Congressional Steel Caucus Hearing
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Introduction

Mr. Chairman and members of the Congressional Steel Caucus, I appreciate the opportunity to speak to you about our trade relationship with China, particularly with regard to how it affects U.S. steelmakers and their workers.

The American Iron and Steel Institute recently began a publicity campaign emphasizing the changing face of the American steel industry, including the adage that "Steel is the Backbone of American Manufacturing." This is a very apt metaphor because steel is critical to many other elements of the American economy including our infrastructure, our auto and auto parts industries, and many other manufacturing industries. Steel is also critical to our defense capabilities.

Today, unlike some periods in the past, the steel industry in America is strong, enjoying a good period of excellent financial performance, in part because of the restructuring, modernization and consolidation that was possible during President Bush's steel safeguard program from 2002-2003. A significant challenge for U.S. steelmakers, however, continues to be that governments in many other countries pursue policies in the steel sector that rely heavily on government intervention and financial support. These governments believe that their policies are justified because they view their steel industries as the backbone of their own industrial development. Problems arise, however, when a sizable share of new capacity is attributable to these policies, particularly where that capacity would not be added in normal market conditions. Inevitably, it will contribute to excess production and unfair international competition.

The steel industry in China has grown to be the largest in the world, doubling its crude steel production from 2002 to 2005. Today, it represents more than 30 percent of global steel production. While much of China's growth has been driven by tremendous growth in internal demand, China has rapidly gone from a major net steel importer in 2002 and 2003 to an emerging net steel exporter, apparently spurred on by government policies. This growth certainly creates concerns that surplus Chinese steel production could cause disruptions on global markets and in the United States. At the same time, we are concerned that rising world prices for steelmaking raw materials are in part driven by Chinese government policies promoting steel production in China.

Overview of U.S.-China Relations

Over the past year, the U.S. Trade Representative's office has intensively reviewed the U.S. approach to our trade relationship with China. After an inter-agency "top-to-bottom" review of our trade policy with China, in February of this year, USTR issued its report entitled "U.S.-China Trade Relations: Entering a New Phase of Greater Accountability and Enforcement." The report outlined three key points about the U.S.-China trade relationship:

- This relationship is enormously important and must be handled skillfully, judiciously and proactively.

- As China's economy and our bilateral trade grow, our trade relationship has become enormously complex and does not lend itself to either simplistic characterizations or simple policy prescriptions.

- The relationship is undergoing a process of rapid change as it enters a "third phase" in the modern era. After a twenty-year period in which U.S. policy was focused, first, on getting China into the World Trade Organization (WTO) and secondly, on China's implementation of its accession commitments, U.S. policy must now be readjusted, during this third phase, to deal with China as a fully accountable participant and beneficiary in the international trading system.

Our top-to-bottom review also laid out the list of important issues on which we believe the U.S. and Chinese governments must make more progress. These issues include: (1) protection of intellectual property rights; (2) market access issues related to telecommunications, financial services, healthcare and direct sales; (3) subsidies and structural issues in sectors such as the steel industry; (4) standards; (5) labor; (6) environmental protection; and (7) transparency and the rule of law.

We are actively addressing these and other issues by pursuing constructive and pragmatic dialogue with China. Our main bilateral forum for these discussions is the annual meeting of the U.S.-China Joint Commission on Commerce and Trade (JCCT), the most recent meeting of which was held in April of this year and was chaired by then-U.S. Trade Representative Portman, Commerce Secretary Gutierrez and China's Vice Premier Wu Yi.

But let me make it clear that while dialogue is our preferred means of dealing with China on trade issues, the U.S. Government will not shy away from using dispute settlement at the WTO when we feel China is not living up to its WTO commitments. As we have repeatedly told China's leaders, we see WTO dispute settlement as a tool utilized to avoid politicizing trade issues, and we will continue to consider WTO cases as appropriate to bring China into compliance with its trade-related obligations when dialogue proves not to be an effective means for resolving our concerns.

We believe that having two separate tracks − dialogue and dispute settlement − helped to create a favorable environment for a successful JCCT meeting and Chinese President Hu's visit to the United States in April. Prior to the JCCT meeting, the United States decided to pursue WTO dispute settlement on China's treatment of imported auto parts. By pursuing the auto parts case at the WTO, a very contentious issue was removed from the JCCT agenda, allowing us to achieve more success on the remaining JCCT issues.

U.S. -China Steel Dialogue

In the course of handling the investigation of steel pipe imports from China under the China-specific safeguard statute known as Section 421 last December, we proposed to China a U.S.-China Steel Dialogue. Our basic objective was to step up our bilateral engagement with China on its steel industrial policies and the impact these policies have on steel producers in the United States and worldwide.

We held our first Steel Dialogue meeting with Chinese government officials on March 24, 2006. This meeting came at the end of a week of preparations for the April JCCT meeting, and was led by Hank Levine, Deputy Assistant Secretary for China at the Commerce Department, and me on the U.S. side and by Director General Wang Shouwen of China's Ministry of Commerce on the Chinese side. The China Iron and Steel Association (CISA), China's leading industry association, also participated.

This first meeting was useful in setting the stage for future talks. It also gave each side the opportunity to highlight its interests and concerns.

We began by discussing general production and trade flows for steel and raw materials for both countries. We noted that China's exports of steel to the world were up significantly, while China's steel imports were down, in the first months of 2006. China provided its view that its exports and imports would be in balance in 2006. At China's request, we also explained the Commerce Department's Steel Import Monitoring and Analysis (SIMA) system and the Labor Department's Trade Adjustment Assistance programs.

The U.S. side also pressed our concerns with the Steel Industry Development Policy issued by the National Development and Reform Commission (NDRC), China's industrial planning agency, in July 2005. Although many aspects of this new policy have not yet been implemented, it includes a host of objectives and guidelines that raise serious concerns, such as by calling for the use of domestically produced steel-manufacturing equipment and domestic technologies whenever domestic suppliers exist, the imposition of import and export controls, de facto technology transfer requirements and foreign investment controls.

More generally, this policy is troubling because it attempts to dictate industry outcomes and involves the government in making decisions that should be made by the marketplace. It prescribes the number and size of steel producers in China, where they will be located, the types of products that will and will not be produced, and the technology that will be used. This high degree of government direction and decision-making regarding the allocation of resources into and out of China's steel industry is largely directed at needed restructuring and consolidation, but it nevertheless raises concerns in light of the commitment that China made in its WTO accession agreement that the government would not influence, directly or indirectly, commercial decisions on the part of state-owned or state-invested enterprises.

During the meeting, we also stressed our concern and the concern of our steel industry that government direction, not market mechanisms, was driving much of the capacity expansion in

China even before the issuance of the July 2005 steel policy. We made clear that we do not want to see China shift the burden of steel oversupply in its domestic market to the United States and global markets and that major trade flow changes could lead to U.S. industries exercising their rights under U.S. trade remedy laws.

Next Steps

When I was in Beijing last month, I took the opportunity to discuss the timing of our next Steel Dialogue meeting, which we hope to hold later this summer in Beijing. We are in the process of developing an agenda for that meeting, and we envision that both U.S. and Chinese steel producers will participate in the meeting. We have already made clear to the Chinese side that for future meetings we would like to see all the relevant agencies involved in China's steel policies, particularly the NDRC, participate so that we can have fruitful discussions.

We are working closely with U.S. industry on the particular topics that would be most useful for the next meeting. We would expect that those topics will be drawn from areas such as market mechanisms, government subsidization, investment and consolidation, access to raw materials, and industry-to-industry contacts. We hope to finalize our proposed topics in the coming weeks, and then we will submit our proposal to the Chinese side.

Through upcoming meetings of the Steel Dialogue, we hope to increase China's understanding of market-oriented behavior, and to bolster reform-minded elements in China. We intend to make progress by first identifying issues of common concern on the U.S. and Chinese sides, and then discussing steps that can be taken to address those concerns.

At the same time, working closely with the Commerce Department and the U.S. Embassy in Beijing, we are continuing to monitor the rapidly changing developments in the Chinese steel sector. While steel prices are firming up in China and conditions remain generally strong in the United States, we are concerned that if capacity continues to grow in China faster than domestic demand, this may have an adverse effect on U.S. steel-producing industries. While the U.S.-China Steel Dialogue is our attempt to deal constructively with the Chinese side on the difficult issues in this key sector, we will continue to consider U.S. trade remedy measures as needed and as appropriate to ensure fair trade.

Finally, as I mentioned earlier, we will not shy away from WTO dispute settlement whenever appropriate to address U.S. concerns. We are determined to hold China accountable to its WTO obligations, just like any other WTO Member. Generally, we have two key criteria for bringing a WTO dispute settlement case. It must be winnable, and it must be the most effective means for addressing the underlying concerns for U.S. industry.

Conclusion

Thank you for the opportunity to address you today.

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