Introduction and Overview

The American Institute for International Steel, Inc. (AIIS), a 65-year-old, non-profit organization whose member companies—including a number of leading American ports, such as the great ports of Milwaukee, Houston, New Orleans, Tampa, and others—employ tens of thousands of Americans who work in virtually every element of the steel supply chain, greatly appreciates this opportunity to submit these comments regarding the exceptionally important matter of global excess capacity in steel.

We also appreciate the opportunity to participate in this hearing in light of OECD Steel Committee Chairman Risaburo Nezu’s recent call for immediate action to address the excess capacity challenge.

In Chairman Nezu's report of the OECD Steel Committee's meeting last December we again see compelling evidence affirming the seriousness of
the global excess steel capacity challenge. We wholeheartedly agree with his conclusion that we confront an “urgent need to address excess steel capacity and related challenges,” and hope that all concerned parties work in good faith toward achieving a permanent, broadly applicable solution that results in meaningful commitments that are capable of being monitored.

In that regard, we strongly encourage both OECD member countries and non-member countries to constructively engage in High Level Meetings on Steel. We also strongly encourage the United States to help lead the development of an ambitious High Level Meeting agenda.

The OECD’s efforts now regarding excess steelmaking capacity bring to this issue an important and much-needed measure of renewed resolve, and provide a continuity of focus on a major international economic problem that is causing significant harm to the health of the global steel market, and particularly to many American steel-related jobs and livelihoods.

Excess steel capacity created and sustained over many years by state subsidies and state-owned enterprises (SOEs) hurts a host of steel-related industries in the United States. Among other things, it limits jobs and hours
worked on our docks, restrains exports, destabilizes world markets, and generates mountains of needless, expensive trade litigation that consumes tremendous time and energy but ultimately resolves very little.

**China**

The scope and nature of the greatest portion of the global excess steel capacity problem are well known. There is little dispute that China has driven the rise in global steel production. As the *Economist* recently noted, the consulting firm Rhodium Group “...calculates that global steel production rose by 57% in the decade to 2014, with Chinese mills making up 91% of this increase.”\(^1\) There is also little dispute about the overwhelming role played by China’s state subsidies and SOEs in supporting this huge growth in steel capacity.

The 2015 National Trade Estimate (NTE) report on foreign trade prepared by the Office of the United States Trade Representative presents the most succinct, cogent analysis regarding the key role of China’s SOEs.

The 2015 NTE states in part:

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\(^1\) *The March of the Zombies—China’s excess industrial capacity harms its economy and riles its trading partners.* February 27, 2016
Chinese government actions and financial support in manufacturing industries like steel and aluminum have contributed to massive excess capacity in China, with the resulting overproduction distorting global markets and hurting U.S. producers and workers. For example, from 2000 to 2013, China accounted for more than 75 percent of global steelmaking capacity growth. Currently, China’s capacity alone exceeds the combined steelmaking capacity of the EU, Japan, the United States, and Russia. China has no comparative advantage with regard to the energy and raw material inputs for steelmaking, yet China’s capacity has continued to grow exponentially and is estimated to have exceeded one billion metric tons (MT) in 2013, despite weakening demand domestically and abroad. China’s steel exports have grown to be the largest in the world, at 62 million MT in 2013, an 11 percent increase over 2012 levels, despite sluggish steel demand abroad. Excess capacity in China—whether in the steel industry or other industries like aluminum—hurts U.S. industries and workers not only because of direct exports from China to the United States, but because lower global prices and a glut of supply make it difficult for even the most competitive producers to remain viable.\(^2\)

While we have recently heard some encouraging words from China that it intends to shrink its steel industry, it is not likely that absent any new sustained diplomatic effort, we will soon see meaningful structural reform in the Chinese steel industry, or sufficient reform commitments that would mitigate the rationale for an ambitious OECD High Level Meeting. OECD Steel Committee Chairman Nezu himself addressed this matter in June

\(^2\) Office of the United States Trade Representative, *Report on Foreign Trade Barriers*, p.73. 2015
2015, and cautioned that any structural reform in China will be slow.

Chairman Nezu said in part:

Another reason that I believe structural reform in the Chinese steel industry is likely to be slow is that most steel manufacturers in China are state-owned enterprises (SOEs). The state (the government and the Chinese Communist Party) intervenes in SOEs in various ways, including capital and personnel. Government officials insist that these firms are operated in exactly the same way as private enterprises, but their capital is borrowed from the state bank and the purchase prices for domestically procured raw materials are hazy. Neither is it clear what dividends are being paid. The SOEs are highly likely to be receiving subsidies in various forms. There is also an undeniable possibility that companies which would collapse in a market economy are being kept afloat and disrupting the market as a result. State-owned steel companies are not unique to China, however; they can be found all across India, East Asia and other emerging countries. These emerging countries are currently importing steel materials from Japan, Korea, China and elsewhere, but are very keen to push ahead with industrialization and develop their own steel companies. It is consequently highly likely that capacity will continue to grow with government backing.³

Principles to guide the way forward

We see six principles for action that should guide our way forward.

First, the excess steelmaking capacity issue should be raised as an agenda item at the highest international levels, particularly at the Group of Twenty (G20) meeting this year in Beijing. The G20 is an appropriate forum in which to address this matter for two reasons. First, the G20 was specifically created to address high-level policy issues affecting global economic stability. Although there are obvious sensitivities involved because China is the host country for the 2016 G20 meeting, China is also no doubt aware that it bears significant responsibilities as a member of the premier global forum of wealthy nations. Moreover, the G20 framework, like that of the OECD, allows for broad participation by the key global economic powers. This opportunity for broad participation reduces the potential for “free riders”, important countries that may seek to avoid any political responsibility to act because they did not participate in the discussions.

Second, the United States and other concerned parties should seek firm political commitments in international forums such as the G20 to reduce excess steelmaking capacity, and to do so in a way that can be readily monitored.
Third, with regard to any international discussions or negotiations concerning reductions to excess steelmaking capacity, we should not let the perfect be the enemy of the good. The OECD has tackled this issue before. These discussions will not be any easier than they were in 2002 or 2003, and may even be harder. But we should, at the same time, engage in the necessary diplomatic spadework in capitals so that we can fully engage as many allies as possible in the overall effort to help push this process forward. Appropriate diplomatic efforts should precede and follow the G20 and other international meetings in order to maintain a consistency of focus and commitment.

Fourth, we should be prepared to innovate with policy responses that help end trade-distorting practices, and to consider the broadest range of ideas, both old and new. For example, we may want to revisit one idea from 2002-2003 to establish a mechanism, perhaps an international fund, to promote and assist in the closure of inefficient steel mills, particularly those in emerging countries where this might be an appropriate and useful course of action.
Fifth, the ultimate aim of these international discussions should be to turn political commitments into new binding disciplines on SOEs and related trade-distorting subsidies.

Sixth, while any United States-proposed initiative would obviously come from the executive branch agencies of our Government, Congress has significant interest in the concerns that underlie these issues. We strongly believe that the appropriate Congressional Committees should be engaged throughout this process, on a bipartisan basis. Our international partners should know that the United States speaks with one voice with regard to seeking and forging any political commitment to address the excess steel capacity challenge. This type of engagement will help insure that political agreement is sustainable over the long term.

Finally, a concluding word of appreciation and cooperation. The American Institute for International Steel was created at the same time that the European Coal and Steel Community was established 65 years ago. We have advised governments and international organizations on matters related to global steel production and trade since then, and would be delighted to continue to do so now. Our members have a wealth of
practical, real-world expertise in global steel matters gained through decades of experience throughout the world.

We look forward to assisting in this vital effort.