ADDRESSING STEEL EXCESS CAPACITY AND ITS IMPACTS: ENSURING A LEVEL PLAYING FIELD FOR AMERICAN BUSINESS AND WORKERS

Global Excess Capacity Threatens American Businesses and Workers

Although the U.S. and global economies have rebounded from the 2009 recession, the steel sector continues to experience significant challenges as a result of global excess capacity.

- *Capacity:* According to the Organization for Economic Cooperation and Development (OECD) Steel Committee, global crude steelmaking capacity more than doubled from 2000 to 2014, with global capacity growth led by an unprecedented expansion in capacity by China. Global steelmaking capacity is projected by the OECD to grow even further in the 2015 to 2017 period, to 2,361 million metric tons (MMT), approximately 700 MMT in excess of global steel demand in 2015.

- *Demand:* At the same time, global demand for steel is weakening. In October 2015, the World Steel Association lowered its forecasts for world steel demand, estimating that demand decreased by 1.7 percent in 2015. Global production also decreased by 2.9 percent in 2015 over 2014 levels.

- *Global Exports:* Despite significant production and demand decreases, world steel exports have increased by more than 4 percent between January-July 2015 relative to the same period in 2014, according to the OECD.

- *Causes:* The slowdown in China and other emerging economies, which has in turn reduced the consumption of commodities and other industrial raw materials, has been a major cause of the growing capacity-demand gap. Rising exports from China and others have put further pressure on already weak global prices.

- *Impacts:* In the United States, crude steel production decreased by 10 percent in 2015 to 78.9 million metric tons, while capacity utilization averaged 70.1 percent in 2015, a drop of almost 10 percent from 2014. In 2014, the industry observed significant increases in steel imports, increasing 37.9 percent by volume over 2013, though imports dropped in 2015. Meanwhile, U.S. steel exports have been decreasing steadily over the last four years, showing a 17 percent decrease between 2014 and 2015. In 2015, the U.S. steel industry announced layoffs totaling more than 12,000 jobs. Similar impacts are being felt in other countries as well, including the United Kingdom and Japan.

The Obama Administration is looking at all angles to address this challenge. On April 12-13, 2016, the Office of the U.S. Trade Representative (USTR) and the Department of Commerce (Commerce) are holding a joint hearing to gather further current information on the excess capacity situation, the state of the steel industry, and proposals for possible action.

Strengthening Trade Laws

Strong U.S. trade laws are critical to helping U.S. businesses and workers address the impacts of global excess capacity. The Administration has worked to improve the effectiveness of the tools we have to hold our trading partners accountable.

- On February 24, 2016, President Obama signed the Trade Facilitation and Trade Enforcement Act of 2015, which helps the Administration to strengthen trade enforcement at the ports and borders, improves our efforts to stop evasion of antidumping and countervailing duty (AD/CVD) laws, gives the Administration unprecedented new tools to address unfair currency practices, and creates a new interagency trade enforcement mechanism to improve coordination across the government.

- Earlier, in 2015, the President signed the American Trade Enforcement Effectiveness Act, which overturns past judicial interpretations that limited Commerce's ability to enforce our AD/CVD laws, including by providing stronger rules to deal with foreign producers that do not cooperate in Commerce's AD/CVD proceedings.

- The President's FY17 budget requested $606 million for Customs and Border Protection (CBP) trade administration activities and $84 million for Commerce's Enforcement and Compliance Unit to implement this work. Commerce has already begun implementing its new statutory authorities in proceedings involving a broad range of steel products from countries including Brazil, China, India, and Korea, and is considering ways to further strengthen such enforcement.

New Tools to Boost Enforcement of U.S. Trade Law

U.S. AD/CVD law is a vital tool to address unfair trade practices, including in the steel sector. Commerce and CBP are currently enforcing 332 AD/CVD orders, of which nearly half (149) are orders against foreign steel. In FY15 alone, Commerce initiated 62 investigations, the largest number of investigations initiated in 14 years. Of these, almost two-thirds relate to steel and of the 61 ongoing trade remedy investigations, 75 percent involve steel products. Petitions in 2016 are on pace to exceed the number filed in 2015.

- Commerce also administers the Steel Import Monitoring and Analysis system, which provides comprehensive early release steel import data, a valuable mechanism to monitor near real-time aggregate data on steel mill imports into the United States as well as data on U.S. steel mill exports, and imports and exports of select downstream steel products. Given growing concerns regarding global excess capacity, Commerce is exploring options to enhance its global monitoring capabilities.

- Commerce is using a 10 percent increase in its FY16 funding to hire 38 new staff to support the AD/CVD related workload. This is helping Commerce to more effectively handle industry petitions, including with respect to steel. Additional funding allows Commerce to examine more foreign firms in its cases, conduct additional inquiries in verifications of foreign firm data, and exhaustively investigate issues and concerns raised by the domestic industry.

- In FY2015, CBP, in coordination with Immigration and Customs Enforcement and Homeland Security Investigations, was able to successfully seize over $900,000 worth of steel products that violated AD/CVD laws and assess $45.5 million in penalties for AD/CVD violations on importers of steel products.

- In February 2016, CBP implemented a targeted approach to increase reviews of steel imports, which will provide both a statistically valid measure of the risk presented by steel imports and targets for further enforcement.

- CBP is also requiring "live entry" on certain high-risk steel imports, a process that requires all documentation to be filed by the importer and examined by CBP and all duties deposited before the merchandise is released by CBP into U.S. commerce. Finally, CBP is increasing other operational measures on steel imports, including audits of steel importers.

Taking Action at the World Trade Organization

Since President Obama was inaugurated in 2009, the U.S. Trade Representative has filed 20 enforcement actions at the World Trade Organization (WTO), the most of any WTO Member. Six of these cases benefit the steel industry:

- A successful WTO case against China's export quotas and duties on tungsten and molybdenum, which artificially increase world prices for these **steel inputs** and lower prices for Chinese producers.

- A successful WTO case against China's AD/CVDs on **grain-oriented electrical steel**, which affected over $250 million in annual U.S. exports.

- A successful WTO case against China's unwarranted AD/CVDs on **American cars and SUVs**, major downstream users of steel, which affected over $5 billion in annual U.S. exports.

- A successful WTO case on China's export quotas and duties on **coke, bauxite and other raw materials** used in semi-finished and finished aluminum and aluminum alloy products, semi-finished and finished steel and steel alloy products, and numerous other products.

- An ongoing challenge to an extensive export subsidy program through which China provides free and discounted services, as well as cash grants, to Chinese enterprises, including in the **steel sector**.

- An ongoing challenge to a Chinese export subsidy program for **auto and auto parts** enterprises.

USTR is continuing to assess additional trade concerns with the assistance of experts at the Interagency Trade Enforcement Center, established by President Obama in 2012.

Engaging International Partners on Capacity and Production Reductions

Excess capacity is a global problem, and will require a global solution in the longer term. The United States is working to build coalitions around the world with like-minded trading partners to seek commitments from steel producing countries on capacity and production reductions.

- The United States, Mexico and Canada, which met in late March for the North American Steel Trade Committee, agreed on "the need for governments of all major steel-producing countries to make strong and immediate commitments to address the problem of global excess steelmaking capacity."

- The United States will continue to press for action against excess capacity in:

    - the OECD High-Level Meeting on Excess Capacity and Structural Adjustment in the Steel Sector in April;

    - a Joint Committee on Commerce and Trade Steel Dialogue with China in May;

    - the U.S. China Strategic & Economic Dialogue in June; and

    - in meetings of the G-20 and Asia-Pacific Economic Forum (APEC) this year.

- Further, the United States will raise the issue of China's subsidies to its steel sector in a meeting of the WTO Subsidies Committee in April 2016.