Executive Memorandum

Published by The Heritage Foundation

No. 928
May 4, 2004

Export Controls on Scrap Steel Would Harm the U.S. Economy

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Scrap steel prices are high because of a weak dollar and strong global demand for scrap steel. Mini–steel mills, the largest U.S. consumers of scrap, want the U.S. Department of Commerce to limit scrap steel exports in hope of reducing domestic prices. However, even if the export controls did work as intended, they would harm the U.S. economy by surrendering the market share of U.S. scrap steel producers to their foreign competitors. Interfering with the market would also damage U.S. credibility, reminding the world of past mistakes in U.S. steel policy. The Bush Administration's best option is to allow prices to rise and fall according to supply and demand.

- Implementing export controls will both damage U.S. efforts to gain more access to foreign markets and harm the U.S. economy.
- The U.S. economy would benefit more from stabilizing the dollar and negotiating more free trade agreements.

Weak Dollar, High Prices. As with any commodity traded internationally, a weaker dollar means that the commodity costs more dollars. In the past year, scrap steel prices have increased from about $100 per ton to more than $300 per ton. These prices have increased along with other metal prices in the world market. The price of nickel, for instance, hit a 15-year high earlier this year, according to data from the London Metal Exchange. However, as Chart 1 indicates, scrap steel prices have generally increased in line with the price of nickel. The price increases also coincide with the dollar's decline, which explains most of the increases in commodity prices.

A strong global demand for scrap steel and nickel has contributed to the high prices. China, in particular, has been buying scrap steel and nickel for construction projects. According to *The Wall Street Journal*, China is "the world's largest steel consumer, because of increased purchases of washing machines, refrigerators and cars, as well as the building of facilities for the 2008 Summer Olympics in Beijing." South Korea, Canada, and Mexico are also top markets for U.S. scrap steel exports.

Negative Implications. At best, any restriction on exports of scrap steel will be only partially successful. The U.S. imports and exports scrap steel. Given the domestic demand, if exports decline, imports can be expected to decline by a similar amount.

Even if the policy were partially successful, the Commerce Department should not intervene to favor one industry over another. The Bush Administration has already made this mistake by imposing a tariff on steel in 2002—which it lifted in

This paper, in its entirety, can be found at:
www.heritage.org/research/tradeandforeignaid/em928.cfm

Produced by the Center for International Trade and Economics

Published by The Heritage Foundation,
214 Massachusetts Ave., NE, Washington, D.C. 20002–4999
(202) 546-4400 heritage.org

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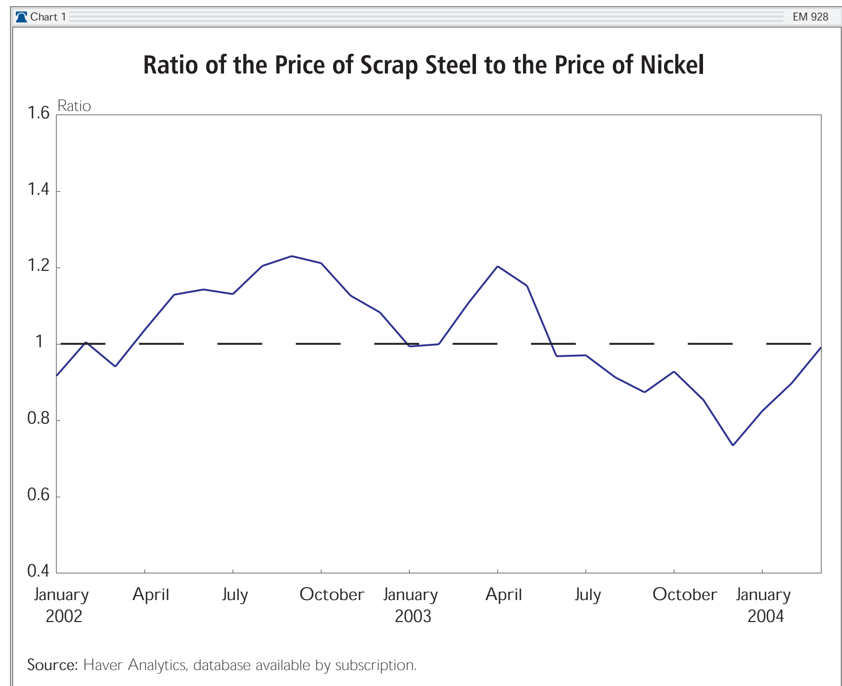
December 2003, under duress—to protect the larger mills. The steel tariff caused friction with trading partners and imposed higher costs on the steel-consuming industries, undermining their competitiveness in the world market. U.S. policies should encourage the free flow of goods, not restrict the market.



With 96 percent of the world's consumers living outside of the United States, U.S. industries benefit more, not less, from opportunities to export. Since Congress granted trade promotion authority in 2002, the U.S. Trade Representative (USTR) has initiated a host of free trade agreements (FTAs). President Bush has signed agreements with Chile and Singapore, and the USTR has just negotiated FTAs with Central American countries, Australia, and Morocco.

Implementing export controls would contradict the U.S. stance on free trade, with one arm of the government fighting for increased access and another arm rejecting it. Implementing these controls would also introduce unnecessary friction into existing relationships. Canada and Mexico consume nearly 25 percent of U.S. scrap steel exports and are America's largest trading partners. Total U.S. exports to Canada exceeded $169 billion in 2003, and total exports to Mexico exceeded $97 billion. The Bush Administration should be making efforts to improve these trading relations, not to restrict them.

The United States is the world's largest producer of scrap steel. Limiting scrap steel exports would surrender the U.S. market share to foreign competitors, with lasting negative economic effects.

What Should Be Done. The Bush Administration should learn from its steel tariff fiasco and instead take proactive measures toward free trade. Specifically, the Administration should:

- **Focus** its efforts on stabilizing the dollar. Oil prices, nickel prices, and scrap steel prices have risen as the dollar has declined. The idea that export controls will lower prices is a fallacy.
- **Continue** to initiate free trade agreements. Past trade agreements have increased the savings and gains for the average American family by from $1,300 to $2,000.

Conclusion. Implementing export controls will damage the USTR's efforts to gain more access to foreign markets. The U.S. economy would benefit more from stabilizing the dollar and negotiating more free trade agreements.

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