The American Iron and Steel Institute (AISI) is pleased to submit these comments on behalf of our U.S. producer member companies on the economic impact of trade agreements implemented under trade authorities procedures. 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.

As detailed below, while the U.S. steel industry has seen some market access benefits from the trade agreements that are the principal focus of this investigation, the overall trade situation for the industry remains dire. The industry is once again suffering from high levels of dumped and subsidized imports that are taking significant market share from domestic producers and are resulting in reduced domestic production and low capacity utilization. The trade agreements implemented under the trade authorities procedures have for the most part failed to address the critical policy issues underlying global steel trade trends, namely foreign government interventionist policies in the steel sector that have fueled massive and growing global overcapacity in steel, particularly in China, and resulting surges in steel imports into the U.S. market. The domestic steel industry therefore urges trade policymakers to refocus their attention on these critical issues for the industry and its workers.

I. State of the U.S. Steel Industry

A. Imports, Exports and Trade Balance

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. Total steel imports (finished and semi-finished steel products) increased by a dramatic 38 percent in 2014, reaching a volume almost equal to 2006 levels, when steel demand reached peak levels.
In terms of finished steel products, imports increased by 36 percent in 2014 and AISI estimates that these imports captured a record 28 percent of our steel market. This is highest annual average import market share calculated by AISI, topping the previous peak import market share of 26 percent for calendar years 1998 and 2006. See chart below. This surge in imports is reminiscent of earlier surges in imports in the late 1990s, which had a devastating impact on the domestic industry, leading to a number of bankruptcies and mill closures.

Furthermore, the high level of imports continues to take increased market share in 2015. In the first nine months of 2015, finished steel imports have increased by an additional 3 percent over the same period in 2014, and have now captured 30 percent of the steel market year-to-date.¹

U.S. exports of steel products, by contrast, have been at a much lower level and relatively stable compared to import trends. Exports have in fact dropped somewhat in recent years, declining by 5 percent in 2014 and 7 percent in 2013. As discussed further below, the vast majority of U.S. exports of steel products are destined for our NAFTA trading partners, Canada and Mexico.

The result of these import and export trends has been a persistent trade deficit in steel in the United States, as noted below.
In fact, the United States is currently running a trade deficit in steel products with every region of the world except NAFTA.

### 2014 Total Steel Trade Balance

<table>
<thead>
<tr>
<th>Metric Tons (MT)</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Exports</td>
<td>U.S. Imports</td>
</tr>
<tr>
<td>Canada</td>
<td>6,169,305</td>
</tr>
<tr>
<td>Mexico</td>
<td>3,923,134</td>
</tr>
<tr>
<td>Other Americas</td>
<td>525,509</td>
</tr>
<tr>
<td>Europe</td>
<td>367,602</td>
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<tr>
<td>Asia</td>
<td>453,639</td>
</tr>
<tr>
<td>Oceania</td>
<td>19,637</td>
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<tr>
<td>Africa</td>
<td>100,473</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>11,559,299</strong></td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau
As a result of the large increase in import market share in late 2014 and 2015, domestic steel shipments have declined by 10 percent in 2015 (year-to-date through August), and capacity utilization in the industry has averaged just 72.2 percent for the year through October 31, 2015, with the most recent weekly data showing that current utilization rate for the industry has dropped below 70 percent for the second time this year. The seriousness of the import crisis affecting the U.S. industry is demonstrated by the fact that two steel companies have recently issued WARN notices indicating they may be forced to close temporarily major steel-making facilities, including the AK mill in Ashland, Kentucky, and U.S. Steel mill in Granite City, Illinois.

### B. Trends in Domestic Shipments, Production and Employment

Domestic shipments of steel in 2014 totaled 98 million net tons, a three percent increase over 2013 shipment levels. While there has been a recovery from the very low level of

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3 AISI Weekly raw steel production report for the week ending October 31, 2015 (weekly utilization rate of 68.6 percent). See also AISI Monthly Pig Iron and Raw Steel Production Report for March 2015 (monthly utilization rate of 67.7 percent) and April 2015 (monthly utilization rate of 69.8 percent).
shipments recorded in 2009 as a result of the 2008 financial crisis and recession, domestic shipments in the United States remain below the annual shipment levels seen in the industry prior to the 2008 recession.

Raw steel production levels for the domestic industry have shown a similar trend in recent years.

Source: American Iron and Steel Institute
The inability of the domestic industry to return to the production and shipment levels of the pre-recession period has resulted in the industry suffering from depressed capacity utilization levels averaging in the mid-70 percent range in the post-recession period. As noted above, in the most recent period in 2015, capacity utilization levels have dropped even further.

Employment data show that the steel industry in the United States in 2014 directly employed approximately 150,000 people, which again represents a decline from the levels seen prior to the last recession. The high and growing level of imports in recent years has prevented the industry from realizing a full recovery, despite a growing economy and generally increasing demand for steel.
Labor productivity in the industry has increased substantially over the last several decades, reaching an average of 1.9 man-hours per finished ton of steel in 2014. Many North American plants are producing a ton of finished steel in less than one man-hour.
II. Impact of Key Trade Agreements

A. North American Free Trade Agreement (NAFTA)

NAFTA has largely been seen as a success for the North American steel industry, providing increased access to our two closest markets. It has resulted in strengthened North American manufacturing supply chains, especially with key customer groups like the North American automotive industry. In recent years, it has also resulted in increased U.S. steel exports and a positive U.S. trade balance in steel with Canada and Mexico.

In 1993, the year before the NAFTA took effect, the United States had steel trade deficit of almost 3 million net tons with Canada and Mexico. While that deficit grew in the 1990s following the Mexican peso crisis, the U.S. steel trade balance with Canada and Mexico has turned positive in recent years. In 2014, the most recent year for which data is available, the U.S. had steel trade surplus of 1.2 million net tons with Canada and Mexico. Overall, U.S. steel exports to NAFTA countries increased by 395 percent from 1993 to 2014.

The vast majority of U.S. steel exports are to our NAFTA partners. As the chart below demonstrates, U.S. exports to Canada and Mexico have accounted for a substantial share of total U.S. exports of steel products in recent years. In 2014, for example, approximately 87 percent of U.S. exports of steel products went to Canada and Mexico.
But the benefits of NAFTA have not been one-sided; NAFTA is generally viewed by steel industry participants as benefiting the entire North American steel industry. Indeed, total U.S.-Canada steel trade has increased 99% from 1993 to 2014, while total U.S.-Mexico steel trade has increased 352% from 1993 to 2014.

B. Uruguay Round

The Uruguay Round of multilateral trade negotiations resulted in several changes of importance to the U.S. steel industry. From a market access standpoint, a number of key trading partners agreed with the United States to the reciprocal elimination of most steel tariffs over a ten-year period pursuant to the U.S. zero-for-zero initiative. Key countries/regions agreeing to eliminate their steel tariffs in the Uruguay Round included the EU-12, Japan, Korea, Canada, Austria, Sweden, Finland and Norway. While Mexico did not agree to the zero-for-zero initiative on steel, it had already agreed to tariff elimination vis-à-vis the United States under the NAFTA. The countries agreeing to steel tariff elimination in the Uruguay Round or NAFTA collectively accounted for 75 percent of U.S. steel exports by value in 1993. However, as noted above, increasingly the vast majority of U.S. steel exports have gone to NAFTA countries alone.

7 Id.
Another aspect of the Uruguay Round agreements that has had a decidedly negative impact on the domestic steel industry has been the application of the WTO dispute settlement system to U.S. antidumping and countervailing duty determinations. WTO panels and the WTO Appellate Body have on numerous occasions reinterpreted the agreements reached in the Uruguay Round in such a manner as to impose new obligations on the United States (and other WTO members) that limited the ability of domestic industry to obtain relief from unfairly traded imports. For example, the Appellate Body ruled that the U.S. practice of “zeroing” was inconsistent with the Antidumping Agreement, despite any basis in the negotiated text of the agreement to support that conclusion.8 Similarly, the Appellate Body recent ruled that the longstanding practice of cross-cumulation in material injury investigations was prohibited by the WTO agreements.9

These are but two examples of a myriad of WTO dispute panel rulings undermining the effectiveness of the trade remedy laws. Given the significant role that antidumping and countervailing duty measures have played in addressing unfair trade in steel products, this pattern of rulings in the WTO dispute settlement system has had a pervasive negative impact on the U.S. industry over the last two decades.

C. Other Free Trade Agreements

With the exception of Korea, steel trade with other U.S. free trade agreement partners (excluding NAFTA) is relatively limited, with annual total steel trade for those FTA countries in the range of one million to two million metric tons per year. As noted in the chart below, U.S. exports of steel products increased for several years before falling back significantly in the most recent period.

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9 Appellate Body Report, United States — Countervailing Measures on Certain Hot-Rolled Carbon Steel Flat Products from India, DS 436 (December 8, 2014)
Trade in steel with Korea has had a very different trend, as indicated below. Korea is regularly one of the largest exporters of steel to the United States. Furthermore, its exports to the U.S. market have dramatically surged in recent years, while U.S. exports of steel to Korea remain at very modest levels.
III. The Role of China in Global Steel Trade

A. The Rise of the Chinese Steel Industry

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.\textsuperscript{10} Due in large part to Chinese government policies and practices, Chinese steel production has grown dramatically – even as the market plainly signals that Chinese mills are making too much steel. As a result, China’s steel policies have had a much greater impact on global and U.S. steel trade than the various free trade agreements that the United States has entered into in recent years.

Chinese crude steel production soared from 128 million MT in 2000 to 823 million MT in 2014 – an increase of 695 million MT.\textsuperscript{11} To put this figure in context, consider that in 2014 the United States produced 88 million MT of crude steel.\textsuperscript{12} Over the last 14 years, therefore, China’s steel production increased by a volume of nearly eight times the total production of the U.S. industry. At the same time, China’s official steel capacity levels reached 1,160 million MT last year,\textsuperscript{13} meaning it had excess capacity of 337 million MT.

\textsuperscript{10} According to the World Steel Association, China represented 49.5 percent of world crude steel production in 2014. World Steel Association press release, “World crude steel output increases by 1.2% in 2014,” January 22, 2015.


\textsuperscript{12} \textit{Id.}

\textsuperscript{13} The Chinese Ministry of Industry and Information Technology (MIIT) announced Chinese capacity of 1.16 billion metric tons (1.277 billion net tons) in 2014.
Chinese capacity and production, unlike in the rest of the world, continued to grow steadily even during the 2008-2009 global economic recession, reaching the point where there was as much steel production in China as in the rest of the world combined.
In 2014, the chairman of state-owned Baosteel, Xu Lejiang, disclosed that the official estimates of China’s national crude steel output in 2013 were understated.\(^{14}\) He estimated that China’s production of crude steel in 2013 actually totaled 822 million MT, nearly 6 percent above official data.\(^{15}\) This is not the first year that China has significantly understated its official steel production output.\(^{16}\)

It appears that in 2015, China will once again produce far more steel than market conditions justify. Even though prices are low and inventory levels are high, steel production has remained close to an all-time high, with many struggling mills worried that any decision to cut output would reduce their cash flow and put them at further risk of closure.\(^{17}\) While Chinese steel production year-to-date through July 2015 is down 1.8 percent compared to the same period in 2014,\(^{18}\) it is still on pace to produce 816 million MT of steel this year.\(^{19}\)

The Chinese steel industry has substantially increased production and grown overall capacity even though prices are falling and Chinese steel producers are losing money. The China Iron and Steel Association reported that the overall profit margin of the Chinese steel industry in 2013 was only 0.13 percent and that 40 percent of the steel producers were operating at a loss.\(^{20}\) As *World Steel Dynamics* has explained, “China’s larger steel companies . . . are able to sustain production almost no matter what the price. They have extensive borrowing power at reasonable interest rates from government-owned banks. Hence, these mills are not price driven; they are new order driven.”\(^{21}\)

It should also be recognized that in recent years a significant portion of China’s excess steel production has been absorbed by the Chinese government’s stimulus spending on fixed asset investment.\(^{22}\) In 2012, *World Steel Dynamics* estimated that this stimulus would account for 380 million MT of Chinese total apparent steel consumption between

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\(^{15}\) Id.


\(^{17}\) “Steel prices reduce on over production and inventory in China” *Steelguru* (Sept. 3, 2014).


\(^{19}\) \(476 / 7 = 68 \times 12 = 816\)


\(^{22}\) Id. at 3-4.
2009 and 2012. World Steel Dynamics warned, however, that “as the stimulus plans finish, the additional steel demand caused by the plan will be gone.”

This appears to have already happened. The World Steel Association has reported that Chinese steel consumption (apparent steel use) declined by 3.3 percent in 2014 and is projected to decline by at least 3.5 percent in 2015, as illustrated below.

With China’s stimulus spending now almost fully dried up, the Chinese steel industry must rely more than ever on exports to consume surplus production, and its exports are depressing steel prices around the globe. As one Chinese steel trader explained, “We don’t see any bright spots right now – steel mills aren’t making profit and I don’t expect any new stimulus coming from the government any time soon.” He stated that “most traders have switched to exporting steel products, where profit can still be made.” Indeed, China exported a record 94 million MT of steel products in 2014, an increase of

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23 Id. at 4.
24 Id. at 5.
26 “Chinese steel, iron ore fall further as traders stay away,” Reuters (Sept. 2, 2014).
27 Id.
52 percent from 2013.\textsuperscript{28} That trend continues into 2015 with Chinese steel exports rising to extraordinary levels in the first half of the year, exporting 52.6 million MT for that period,\textsuperscript{29} well on track to exceed 2014’s record levels and surpass 100 million MT for 2015.

![Chinese Steel Exports](chart.png)

Effective January 1, 2015, China eliminated its export tax rebate on steel alloys containing boron, which could lead to fewer Chinese exports. However, market watchers have indicated that Chinese producers have replaced boron with chrome in order to continue to qualify for the rebate.\textsuperscript{30} Unsurprisingly, the China Iron & Steel Association remains bullish about Chinese steel exports “as low prices and firm demand offset the scrapping of an export tax rebate on certain products.”\textsuperscript{31}

\begin{itemize}
\item \textsuperscript{28} Ruby Lian and David Stanway, “Chinese Steel Exports to Stay High This Year – Industry Group,” Reuters (Apr. 29, 2015)
\item \textsuperscript{29} Jake Lloyd-Smith and Swansy Afonso, “Credit Suisse Sees ‘Extraordinary Levels’ of China Steel Exports,” Bloomberg (July 29, 2015)
\item \textsuperscript{30} Chim Sau-Wai, “Global Steel Prices to Gain from China’s Scrapping of Export Tax Rebate,” South China Morning Post (Jan. 12, 2015).
\item \textsuperscript{31} Ruby Lian and David Stanway, “Chinese Steel Exports to Stay High This Year – Industry Group,” Reuters (Apr. 29, 2015)
\end{itemize}
B. American Steel Producers Have Been Shut Out of the Chinese Steel Market

It should be recalled that China’s accession to the WTO was supposed to provide an opportunity for U.S. manufacturers to participate in and profit from China’s rapidly growing economy. These predictions have not proven true for U.S. steel producers.

In 2001, the year of China’s accession to the WTO, China consumed 168 million MT of crude steel but produced only 152 million MT of crude steel. Furthermore, by 2014, China’s demand for crude steel had reached 711 million MT – an increase of 323 percent. If U.S. mills had been able to participate in even just one percent of this increased demand for steel, then they would now be shipping approximately 5.4 million MT of steel products to China each year. But this has not happened. In 2001, the U.S. steel mills exported 39,485 MT of steel to China, while in 2014, U.S. mills exported only 100,832 MT of steel to China. In fact, as the chart below illustrates, China continues to import fewer and fewer American steel products in recent years.

![U.S. Exports of Steel Products to China](chart)

Source: U.S. Census Bureau

It now seems clear that China never intended to permit non-Chinese steel producers to benefit from the country’s growing market. In October 2011, China’s Ministry of Industry and Information Technology heralded as a “major achievement” the fact that

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32 See, e.g., Permanent Normal Trade Relations for China.
33 World Steel Dynamics; World Steel Association, “Annual Crude Steel Production, 2000-2009.”
34 World Steel in Figures 2014 at 16. \((711 - 168) / 168 = 3.23 = 323\%\).
35 \((711 - 168) \times 1\% = 5.4\).
“the domestic steel market share increased from 92% to 97%” over the five previous years.\textsuperscript{37} At the same time, it lamented that “[a] few key steel products are still dependent on imports” and found it necessary to “further improve” China’s steel industry so that it can “provide a complete suite of material solutions for downstream industries.”\textsuperscript{38} In 2014, China announced it was imposing import taxes on 78 steel products, including hot-rolled sheet, cold-rolled sheet, narrow strip, wire rod, and electrical steel.\textsuperscript{39} The purpose of these new import taxes is to encourage downstream producers to purchase more domestically-produced steel to “help digest the excess capacity” in China – i.e., to foreclose the possibility that steel producers in the United States and other countries might benefit from China’s vast market.\textsuperscript{40}

IV. The Problem of Global Overcapacity

China leads the world not just in capacity increases, but in \textit{excess} capacity levels. China’s official steel capacity levels reached 1,160 million MT last year,\textsuperscript{41} meaning it had excess capacity of 337 million MT.\textsuperscript{42} The China Iron and Steel Association 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, compared with 823 million metric tons of actual production in 2014. That equals more than 425 million metric tons of excess capacity.\textsuperscript{43}

AISI believes that overcapacity in China is the greatest challenge facing the global steel industry today and is directly responsible for the surge in steel imports into the NAFTA region in the past several years. According to the United States Trade Representative, China accounted for more than 75 percent of the growth in global steel production capacity between 2000 and 2013.\textsuperscript{44}


\textsuperscript{38} Id. at Art. I.I.1.

\textsuperscript{39} “Treasure bans some imported steel tax” \textit{China Iron and Steel Association} (July 18, 2014).


\textsuperscript{41} The Chinese Ministry of Industry and Information Technology (MIIT) announced Chinese capacity of 1.16 billion metric tons (1.277 billion net tons) in 2014.

\textsuperscript{42} 1,160 – 823 = 337 MT.

\textsuperscript{43} China Iron and Steel Association (中国钢铁协会), \textit{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=AmEIN1oxUDFRMA1IA2QHzg1pAGBRNvVjAzR5YAvnBDMGFQ9ADhVVZQMSD0hVQgVn.

\textsuperscript{44} United States Trade Representative, Report to Congress on China’s WTO Compliance (2014) at 11.
But China is not the only source of excess capacity for steel. Europe, too, has significant levels of overcapacity, estimated at 40 million tons by Morgan Stanley and 80 million tons by the European Commission itself. There is also significant overcapacity located in CIS/Russia, Latin America, and other countries in Asia.

While the crisis has become more pronounced in recent years, this is not a new problem for the industry. In the late 1990s and early 2000s, the U.S. steel industry was engulfed in a crisis precipitated by a flood of low-priced imports, followed by company bankruptcies and massive layoffs. During a six-month period in 1998, the U.S. market experienced a record level of unfairly-traded imports, primarily from Russia, Japan, Korea and Brazil. U.S. imports of hot-rolled steel, the focal point of the crisis, increased by more than 70 percent during this period, while the average price of these imports fell almost 20 percent. Import penetration reached 33.4 percent in November 1998, the highest monthly level in more than 20 years, while U.S. capacity utilization rates fell from 90 percent to 75 percent. U.S. prices dropped to levels below which U.S. companies could price profitably. As a result, domestic steel producers suffered significant financial losses, with six companies (accounting for almost half of total domestic capacity) being driven into bankruptcy and thousands of workers laid off. The speed and severity of the crisis, and the immediate deterioration of the U.S. industry’s trade and financial performance, occurred despite a strong U.S. market and robust demand for steel.

There were a number of short-term factors that triggered this earlier surge of imports. These included the Asian financial crisis and a significant drop in demand in that region, depressed economic conditions in Russia, currency depreciation in many of the world’s largest steel producing countries, and comparatively strong U.S. steel demand. However, as discussed below, long-term structural imbalances in the global steel industry also played a significant role in the events that gave rise to the import crisis.

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46 European Commission, Communication from the Commission to the Parliament, the Council, the European Economic and Social Committee and the Committee of Regions, Action Plan for a competitive and sustainable steel industry in Europe, COM(2103) 407 at 7.
48 The analysis in this section is drawn from Government Intervention and Overcapacity: Causes and Consequences for the Global Steel Industry, a policy paper prepared by Wiley Rein LLP for the American Iron and Steel Institute and the Steel Manufacturers Association and submitted to the OECD Steel Committee in July 2013.
50 Id. at 22.
51 Id. at 13.
52 Id.
53 Id.
54 Id. at 2.
crisis, namely global steel overcapacity, stemming primarily from government subsidies and other market-distorting policies and practices.\textsuperscript{55}

In its 2000 Report to the President on global steel trade, the U.S. Department of Commerce concluded that this growing global overcapacity was due in large part to government subsidies and intervention in steel industries around the world, particularly in those countries referenced above.\textsuperscript{56} The report details how direct and indirect government subsidies helped create massive capacity worldwide, and how government intervention ensured that neither capacity nor production was reduced in response to deteriorating demand conditions. Further, government-encouraged (or at least tolerated) resistance to restructuring in these industries meant that nonviable companies frequently did not exit the market, uneconomic capacity was maintained, and, ultimately, that significantly more steel was exported than would have occurred under normal market conditions.\textsuperscript{57}

While the current economic circumstances facing the steel industry differ somewhat from the 1997-2001 period, the global steel industry again finds itself in the midst of a crisis, as many regions of the world have failed to effectively address the long-term market distortions identified more than a decade ago, including “significant overcapacity in the global steel industry, government assistance to maintain older capacity, barriers to imports, anticompetitive practices [in certain non-U.S. markets] and, in some countries, the direct or indirect involvement of the government in the steel industry.”\textsuperscript{58} Rather, government intervention has become more pervasive in certain countries, fostering the build-up of excessive and unwarranted capacity in the global steel industry.

Despite the clear lessons from the 1997-2001 steel crisis, the global steel industry has continued to add capacity at alarming rates, far in excess of global demand growth. “The period since 2000 has been characterized by unprecedented expansion of capacity.”\textsuperscript{59} Indeed, since 2000, the global steel industry has added nearly 1 billion tons in crude steel capacity, for a current total of more than 2.05 metric billion tons of capacity worldwide. This capacity growth surpassed growth in steel demand during the same period by nearly 300 million metric tons,\textsuperscript{60} resulting in the current excess capacity crisis facing the global steel industry.

\textsuperscript{55} Id.
\textsuperscript{56} Commerce Global Steel Trade Report at 4.
\textsuperscript{57} Id. at 6, 90.
\textsuperscript{58} Commerce Global Steel Report at 14.
These increases in global capacity have largely been led by the explosive growth of the Chinese steel industry over the past decade, as noted above. 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. Capacity has also grown significantly since 2000 in India, Korea, the Middle East, Latin America (largely Brazil), and the Commonwealth of Independent States (“CIS”) countries, with less substantial increases in Africa and the NAFTA and EU member countries.

The capacity increases described above, well in excess of market demand, have led to enormous levels of overcapacity in the global steel industry. A 2012 OECD study concluded that there was 542 million metric tons of excess capacity in the global steel industry in 2012 – a figure that has been adopted by the European Commission. A more recent estimate by the OECD shows that the global excess steel capacity in 2015 is estimated to be about 700 million metric tons.

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61 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.
63 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.
64 “[T]he supply-demand imbalance has led to a level of overcapacity that will be extremely challenging to remedy.” *Morgan Stanley Global Steel Report* at 4.
The overcapacity crisis plaguing the global steel industry is largely a result of non-market-based forces. As the Department of Commerce found in 2000, while legitimate, market-based barriers to exit from the steel industry do exist, “government practices and policies that forestall adjustments mandated by the market” are a major cause of excess capacity in the steel industry. This remains true today, as many governments continue to subsidize the start-up of additional, unnecessary capacity and prevent obsolete capacity from closure.

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. The Chinese government has ownership interests in 18 of the 20 largest steel producers in China. The OECD has identified 29 large Chinese steel companies (i.e., companies which produced 2 million metric tons of steel or more in 2011) as being majority owned by the state. In addition to owning

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69 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.”).
70 OECD State Ownership Report at 6-7.
majority shares in most of its major steel producers, the Chinese government maintains a high degree of decision-making authority over the steel industry and continues to intervene extensively in the operations of individual steel companies.

The Chinese government’s significant involvement in its steel industry has both contributed to the enormous increases in new capacity and prevented the closure of inefficient capacity. 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. Using such policies, as well as its significant ownership over the industry, the Chinese government has created the world’s largest steel industry.

The Chinese government also intervenes in its steel industry to prevent the closure of capacity. Many older, low-technology 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. While the limited attempts at consolidation in the steel industry have been largely ineffective, “[l]ocal governments, still desperately pursuing economic growth, are approving new steel projects.” These circumstances led Morgan Stanley to conclude that state-owned Chinese steel companies are “highly unlikely” to undergo any large-scale mill closures, and that it is “likely” that local governments would intervene to prevent any major closures even by privately owned steel companies in China. As a result, the enormous overcapacity in China is “unlikely to exit anytime soon.”

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 2012, and the 7th largest net exporter of steel. Such dramatic growth has been facilitated by significant subsidies from the Turkish government, including low-interest development bank loans, export credits and insurance, tax benefits, and upstream subsidies to

73 See Local resistance to Beijing’s steel consolidation, CRU Steel News Daily (Feb. 27, 2013).
74 Morgan Stanley Global Steel Report at 16.
75 Id. at 9.
77 World Steel in Figures 2013, World Steel Association (May 30, 2013) at 26.
Suppliers.\textsuperscript{80} In addition, Turkish steel producers that generate power with their own coal-fired or natural gas power plants benefit from state-controlled pricing schemes, resulting in artificially low energy costs for such producers.\textsuperscript{81}

Similarly, the Indian government has fostered the rapid expansion of its steel industry through intervention and subsidies. There, the government owns at least 80 percent of the Steel Authority of India Ltd. ("SAIL"), India’s largest steel producer.\textsuperscript{82} Outside of ownership, 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.\textsuperscript{83}

These examples demonstrate that, just as the Department of Commerce found in its 2000 report, growing overcapacity in the global steel market continues to be due in large part to government subsidies to and intervention in steel industries around the world, particularly in those countries outside of North America that are referenced above. Even more so than in previous periods, direct and indirect government subsidies continue to help create massive steel capacity worldwide and to prevent much-needed capacity closures and reductions in response to oversupply and weakening demand conditions.

\textbf{V. Conclusion}

As noted at the outset, while the U.S. steel industry has seen some benefits from the trade agreements that are the principal focus of this investigation, the overall trade situation for the industry is much more impacted by foreign government interventionist policies in the steel sector that have fueled massive and growing global overcapacity in steel, particularly in China. This has led to repeated surges in imports with significant negative effects on domestic producers. The domestic steel industry therefore urges trade policymakers to refocus their attention on these critical issues for the industry and its workers.


\textsuperscript{82} SAIL share auction: government raises $279 million, Reuters (Mar. 22, 2013).

\textsuperscript{83} See, e.g., Commerce Global Steel Report at 163; Memorandum to Paul Piquado, Assistant Secretary for Import Administration, from Christian Marsh, Deputy Assistant Secretary for Antidumping and Countervailing Duty Operations, re: \textit{Issues and Decision Memorandum for the Final Determination in the Countervailing Duty Investigation of Circular Welded Carbon-Quality Steel Pipe from India} (Oct. 15, 2012); U.S. Trade Representative, \textit{2013 National Trade Estimate Report on Foreign Trade Barriers: India} (Mar. 2013) at 1, 11-12.