Global Overcapacity and China's Impact on the Steel Industry

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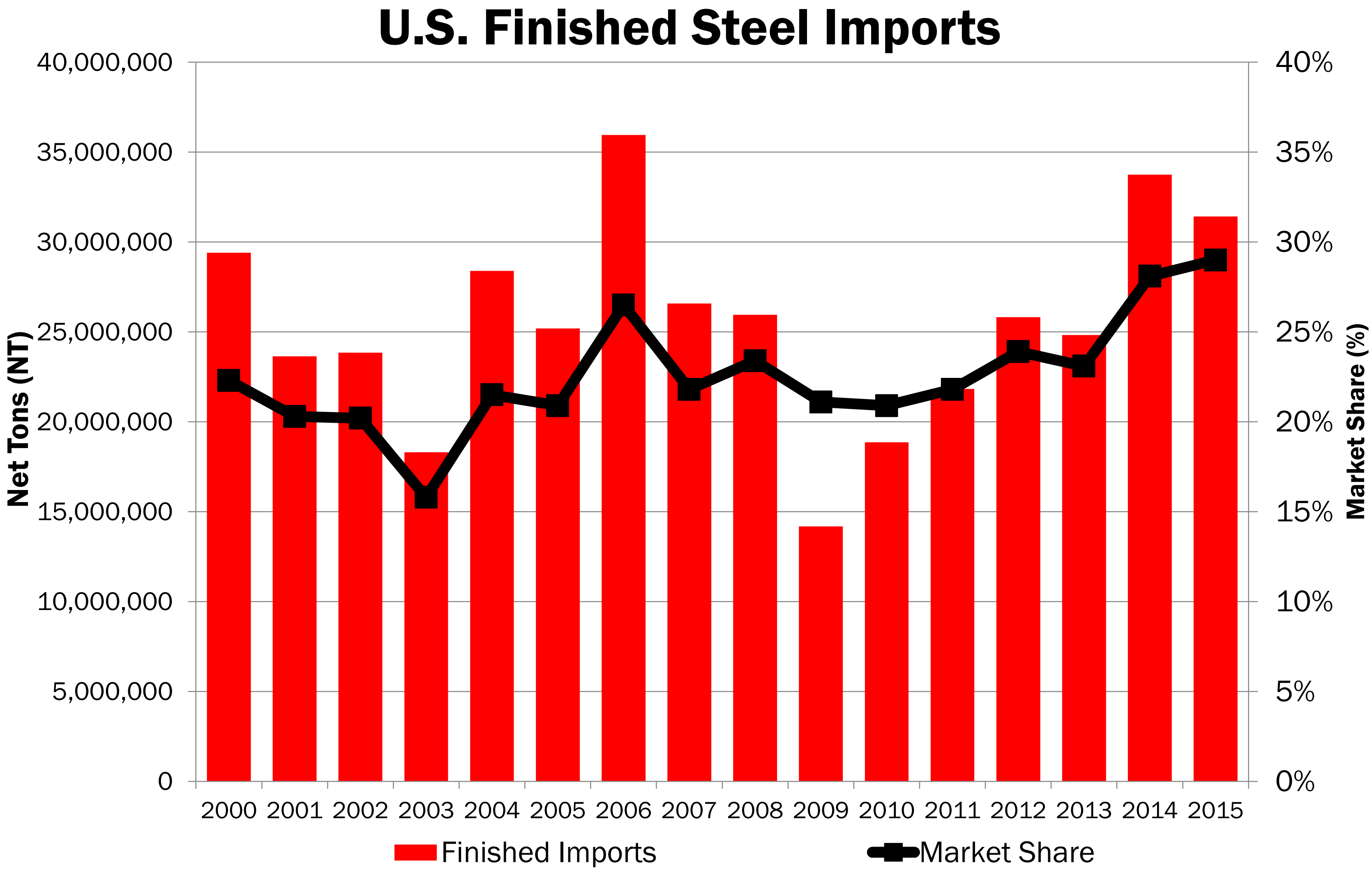
Import Market Share At Historic Levels



Source: U.S. Census Bureau, AISI

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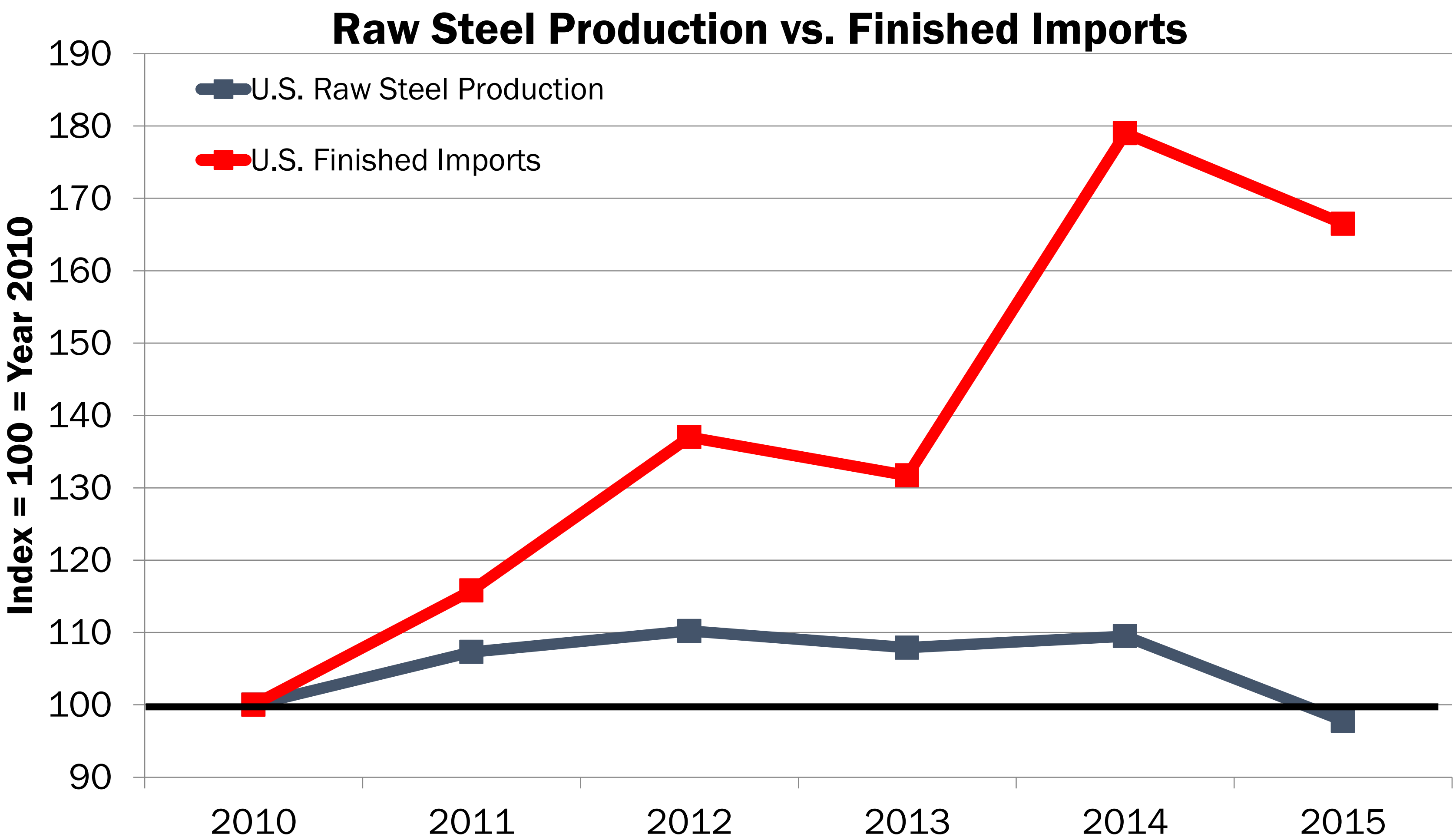
Imports Have Grown, While Production Has Declined



Source: U.S. Census Bureau (Commerce), AISI

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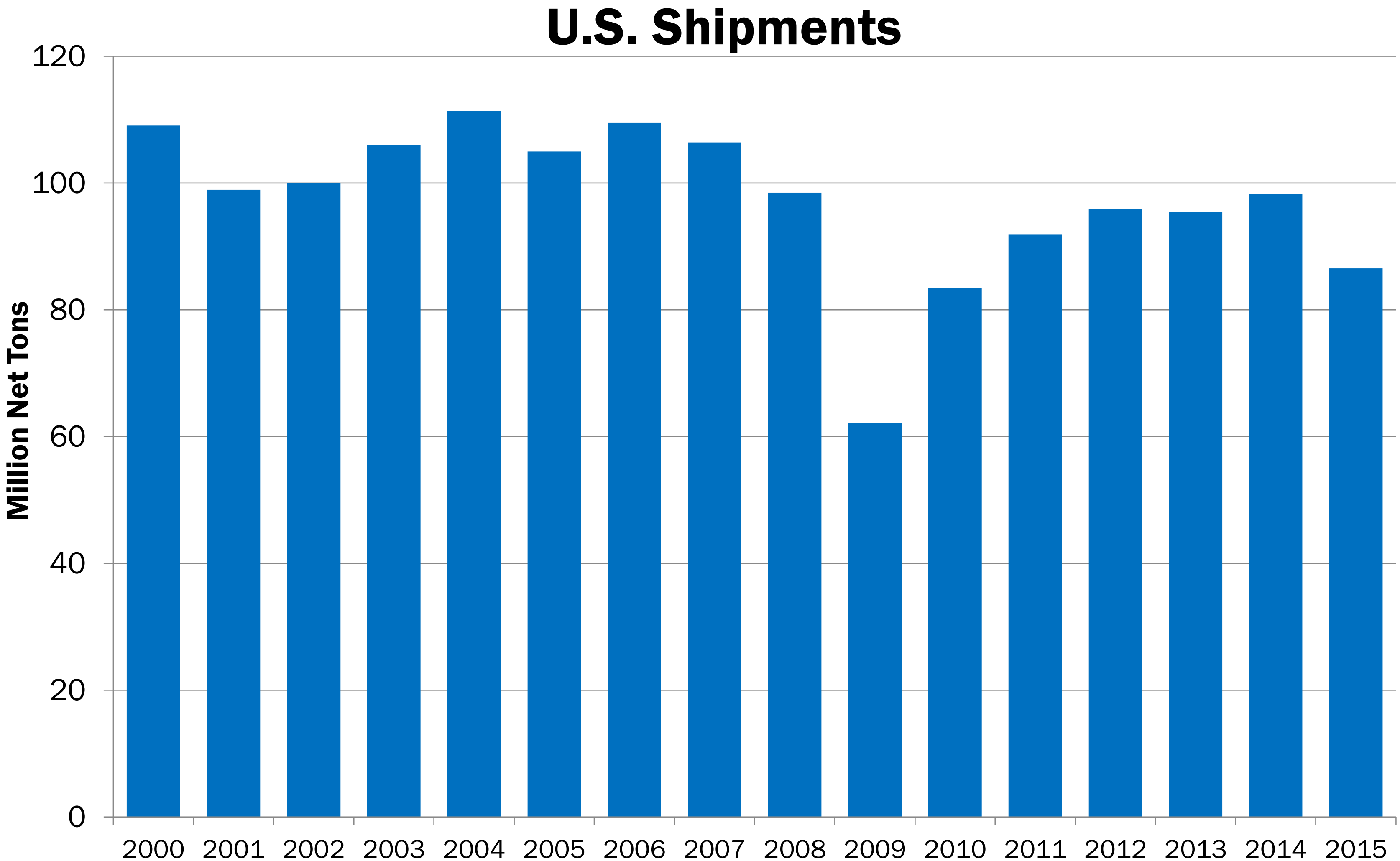
Domestic Shipments Down in 2015

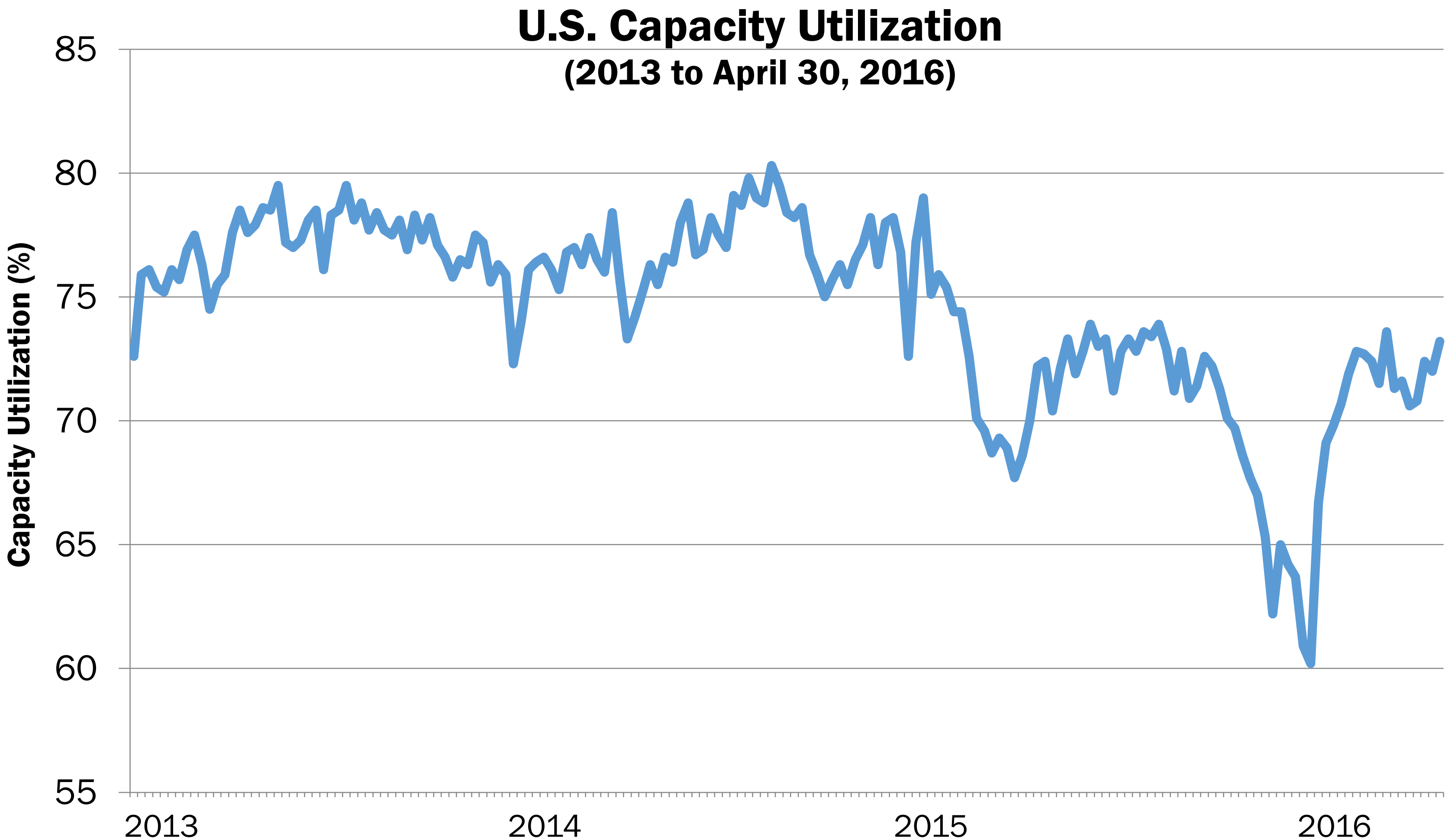
12% decline from 2014 levels



Source: American Iron and Steel Institute

U.S. Capacity Utilization Remains Weak

70.1% in 2015, Down from 77.5% in 2014
Remains Low in 2016 at 71.3% through 1Q2016



Source: American Iron and Steel Institute

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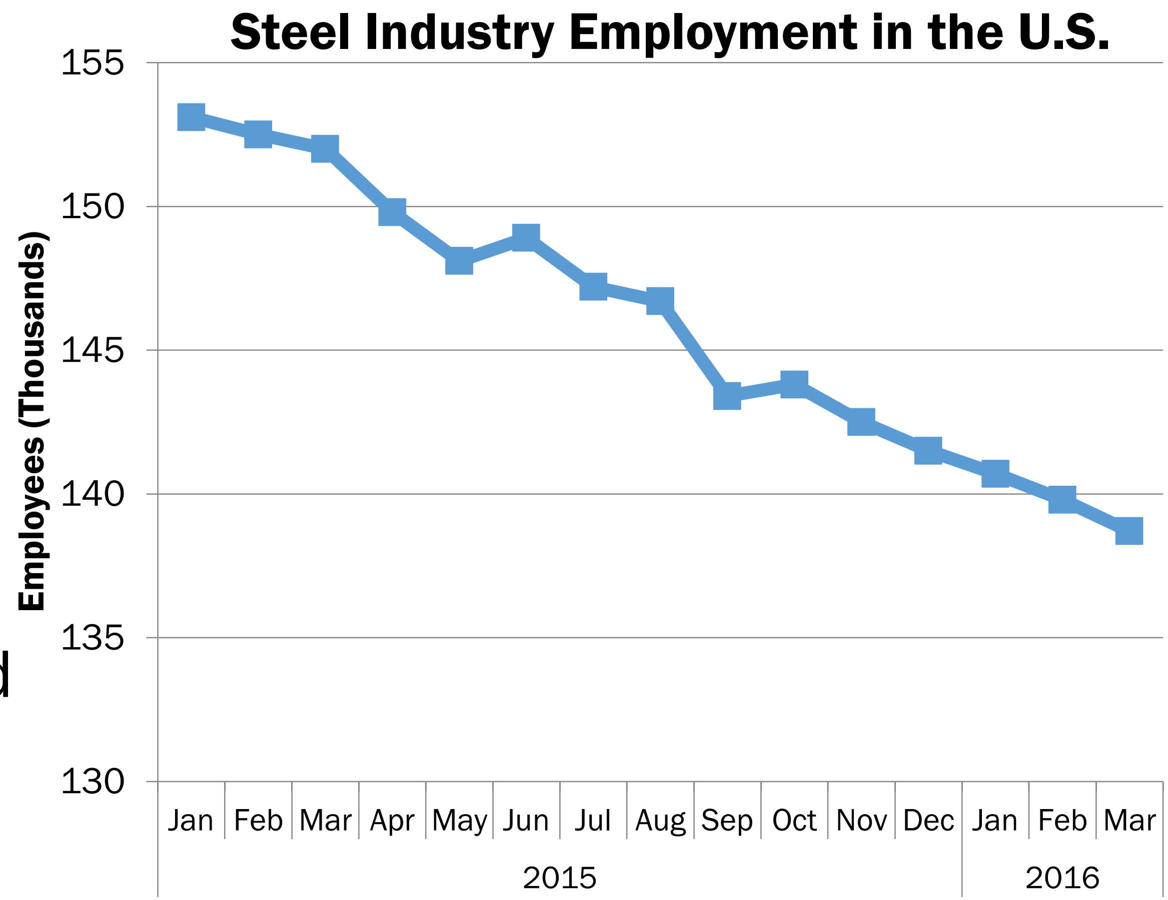
Steel Industry Employment Falling Due to Imports

- According to BLS, steel industry employment has dropped from **153,100** workers in January 2015 to an estimated **138,700** in March 2016



Source: Bureau of Labor Statistics (BLS)

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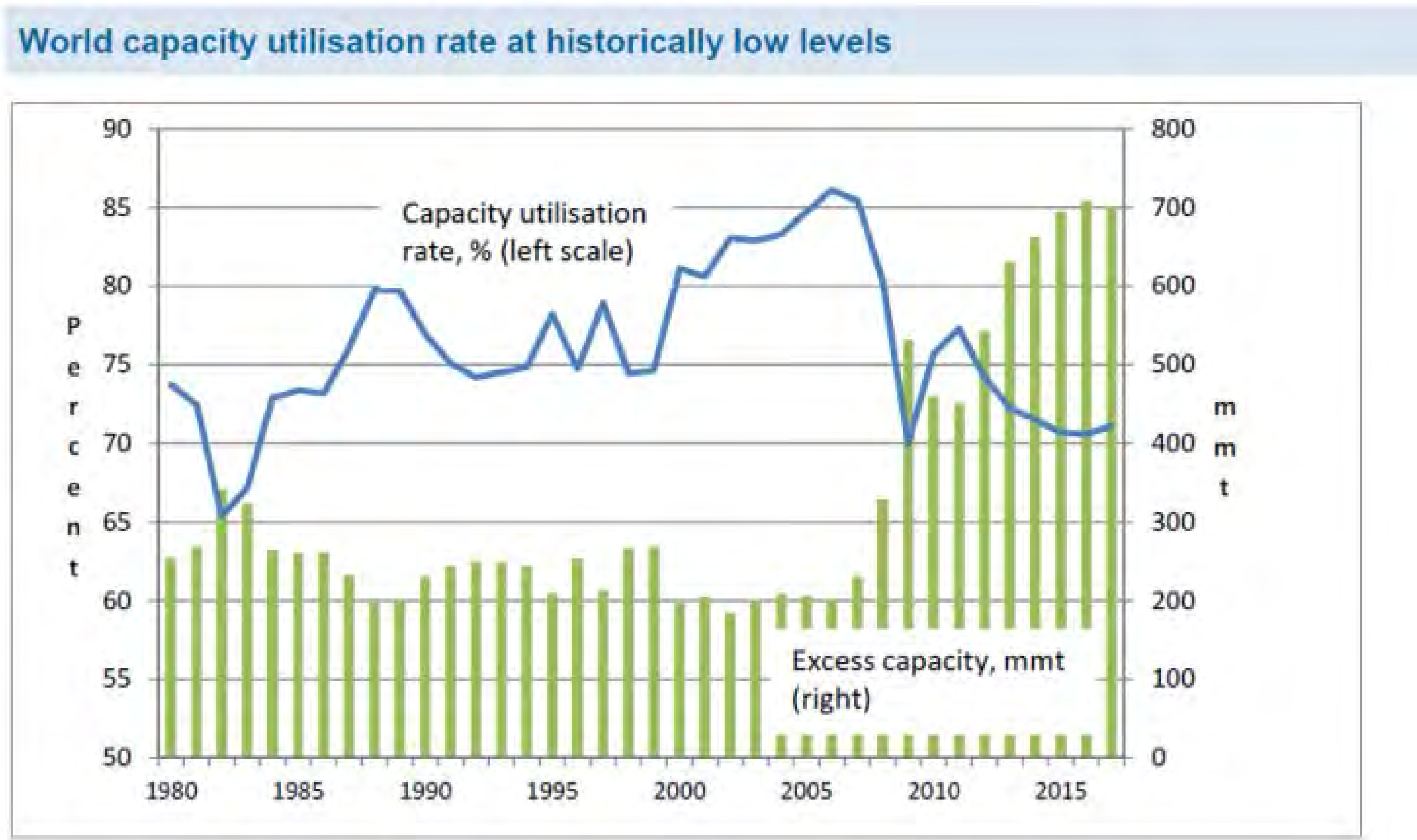
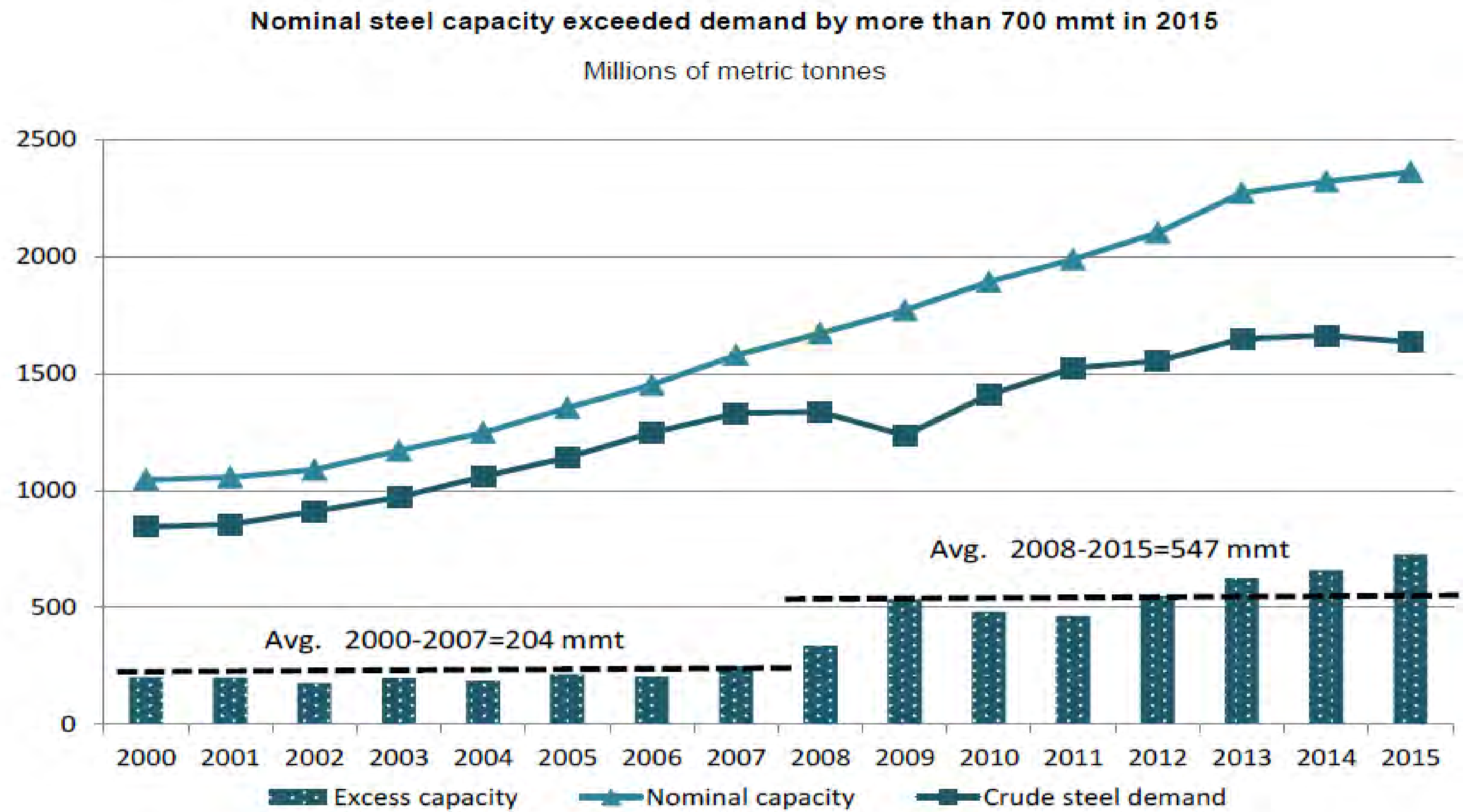
Global Steel Excess Capacity: 700 MMT



Source: OECD for capacity and BREE (for production forecasts)

Growing Global Overcapacity



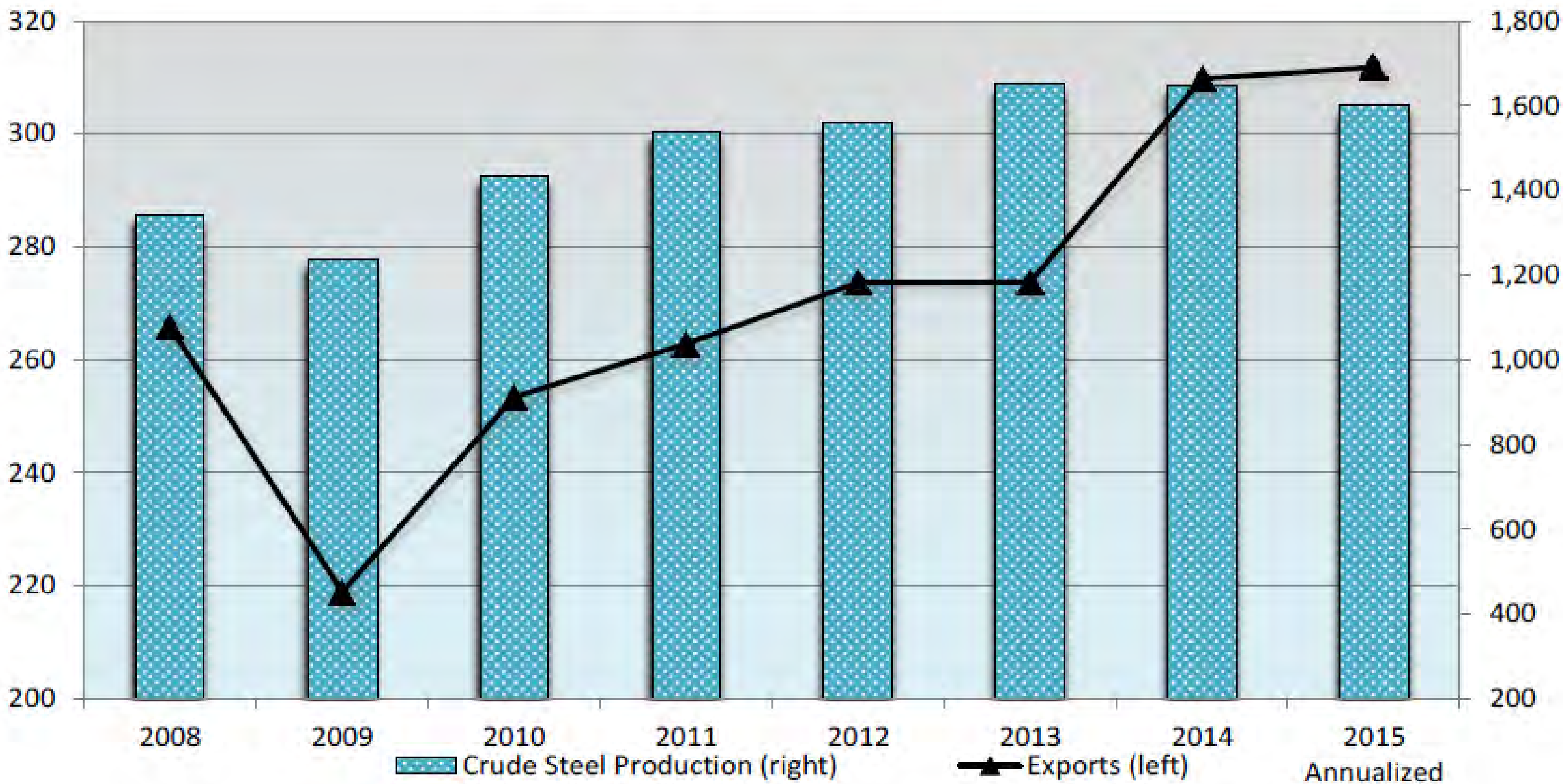
Note: Steel demand in 2015 is an estimate by the OECD, calculated using the same percentage change from 2014 as forecast by the World Steel Association for finished steel in October 2015.

Source: OECD for capacity and the World Steel Association for demand.

Global Steel Exports Increasing

World steel exports are increasing amid stagnation in crude steel production

2008-2015, metric million tonnes



Note: Data for 2015 are annualised based on all available months.

Source: OECD calculations based on data from ISSB and the World Steel Association.

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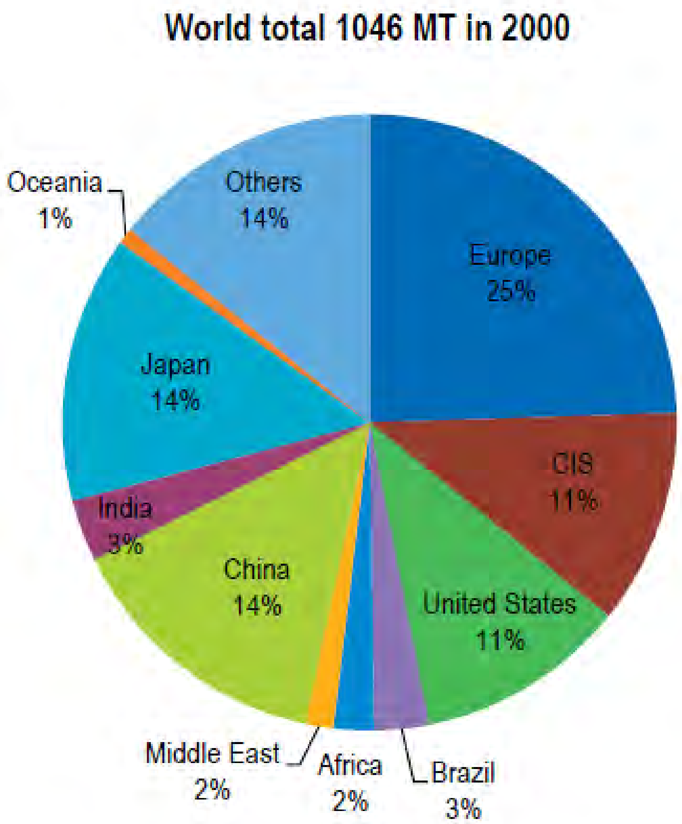
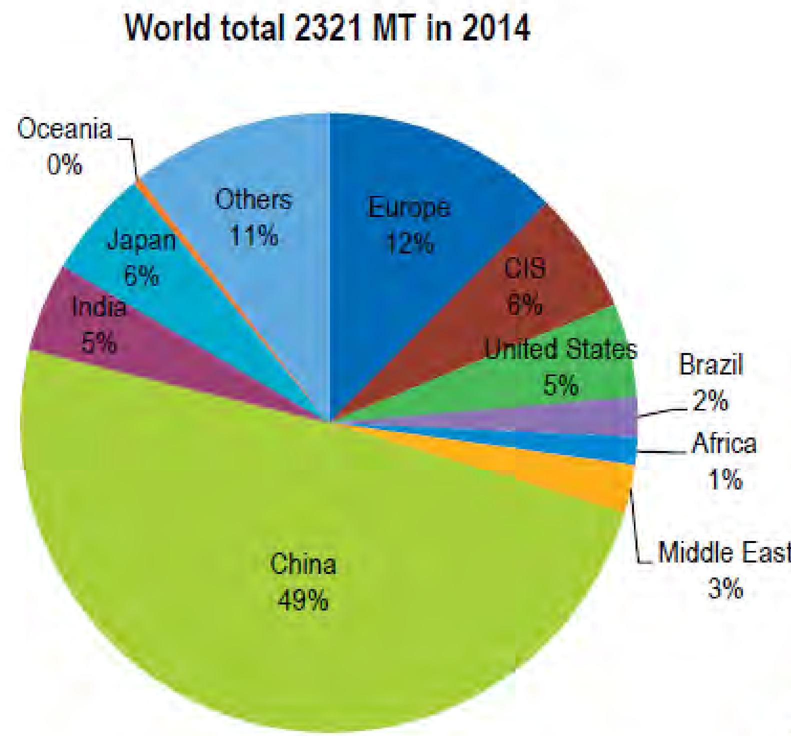
Non-OECD Economies Account for Approx. 71 Percent of Global Capacity





Source: OECD

The Problem: Global Steel Overcapacity

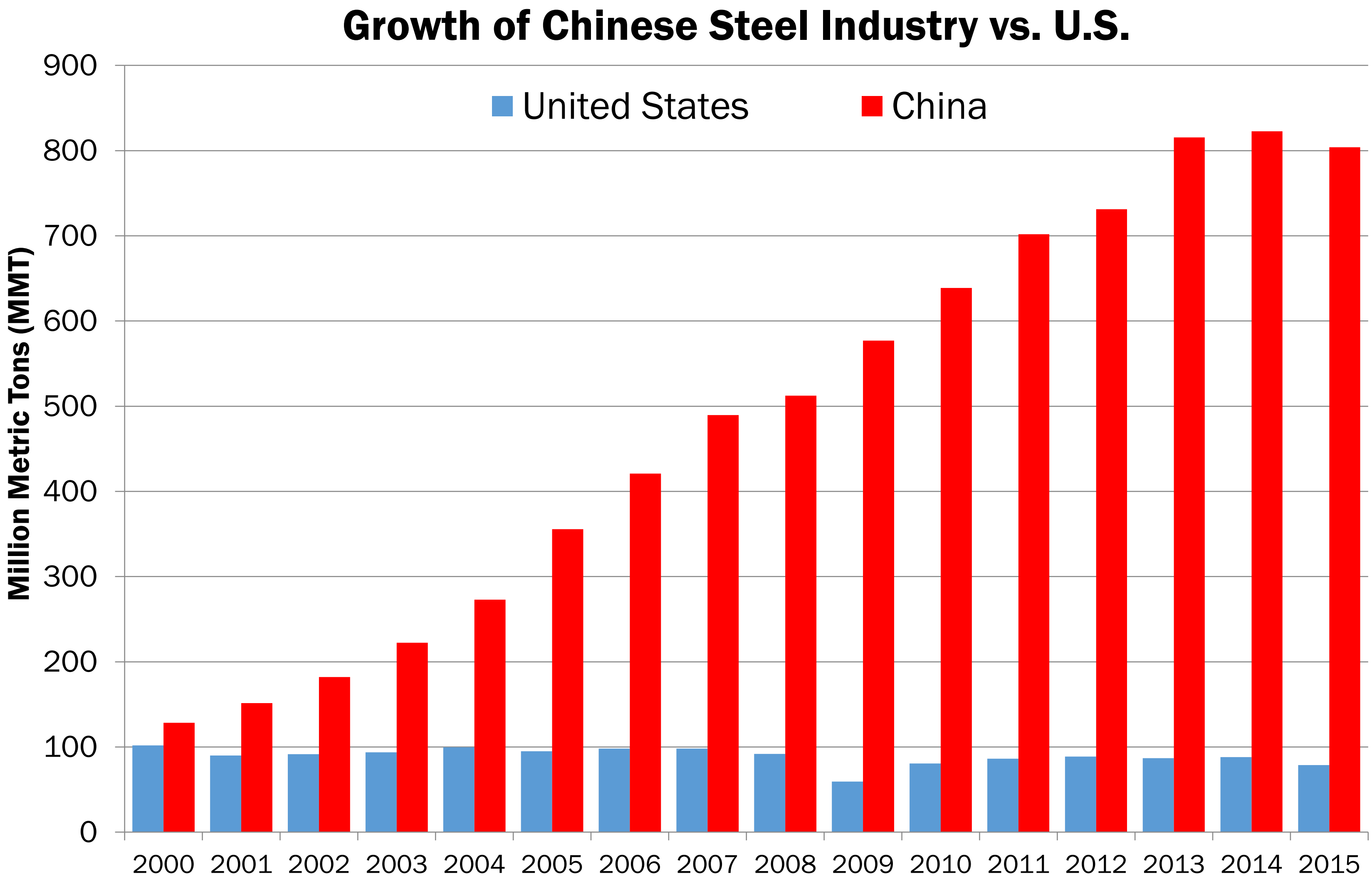
700 MILLION

metric tons of excess global steel capacity

- Rather than cutting back production, China is flooding the U.S. market with its excess steel at below-market prices, harming U.S. producers and American workers
  - In 2015, China exported 112 million metric tons of steel to the world, a 20 percent increase over an already record-setting 2014

Securing binding commitments from China and other nations to reign in steelmaking overcapacity is critical to domestic producers' ability to compete for business

Chinese Steel Production Surging



Source: WorldSteel Association

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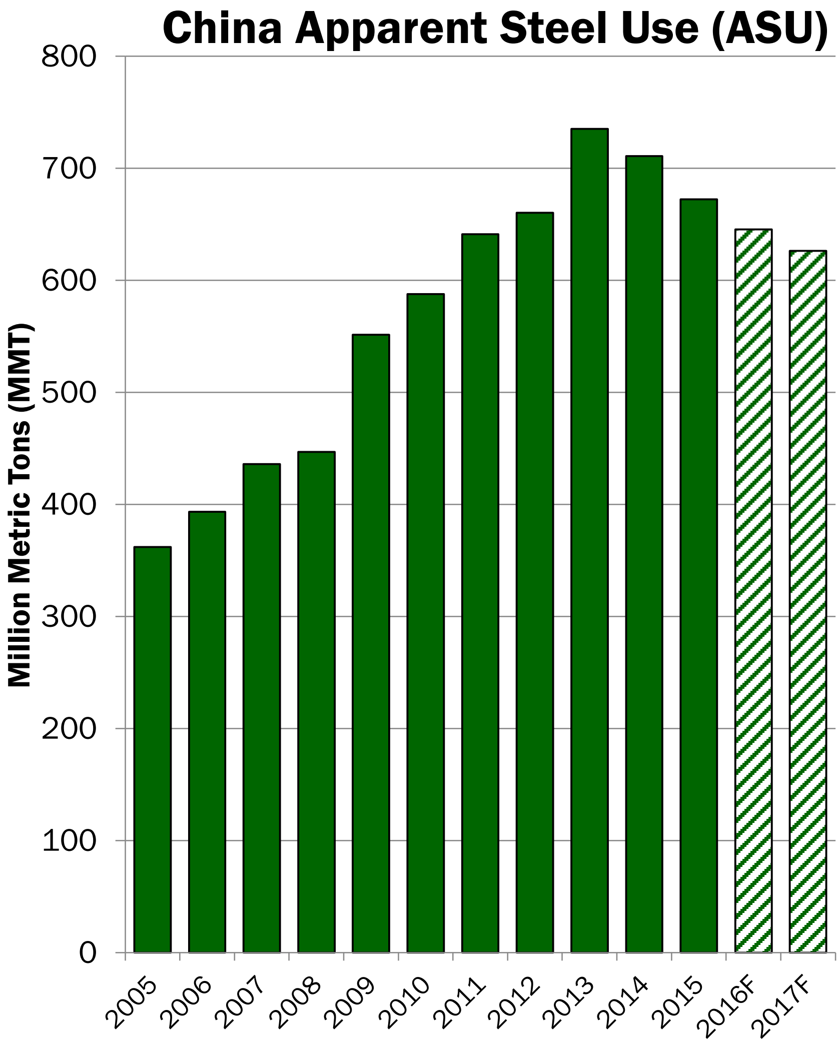
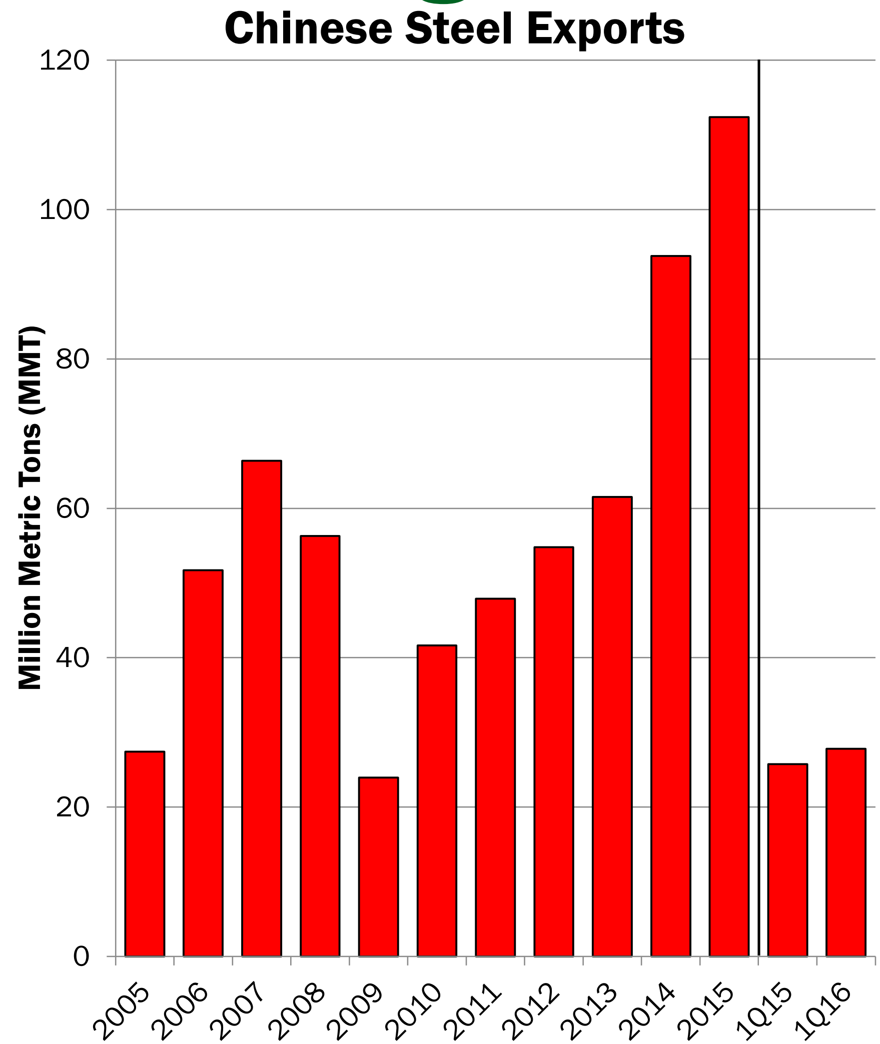
Chinese Demand in Decline, While Exports Surge





Source: World Steel Association (WSA), Government of China

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China's Industrial Policies

- Steel and Iron Industry Development Policy (2005)
  - Direct subsidization of steel industry, restriction of foreign investment, grant of export credits
- Steel Adjustment and Revitalization Plan (2009)
  - Update to Steel Policy; direct and indirect government subsidization of industry
- 12th Five-Year Steel Plan (2011)
  - Maintains government ownership and direction, but avoids discussion of specific trade-distorting practices
- Steel Industry Adjustment Policy (2015)
  - Continuation of government control and direction over the Chinese steel industry

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Subsidies

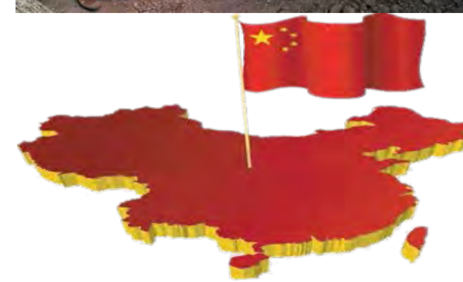
- Government equity infusions
- Government grants
- Provision of inputs for less than adequate remuneration
- Electricity for less than adequate remuneration
- Land for less than adequate remuneration
- Preferential lending through state-owned commercial and policy banks
- Preferential tax treatment
- VAT rebates and other export promotion measures

China: State Controlled Steel

9 out of top 10 producers are state-owned

Firm	2014 Production (MMT)
Hebei Steel Group	47.1
Baosteel Group	43.3
Wuhan Steel Group	33.1
Shagang Group (Private)	35.3
Ansteel Group	34.3
Shougang Group	30.8
Shandong Steel Group	23.3
Tianjin Bohai Steel	18.5
Maanshan Steel	18.9
Benxi Steel	16.3
TOTAL	**300.9**

These two companies, alone, account for more steel than the **entire U.S. steel industry** shipped in 2014 (89.1 MMT)



Source: National Bureau of Statistics/WorldSteel Association (WSA)

Vietnam Steel Plan (Excerpt)

Master plan on the development of steel industry in Vietnam (continued)

TARGETS OF DEVELOPMENT (CONTINUED)

- Productions of finished products:

  2015: 13 million tons;

  2020: 23 million tons;

  2025: 38 million tons;

  Maintain balance of productions between long and flat products.

- Increase the exportation of different steel products:

  2015: export 15% of total production;

  2020: export 20% of total production;

  2025: export 25% of total production.

- Reduce the importation of different steel products:

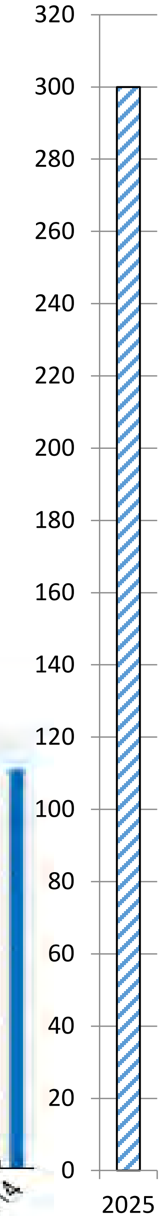
  2015: import to satisfy 35% of total domestic demand;

  2020: import to satisfy 25% of total domestic demand;

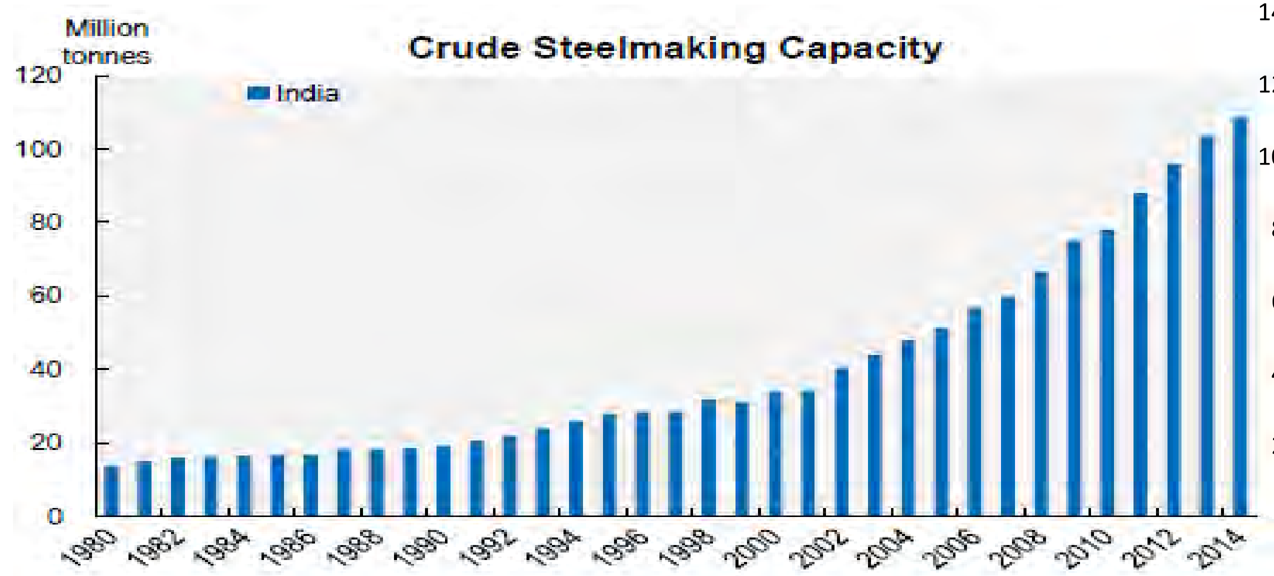
  2025: import to satisfy 15% of total domestic demand.

Source: Government of Vietnam Presentation to OECD

India Steel Plan



Government of India plans to increase Indian steel production capacity to 300 million metric tons by 2025, up from approximately 110 million metric tons



Source: OECD Steel Committee, India Ministry of Steel and Mines

Actions Needed to Address Global Overcapacity

- Government actions to eliminate excess capacity
  - Especially with regard to China
- Elimination of market-distorting government policies
  - Subsidies and other trade-distorting policies
  - Governmental barriers to exit /adjustment
  - Government industrial planning and decision-making in the steel sector
  - Export restrictions on raw materials and other government intervention in raw material markets
- Aggressive enforcement of trade laws against dumped and subsidized imports

OECD High Level Meeting

April 18, 2016

- Eight governments (U.S., Mexico, Canada, Turkey, Switzerland, EU, Korea and Japan) released a joint statement noting that government measures have exacerbated excess capacity crisis
- Statement calls for implementing policies to reduce capacity and share/monitor developments related to overcapacity
- Process to implement this plan will continue at OECD Steel Committee and in other bilateral and multilateral opportunities

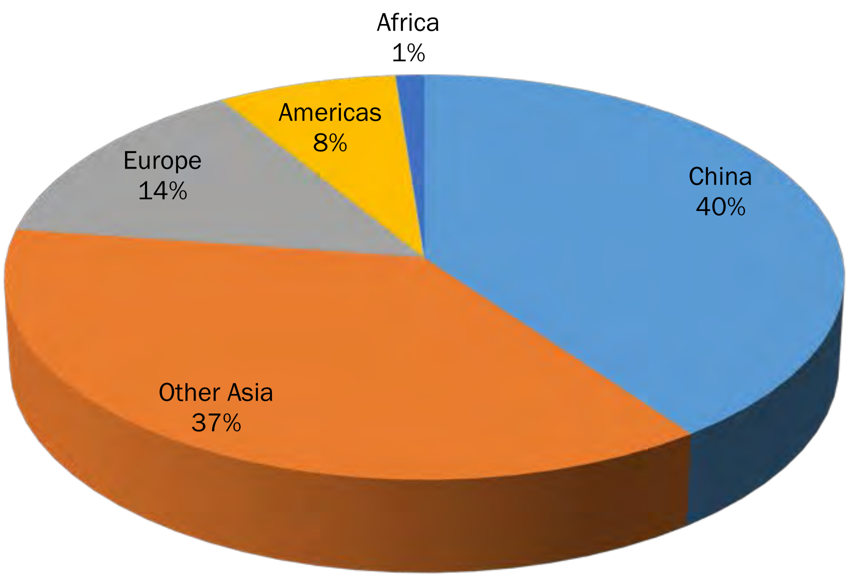
G7 Summit Declaration

May 27, 2016

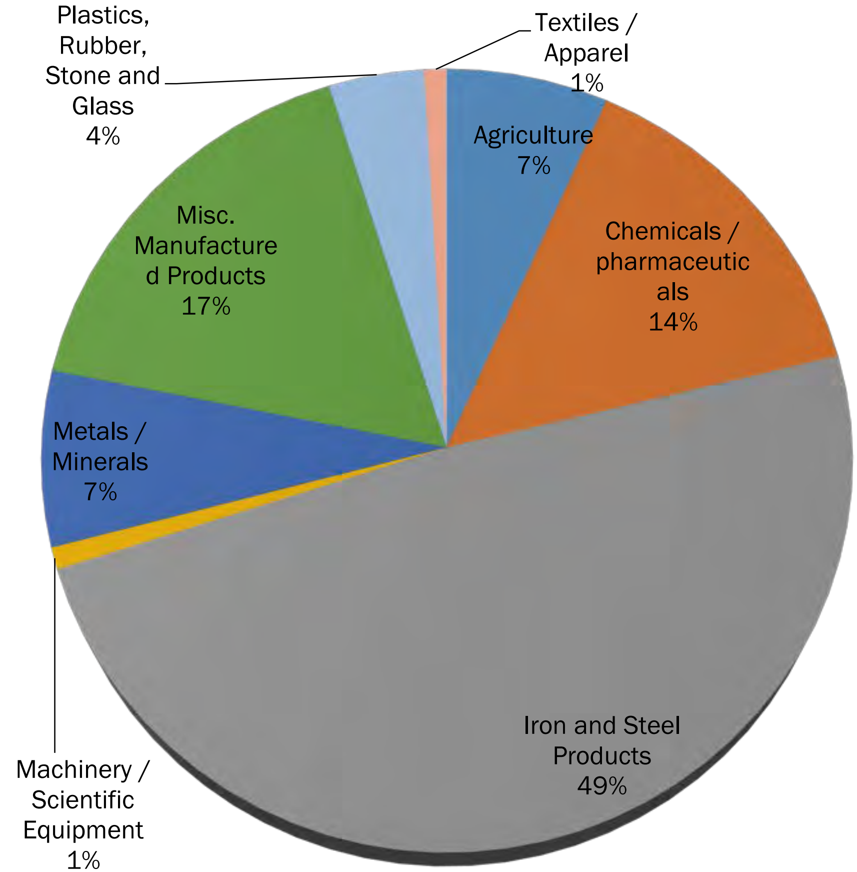
We recognize the negative impact of global excess capacity across industrial sectors, especially steel, on our economies, trade and workers. In particular, we are concerned about subsidies and other support by governments and government-supported institutions that distort the market and contribute to global excess capacity . . . We are committed to moving quickly in taking steps to address this issue . . .

U.S. Orders on Foreign Imports 330 Active AD/CVD Orders

All U.S. AD & CVD Orders by Region



All U.S. AD & CVD Orders by Product



Source: U.S. International Trade Commission (USITC)

China and the Antidumping Laws

- The antidumping laws have been an essential tool for U.S. producers to address unfair trade
- To determine whether dumping has occurred, the investigating country will normally compare a producer’s export prices to either its prices in its home market or to its cost of production
- When China joined the WTO in 2001, the parties recognized that Chinese government control over its economy makes the home market prices and costs of Chinese producers unreliable for making antidumping calculations
- China now claiming it must be treated as a market economy beginning in December 2016

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NME Statutory Factors

- Extent to which the currency of the country is convertible into the currency of other countries
- Extent to which wage rates in the country are determined by free bargaining between labor and management
- Extent to which joint ventures or other investments by firms of other countries are permitted in the country
- Extent of government ownership or control of the means of production
- Extent of government control over the allocation of resources and over the price and output decisions of enterprises
- Such other factors as the administering authority considers appropriate

China is Not a Market Economy

- There is state control over many critical aspects of the Chinese economy, including key strategic industries
- Significant restrictions on foreign investment remain in place
- The Chinese financial system remains dominated by state-owned banks, and the stock and bond markets are dominated by State Owned Enterprises
- The Chinese currency remains controlled by the government and is undervalued to favor exports and discourage imports

Impact of Granting China ME Status

- Effectiveness of U.S. antidumping laws would be undermined
- Significant declines in economic welfare and GDP, as much as $47 billion in the U.S.
- American steel imports would increase by $13.3 billion and output would decline by $21.1 billion
- U.S. labor demand would decline as much as $30 billion, meaning job losses of 400,000 to 600,000 workers in steel and other industries

China Trade Actions

- Support continued governmental efforts to address global steel overcapacity
  - U.S.-China bilateral agenda
  - Multilateral efforts at OECD and elsewhere
- Preserve China's NME status beyond 2016
- Engage with CBP to ensure full and effective implementation of ENFORCE Act
  - Key to addressing AD/CVD evasion
- Press for aggressive trade case enforcement