Good morning. AISI represents 24 member companies in North America, and our members make 75% of the steel produced annually in the United States. Prior to this severe economic downturn, our industry directly employed approximately 165,000 persons in the United States, supported a total of 1.2 million jobs overall and contributed $350 billion to the economy annually.

I appreciate the opportunity, on behalf of AISI’s U.S. member companies, to be here today to talk about China’s compliance with the commitments it made upon its accession to the WTO.

This is AISI’s sixth submission detailing China’s non-compliance with its obligations under the WTO. When we made our first submission in 2004, China produced 280 million MT of crude steel and held a 26% global market share. Today, China is on pace to produce over 500 million MT of crude steel and has a 50% global market share. Unfortunately, China is continuing to use trade-distorting measures to build an even more massive steel industry that is injuring the U.S. steel industry, the U.S. economy and the world environment. China’s continued failure to comply with its WTO obligations is a major
problem, both for American steel producers and for other U.S. manufacturers. Given that it has now been almost a full decade since China joined the WTO, AISI urges the U.S. government to take a more aggressive approach to this issue.

Last year, USTR’s 2008 Report to Congress on China’s WTO Compliance found that “significant questions have arisen regarding China’s adherence to ongoing WTO obligations.” Unfortunately, the trend toward a more restrictive trade regime that USTR observed in 2008 continues. Indeed, China’s steel industry continues to grow dramatically due to government subsidies and other trade-distorting practices.

China’s actions are particularly striking when viewed in light of the recent global economic crisis. In the first half of 2009, the U.S. steel industry reduced crude steel production by over 50% compared to the first half of 2008. Similarly, worldwide crude steel production (excluding China) decreased by 35%. In contrast, Chinese crude steel production actually increased to record levels. In other words, China has taken advantage of the global economic crisis to gain market share.

**Chinese Steel Continues to Injure the U.S. Steel Industry**

China, which must import huge amounts of iron ore, is not a low-cost steel producer. Its massive buildup of steel capacity has been aided by government subsidies, and does not reflect market factors. In the process of becoming the world’s largest net steel exporting nation, surges of dumped and subsidized Chinese steel have caused injury to steel producers in the U.S. and elsewhere.
The United States currently maintains antidumping orders on imports of hot-rolled steel, cut-length plate, rebar and steel threaded rod from China. The United States also maintains both antidumping and countervailing duty orders on imports of light-walled rectangular pipe, welded standard pipe, welded line pipe and stainless pressure pipe from China. Each of these orders rests upon findings by the Commerce Department that Chinese mills engaged in unfair trade and upon findings by the International Trade Commission that Chinese imports caused material injury. These facts show that unfairly traded Chinese steel has harmed U.S. producers.

While these AD/CVD orders have helped, Chinese imports remain a significant problem for American steel producers. In April 2009, U.S. producers of oil country tubular goods were forced to seek AD/CVD relief after unfairly traded imports of OCTG from China tripled between 2006 and 2008.

**Chinese Steel Causes Environmental Damage**

The massive expansion of China’s steel industry is also causing serious environmental damage. In March of 2009, the Alliance for American Manufacturing published a study assessing China’s environmental regulation in its steel industry. It found, among other things, that making a ton of steel in China results in nearly 20 times greater emissions of particulate matter than in the United States.

The AAM study attributed China’s dramatically higher emissions of greenhouse gases and particulate matter to a number of factors. First, China’s air and water pollution standards for steel production are substantially less stringent than comparable U.S. standards. Second, the Chinese steel industry operates in an environment in which enforcement of existing standards is weak and mills do not adequately monitor their own emissions and discharges. Third, the enforcement of China’s
environmental regulations is largely decentralized, with the national government relying largely on provincial and local governments that have limited resources and little incentive to enforce environmental standards. Fourth, Chinese steel companies spend considerably less on pollution control equipment than their counterparts in the United States.

The United States is actively considering various measures to reduce its greenhouse gas emissions in response to concerns about climate change. The U.S. steel industry is among the most energy-efficient in the world. Yet higher costs as a consequence of climate change legislation could harm the competitiveness of U.S. mills. This, in turn, could lead to “carbon leakage” as production moves from the United States to countries like China, which is today the world’s largest producer of GHGs. AISI urges that any domestic climate policy not harm the competitiveness of U.S. producers.

Decisive Action Should Be Taken

In sum, China’s enormous oversupply of steel is having a disruptive impact on both the U.S. steel industry and the environment. This oversupply is a direct consequence of China’s maintaining specific policies to support an export-driven economy using subsidies and other unfair practices that violate China’s WTO commitments. The U.S. government should take decisive action to address these issues.
II. Issues of Particular Importance to U.S. Steel Producers

Subsidies

Upon its accession to the WTO, China committed that, by the time of its accession, it would eliminate all subsidies prohibited under Article 3 of the WTO Agreement on Subsidies and Countervailing Measures. China also agreed that other WTO members could apply CVD orders against Chinese imports consistent with the SCM Agreement.

Notwithstanding these commitments, Chinese manufacturers – including steel producers – continue to benefit from massive government subsidies. USTR’s own 2008 report on China’s WTO compliance states that “China continues to provide injurious subsidies to its domestic industries, and some of these subsidies appear to be prohibited under WTO rules.”

Accordingly, the U.S. government should aggressively enforce U.S. CVD law against subsidized imports from China. In particular, the Administration should find that, where China manipulates VAT rebates to provide a specific benefit to exporters of merchandise, such benefit is a countervailable subsidy. Moreover, because these rebates are contingent on export, the Administration should treat them as prohibited export subsidies under WTO rules. In addition, the U.S. government should not only aggressively pursue the WTO subsidies case that the United States has brought with respect to China’s “famous brands” program, but should also pursue additional WTO litigation against Chinese subsidies where appropriate.
State-Owned Enterprises

During the course of its accession to the WTO, the government of China committed that it “would not influence, directly or indirectly, commercial decisions on the part of state-owned enterprises.” However, China’s steel-producing SOEs – which account for most of the production in the world’s largest steel industry – are continuing to operate in accord with bureaucratic policies, not market principles. This is a clear violation of China’s WTO commitments, and a significant distorting force in steel markets around the world. USTR should take all possible steps – including WTO litigation as appropriate – to address this problem.

Raw Materials

China has taken numerous measures to inappropriately aid its producers in securing access to raw materials, and to manipulate raw material prices in a manner that gives Chinese producers unfair advantages over their U.S. and other competitors. These measures include imposing restraints on the export of raw materials and using public resources to assist Chinese steel producers in acquiring raw materials overseas.

These actions by China mandate that the Administration vigorously pursue the WTO case that it has initiated regarding China’s export restraints on raw materials. In addition, the Administration should find that these export restraints constitute countervailable subsidies that confer a financial benefit to Chinese producers by allowing them to purchase inputs at less than adequate remuneration.
It should also find that, where China provides assistance to certain enterprises or industries to acquire raw materials overseas, any benefit received by the enterprises or industries is a countervailable subsidy.

**Currency Manipulation**

There is overwhelming evidence that China is manipulating its currency. As the bipartisan U.S.-China Commission concluded in its 2008 report, “currency manipulation has been a useful tool in supercharging China’s export machine.” In January 2009, in written testimony provided to the Senate Finance Committee as part of his confirmation hearings, Treasury Secretary Timothy Geithner stated that “President Obama – backed by the conclusions of a broad range of economists – believes that China is manipulating its currency.” Yet, in spite of this testimony, the Administration, as the one before it, has refused to cite China as a currency manipulator.

The Administration should take far more aggressive action on this issue. In particular, the Administration should make currency manipulation of the type practiced by China actionable under U.S. trade remedy laws, and should pursue legal action in the WTO to protect U.S. rights.

**China as an NME**

Given that China has not fully complied with its WTO obligations, the United States must effectively enforce its trade remedy laws. Under the terms of its WTO accession, China agreed that other Members could treat it as a non-market economy (NME) for 15 years. Nevertheless, China has urged the United States during recent meetings of the U.S.-China Strategic and Economic Dialogue to treat it
as a “market economy” for purposes of U.S. antidumping law. This would be improper and contrary to U.S. law.

Another issue presented by China’s NME status concerns the application of U.S. CVD law. In November 2007, Commerce decided for the first time to apply the CVD law to China. Unfortunately, it determined that the “uniform date” from which it will identify and measure Chinese subsidies is December 11, 2001, the date on which China became a WTO member. In other words, non-recurring subsidies provided prior to this date are treated as though they were not subject to our CVD law. AISI strongly disagrees with this decision. We believe that to decline to countervail subsidies bestowed prior to China’s WTO accession is inconsistent with Commerce’s usual practice, China’s WTO commitments and Congressional intent.

**Enforcement of China-Specific Safeguard Provision**

As part of its WTO accession, China also agreed that for 12 years other members could impose product-specific safeguards against Chinese imports. This provision – implemented into U.S. law under Section 421 of the Trade Act of 1974, as amended – is critical to ensuring that U.S. industries and workers do not suffer market disruption as a result of surges in Chinese imports. Until this year, however, no relief had ever been granted under this statute – despite ITC findings in four separate cases that relief would be appropriate. Accordingly, AISI commends the Administration for providing relief in the Section 421 case on tires. This action sends an important signal that Section 421 is a viable remedy for U.S. companies and workers facing market disruption due to Chinese imports.
Product Safety Issues

In recent years, safety concerns with Chinese imports have received a great deal of publicity in the United States. There can be little doubt that these concerns extend to steel products. As Representatives Pete Visclosky and Tim Murphy stated in February 2009, “China has a proven track record of making dangerous, substandard products, including steel.”

Pursuant to China’s WTO accession, Chinese imports are subject to the WTO Sanitary and Phytosanitary Agreement, as well as the Agreement on Technical Barriers to Trade. The Administration should work with Congress to ensure that the U.S. government fully exercises its rights under relevant WTO agreements to keep unsafe products out of this market.

Intellectual Property Rights

Finally, USTR has properly recognized that when China accepted the WTO “TRIPS” Agreement, it “took on obligations to adhere to generally accepted international norms to protect and enforce the intellectual property rights (IPR) held by U.S. and other foreign companies and individuals in China.” Despite this agreement, however, USTR reports that “effective IPR enforcement has not been achieved, and IPR infringement remains a serious problem throughout China.”
Furthermore, in June 2009, the WTO adopted a panel report ruling that Chinese law does not adequately provide for the protection and enforcement of IPR on a wide range of products. While the WTO findings represent a positive step forward, the Administration must ensure that China properly implements the recommendations and rulings of the WTO panel.

In conclusion, China’s ongoing WTO non-compliance continues to pose a major problem for U.S. manufacturers. The facts shared today show that the United States’ approach to dealing with China’s WTO non-compliance has generally been ineffective in bringing China into compliance. China is continuing to engage in non-market behavior and trade-distorting measures -- and its drive to become “the factory of the world” is injuring the U.S. steel industry, the U.S. manufacturing base, the U.S. economy and the global environment.