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Emerging Market Economy Forum

WORKSHOP ON STEEL TRADE ISSUES

PERSPECTIVES ON STEEL MARKETS AND TRADE
STATEMENT BY MR. BARRY D. SOLARZ ON THE NAFTA REGION

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

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WORKSHOP ON STEEL TRADE ISSUES
PERSPECTIVES ON STEEL MARKETS AND TRADE -- THE NAFTA REGION:
STATEMENT BY BARRY D. SOLARZ - VICE PRESIDENT, TAX AND TRADE
AMERICAN IRON AND STEEL INSTITUTE
PARIS, 27-28 MAY 1998

1. On behalf of the American Iron and Steel Institute's (AISI's) 50 US, Canadian and Mexican producer member companies, who together account for well over two-thirds of the raw steel produced in North America, we thank you for this opportunity to discuss the situation in steel trade in the NAFTA region.

Market Conditions In The Nafta Region

2. I'd like to begin by talking about current market conditions in the three NAFTA countries and how they relate to trade.

United States

3. A key place to start is with the US economy, whose performance continues to be extraordinary. While there remains concern about a possible Federal Reserve interest rate hike, this is the best economy since the early 1960's. It has productivity-led, investment-intensive growth. It has sustained GDP growth (3.8 per cent in 1997; 4.2 per cent in the first quarter of 1998). It has wage growth of 4.4 per cent in the past year. It has the lowest unemployment in 28 years (4.3 per cent in April). It has the lowest inflation in 35 years (1.7 per cent in 1997; 0.2 per cent annualised in the first quarter).

4. Given this kind of economy, for US steel producers, the main – if not the only -- clouds on the horizon are the exchange rate and the merchandise trade deficit (about $200 billion last year). While US steel exports rose 20 per cent from 5 to 6 million net tons (NT) between 1996 and 1997, both *total* steel imports (over 31 million NT) and *finished* steel imports (nearly 25 million NT) were all-time records. Even on the trade front, however, there is some good news to report. With respect to US *indirect* steel trade in 1997, a revitalised US manufacturing base achieved its first surplus in trade in steel containing products (1.2 million NT) since AISI began tracking these data in 1984. As recently as 1986, the US had a 9.3 million NT indirect steel trade deficit.

5. Thanks to the global competitiveness of US and North American customer industries and to continued robust US demand in the automotive, machinery and construction markets, US shipments of steel were a near record 106 million NT in 1997. At the same time, US apparent steel consumption rose to an historic high of 130 million NT – a level 50 per cent greater than in 1991. Unfortunately, world overcapacity in steel, reduced demand in Asia and unfair trade continue to erode the benefits that US producers would otherwise obtain from this strong market. Despite record shipments and strong demand, prices and profits did not keep pace last year. While the US steel industry was again profitable in 1997 for a fifth consecutive year, prices and profits remain lower than in earlier, comparable periods of high operating rates.

6. With respect to 1998, most analysts believe that, largely due to the Asian crisis, the US trade deficit will increase by at least another $50 billion, and US economic growth could slow to the 2.5-3 per cent range. While total steel imports could decline slightly -- mainly due to flatter overall demand and an

increase in domestic capability -- steel imports from Asia are expected to increase, and displace imports from other world regions (particularly Europe, which is currently experiencing strong demand). In addition, given the Asian crisis and the strength of the dollar, it will be a challenge to maintain a US indirect steel trade surplus, both in 1998 and 1999.

Canada

7. Turning to Canada, it also had a solid economic performance in 1997 (3.8 per cent GDP growth with low inflation, low interest rates and the elimination – as in the United States -- of the federal budget deficit). The problem was that, while total Canadian steel consumption rose to 17 million NT last year, up 19 per cent compared to 1996, higher steel imports took most of this gain. Steel imports into Canada increased from 4 to 6.3 million NT between 1996 and 1997, while Canadian steel exports stayed level at 5.3 million NT. With respect to 1998, the recovery in construction and business investment is expected to continue, while the automotive and pipe and tube markets should remain strong. However, as imports grow faster than exports and as Canadian GDP growth slows to the 3 per cent range in 1998, Canadian steel producers have the same main concern this year as do US producers – international trade.

Mexico

8. In Mexico in 1997, boosted by strong GDP growth of 7 per cent (a 16-year high), apparent steel consumption rose to 12.8 million NT, about the same level as in 1994 prior to the peso crisis and severe recession, which began in December of that year and continued throughout 1995. Against the backdrop of this strong economic performance, in 1997, Mexican steel production increased 8 per cent to 15.7 million NT, steel imports into Mexico rose to 1.7 million NT, while Mexican steel exports increased slightly to 6.5 million NT. With respect to 1998, low world oil prices remain a major concern for Mexico and its oil export-dependent economy. Due to lower-than-expected world oil prices and their dampening effect on government revenues, most outside analysts now think that Mexican GDP growth could decline to the 4-5 per cent range in 1998. The situation in Asia is obviously not helping. Thus, as in the United States and Canada, international trade remains a key concern of Mexico’s steel industry.

Nafta Governments’ Trade Policies And Objectives

9. On the issue of trade policies and objectives being pursued by NAFTA governments, the first point to make is that governments in North America do *not* have industrial policies for steel. In addition, at the present time, given the failure of international efforts to achieve a comprehensive, effective and enforceable Multilateral Steel Agreement, NAFTA governments – as viewed from a North American steel producer perspective -- are not pursuing any trade policies that are specific to the steel sector.

10. With respect to trade measures affecting steel imports into North America, the only ones that NAFTA governments maintain at this time are:

- World Trade Organisation (WTO)-sanctioned trade law remedies based on successful trade case filings to address disruptive or unfairly traded product; and

- buy National preferences in selected sectors or “entities” that are not currently covered by the WTO Government Procurement Agreement.

11. On the issue of federal government assistance to steel in the NAFTA region, such specific assistance is historically *far less* than in other regions of the world. Where it exists, it is focused for the most part on pre-competitive research assistance to promote energy efficiency and improve environmental performance. State and local government aid, where it exists, has invariably been limited to investment incentives that determine *where* within the region -- not whether -- a facility will be built. In addition, the benefits from such programs are available to *any* company, not just steel companies.

12. North America's steel companies are totally privately-owned. With respect to the general trade policies that NAFTA governments are pursuing, we support three main concepts. They are:

- a rules-based global trading regime, with an effective World Trade Organisation (WTO);
- effective national trade laws and trade law enforcement against dumped and subsidised imports; and
- freer trade, on a fair and equitable basis, with the rest of the world. In this regard, we support:
  - implementation of the NAFTA,
  - the decision of 34 Western Hemisphere leaders to begin negotiations aimed at a Free Trade Area of the Americas (FTAA),
  - some of the APEC market-opening initiatives, including the one to liberalise trade in steel products used in the energy sector, and
  - a number of proposals to facilitate and promote additional trade between North America and the European Union (EU).

13. In terms of the above listing of trade initiatives, two developments – the NAFTA and FTAA -- are of particular importance to North American steel producers and steel markets. They are therefore deserving of additional comment.

14. With respect to the NAFTA, our consensus view is that the agreement has had a *modest positive effect* on the North American economy. In that regard, it is doing exactly what it is supposed to be doing: (1) helping to promote a more integrated, efficient North American market; (2) helping to expand trade within North America; and (3) providing a regional framework that is supportive of market-driven self-help efforts by North American steel and other manufacturers (see **Attachments 1 and 2** on intra-NAFTA trade in steel and steel containing products). When all is said and done, the NAFTA has not had the kind of influence that macroeconomic factors have had on regional trade flows. But without the NAFTA, Mexico's downturn would have been worse and Mexico's economic recovery would have been less rapid.

15. As to the FTAA negotiations, now set to begin later this year, NAFTA steel producers will be closely monitoring developments and providing advice to our respective governments. Among the principles that could serve to guide the FTAA positions of NAFTA steel producers are the following: (1) allow no trade law weakening, (2) encourage market discipline, (3) remove steel tariffs as soon as possible, (4) eliminate trade-distorting subsidies, (5) strengthen competition policy, (6) ensure that customers benefit, (7) maintain effective rules of origin, (8) promote strong customs' enforcement, (9) prevent standards barriers and (10) turn to the NAFTA for the model.

Major Trade Concerns in 1998

16. With that as background, in agreeing that free trade must not be dumped or subsidised trade, North America's steel companies have three major trade concerns as we look to 1998:

- first, we are concerned that high levels of dumped and injurious imports from Russia and other nations in the Commonwealth of Independent States (CIS) will continue;

- second, we are concerned that the economic crisis in Asia, and Asian government intervention in steel and related industries, will produce negative fallout, both on North American direct *and indirect* steel trade; and

- third, we are concerned that NAFTA markets could continue to experience more surges of dumped and subsidised steel from non-traditional suppliers, facilitated by international traders practicing "dump and run" tactics.

17. In 1997, with an apparent steel supply of 151 million NT, the NAFTA region imported 26.8 million tons of finished steel from non-NAFTA countries (17.7 per cent of finished steel demand in North America). Because the Asian crisis has only intensified the attraction of the NAFTA region as a major remaining magnet for world steel imports – and since trade and especially imports are a critical issue for North American steel producers in 1998 -- the following provides a more detailed elaboration of our concerns about the trade policies of other steel producing countries and their effects on the NAFTA region as a whole.

Commonwealth of Independent States

18. Turning first to the CIS, what we saw In 1997 was that, even as the NAFTA countries' imports of cut-to-length (CTL) plate from Russia and Ukraine were falling by substantial amounts due to affirmative trade case rulings, the NAFTA region's *total* imports of finished steel from the CIS in products such as plate in coil, hot-rolled sheet, cold-rolled sheet and galvanised sheet continued surging. The result was over 4.3 million NT of total imports of *finished* steel from the CIS in North America last year. Looked at another way, while there were hardly any CIS steel imports in North America in 1991, last year: Russia was the single largest foreign supplier to the US market in:

- plate in coil (41 per cent of total imports),

- hot-rolled sheet and strip (26 per cent of total imports) and

- cold-rolled sheet and strip (16 per cent of total imports).

19. As many delegates will recall, at the June 1997 OECD Steel Committee Workshop on the steel industries of Russia and Ukraine, we heard a story about deeply depressed domestic CIS economies, outmoded and inefficient CIS facilities, an urgent need to rationalise and modernise CIS mills and a severe liquidity crisis in the CIS. We were also told that this liquidity crisis had resulted in CIS steel companies having to focus on day-to-day survival and large-scale exports in order to earn hard currency to invest, to secure raw materials through barter and to pay workers. In addition, other main points stressed by Russian and Ukrainian delegates were that they lacked leverage with respect to Western trading companies, they needed to regain control over their own export strategies and they needed to go beyond a knowledge of

how to produce steel to a knowledge of how to market it, how to practice market behaviour, how to create a market-based accounting system and how to create sound business plans.

20. The question today is how much has changed? Reports are that Russian steelmakers are still almost totally dependent on traders for hard currency, and that they only get cash from at most 30 per cent of sales (the other 70 per cent involving either promissory notes or barter deals). In addition, there are concerns that, while the CIS nations say they have cut capacity, it does not appear that restructuring has produced much in the way of *permanent* elimination of capacity. On this issue, it would help to know the answer to the following questions:

- Are the size and structure of major CIS plants (between 5 and 15 million tons each) acting as impediments to restructuring?
- Is it true that workers are still getting paid at major facilities in the CIS that are nominally closed?
- Are such steel plants in the CIS in a position to start up again at any time?
- Do the smaller plants in the CIS want to maintain their capacity?
- What role do the central governments of Russia and Ukraine have over the steel restructuring process?

21. At this 1998 OECD Steel Committee Workshop, we would hope to gain a better understanding of what is happening in the CIS, because this is a global problem that is causing disproportionate harm to steel producers in North America. AISI and its member companies have offered to explore with the CIS how to help build domestic steel demand, as one part of the solution, by promoting the use of steel framing in residential construction. Ultimately, though, only the CIS can turn itself around.

22. While the long-term solution remains an increase in CIS domestic demand, the economy in Russia has unfortunately stabilised at a very low level – and few believe CIS steel demand will *ever* return to the level of 1990. In addition, the situation in Asia is making matters worse. In 1996, Russia – the world’s number one steel exporting nation -- sent over 46 per cent of its total steel exports to Asia. With Asian markets now mired in recession, where will significant excess CIS steelmaking capacity go in 1998? The EU has made it clear that it is not prepared to accept major increases in imports of finished steel from the CIS, because it has just renegotiated five more years of steel import quotas with Russia and Ukraine, in addition to imposing a unilateral quota on steel imports from Kazakhstan (see **Attachment 3** showing that, in 1997, EU imports of finished steel from the CIS were less than 40 per cent of the NAFTA level). Thus, North American producers remain extremely concerned about the possibility of continued surges of unfairly traded and disruptive steel imports from the CIS.

23. Given the significant excess capacity and restructuring needs in the CIS, and now especially in light of the Asian crisis, one might logically expect that the CIS would move quickly to adopt sound business plans and rules-based trading practices. The concern instead is that, as the CIS moves up the value-added scale, the unfair trade problem could get worse, with still further disruption in North America and other world markets. NAFTA steel producers will not be able to accept the continued large-scale, injurious dumping of steel in North America by the CIS. In response:

- AISI’s member companies will take action as and when they deem appropriate;

– AISI's US members will support a policy of strong trade laws strictly enforced; and

– AISI's member companies will support the inclusion of a clear provision in the WTO accession protocols for CIS countries and for the People's Republic of China (PRC) that guarantees that NAFTA countries can continue to apply nonmarket economy antidumping (AD) methodology to dumped imports from the CIS and PRC until those countries have completed the transition to fully market-oriented economies.

Asian Economic Crisis

24. That brings me to the subject on everyone's mind – the economic crisis in Asia. After the United States: Taiwan, Thailand, Malaysia, the PRC, the Philippines, Singapore and Indonesia were the number two-through-eight net steel importers in the world in 1996. Because of Asia's recent role in world steel consumption and trade (in 1996, 45 per cent of total consumption and 44 per cent of total imports, excluding intra-EU trade), current economic difficulties in Asia will have significant *global* effects. The question many are asking is this: *is the current crisis cyclical, structural, short term or long term?*

25. Our analysis of the problem is that: Asian countries in crisis will achieve positive growth again anywhere from 18 months to 4-5 years from now (depending on the country); a return to pre-crisis growth rates is unlikely; and what was thought originally to be a cyclical downswing has a number of important structural aspects that require *structural* reforms. There is a lesson to be learned in Mexico's quicker-than-expected recovery in 1996. In the 10 years leading up to the signing of the NAFTA in 1994, Mexico engaged in sweeping pro-market reform of its economy.

26. What the Asian economic crisis has done, in our view, is create a similar window of opportunity to produce real structural reform. Such reform is long overdue because market distortions and key causes of the crisis need to be addressed. They are:

– government industrial policies that have targeted steel and other strategic industries;

– government assistance to steel and other strategic industries (state ownership, subsidies, directed lending, etc.);

– resultant overinvesting and overbuilding in steel and other strategic industries;

– policies of export-led growth in which the same world export markets have been targeted, simultaneously, by several Asian nations;

– restricted home markets for steel and steel containing products made domestically;

– cartels, other private anticompetitive practices and corrupt business practices.

27. NAFTA steel producers know that Asia is not a monolith and that conditions – and structural economic problems – are not the same in every Asian country. We also know that it is not only policies in Asia that are to blame. For example, just as Western traders have exacerbated the CIS steel trade problem, so too can it be argued that Western banks and investors have contributed to the current problems in Asia. The question now is: where do we go from here? First and foremost, we believe that strict enforcement of the IMF conditions to produce market-oriented financial and economic systems must be adhered to. In addition, we believe that: (1) everyone would benefit from a better understanding of why this crisis has

occurred; and (2) because, as with the CIS, this is a global problem, *many nations* need to contribute to its solution.

NAFTA Region

28. For our part, North American producers are prepared to accept more fairly traded imports from Asia – but *only* if others do their part.

29. At present, NAFTA steel producers have three main concerns about the possible effects of the Asian crisis on North American steel and other manufacturers this year:

– the possibility of higher direct and indirect steel imports from Asia and other countries;

– the possibility of lower indirect steel exports to Asia and other world markets; and

– the possibility of price suppression in the NAFTA region and in world markets due to a combination of exchange rate shifts and unfair trade.

30. We have already noted the extent to which the world's number one steel exporter – Russia (itself partly in Asia) – has depended on Asian markets. The same holds true for other major steel producing countries. In 1997, Asia accounted for 75 per cent of total steel exports from Japan, the world's number two steel exporting nation. In 1996, Asia took 81 per cent of South Korea's steel exports, 86 per cent of the PRC's steel exports and 42 per cent of Brazil's steel exports. For 1998, some analysts are predicting that steel consumption in Asia could be as much as 23 million metric tons below the level of last year (and perhaps 10 million tons lower in South Korea alone). With so many millions of tons that formerly went to or were consumed in Asia now looking for a new home, the threat of trade diversion to the NAFTA region is very real.

31. With respect to direct steel imports into the US, steel imports from a number of Asian countries registered sharp gains already in 1997. Compared to the year before, imports from Japan jumped by over 27 per cent to 2.6 million NT, and imports from Korea rose by nearly 19 per cent to 1.6 million NT. Other Asian suppliers with notable increases in 1997 were India (194,000 NT, up 225 per cent), Indonesia (91,000 NT, up 98 per cent) and Taiwan (189,000 NT, up 99 per cent).

32. So far in 1998, however, there is little evidence of an across-the-board surge in direct steel imports from Asia, with one exception -- in the first two months of 1998 versus the same period in 1997, steel imports into the US from Japan were up 91 per cent to more than 635,000 NT. Due largely to increased Japanese shipments to the US West Coast, total US imports of finished steel from Asia rose 28 per cent in the first two months of 1998 compared to the same period last year (see **Attachment 4**).

33. One view is that higher Asian costs for dollar-denominated raw materials could limit Asian steel production -- and exports to North America this year. At least so far, the economy in the NAFTA region, and especially the US, continues strong: US steel shipments and apparent supply are up over 7 and 2 per cent, respectively, in the first two months of 1998 versus the same period in 1997. Whether the full impact will be felt later this year is yet to be seen. NAFTA steel producers remain concerned, and will be closely and continuously monitoring steel imports from Asia and elsewhere in 1998.

34. With respect to Asia and its effects on indirect steel trade, there are concerns on both sides of the trade ledger in the short term. In 1997, the United States had a 2.7 million NT indirect steel trade deficit with Asia. Of the 8.8 million NT of indirect imports from Asia last year, 3.8 million NT were in

machinery and commercial equipment, 3.1 million NT were in automotive, 0.6 million NT were in construction and 0.8 million NT were in other manufactured goods. Of the 6.1 million NT of indirect US exports in 1997, 3.8 million NT were in machinery and commercial equipment, 1.0 million NT were in construction, 0.8 million NT were in automotive and 0.3 million NT were in other manufactured goods. While AISI tracks only US indirect steel trade, we expect that much the same results would exist for the NAFTA region as a whole.

35. Our concern is that North America's indirect steel trade deficit with Asia could worsen in 1998. Reasons to expect a possible increase in North America's imports from Asia of automotive products, machinery, commercial equipment, construction products and other manufactured goods are: the continued strength of NAFTA markets, exchange rates, unfair trade and the combination of Asia's economic weakness, substantial capacity and export-led growth policies. For many of these same reasons, many expect a decline in North America's exports to Asia of capital goods and other steel containing products in 1998. In addition, US indirect steel exports to *other* world markets could suffer due to increased competition from Asian producers.

36. To address these direct and indirect steel trade challenges resulting from the Asian economic crisis, NAFTA steel producers will work together to ensure that:

- IMF aid conditions are strictly monitored and enforced;
- Asian and other markets are fully opened up to competitive North American exports of cars, machinery and other steel containing products;
- unfair trade by non-NAFTA countries is closely monitored; and
- strong AD and CVD laws in each of the NAFTA countries are strictly enforced with respect to dumped and subsidised imports from non-NAFTA countries.

IMF

37. Certainly, the IMF has an important role. NAFTA steel producers support additional appropriations by our governments to the IMF and, more specifically, the terms of the IMF aid packages for South Korea, Thailand and Indonesia. Such assistance will help restore economic stability in the region through more realistic exchange rates and recovery from serious recessions. Even more important, the conditions laid down by the IMF are supportive of real structural reform in the countries receiving assistance. In fact, the IMF's terms contain important elements that – *if fully complied with* – would achieve what 20 years of trade negotiations have failed to do: reduce the role of government and open up key Asian economies to competition and market forces.

38. NAFTA steel producers, however, also have concerns about IMF aid. Key among these are that:

- IMF programs need to become much more transparent;
- additional funding should be pulled if violations of IMF conditions occur;
- no NAFTA government or IMF funds should be used to subsidise competitors in steel and related industries; and

- the IMF should focus its attention on increasing market access and helping to restore domestic demand in the countries receiving aid -- *not* on promoting export-led growth.

Japan

39. In addition to the positive role the IMF can play, Japan has an absolutely critical role in helping to share the burden of this global problem. Other than the countries directly in crisis, no country is more affected by the current economic problems in Asia than Japan, which, historically, has been the *only* net steel exporting country in Asia.

40. Japan -- the world's second biggest economy with half of Asia's total GDP – has a zero growth economy and says it cannot do more. The problem is: whether the reason is a weak economy or bureaucratic intransigence, such arguments are harming Japan and playing into the hands of a growing protectionist movement in the West. **Attachments 5 and 6** show that Japan's share of world imports of manufactures (only 7 per cent in 1997) does not accord with its status as a global economic superpower. With a trade surplus of nearly $60 billion with the United States alone in 1997, the time has come for Japan to help its own consumers and exercise leadership in the region and globally. Simply put, it is not enough to propose a large stimulus package in the absence of real structural reform and improved market access. The concern is that, if the system remains more or less as it is, people in Japan will simply save any extra money they receive from tax cuts. What we believe would help would be for Japan to:

- truly open up its market for steel and other manufactured goods;

- end private anticompetitive practices;

- de-regulate its economy from top to bottom, including in the automotive sector;

- reform the banking system, now saddled with $600 billion in bad debts;

- end all incentives that promote excessive savings;

- promote effective consumer loan programs; and

- allow a seriously undervalued Yen to appreciate, based on economic fundamentals.

South Korea

41. South Korea, the world's sixth largest steel producer, also has a critical role to play. It, too, must open its market for steel and steel containing products (the Korean auto market is more closed than Japan's) -- and it, too, must address fundamental structural problems. As tempting as it might be to conclude that Korea's economic fundamentals are sound and that this is largely a banking and liquidity crisis, NAFTA steel producers take a different view.

42. We support the IMF assistance to South Korea, because the IMF's conditions require Korea to increase transparency and market access, pursue major structural reforms and end business as usual. While, as yet, we are not aware that any foreign banks have successfully invested in South Korea and assumed an ownership position in a Korean bank, the IMF conditions clearly require that "remaining directed lending {by banks in Korea} will be eliminated immediately … {and that} no government

subsidised support or tax privileges will be provided to bail out individual corporations." Our main concern is that these significant conditions might not be effectively monitored and enforced and that Korea will not comply fully. Indeed, there are already early indications that, in the steel sector, violations might be occurring.

43. The test case for NAFTA steel producers is Hanbo Steel – the "poster child" for the entire Asian crisis. After receiving $5.8 billion in what appear to be highly subsidised loans between 1992 and 1996 for a 9-million ton expansion program that could not be justified by *any* normal standards of commercial banking, Hanbo Steel quickly became South Korea's second largest producer – before it declared bankruptcy in January 1997. At the time, its debt-to-equity ratio was 22-1.

44. With respect to the February 1997 petition by US producers alleging clear cut violations of the WTO Subsidies Code in the case of Hanbo Steel, NAFTA steel producers support the US government's taking this case promptly to a WTO dispute settlement panel, and urge support of this case by all three NAFTA governments. In addition, North American steel producers support a clarification in countervailing duty (CVD) regulations that, if foreign governments distribute IMF or other international funds to steel and other domestic manufacturing firms, such funds will be countervailable under our respective CVD laws.

45. In many ways, the new South Korean government of President Kim Dae Jung deserves world-wide praise for implementing essential reforms in the face of stiff resistance. In the case of steel, however, we continue to have major concerns about Korea's willingness to comply fully with IMF conditions. On March 2, 1998, <u>Business Week</u> reported that "Four Korean steel companies on February 16 urged {President} Kim's top policy makers to sell off Hanbo's plants to overseas buyers or shut the company completely, arguing that Hanbo was undercutting prices by 16 per cent." As that article concludes: "Business as usual – that's the last thing Korea needs." So, again, taking Hanbo as the test case, NAFTA steel producers do have concerns about what is going on and whether the IMF's conditions are being met. Among our questions are these:

- Why has the government of South Korea not released any financial information to the public on Hanbo Steel in the past two years?
- Why is Hanbo still operating?
- In the wake of at least $680 million in post-bankruptcy loans to Hanbo's creditors, is the government of Korea still providing operating subsidies to Hanbo?
- Can assurance be given that no IMF or other international funds will be used to bail out or subsidise Hanbo or any other South Korean steel producer?
- Is or was the government of South Korea proposing to use World Bank funds to set up an equity fund to invest in troubled Korean companies such as Hanbo?
- Have all construction efforts ceased on Hanbo's unfinished facilities?
- What happens if, in the current open bidding for Hanbo Steel, no investor comes forward to purchase Hanbo's assets?

46. In addition to the need for answers to these and other questions about Hanbo Steel, there are new concerns stemming from a May 4, 1998 story by <u>Bloomberg News</u>. The story concerns POSCO, the

world's largest steel company, which is still 36 per cent owned by the government of South Korea. Under the title "Pohang Is Cutting Prices For Korean Steel Users," Bloomberg reports that POSCO announced on May 3 that "it would cut prices for steel used by Korean exporters by as much as 15 per cent, giving Korean auto makers and shipbuilders a competitive advantage." The report notes that "the price cut could draw objections from some countries that import Korean goods." This should not be surprising, given the widespread concerns about alleged South Korean government interference in steel pricing decisions. With respect to this report and a subsequent one in American Metal Market on May 7 under the title "POSCO Shifts Pricing in Diverging Directions," the Committee might wish to ask:

- Why does POSCO appear to be the only steel producer in the world that has three tier pricing (domestic price, real export price, and local export price)?
- What is the economic rationale for having two tier pricing within South Korea?
- What is the South Korean government role in POSCO's pricing decisions?

China

47. In addition to Japan and South Korea, there is a third country in Asia that has a critical role to play: it is the world's largest steel producing nation: the People's Republic of China. NAFTA steel producers believe that, insofar as the depreciation of the Chinese currency in 1994 arguably contributed to the current Asian financial and economic crisis, the PRC has a special responsibility not to devalue the Yuan anytime soon. We therefore welcome the comments of PRC government officials that they have no plans to devalue the Yuan this year. At the same time, we are troubled by recent press reports that China has reinstated export subsidy programs in lieu of devaluation. Assuming that the PRC keeps its commitment not to devalue the Yuan, NAFTA steel producers will support PRC accession to the WTO on commercially viable terms that do not derogate from WTO rules and requirements – as long as North American laws against unfair trade remain effective with respect to trade with China.

48. Our concern is that the PRC's growing trade surplus with North America ($50 billion with the US alone in 1997) is in part the result of Chinese government policies that promote exports by key sectors and restrict imports through a managed, non-transparent trade and investment regime. To help address this continuing distortion and contribute to a solution to Asia's economic crisis, the PRC should agree now to:

- eliminate its restrictive regime of "trading rights" that imposes unfair requirements on foreign firms as a condition for doing business in China;
- end import licensing programs;
- phase out subsidies to state-owned enterprises;
- phase down high tariff rates;
- protect intellectual property rights; and
- improve transparency, both in Chinese law and regulations.

49. With respect to steel – a priority, targeted sector -- the reform effort thus far is uneven. While restructuring is gathering force (one published report has the PRC dismissing up to a half-million

steelworkers by the year 2000), it is also troubling that the government appears to be continuing to dictate major decisions with respect to China's steel capacity and production. For example, recent press reports indicate that the government is now the driving force behind proposed mergers of steel firms in China.

50. Unfortunately, it remains almost inevitable that elements of China's state-controlled economic system – including large government subsidies – are likely to remain in place for many years. This is why, just as with Russia and the CIS, North American steel producers will continue to support the inclusion of a clear provision in the PRC's protocol of accession to the WTO that guarantees the right of NAFTA countries to continue to apply nonmarket economy AD rules to dumped imports from China. It is also why any WTO accession pact for China should provide a clear timetable for the PRC's rapid acceptance of WTO Subsidies Code obligations.

European Union

51. Turning to the European Union, the expectation is that the Asian crisis will result in slower growth but no recession. How the European Union deals with this concern will be important to global burden sharing. According to European Union steel producers, member states and Eurofer have agreed to use the existing European Union priority surveillance system to provide the Commission with as much information as possible about sudden shifts in steel import patterns and prices. Also according to European Union producers, European Union steel using industries are being encouraged to establish or fine tune their own import monitoring systems.

52. Clearly, as one of the two major remaining growth markets in the OECD -- the European Union has every right to monitor imports of steel and steel containing goods from Asia and elsewhere very carefully. NAFTA steel producers, however, also have a right to be concerned about the relative lack of direct steel imports from Asia into the EU compared to steel imports from Asia into North America. In 1997, the European Union imported 600 000 NT of finished steel from Asia – less than what the US imported in two months this year from Japan alone. By comparison, the NAFTA region imported 5.6 million NT of finished steel from Asia last year (see **Attachment 7**).

53. The difference cannot be attributed simply to transportation costs and to the relative strength of the markets in the NAFTA region and in the EU. Whether the problem is private anticompetitive practices between EU and Asian steel producers or some other reason, consistently low levels of EU steel imports from Asia appear to be driven by other than market forces. Because the events in Asia constitute a global problem and the EU is beyond question a global economic power, the EU Commission should intensify its efforts to end cartel activity by EU steel producers and open up the EU market to more direct steel imports from Asia.

Non-Traditional Suppliers

54. A third major concern for North American steel producers is growing tonnage, some of it dumped or subsidised, by non-traditional suppliers. In 1997, when preliminary AD duties and then negotiated suspension agreements stopped the surge of dumped and injurious imports of CTL plate imports into the US from nonmarket economies, traders turned to new, non-traditional suppliers of CTL. The result was that US imports of CTL from uncovered countries shot up by 170 per cent in 1997 compared to 1996 (see **Attachment 8**).

55. Among the major new suppliers in the US market in 1997 were a host of former East Bloc countries. Examples include:

- Slovakia, up 110 per cent versus 1996 to 171,000 NT;
- Romania, up 252 per cent to 158,000 NT ;
- Poland, up 79 per cent to 150,000 NT;
- Czech Republic, up 28 per cent to 120,000 NT;
- Latvia, up 1146 per cent to 103,000 NT;
- Bulgaria, up 272 per cent to 66,000 NT; and
- Macedonia, up 335 per cent to 43,000 NT.

56. This raises a number of important questions. Two key ones are: (1) what view should NAFTA steel producers have on the EU's $10 billion restructuring proposal for the Central and Eastern European steel industries?; and (2) what should our response be to rising imports into North America from these and other non-traditional suppliers?

57. With respect to the EU restructuring proposal, we applaud the Commission for proposing a plan "to address problems of overcapacity and lack of competitiveness" in the steel industries of Central and Eastern Europe ... "taking into account the likely evolution of supply and demand in the market for steel across Europe." At the same time, we would urge both the EU and Central and East European governments to avoid forms of government assistance that are countervailable under the WTO, because that could put future steel exports from Central and Eastern Europe at risk of CVD cases in North America and elsewhere.

58. We cannot provide a more definitive position at this time, because there is much that we do not know about this proposal, the aim of which is to help Central and East European steel manufacturers modernise their production as well as deal with the social and regional aspects of a restructuring that could result in as many as 250,000 layoffs. For example, NAFTA steel producers would like to know:

- How will production cutbacks in the target countries be decided on and enforced (we especially have concerns about enforcement)?
- How can we be assured that this program will not subsidise production destined primarily for the NAFTA region (there is a history of EU import restraints on steel from Central and Eastern Europe)?
- How much of the $10 billion has already been spent (both the 1998-2002 time period and 1994-2002 time period have been cited)?
- Whose money will be used (a variety of sources have been cited)?
- What programs will be used (again, a variety of programs have been cited)?
- What disciplines will apply to future state aid (there is no mention of how state aid by Central and East European governments would be disciplined during a transition to fuller EU membership)?

- What use limitations will there be for public aid (it is unclear how the Commission would enforce any proposed limits on the use of public funds to companies still producing steel)?

59. As to the position of North American steel producers on the growing role of new suppliers to the NAFTA region, our view is that: this is a strong market; we have no problem with fairly traded imports taking part in this market; but we will utilise our rights under the law, as appropriate, to counter dumped and subsidised imports that cause or threaten injury to NAFTA steel producers. Our message to non-traditional suppliers is:

- close your uneconomic capacity;

- practice market behaviour; and

- do not repeat the mistakes of the CIS, in which economic difficulties led to unwise sales to traders, large-scale dumping in other markets and AD cases being filed.

Competitiveness Impacts of Government Policies

60. Over the past 10 years and at great cost, North American steel producers have worked hard to improve their competitive position. Accordingly, we will continue to support government policies that promote the competitiveness of steel and other manufacturing in North America -- and continue to resist government policies that impair our competitiveness, whether in trade or in non-trade policy areas. Before listing our trade policy conclusions, there is one major *non*-trade policy issue – global climate change -- where we do feel the need to comment, because the consequences of signing, ratifying and implementing the Kyoto treaty remain of great concern to NAFTA steel producers.

Global Climate Change

61. North American steel producers urge their own and all governments to address climate change and other environmental policy issues in a manner that:

- is pragmatic, realistic, achievable and based on best available sound science,

- utilises cost-benefit analysis of economic and environmental consequences,

- provides a long term framework and maximum flexibility in implementation and

- involves voluntary programs rather than mandates to achieve any solutions.

62. This issue takes us directly back to Asia, because rapidly growing energy use in China and the rest of Asia is a main reason why developing countries are expected to account for three-fourths of the increase in global greenhouse gas emissions between 1990 and 2020. According to a report recently released by the US Energy Information Administration, energy use and emissions in China, India and the rest of Asia are now expected to surpass that of all of North America by 36 per cent in the year 2020. Thus, until or unless China, India and other major developing economies agree to participate in a meaningful way in Kyoto treaty compliance efforts, NAFTA steel producers cannot support ratification of this treaty. Instead, we will continue to focus our efforts on:

- achieving energy-saving technological advances,

- achieving energy-saving steel solutions in the major markets of automotive, construction, appliance and containers,

- promoting the inherent advantages of steel as a recyclable material and

- promoting the cost and environmental life-cycle benefits of steel.

Key Trade Policy Conclusions

63. Whether the issue is global climate change or trade law enforcement, government policies have a significant impact on steel trade and competitiveness. In the trade policy arena, NAFTA steel producers adhere to these simple conclusions:

- the North American economy is strong;

- there *is* a role for fairly traded imports;

- there is *no* role for unfair trade; and

- North American producers *will* seek remedies as necessary under our trade laws.

64. **Attachment 9** shows that, even before the Asian crisis, there existed some surplus steelmaking capacity in Asia, and significant excess capacity in the CIS. **Attachment 10** shows that, in 1997, the NAFTA region imported nearly 10 million NT of finished steel from the CIS and Asia. There is a connection. NAFTA steel producers believe that the main sources of North America's trade concerns in 1998 – the CIS, Asia and new, non-traditional steel suppliers – all require the *same* long term solutions: the aim should be to reduce uneconomic, excess capacity, stimulate domestic demand, open markets, promote real competition and practice market behaviour. All three of these trade problems are inter-related, and common solutions are needed.

65. To sum up, back in October of 1996, I reported to this Committee that the North American steel market stood at the epicentre of change in the world steel industry, and that the NAFTA region had become a world leader in the application of state-of-the-art 21st century steelmaking technology. Today, even in the face of unfavourable exchange rate shifts, North America's highly competitive, technologically advanced environmentally responsible and customer-focused steel producers can compete with anyone on a fair and level playing field. Unfortunately, the field is not level.

66. The combination of economic depression in the former Soviet Union and the current economic crisis in Asia represents a confluence of two of the most dramatic destabilisation's in the world economy in the last quarter century. The response of NAFTA steel producers to these historic developments is to stand as one in support of:

- eliminating uneconomic foreign excess capacity in steel and related industries;

- stopping foreign government subsidies to steel and related industries;

- ending foreign private anticompetitive practices in steel;

- promoting open markets, market behaviour and rules-based trade;

- maintaining effective AD/CVD laws and effective AD/CVD law enforcement in North America against dumped and subsidised non-NAFTA imports;

- ensuring that any WTO or FTAA working groups on trade and competition policy focus on elimination of private anticompetitive practices -- not weakening of AD law;

- requiring that Russia and China, in their accessions to the WTO, assume full Subsidies Code obligations; and

- insisting that, in the WTO accessions of the CIS nations and the PRC, NAFTA countries be allowed to continue to apply nonmarket economy AD methodology to dumped imports from countries that, in steel, are not yet market economies.

67. With respect to these policies, the overarching problem remains global steel overcapacity. In October 1997, the Steel Committee estimated that "excess capacity world-wide … would rise to 300 million metric tons by the year 2000." While some 15-20 million tons of planned Asian capacity have been postponed or cancelled since that report came out, its conclusions still stand as a stark warning to all. North American steel producers will not allow the NAFTA region to become a dumping ground for excess and, in many cases, *less efficient* foreign capacity. They do not have a choice. In the market environment of North America, steel companies need to generate sustained, positive cash flow to invest in new facilities, improve service for customers, compete with other materials and prosper in the global economy. NAFTA steel producers, in a word, have a *responsibility* to their workers and shareholders:

- first, to ensure that their own hard-won improvements in competitiveness are not undone by foreign unfair trade; and

- second, to ensure that the benefits of successful, ongoing efforts to grow the markets for steel in North America do *not* go to dumped and subsidised imports.

68. Given this responsibility, NAFTA steel producers will use trade laws, when and as they deem appropriate, to defend North American markets.

69. Without fair trade, free trade and the world trading regime are at risk. It should therefore be in the interest of everyone, including governments and steel producers in other countries, to help rebuild public support for free trade in the NAFTA region. The fact is: such support has eroded, and it will continue to erode -- *unless* the public perceives that others are doing their part to help resolve global economic problems. If the public perceives that North America is assuming a *disproportionate* share of the burden in adjusting to the historic changes now taking place in the world economy and world steel trade, support for free trade in the NAFTA region will continue to decline.

70. In conclusion, while NAFTA steel producers may continue to disagree about the proper role of laws and rules to govern trade within the NAFTA region, we agree totally on a wide variety of major external trade policy issues. To steel producers and governments in other regions, we therefore say: the way to rebuild public support for free trade in North America is not to maintain unsustainable trade surpluses with the NAFTA region or to attack the NAFTA region's use of AD/CVD laws against dumped and subsidised non-NAFTA imports. The way to rebuild public support for free trade in North America is to take steps now to eliminate the underlying trade inequities and distortions that make it necessary for NAFTA steel producers to use the trade laws in the first place.

Attachment 1

I. Total Intra-NAFTA Trade in Steel
Steel Mill Products - Both Finished and Semi-Finished
(000 Net Tons)

1993	8362
1994	9296
1995	10303
1996	11347
1997	13359

II. Total Two-Way Steel Trade Between NAFTA Partners

U.S. and Canada (000 Net Tons)		U.S. and Mexico (000 Net Tons)		Canada and Mexico (000 Net Tons)	
1993	6480	1993	1795	1993	87
1994	6640	1994	2563	1994	93
1995	7022	1995	3088	1995	193
1996	7303	1996	3961	1996	83
1997	8458	1997	4415	1997	486

Source: U.S. Dept. of Commerce, Bureau of Census
Statistics Canada
SECOFI

III. Two-Way Total Indirect Steel Trade

Between U.S. and Canada (Million Net Tons)		Between U.S. and Mexico (000 Net Tons)	
1993	9,7	1993	2,7
1994	10,7	1994	3,4
1995	10,7	1995	3,0
1996	13,9	1996	4,9
1997	15,6	1997	5,8

Source:Department of Commerce Trade Data and AISI Steel Coefficients

Attachment 2

Balance of Trade Steel Mill Products

United States and Canada
(000 Net Tons)

	Total			Semi-Finished			Finished		
	Exports	Imports	Balance of Trade	Exports	Imports	Balance of Trade	Exports	Imports	Balance of Trade
1992	1411	4233	-2822	31	197	-166	1380	4036	-2656
1993	1680	4800	-3120	67	263	-196	1613	4537	-2924
1994	2071	4569	-2498	78	295	-217	1993	4274	-2281
1995	2454	4567	-2113	212	404	-192	2242	3096	-854
1996	2392	4911	-2519	102	336	-234	2290	4575	-2285
1997	3683	4775	-1092	119	346	-227	3564	4429	-865

United States and Mexico
(000 Net Tons)

	Total			Semi-Finished			Finished		
	Exports	Imports	Balance of Trade	Exports	Imports	Balance of Trade	Exports	Imports	Balance of Trade
1992	1406	425	981	171	124	47	1235	301	934
1993	949	846	103	93	450	-357	856	396	460
1994	809	1754	-945	24	1284	-1260	785	470	315
1995	813	2275	-1462	16	1189	-1173	797	1086	-289
1996	1056	2905	-1849	24	1393	-1369	1032	1512	-480
1997	1103	3312	-2209	40	1448	-1408	1063	1864	-801

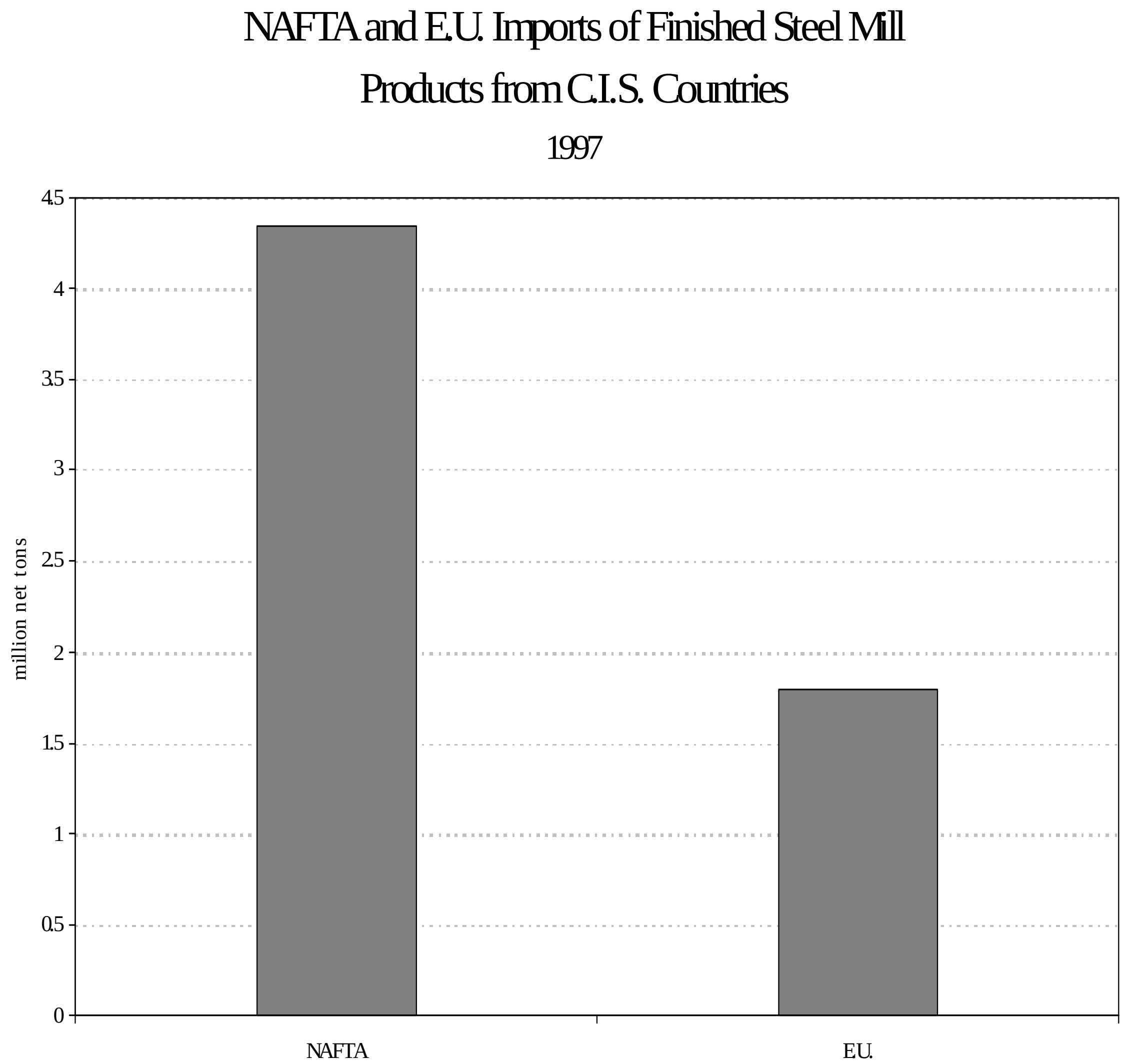
Source: U.S. Dept. of Commerce, Bureau of Census

Canada and Mexico
(Net Tons)

	Total			Semi-Finished			Rolled Steel Products		
	Exports	Imports	Balance of Trade	Exports	Imports	Balance of Trade	Exports	Imports	Balance of Trade
1992	115613	1796	113817			0	115613	1796	113817
1993	76175	11372	64803			0	76175	11372	64803
1994	52430	40931	11499			0	52430	40931	11499
1995	29943	163034	-133091		40550	-40550	29943	122484	-92541
1996	13767	69176	-55409		45	-45	13767	69131	-55364
1997	151864	355458	-203594	9899	243555	-233656	141965	111903	30062

Source: Statistics Canada

Attachment 3



Source: U.S. Department of Commerce, IM-145, Statistics Canada, Tradstat and SECOFI. For E.U. total, 1997 imports for Ireland, Netherlands, Austria, Belgium and Greece estimated based on 1996 share of EU imports.

Note: C.I.S. countries include Russia, Ukraine and Kazakhstan..

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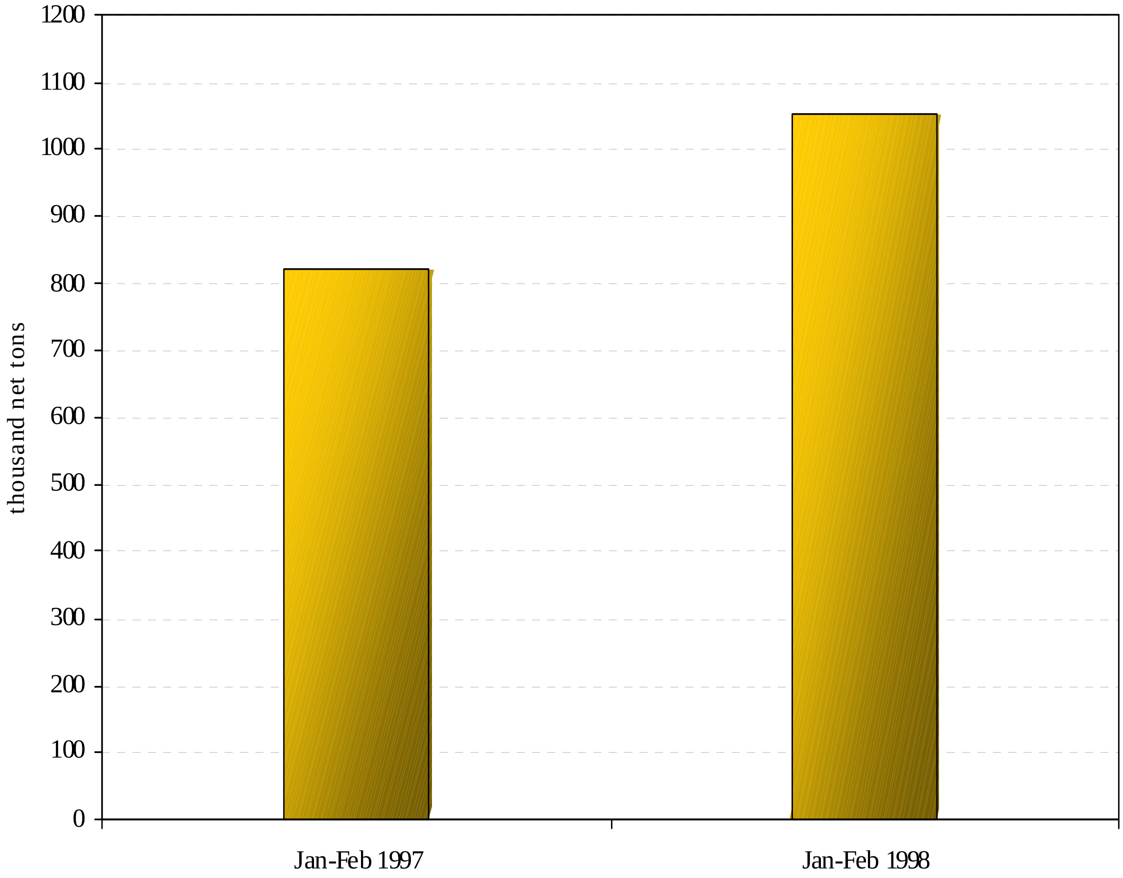
Attachment 4

U.S. Imports of Finished Steel Products From Asian Steel Producing Countries Have Increased by 28% in the First Two Months of 1998 Compared to the Same Period in 1997



Source: U.S. Department of Commerce, IM-145.
Note: Asian steel producing countries are China, Japan, Korea, Taiwan, Indonesia, India, Thailand and Malaysia.

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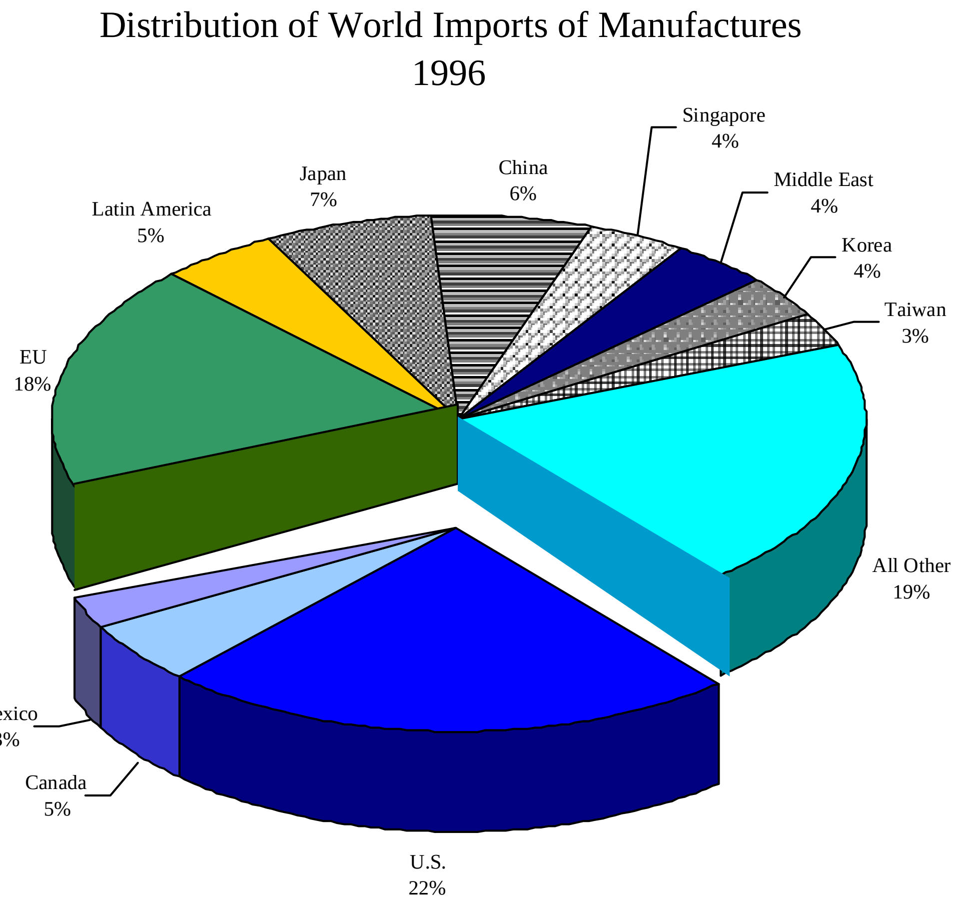
Attachment 5



Source: World Trade Organization, Annual Report 1997 (WTO 1997), Volume II.
Note: World totals exclude intra-EU (15) trade; China includes Hong Kong; Latin America excludes Mexico.

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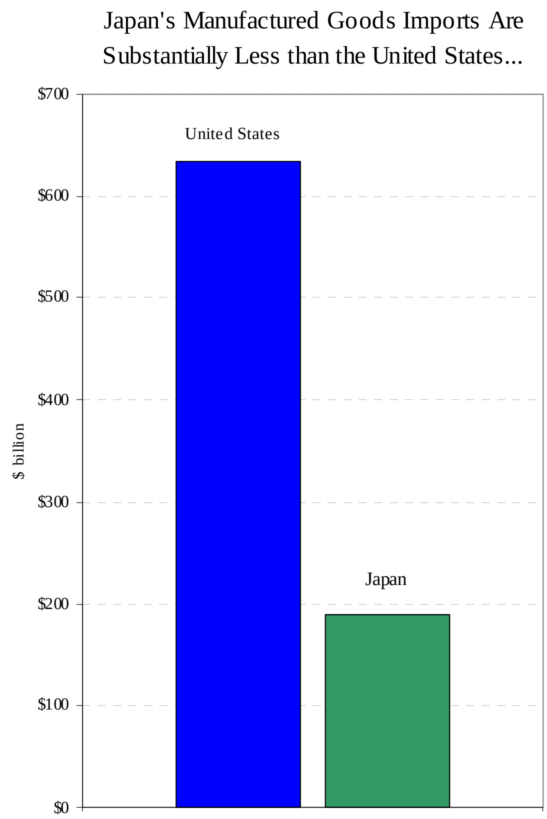
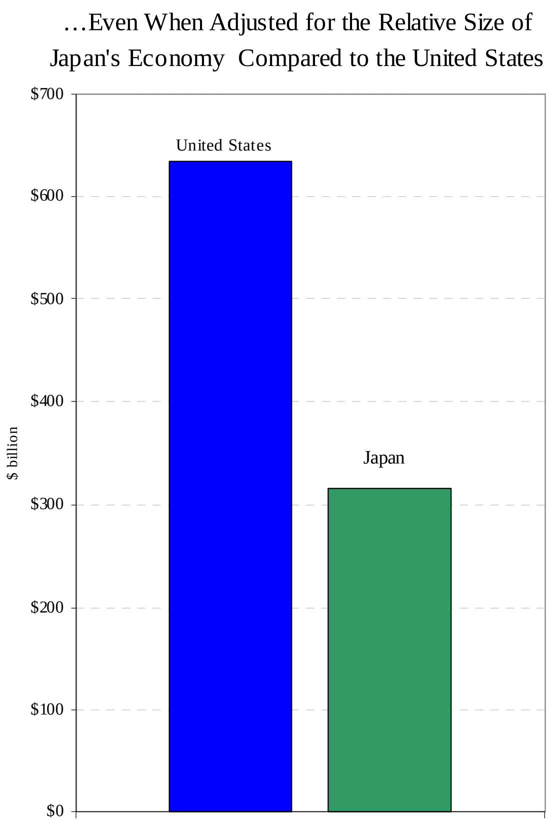
Attachment 6





Source: World Trade Organization, *Annual Report 1997* (WTO 1997), Volume II and International Monetary Fund, *International Financial Statistics.*
Note: Data are for 1996; Japanese imports were adjusted based on the 1996 ratio of U.S. GDP to Japanese GDP.

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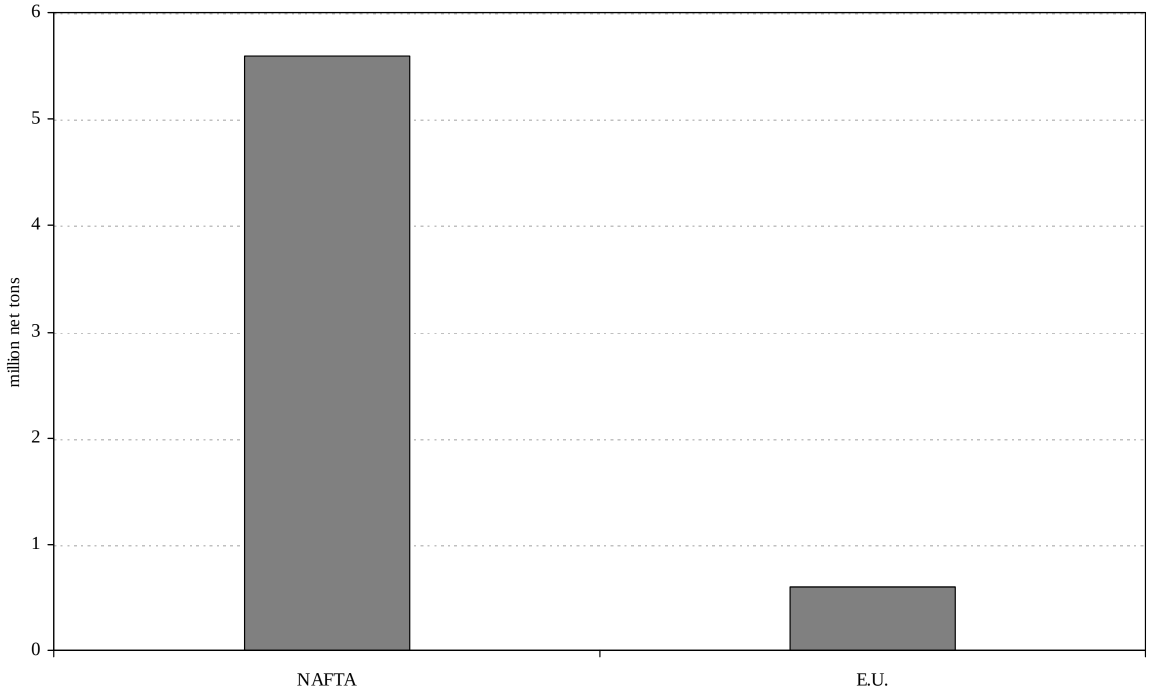
Attachment 7

NAFTA and E.U. Imports of Finished Steel Mill Products from Asian Steel Producing Countries
1997



Source: U.S. Department of Commerce, IM-145, Tradstat and SECOFI. For E.U. total, 1997 imports for Netherlands, Austria, Belgium and Greece estimated based on 1996 share of EU imports.
Note: Asian steel producing countries include China, Japan, Korea, Taiwan, Indonesia, India, Malaysia and Thailand.

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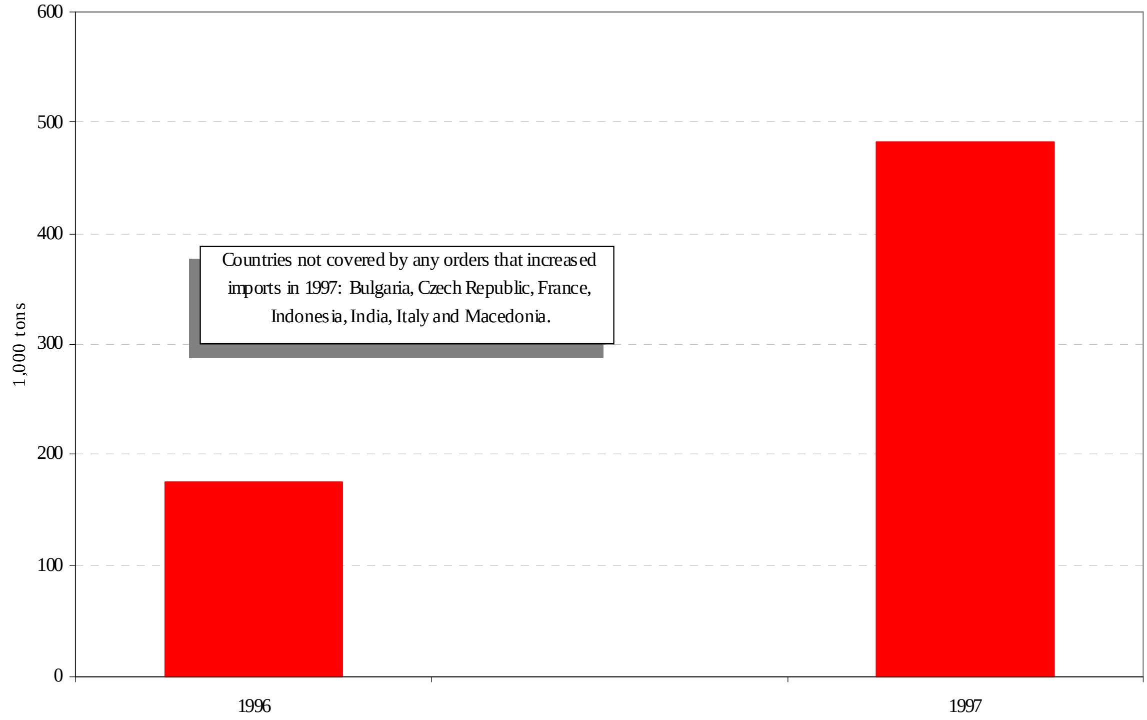
Attachment 8

U.S. Imports of Cut-To-Length Carbon Steel Plate From Countries Not Covered by Any Antidumping Orders Increased by Over 170 Percent in 1997



Source: IM-145, U.S. Department of Commerce; imports include the following HTS numbers for 1996 and 1997: 7208403030, 7208403060, 7208510030, 7208510060, 7208510045, 7208520000, 7211130000, 7211140030, 7211140045

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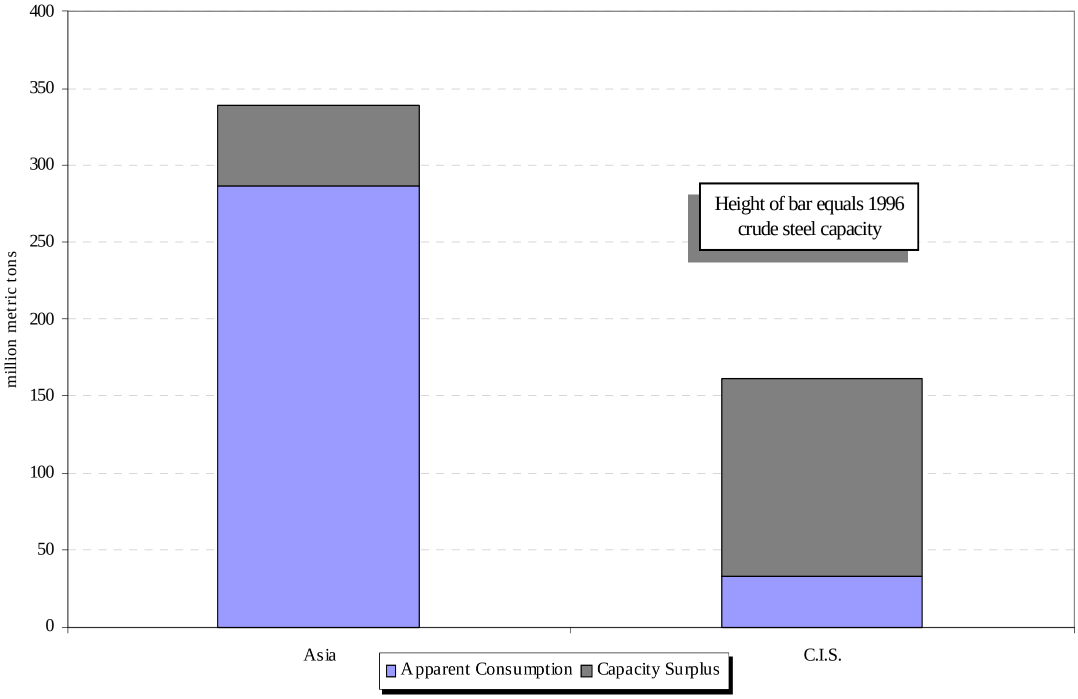
Attachment 9

Even Before the Asian Crisis, There Existed Some Surplus Capacity In Excess of Consumption in the Countries of Asia and Significant Excess Capacity in the C.I.S. Countries



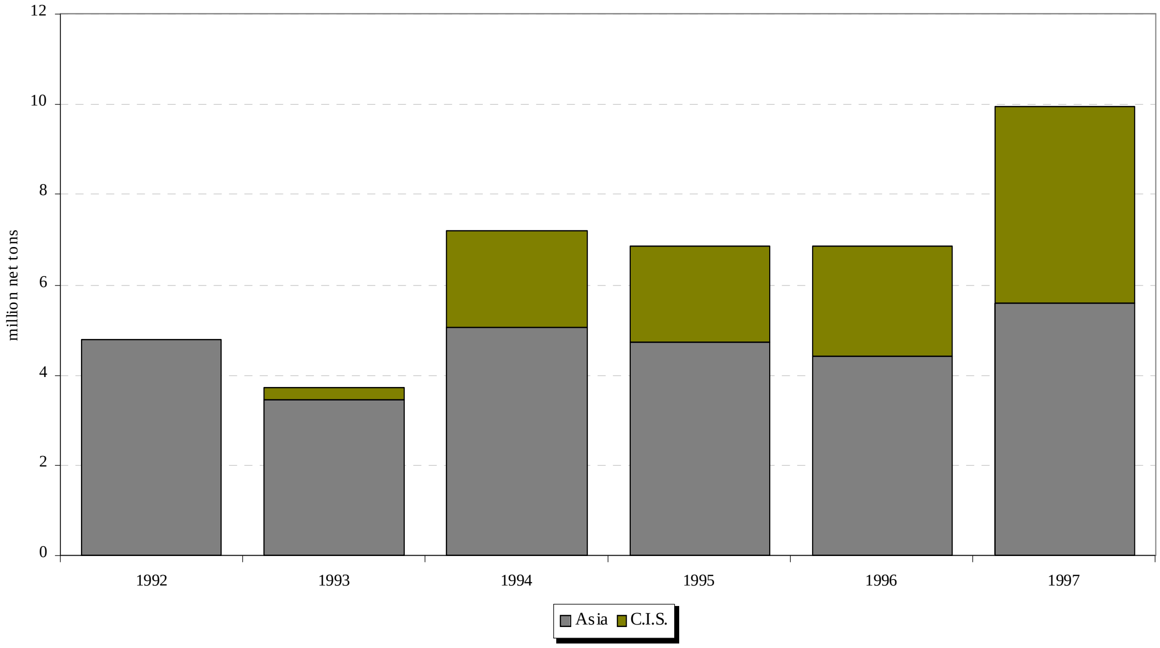
Source: PaineWebber Global Steel Product Matrix, Core Report FFF (November 1997); Capacity Monitor #13 (April 1996), and Steel Strategist # 23 (June 1997).

Note: Asia includes Japan, China, Korea, Taiwan, Indonesia, Malaysia, Thailand and India. The capacity surplus area overstates capacity for finished steel products by the extent of the yield loss going from liquid steel to finished product.

43846.ppt o:\. . .steel\target ctry.capacity-production.xls chart1(clw)

Attachment 10

Imports of Finished Steel Mill Products Into the NAFTA Region from Asian and C.I.S. Steel Producing Countries



Source: U.S. (U.S. Department of Commerce, IM-145), Canada (Statistics Canada and Tradstat) and Mexico (U.N. Statistical Division and SECOFI).

Note: Asian steel producing countries: Japan, China, Korea, Taiwan, India, Thailand, Malaysia and Indonesia.
C.I.S. steel producing countries: Russia, Ukraine and Kazakhstan.

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