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For the Hearing on Section 232 National Security Investigation on Steel

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Good morning, I am Tom Gibson, President and CEO of the American Iron and Steel Institute. AISI represents both integrated and electric furnace steelmakers accounting for approximately 70 percent of U.S. steelmaking capacity, with facilities in 41 states. I appreciate the opportunity to testify at this hearing today.

A strong and viable domestic steel industry is critical to America's national defense, national economic security and homeland security. Virtually every military platform is dependent on U.S.- produced steels and specialty metals, in applications ranging from aircraft carriers and nuclear submarines to Patriot and Stinger missiles, armor plate for tanks and field artillery pieces, as well as every major military aircraft in production today. These critical applications require consistent, high quality domestic supply sources.

Steel's importance to national security must also be looked at in a broader context to include both direct and indirect steel shipments to the military infrastructure that are needed to support our defense efforts, both at home and overseas -- e.g., all of the steel that goes into the rails, rail cars, ground vehicles, support ships, military

barracks, fences and bases, which are not classified as shipments to ordinance, aircraft, shipbuilding or other military uses.

On a broader scale, steel is also essential to our nation's critical infrastructure, in terms of transportation, public health and safety, and energy, to name a few key areas. Our military and our broader economy depend on transportation infrastructure like roads, bridges, railroads, transit systems and airports, all of which are built with steel products such as rebar, plate, sheet and fabricated structural members. Public health and safety require reliable and efficient water and sewage systems that are built with steel components, including tubular goods, tanks and culverts.

In addition, steel is critical to our energy security and infrastructure. Our nation's security depends on a reliable domestic energy supply and the domestic steel and products made from steel that are necessary to develop and transport the energy. Oil country tubular goods are essential to oil and gas production, and steel linepipe is needed to move these energy supplies to market. A typical refinery contains miles of specialty pipe, large sophisticated boilers and process pressure vessels, thousands of custom made valves and fittings -- all made from steel designed expressly for critical applications.

Electric power generation is another critical national security need served by steel. Grain-oriented electrical steels (GOES) are a principal raw material for power and

distribution transformers, which are critical to the nation's electrical grid and our national security. Non-oriented electrical steels (NOES) are an important raw material for use in critical infrastructure, including for large cores in electrical power generators and industrial applications, such as for oil drilling and oil and gas pipelines. Steel is also present in the structures and in the boilers, pressure vessels and pipe that is needed to produce and deliver the steam or water to the generators. Transmission towers, made entirely of steel, carry high voltage electric wires and provide support for our nation's microwave, cellular and other communications equipment.

The U.S. steel industry's ability to supply our defense establishment and our nation's critical infrastructure needs depends on the steel industry's continued ability to compete in its commercial markets and maintain a domestic manufacturing presence. Repeated surges in imports of dumped and subsidized steel products from numerous countries in recent years have injured the U.S. industry and threaten further injury, putting our national security very much at risk.

Finished steel imports took a record 29 percent of the U.S. market in 2015, while domestic steel shipments declined by 12 percent, and capacity utilization averaged just 70 percent for the year. While total steel imports declined by 15 percent in 2016 as a result of a number of trade cases brought by the domestic industry against dumped and subsidized imports, foreign import market share still remained historically high at 25.4 percent for the year. And imports in 2017 are once again on the rise - with total imports

up 19 percent in the first three months of the year compared to the same period in 2016, and finished steel imports are now taking 26 percent of the market.

These high levels of imports in recent years have been a critical factor forcing several steel companies to temporarily close major steel-making facilities. Employment in the steel industry declined by 14,000 jobs from January 2015 to December 2016, before seeing a slight recovery in the first part of this year.

Foreign government interventionist policies in the steel sector have fueled massive, and growing, global overcapacity in steel, which the OECD has estimated to be more than 700 million metric tons. We estimate that more than half of that overcapacity - 425 million metric tons - is located in China, where government market-distorting policies have produced a dramatic increase in the size of the Chinese steel industry, to the point that today it represents about half of all global steel production.

As a direct result of Chinese government policy direction and subsidies, Chinese crude steel production soared from 128 million metric tons in 2000 to 823 million metric tons in 2014, before declining slightly to 808 million MT in 2016. In the first three months of 2017, however, Chinese crude steel production is once again up 4.6 percent compared to the first quarter of 2016.

After many years of growth, Chinese steel demand appears to have peaked in 2013. The World Steel Association has reported that Chinese steel consumption declined by 3.3 percent in 2014 and by 5.4 percent in 2015, before increasing slightly by 1.3 percent in 2016. 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.

With China's domestic steel demand declining, the Chinese steel industry has increasingly relied on exports to consume its surplus steel production. China exported a record 94 million metric tons of steel products in 2014, an increase of 52 percent from 2013. That trend accelerated in 2015 with Chinese steel exports rising to 112 million metric tons, an amount big enough to meet all steel demand in Germany and Japan for a year and leave almost 9 million metric tons to spare. In 2016, Chinese steel exports, while down slightly from 2015, continued at historically high levels in excess of 108 million metric tons.

This massive 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 the case of direct steel exports to the United States, due to the imposition of trade relief by

the Commerce Department in several antidumping and countervailing duty cases over the past few years, Chinese direct shipments have declined since 2014.

But while direct steel imports from China may be down, the high level of Chinese exports to the world continue to put pressure on the global steel market, and lead to increased imports from many third countries. Chinese exports to third countries are being further processed into downstream steel products that are then exported to the United States. For example, Chinese billets are being further processed in Turkey into long products which are then exported to the United States, while Chinese flat-rolled steel is being converted into pipe products in Korea which are then, according to Commerce Department determinations, being dumped into the U.S. market. In addition, Chinese cold-rolled and corrosion-resistant steel is being shipped to Vietnam for minor further processing before being exported to the United States is a blatant effort to circumvent AD and CVD orders on these products. As a result, the U.S. industry continues to suffer from the injurious impact of Chinese overproduction of steel that is exported to world markets.

In addition, the Chinese model of government intervention in the steel industry is being emulated in other countries as well, perpetuating the growing overcapacity problem. Vietnam and India, for example, both have explicit government plans to support the expansion of their steel industries and to increase their exports while

restricting imports. As these plans are implemented, further injury will be suffered in the United States from dumped steel products.

As one of the most open markets in the world, the United States is often the target of dumping by steel producers from countries around the world. In many cases, these foreign producers are also subsidized by their governments.

To date, the U.S. steel industry has relied on our trade laws to seek to address the impact of unfairly traded steel imports in our market. While the antidumping and countervailing duty laws have provided some relief, because the resulting orders are necessarily country and product specific, they leave openings for steel products not subject to orders to continue to surge into our market.

Accordingly, AISI recommends that the Administration use the current section 232 investigation to fashion a more comprehensive and broad-based program of action to safeguard America's national security.

Among the goals of this program should be to increase pressure on China and other countries around the globe to reduce steelmaking capacity.

Thank you for the opportunity to testify today. I would be happy to answer any questions.