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**RECENT POLICY DEVELOPMENTS: SUMMARY OF DISCUSSION AT THE 51ST
STEEL COMMITTEE MEETING, HELD ON 13-14 NOVEMBER 1997**

This document summarises the reports made by delegations on recent policy developments at the Steel Committee meeting held on 13-14 November 1997.

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SUMMARY

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ACTION

The document is for information.

RELATED DOCUMENT

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**RECENT POLICY DEVELOPMENTS: SUMMARY OF DISCUSSION
AT THE 51ST STEEL COMMITTEE MEETING, HELD ON 13-14 NOVEMBER 1997**

Brazil

1. In follow-up to the discussion that the Committee had at its June 1997 meeting on the period of time permitted for settling payments on imports [DSTI/SI/SC/M(97)1, Annex II, paragraph 5], the Delegate of Brazil reported that the measure had been extended to all imports. The country would hopefully be notifying the measure to the WTO.

Canada

2. The Delegate of Canada reported that in the Spring of 1997, the Government had tabled its response to a Parliamentary report on the Special Import Measures Act, which was the main legislative framework for the conduct of Canadian trade remedy investigations. The Government had accepted all but one of the report's 16 recommendations. It was expected that legislation to amend the Act would be submitted before the end of 1997.

3. On 27 October 1997, the Canadian International Trade Tribunal had found that imports of steel plate from Mexico, China, South Africa and the Russian Federation were threatening to injure the Canadian industry. This confirmed the application of antidumping duties from the countries, and concluded the investigation that had been initiated in February 1997. The Tribunal had announced on 28 February 1997 that it was commencing its five-year review of the antidumping orders on imports of cold-rolled sheet from France, Germany, Italy, the United Kingdom and the United States. The order had originally gone into effect in July 1993.

4. On the export side, on 15 October 1997, the US Department of Commerce had announced a final affirmative subsidy determination on imports of wire rod from one Canadian producer; the injury determination was expected shortly. Earlier, on 25 September, Commerce had announced a preliminary affirmative dumping determination on wire rod from the three Canadian producers that manufactured the product. A final determination was due by February 1998.

5. Finally, the Delegate reported that Canada had made comments, and would make additional comments, on proposed US regulations regarding the conduct of five-year, or sunset, reviews. Currently there were 14 antidumping and 3 countervailing duty orders scheduled for review on imports from Canada; 5 of these involved steel products.

Czech Republic

Situation

6. In comparison with western European countries, the productivity of labour in Czech metallurgy was relatively low. About 2 000 workers were associated with each million tonnes of steel produced in the west, compared to 7 000 in the Czech Republic. Adjusting for the different mix of production facilities, Czech productivity was seen as half the level prevailing in the west. The situation would, however, be changing as facilities were modernised. The share of steel that was continuously cast had already risen from 10 per cent in 1992 to 50 per cent presently. The share was expected to rise to 77 per cent by the year 2000. Capacity was not expected to grow.

Trade

7. In the field of trade, Czech steel exports had been subject to a number of antidumping proceedings in recent years. This had resulted in the application of a tariff quota on certain products exported to the European Union. The quotas had, however, been terminated at the end of 1995. In accordance with continuing trade liberalisation, an agreement had been concluded with the European Union under which Czech steel exports were subject to a double-checking licensing system. Although there had been some problems, a prolongation of the system was being discussed for the year 1998.

Privatisation and restructuring

8. Privatisation of the Czech steel industry was approaching its final phase. Trinecké Zelezárný had been privatised in 1995, when Moravia Steel became the majority owner. Restructuring through the year 2000 would include a multi-billion crown modernisation of the company's blast furnace, coke gas desulphurisation facility, coke ovens and agglomeration and wire rod facilities.

9. The situation at Nová Hut and Vítkovice, the country's two other major steelmakers, was more complicated. Restructuring would be completed prior to the privatisation of the firms. In the case of Vítkovice, pig iron supplies from Nová Hut would have to be assured, as Vítkovice's blast furnace operations would be terminated before the end of 1998, for environmental reasons. A new joint stock company, Vysoké Pece Ostrava had been established on 9 July 1997 to facilitate the new arrangement. In view of the significant value of the assets of the two companies and the large shares still held by the Government's National Property Fund (68.25 per cent in the case of Nová Hut and 67.30 per cent in the case of Vítkovice), it was unlikely that the Government's shares would be sold to a sole interested party.

10. Pursuant to the privatisation plan approved by the Government on 18 September 1996, the National Property Fund would sell 18.25 per cent of Nová Hut's shares and 18.30 per cent of Vítkovice's shares in a public offering. One per cent of both companies' shares had already been sold to their respective management teams.

11. In the case of Nová Hut, the Government had to reduce its holdings to less than 50 per cent as a pre-condition for a credit from the International Finance Corporation (IFC). The credit was to be used to help finance the construction of a minimill. When it was shown that it would not be possible to do this by a target date of 30 June 1997, the deadline was extended to 30 September 1999, with the IFC's consent. The 18.3 per cent holdings in Vítkovice would only be sold after the Nová Hut sale had been completed,

but not later than 30 September 2000. The restructuring of the two firms called for the following actions to be taken:

- At Nová Hut, all production would be continuously cast by the end of 2000. The obsolete hot-rolled coil facilities would be replaced by a minimill with the same capacity (i.e., one million tonnes per year) by late 1997.
- At Vítkovice, iron production in three blast furnaces would be terminated, as would four agglomeration lines. Further, an electro-steel plant and plate rolling mill would be updated.

The total cost for the restructuring would exceed 20 billion Czech crowns.

12. In addition to the three plants mentioned above, privatisation of Válcovny Plechu Frýdek - Místek was taking place. This company was the largest producer of cold-rolled sheets in the Czech Republic, rolling 200 000 to 230 000 tonnes of a wide range of steel products (including stainless sheets) per year in recent periods. The preferred course was a direct sale of the National Property's Fund's 53.42 per cent share to Nová Hut. A linkage of Nová Hut to the manufacturer of downstream products seemed to be a suitable integration as it would enable Válcovny Plechu Frýdek - Místek to become part of a strong metallurgical unit that would be capable of competing in local as well as world markets.

European Communities

Trade agreements and programmes

13. The Delegate of the European Communities reported on the Community's trade in steel with countries in central and eastern Europe (CEE) with whom association agreements had been negotiated (i.e., the Czech and Slovak Republics, Poland, Hungary, Bulgaria, Romania, Slovenia and the three Baltic states). The agreements provided for trade without any restrictions; in addition, exports from the CEE countries to the Community were duty-free. The agreements also contained provisions relating to competition, policy, state aids and restructuring. EU imports of steel products from the CEE countries (using OECD definitions) had amounted to 5 821 672 tonnes in 1996, which was 20 per cent less than in 1995. By way of contrast, EU exports to the CEE area were 1 551 931 tonnes in 1996, which was 2.5 per cent more than in 1995. The CEE partners were reportedly progressively dismantling their tariffs on steel products imported from the Community in line with the association agreements.

14. The Community's new bilateral steel agreements with Ukraine and Russia had entered into force in July and October 1997, respectively. The Russian agreement had been published on 4 November 1997, in Official Journal L300. These agreements would be in force until 31 December 2001; they would, however, be reviewed prior to Russia and Ukraine joining the WTO. Moreover, the quantitative dimension of the agreements could be terminated before 2001, if the countries established competitive conditions compatible with those prevailing in the Community. The Community would provide technical co-operation through the Tacis programme to help both countries implement the commitments on competitive conditions; at the same time, they would work towards improving the way in which they commercialised their exports to the European Union.

15. Some 90 per cent of the quotas on imports of flat-rolled products covered by the agreements with the two NIS economies had been filled; the rate of utilisation was, however, very low in the case of long products -- particularly in the case of Ukraine. The new agreements streamlined provisions in a way that

would facilitate exports. Categories of long products, for example, had been consolidated; this had increased the flexibility of the system.

16. The Community's free trade agreement in ECSC products with Turkey had entered into force in August 1996, when all EU import duties and most Turkish duties were eliminated. Remaining Turkish tariffs applying to a number of long products were being phased out and would be eliminated by August 1999. The agreement also covered competition and state aid matters.

Trade remedies and public assistance to steel

Safeguard measures

17. The Delegate reported on the European Communities' implementation of the WTO Safeguards Agreement (through Council Regulation N° 3285/94), which applied to ECSC as well as to EC Treaty products. There were at present no safeguard measures in place with respect to steel products.

Anti-dumping and countervailing duty measures

18. The European Communities had implemented the WTO's anti-dumping rules through Council Regulation (EC) N° 384/96 and Commission Decision N° 2277/96/ECSC. In addition, it had implemented the Agreement on Subsidies and Countervailing Measures through Council Regulation (EC) N° 2026/97, which had recently replaced Regulation N° 3284/94. The subsidies and countervailing legislation concerning ECSC products was expected to be updated shortly to reflect analogous changes.

Public assistance to steel

19. The Community had always applied stricter rules to state aid towards ECSC steel products than it had towards other sectors. The ECSC Treaty (Article 4c), in fact, prohibited subsidies or aids granted by the Member States.

20. In December 1996, the ECSC introduced a new state aids code for ECSC Treaty steel products (Commission Decision N° 2496/96/ECSC), on the basis of Article 95 of the ECSC Treaty. This established Community rules for granting state aid to the steel sector in certain cases for the period to July 2002, when the ECSC Treaty would expire. The only permitted exceptions to the general prohibition of state aids, were aids for research and development, environmental protection, and social aid related to plant closures. There were limits and strict conditions on the granting of state aids, as well as close monitoring by the Commission. The Commission published all its decisions concerning state aid (steel and other) in the Official Journal of the European Communities.

21. A question was raised concerning an investigation that the Commission had undertaken on a Spanish tax rebate programme which was tied to foreign investment and related exports. The Delegate of the European Communities indicated that a fuller report on this matter would be made at a future Committee meeting.

Tariffs

22. The Communities had undertaken in the Uruguay Round to reduce its tariffs for steel products to zero over a ten-year period. As a result, steel tariffs, which currently averaged about 3.5 per cent, would fall to around 2 per cent in 2000, before being eliminated in 2004.

23. Steel imports from many countries were already being imported into the European Union at preferential rates under the terms of bilateral agreements, GSP or tariff suspension regimes. For example, 51 per cent of steel imports entered the European Union from the associated countries in central and eastern Europe at zero duty.

24. Full details of the tariffs in force were published in the integrated tariff of the European Communities (Taric) each year.

*Non-tariff measures**Quantitative restrictions*

25. Kazakhstan had agreed to negotiate an ECSC steel agreement with the Communities. Negotiations would begin next week. Autonomous EU quotas had been re-introduced on 1 October 1997, covering the rest of the year, following a surge in imports from the country during the first nine months of the year.

Competition measures

26. The basic treaties of the Communities established clear principles prohibiting restrictive agreements (Article 85 of the EC Treaty and Article 65 of the ECSC Treaty) and anti-competitive behaviour by firms which were in a dominant position in the market (Articles 86 EC and 66 ECSC); these principles which were applied through secondary legislation. In addition, since 1989, the Commission had had powers of control over mergers with a Communities-wide dimension which it exercised with a view to maintaining and developing effective competition within the single market.

*Other measures**Import/export surveillance affecting steel*

27. Prior Communities' surveillance of certain steel imports for statistical purposes was set to expire at the end of 1997. Although the market situation had improved, the delivery of external trade statistics continued to be unsatisfactory and it was likely that prior surveillance would be renewed for a further year while the Commission and the Member States addressed the problem of statistical delays.

28. Double-checking surveillance with Romania, Bulgaria and the Czech and Slovak Republics was also set to expire at the end of the year. Its renewal was presently under discussion in the Council.

29. Russia and Ukraine had also introduced double-checking without quantitative limits for two years for narrow strip coil and certain electrical sheet products. This was intended to avoid circumvention

of the new ECSC agreements and diversion of trade by improving the statistics on those goods with truly Russian or Ukrainian origin.

Measures affecting trade in ferrous scrap

30. Quantitative restrictions on exports were incompatible with WTO provisions. Article XI of GATT 1994 prohibited quantitative restrictions, export licences and embargoes unless it could be demonstrated that the restrictions were temporary and had the object of relieving a critical shortage. Nevertheless, a number of countries maintained such measures.

31. The Community had no such measures itself, but it was working to ensure that third countries eliminated their restrictions on the export of ferrous scrap, since such measures not only restricted the supply of a key steel-making material but also unfairly benefited domestic steel producers by artificially depressing the scrap price. This tended to provide these producers with cheap inputs.

32. During the discussion which followed, a question was raised concerning an action taken by the European Parliament in July 1997, under which EU exports of certain "green-listed" nonhazardous waste products to many developing countries might be banned as from mid-1998.

Korea

33. The Delegate of Korea reported on the difficulties being experienced by the country's specialty steel industry. Two major producers -- Sammi and Kia -- had gone bankrupt. The bankruptcy proceedings were being handled by the court and banks according to relevant laws and regulations. The crisis was seen as precipitating a restructuring of the industry. Comments were also provided on the project that Hyundai had announced for the construction of a six-million tonne per year steel facility in Korea. Reports indicated that the company planned to finance 60 per cent of the project internally. The decision to proceed was a private one in which the Government had no role. In the event the company applied for a loan with the Korean Development Bank, no preferential treatment would be given; in cases like this the bank operated as a commercial lender. The results of a study that the Government was preparing on steel demand would, however, be shared with the business community in the coming months.

34. The Delegate reviewed the proposal that his country had made for APEC countries to liberalise steel trade. Under the proposal, developed countries would eliminate their tariffs (on an MFN basis) by 2004, with the developing countries to follow suit by 2010. Building consensus prior to the Vancouver summit was expected to prove difficult. Korea had, however, been encouraged by the strong support from Australia, Canada, Japan and the United States. The steel sector was an important one for the APEC economies and in terms of its global implications. Efforts to advance the proposal would therefore continue, in the event affirmative action was not taken at the upcoming summit.

35. As had been mentioned by the US Delegate, the situation with Hanbo Steel was being discussed by the two governments. The United States had been concerned about subsidies that may have been given to the company.

Poland

36. The Delegate of Poland reported that his country's restructuring plan for the steel industry was under review. The goal had been to bring domestic production more in line with consumption by

increasing the share of flat rolled steel products. This assumed that Huta Katowice and Huta Sendzimira, the country's two largest mills, would produce 2.0 and 2.4 million tonnes of hot-rolled coil, respectively, by the year 2001. Some 3.6 million tonnes would be consumed locally, with the balance to be exported. The withdrawal of a strategic investment partner in Huta Katowice had, however, changed the situation. Options were under review. A revised restructuring plan for the industry was being finalised and would most likely be available by the beginning of December 1997.

Romania

37. The Delegate of Romania reported on the reforms that had been introduced by his Government during 1997. These included:

- the complete liberalisation of prices for goods and services;
- a freely floating exchange rate;
- the elimination of almost all subsidies;
- the introduction of a genuine privatisation programme;
- improvements in the legislative framework; and
- a major restructuring of heavy industries, which had already resulted in large scale lay-offs.

38. In the steel sector, restructuring continued, with the modernisation of steelmaking furnaces at a number of sites. Most open hearths had been closed. A realignment of the industry was foreseen, in which two or three major players would emerge; this would introduce more order into the restructuring process. The Government had re-examined its restructuring programme for the industry at the beginning of November, and was now discussing it with employer and trade union representatives. It was hoped that the final report would be published by the end of the month (i.e., November).

39. The Delegate confirmed that the Korean firm Samsung had purchased a 51 per cent share of the stainless steel producer Otelinox.

Slovak Republic

40. The Delegate of the Slovak Republic reported that steel imports into his country were without restriction and on a non-discriminatory basis (apart from certain preferential treatment under the customs union with the Czech Republic). Exports to the European Union, which had been controlled up to the end of 1995, were free from any restrictions. The monitoring system that had been put in place on exports to the European Union was modified in 1997; as from January, seamless tubes, which were now subject to an antidumping proceeding, were not monitored.

41. Exports of ferrous scrap to all countries had been controlled by quotas. As from January 1997, however, exports to the European Union were free, in accordance with the Association agreement that had been negotiated between the two parties.

42. Both Slovak steelworks (VSZ a.s. Košice and ZP a.s. Podbrezová) were fully privatised, joint stock companies, as was the country's ferroalloy producer OFZ a.s. Istebné. Shareholders included

investment companies, management and individuals. In the field of restructuring, during the past year VSZ a.s. Košice had modernised its basic oxygen furnaces and a second continuous casting facility, while ZP a.s. Podbrezová had replaced two small obsolete electric furnaces and three open hearth furnaces with one ultra-high power electric furnace. These investments, together with expenditures for environmental upgrades, had been undertaken without state assistance.

43. The restructuring that had occurred had had only a marginal effect on employment as jobs were created in related activities -- notably in downstream finishing facilities. Joint ventures with foreign partners had also played an important role. These projects, with German, Finnish, American and Swiss firms, involved a range of steel products and processes.

United States

44. The Delegate of the United States reported that his country remained committed to trade liberalisation and, to that end, the Administration would seek renewal of "fast-track" authority in 1998. This authority would allow the Congress to approve or reject trade agreements, as negotiated by the Administration, without amendment. The United States was supporting ongoing sectoral liberalisation in the APEC negotiations, and, in this context, was supporting the Korean proposal to eliminate tariffs on steel products. Support from other countries was urged. Liberalisation in the energy sector was also being supported -- this included energy-related equipment and services, including line pipe and oil country tubular goods.

45. In the field of trade actions, the United States had taken a number of actions in recent months. On 14 October 1997, countervailing duty investigations on wire rod imported from four countries were completed. Cases involving imports from Germany and Canada had proceeded to final determinations, while cases involving Trinidad and Tobago and Venezuela had resulted in suspension agreements; all the cases were still subject to final injury determinations. The antidumping investigations involving wire rod were continuing, and would be completed by February 1998. Four suspension agreements had been concluded on carbon steel plate (the plate had been subject to antidumping investigations). The one involving South Africa had been based on a constructed value assessment, while those involving China, the Russian Federation and Ukraine were based on quantitative restrictions and reference prices. As with the countervailing duty investigations, the plate cases were still subject to final injury determinations.