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**CENTRE FOR CO-OPERATION WITH NON-MEMBERS
STEEL COMMITTEE**

Emerging Market Economy Forum

WORKSHOP ON STEEL TRADE ISSUES

**MARKET ACCESS AND TRADE FACILITATION ISSUES:
STATEMENT BY MS. GORDANA EARP**

The Workshop will be held in Paris on 27-28 May 1998.

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**WORKSHOP ON STEEL TRADE ISSUES
MARKET ACCESS AND TRADE FACILITATION ISSUES:
WTO: THE INSTRUMENT OF MARKET ACCESS
AND TRADE FACILITATION IN STEEL TRADE
STATEMENT BY GORDANA EARP
DEPUTY ASSISTANT UNITED STATES TRADE REPRESENTATIVE
PARIS, 27-28 MAY 1998**

1. It is a pleasure to participate in the second OECD Emerging Market Economy Forum Workshop on Steel Trade Issues. I congratulate the Steel Committee for taking the initiative to organise this forum and the Secretariat for excellent arrangements and background papers. In particular, I welcome our non-member visitors, and thank them for their interest and active participation.

2. This section of the program, dealing with the Uruguay Round and steel trade, asks such questions as what will be the effects on steel trade of agreements concluded in the last round of trade negotiations, what issues remain un-addressed in steel trade, and what policies are needed to facilitate trade adjustment in this sector.

Steel in the Global Economy

3. Once described as a sunset industry, the steel sector in the United States has re-emerged as a high tech, innovative and flexible supplier of this key resource. Similar transformations are either taking place, or will need to take place in other countries. Some of the changes which are forcing restructuring and affecting behaviour by steel producers, distributors, and users include:

- new technologies, and the related proliferation of the mini-mills, with significantly lower start-up costs and increasingly diverse production lines;
- global production strategies and international partnerships by steel producers and users;
- the “commoditisation” of steel products through in time delivery and service center processing; and
- major global shifts in supply and demand patterns with the advent of CIS countries on the global market, and reduced demand in Asia.

4. Let me say at the outset that my remarks will not be exclusively focused on steel, but will capture international trade developments more broadly, with steel used to illustrate broader trends. The reason for this is that neither the US government, nor the existing international trading system, have any special provisions for steel trade. Steel is fully integrated into the mainstream of US and WTO trade policy. In the United States, the steel industry has fully participated in, and benefited from, Uruguay Round and other free trade initiatives.

Steel and the WTO

5. The Uruguay Round was a truly visionary achievement which established a new framework for leading the international trading system into the twenty first century, a century whose infancy will be shaped by two late 20th century events: the revolution in information technology, and the demise of the non-market economic model. Agreements reached in 1994 have positioned the global trading community to thrive in this new economic environment, through new and continually expanding trading rules, and through growing membership. Steel producers have benefited from both the removal of direct barriers to their exports, and through increased economic growth (and thereby demand for steel) brought about by the sum total of market opening agreements reached.

6. The key direct benefit from the Uruguay Round to the steel industry was the agreement by most developed countries to eliminate, and by many other countries to cut, tariffs for steel products, and (perhaps even more importantly) to cut tariffs for a number of steel user industries including autos, heavy machinery and appliances.

7. In addition, the key broad Uruguay Round accomplishments include:

- expansion of the trading rules beyond merchandise trade border measures, through new agreements covering trade in services, trade-related investment measures, and the protection of intellectual property;
- recognition that policies traditionally considered to be exclusively under domestic purview, such as environmental protection, labour standards, and competition rules, have an important impact on international trade and must be examined in that light;
- adoption of the notion that all WTO members must live by the same rules;
- adoption of a binding dispute settlement mechanism;
- a ban on gray area measures often used to restrict trade under the guise of voluntarism;
- adoption of a built-in future negotiating agenda and the notion of ongoing work toward additional liberalisation under the guidance of biannual Ministerial meetings; and
- endorsement of increased transparency in the operation of the WTO.

8. Of course, benefits will increase further as agreements reached are fully implemented, as additional countries among the 31 now applying for WTO membership take on obligations, and as new agreements are reached, for example on steel tariffs elimination by non-OECD countries. There is good reason to believe that countries will be prepared to make additional market opening commitments, and certainly it is the US policy to encourage such movement.

9. While the benefits of the Uruguay Round agreements are still in the process of being realised, a recent OECD study [“Open Markets Matter: the Benefits of Trade and Investment Liberalisation,” April 14, 1998] provides a glimpse at the emerging empirical evidence which illustrates the economic benefits of market opening measures, and the costs of protection. One interesting finding is that the divergence in growth among strongly outward oriented and moderately inward oriented developing countries has increased from just under three percentage points in the 1960's, to about six per cent in the 1986-1992 period. Furthermore, in the more recent period, moderately inward oriented countries fared no better than

strongly inward oriented countries, both with slightly negative average annual growth. This indicates that, in this age of the high-tech, information-based, globalised economy, the costs of import protection and government intervention to economic growth and to living standards, are extremely high and growing. This is a powerful reason for governments to move expeditiously toward open markets.

10. In that context, a key challenge for policy makers will be to build and maintain public support for free trade and global competition. The tenuous public support and suspicion of such policies became obvious recently in the United States when the Administration failed in its initial bid to gain Congressional approval for so called “fast track” negotiating authority. The effects of the “globalising economy” are debated world wide in international *fora* in conferences ranging from environmental and women’s issues, to forced prison and child labour. Support for free trade will need to be fortified through a variety of steps, including: additional studies on the benefits of trade and competition, and public education about such benefits; changes in educational systems, including adult education and retraining, to better prepare the working population for the challenges of the new, rapidly evolving information based technologies; and, improved social structures and safety nets which will allow workers to more easily adjust to the challenges of international competition.

11. In the United States, the steel producers have been full partners in the government’s efforts to promote free trade. Steel unions continue to voice concerns about possible adverse effects of free competition, in particular due to global inequities in labour standards. A challenge for our government is to deepen and move forward the dialogue with the unions, and with the public. It is a challenge all countries will face if they embrace international competition, and one the WTO and the OECD will be instrumental in helping us meet through full transparency, increased public participation, and sound analysis.

United States Trade Policy And Steel

12. As I noted earlier, the US government does not have a steel industrial or trade policy per se. We have pursued economic and trade policies which we believe benefit all US industries, including steel producers and users. According to the OECD statistics distributed at this meeting, the United States is the world’s largest steel importer, with 1997 imports of 28.9 million tons, almost double the 15.5 million tons imported by the second largest importer, China. Our approach to international challenges has been, whenever possible, to try to resolve problems at their root. We have supported restructuring in the CIS countries through international institutions and bilateral initiatives. We have also supported and encouraged discussion of CIS structural and trade issues, and now the Asian crisis, through this forum, with a view to increased transparency, education and information exchange.

13. We have sought solutions to the Asian crisis through IMF funding, and we are very supportive of the restructuring conditions entered into between recipient governments and the funding institutions. These are particularly relevant to the steel and some of the large steel using sectors, which have been targets for government intervention. It is key to the long term interest of global steel producers that the IMF conditions in support of restructuring and transparency be lived up to and fully enforced.

14. The Asian crisis serves as a vivid example of the dangers of government interference with market forces through such practices as directed lending, the associated lack of transparency in financial markets, and the toleration of anticompetitive behaviour. While steel and steel-based industries have “benefited” from such government attention, we now have good evidence that such non-market practices often lead to a host of distortions, including uneconomic investments, overproduction and low efficiency, as well as trade friction. Examples include Hanbo Steel and Kia autos in Korea, both undergoing

bankruptcy procedures. A firm parting with such policies is key. In the case of Hanbo Steel, the United States has encouraged the Korean government to ensure that there are no ongoing subsidies to this company, that its finances be made transparent, and that it be liquidated expeditiously in a transparent and market based manner. One positive development we are seeing as a result of the developments in Asia, is the movement toward closer co-ordination among various international institutions such as the WTO, the IMF and the World Bank, reflecting the increased recognition of the interlocking of structural, financial and trade policies, and hopefully encouraging sounder practices. Of course, existing WTO agreements and obligations must be strictly enforced.

15. Lessons drawn by policy makers from recent developments in Asia should be that attempts to insulate their constituent industries from global competition are bound to backfire. When governments must cede, as will inevitably happen from time to time, to strong political pressure for protection of inefficient producers, they should do so in a way which is least distorting to trade and competition. For example, the old, but hopefully not forgotten, 1982 OECD Statement on Positive Adjustment Policies provides useful guidelines on government subsidies, with an emphasis on the need to ensure that they are temporary and regressive in nature and that they bring about industry restructuring, rather than becoming a permanent crutch for an industry or the basis for its expansion.

16. US producers have often been criticised for using anti-dumping or countervailing duty laws to protect their interests. Due to the large influx of imports from the CIS countries they filed an anti-dumping action with respect to imports of cut plate, where they were able to demonstrate injury. All other imports from the region, totaling 4 million tons in 1997, remain unrestrained. I believe that all countries around the table have anti-dumping and countervailing duty laws and that their industries have on occasion felt it necessary to use these to address injury. Hopefully, this is done in a transparent and fair manner, consistent with WTO rules. A recently published Economic Strategy Institute study provides an in-depth analysis of this type of trade action. One of the tables looks at the frequency of usage of anti-dumping investigations, and finds that, in the 1993-1995 period, the European Union launched 84 such investigations, followed by 77 in the United States, 45 in Australia, 42 in Brazil, and 41 in Mexico. For the first time we are seeing initiation of cases in Asian countries, for example, the anti-dumping cases in China, Taiwan and Korea, against steel imports from Russia.

17. Having just expounded on the benefits of free trade, I do not mean to submit that trade cases should be resorted to lightly. I simply point out that they are recognised and used globally as a legitimate trade remedy, where transgressions are found, and injury occurs as a result. Obviously, this type of action can be disruptive and has its negative side effects. The way to address this problem, as the United States argued at length, but unsuccessfully, in the six years (1990-1996) during which we sought to persuade our trading partners to sign up to a Multilateral Steel Agreement, is by forswearing subsidies, opening up markets, and enforcing competition rules. While these types of measures would not necessarily fully eliminate the need for occasional trade action, over time, they would substantially minimise the need and rationale for such action. In the interim, and in parallel to the MSA, the United States also offered its trading partners a bilateral consultation mechanism designed to anticipate and, where possible, avoid trade friction.

18. The MSA would have been an excellent international agreement and a possible model for other sectors. While it was not possible to fulfill this perhaps overly ambitious undertaking, we are hopeful that all the concepts of this agreement are, albeit more slowly, being gradually endorsed by the international trading system and individual governments on a cross-sectoral basis, simply because they constitute good economic policy. The OECD Steel Committee continues to be an excellent forum for discussion of these issues. Member and observer countries have recently undertaken to supply to the Committee data on all trade measures and subsidies related to steel, which, if fully implemented, will increase transparency and

provide a sound basis for discussion of such practices. This data will be publicly disclosed to anyone who is interested.

Conclusion

19. In the post Cold War era, the dividing lines which will shape alliances and instigate conflict among nations will likely be drawn as much due to economic as political issues. Nations which do not become active participants in the global economy are likely to fall increasingly behind in terms of living standards, and become increasingly isolated. After painful restructuring, and after substantial domestic and foreign investment, the steel industry in the United States has emerged as a tough global competitor. We challenge other producers to follow suit.

20. Thank you for inviting me to address this forum.