

Free Trade According to U.S.

The Bush administration may be right when it says it gave Brazil a break in its recent decision to impose restrictions on steel imports—but that's not the whole story.

by Matthew Flynn | March 11, 2002

U.S. Trade Representative Robert Zoellick is not likely to receive the typical warm Brazilian welcome when he arrives here today to pick up negotiations regarding the proposed Free Trade Area of the Americas (FTAA).

When the White House announced safeguards to protect the flagging U.S. steel industry last week, officials suggested that the United States was doing South America's largest economy a favor by reserving for Brazil 52% of the new 5.4 million ton import quota on unfinished steel.

Many Brazilian officials and industry representatives, however, appear unmoved by the gesture.

"The protectionist measures practiced by developed countries are an anachronism that shows itself to be incompatible with the values of international economic cooperation," Brazil's President Fernando Henrique Cardoso said after the U.S. measures were announced.

Indeed, while many in Brazil following hemispheric trade issues understand that the U.S. steel decision offered their country differentiated treatment, resentment of what they deem U.S. protectionism is running high here. Beyond the steel restrictions, Brazil has complained about U.S. subsidies to domestic agricultural producers, which they say put Brazilian exports at an unfair disadvantage, and high tariffs on other Brazilian products.

Prior to the White House decision, Brazilian diplomats and steel sector representatives lobbied the Bush administration to cap imports of unfinished slab steel at 7 to 9 million tons. Instead, the United States put the quota at 5.4 million tons and slapped a tariff of 30% on imports exceeding that amount.

At the same time, Brazilian exports of finished steel—roughly 40% of all Brazilian steel sales to the United States—now face duties of 30%, which effectively bar them from the market.

According to Zoellick, the new restrictions were drafted with the intention of maintaining the United States as the market for 85% to 90% of Brazil's steel exports—preferential treatment aimed at keeping bilateral trade relations on track.

What Zoellick did not mention is that Brazilian steel makers have been steadily working to expand the capacity of their operations in order to increase exports. Indeed, after years of multi-million dollar investments—made with sales to the United States in mind—Brazil is one of the most competitive steel producers in the world.

Brazil's steel companies have also been spending money acquiring operations within the United States. Brazilian producers argue that with Brazil exporting cheap slabs to U.S. subsidiaries for finishing—a more value-added segment in the production chain—the entire U.S. steel industry would see benefits. In recent years over 30 U.S. steel companies have filed for bankruptcy.

Under the new protocols, however, Brazilian producers will not only lose up to \$500 million in annual sales to the United States—they will also have fewer incentives to continue investing money in the ailing U.S. steel industry.

Bush administration officials have made a point of highlighting the fact that the new U.S. quotas will be raised by 500,000 tons a year over the next three years—250,000 tons of which is reserved for Brazilian steel.



But while Brazil did get a break over the medium term, over the short term the U.S. measures are liable to spark layoffs in the Brazilian steel sector, fanning the fires of anti-U.S. rhetoric and making FTAA talks more difficult.

“There is already a prejudice in Congress about the FTAA, and a lack of confidence in relation to free trade,” says Brazilian Sen. Paulo Hartung. “The exacerbation of protectionism in the United States transforms these uncertainties into certainties and will oblige the Brazilian government to treat the FTAA in a different way.”

Washington, however, appears confident that FTAA talks will be untroubled.

“I don’t think there will be difficulties in FTAA for two reasons,” Peter Allgeier of the U.S. Trade Representatives office recently opined. “First, despite bilateral questions, we, Brazil and other countries in the hemisphere know of the long-lasting benefits of creating the FTAA. And the second point is, frankly, I think that the Western Hemisphere was treated extremely well [in the steel restrictions decision.]”

Many read the U.S. offer to reserve 52% of the import quota on steel slabs for Brazil as a nudge to Brazil to keep FTAA discussions moving forward.

“As it appears to me, the proposals do not affect the countries that make up NAFTA—that is they could serve as a message to show what could be gained by adhering to the FTAA quickly,” says Horácio Lafer Piva, president of the São Paulo state industrial federation (FIESP). Washington’s partners in NAFTA, Canada and Mexico, were exempt from the import restrictions.

Despite assertions to the contrary, Washington’s decision to impose a tariff-quota system will certainly further complicate FTAA talks.

It is unlikely that Brazil will respond as aggressively to U.S. steel protections as the European Union (EU) has. The EU has already lodged a formal complaint with the World Trade Organization (WTO) and

is trying to forge an alliance with other steel exporting countries, including Brazil, to bring a WTO suit against the United States. South Korea has also announced that it plans to appeal the U.S. decision before the WTO; Japan, too, is considering taking the issue up with the WTO. So far, Brazil’s Foreign Ministry has merely requested binational consultations on the matter, despite calls for more aggressive action by executives from affected steel companies.

For now, Brazil will be more inclined to use the steel issue as yet another bargaining chip in FTAA negotiations. Besides trying to gain an advantage in sensitive areas, such as agriculture, Brazilian diplomats could invoke WTO rules and ask for compensatory duties on other Brazilian exports to the United States. Meanwhile, the decision whether to attend WTO deliberations over U.S. policies on steel imports as a third-party observer or whether to sign on to complaints is a powerful trump card tucked up Brazil’s sleeve.

Washington also seems to have forgotten the fact that Brazilians will be heading to the polls this October to elect a new president. Luis Inacio Lula da Silva, the well-known leader of Brazil’s Workers’ Party (PT), is leading in the polls, and a PT government would be even less inclined to toe the U.S. line in trade talks.

The Bush administration’s recent “trade-but-only-on-our-terms” decision has reinforced perceptions here that there is a double standard at work in Washington’s push for increased hemispheric trade. No matter what concrete action Brazil decides to take, Mr. Zoellick is likely to find his audience here to be less than enthusiastic.

Matthew Flynn is a freelance journalist based in Brazil. A graduate of Georgetown University and the London School of Economics, he has previously written for the IRC on Brazilian trade politics and Mexico’s Plan Puebla Panama. He can be reached at matthew.flynn@journalist.com.

Published by the Americas Program of the Interhemispheric Resource Center (IRC). ©2002. All rights reserved.

The Americas Program

“A New World of Ideas, Analysis, and Policy Options”

Founded in 1979, the IRC is a small but dynamic nonprofit policy studies center whose overarching goal is to help forge a new global affairs agenda for the U.S. government and people—one that makes the United States a more responsible global leader and partner. For more information, visit www.americaspolicy.org or email americas@irc-online.org.

Recommended citation:

Matthew Flynn, “Free Trade According to U.S.,” Americas Program Commentary (Silver City, NM: Interhemispheric Resource Center, March 11, 2002).

Web location:

<http://www.americaspolicy.org/commentary/2002/0203steel.html>