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21st Century Steelmakers

Testimony of Phillip K. Bell
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Thank you for this opportunity to testify before you today. My name is Philp Bell. I am President of the Steel Manufacturers Association. The Association consists of 30 North American steel producers that operate 127 steel plants and employ approximately 60,000 people. Our members are among the most competitive steel producers in the world.

Nonetheless, our members, along with the rest of the U.S. steel industry, find ourselves in a time of crisis. Global overproduction of steel has reached all-time highs as a result of foreign governments who use subsidies and other measures to intervene, disregarding normal market forces. The United States is a major market targeted by foreign producers looking to export their massive volume of subsided or unfairly priced steel products. In the first eight months of this year alone, steel imports have captured 30 percent of the U.S. market. Last year, U.S. imports of finished steel products increased by 36 percent. Yet, our domestic steel plants have been idling or shutting down across the country. For example, Vallourec Steel, a member company, announced in October that it would lay off employees in its Youngstown, Ohio facilities.

We believe that the U.S. trade agreements have resulted in lower U.S. import tariffs on most steel products and greater restrictions on the application of the U.S. trade laws, but they have done nothing to prevent foreign government interventions which have created massive amounts of global steelmaking overcapacity. This is directly harming the U.S. steel industry and its workers.

China is at the epicenter of this overcapacity crisis. From 2001 to 2014, Chinese steel production grew by approximately 700 million tons, about seven times the growth in production in the rest of the world. This explosive growth was directly encouraged and made possible by the Chinese government's provisions of billions of dollars of subsidies to its steel industry. This happened almost entirely in the years after China joined the World Trade Organization, when China supposedly made various commitments regarding market-oriented reforms. Apparently, those commitments have failed to prevent the Chinese government from extensive strategic interventions in its economy.

China is far from alone in preventing market forces from guiding the development of its domestic steel industry. The Turkish government has also intervened to support its steel industry. It retains ownership and control of its largest steel producer, Erdemir. In addition, it renegotiated current trade agreements to make it easier to provide state aid to steel producers. With government support, the Turkish industry has grown into the world's 8th largest steel producer and the 9th largest steel exporter. U.S. imports of finished steel products from Turkey grew almost 400 percent from 2010 to 2014!

The Korean government also continues to support and subsidize its domestic steel producers. For example, Korea's state-owned electric utility company has provided heavily discounted electricity to Korea's steel producers. With these subsidies and greater access to the U.S. market after the signing of the Korea-U.S. Free Trade Agreement, Korean steel producers shipped nearly 5 million tons of steel products to the United States in 2014, more than 2.5 times their shipments in 2010. Korea is now by far the largest single source of U.S. steel imports.

It is evident that U.S. trade agreements have allowed foreign steel producers greater access to the U.S. market. However, the U.S. steel industry generally has not received similar benefits of greater foreign market access. With the exception of the NAFTA region, the United States currently runs substantial steel trade deficits with every region of the world. This phenomenon is particularly acute with respect to China and Korea.

From 2008 to 2014, U.S. steel exports to China decreased more than 50 percent, from 250,000 tons to only 100,000 tons. Likewise, Korean exports of steel products to the United States have skyrocketed since the implementation of the Korea-U.S. Free Trade Agreement, but U.S. steel exports to Korea have decreased in every year since then. Steel trade deficits directly translate into tremendous job losses for our steel and other manufacturing workers. The Economic Policy Institute estimates that between January 2000 and December 2014, 5 million manufacturing jobs have been eliminated due to growing trade deficits.

Another related concern for our members is the rules of origin that apply to steel-containing products, such as automobiles and appliances. If the rule of origin requirements in a free trade agreement are weak, industries in countries outside the free trade agreement may be able to take advantage of duty-free treatment. For example, the Korea-U.S. Free Trade Agreement only requires a 35 percent domestic content rule for the product to be considered Korean-origin, compared to the 62.5 percent domestic content rule in NAFTA. Our understanding is that the TPP rules are similarly weak. This means that producers in third countries like China can easily send their steel or steel-containing products to South Korea, Vietnam, or Malaysia for minor processing and then ship them into the United States as TPP-origin goods. Indeed, domestic steel companies have reported that South Korea is buying inexpensive Chinese steel, processing it and dumping it in the United States.

We believe that U.S. trade agreements have the potential to create growth and opportunities, both at home and abroad, for U.S. manufacturers and foreign manufacturers alike. However, the gains can be one-sided if their rules are not well-conceived and adequately enforced. For the U.S. steel industry, recent trade agreements have fallen short of their potential. But these problems can be remedied both with respect to trade agreements currently in force and with respect to future trade agreements. Some necessary steps we propose include:

- Take actions to address state-owned enterprises and foreign government support for domestic industries through vigorous enforcement of rules in current trade agreements.
- Continue to insist on strong domestic trade laws that allow U.S. industry to petition for relief against unfair trade.
- Ensure effective enforcement of trade remedy determinations by enacting new rules on duty evasion.
- Draft new rules in future trade agreements that more realistically address the unfair trading practices of major trading partners, including non-commercial conduct by state-owned enterprises and the manipulation of currency exchange.

Ultimately, we believe that the effectiveness and economic impact of trade agreements should be evaluated based on their ability to promote domestic jobs, competitiveness, and net exports. We urge the Commission to consider free trade agreements in light of these factors, and also urge trade policymakers to focus their attention on ways to improve trade agreements and their enforcements so that they stimulate domestic growth, preserve and create jobs, and protect our steel industry's fundamental rights.

Thank you for this opportunity to participate in this hearing.