

Steel's Divided Markets: Japan & Europe

By

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June 28, 2002, Washington, DC

Working Paper

Japan Information Access Project

Developed countries have long restricted imports to protect their domestic steel industries. In the US, protection has taken the form of formal, publicly acknowledged measures. In Japan, trade protection has been largely informal and secret. Western Europe has taken a middle course, with a considerable number of publicly acknowledged restrictions on trade, combined with informal and secret restrictions. The evidence strongly suggests that, while both the European Union (EU) and Japan have complained about American barriers to foreign steel, they themselves have engaged in a 30-year long secret agreement to protect their own markets from each other's steel exports.

The agreement has been reported in the Japanese press, and confirmed in personal interviews I've held in both Japan and Europe. In 1993 Japan's prestigious Nikkei Business published an exposé of restrictions into Japan's steel market:

*One steel firm manager said, 'In fact, export volumes of steel products to Japan from every country in the world, excepting the United States and the former Soviet Union, are completely controlled by the Japanese steel industry.' He added that South Korea, Taiwan, Brazil and the European Community, etc., secretly negotiate agreements that set a framework for mutual export restrictions. 'Korean steel makers, at a short transport distance from Japan, are always saying they would like to export more to Japan. But they are unable to, because Japan would respond by dumping steel in Korea.'*¹

Japan's agreements with other nations work well in part because they rest on the remarkable cohesiveness of the Japanese integrated steel industry. With the support of the Ministry of Economy, Trade and Industry (METI), market shares among Japan's

¹ "Hikanzei shōheki no onshō ni," [Hotbeds of nontariff trade barriers] *Nikkei Business*, July 5, 1993.

integrated steel makers have remained unchanged since 1976. Integrated makers have restricted the expansion of mini-mills in Japan and monitor the distribution system to discourage penetration by imports.²

In a May 2002 interview I held in Europe, a steel purchaser for one of Europe's largest carmakers confirmed that Europe's mutual agreement not to trade steel with Japan continues:

The accord between Japan and Europe is illegal, but it exists. Everybody knows, but is quiet about it.

The buyer explained that he knew about the agreement for two reasons. First, large numbers of employees in his auto company previously worked for steel firms and have explained the agreement to him. Second, he has confirmed that the agreement is currently observed because Japanese steel companies refuse to sell steel to his firm. He told me he has visited Nippon Steel's facility in Japan and been assured there that Nippon Steel would be "very interested" in selling steel to his firm. But every month or two his firm asks Nippon Steel to make bids for supplying high strength steel and Nippon Steel never responds. The steel buyer complained,

This accord between Europe and Japan is a problem for [my company]. It is a distortion of free competition. But it is not possible to complain to the European Commission, because there is no proof of the accord, and because it is a very sensitive subject.

The agreement appears to be enforced by mutual threats to punish violations of the agreements by selling steel cheaply in each other's markets. That the agreement can be maintained is a troubling sign of domestic collusion and cooperation both within the Japanese and the European steel industries. The agreement appears to be at the heart of the so-called "East-of-Burma" accord, an agreement between Western European and East Asian steel industries to divide up world markets. Japan's antitrust officials show no signs of investigating the agreement. European officials argue that they cannot conduct an investigation without first being given written proof of the agreement.

Why does the agreement matter? Agreements to restrict competition help keep prices higher and more stable than they would otherwise be, and help the Japanese and European steel industries avoid shutting down capacity and making room for imports. Japan remains a major net exporter of steel, while Western Europe has failed to make the transition to becoming a significant net importer. Developing a steel industry and exporting steel was an important basis for industrial development in both Western Europe and Japan. By protecting their steel industries, advanced countries are kicking the ladder away and preventing developing countries from following in their footsteps. Western

² Tilton, Mark. *Japan's Steel Cartel and the 1998 Steel Export Surge*. A Japan Information Access Project Working Paper, Washington, DC. October 23, 1998 (Revised November 6, 1998).

Europe and Japan have left the United States as the only advanced industrialized country to help steel industries in industrializing countries by serving as a large net importer of steel.

Certainly, important change in steel markets is occurring. Steel prices have fallen dramatically over the past decade. Steel companies in Japan and Europe are carrying out mergers and international cooperative agreements. China has become a free-for-all zone for trade, and South Korea has challenged the East-of-Burma agreement by exporting tinplate steel to Western Europe. The European and Japanese steel industries, however, continue to refuse to compete with each other in their home markets. Neither steel buyers nor advocates of free trade in Western Europe or Japan have engaged in any significant criticism of domestic informal trade restrictions.

The US is stuck as the export destination of last resort. The WTO has no mechanisms for dealing directly with the repercussions Japanese and European protective agreements have for the American steel industry. It is unfortunate that so many mid-level developing countries have been hurt, both by Japanese and European protection, and by the recent new American steel tariffs.

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