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White Paper
China's Steel Overcapacity Harms US Industry
China Must Remain a Non-Market Economy (NME) Country

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I. Summary

The flood of steel wire and wire products from China is the single most critical issue affecting the US wire industry, its customers, and its domestic suppliers. China's overcapacity of steel-making facilities, its subsidized industry, and its government controlled markets creates unfair competition and harms US manufacturing, American workers, and the overall US economy. Imports of steel wire and wire products from China have surged as the result of China's excess steel capacity, subsidy programs, mercantilist policies, unfair trade practices, and currency manipulation.

AWPA members are concerned about China's expectation that at the end of 2016 China will be granted Market Economy Status (MES). AWPA has joined like-minded organizations in a coalition which believes China should continue to be designated as a Non-Market Economy (NME) country.

> *Manufacturers for Trade Enforcement (MTE) mission: "To maintain effective trade enforcement and remedy options for US manufacturers and producers by ensuring the US government preserves its right to conduct a fair and accurate assessment of China's non-market economy status."*

The position of the coalition is that fair international competition and a level playing field are essential for the global competitiveness of US manufacturers. Effective and predictable trade enforcement mechanisms must include the accurate assessment of and response to distortions from state-run or other non-market economies, which endanger US jobs and the economy.

1. The Chinese economy does not meet the basic requirements set forth by the US Department of Commerce for a functioning Market Economy.
2. A determination by the US Administration that the Chinese economy continues to meet the definition of a non-market economy is vital for US manufacturers seeking redress for unfair trade practices by Chinese exporters.

The growing list of Coalition members include:

Alliance for American Manufacturing
Aluminum Association
American Fiber Manufacturers Assn
American Iron and Steel Institute
American Wire Producers Association
Committee on Pipe and Tube Imports
Institute of Scrap Recycling Industries
Metals Service Center Institute
Narrow Fabrics Institute
National Council of Textile Organizations
PET Resin Association
Steel Manufacturers Association
US Industrial Fabrics Institute

II. Background: Global Steel Overcapacity and USTR Efforts

According to the Organization for Economic Cooperation and Development (OECD) Steel Committee, global crude steelmaking capacity more than doubled from 2000 to 2014, with growth led by an unprecedented capacity expansion in China. Government intervention in the Chinese economy encourages over-production in many sectors, (including steel, which globally is now over 700 million metric tons annually) which displaces US production and hurts US workers. China's surplus capacity in steelmaking is greater than the entire steel production of the United States, European Union, Japan, and Russia combined, according to the US Trade Representative.

The US Trade Representative (USTR) convened hearings in April to listen to industry's concerns about Global Steel Overcapacity. The AWPA testified at the hearings to provide information on the impact of Global Steel Overcapacity on downstream steel manufacturers, such as the wire and wire products industry. Imports of steel wire and wire products from China have surged since 2001. The US wire industry is often overlooked when policymakers, commentators, and the press address the fundamental issues in today's global steel market. Our member companies face the same problems caused by overcapacity, subsidy programs, and other unfair trade practices—particularly by China—that affect the basic steel industry.

By 2015, imports of Chinese wire increased by 370 percent; Chinese wire rope by almost 300 percent; Chinese wire strand by 2,200 percent; and Chinese woven wire fabric by 5,000, to cite just a few examples. China is the subject of more antidumping actions globally (55% of all antidumping cases) than any other country. In the wire industry specifically, the US Government has issued antidumping and countervailing duty orders on: nails, prestressed wire strand, threaded rod, wire grating, wire shelving, innerspring units, rail tie wire, and wire garment hangers.

The AWPA, in its testimony before the USTR, recommended the following actions:

- Negotiate meaningful and enforceable reductions of excess capacity in the steel industries of China and other countries, INCLUDING wire and wire products capacity.
- Negotiate to eliminate the pervasive subsidy programs in China and other countries.
- Ensure that any remedy undertaken by the US Government takes into consideration the effect of that remedy on the downstream sectors of the steel manufacturing supply chain.
- Insist on the elimination of Chinese border tax schemes that promote exports of finished downstream products while discouraging exports of raw materials and other inputs.
- Ensure that US Customs has the resources to investigate and take enforcement action.
- Take remedial action to ensure that China and other trading partners cease to manipulate their currencies.

III. Background on China's NME Status

In its accession agreements with the United States, the European Union, and other World Trade Organization (WTO) members, China agreed to certain conditions – including the 15-year period of being treated as a non-market economy for purposes of antidumping proceedings. China takes the position that, at the end of the 15-year period in December 2016, it automatically qualifies for market economy status (MES) for antidumping purposes. MES would allow China to enjoy the same market status as the US and European Union when it comes to antidumping investigations.

In a broad sense, the definition of a market economy means that prices are determined through free competition and profit-motivated investment decisions; production and distribution are determined by supply and demand; and economic and price decisions are conducted by a country's businesses and not by the government. This is in direct contrast with a centrally planned economy in which the government shapes and controls everything including costs, prices, wages, output quotas, currency values, etc.

Prices or costs which are not set by the market cannot be used in antidumping methodologies for calculating dumping margins. Therefore, in cases involving Chinese imports, dumping calculations are based on something other than Chinese prices or costs, such as costs in market-economy countries, at a level of economic development comparable to China.

The US government can and should continue to exercise its right to assess the non-market aspects of China's economy, which may be relevant to any US trade enforcement action. China should continue to be considered a non-market economy because the Chinese economy is still dominated by the Communist Party which plays a major and direct role in many critical aspects for the economy. These include the operations of the financial system; access to upstream resources and energy sectors; and ownership and control of many strategic industries. In other words, China has not yet met the basic requirements to be considered a market economy, as set forth by the US Department of Commerce.

It is up to the governments of individual countries to make the decision as to whether or not China is granted MES. Certain WTO member countries have already conferred MES on China, largely through existing trade agreements. However, the countries that actively use the antidumping laws are the ones that will likely make a decision by the end of this year on China's market economy status.

Politically and economically, the European Union (EU) and the US will be the most important decision-makers. The European Parliament has already voted overwhelmingly to reject MES for China, which is a significant step for the European Commission and the separate EU governments to do the same later this year.

US law requires the International Trade Administration, within the US Department of Commerce (Commerce), to consider six criteria in determining if a country has achieved market economy status:

1. The extent to which the currency is convertible into the currency of other countries;
2. The extent to which wages in the country are determined by free bargaining between labor and management;
3. The extent to which joint ventures or other foreign investments are permitted;
4. The extent of government ownership or control over the means of production;
5. The extent of government control over the allocation of resources and over the price and output decisions of enterprises; and
6. Other factors considered appropriate by the administering authority.

However, for Commerce to begin the process, a formal request to consider China a market economy must be made in a trade proceeding, such as an original investigation or an administrative review of an existing antidumping order.

VI. Action

AWPA members urge Members of Congress to recognize the magnitude of harm caused by the enormous volume of imports of wire and wire products imports as well as other steel products from China.

- Should China’s market status be addressed in legislation, we ask your support in continuing China’s current designation as a Non-Market Economy (NME) country.
- We also ask Congress to support the efforts of the USTR to effectively address the issue of Steel Overcapacity in China.