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March 29, 2016

Mr. Jim Sanford
Assistant U.S. Trade Representative for Small Business,
Market Access and Industrial Competitiveness
Office of the U.S. Trade Representative
600 17th Street, NW
Washington, DC 20508

RE: Request for Comments Concerning Policy Recommendations on the Global Steel Industry Situation and Impact on U.S. Steel Industry and Market (Docket: USTR-2016-0001)

Dear Mr. Sanford:

The American Iron and Steel Institute (AISI) is pleased to submit these comments on behalf of our U.S. producer member companies on the global steel crisis and potential governmental policy actions to address this crisis and its impact on the U.S. steel industry and market. AISI serves as the voice of the North American steel industry in the public policy arena and advances the case for steel in the marketplace as the preferred material of choice. AISI is comprised of 19 producer member companies, including integrated and electric furnace steelmakers, accounting for approximately 70 percent of U.S. steelmaking capacity with facilities located in 41 states, as well as Canada and Mexico, and approximately 125 associate members who are suppliers to or customers of the steel industry.

Executive Summary

Global steel overcapacity driven by foreign government subsidies and other interventionist policies has led to high levels of dumped and subsidized imports in the U.S. market that are taking significant market share from domestic producers and are resulting in reduced domestic production and low capacity utilization. This has led to a number of plant closures and over 12,000 layoffs in the U.S. industry. To respond to this global steel crisis, AISI urges the U.S. Government to undertake a coordinated series of policy actions to:

1. Vigorously enforce U.S. trade remedy laws to offset the full extent of dumping and subsidization that is benefitting imports of steel products that are injurying the U.S. industry;

2. Secure commitments by other countries to eliminate steel overcapacity, with special attention to China; and

3. Secure commitments by all steelmaking countries to eliminate and not introduce subsidies and other market-distorting policies related to steel.

I. State of the U.S. Steel Industry

The steel industry in the United States is currently suffering from a dramatic surge in imports from a number of countries around the world, many of which are dumped and subsidized. Finished steel imports increased by 36 percent in 2014 and captured a record 28 percent of our steel market. In 2015, as apparent steel demand in the United States decreased by over 10 percent, the volume of finished imports decreased by 7 percent, but the share of the market taken by imports increased further to a new record of 29 percent. See Appendix Figure 1.

As a result of the large increase in import market share in 2014 and 2015, domestic steel shipments declined by 12.2 percent in 2015 and capacity utilization in the industry averaged just 70.1 percent for 2015, and the industry continues to operate at only 70.1 percent capacity utilization year-to-date in 2016. See Appendix Figure 2. The seriousness of the import crisis affecting the U.S. industry is demonstrated by the fact that several steel companies have been forced to temporarily close major steel-making facilities, including mills in Ashland, Kentucky and Granite City, Illinois, as well as a number of iron ore mines in Minnesota. Bureau of Labor Statistics data indicates that employment in the steel industry has declined by over 12,000 jobs over the last twelve months for which data are available.

II. The Role of China in the Global Steel Crisis

Since 2000, Chinese government industrial and trade policies have produced a dramatic increase in the size of the Chinese steel industry, to the point that it today represents almost half of all global steel production.[1] Chinese crude steel production soared from 128 million MT in 2000 to 823 million metric tons (MT) in 2014 – an increase of 695 million MT – before declining slightly to 804 million MT in 2015.[2] See Appendix Figure 3.

For many years Chinese steel consumption was increasing, and in recent years a significant portion of China's excess steel production was absorbed by the Chinese government's stimulus spending on fixed asset investment. But Chinese steel demand

[1] World Steel Association, "World crude steel output decreases by -2.8% in 2015," January 25, 2016.
[2] *Id.* World Steel Association, "Monthly Crude Steel Production 2015"; World Steel Association, "Monthly Crude Steel Production 2000."

appears to have peaked in 2013. The World Steel Association has reported that Chinese steel consumption (apparent steel use) declined by 3.3 percent in 2014[3] and Chinese steel demand is estimated by the China Iron and Steel Association (CISA) to have declined by 5.5 percent in 2015.[4] See Appendix Figure 4. Furthermore, the demand situation in China is expected to worsen over the coming decade. The POSCO Research Institute forecasts that steel demand in China will decrease steadily until 2025, due to the slowdown in the Chinese construction and manufacturing industries.[5]

With China's domestic steel demand declining, the Chinese steel industry has increasing relied on exports to consume surplus production. China exported a record 94 million MT of steel products in 2014, an increase of 52 percent from 2013.[6] That trend accelerated in 2015 with Chinese steel exports rising to 112 million MT, "an amount big enough to feed demand in Germany and Japan for a year and leave almost 9 million metric tons to spare."[7]

This increase in Chinese exports to the world has resulted both in increased imports of Chinese steel into the United States and in increased imports from third countries that have themselves received increased Chinese steel imports. In some cases,

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[3] World Steel Association, 2015 Short Range Outlook, *found at http://www.worldsteel.org/dms/internetDocumentList/press-release-downloads/2015/Short-Range-Outlook-table-by-Region-2015-2016-12Oct2015/document/Short%20Range%20Outlook%20table%20by%20region%202015-2016.pdf.*

[4] "China's Steel Mills See Widening Losses as Supply Exceeds Demand" Bloomber (Jan. 29, 2016), *found at http://www.bloomberg.com/news/articles/2016-01-29/china-s-steel-mills-see-widening-losses-as-supply-exceeds-demand.*

[5] POSCO Research Institute, *Asian Steel Watch* (January 2016) at 99-103.

[6] Ruby Lian and David Stanway, "Chinese Steel Exports to Stay High This Year – Industry Group," Reuters (Apr. 29, 2015).

[7] "China's steel exports now outstrip demand in any other country" Bloomberg (Jan. 13, 2016), *found at http://www.mineweb.com/news/iron-and-steel/chinas-steel-exports-now-outstrip-demand-in-any-other-country.*

Chinese steel imports in third countries are being further processed into downstream steel products that are then exported to the United States. For example, Chinese billets may be further processed in Turkey into long products which are then exported to the United States, while Chinese flat-rolled steel may be converted into pipe products in Korea which are then exported to the U.S. market. In any event, the U.S. industry has suffered from the injurious impact of this increased steel production which is then dumped into the U.S. market.

III. The Problem of Global Overcapacity Driven by Government Policies

China leads the world not just in capacity increases, but in *excess* capacity levels. China's official steel capacity levels reached 1,160 million MT in 2014,[8] meaning it had excess capacity of 337 million MT. CISA estimates that there is even more steelmaking capacity in the China than the official government statistics report – approximately 1.25 billion metric tons of crude steel production capacity in China in 2014, compared with 823 million metric tons of actual production in 2014. That equals more than 425 million metric tons of excess capacity.[9]

AISI believes that overcapacity in China is the greatest challenge facing the global steel industry today and is a significant factor in the surge in steel imports into the U.S. market in the past several years.

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[8] The Ministry of Industry and Information Technology (MIIT) announced Chinese capacity of 1.16 billion metric tons (1.277 billion net tons) in 2014. Chinese steel production in 2014 was 823 million MT.

[9] China Iron and Steel Association (中国钢铁协会), *Analysis of Key Points for the Development of Steel Enterprises in the Thirteenth Five Year Plan Period* (钢铁企业"十三五"发展重点分析) (Mar. 19, 2015), http://www.chinaisa.org.cn/gxportal/DispatchAction.do?efFormEname=ECTM40&key=AmEIN1oxUDFRMAI1A2QHZg1pAGBRNVVjAzRSYAVnBDMGFQ9ADhVVZQMSD0hVQgVn.

But China is not the only source of this problem. In Turkey, where huge capacity growth also occurred extremely quickly, steelmaking capacity rose by nearly 150 percent from 2000 to 2012.[10] Capacity has also grown significantly since 2000 in India, Korea, the Middle East, Latin America (largely Brazil[11]), and the Commonwealth of Independent States ("CIS") countries.[12] These capacity increases, well in excess of market demand, have led to enormous levels of overcapacity in the global steel industry. A recent analysis by the OECD shows that the global excess steel capacity in 2015 was estimated to be about 700 million metric tons.[13]

The overcapacity crisis plaguing the global steel industry is largely a result of foreign government interventionist policies and practices. As the Department of Commerce found in 2000 in connection with the steel import crisis of the late 1990s and early 2000s, "government practices and policies that forestall adjustments mandated by the market" are a major cause of excess capacity in the steel industry.[14] This remains true today, as many governments continue to subsidize the start-up of additional, unnecessary capacity and prevent obsolete capacity from closure.

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[10] Dr. Veysel Yayan, Secretary General, Turkish Iron and Steel Producers Association, *Turkish Steel Market and Regional Trade*, 11th International Steel Market and Trade Conference (Mar. 29, 2013) at 5.
[11] OECD, *Regional Capacity*, DSTI/SU/SC(2011)14 (Dec. 5-6, 2011) at 5 "("OECD Regional Capacity Report").
[12] From 2000 to 2011, capacity increased by nearly 63 million metric tons in India, 35.1 metric million tons in Korea, 30 million metric tons in the Middle East, 21 million metric tons in Latin America, 19.4 metric million tons in the CIS countries, 9.6 metric million tons in Africa, 8.6 metric million tons in the EU countries, and 5.1 million metric tons in the NAFTA countries. OECD Regional Capacity Report at 2.
[13] OECD, The Capacity Outlook for the Global Steel Industry: Preliminary OECD Estimates, *presented at* worldsteel ECON meeting, Madrid, 9 September 2015.
[14] U.S. Department of Commerce, International Trade Administration, Report to the President, Global Steel Trade: Structural Problems and Future Solutions (July 2000) ("Commerce Global Steel Trade Report") at 4.

China provides the most striking example of government intervention in the steel industry, which has resulted in the enormous growth in steel capacity discussed above. The unprecedented growth in Chinese capacity is largely a result of massive government ownership and control over the steel industry, at the expense of market-oriented steel producers around the globe.[15] Through various laws, policies, and industrial plans, the Chinese government for decades has directly subsidized its steel industry through the provision of grants, preferential loans, debt-for-equity swaps, tax refunds, and other preferential policies, as well as various forms of indirect support, such as restrictions on foreign investment.[16] The Chinese government also intervenes in its steel industry to prevent the closure of capacity. Many older mills in China, which would likely close in a purely market-based environment, have been supported by local governments and continue to operate, intensifying global oversupply.

Turkey is another prime example of a steel industry built with government support. The Turkish steel industry has grown rapidly, jumping from the 17th largest crude steel-producing country in the world in 2000 to the 8th largest by 2014,[17] and the 9th largest net exporter of steel.[18] Such dramatic growth has been facilitated by significant subsidies from the Turkish government, including low-interest development

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[15] *See, e.g.*, *Perverse advantage: A new book lays out the scale of China's industrial subsidies*, The Economist (Apr. 27, 2013) ("On their conservative calculations, China spent over $300 billion, in nominal terms, on the biggest SOEs between 1985 and 2005. This help often came in the form of cheap capital and underpriced inputs unavailable to international rivals … Such distortions breed indiscipline and overcapacity… A similar problem looms in the steel industry, where the country's excess capacity of some 200m tonnes surpasses the entire capacity of Japan's steelmakers.").

[16] *See generally* Wiley Rein & Fielding LLP, *The China Syndrome: How Subsidies and Government Intervention Created the World's Largest Steel Industry* (July 2006); Wiley Rein LLP, *The Reform Myth: How China Is Using State Power to Create the World's Dominant Steel Industry* (Oct. 2010).

[17] Turkish Steel Exporters' Association, *A Growing Industry*, http://www.turkishsteel.eu (last visited June 19, 2013); *World Steel in Figures 2015*, World Steel Association at 9.

[18] *World Steel in Figures 2015* at 27.

bank loans, export credits and insurance,[19] tax benefits, and upstream subsidies to suppliers.[20]

Similarly, the Indian government has fostered the rapid expansion of its steel industry through intervention and subsidies. The Indian government has historically intervened in its domestic steel market by promoting investments and propping up struggling enterprises with government loans, loan guarantees, debt write-offs, and tax breaks, in addition to imposing import duties and licensing requirements and raw material export restrictions to protect domestic producers.[21]

These are but a few examples of government policies to demonstrate that growing overcapacity in the global steel market continues to be due in large part to government subsidies and intervention in steel industries around the world.

IV. Policy Recommendations

In order to address this crisis, AISI recommends a three-pronged policy approach, as outlined below.

1. Vigorously enforce U.S. trade laws. As a first step, it is essential that the U.S. Government use all means available under our trade laws to provide immediate relief to the U.S. Industry from the injurious effects of the surge in imports into the U.S. market in recent years. In pending and future antidumping and countervailing duty investigations on steel products, the Department of Commerce should use all tools

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[19] *See New and Full Notification Pursuant to Article XVI:1 of the GATT 1994 and Article 25 of the Agreement on Subsidies and Countervailing Measures: Turkey*, G/SCM/N/220/TUR (Mar. 21, 2012) at 58-69.
[20] Issues and Decision Memorandum accompanying *Welded Carbon Steel Standard Pipe from Turkey*, 70 Fed. Reg. 62,097 (Dep't Commerce Oct. 28, 2005) (final results of expedited sunset review).
[21] *See, e.g.*, Commerce Global Steel Report at 163; U.S. Trade Representative, *2013 National Trade Estimate Report on Foreign Trade Barriers: India* (Mar. 2013) at 1, 11-12.

available under the trade laws, including the improvements made to these laws by Congress last year in the Leveling the Playing Field Act enacted as part of the TAA legislation, to offset the full amount of dumping and subsidization currently benefitting unfairly traded imports under investigation. Likewise, Customs and Border Protection (CBP**)** should also use all the tools made available under the recently enacted ENFORCE Act to prevent and address any and all instances of evasion of existing and new AD/CVD orders on steel products.

The Administration must also continue to treat China as a non-market economy for antidumping purposes and not give in to Chinese demands that it be automatically graduated to market economy status in December 2016.

2. Secure commitments by other countries to eliminate steel overcapacity. The Administration should utilize the upcoming high level meeting of the OECD Steel Committee to press for binding commitments from China and other countries to eliminate excess capacity resulting from government market-distorting policies and practices. With respect to China, this requires the net elimination of 337-425 million MT of excess capacity. Promises of future action to reduce capacity by China and other governments are not enough, as there have been instances in the past where capacity reduction plans were offset by new capacity additions.

Action by China is critical, but the Administration should also seek such commitments by other countries that have relied on government policies to subsidize the development of new steel making capacity in recent years.

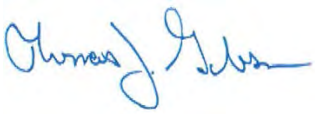
3. Secure commitments by all steelmaking countries to eliminate and not introduce subsidies and other market-distorting policies related to steel. The Administration should seek commitments by all major steelmaking nations to eliminate current market-distorting subsidy programs specific to the steel sector and to refrain from introducing new subsidy programs in the future. These commitments must apply not only to central governments, but also to provincial/state and local programs. As this should be a common goal of all steelmaking nations, AISI supports U.S. federal, state and local governments being bound by the same commitments.

V. Conclusion

The U.S. steel industry has been severely impacted by the surge in dumped and subsidized imports that have flooded the U.S. market in recent years. This surge is the result of foreign government interventionist policies in the steel sector that have fueled massive and growing global overcapacity in steel, particularly in China. AISI therefore greatly appreciates the attention being given by the Administration to the global steel industry crisis and its impact on the U.S. industry, and urges the U.S. Government to take the actions outlined above to address this dire situation.

Should you have any further questions regarding my testimony, please do not hesitate to contact me at 202-452-7100 or by email at tgibson@steel.org. Thank you.

Sincerely,



Thomas J. Gibson
President and CEO

APPENDIX

Figure 1: U.S. Finished Steel Import Volume and Market Share

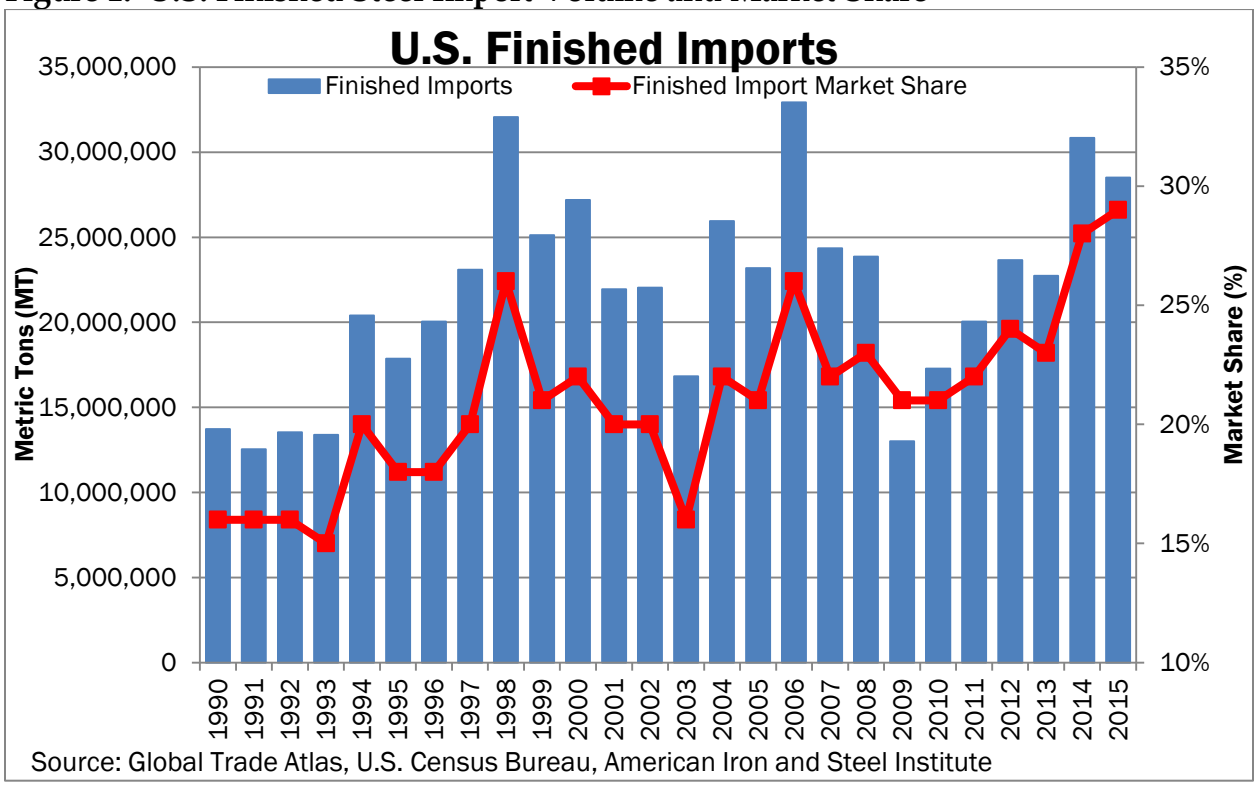


Figure 2: U.S. Raw Steel Making Capacity Utilization

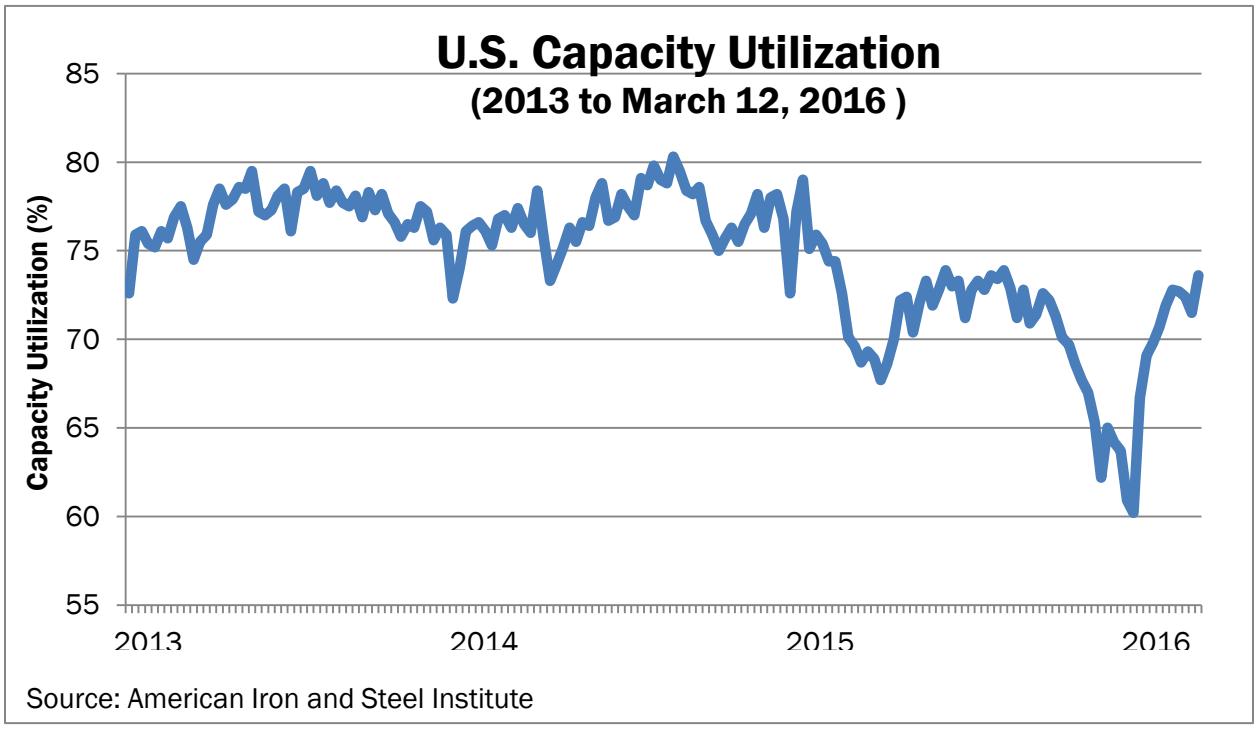


Figure 3: Chinese Steel Production vs. U.S. Steel Production

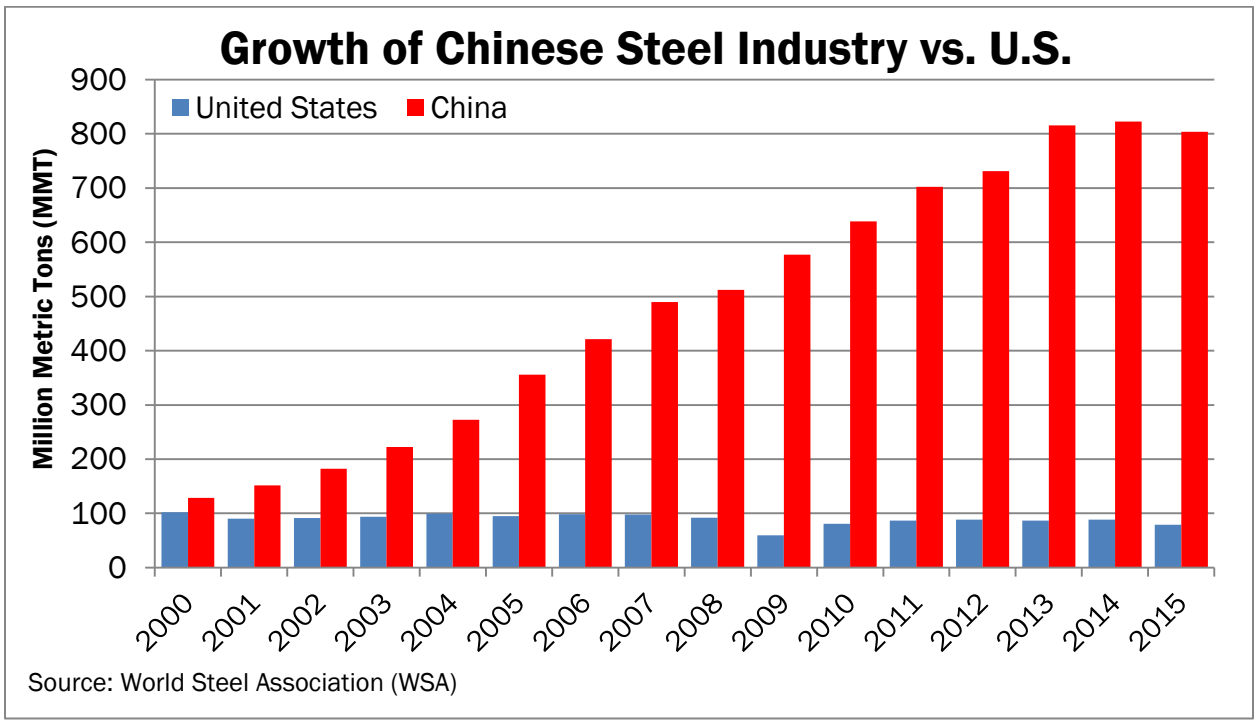


Figure 4: China Apparent Steel Use

Figure 5: Chinese Steel Exports

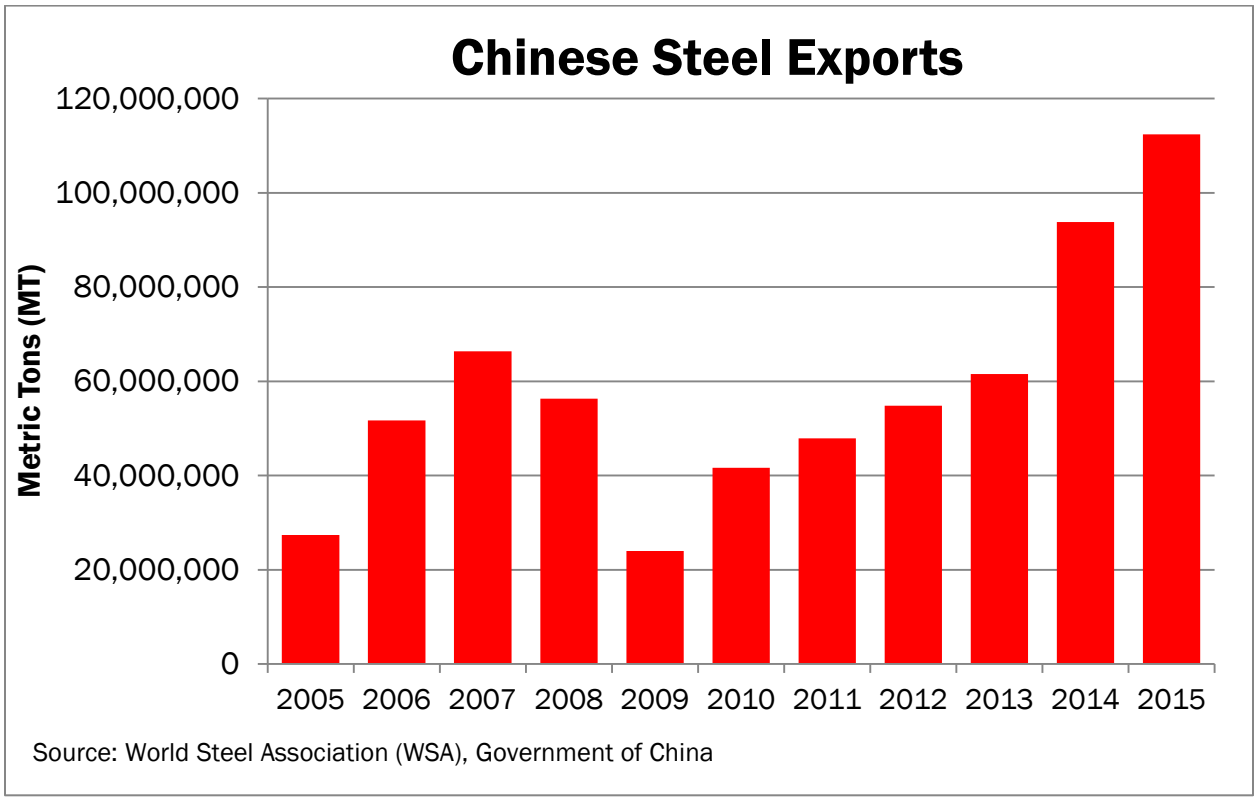


Figure 6: OECD Estimates of Global Steel Overcapacity