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Good morning, Chairman Broadbent and members of the Commission. I am Kevin Dempsey, Senior Vice President and General Counsel for the American Iron and Steel Institute (AISI). AISI represents both integrated and electric furnace steelmakers accounting for almost three-quarters of U.S. steelmaking capacity, with facilities located in 41 states. I am pleased to be here today to provide the views of the U.S. producer members of the AISI on the impact of trade agreements and other key trade policy issues affecting the U.S. steel industry.

As detailed in my prehearing statement, while the U.S. steel industry has seen some market access benefits from the trade agreements that are the principal focus of this investigation, the overall trade situation for the industry remains dire. The industry is suffering from high levels of dumped and subsidized imports that are taking market share from domestic producers, depressing domestic prices and are resulting in reduced domestic production and low capacity utilization.

In 2014, finished steel imports increased by 36 percent and captured a record 28 percent of our steel market. In the first nine months of 2015, finished steel imports have increased by an additional 3 percent and have captured 30 percent of the market.

As a result of the large increase in import market share, domestic steel shipments have declined by 10.7 percent so far in 2015 and capacity utilization in the industry has dropped below 70 percent for the second time this year. Several steel companies have been forced to close steel-making facilities and lay off workers.

Impact of Trade Agreements

Turning to the impact of trade agreements implemented in recent years, NAFTA has been the most successful for the North American steel industry, providing increased access to our two closest and most significant export markets. It has resulted in strengthened North American manufacturing supply chains, especially with key customer groups such as the automotive industry. Overall, U.S. steel exports to NAFTA increased by 395 percent from 1993 to 2014. And NAFTA is the only region of the world in which the United States has a positive trade balance in steel.

By contrast, the impact of the Uruguay Round agreements has been more mixed for steel. It did result in the reciprocal elimination of most steel tariffs with a number of key steel-producing countries, including the EU, Japan, Korea, and Canada.

But another aspect of the Uruguay Round agreements has had a decidedly negative impact on the domestic steel industry. That is the application of the WTO dispute settlement system to U.S. antidumping and countervailing duty determinations. WTO panels and the Appellate Body have on numerous occasions reinterpreted the WTO agreements to impose new obligations on the United States that have limited the ability of domestic industry to obtain relief from unfairly traded imports. For example, the Appellate Body ruled that the U.S. practice of "zeroing" was inconsistent with the Antidumping Agreement, despite no basis for this interpretation in the text of the agreement. Similarly, the Appellate Body recently ruled that the longstanding ITC practice of cross-cumulation in material injury investigations was prohibited by the WTO agreements.

Given the important role that antidumping and countervailing duty measures have played in addressing unfair trade in steel products, this pattern of WTO rulings has had a significant negative impact on the U.S. industry over the last two decades.

Finally, with the exception of Korea, steel trade with other U.S. free trade agreement partners is relatively limited, with total annual steel trade with all those FTA countries combined in the range of one million to two million metric tons per year. Trade in steel with Korea has had a very different trend, however, as Korea is regularly one of the largest exporters of steel to the United States, and its exports to the U.S. have dramatically increased in recent years, while U.S. exports to Korea remain extremely limited.

The Role of China in Global Steel Trade

But none of these trade agreements have addressed the most critical policy issues in global steel trade, namely foreign government interventionist policies that have fueled massive and growing global overcapacity in steel, particularly in China, and the resulting surges in steel imports into the U.S. market.

Since 2000, Chinese government industrial and trade policies have produced a dramatic increase in the size of the Chinese steel industry, to the point that it today represents almost half of all global steel production. Chinese crude steel production soared from 128 million metric tons in 2000 to 823 million metric tons in 2014, an increase in almost 700 million tons. To put this figure in context, consider that in 2014 the United States produced a total of 88 million metric tons of crude steel, meaning the Chinese steel industry is now almost ten times the size of the U.S. industry.

Further exacerbating the problem is that Chinese domestic steel consumption appears to have peaked in 2013, after a number of years of growth, driven in recent years by the Chinese government's stimulus spending on fixed asset investment. According to the World Steel Association, Chinese apparent steel use declined by 3.3 percent in 2014 and is projected to decline by at least 3.5 percent in 2015.

With China's demand for steel now dropping, the Chinese steel industry must rely more than ever on exports to consume surplus production and its exports are depressing steel prices around the globe. China exported a record 94 million metric tons of steel products in 2014, an increase of 52 percent from 2013. That trend continues into 2015 with Chinese steel exports well on track to exceed last year's record levels and surpass 100 million metric tons for 2015.

The Problem of Global Overcapacity

China leads the world not just in capacity increases, but in *excess* capacity levels. China's official steel capacity levels reached 1.16 billion metric tons last year, but the China Iron and Steel Association estimates that there is even more capacity in China than the official government statistics report - approximately 1.25 billion metric tons of crude steel capacity. Compared with 823 million metric tons of actual production in 2014, that equals more than 425 million metric tons of excess capacity.

AISI believes that overcapacity in China is the greatest challenge facing the global steel industry today and is a significant factor leading to the surge in steel imports into the U.S. in the past several years. But China is not the only source of this problem. Capacity has also grown significantly in a number of other countries, including Turkey, India, Korea, the Middle East, Latin America (largely Brazil), and Russia and the Commonwealth of Independent States countries.

These capacity increases, well in excess of market demand, have led to enormous levels of overcapacity in the global steel industry. A recent estimate by the OECD shows that the global excess steel capacity is estimated to be about 700 million metric tons this year.

In our view, the overcapacity crisis plaguing the global steel industry is largely a result of government intervention in certain countries, as many governments continue to subsidize the start-up of additional, unnecessary capacity and to prevent obsolete capacity from closing.

China provides the most striking example of government intervention in the steel industry. The vast majority of the Chinese steel industry is government owned and controlled. In addition, through various industrial plans, the Chinese government for decades has directly subsidized its steel industry through the provision of grants, preferential loans, debt-for-equity swaps, tax rebates, and other preferential policies.

And this model is increasingly being adopted by other governments, such as India, Vietnam and Turkey. In these and other countries, government interventionist policies continue to help create massive steel capacity and to prevent much-needed capacity closures and reductions in response to oversupply and weakening demand conditions.

Conclusion

In conclusion, while the U.S. steel industry has seen some market access benefits from the trade agreements under investigation, the overall trade situation for the industry is much more impacted by factors not addressed in those agreements: in particular, foreign government interventionist policies that have fueled massive global overcapacity in steel, particularly in China. This has led to repeated surges in imports with significant negative effects on domestic producers. The domestic steel industry therefore urges trade policymakers to refocus their attention on these critical issues for the industry and its workers.

Thank you for the opportunity to testify today. I would be happy to answer any questions.