

# The trade effects associated with an antidumping epidemic: The hot-rolled steel market, 1996–2001

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## Abstract

Between 1996 and 2001 hot-rolled steel was subject to numerous antidumping (AD) complaints. Because it is a relatively homogenous product that nearly all steel firms can produce, hot-rolled steel is an ideal case study for examining whether AD-induced trade effects – trade diversion and trade deflection – explain why the hot-rolled steel cases were not a typical trade spat, but rather an AD outbreak of historic proportion. We create a detailed database of bilateral trade at the six-digit HS level and find strong evidence of trade destruction, somewhat weaker evidence of trade deflection, and little evidence of trade diversion. These results make it unlikely that the country-specific nature of AD protection has anything to do with the emergence of the hot-rolled AD epidemic.

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## 1. Introduction

On a number of levels, it is particularly apropos that the world's first antidumping (AD) dispute involved Canadian imports of US steel. In hindsight, it strikes us that this case foretold how AD would be used over the next century. The first AD case involved two developed countries. In the first AD case the plaintiff was a struggling manufacturing industry while the

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respondent was arguably the world's most efficient producer. And, perhaps most significantly, the initial AD case involved a steel product. The same broad strokes that characterize the inaugural antidumping dispute also characterize most AD disputes over the last 100 years. Over the past hundred years developed countries in general and these two countries in particular have been among the most aggressive users of AD measures (Finger, 1993; Zanardi, 2004). Most AD cases have involved manufacturing (Miranda et al., 1998; Zanardi, 2004) and many AD disputes are seemingly directed toward efficient producers (Kolev and Prusa, 2002). Finally, although we have never seen a full century-long accounting, trends over the last 30 plus years make us confident that on a global basis over the past 100 years the steel industry has filed more AD complaints than any other industry.

These parallels should not suggest that nothing has changed. Today, AD is no longer just a trade weapon for a handful of rich, developed countries. To the contrary, AD is now used by countries of all stages of development and from all regions of the world (Miranda et al., 1998; Zanardi, 2004). Moreover, the range of products targeted has also expanded, with AD measures frequently targeting agricultural products.

In spite of the expanding scope and use of AD, much remains the same—most notably, the prominence of steel disputes. Over the last decade the steel industry has continued to dominate the AD headlines. In a fitting capstone, the first century of AD measures ended with an unprecedented burst of worldwide steel disputes. During the last half of the 1990s the steel industry accounted for approximately one out of every three antidumping disputes around the world (Stevenson and Filippi, 2004). In other words, at a time when more countries and more industries were filing more AD disputes than at any time in history, steel remained a dominant user.

The AD steel epidemic that occurred in the late-1990s involved nearly every conceivable type of steel product, from pipe and tube to stainless plate and sheet, from steel bar to structural beams, from wire to tinplate. Of all the steel products involved in AD disputes, however, hot-rolled steel was the undisputed champion. By our accounting, between 1997 and 2001 about one-quarter of all steel disputes involved hot-rolled steel.

Hot-rolled (HR) steel has a number of characteristics that make it very “trade sensitive” and therefore an obvious target for AD protection. To begin with, although there are hundreds of types of steel products, arguably the most commercially important types are flat-rolled steel products; HR steel is a prominent type of flat-rolled steel. As anyone who studies AD recognizes, flat-rolled steel producers have been particularly dependent on trade protection as a means to maintain market share (Lenway et al., 1996; Morck et al., 2001).

Given flat-rolled producers' propensity to seek AD protection, it is not surprising that there were HR disputes but one needs to understand the upstream–downstream nature of flat-rolled steel production to explain why HR was such a prominent target. Most types of flat-rolled steel are vertically related: steel slab is the primary input for producing hot-rolled, hot-rolled is required for producing cold-rolled steel, cold-rolled steel is a key input for producing corrosion resistant steel, etc. Large integrated producers have the ability to produce most types of flat-rolled products. Importantly, products made at stages earlier than HR, such as steel slab, are primarily captively consumed by the steel manufacturer and are not sold actively in open markets.<sup>1</sup> Hot-rolled steel is the first stage in flat-rolled production that is both captively consumed and also has an active merchant market. Said differently, HR is the first flat-rolled

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<sup>1</sup> The USITC (2001) estimates that about 1% of US slab is sold on the merchant market.

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