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Industry Document: External Trade

The North American steel industry remains in a weakened state as a result of the extraordinarily high levels of unfairly traded imports into the NAFTA region in recent years. While conditions have improved in recent months for North American steel producers, imports are once again increasing, with foreign market share remaining well above normal levels. North American steel production in the first quarter of 2017 was at its highest level in over two years, with each North American country seeing significant improvements from the second half of 2016. Capacity utilization in North America was 73 percent in the first quarter of 2017, its highest level since the third quarter of 2014, and an increase of 8 percentage points from the fourth quarter of 2016. However, global utilization rates remain low as global steel overcapacity continues to plague global steel markets.

The first quarter of 2015 represented the highest volume of non-NAFTA imports entering the region in at least a decade, as well as the highest import market penetration likely ever seen at 25 percent. While import volume has since abated to some degree, non-NAFTA finished imports in the first quarter of 2017 (6.5 million metric tons) remained over 1.5 million metric tons higher than the quarterly historic average from 2010-13, which was 4.9 million metric tons. Finished import market share in 2016 was 19 percent, and ticked up to 20 percent in the fourth quarter of 2016, while slightly edging down to 18 percent in the first quarter of 2017, but remains well above the recent historic average from 2010-13 of 15 percent.

Overcapacity and declining steel demand in China continue to have a major impact on global steel trade. Last year, China experienced a slight increase in steel demand of 1.3 percent and the World Steel Association forecasts flat steel demand in China for 2017. However, steel production in China has increased by 4.6 percent in the first four months of 2017 versus the same period in 2016. If China continues to produce at these levels, it is expected to produce over 820 million metric tons of steel this year, nearly a record. While Chinese steel exports have declined by 27 percent over the same period, there are serious concerns about whether Chinese domestic demand will be able to sustain these production increases or whether this will lead to a new surge in exports.

China continues to publicly proclaim its plan to reduce steelmaking capacity by 100 to 150 million metric tons through 2020. However, many experts including many in China, believe this capacity reduction commitment to be insufficient to address the crisis situation. It is estimated that China has as much as 425 million metric tons of overcapacity and previous commitments by the Chinese government to reduce its capacity have failed to garner actual net capacity reductions. Many Chinese steel mills

are state-owned at the provincial or local government levels and maintaining employment remains a critical incentive to keep steel production and capacity intact. In 2016, various Chinese government and steel industry officials declared that China removed 65 million metric tons of steelmaking capacity, but independent analysts believe that a significant number of the facilities that were deemed closed in 2016 were long-idled and mothballed facilities that were already considered obsolete. In fact, some non-governmental organizations (NGOs) report that Chinese operating steelmaking capacity actually increased by 35 million metric tons last year.

At the June 7-8, 2017 NASTC meeting in Washington, DC, the NAFTA steel industry looks forward to in-depth and strategic discussions on the following external trade issues:

Global Overcapacity – North American producers appreciate the efforts of the North American governments to make the global steel overcapacity crisis a key focus of world leaders over the past year. The launch of the Global Forum on Steel Excess Capacity (GFSEC) in December 2016 was an important step in continued international dialogue to ensure that governments work together to reduce global steel overcapacity. The NAFTA steel industry commends the continued sense of urgency with which the North American governments have engaged their counterparts on the crisis and we continue to urge NAFTA governments to obtain substantive commitments on eliminating policies that encourage the creation of steel capacity or interfere with market-driven industry adjustment efforts, as well as commitments to reduce global steel overcapacity.

Offshore Imports – One of the most serious consequences from the glut of global steelmaking capacity has been very high levels of offshore imports into North America in recent years. As demand has softened in other parts of the world, particularly in China, our region remains one of the only regions where the steel trade balance is negative and the deficit is increasing. In 2016, non-NAFTA finished imports captured 19 percent of the North American market, down from 22 percent in 2015 and 21 percent in 2014, but still significantly elevated above the recent 2010-13 historic average of 15 percent.

Imports into the region have caused domestic producers in all three countries to file trade cases on injurious imports from many regions on multiple products. Since the last NASTC meeting in October, two new sets of trade cases (wire rod and mechanical tubing) have been filed in the U.S., while the cut-to-length plate from 12 countries cases were recently completed and the reinforcing bar (rebar) cases from three countries near conclusion. The U.S. industry largely views the three flat-rolled trade cases (corrosion resistant, cold-rolled steel, hot-rolled steel) filed in 2015 as a success, but several producers filed petitions to address the circumvention of AD and CVD orders on corrosion resistant and cold-rolled steel from China through minor finishing operations in Vietnam. The North American steel industry will continue to press for action to be taken to address the injury being caused by dumped and subsidized imports.

China Non-Market Economy Status – This NASTC meeting is the first to occur since China’s 15th anniversary of accession to the World Trade Organization (WTO), which took place in December 2001. The day after its accession anniversary, the government of China requested separate consultations with the European Commission and the United States on their continued treatment of China as a non-market economy (NME). Those consultations took place in early 2017 and did not produce meaningful outcomes. The Chinese government then formally requested the creation of a dispute settlement panel with the European Union, leaving the dispute with the United States on hold for the time being.

The North American steel industry remains united in its view that China is not a market economy today and should not be granted this status until it has made the necessary reforms to its economic system. As our economic studies have documented, granting China market economy status before it truly becomes a market economy will undermine the effectiveness of our trade laws, resulting in low or nonexistent dumping margins on imports of unfairly-traded steel from China and thus inflict significant harm on North American steel producers and their workers. We remain actively engaged with policymakers and other allied industry groups challenging China’s assertion that it must automatically graduate to market economy status.

We do, however, remain concerned that the European Commission may choose to pursue a course on this issue that is at odds with the position of North American governments. We were pleased to see last year that the EU Parliament overwhelming passed a resolution against recognizing China as a market economy, citing excess production and flood of exports which would hurt European manufacturers. But the new European Commission proposal unveiled in November that changes EU practice by replacing the current methodology in favor of a new practice to use surrogate pricing where significant market distortions are demonstrated is troubling from the NAFTA steel industry perspective. We urge the North American governments to continue to engage with their counterparts in Europe to ensure a consistent and coordinated approach to addressing this critical issue.

WTO Cases Impacting the Steel Industry – One of the key policy goals of the North American steel industry is the strengthening of trade remedy rules to ensure relief is timely, fair, effective and enforced. However, developments at the World Trade Organization (WTO) have the potential to disrupt the application of strong trade remedies in North American countries. China’s current challenge of the European Union’s non-market economy antidumping methodology and the potential challenge of U.S. practice on the same issue remains a top concern for the NAFTA steel industry. In addition, the North American steel industry is also concerned with the EU/Argentina biodiesel case and the Korea washers case, among others. We urge the NAFTA governments to work together on WTO cases and to provide a unified front to respond to attacks on our trade remedy regimes.