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The Steel Trigger Price Mechanism

by Gerald H. Anderson

The trigger price mechanism (TPM), implemented early in 1978, was devised to detect imports of steel at unfairly low prices and trigger the administrative relief provided by law. In 1977, the U.S. steel industry was facing tough import competition that compounded its problems of aging, inefficient plants, high wage rates, and low capacity utilization. U.S. steel imports had jumped to a record level of 19.3 million tons, 1 million tons higher than the previous record established in 1971 (see chart 1).

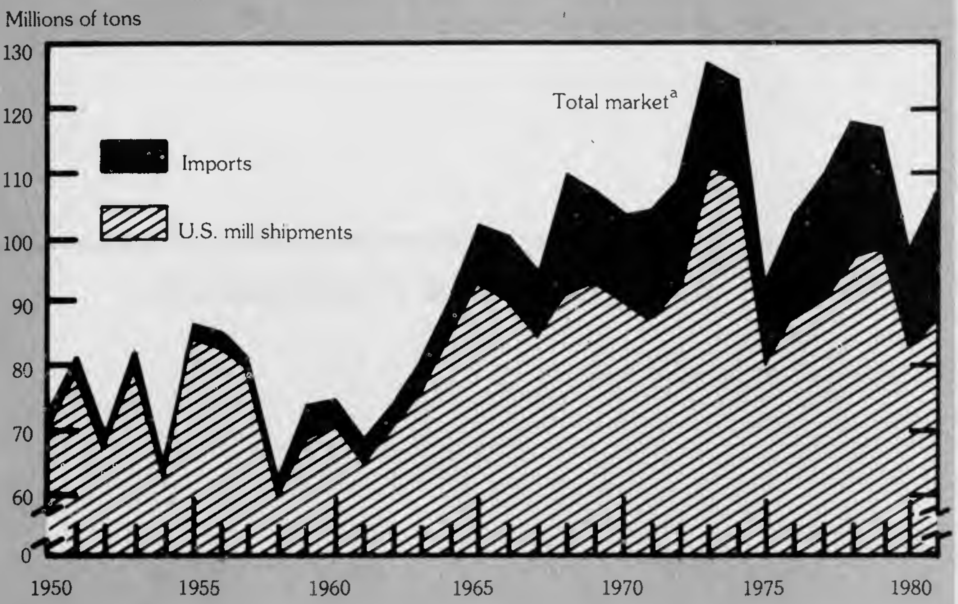
The U.S. steel industry contended that foreign producers were selling steel at "less than fair value" in the U.S. market; indeed, in 1977 the Treasury Department was investigating 19 separate anti-dumping complaints from the domestic steel industry. U.S. law provides for anti-dumping duties to be levied on imports that are ***dumped***—or sold at "less than fair value"—if such sales cause material injury to a U.S. industry. ***Fair value*** is the price charged in the exporter's home country. The law also provides for the imposition of ***countervailing duties*** to offset foreign subsidies if subsidized imports cause material injury to a U.S. industry.

The TPM established reference prices for steel imports. Imports at prices below the reference price would **trigger** an investigation of whether imports were being dumped and whether injury were occurring. While the TPM did not change the anti-dumping law, it did facilitate government-initiated dumping investigations. The Tariff Act of 1930 provides that an investigation may be initiated by the government or by a petition from a firm or other interested party. Investigations almost always resulted from petitions from firms and seldom if ever were initiated by the government. Proponents of the TPM expected that constant monitoring of import prices and foreign costs would make possible more rapid initiation and completion of investigations and, if warranted, implementation of anti-dumping duties. The TPM did not remove a foreign supplier's right to due process under the anti-dumping law, nor did it remove a domestic firm's legal right to file petitions.

This *Economic Commentary* sets forth the purposes of the TPM, describes its operation and economic impact, and discusses the events that led to its suspension

Gerald H. Anderson is an economic advisor with the Federal Reserve Bank of Cleveland. Charlotte M. Taylor provided research assistance for this article.

Chart 1 Domestic Steel Production and Steel Imports



a. Total market includes U.S. exports, which have averaged 3.2 million tons annually over the last 30 years.

SOURCES: U.S. Department of Commerce and American Iron and Steel Institute.

in January 1982. The *Commentary* concludes that, initially at least, the TPM was an effective protectionist device. It increased import prices, reduced import volume, increased prices to domestic consumers, and reduced consumption. Oddly enough, the TPM may have been beneficial to the nation in the sense that it forestalled, for a time at least, the adoption of more stringent restrictions on imports that could have inflicted much greater damage on the U.S. economy.

Purposes of the TPM

The Carter administration had three purposes for establishing the TPM. The ostensible reason was to facilitate enforcement of existing anti-dumping law. A second purpose was to encourage higher import prices and lower import volume to assist the domestic steel industry. The third objective was to avoid more vigorous, and therefore more undesirable, protectionist actions.

The ostensible purpose of the TPM was to provide data to detect more rapidly and to investigate more quickly dumping of foreign steel. This purpose was not to change the law but to facilitate better enforcement. Whether more vigorous enforcement of the anti-dumping law is desirable is a difficult question. That law, like all measures that protect domestic industry from foreign competition, has the undesirable economic consequence of preventing U.S. consumers from buying a product where it is cheapest. Trade protection leads to less efficient patterns of consumption and production and makes this nation poorer.[1]

The second purpose of the TPM was to encourage higher prices and lower volume for steel imports. This objective is closely related to the first in that it might be achieved by better enforcement of anti-dumping law. However, the anti-dumping law is difficult to enforce, and the TPM held the promise of better results with less effort. Because an anti-dumping petition must be specific to a product and firm,

1. These ideas are fully developed in Gerald H. Anderson and Owen F. Humpage, "A Basic Analysis of the New Protectionism," *Economic Review*, Federal Reserve Bank of Cleveland, Winter 1981-82.

dozens of petitions are necessary in an industry such as steel, with its many foreign producers and separate categories of products. A petitioner must gather a great deal of evidence and then wait until the necessary administrative procedures are carried out. To obtain relief, moreover, injury as well as dumping must be proved, and injury is difficult to prove. If dumping occurs during a boom, it is hard to demonstrate injury when output, sales, and profits are rising. If dumping occurs during a recession, it is difficult to show that the problem is dumping rather than slack domestic demand. And if the recession ends before the complaint is completely adjudicated, there may be political pressures to drop the complaint: improved business conditions would have reduced the injury, and past administrations generally have disliked anti-dumping actions because of the adverse reactions of our trading partners.

The steel industry hoped the TPM would prevent dumping or at least narrow dumping margins—the amount by which the import price is below "fair value." As explained below, the TPM gave some European producers a figurative "license to dump," providing they did not charge less than the trigger price.

The idea that the goal of higher steel import prices is distinct from enforcement of the anti-dumping law also was suggested by the cancellation of the preclearance program, discussed below. This program had provided formal acknowledgments that the fair value of certain steel imports was below the trigger price. Cancellation of the preclearance program suggests an intent to discourage sales below trigger price, regardless of fair value.

If the TPM could achieve higher import prices, import volume would be lower than it otherwise would have been. Clearly, this would be beneficial to the domestic steel industry. Just as clearly, this would also be harmful to consumers of steel products and workers in industries that use steel as an input.

The third purpose for establishing the TPM was to avoid even more restrictive measures. The administration could point to the TPM as evidence of its efforts to solve the problem of steel imports and thus head off action by the Congress to legislate quotas or tariffs. Such trade-restricting actions almost certainly would have led to retaliatory trade restrictions by other governments and an undesirable trade war, worsening all relations with other nations. Similarly, vigorous prosecution of anti-dumping cases also could have been interpreted as economic aggression, provoking foreign retaliation, whereas the TPM led to withdrawal of anti-dumping cases pending in 1977. Since economic inefficiencies are greater when protection is greater, it was argued, and perhaps with justification, that it was sensible to adopt the TPM as the lesser of two evils.

Operation of the TPM

The TPM covered 32 categories of steel imports. The Commerce Department established base prices for most products in the categories, using the cost of the product in Japan. The Commerce Department then determined the trigger price by adding to the base price amounts for ocean freight, insurance, interest, handling, and extras such as special sizes and qualities.

A foreign firm that could export steel to the United States at a fair value that was below the trigger price could request a ***preclearance***, which in effect acknowledged the legitimacy of imports of a specific product from a specific producer at a price below the trigger price. By obtaining a preclearance, a firm could avoid the risk of triggering an anti-dumping investigation on sales below the trigger price, as long as the sales were above the preclearance price.

Japanese production costs were used to determine base prices; for most steel products Japan's production costs were the lowest in the world. A few manufacturers, however, could produce some items at lower costs than the Japanese, and these manufacturers could request preclearance. Many foreign producers, however, had costs—and fair values—higher than the Japanese. For these, the TPM represented a figurative license to dump, because imports of their products, even if priced below their fair value, would not trigger an anti-dumping investigation providing they were not priced below the trigger price. The U.S. government's rationale for this arrangement was that it was "assumed that sales at or above the trigger price [would] not be injurious to the domestic industry."[2]

The Commerce Department added a ***surge provision*** to the TPM in October 1980. On request, the department would examine a sharp increase in imports of a specific steel product, even if the imports were priced above the trigger price.[3] If the Commerce Department concluded that the surge resulted from injurious dumping or subsidization, the department then could initiate a formal anti-dumping or anti-subsidy investigation. The surge provision appeared partially to close the "license to dump" loophole that the TPM provided to foreign producers whose fair value exceeded the trigger price.

Trigger prices were calculated quarterly, using a dollar-yen exchange rate to convert the cost measures to U.S. dollars. The constant fluctuations of exchange rates presented some problems. A 60-day average of exchange rates originally was used for conversion, but a 36-month average was adopted in October 1980.

Because of the depreciation of European currencies in late 1980 and early 1981, several European producers claimed that fair value for their products fell below the trigger prices. Trigger prices rose, even though the yen also depreciated against the U.S. dollar in this period; the 36-month moving average dollar-yen rate had not changed much, while Japanese costs measured in yen had risen. In the spring of 1981, several European producers requested preclearance to sell at prices below the trigger prices. Granting large numbers of preclearances might have provoked the domestic industry to abandon the TPM and file complaints alleging unfair trade. The Commerce Department chose instead to terminate its preclearance program in November 1981, canceling all previously granted preclearances as well as outstanding requests. The Commerce Department explained that it preferred to use its manpower to detect unfair trade practices rather than to verify that *particular* practices were fair.

Economic Effects

The steel industry anticipated that the TPM would raise the price of imported steel so that domestic steel producers could raise prices while increasing their market share, which is what happened in 1979. Crandall examined the effects of the TPM on steel prices in 1979, market share captured by imports, and employment in the domestic steel industry.[4] He compared estimates for 1979 (the first full year of TPM operation) and 1976, finding that the TPM raised U.S. import prices by 10.3 percent; this caused a 1.1 percent rise in domestic producer prices. The domestic producers probably raised their prices by much less than the import price increase, because domestic prices were already significantly above import prices for many products. The weighted average price increase to steel users, assuming imports had 15 percent of the market, was 2.7 percent. The relative increase in import prices operated with a lag on market share; when fully felt, it could reduce the import share of the market by as much as 41 percent. Using more conservative estimates of the price impact of TPM, Crandall estimated that imports were reduced by 6.7 million tons in 1979; domestic shipments rose by 3.1 million tons, and domestic steel employment rose by 12,400 workers from levels that otherwise would have existed. Total consumption fell, apparently because of the increase in average price. Observed changes in prices and shipments were different, of course, because they were affected by exchange-rate changes, cost increases, and changes in demand, as well as by the TPM.

Downfall of the TPM

The TPM suffered the inherent weakness of most control programs: there were economic incentives to evade and avoid the controls, and many ways of doing so.

2. Department of the Treasury News Release, January 3, 1978, "Steel Trigger Prices Announced," p. 4.

3. "White House Fact Sheet for the Steel Trigger Price Mechanism (TPM)," September 30, 1980; reprinted in *Daily Report for Executives*, September 30, 1980, p. J-5.

4. Robert W. Crandall, *The U.S. Steel Industry in Recurrent Crisis*, Brookings Institution, 1981, especially pp. 107–14 and 133–36.

Table 1 U.S. Imports of Steel Mill Products

In million tons

Country of origin	1981	1980	1979	1978	1977	Change,[a] 1980–81
Japan	6.2	6.0	6.3	6.5	7.8	0.2
Canada	2.9	2.4	2.4	2.4	1.9	0.5
EEC countries[b]	6.5	3.9	5.4	7.5	6.8	2.6
West Germany	2.2	1.3	1.9	2.3	2.0	0.9
France	1.3	1.0	1.3	1.8	1.6	0.3
Belgium-Luxembourg	1.1	0.9	1.0	1.2	1.1	0.2
Italy	0.8	0.2	0.3	0.8	0.7	0.6
United Kingdom	0.6	0.2	0.4	0.7	0.8	0.3
Netherlands	0.5	0.3	0.5	0.7	0.6	0.1
Spain	0.7	0.5	0.4	0.7	na	0.3
Other Europe	0.9	0.4	0.6	1.1	0.8	0.5
Korean Republic	1.2	1.0	1.0	1.1	na	0.2
Latin America	0.8	0.6	0.6	0.8	0.4	0.2
Other countries	0.7	0.7	0.8	1.2	1.5	0.0
Total	19.9	15.5	17.5	21.1	19.3	4.4

a. Calculated from unrounded data.

b. The EEC figures also include data for Denmark, Greece, and Ireland.

SOURCE: American Iron and Steel Institute.

First, price and quality are inextricably intertwined, so a minimum price for a product can be evaded by increasing the product's quality. Consequently, trigger prices must specify clearly the quality of each product. This is a complex task, as there are many aspects of quality and almost limitless combinations of qualities. The complexity was evidenced by the TPM *Price Manual* for the first quarter of 1981, containing 260 pages of data to calculate trigger prices for various products with specific combinations of qualities. Second, some qualities, such as molecular structure, hardness, tensile strength, and specification tolerances, are not readily apparent, making it possible to mislabel products. Third, the true price in a transaction between related parties is difficult to determine, even with full information. In 1981 there were complaints that some steel service centers had established offshore corporations to buy foreign steel at low prices and then export it to the U.S. parent corporation at the trigger price. The offshore affiliate could be highly profitable, enabling the U.S. parent to sell its steel at a very low mark-up and obtain a larger sales volume for imported steel.

In addition to the possibilities for evasion and avoidance, the TPM was not a law. It was legal to sell at less than the trigger price as long as steel was not sold at less than fair value. Apparently, many firms decided to do just that, as shown by the European requests for preclearance. Depreciation of European currencies relative to the U.S. dollar lowered European production costs relative to trigger prices. Whether the fair value of European steel was in fact below the trigger price cannot be judged here. It is clear, however, that imports of European steel soared in 1981, and that is what led to the TPM's downfall.

Domestic steel firms became more and more critical of the TPM as steel imports grew in 1981 (see table 1). European Economic Community (EEC) steel producers increased their tonnage sold in the United States by 63 percent. Domestic firms argued that the Commerce Department did not enforce the TPM with sufficient vigor to stem the tide of steel, which, in their view, was being imported at prices below fair value. The Commerce Department pledged to initiate formal investigations whenever it encountered evidence of unfairly priced imports, and in November

1981 the Commerce Department did initiate a few cases. Still dissatisfied, seven domestic firms filed a record 132 anti-dumping and countervailing duty cases against producers in eleven nations on January 11, 1982.

The Commerce Department suspended the TPM on the same day. The department often had stated that it did not have the resources simultaneously to operate the TPM and investigate complaints, and that filing of complaints would cause the TPM to be withdrawn. The department announced that it would devote the resources that had been involved in operating the TPM to investigation of the industry's complaints.[5]

Conclusion

How did the TPM fare relative to the administration's three purposes of avoiding more severe protection, aiding the domestic steel industry, and improving enforcement of the anti-dumping law? Certainly, the TPM was successful in avoiding greater protectionism in steel trade and the harm that would have accompanied it. During the TPM's four-year tenure, Congress legislated no restrictions on steel imports, anti-dumping petitions were avoided almost completely, and other nations did not impose any retaliatory trade restrictions.

The TPM aided the domestic steel industry, but only for a while. Available evidence indicates that in 1979 the TPM raised steel prices, output, domestic market share, and steel industry employment. Later, however, evasion, avoidance, and exchange-rate changes reduced the TPM's usefulness, foreign producers cut their prices, and imports soared. The industry then decided to abandon the TPM—relying instead on filing anti-dumping and countervailing duty cases.

Whether the TPM contributed to better enforcement of the anti-dumping law is less clear. Import prices did rise in 1979 because of the TPM, which suggests that dumping margins may have been reduced. Enforcement was certainly not vigorous, however. Very few investigations were initiated by the Commerce Department, while the steel industry eventually filed a record number of anti-dumping and countervailing duty petitions. Final judgment on whether the administration was lax in triggering formal investigations or the steel industry overzealous in petitioning for investigations must await the outcome of the many investigations now in progress.

Overall, from a free-trade standpoint, the TPM can be viewed as beneficial to the nation only in that it may have been instrumental in deterring even greater protectionism.

5. *Federal Register*, vol. 47, no. 10, January 15, 1982, p. 2392.

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