

# China: Government Policies Affecting U.S. Trade in Selected Sectors

October 30, 2007

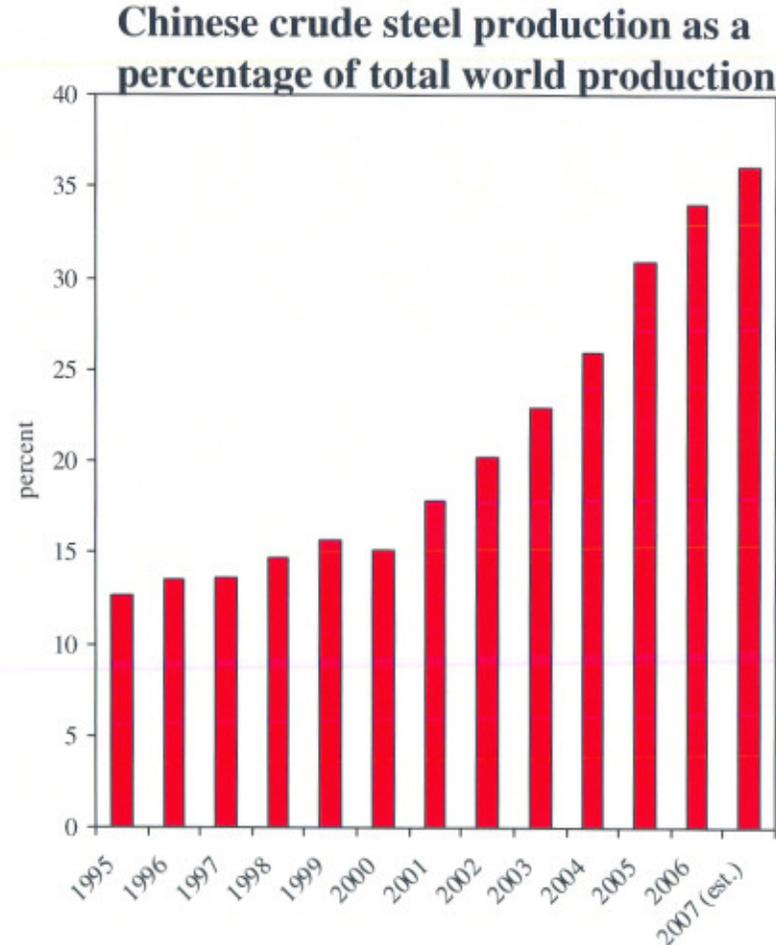
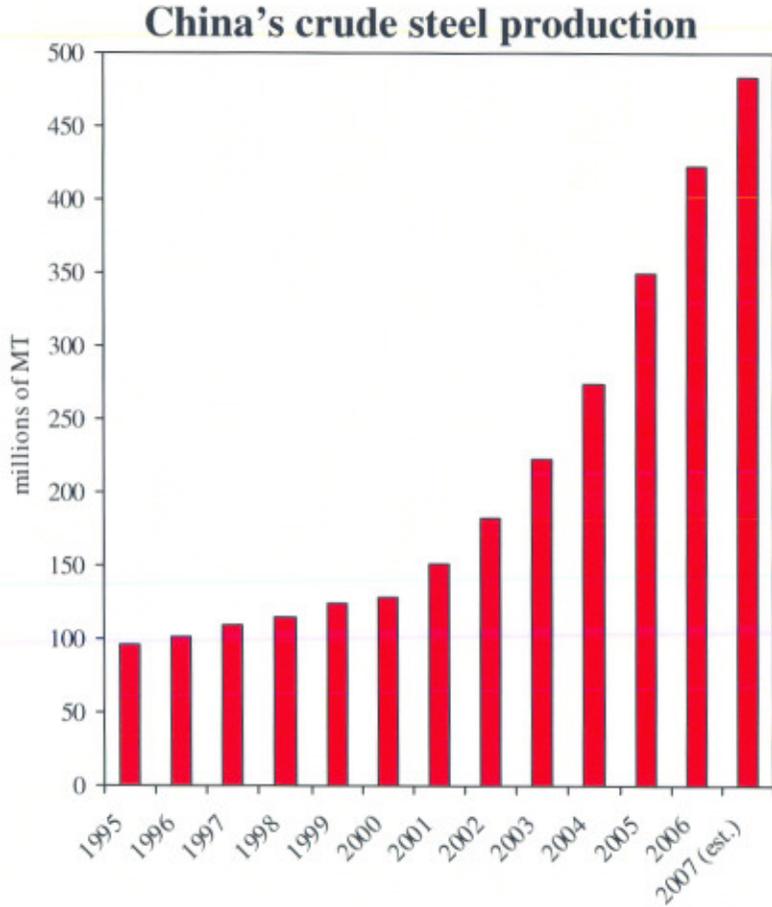
Skadden, Arps, Slate,  
Meagher and Flom LLP

# The Chinese Steel Industry Is the Result of Government Planning

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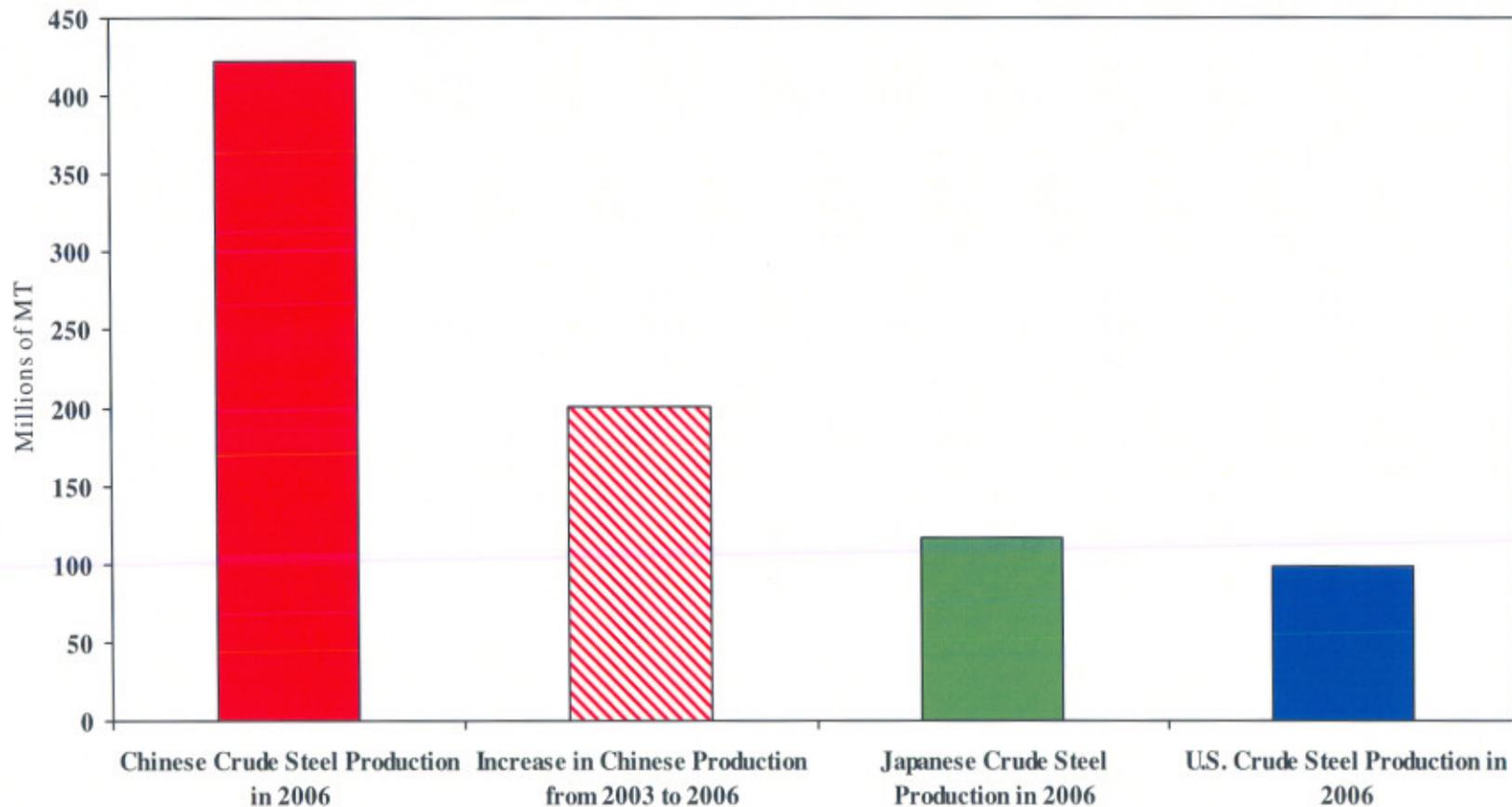
- China's Eighth, Ninth, Tenth, and Eleventh Five-Year Plans (covering 1991 to 2010) all reflect the government's desire to support the restructuring and expansion of the Chinese steel industry
  - Plans have repeatedly designated steel as a key industry
  - Plans have called for significant subsidies to encourage expansion
  - Plans have designated regional “core” steel enterprises to be targeted with subsidies, set export goals, and encourage the development of key technology

# China's Crude Steel Production Is Exploding



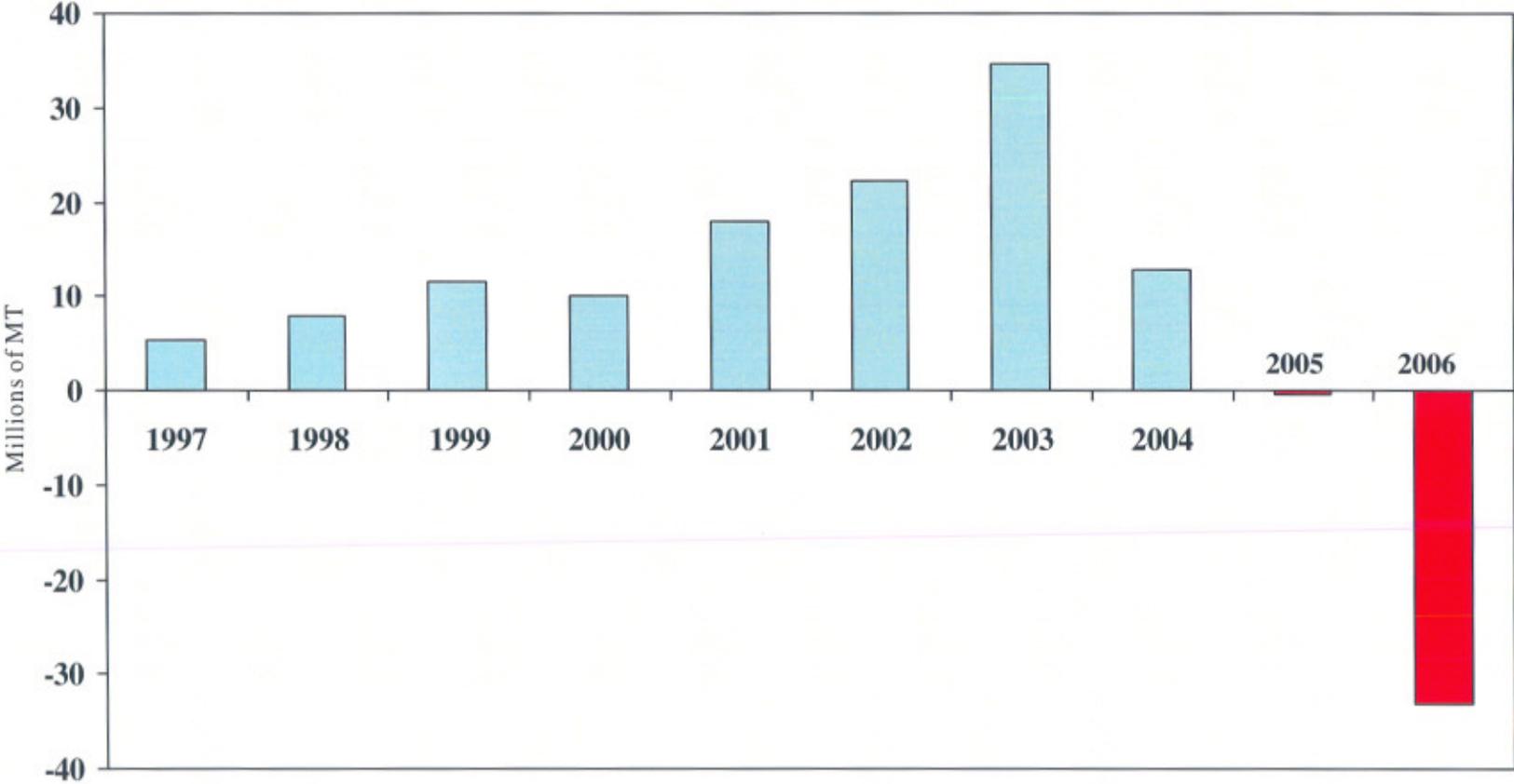
Source: World Steel Dynamics, Inside Track # 77 (May 30, 2007).

# Over the Last Three Years, China's *Increase* in Steel Production Is Roughly Twice the *Total* Production in the United States or Japan



Source: Data for China taken from World Steel Dynamics, Inside Track # 77 (May 30, 2007). Data for Japan and the United States taken from the International Iron and Steel Institute web page.

# China's Net Imports of Steel Products, 1997 to 2006

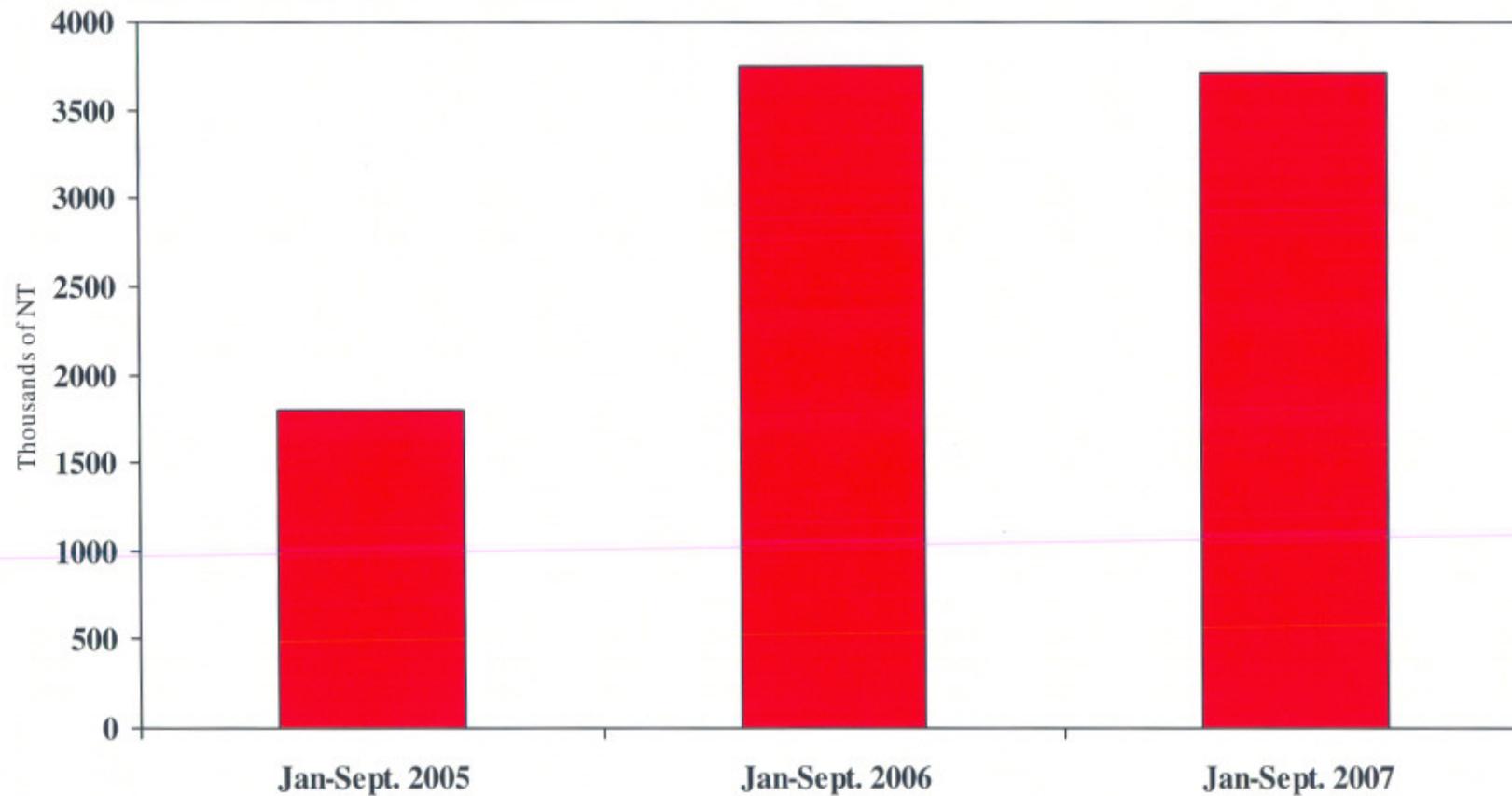


Source: World Steel Dynamics, Inside Track # 74 (April 25, 2007).

# China's 2005 Steel Policy Plainly Discusses Government Support for Steel Production

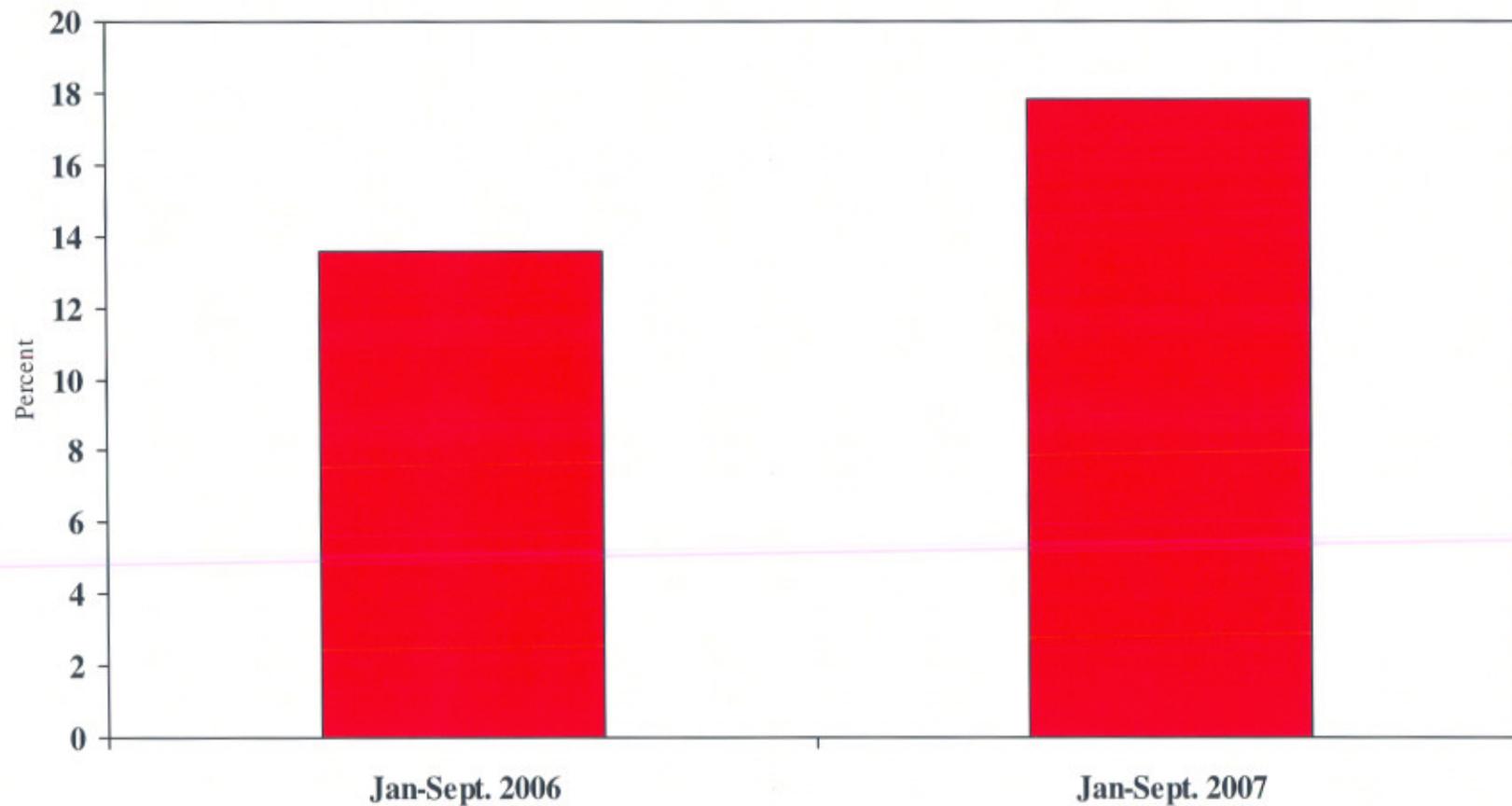
- “There shall be supported and organized the implementation of localization of steel industry installations so as to improve China’s research and development, design and manufacturing ability of key steel industry technological installations. *The state will provide tax support, interest subsidization support, scientific research funding support and other policy support to support key steel projects* constructed in reliance of new domestically-developed installations.” (Article 16)
- “*The state provides export credit support* to encourage steel manufacturing and equipment manufacturing enterprises to export domestic superior technologies and complete sets of metallurgy equipment by means of combining industry and trade or combining technology and trade.” (Article 27)

# U.S. Imports of Finished Steel From China Remain at Extraordinary Levels



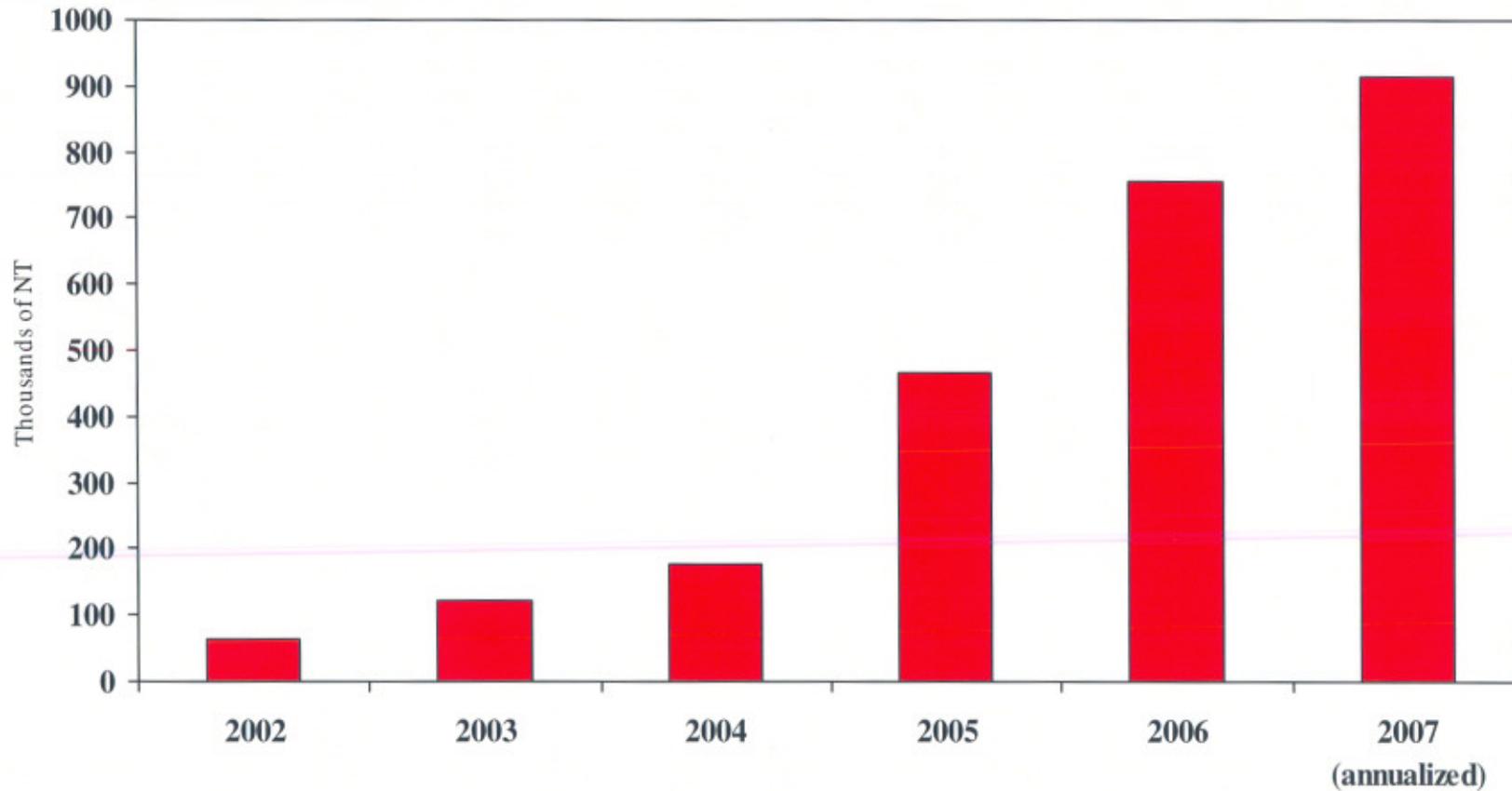
Source: AISI News Release (Oct. 23, 2007).

## In 2007, China's Share of U.S. Finished Steel Imports Has Grown



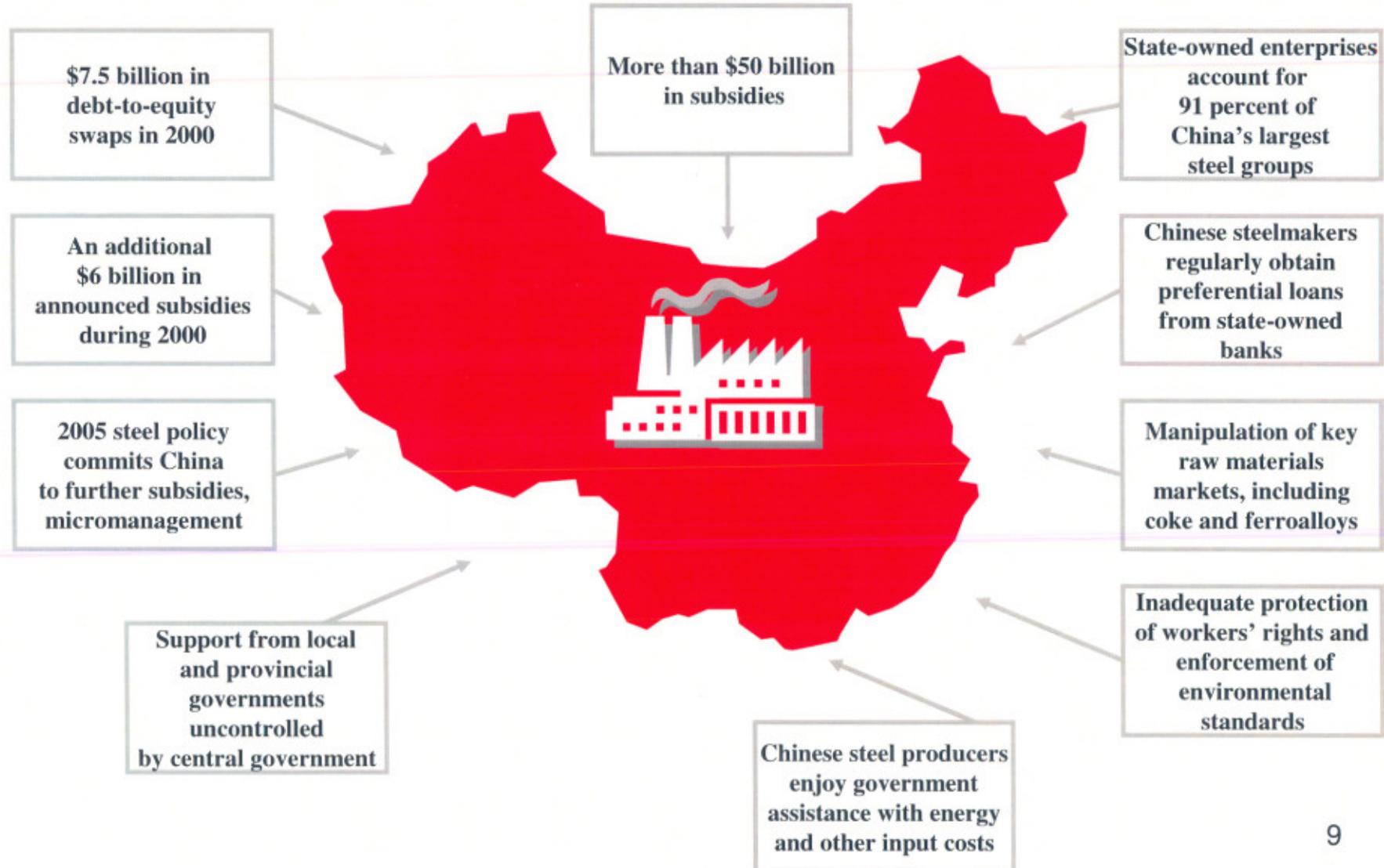
Source: AISI News Release (Oct. 23, 2007).

# U.S. Imports of OCTG from China Are Surging



Source: ITC DataWeb.

# China Has the Most Heavily Subsidized Steel Industry in the World



# Government Support Gives Chinese Mills a Significant Unfair Advantage



## Chinese Mills

- Massive government subsidies
- Aided by currency manipulation
- Government support for energy and input costs
- Government manipulation of raw material markets
- Inadequate protection of workers' rights and enforcement of environmental standards



## U.S. Mills

- Must compete for private funds
- Injured by currency manipulation
- No government support for energy and input costs
- No government assistance with raw material costs
- Strict protection of workers' rights and enforcement of environmental standards

## Steel Is An Important Case Study

- Steel is a vital industry
- Chinese methods in steel are being followed in other industries
- We need an across-the-board solution