American Iron and Steel Institute

25 Massachusetts Ave., NW
Suite 800
Washington, DC 20001
202.452.7100 p
202.463. 6573 f
www.steel.org

Testimony of Kevin M. Dempsey
Senior Vice President, Public Policy and General Counsel
American Iron and Steel Institute

Public Hearing on Indonesia Market Access under the Country Practice Review of the Generalized System of Preferences
Office of the U.S. Trade Representative
Docket Number USTR-2018-0007
January 31, 2020

Good afternoon. My name is Kevin Dempsey and I am the Senior Vice President for Public Policy and General Counsel at the American Iron and Steel Institute (AISI). I appreciate the opportunity to testify here today on behalf of our U.S. producer members on the question of whether Indonesia is meeting the GSP eligibility criterion requiring that a beneficiary country must provide equitable and reasonable access to its basic commodity resources. For our members, especially those producing stainless steel, the answer to this question today is clearly no. This is because the government of Indonesia has recently reimposed a full ban on the export of nickel ore, a key component of stainless steel, and has taken other steps affecting the global nickel and stainless steel markets to the detriment of U.S. steel producers. AISI's view is therefore that Indonesia no longer meets this key criterion for GSP beneficiary country status.

Let me begin by explaining why American steel producers are interested in this issue. Indonesia is today the world's largest producer of nickel, and holds the largest nickel ore reserves in the world. Nickel is a key alloying element used in the production of many grades of stainless steel. Indeed, the most common stainless steel grade (304) requires approximately eight percent nickel, and about 70 percent of all the nickel that is consumed globally today is used to produce stainless steel.

As part of a national plan to develop certain downstream industries, including in particular stainless steel, Indonesia in 2014 imposed a ban on the export of nickel ore. In 2017, Indonesia partially relaxed this export prohibition by allowing companies to export low-grade nickel ore, subject to an export tax. At that time, the government of Indonesia indicated that it planned to reinstate the total export ban in 2022, but last year Indonesia announced that it was moving up the ban to January 1, 2020.

A major beneficiary of the Indonesian export restrictions on nickel has been the Chinese stainless steel producer Tsingshan Holdings Group. In August 2017, this Chinese company opened a 3 to 3.5 million metric ton stainless steel mill in Indonesia with the primary purpose of exporting stainless steel to other markets around the world. This new mill was heavily promoted and sponsored by the Indonesian government and was financed as part of the Chinese government's 'Going Out' and 'Belt and Road' initiatives. Together with Tsingshan's preexisting 7 million metric ton capacity in China, the Indonesian mill means this one company has a stainless steel production capacity of 10 million metric tons, nearly 20 percent of global demand for stainless steel.

The Indonesian government-imposed export restrictions on nickel ore give stainless steel producers with production facilities in Indonesia access to nickel at prices well below the world market price set on the London Metal Exchange. Meanwhile, American and other steel producers operating outside of Indonesia must acquire the nickel needed for their stainless steel production at prices pegged to the LME world market price.

This unfair pricing differential was further exacerbated last year by a sharp spike in world nickel prices, as a result of closely timed actions taken by Tsingshan and the government of Indonesia. Tsingshan reportedly made several large purchases of nickel from London Metal Exchange inventories just before and in the months after the announcement of the reinstatement of the full export ban by the government of Indonesia, driving up nickel prices for other stainless steel producers in the United States and around the world.

Indonesia's market distorting policies on nickel have also fueled the rise in Indonesian stainless steel exports to world markets since 2017, including to the United States. Imports of semi-finished stainless steel from Indonesia to Tsingshan's joint venture partner ATI have increased dramatically over the last three years, even as imports from all other sources have declined significantly. This is likely due to the fact that average unit values for Indonesian semi-finished stainless steel imports have been consistently more than $1,000/metric ton <u>below</u> those of imports from the rest of the world. Left unchecked, these imports will put further pressure on the U.S. industry's production, prices and profitability and the U.S. stainless steel industry will be unable to sustain current investment and production levels.

Indonesia's market-distorting behavior thus could ultimately force the shutdown of critical domestic stainless steelmaking operations and leave the United States reliant on foreign sources for these critical steel products. As USTR reviews Indonesia's GSP eligibility, AISI urges it to take into account how Indonesian's actions to limit market access to its nickel ore have impacted world nickel prices and fueled increased low-priced exports of stainless steel to the U.S. market.

Thank you for your attention. I would be pleased to answer any questions.