steel Imports Case

Economic Background

Specialty steel imports total nearly $200 million, doubling in value since 1970. They represent 5 percent of U.S. steel imports by value and 1 percent in tonnage. The U.S. specialty steel industry comprises 1.5 percent of domestic steel production. After doubling production and shipments since 1970, it experienced a 45 percent decline in 1975, in part caused by the recession. Foreign imports rose slightly in 1975 over 1974. In 1975, about 8,500 persons, or about 25 percent of the domestic work force, were laid off. Nineteen companies, with 40 plants (one-half in Pennsylvania) are affected.

Action by the International Trade Commission (ITC)

The ITC, in its first affirmative injury finding under the Trade Act of 1974, found serious injury and recommended imposition of 5-year quotas at about 1974 levels. You must announce your intention by March 16. If you choose any form of quotas, tariffs, or a combination, they must be put into effect by March 31. If you seek negotiation of orderly marketing agreements, or an alternative form of relief, they must be in effect by June 14. Within 90 working days after the effective date of relief, both Houses, by simple majority, may override your action, in which case the ITC decision stands. There is no middle ground.

Presidential Options and Recommendations of the Trade Policy Committee

The Trade Policy Committee considered three options:

(1) Deny relief on grounds of national economic interest and seek unilateral, voluntary restraint by foreign suppliers.

(2) Impose import quotas for 1 or 2 years comparable to 1975 levels.

(3) Announce, March 16:

-- Intention to impose 3-year quotas.

-- Initiative to seek orderly marketing agreements as a substitute for quotas.

-- Intention to terminate import relief by quotas or orderly marketing agreement if there are improvements in the industry's economic position based on advice from Secretaries of Labor and Commerce.

The Trade Policy Committee recommends Option 3. The State Department suggests a fourth option involving Option 3 but without announcement of final decision on the form of import relief action until June 14.

Considerations

Congressional interest and pressure is strongly in favor of the relief proposed by ITC and views this as a test of Executive conformance to the spirit of the Trade Act of 1974. STR and the Trade Policy Committee believe that Congressional override is likely if your decision varies significantly from the ITC's.

A major consideration, however, is the nature and extent of possible foreign retaliation or U.S. payment of compensation resulting from action granting import relief. This can be avoided by attempts to negotiate orderly marketing agreements.

Timing is important. The object of a Presidential announcement on March 16 should be to avoid sharp criticism of alleged Administration foot dragging which might lead to politically motivated rejection of your final decision. Also, a decision in advance of March 16 would permit consultations with affected foreign governments such as Japan and the European Community.

Tab B

MEETING WITH CONGRESSIONAL DELEGATES ON SPECIALITY STEEL

March 11, 1976

<u>House Members</u>

John Ashbrook
John Dent
Hamilton Fish
Joseph Gaydos
Benjamin Gilman
William Harsha
Wayne Hays
Frank Horton
Norman Lent
Robert McEwen
Clarence Miller
Donald Mitchell
Gary Myers
Peter Peyser
Ralph Regula
Samuel Stratton
William Walsh
John Wydler
Thomas Morgan

<u>Senate Members</u>

James Buckley
Robert Griffin
Jennings Randolph
Richard Schweiker
Hugh Scott

<u>Staff</u>

James M. Cannon
Richard B. Cheney
Max L. Friedersdorf
William F. Gorog
William T. Kendall
Vernon C. Loen
David MacDonald (representing Secretary Simon)
John O. Marsh
Ronald H. Nessen
William Usery
Frederick Dent

E

THE WHITE HOUSE
WASHINGTON

March 11, 1976

MR PRESIDENT:

Brent Scowcroft prepared an additional memorandum on the Specialty Steel Case. We staffed his memorandum to Messrs. Marsh, Friedersdorf, Morton and Seidman. Bill Gorog summarizes their comments in the attached memorandum.

Jim Connor

~~CONFIDENTIAL~~

THE PRESIDENT HAS SEEN....

THE WHITE HOUSE

WASHINGTON

March 11, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: WILLIAM F. GOROG WFG

SUBJECT: Specialty Steel Import Case

I do not concur with the attached recommendation to avoid specifying the exact type of import relief if you decide to accept the Trade Policy Committee Option III (90 days negotiation for Orderly Marketing Agreement with quotas similar to ITC recommendation for three years if negotiations fail).

I share Fred Dent's concern that this would have substantial risk of override.

I also feel that our trading partners are mature enough to understand our position. The threat is evident whether we announce the type of relief initially or wait for 90 days. They can be told that the alternative to our action would be an override and immediate quotas without opportunity for negotiations.

Jack Marsh, Max Friedersdorf, and Rogers Morton concur. Their comments are attached for your review.

Attachments

~~CONFIDENTIAL~~

MEMORANDUM THE PRESIDENT HAS SEEN.... 1426

THE WHITE HOUSE

WASHINGTON

~~CONFIDENTIA~~L - GDS

MEMORANDUM FOR: THE PRESIDENT

FROM: BRENT SCOWCROFT

SUBJECT: Specialty Steel Import Case

In my memorandum of March 3 (Tab B), I proposed a modification of Fred Dent's preferred option (Option III) for dealing with the specialty steel import case. I supported Fred on the need to negotiate Orderly Marketing Agreements (OMA) with our trading partners. I suggested, however, that in the initial announcement of your response to the ITC finding you not specify the exact type of import relief you would adopt should the OMA negotiations fail. This would preserve your flexibility and avoid forcing our partners to negotiate under threat.

This option (summarized in State's memorandum at Tab A) was discussed at an EPB/NSC meeting on March 8. It is now supported by Treasury (Dixon), CEA (MacAvoy), OMB (O'Neill), and State (Ingersoll). I have not been able to reach Elliott Richardson or Jim Baker at Commerce, although Baker, as well as Bill Usery, supported Dent's Option III at the EPB/NSC meeting.

Fred Dent believes that while my suggested alternative would be an improvement over Options I and II in his memorandum, it carries a substantial risk of override and could thus result in imposition of the ITC's recommended quotas for five years. He points out that the specialty steel people have served notice of their intention to press for a Congressional override unless they are satisfied with your announcement.

I fully recognize the risk of override should the specialty steel industry persuade the Congress that your response to the ITC decision is unsatisfactory. You can, however, assure the industry that by not specifying the exact type of import relief you would adopt should these negotiations fail, you would have the best chance of negotiating a favorable OMA. Forcing our trading partners to negotiation under duress would impair our ability to achieve an acceptable agreement.

~~CONFIDENTIAL~~ -GDS

KR 5/11/88

You can also assure the industry that you will consult with them throughout the negotiations, and that you will act firmly if you cannot negotiate a favorable agreement.

RECOMMENDATION

That in your announcement responding to the ITC decision you state your intention:

--to seek Orderly Marketing Agreements on specialty steel within the next 90 days; and

--to provide import relief for theUS specialty steel industry should these negotiations fail, but not specify in advance the type of import relief you would adopt in case of failure.

THE WHITE HOUSE

WASHINGTON

March 11, 1976

MEMORANDUM TO THE PRESIDENT

FROM ROGERS C. B. MORTON RCBM

SUBJECT SPECIALTY STEEL IMPORT CASE

Although I appreciate State's position and the interests of those who now have shifted their support to State in trying to avoid announcement of quotas in your decision, I believe that route will end in a Congressional override. Your ability to avoid that override is minimal at best, so it is my strong feeling that unless the original option 3 by Fred Dent is chosen, we will end up with the five year quota situation. To assume that those with whom we will be negotiating will be more willing to negotiate in the absence of any quota language when they know full well the five year quota option hangs over their heads, is not being very realistic.

A

DEPARTMENT OF STATE

Washington, D.C. 20520

~~CONFIDENTIAL~~

MEMORANDUM FOR MR. BRENT SCOWCROFT
THE WHITE HOUSE

Subject: Specialty Steel

At the Monday, March 8 EPB/NSC meeting you asked the Department of State to set out in writing its views concerning a further alternative for handling the specialty steel issue. That alternative, which in essence is a modification of the "orderly marketing agreement" approach suggested by Ambassador Dent, is as follows:

-- On March 16, the President would announce his intention to provide import relief for the U.S. specialty steel industry.

-- He would state that, in accordance with the provisions of the Trade Act, the United States Government would seek during the following 90 days to negotiate orderly marketing agreements without specifying in advance the content or the duration of these agreements.

-- There would be no advance proclamation of quotas or any other specific indication of the import relief he would adopt should these negotiations fail.

-- In order to reduce the risk of a damaging trade war, we would have prior consultations with our major trading partners.

DECLASSIFIED
E.O. 12356, Sec. 3.4
MR 92-24, #23, State ltr. 1/5/93
By KBH NARA, Date 2/3/93

~~CONFIDENTIAL~~
GDS

I believe this approach would provide the President with additional time and flexibility in which to develop a managed solution to the steel problem. It would avoid locking him into a rigid course of action. It also eliminates the element of duress arising from an advance proclamation of the quotas which will be imposed unless agreements are reached.

George S. Springsteen

George S. Springsteen
Executive Secretary

B

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR: JAMES CONNOR

FROM: BRENT SCOWCROFT

SUBJECT: Specialty Steel Import Case

I concur with Fred Dent's recommendation to the President on the specialty steel import case, subject to one important reservation. I strongly urge that the President's announcement be modified to take into account my concern that we not unnecessarily limit the President's flexibility and complicate our negotiations by committing ourselves to specific actions if we are unable to reach satisfactory Orderly Marketing Agreements.

Option 3, as currently framed, recommends that the President:

-- Proclaim important quotas, effective in 90 days, for a period of three years;

-- State that he will seek to negotiate Orderly Marketing Arrangements during the 90-day period; and

-- Note that he can reduce or terminate the quotas if the economic position of the domestic industry improves.

I urge that the President instead:

-- Announce his intention to seek Orderly Marketing Agreements with exporting countries over a 90-day period; and

-- State firmly that in the absence of a satisfactory agreement he will provide import relief at the end of that period.

The difference is that by not announcing in advance specifically what import relief he would provide, the President would:

-- Remove the element of duress which specific threats would bring to the negotiations yet put the exporting nations on notice that we will take corrective measures if no agreement is reached.

-- Maintain through the period of the negotiations his flexibility as to form of relief.

The third element of Fred Dent's recommendation, that the President announce that the remedy could be reduced or terminated depending upon developments, would be included in a Presidential statement announcing the imposition of quotas should negotiations fail.

I realize that this modified option may not be as satisfactory to the steel industry and to the Congress as would the original. It is vital to our relations with our industrialized allies, however, that we maintain the spirit of consultation which we have so carefully nurtured, and I think we can make a strong defense of my recommendation to Congress and the industry. Assuming the President would wish his advisors to speak to the steel industries, an effective argument could be made to them that the President:

-- was indeed firmly committed to impose significant remedies if satisfactory OMAs could not be reached; and

-- was not asking the industry to commit itself in advance, since Congress would still have the opportunity to override if the OMAs or quotas were not satisfactory.

THE WHITE HOUSE

ACTION MEMORANDUM WASHINGTON LOG NO.:

Date: March 15, 1976 Time:

FOR ACTION: cc (for information):

Robert T. Hartmann

FROM THE STAFF SECRETARY

DUE: Date: Immediate Turnaround Time:

SUBJECT:

Ambassador Frederick B. Dent's memorandum of March 1, 1976 re: Recommended Action on Specialty Steel

ACTION REQUESTED:

___ For Necessary Action ___ For Your Recommendations

___ Prepare Agenda and Brief ___ Draft Reply

X For Your Comments ___ Draft Remarks

REMARKS:

The President has made his decision on the Specialty Steel Case --- Option III - the necessary papers must be prepared immediately as this action must be taken tomorrow.

We would appreciate your staff checking the attached documents before they are prepared in final form for the President's signature.

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

James E. Connor
For the President

THE WHITE HOUSE

ACTION MEMORANDUM WASHINGTON LOG NO.:

Date: March 2, 1976 Time:

FOR ACTION:
✓JACK MARSH
✓PHIL BUCHEN
✓JIM CANNON
✓ROG MORTON

✓Friedersdorf
✓Scowcroft

cc (for information):

FROM THE STAFF SECRETARY

DUE: Date: Wednesday, March 3, 1976 Time: 11:00 AM

SUBJECT:

DENT MEMO 3/1 re STEEL DECISION MEMO

ACTION REQUESTED:

___ For Necessary Action

X For Your Recommendations

___ Prepare Agenda and Brief

___ Draft Reply

X For Your Comments

___ Draft Remarks

REMARKS:

Fred Dent has asked for expeditious review by staff to put this issue before the President as soon as possible. Seidman (Gorog) concurs in recommended option and also requests expeditious review by staff.

Morton - option 3
March - option 3
Friedersdorf - option 3
Buchen - option 3
Cannon option 3

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

~~K. R. COLE, JR.~~
JAMES E. CONNOR

Given to Gorog 8:30 AM 3/11/76

THE WHITE HOUSE
WASHINGTON

TRUDY:

JIM says Gorog should staff this (he wasn't here when it came (8:20)-- to Morton, Marsh and Friedersdorf --with 2 Hour turn around. I made copies but didn't do our staffing memo since he said Gorog should be the one to get the comments.

(I did log it in the book)

E.
8:30
3/10

THE WHITE HOUSE

WASHINGTON

March 11, 1976

MEMORANDUM FOR: JIM CONNOR

FROM: JACK MARSH Jack

SUBJECT: Specialty Steel Import Case

I have reviewed the attached but do not desire to change my original position. (option III of original Dept memo).

Many thanks.

Friedersdorf agrees —

THE WHITE HOUSE

WASHINGTON

~~CONFIDENTIAL~~ - GDS

MEMORANDUM FOR: THE PRESIDENT

FROM: BRENT SCOWCROFT

SUBJECT: Specialty Steel Import Case

In my memorandum of March 3 (Tab B), I proposed a modification of Fred Dent's preferred option (Option III) for dealing with the specialty steel import case. I supported Fred on the need to negotiate Orderly Marketing Agreements (OMA) with our trading partners. I suggested, however, that in the initial announcement of your response to the ITC finding you not specify the exact type of import relief you would adopt should the OMA negotiations fail. This would preserve your flexibility and avoid forcing our partners to negotiate under threat.

This option (summarized in State's memorandum at Tab A) was discussed at an EPB/NSC meeting on March 8. It is now supported by Treasury (Dixon), CEA (MacAvoy), OMB (O'Neill), and State (Ingersoll). I have not been able to reach Elliott Richardson or Jim Baker at Commerce, although Baker, as well as Bill Usery, supported Dent's Option III at the EPB/NSC meeting.

Fred Dent believes that while my suggested alternative would be an improvement over Options I and II in his memorandum, it carries a substantial risk of override and could thus result in imposition of the ITC's recommended quotas for five years. He points out that the specialty steel people have served notice of their intention to press for a Congressional override unless they are satisfied with your announcement.

I fully recognize the risk of override should the specialty steel industry persuade the Congress that your response to the ITC decision is unsatisfactory. You can, however, assure the industry that by not specifying the exact type of import relief you would adopt should these negotiations fail, you would have the best chance of negotiating a favorable OMA. Forcing our trading partners to negotiation under duress would impair our ability to achieve an acceptable agreement.

~~CONFIDENTIAL~~-GDS
KR 5/11/88

You can also assure the industry that you will consult with them throughout the negotiations, and that you will act firmly if you cannot negotiate a favorable agreement.

RECOMMENDATION

That in your announcement responding to the ITC decision you state your intention:

--to seek Orderly Marketing Agreements on specialty steel within the next 90 days; and

--to provide import relief for theUS specialty steel industry should these negotiations fail, but not specify in advance the type of import relief you would adopt in case of failure.

DEPARTMENT OF STATE

Washington, D.C. 20520

~~CONFIDENTIAL~~

MEMORANDUM FOR MR. BRENT SCOWCROFT
THE WHITE HOUSE

Subject: Specialty Steel

At the Monday, March 8 EPB/NSC meeting you asked the Department of State to set out in writing its views concerning a further alternative for handling the specialty steel issue. That alternative, which in essence is a modification of the "orderly marketing agreement" approach suggested by Ambassador Dent, is as follows:

-- On March 16, the President would announce his intention to provide import relief for the U.S. specialty steel industry.

-- He would state that, in accordance with the provisions of the Trade Act, the United States Government would seek during the following 90 days to negotiate orderly marketing agreements without specifying in advance the content or the duration of these agreements.

-- There would be no advance proclamation of quotas or any other specific indication of the import relief he would adopt should these negotiations fail.

-- In order to reduce the risk of a damaging trade war, we would have prior consultations with our major trading partners.

DECLASSIFIED
E.O. 1[illegible]
By HR NARA, Date 9/11/12

~~CONFIDENTIAL~~
GDS

I believe this approach would provide the President with additional time and flexibility in which to develop a managed solution to the steel problem. It would avoid locking him into a rigid course of action. It also eliminates the element of duress arising from an advance proclamation of the quotas which will be imposed unless agreements are reached.

George S. Springsteen
Executive Secretary

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR: JAMES CONNOR

FROM: BRENT SCOWCROFT

SUBJECT: Specialty Steel Import Case

I concur with Fred Dent's recommendation to the President on the specialty steel import case, subject to one important reservation. I strongly urge that the President's announcement be modified to take into account my concern that we not unnecessarily limit the President's flexibility and complicate our negotiations by committing ourselves to specific actions if we are unable to reach satisfactory Orderly Marketing Agreements.

Option 3, as currently framed, recommends that the President:

-- Proclaim important quotas, effective in 90 days, for a period of

during the 90-day period; and

-- Note that he can reduce or terminate the quotas if the economic position of the domestic industry improves.

I urge that the President instead:

-- Announce his intention to seek Orderly Marketing Agreements with exporting countries over a 90-day period; and

-- State firmly that in the absence of a satisfactory agreement he will provide import relief at the end of that period.

The difference is that by not announcing in advance specifically what import relief he would provide, the President would:

-- Remove the element of duress which specific threats would bring to the negotiations yet put the exporting nations on notice that we will take corrective measures if no agreement is reached.

-- Maintain through the period of the negotiations his flexibility as to form of relief.

The third element of Fred Dent's recommendation, that the President announce that the remedy could be reduced or terminated depending upon developments, would be included in a Presidential statement announcing the imposition of quotas should negotiations fail.

I realize that this modified option may not be as satisfactory to the steel industry and to the Congress as would the original. It is vital to our relations with our industrialized allies, however, that we maintain the spirit of consultation which we have so carefully nurtured, and I think we can make a strong defense of my recommendation to Congress and the industry. Assuming the President would wish his advisors to speak to the steel industries, an effective argument could be made to them that the President:

-- was indeed firmly committed to impose significant remedies if satisfactory OMAs could not be reached; and

-- was not asking the industry to commit itself in advance, since Congress would still have the opportunity to override if the OMAs or quotas were not satisfactory.

MEMORANDUM OF CALL

TO: Jim

☐ YOU WERE CALLED BY— ☐ YOU WERE VISITED BY—

Bob Hormats

OF (Organization)

NSC Steel Decision memo

☐ PLEASE CALL → PHONE NO. CODE/EXT.

☐ WILL CALL AGAIN ☐ IS WAITING TO SEE YOU

☐ RETURNED YOUR CALL ☐ WISHES AN APPOINTMENT

MESSAGE

Seems there was a meeting between State Dept on 8 th — new memo was to be made up + sent over ?

Told Jim

RECEIVED BY

DATE 3/10

TIME

Send paper

STANDARD FORM 63
REVISED AUGUST 1967
GSA FPMR (41 CFR) 101-11.6

GPO : 1969—o48—16—80341-1 332-389 63-108

THE WHITE HOUSE

WASHINGTON

March 8, 1976

MEMORANDUM FOR JIM CONNOR

FROM: BILL GOROG BH

SUBJECT: Steel Timetable

The attached should be added to STR Specialty Steel File for the President.

Attachment
Confidential Attachment

THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS
WASHINGTON

~~CONFIDENTIAL~~ ATTACHMENT

March 8, 1976

MEMORANDUM FOR THE HONORABLE WILLIAM F. GOROG

FROM : Frederick B. Dent FBD,

SUBJECT: Steel Timetable

In response to your request, attached is an outline of the important dates facing the President in the specialty steel case.

~~CONFIDENTIAL~~ ATTACHMENT

THE WHITE HOUSE

WASHINGTON

March 5, 1976

MEMORANDUM FOR: JIM CONNOR

FROM: JIM CANNON JMC

1. I support Option III as the least objectionable.

2. Please note that we received this late and as an incomplete package.

Attachments

THE WHITE HOUSE

WASHINGTON

March 4, 1976

MEMORANDUM FOR: JIM CONNOR

THROUGH: JIM CANNON

FROM: PAUL LEACH

SUBJECT: Specialty Steel Import Case

Based on the information available, I would recommend option III as the least objectionable alternative, given the apparent economic and political realities of the situation.

It is troubling to note, however, that Attachment D - "Specialty Steel Case Background" indicates that "the specialty steel industry is suffering to a large extent from the domestic recession." Thus, it appears that the industry suffers primarily from cyclicality, not imports. This certainly throws into substantial question the USITC finding that the industry was seriously injured substantially due to increased imports.

THE WHITE HOUSE

ACTION MEMORANDUM WASHINGTON LOG NO.:

Date: March 2, 1976 Time:

FOR ACTION:
JACK MARSH
PHIL BUCHEN
JIM CANNON
ROG MORTON

cc (for information):
MAX FRIEDERSDORF

FROM THE STAFF SECRETARY

DUE: Date: Wednesday, March 3, 1976 Time: 11:00 AM

SUBJECT:

DENT MEMO 3/1 re STEEL DECISION MEMO

1st Package Received
See options on enclosed paper from Dent to President

ACTION REQUESTED:

____ For Necessary Action X____ For Your Recommendations

____ Prepare Agenda and Brief ____ Draft Reply

X For Your Comments ____ Draft Remarks

REMARKS:

Fred Dent has asked for expeditious review by staff to put this issue before the President as soon as possible. Seidman (Gorog) concurs in recommended option and also requests expeditious review by staff.

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

James E. Connor
For the President

2nd Package Received

ATTACHMENTS

A. USITC Recommended Remedy

B. Trade Policy Committee Membership

C. Steel Sector Negotiations

D. Specialty Steel Case Background

E. Draft Press Release

F. Draft Federal Register Notice

G. Notification letters to the Congress

H. Adjustment Assistance Directive to the Secretary of Labor

~~CONFIDENTIAL~~

OUTLINE OF SPECIALTY STEEL PAPER

I. Problem

II. Recommendations

III. Discussion

A. Background

1. ITC Report
2. Products and Their Uses
3. U.S. Tariffs
4. Import Trends and Sources
5. Import Penetration
6. Geographic Concentration of Imports
7. Domestic Producers
8. Production, Shipments and Exports
9. Employment
10. Capacity, Inves
11. Outlook and Lo:

B. Domestic Considera·

1. Adjustment Ass:
2. Adjustment Ass:
3. Effectiveness (
4. Effect of Relie
5. Costs to Emplo
6. National Securi
7. U.S. Industry a

3d & final 54 page paper received and returned to Connor.

THE WHITE HOUSE
WASHINGTON

Paul Leach -

This is our only copy of this material. It must be returned after it has been reviewed.

Trudy Fry
3/4/76

~~CONFIDENTIAL~~

THE WHITE HOUSE

WASHINGTON

ACTION MEMORANDUM

1976 LOG NO.: dw: 3/3

11:00 am

Date: March 2, 1976

Time:

FOR ACTION:
JACK MARSH
PHIL BUCHEN
JIM CANNON
ROG MORTON

cc (for information):
MAX FRIEDERSDORF

FROM THE STAFF SECRETARY

DUE: Date: Wednesday, March 3, 1976 Time: 11:00 AM

SUBJECT:

DENT MEMO 3/1 re STEEL DECISION MEMO

ACTION REQUESTED:

____ For Necessary Action

X____ For Your Recommendations

____ Prepare Agenda and Brief

____ Draft Reply

X____ For Your Comments

____ Draft Remarks

REMARKS:

Fred Dent has asked for expeditious review by staff to put this issue before the President as soon as possible. Seidman (Gorog) concurs in recommended option and also requests expeditious review by staff.

Option (3) III ✓

Jom

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

James E. Connor
For the President

THE WHITE HOUSE

ACTION MEMORANDUM WASHINGTON LOG NO.:

Date: March 2, 1976 Time:

FOR ACTION: cc (for information):
JACK MARSH
PHIL BUCHEN
JIM CANNON
ROG MORTON
FROM THE STAFF SECRETARY

DUE: Date: Wednesday, March 3, 1976 Time: 11:00 AM

SUBJECT:

DENT MEMO 3/1 re STEEL DECISION MEMO

ACTION REQUESTED:

____ For Necessary Action X____ For Your Recommendations

____ Prepare Agenda and Brief ____ Draft Reply

X____ For Your Comments ____ Draft Remarks

REMARKS:

Fred Dent has asked for expeditious review by staff to put this issue before the President as soon as possible. Seidman (Gorog) concurs in recommended option and also requests expeditious review by staff.

Support recommended option.

Ken Lazarus 3/3/76

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

James E. Connor
For the President

THE WHITE HOUSE

WASHINGTON

March 3, 1976

MEMORANDUM FOR: JAMES E. CONNOR

FROM: MAX FRIEDERSDORF M.F.

SUBJECT: DENT MEMO 3/1 re Steel Decision Memo

The Office of Legislative Affairs concurs with Dent's recommendation. We have received a request for a meeting with the President by a number of Congressmen and Senators from Ohio, Pennsylvania, New York and W. Va. (see attached).

18th District, Ohio
2264 Rayburn House Office Bldg.
Washington, D.C. 20515

President
North Atlantic Assembly

COMMITTEES

Chairman
HOUSE ADMINISTRATION

INTERNATIONAL RELATIONS
Chairman
Sub-Committee on
International Operations

Chairman
JOINT COMMITTEE ON PRINTING

WAYNE L. HAYS
CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES

FEB 26 1976

February 24, 1976

Mr. Max L. Friedersdorf
Assistant to the President
The White House
Washington, D. C. 20500

Dear Max:

The following are those who have definitely expressed interest in attending a meeting with the President to discuss specialty steel import quotas:

Robert Taft, Jr. - Ohio
Wayne L. Hays - Ohio
Clarence Miller - Ohio
John Heintz - Pennsylvania
John Dent - Pennsylvania
Sam Stratton - New York
Don Mitchell - New York
James Buckley - New York
Jennings Randolph - West Virginia
Gary Myers - Pennsylvania
John Ashbrook - Ohio
William H. Harsha - Ohio
Joseph M. Gaydos - Pennsylvania

With kind regards, I am

Very sincerely yours,

WAYNE L. HAYS
U. S. CONGRESSMAN

WLH:sm

Rec'd - 3/3/76 - AH

THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS
WASHINGTON

MEMORANDUM FOR THE HONORABLE WILLIAM F. GOROG

FROM : Frederick B. Dent F.B.D.

SUBJECT: Steel Case Decision Memorandum

Paul MacAvoy called and asked that CEA be associated with Option II, as this would avoid CEA having to prepare a separate memorandum to the President on this subject. We told him that we would see what we could do.

If it is possible could you have the attached substitute page 2 of the decision memorandum substituted in the package sent to you yesterday. It reflects CEA's position.

THE WHITE HOUSE

WASHINGTON

March 3, 1976

MEMORANDUM FOR DR. JAMES CONNOR

FROM: WILLIAM F. GOROG WFG

SUBJECT: Steel Case Decision Memorandum

Attached is a substitute Page 2 for the Decision Memorandum reflecting CEA's position.

STR has requested that the Memorandum be revised to include this omission.

Attachment

I am setting forth below for your decision the options recommended by one or more agencies that participate in the Trade Policy Committee (see Attachment B for list of members) at a meeting held on February 27, 1976. This committee has the statutory responsibility to make recommendations to you on import relief actions that you may take. No agency recommended that you impose the USITC's suggested remedy of quotas for five years.

OPTION I: Deny relief on grounds of national economic interest, and seek unilatera, voluntary restraint on the part of foreign suppliers.

This option is proposed by the State Department. It is strongly opposed by the Justice Department. While this option may have the least impact on international trade relations, it is the consensus of the Trade Policy Committee that it will be overridden by the Congress, causing the imposition of the USITC's five years of relief.

OPTION I: Approve________ Disapprove________

OPTION II. Impose import quotas for basically two years, comparable to the overall level reached in 1975.

The State Department recommends that, if Option I is not accepted, relief be provided for one year, with an automatic extension for a second year if conditions in the industry have not improved, and with a possible third year of relief provided, if it is determined at that time that conditions still have not improved. (Under the Trade Act, the President does have the authority, after seeking USITC advice, to extend relief for a maximum of an additional three years beyond the relief initially provided.) This option is proposed in view of the cyclical nature of the problem faced by the industry, and the impact on our international economic relations of a longer period of relief. The consensus of the other agencies is that while relief is warranted only for less than five years, there is an unacceptably high risk that limiting relief to a much shorter and indefinite period would be overridden by the Congress, resulting in mandatory imposition of the USITC quota relief for five years.

OPTION II: Aprove________ Disapprove________

THE WHITE HOUSE
WASHINGTON

Jana called. Morton strongly supports Option3 of the steel support memo.

3/3/76
10:20

THE WHITE HOUSE
WASHINGTON

Bob Linder -

The attached package is presently in staffing. I thought you might want to review since it involves possible letters to the Hill, etc. that you will be involved in.

Trudy Fry
3/3/76

[illegible]

OFFICE OF THE SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS

WASHINGTON

March 2, 1976

Mr. Gorog:

Attached is the original plus one copy of Attachment B for substitution in the Specialty Steel paper.

Alan Wm. Wolff
General Counsel

Trade Policy Committee

The Trade Policy Committee is established by Section 242 of the Trade Expansion Act of 1962, as amended. Its membership is designated by Executive Order 11846 of March 27, 1975. These members are:

(1) The Special Representative, Chairman
(2) The Secretary of State
(3) The Secretary of the Treasury
(4) The Secretary of Defense
(5) The Attorney General
(6) The Secretary of the Interior
(7) The Secretary of Agriculture
(8) The Secretary of Commerce
(9) The Secretary of Labor
(10) The Assistant to the President for Economic Affairs.

Pursuant to the Trade Expansion Act the Trade Policy Committee is required to make recommendations to the President as to what action, if any, he should take on reports with respect to import relief submitted to him by the U.S. International Trade Commission.

CONFIDENTIAL

THE WHITE HOUSE

WASHINGTON

March 2, 1976

MEMORANDUM FOR RICHARD CHENEY

FROM: WILLIAM F. GOROG WFG

SUBJECT: Steel Decision Memorandum

We have just received a recommendation on the ITC specialty steel case from STR with a Presidential option paper outlining the position of the Trade Policy Committee.

Since the Committee position represents the views of STR, State, Treasury, Defense, the Attorney General, Interior, Agriculture, Commerce, Labor, CEA, OMB, and the Assistant to the President for Economic Affairs, I would suggest limited additional staffing to include Messrs. Marsh, Buchen, Cannon, and Morton.

I feel that the recommended option is excellent. It should

1. Satisfy the industry and labor (Bill Usery concurs);

2. It provides the alternative of establishing orderly marketing arrangements;

3. It provides an "out" in event that U.S. industry recovers faster than the three year period. This should relieve the fears of our trading partners.

Fred Dent has asked for expeditious review by staff to put this issue before the President as soon as possible.

Attachment

CONFIDENTIAL

MAR 1 REC'D

THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS
WASHINGTON

~~CONFIDENTIAL~~

1 MAR 1976

MEMORANDUM FOR THE HONORABLE WILLIAM F. GOROG

FROM : Frederick B. Dent

SUBJECT: Steel Decision Memorandum

Attached is a decision memorandum for the President on the specialty steel import case reflecting the Trade Policy Committee meeting on February 27.

If the President makes his decision this week, it would enable us to consult with the major supplying countries, and with key industry and labor representatives, as well as with members of the Finance and Ways and Means Committees, before the decision becomes public. I would urge strongly that the issue be put before the President as soon as possible.

You may wish to transmit the attached memorandum to Bill Seidman and Bill Simon through secure limited-access channels, as they were both very interested in this matter.

You should note that the President's determination must be published in the Federal Register by March 16.

~~CONFIDENTIAL~~