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Or. Eng.

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WORKSHOP ON THE SITUATION IN THE STEEL INDUSTRY IN THE NIS

**A NORTH AMERICAN STEEL INDUSTRY PERSPECTIVE ON STEEL IN THE
CIS AND OTHER MAJOR MARKETS**

**STATEMENT BY BARRY D. SOLARZ OF THE AMERICAN IRON AND STEEL
INSTITUTE**

The Workshop will be held in Paris on 2-3 November 1999.

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**The Crisis Continues:
A North American Steel Industry Perspective on
Steel in the CIS and Other Major Markets**

The American Iron and Steel Institute (AISI), on behalf of its 46 U.S., Canadian and Mexican producer member companies, appreciates the opportunity to submit a paper at the fall 1999 OECD Steel Committee workshop on the steel situation in the Commonwealth of Independent States (CIS). AISI's member companies together account for well over two-thirds of the raw steel produced annually in North America.

While this paper focuses on the CIS, it also presents the views of AISI's North American members on the world steel trade and market situation. In order of presentation, this paper provides a NAFTA-wide perspective on:

- the steel situation in North America;
- the steel situation in the CIS;
- the world steel situation; and
- the role of the OECD Steel Committee in providing an important global forum to address the underlying issues revealed by the 1998-99 crisis in world steel markets.

I. NAFTA Steel Situation

The 1998-99 steel trade crisis has hit the NAFTA region very hard. Therefore, it is important that the world steel community understand:

- what has occurred: record imports, unfair trade and continuing import injury, and how they have affected North American steel companies and employees;
- why we are concerned: the trade crisis this time is hitting a world class NAFTA steel industry that is innovative, dynamic, high tech, environmentally responsible and globally competitive;
- what we support: prompt and strict trade law enforcement, a WTO-consistent updating of trade laws and no weakening of existing WTO rules against unfair trade.

1998 Crisis

For highly competitive NAFTA steel producers, the crisis that hit in 1998 is best illustrated by two charts. They show that -- against the background of substantial world steel overcapacity, economic depression in the CIS, a severe recession in Asia and market access barriers outside of the NAFTA region -- a huge surge of steel exports from Japan and Russia was directed to North America (**Attachments 1-2**). From Japan, the change in export volume in 1998 compared to 1997 was over 4.9 million net tons (NT) and, from Russia, the change was nearly 2.4 million NT.

The 1998 steel import surge was not limited to Japan and Russia. It involved dozens of non-NAFTA suppliers, and a large proportion of this record import tonnage was injuriously dumped or subsidized or both. What occurred was a *supply-driven* crisis caused by an unprecedented surge of unfairly traded and disruptive imports.

As we reported at the last OECD Steel Committee meeting, steel *demand* in the NAFTA region has grown sharply in recent years. But imports -- many of them dumped and subsidized from *less* efficient offshore competitors -- have taken an increasing share of this growing market. The share going to non-NAFTA finished steel imports went from 10.6 percent in 1993 to 13.6 percent in 1997, before exploding to 20.3

percent in 1998. Also as we told the Committee at the last meeting, total two-way steel trade among NAFTA countries declined in 1998 for the first time since the NAFTA went into effect.

To help restore fair trade and stable market conditions in North America, NAFTA steel producers have taken legal action on behalf of their shareholders and employees. They have filed cases under WTO-consistent trade laws and, in the face of continued unfair and disruptive trade, have made it clear that additional filings are possible.

Crisis Continues in U.S. in 1999

While overall steel imports have declined in the NAFTA region since the fall of 1998, the steel crisis continues, at least in the United States. Most of the decline in U.S. imports has been due to the successful trade case filings on hot rolled flat products. The ongoing steel crisis in the U.S. resides in the fact that:

- there was a huge import-driven steel inventory buildup in 1998, and this overhang is being worked off throughout 1999;
- steel prices, which in some product lines have recently bottomed out, remain severely depressed and well below what they were prior to the import surge;
- total finished steel imports and total finished steel import market share remain unacceptably high -- higher than in any year *except* 1998;
- certain steel product lines, such as plate and wire rod, remain very depressed; and
- import source and product shifting is accelerating. In this regard, imports in 1999 are up for coated sheet, tin plate, wire rod, structural shapes and rebar, while imports are growing from Brazil, Argentina, Venezuela, China, Taiwan, Indonesia, Thailand and other countries. Meanwhile, imports from Japan are still above pre-crisis levels, and imports from South Korea remain *far above* these levels.

Adding to these concerns, the total U.S. merchandise trade deficit in 1999 is expected to exceed \$330 billion -- a new record level and almost \$100 billion over the previous record in 1998. While steel demand has stayed strong in the United States this year, driven in large part by record automotive sales and production, the steel-consuming machinery market is down due to declining exports of U.S.-built machinery to Asia and weak commodity prices and their impact on the domestic agricultural market. This has had a further adverse impact on U.S. steel producers and a portion of their U.S. machinery manufacturing customer base. The growing total U.S. "indirect" steel trade deficit, in which world class U.S. manufacturers see their exports of steel-containing products decline and imports of steel-containing goods rise, is a cause for concern.

These should be the best of times for the restructured, revitalized, competitive U.S. steel industry. Instead, the bottom line on 1999 is that, when we compare it to 1997 and the first half of 1998, U.S. steel companies and employees are still experiencing serious injury. Notwithstanding continued strong steel demand and the strong U.S. economy overall, there remains a steel crisis in the United States.

For U.S. steel companies, the crisis continues in the form of five bankruptcies and:

- reduced capacity utilization;
- reduced shipments;
- reduced prices;
- reduced profits (or outright losses);
- reduced stock prices;
- reduced access to capital; and

- reduced investment plans.

For U.S. steelworkers, the crisis continues in the form of:

- reduced employment;
- reduced work weeks; and
- reduced employee benefits.

A key aspect of the crisis is illustrated by four charts on current steel price conditions in the U.S. market. They show that fair value for finished steel mill products has not been restored and that steel prices remain extremely depressed (**Attachments 3a and 3b**).

*

North America's internationally competitive steel companies and their highly productive employees have learned *important lessons* from the crisis of 1998-99. They are that:

- a surge of unfair and disruptive imports can cause lasting damage;
- the damage can extend to all segments of the steel community in the importing country, and affects even the most competitive NAFTA steel producers;
- the current trade laws are inadequate and not designed to address the kind of major shifts in trade flows that result from structural economic failures abroad; and
- yet, these laws at the present time are *the only effective WTO-consistent defense* that exists to counter surging unfair and disruptive imports.

Therefore, steel producers in North America, now more than ever, support:

- prompt and strict enforcement of existing national trade laws;
- modernization of these laws in a WTO-consistent manner; and
- preservation of effective international disciplines against unfair trade.

Among other things, this means that, as a top priority, **antidumping (AD) and countervailing duty (CVD) laws must be kept off the negotiating agenda at the Seattle WTO Ministerial and in any new round of WTO negotiations. In addition, until the steel sector in China is no longer under government regulation or control, steel producers in the NAFTA region and in other WTO member countries must be allowed to continue to apply "nonmarket economy" antidumping methodology to dumped imports from China that cause or threaten injury.**

II. CIS Steel Situation

For the third time in the past four years, the OECD Steel Committee is sponsoring an international workshop on the underlying issues of the steel crisis in the CIS.

Enormous Challenges

These workshops have proved useful in clarifying the huge challenges that remain.

On the macro level, we have learned from the previous workshops that the CIS countries need to:

- intensify their efforts to transition into market economies;
- address pressing social needs; and
- solidify conditions of political, legal and economic stability.

Even more daunting, they must do *all three* of these *at the same time*. And the reason is, without further progress in each of these areas, there will be:

- no investor confidence;
- no ability to revitalize the CIS steel industries; and
- no opportunity to restore depressed domestic steel demand in the CIS.

On the micro level, it is clear that the problems are no less severe. As confirmed in the previous workshops, the CIS steel industries need to:

- overcome a severe liquidity squeeze;
- restructure and eliminate uneconomic capacity;
- invest and modernize remaining facilities;
- clean up heavily polluted sites;
- develop and implement sound business plans;
- learn sound accounting practices;
- create sound marketing and distribution strategies;
- regain control of export strategies from western trading companies;
- root out domestic corruption; and
- practice market behavior and rules-based trade.

The point is, we *already* understand the main challenges that the CIS countries and their steel industries are facing. The question is: what are the solutions?

NO QUICK OR EASY SOLUTIONS

At the last OECD Steel Committee meeting, we agreed that:

- these challenges are simply too large for the CIS to address on its own;
- if left unaddressed, the problems of the CIS steel industries will continue to spill over into other world steel markets;
- this is what happened in 1998; and
- it is therefore in the interest of the OECD countries to enhance multilateral governmental and private sector assistance to the CIS nations and their steel industries. NAFTA steel producers *support* such an enhanced effort.

The problem is, for the CIS, there are *no magic bullets, and recovery will not be quick*. Instead, from a domestic steel consumption of some 170 million metric tons (MT) in the former Soviet Union in 1991, the International Iron and Steel Institute (IISI) now confirms that steel consumption in the CIS has stabilized at a very low level. According to the IISI, it will increase only slightly by the year 2005, from 31 to 33 million MT.

In recent years, western trading companies (mainly European) have sent ever-increasing amounts of dumped excess CIS steel to North America, including over 7 million NT in 1998 alone (**Attachment 4**). This dumped steel has been a cause of serious injury to NAFTA steel companies and employees. In response, NAFTA steel producers have taken appropriate action under national trade laws (**Attachment 5**). They have called for enhanced customs enforcement of all imports. And they have intensified their monitoring of traders' activities, including possible efforts to send CIS semifinished steel to third countries, where it is transformed and converted to hot rolled coil destined for North American markets.

GOOD AND BAD WAYS TO HELP CIS

When NAFTA steel producers file and then win cases against unfairly traded imports, they expect to receive the *full remedy* they are entitled to under the law. Steel producers in North America believe there is a good way and a bad way of helping Russia and the other nations of the CIS. The *bad way* is to suspend an antidumping case over the objection of petitioners and to provide a guaranteed market share to dumped steel imports. This is what happened in the case of hot rolled steel from Russia, and this is why U.S. petitioners are appealing this suspension agreement.

The *good way* to help the CIS is to provide *targeted technical assistance*. With respect to positive action, NAFTA steel producers are willing to engage in efforts to:

- Help restore domestic steel demand in the CIS. At previous OECD Steel Committee meetings, AISI submitted a paper and showed a video on whether lessons can be learned by the CIS from AISI's market development work to increase steel demand in the NAFTA region. In addition, AISI has submitted its views on this subject to both the U.S. Administration and Congress (**Attachment 6-7**). We have met with representatives of the CIS steel sector and government upon request to discuss how AISI is organized and other issues of interest to CIS representatives. We also recently won a grant from the U.S. Commerce Department to bring a Russian mill executive to the United States to work with the North American Steel Framing Alliance to learn about efforts in the NAFTA region to promote the use of steel framing in residential construction. We hope this can contribute, in a small way, to growing a domestic market in Russia for steel framing in residential construction.
- Have mutually beneficial technology exchanges with the CIS. AISI's Manufacturing and Technology Committee has invited a Russian steel engineering company to meet with it in Chicago early next year to discuss steel technology issues of mutual interest. We remain open to other possibilities in this area.
- Inform about market economics, market behavior, rules-based trade and trade laws. Representatives of AISI and its North American member companies have led or participated in numerous seminars in the NAFTA region on the importance of market behavior and "rules-based trade." AISI's members are willing to participate in educational seminars in this area, with the purpose of further informing the CIS.
- Promote brownfields redevelopment to other useful purposes of CIS steel sites that have been permanently and completely shut down. There are important lessons to be learned from what has occurred in the closure of obsolete steelmaking capacity in North America, and AISI has submitted the initial thoughts of U.S. members in this regard to the U.S. government (**Attachment 8**). AISI's North American members are willing to continue to share their ideas and experiences in the area of brownfields redevelopment directly with the CIS.

III. Global Steel Situation

While the CIS steel industries played a major role in the crisis that hit the NAFTA region and world steel markets in 1998, the CIS was *not the only cause* of this crisis.

ROOT CAUSES OF 1998 CRISIS

In our view, Japan -- and the "Japan Inc." economic model -- played a critical role in the *over-building, over-investing and over-reliance on exports* in South East Asia that led inevitably to the collapse of Asian markets in 1998.

The structural economic failures in Asia and the CIS merely exacerbated a long-standing problem of *world steel overcapacity*. According to OECD data, global steel capacity for finished steel products in 1998 exceeded world demand by 245 million MT -- and nearly 60 percent of this excess was in Japan and the CIS (**Attachment 9**).

It remains our view that there is substantial *uneconomic* global excess steel capacity. This problem of uneconomic world excess steel capacity has its roots in several decades of intervention in steel by governments *outside* of the NAFTA region. This government intervention is not limited to state-ownership of steel in China and certain other non-OECD countries, but includes:

- widespread government "targeting" of steel;
- government subsidies to steel;
- government "directed lending" to steel;
- government trade barriers for steel and steel-containing products;
- government toleration of steel cartels; and
- government toleration of corruption in steel and steel-related businesses.

GLOBAL PROBLEM IN NEED OF GLOBAL SOLUTION

This world excess steel capacity and unfair trade in steel remain a *global problem*, and this problem still requires a *global solution*. This means that:

- *all* major steel producing and consuming regions have a responsibility to help shape a *pro-competitive* world steel market;
- fundamental steel industry restructuring and adjustment should take place in all countries where it is still needed;
- all steel markets should be open; and
- trade in steel should be free and fair in all markets.

Unfortunately, NAFTA steel producers know that a market-oriented solution based on *shared* responsibility is not yet in sight. However, this remains the goal.

1999 in Context

At the present time, world economic prospects do appear brighter than they did in 1998. Thanks in part to the very sharp currency devaluations in Russia, Brazil and South East Asia, export earnings are up in key crisis countries. Conditions in Russia look like they may have bottomed out. Brazil may resume economic growth next year. Parts of Asia are in recovery. And once again, we see the remarkable resilience of steel the material -- *and* steel the industry.

According to the IISI, the 1998 losses in apparent steel consumption (ASC) in Asia are being restored. ASC in Asia, 17 million MT higher in 1999 than in 1998, is expected to increase by an additional 9 million MT in 2000. In addition, worldwide ASC is expected to grow by an additional 20 million MT in 2000 compared to 1999. All of this has led the IISI to comment recently that the economic turmoil of the past two years "appears as little more than a minor blip." We view it differently -- as a *wake up call*.

We may all wish that 1998 was only "a minor blip," but NAFTA steel producers are convinced that there are important underlying issues that still need to be addressed. In addition, these issues are not just in the CIS. Take Asia for example. We share the concern of many economists and think tanks that the current recovery in that key region of the world is not uniform and may not be sustainable.

- In China, private and foreign investment, consumption, exports and prices all continue to fall. Government fiscal stimulus and restructuring efforts do not appear to be working. State owned enterprises are actually increasing their share of GDP, in spite of government efforts to reduce their role. And many now predict what was previously unthinkable -- a devaluation of the Renminbi within the next 12 months.
- In Japan, ordinary citizens seem to be losing their confidence in established economic institutions. Housing starts, consumer spending, capital expenditures and exports are all down, just like in China. While massive deficit spending and zero interest rates are helping to keep the Japanese economy afloat, such a government policy cannot continue much longer.
- In Korea, strong growth (over 8 percent) has returned, but is being fueled by massive deficit spending, easy money and exports. Ironically, this return of economic growth has made it easier for excess uneconomic capacity to continue in steel and other "strategic" industries. In addition, it is impeding the reform efforts of the Kim government, as both the Chaebol and the government bureaucracies are again resisting restructuring efforts.

REAL ISSUES: GLOBAL EXCESS CAPACITY AND MARKET-DISTORTING PRACTICES

In sum, what we told the OECD Steel Committee workshop in May 1998 remains true 18 months later -- NAFTA steel producers see the events of 1998-99 as revealing problems that are *structural and long term*, not cyclical and short term, in nature. Major structural economic problems have *not been addressed* in the CIS, Asia and South America. Major structural economic reforms are *still needed* in these regions. It is essential that the process of reform be accelerated and that the crisis countries not return to "business as usual."

It all comes back to continued world steel excess capacity, perpetuated by ongoing government intervention in the steel sector. NAFTA steel producers support the added focus that President Clinton has given in his new Steel Action Plan to the problems of market-distorting practices and global excess capacity in steel. Today, North America is the *only* major steel producing region in the industrialized world that does not have sufficient capacity to meet its own needs in peak demand periods. At the same time, substantial new -- world class -- capacity continues to come on stream in the NAFTA region. Competitive North American steel producers deserve to benefit from their costly and successful efforts to restructure, revitalize and grow steel demand in the NAFTA region. The era of *one-way free trade* in steel must end.

The WTO reports that almost 40 percent of the antidumping actions notified to it by member states last year were in steel. This was more than twice as many as any other product. The reason is clear: steel dumping remains pervasive, as are the market-distorting conditions that facilitate it. Both the WTO and the OECD Steel Committee should acknowledge: the real issue is *not antidumping* actions. It is *dumping*.

Steel producers in North America may not always agree about the role of trade laws to govern *intra-NAFTA* trade. But NAFTA steel producers are united on *external* steel trade matters. In particular, we agree that we will not allow the NAFTA region to become the World's Steel Dumping Ground, as occurred in 1998.

Whether the issue is use of AD/CVD laws on imports of hot rolled steel from Russia, Japan and Brazil or the use of safeguards law on wire rod from non-NAFTA suppliers, we reject categorically the charges of non-NAFTA countries that North America is "abusing" or "misusing" its trade laws. Instead, we call upon our trading partners to engage in a *serious discussion* -- whether bilaterally, in the OECD Steel Committee or in other arenas -- on the underlying issues revealed by the 1998-99 steel trade crisis.

KEY QUESTIONS (SEE CITE REFERENCES AT END OF LIST)

This crisis raises many questions. For NAFTA steel producers, they include the following:

1. How much uneconomic, manned excess steel capacity currently exists in the CIS, Japan, South Korea, Brazil and elsewhere? What is being done by steel producers and governments in surplus capacity countries to address this problem?
2. How much of the over 40 million tons of obsolete CIS steelmaking capacity reportedly shut down in recent years has been permanently and completely closed? What is the status of steel-related environmental rules, laws and enforcement in the CIS? Are the press reports of possible corruption and organized crime involvement in the CIS steel sector true, and how do we know that the money from CIS steel sales and international aid actually stays in the CIS?¹ What restructuring aid is being given to the CIS steel sector from multilateral, including European, institutions, and with what, if any, linkage to trade?

¹ "Sly Lisin," *Ekspert* (December 15, 1997).

"The Collapse of An Aluminum Empire," *Rossiyskaya Gazeta* (August 18, 1998).

"A Second Redistribution the Chernoy Way: The Brothers Did Not Divide up the Russian Steel," *Obschaya Gazeta* (January 1998).

"Russian According to Chernoy: A Man Who is of Interest to the Law Enforcement Agencies of Britain, Israel and West Europe Wants to Save Our Country," *Moskovskiy Komsomolets* (July 14, 1999).

3. How specifically is the Japanese government assisting in the restructuring of Japan's steel industry? What steps is Japan taking to deal with private anticompetitive practices in steel? Why does MITI continue to hold hearings, and continue to coordinate, with major Japanese steel producers concerning supply, demand and production levels? Why have steel import shares in Japan remained relatively flat for over a decade, and why have the production shares of the five largest Japanese steel companies not changed at all in 28 years (**Attachment 10**)?
4. What are the barriers to CIS, South Korean, Brazilian and Chinese steel exports outside of the NAFTA region? In particular, what is keeping China, South Korea and the CIS from selling more of their finished steel to neighboring Japan, which would seem to be a natural export market for these major producers?
5. What assistance does the government of China provide to the Chinese steel industry, and when will it end? When will the Chinese steel sector be totally free from government ownership or control? When will China end its discriminatory restrictions on steel imports? What is the government of China doing to fight private steel cartel activity in the steel sector?² What is the status of steel-related environmental rules, laws and enforcement in China? Does the Chinese government have the goal of making China a net steel exporting country and, if so, when does it think this will happen? What lessons should China draw from the experience of the CIS in world steel trade in recent years?
6. Is it true, as some possible purchasers of Hanbo equipment have said Banker's Trust told them, that the government of South Korea has required the buyer of Hanbo Steel to operate Hanbo's equipment in Korea? Is the sale of Hanbo *really* an "arms-length" sale? Why do people in Korea continue to report that government *influence* over POSCO seems undiminished? Is POSCO *really* being privatized? What is the Korean government's role in setting POSCO's prices? Is it true, as press reports have stated, that the Korean government has asked private banks to help keep the Won from appreciating further?³ How are the 1998 Korean Fair Trade Commission findings of steel cartel activity, including the accompanying cease and desist orders, being implemented?
7. What are the findings of the government of Brazil in the antitrust investigation of Usiminas and CSN?⁴ What remedies have been imposed? What information does the Brazilian government have on domestic iron ore producer CVRD's relationships with Brazilian steel mills, whether collected in antitrust investigations or otherwise? What control relationships exist between CSN and Usiminas/Cosipa, through common shareholders, common board members or otherwise? What is the status of steel-related environmental rules, laws and enforcement in Brazil?

² "The State Bureau of Metallurgical Industry Seeks to Continue to Do a Good Job of Controlling Production Output," *Xinhua* (July 22, 1999).

"Antidumping Rule on Steel Created," *China Daily* (September 25, 1998).

³ "South Korean Currency," Bloomberg News, *New York Times* (June 11, 1999).

⁴ "Companies Fined for 'Dollarizing' Prices," *Jornal da Tarde* (January 29, 1999).

IV. OECD Steel Committee Role

As the only permanent global forum for governments and industries to discuss world steel trade and economic issues together, the OECD Steel Committee has a useful role to play. A main purpose of OECD Steel Committee meetings and workshops should be to promote frank and constructive dialogue to shed additional light on underlying issues in world steel trade and markets of importance to OECD members.

REAL DIALOGUE AND SERIOUS DISCUSSION

Among the issues where we would like to see the OECD Steel Committee promote a *real dialogue* are:

- the role of steel traders in the new world economy;
- global steel overcapacity and how to measure it;
- steel industry restructuring in regions with excess uneconomic, manned capacity;
- market access problems in steel and steel-containing products;
- steel environmental rules and enforcement levels;
- government subsidies to the steel sector;
- private anticompetitive practices in steel; and
- government intervention on steel production and prices.

In promoting a serious discussion of the key issues revealed by the 1998-99 steel trade crisis, the OECD Steel Committee can contribute further to our understanding of world steel markets and trade. This must be done to ensure that the Committee is better prepared to be helpful in the event of another, future crisis in world steel markets.

RECOMMENDATIONS OF NAFTA STEEL PRODUCERS

To enable the OECD Steel Committee to make further contributions to members' understanding of the key issues revealed by the steel crisis of 1998-99, we support the continued active participation in a global dialogue of Russia, China and other non-OECD members who are key players on the world steel stage.

In addition, NAFTA steel producers support:

- enhancing private sector involvement at Committee meetings and workshops;

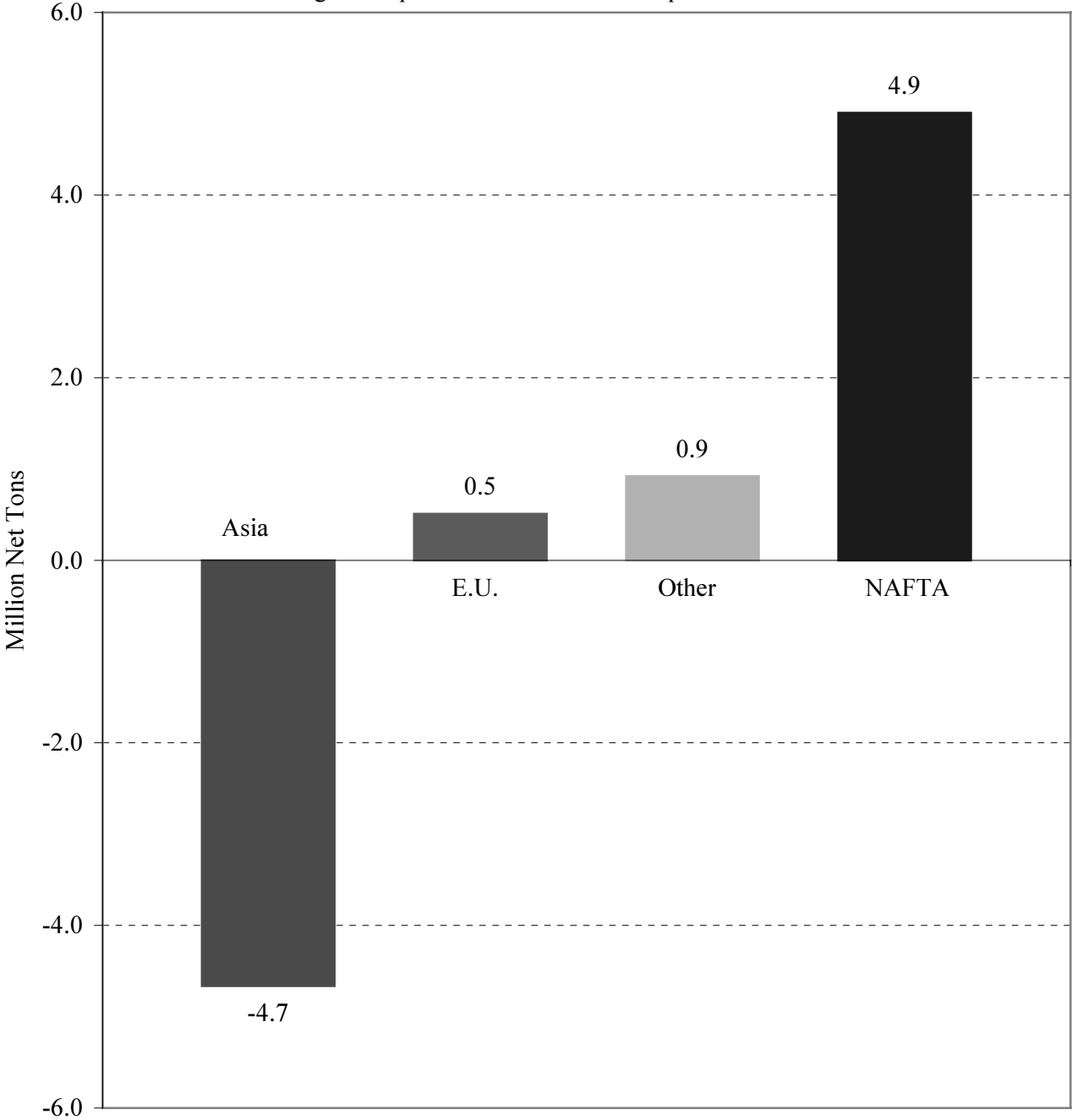
- going back to the original Steel Committee Charter to review how the stated goals can best be achieved;
- ensuring detailed reports by both members and non-members on the steel adjustment process, including more and better information on, and serious discussion of, the global problem of manned excess capacity -- especially for countries, e.g., Russia and Japan, where adequate adjustment has not taken place;
- improving the accuracy of those kinds of data and information that can provide the basis for a serious discussion of real issues, including better data on crude steel capacity and better non-proprietary data on trade flows and market conditions;
- taking care that each Committee meeting is action-oriented and results in more than just a decision to meet again in six months for more discussion;
- encouraging key member and non-member countries to have more regular contacts on steel trade policy issues of mutual concern;
- establishing informal working groups on specific issues, to enable more in-depth discussion and to force hard questioning on key players;
- making greater efforts to involve at Committee meetings and workshops top industry representatives from major non-member countries and last, but not least;
- exploring concrete initiatives -- not just concepts -- to promote better coordination and more effective multilateral government and private sector assistance to the steel industries of the CIS.

*

Conclusions

While overall steel imports have declined in the NAFTA region since the fall of 1998, the steel crisis continues, at least in the United States. This is a *transplanted* crisis caused by structural economic failures outside of the NAFTA region. NAFTA steel producers and governments are addressing the crisis through the use of WTO-consistent trade laws and other measures. Other countries largely responsible for the events of 1998-99 have *not yet* addressed adequately the root causes of *their* crises. With respect to the CIS steel industries, the problems continue to be enormous. While NAFTA steel producers support better coordination and more effective multilateral governmental and private sector assistance to the CIS, there are no quick or easy solutions. We also know the CIS was not the only cause of the crisis that hit the NAFTA region and world steel markets in 1998. Major structural economic problems remain in Asia and South America as well. The key problems continue to be global excess steel capacity and market-distorting practices. The OECD Steel Committee can contribute further to a better understanding of the underlying issues revealed by the steel crisis of 1998-99. To ensure that the Committee is better prepared to be helpful in the event of another, future crisis in world steel markets, it should improve the quality of relevant data and engage all major players, both members and non-members, in a real dialogue and serious discussion of key issues.

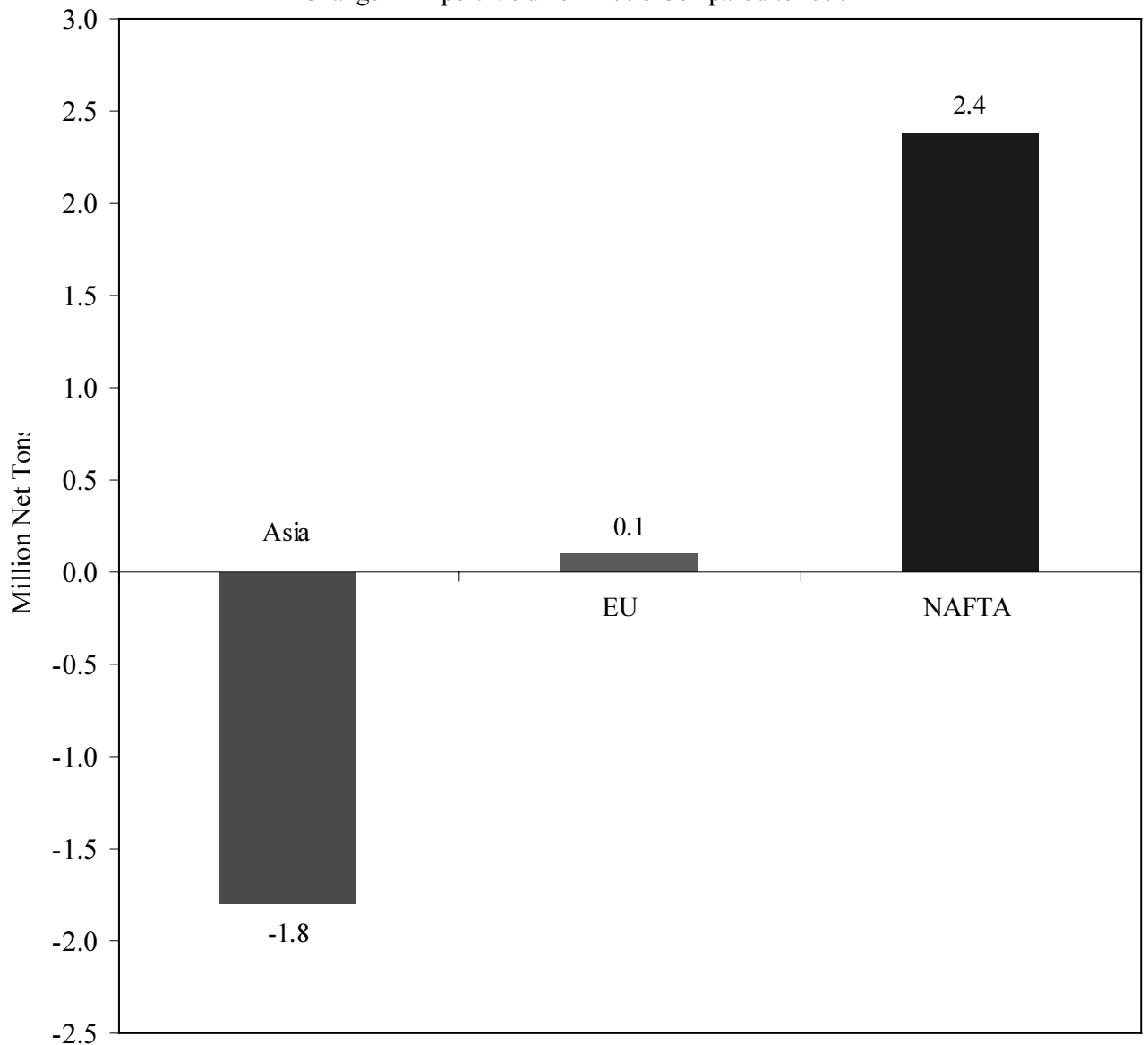
Attachment 1
Japan: The 1998 Surge in Exports of
Finished Steel Mill Products
Was Directed at North America
Change in Export Volume in 1998 Compared to 1997



Source: WTA from Japan Tariff Association

Attachment 2
Russia: The 1998 Surge in Exports of
Finished Steel Mill Products
Was Directed at North America

Change in Export Volume in 1998 Compared to 1997



Sources: NAFTA data from U.S. Department of Commerce, Statistics Canada and SECOFI. EU and Asia data from TradStat.

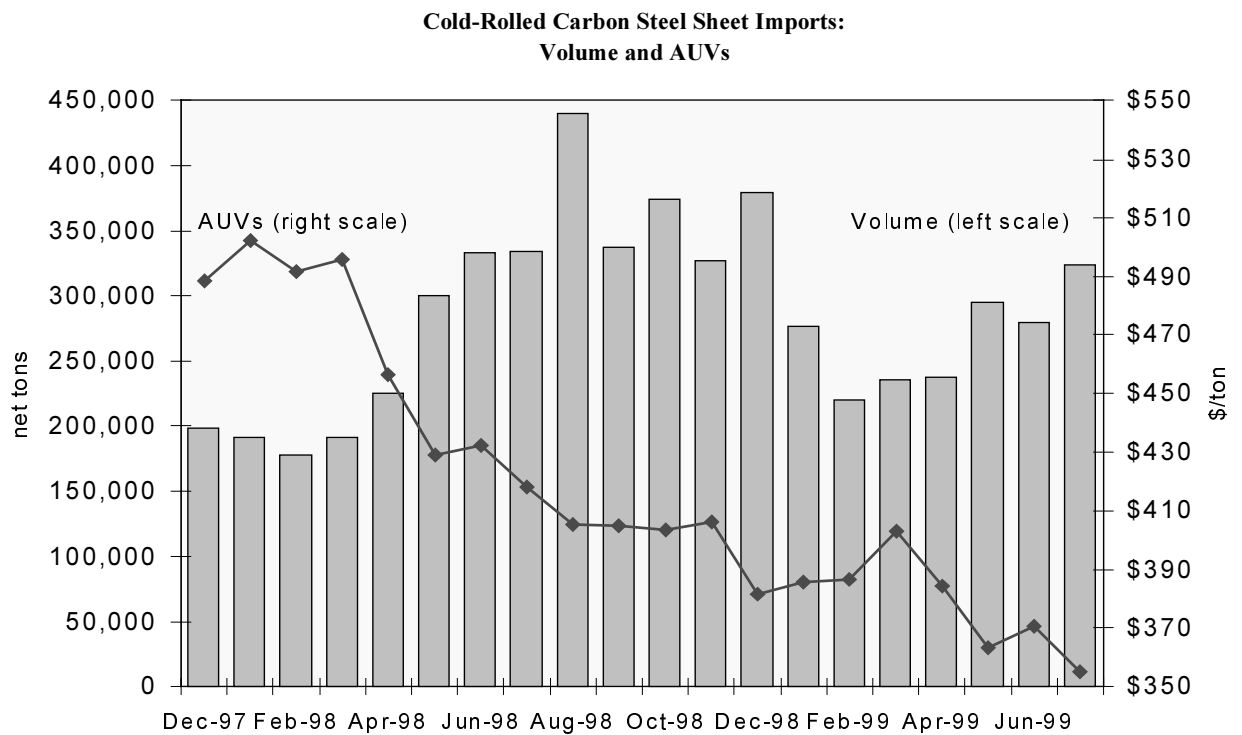
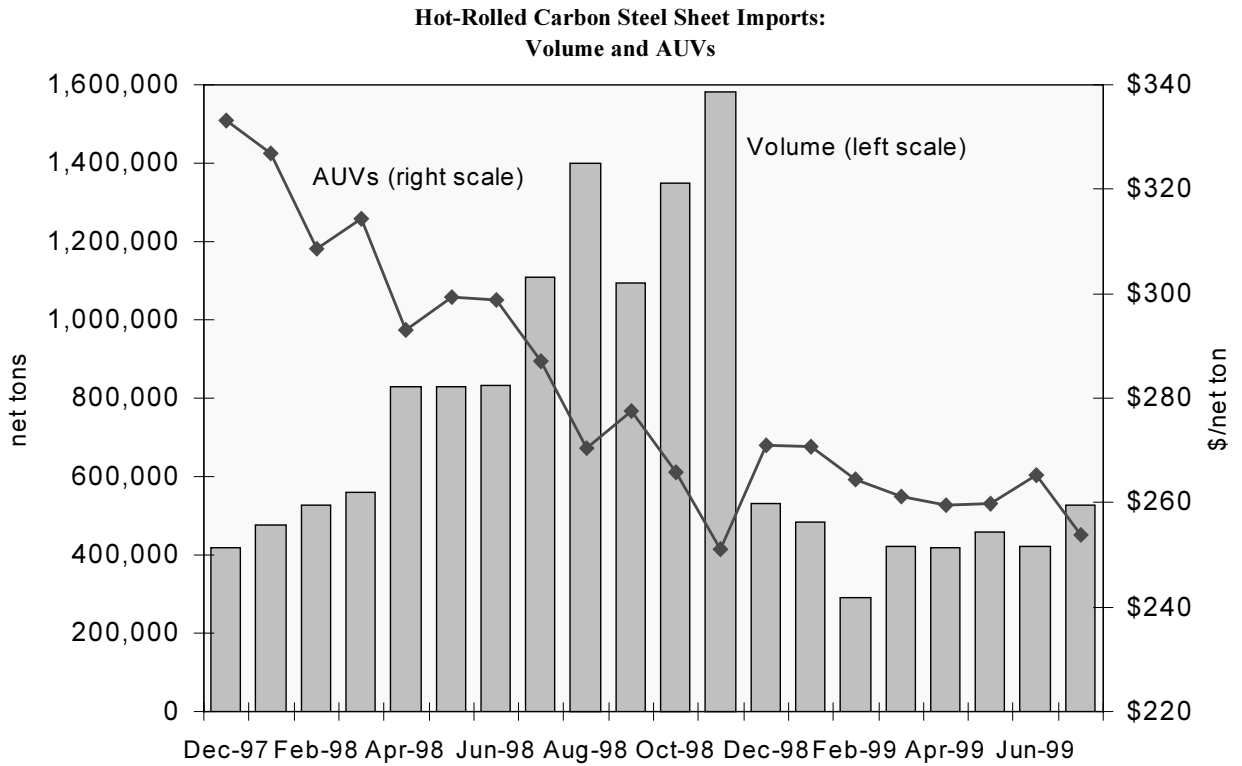
Notes:

Asia includes only Japan, China, Taiwan, Hong Kong, and South Korea. EU does not include Greece due to data availability.

TradStat indicated that some of the commodities included were not reported in weight, and, therefore, have been excluded from the analysis.

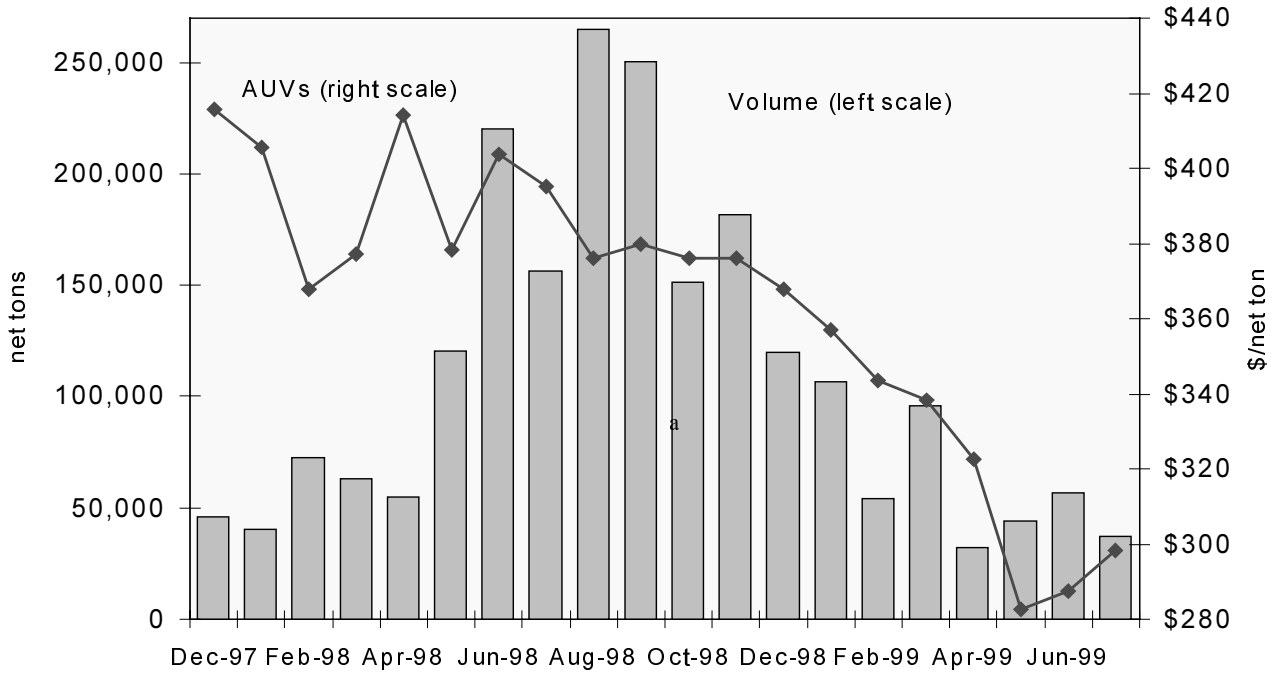
Commodities surveyed were: 7208, 7209, 7210, 7211, 7212, 7213, 7214, 7215, 7216, 7217, 7219, 7220, 7221, 7222, 7223, 7225, 7227, 7228, 7229, 730110, 730210, 730220, 730240, 7304, 7305, and 7306.

Prices Have Not Recovered Since Peak of Import Crisis

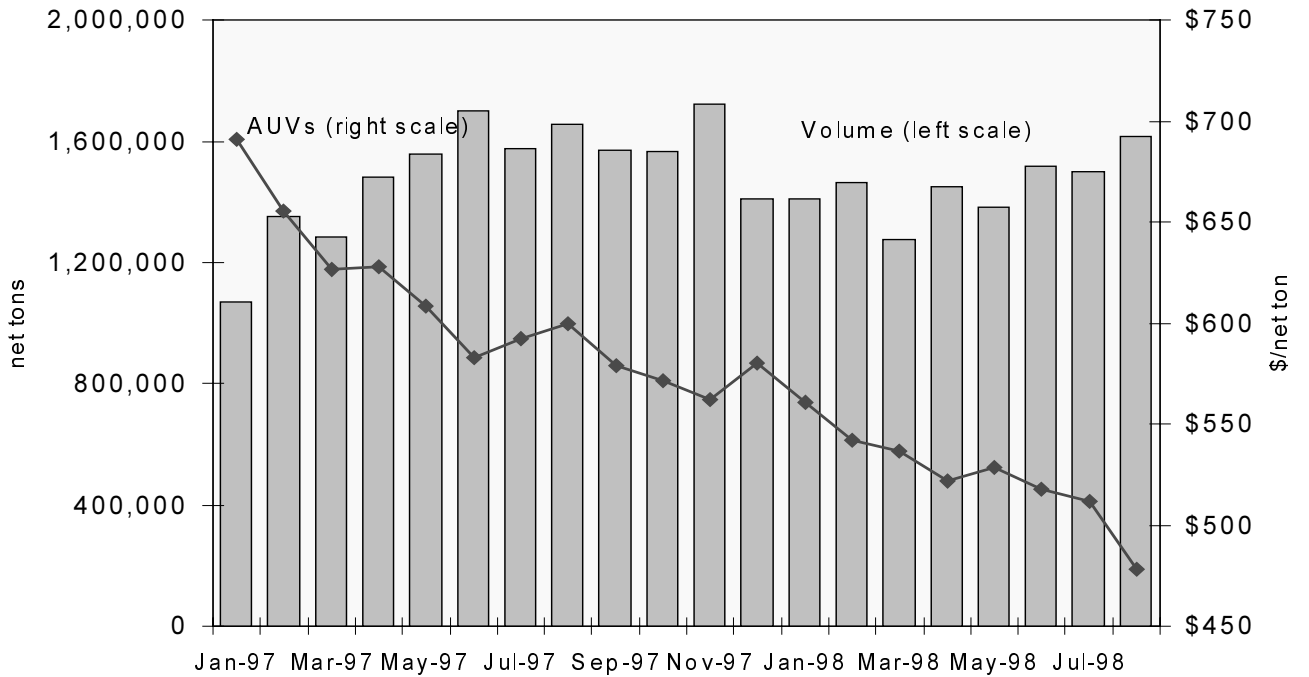


Prices Have Not Recovered Since Peak of Import Crisis

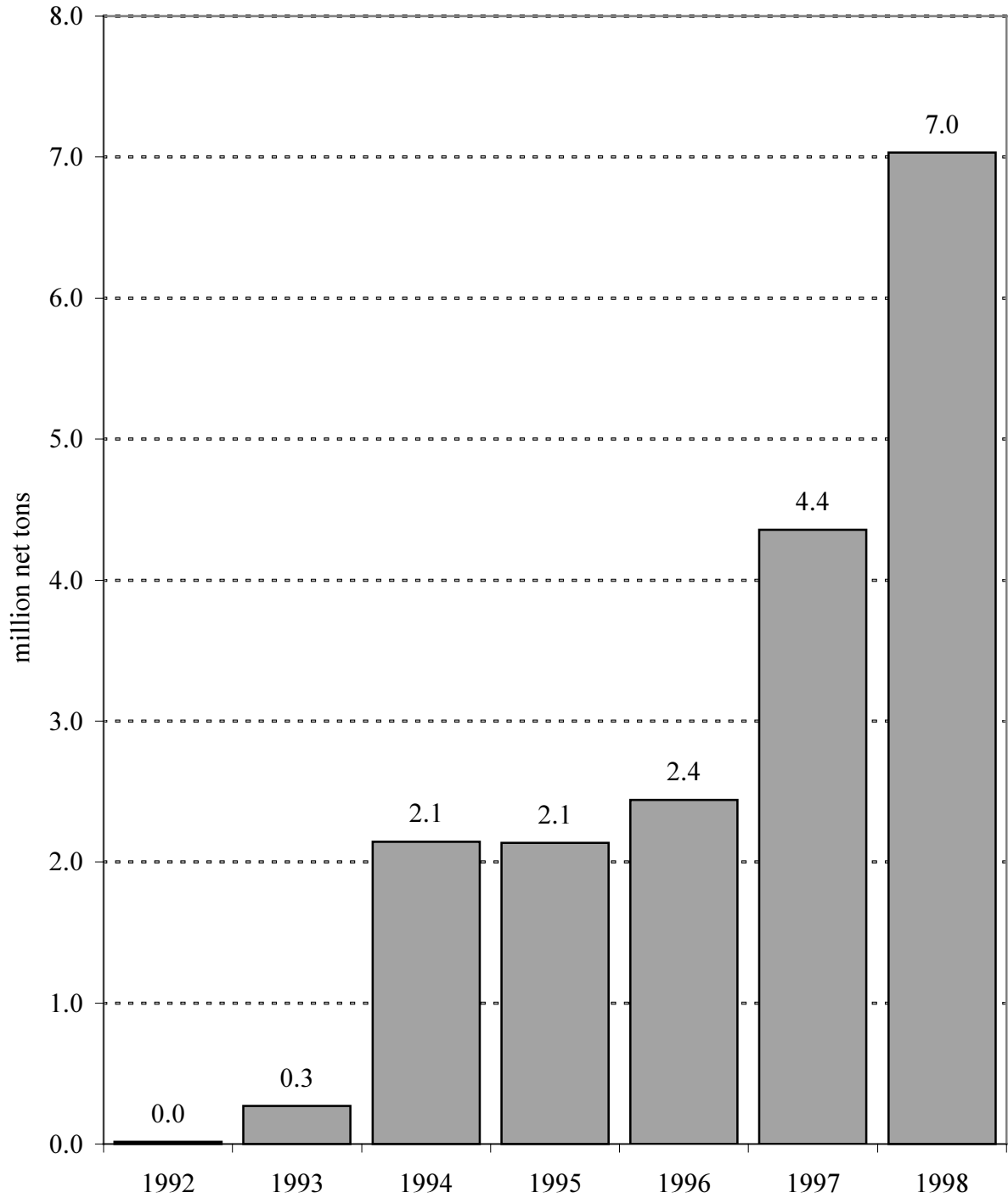
**Cut-to-Length Carbon Steel Plate Imports:
Volume and AUVs**



**Other Finished Steel Imports:
Volume and AUVs**



NAFTA Finished Steel Mill Imports from CIS Countries 1992 to 1998



Source: U.S. Department of Commerce, Statistics Canada and SECOFI.

Attachment 5

Recent and Pending North American Steel Trade Cases
Against Kazakhstan, Russia and Ukraine

Country	Products	<i>Countries</i>	<i>Results</i>	<i>Final Ruling</i>
Canada	Discrete Plate	Russia, Ukraine	AD: 25% - 64%	October 27, 1997
	Hot Rolled Sheet	Russia	AD: 32% - 77%	July 2, 1999
	Cold Rolled Steel	Russia	AD: 1% - 29%	August 29, 1999
	Carbon Plate (thick and low carbon equivalent)	Ukraine	AD Case Initiated 10/15/99	Est. May 15, 2000
Mexico	Plate in Coil	Russia	AD: 29%	1995
	Cut-to-Length Plate	Russia, Ukraine	AD: 49% - 68%	November 1998
	Cold Rolled Coil	Kazakhstan, Russia	AD: 44% - 88%	June 30, 1999
	Hot Rolled Coil	Russia, Ukraine	Prelim. AD: 20-40%	Est. December 1999
	Wire Rod	Ukraine	AD Case Initiated 7/27/99	Est. April 2000
U.S.	Cut-to-Length Plate	Russia, Ukraine	AD: 54 - 238% 5-Year Suspension Agreements. Quotas and price floors.	Effective November 1, 1997
	Hot Rolled Strip, Sheet, and Plate in Coil	Russia	AD: 74% - 185% 5 Year Suspension Agreement. Moratorium through Dec. 31, 1999. Quota and price floor to follow. [Final comprehensive agreement (Quotas) on 16 other products.]	Effective July 12, 1999 (under appeal by US petitioners)
	Cold Rolled Sheet and Strip	Russia	Prelim. AD Due 10/16/99	March 3, 2000

Attachment 6

June 4, 1999

**U.S. Assistance to the Russian Steel Industry:
Market Development Efforts to
Increase Domestic Steel Demand in Russia**

The American Iron and Steel Institute (AISI) recently submitted a statement to Congress on the issue of rebuilding domestic steel demand in the Commonwealth of Independent States (attached). There is an obvious need to do this -- and not just on the trade front to reduce Russia's dependence on steel exports. Russia's infrastructure is in urgent need of modernization. Its heating systems are outdated. Its highways and bridges are crumbling. Its supply of good, affordable housing is grossly inadequate.

While AISI and the North American Steel Framing Alliance have applied for a Commerce Department "SABIT" grant to bring a Russian mill manager to the United States to learn about U.S. steel framing in residential construction, this is but a small, first step. The challenge of effectively addressing the structural problem of severely depressed steel demand in Russia is made clear in AISI's testimony. Above all, steel's major customers must have the confidence to invest again in Russia. This will take time. And little will happen without an effective and stable political, economic and legal system. AISI's successful efforts to defend traditional steel markets and create new ones in North America do, however, show the potential. To give an idea of just how much steel could be used in some key areas of Russian need -- in the United States:

- the demand for steel products has been tremendous in recent years -- the construction market alone last year used an estimated 35 million tons of steel in everything from private and commercial housing, to highways and bridges, to water supply and disposal systems;
- an average 1800 square foot steel framed house uses approximately 7 tons of steel -- we have about 1.2 million housing starts annually;
- a typical short span bridge uses around 50 tons of steel -- we need to replace more than 180,000 of these; and
- every \$1 million spent on federal highway construction uses an average 25 tons of steel -- in the years 1998-2003, our new Highway Bill (TEA-21) could result in projects using an estimated 4.3 million tons of steel.

With a lower level of economic development and a different mix of steel industry advantages/disadvantages vis-à-vis competing materials, Russia would not necessarily experience the same degree of steel usage in these and other areas of critical need. In some cases, it could be higher. In others, it would be lower. But the basic conclusion still holds: Russia has significant infrastructure, transportation and housing needs, and steel should be part of the solution.

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Attachment 7



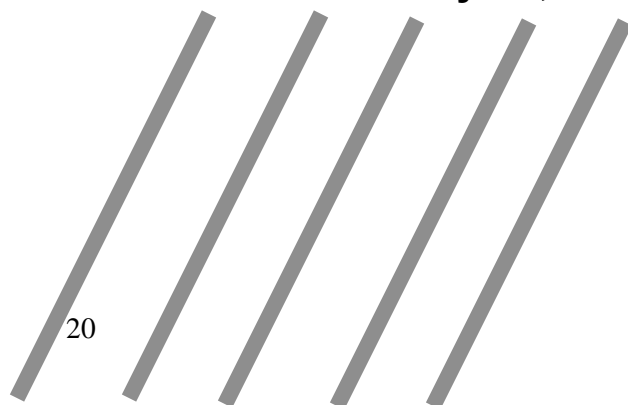
**American
Iron and Steel
Institute**

**Statement of the
American Iron and Steel Institute**

**before the
House of Representatives
Committee on Ways and Means**

**on
Ways to Seek Greater Foreign
Consumption of Excess Steel**

February 25, 1999



The following statement is submitted by the American Iron and Steel Institute (AISI) on behalf of its U.S. member companies, who together account for approximately two-thirds of the raw steel produced in the United States. Because other witnesses and submissions are providing the House Ways and Means Trade Subcommittee with a general overview of the U.S. steel trade crisis, AISI would like to offer this statement to address only a single aspect of the present crisis – namely, the Subcommittee’s interest in addressing “ways to seek greater foreign consumption of excess steel.”

It is correct that depressed steel demand and major structural economic failures abroad -- in the Commonwealth of Independent States (CIS), in Asia, in Brazil and elsewhere -- have contributed in important ways to the crisis in world steel markets today. The collapse of domestic steel demand in Russia and in parts of Asia has significantly exacerbated world steel overcapacity conditions and led in turn to unprecedented levels of steel dumping in the U.S. market. It is also the case that AISI, through its market development programs, has had success in promoting the use of steel – at least here, in the U.S. and NAFTA region. The question is: are there lessons to be learned from this AISI experience when it comes to promoting steel demand in the CIS and other world markets? AISI’s statement is divided into two parts – (1) our market development views and experience and (2) our observations on lessons to be learned.

AISI’s Market Development Views and Experience

With respect to the worsening global steel oversupply problem caused by the world financial crisis and the collapse of domestic steel demand in the CIS and Asia, AISI views the situation in two ways: first and foremost, as an *immediate, unprecedented* steel trade crisis, which must be addressed through a combination of private and public actions; and second, as a *long term* problem, where renewed efforts to promote domestic steel demand in other regions must -- along with restructuring and modernization -- be a part of *any* long term solution.

AISI also views the issues of trade and market development as *closely linked*. The current U.S. steel trade crisis is being driven by an excess of supply over demand caused by record levels of unfairly traded imports. One of the most frustrating aspects of this crisis is that it is occurring against the backdrop of continued strong U.S. steel demand. Indeed, there has been a remarkable rise in U.S. steel consumption in the 1990s, due to U.S. steel producers’ significant investment, working closely with customers, to establish world class practices and product applications. The problem is, record levels of unfairly traded imports have taken an increasing share of this growing market (see attached chart). Accordingly, it remains a top market development goal for AISI and its members to increase the North American share of the steel market and to ensure that the benefits of AISI’s successful efforts to grow the markets for steel in North America do *not* go to dumped and subsidized imports.

AISI has repeatedly made the point to foreign steel producers and governments that, while there may always be trade disputes, if steel’s customers *ever* stop thinking of steel as their material of choice, the steel industry world-wide loses. Put another way, AISI and its member companies believe strongly that, to be successful in promoting the use of steel, both the steel industry and steel the material must be *innovative, competitive, high tech and environmentally responsible*.

AISI and its member companies also know that it is necessary not only to think defensively, but to think about growth. Steel today is a high quality, low cost engineering material – one that offers *strength and safety*, while being *recyclable, affordable, durable and versatile*. As such, steel is and should be poised not only to defend and strengthen its role in current or *traditional* markets but to *grow new steel market applications* and to pursue aggressively new opportunities in such *growth markets* of the future as (1) residential construction, (2) commercial and industrial construction, (3) infrastructure and (4) transportation.

AISI believes that, whether it is the CIS or elsewhere, it is important that offshore steel producers look at their own situations and consider carefully whether AISI’s basic approach to market development makes sense for them. To summarize, AISI’s efforts aim to strengthen and expand *current* steel markets, identify *new* steel markets and create *innovative* approaches to increasing steel demand. We try to

anticipate the future needs of the market, *solve* critical issues and *partner* with engineers, designers, architects, builders and other companies, especially key customers and suppliers.

What AISI has learned is that it takes a *good business plan*, research and effective ways to “benchmark” or measure progress to drive the investment of key consuming markets toward steel. Simply put, it takes a lot of time, hard work *and money* to grow steel markets. Just in 1998: (1) AISI budgeted \$16 million on specific market development activities; (2) \$10 million more went to related programs that we co-fund and support -- programs such as the International Iron and Steel Institute’s (IISI’s) “ULSAB” project, the Auto-Steel Partnership, the Steel Recycling Institute, the North American Steel Framing Alliance and the Metal Roofing Alliance; and (3) on top of this, U.S. and Canadian producers spent another \$20 million on a TV ad campaign about “the new steel” – this as part of a five-year \$100 million investment to get the consumer to think more favorably about steel than about competing materials.

AISI and its members know, too, that it is always important to keep in mind the critical role of steel’s customers. Thanks not just to the efforts of U.S. and North American steel producers but even more to the efforts of North America’s world class *steel-consuming industries*, steel intensity has increased in the United States and throughout the NAFTA region in recent years. As a result, the IISI has announced that its “estimate for annual consumption in the year 2005 in the NAFTA (region) has been reassessed upwards by 20 million tons.”

Lessons to Be Learned from AISI's Experience

The IISI's recent announcement shows that it is possible to grow steel markets *in the NAFTA region*. But the question remains: are there lessons here that can translate into *other* markets? On that subject, we would like to conclude with five observations:

First, it is important to recognize that Asia and the CIS are *two very different situations*. While Asia until 1997 had the world's largest and fastest growing steel consumption, efforts to rebuild domestic steel demand from the ground up in *the CIS will require special measures*.

Second, until there is political and economic stability in the CIS, *nothing* will work.

Third, AISI believes that, *with* a return to stability, much is possible, and steel could indeed play a significant role in meeting the pressing current -- and future -- needs of the CIS with respect to housing, industry, infrastructure and transportation.

Fourth, as AISI also knows, it will take a long term commitment to grow steel markets, and there is a real question about how much steel producers themselves can do. After all, it is steel's *customers* who will need to *invest again* in the CIS, and it is they who will probably need to become *the leading force* behind any successful efforts to grow steel markets in the CIS.

Fifth, AISI believes that there are some lessons to be learned from our market development activities and that one of them, clearly, is the need for "partnering." CIS steel producers especially will need not only to modernize but to *downsize substantially*. This will be painful, and the U.S. and other OECD governments might need to assist them in this process. The OECD Steel Committee recently recognized this when it urged its members to consider a cooperative program aimed at facilitating multilateral solutions to specific aspects of this crisis, *including the CIS steel demand problem*. In this regard, AISI believes that, while, there should be national and multilateral efforts to help the Russian economy and its steel industry (e.g., by providing market development assistance), the U.S. government should *not* be helping Russia by depriving U.S. petitioners of the remedies due them under U.S. trade laws, i.e., by providing a guaranteed U.S. market share to dumped steel from Russia.

Conclusions – With a Focus on the CIS

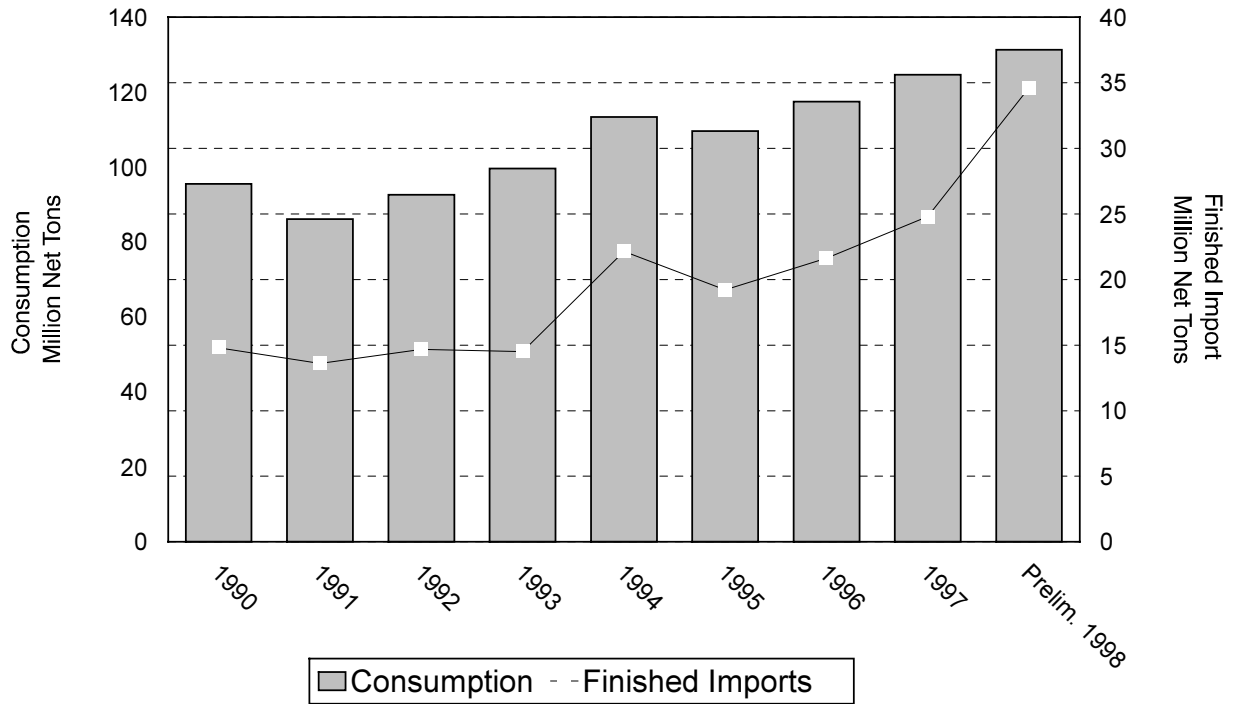
The CIS should begin by recognizing that, as a major world steel exporter, it has a responsibility to avoid dumping practices that export serious injury and unemployment to other markets. Steel producers elsewhere can help *only in small but important ways* by, for example, providing technical and marketing assistance. The steel framed house demonstration project that AISI participated in last year in Moscow was a start.

But there should be no illusions by anyone: first recovery, and then growth in the CIS, will take *many years* and a sustained, concerted effort by many players.

In the meantime, there can be no substitute for the full, strict enforcement of U.S. trade laws. This remains the most effective way to restore market forces, promote the necessary adjustment and rebuild domestic steel demand in the CIS and elsewhere.

AISI appreciates this opportunity to comment to the Trade Subcommittee on ways to seek greater foreign consumption of excess steel

**U.S. Steel Consumption Has Grown Sharply in Recent Years
But Imports, Many of Them Unfairly Traded,
Are Taking an Increasing Share**



Source: AISI and Dept. of Commerce, Bureau of Census

June 4, 1999

**U.S. Assistance to the Russian Steel Industry:
Environmental Remediation and Brownfields Redevelopment**

U.S. steel producers have endorsed an OECD Steel Committee concept paper, which stresses that the steel industries of Russia and Ukraine require assistance from both OECD governments and private sectors. That said, U.S. steel producers believe that there is a good way and a bad way of helping Russia. According to U.S. producers, the “bad way” is the proposed trade case suspension agreement, which would deny full relief to U.S. petitioners and undermine strict U.S. trade law enforcement. Again, according to U.S. producers, the “good way” is to provide technical assistance, e.g., to promote exchanges on best practices and to increase domestic steel demand in Russia. What follows is a discussion of the “good way” of helping Russia, focused on the issues of environmental remediation and brownfields redevelopment.

THE PROBLEM

Steel mills, particularly older, less efficient facilities, are by their nature potential sources of significant releases to the environment. In many OECD countries, including the United States, steady investments in newer technologies -- and the passage and enforcement of stringent environmental laws and regulations -- have greatly minimized the impact of pollution from steel plants. Even so, many older plants here and elsewhere carry a legacy of environmental problems that may pre-date the more efficient, less polluting operations of recent decades. As a consequence, when older facilities are shut down, in whole or in part, as a result of business conditions or competitive pressures, there is often a need to undertake substantial environmental investigation and remediation activities.

In countries such as Russia, economic difficulties or the lack of environmental regulatory enforcement has undoubtedly led to more rapid deterioration of environmental conditions in and around manufacturing facilities such as steel plants. Contamination from abandoned mills likely includes:

- residual dusts and sludges on the property,
- tanks or other vessels containing hazardous materials or toxic wastes,
- sediments in nearby receiving streams and
- contaminated ground water, potentially on and off-site.

Remediation of these sites presents both a need and an opportunity. The need results because of the intrinsic environmental hazard that might exist at the site. The opportunity arises because it could be a prerequisite for redevelopment of the land for other commercial or industrial purposes.

THE U.S. EXPERIENCE

In the U.S., many older steel plants were located in urban areas, often along rivers and lakes that provided essential transportation services. The areas surrounding these facilities were typically heavily populated. This was due not only to the concentration of workers needed for the facilities themselves but to the many supplier and customer businesses that were located near, and relied on, steel mills.

As basic manufacturing has shifted geographically and as older facilities have been shut down and replaced or consolidated with more productive, efficient operations, many idled properties were left behind. These urban parcels of land became known as "brownfields" to distinguish them from newly developed industrial property in suburban or rural "greenfield" locations. Municipalities in which these lands are located have struggled with the loss of a vibrant manufacturing tax base and the many services and social programs that such a tax base provides to communities. Unemployment was another unavoidable result of these closed steel plants.

As community leaders sought ways to revitalize the inner cities and create new jobs in urban areas, many of these under-utilized land parcels became prime candidates for redevelopment. In cities such as Pittsburgh and Cleveland, for example, efforts were made to subdivide and develop former steel mill sites for light manufacturing, commercial or recreational purposes. However, efforts to investigate potential pollution on the site, and to take steps to ensure the environmental safety of the property for redevelopment, were often cost-prohibitive. In addition, questions of rezoning and of liabilities of both the sellers and the buyers frequently created obstacles to business-to-business transactions.

The joint and several liability provisions of the Superfund (CERCLA) law largely contributed to the liability concerns. To deal with some of these issues, regional planning commissions or quasi-governmental authorities were created to take ownership and management of properties, and financial incentives were provided through state and local legislative initiatives.

The U.S. EPA has undertaken a significant brownfields redevelopment program and has provided financial grants to help many communities create pilot programs and organizations to deal with local brownfield problems. While this program has met with some success, many opportunities remain, in large part because of the difficulty of dealing with liability questions, including the liability of sellers, buyers, intermediate landowners, lenders, adjacent property owners and other parties. Defining the degree of cleanup has also been a major obstacle due to how the Superfund law has been interpreted and implemented.

State brownfields laws have helped. However, liability and "how clean is clean?" issues remain, and the problem will not be resolved unless and until the Superfund law is changed. Superfund reform legislation has been under consideration for years, and brownfields redevelopment has been part of that debate. But other contentious aspects of Superfund reform and political positioning have delayed enactment of Superfund reform. Likewise, independent brownfields legislation has been unable to transcend the Superfund debate. Currently proposed federal Superfund legislation by both parties includes language

that would provide additional brownfields redevelopment financial assistance and would limit the liability of both sellers and buyers of brownfields property, but chances of passage remain elusive.

LESSONS FOR RUSSIA?

Russia's economic downturn has resulted in many idled steelmaking facilities that no doubt have similar characteristics to U.S. steel facility brownfield sites. Russia is reported to have shut down over 40 million tons of steelmaking capacity in recent years, but no one knows for sure how much of this is temporary or permanent. Efforts to restore these sites to productive use would not be in the U.S. national interest if that production were to be in the form of steel. Such revitalization would only exacerbate world steel oversupply conditions and world steel trade tensions, including trade problems for the United States. If, however, idled steel plants in Russia could be *permanently and completely* shut down and developed for *other* purposes, it could have a positive impact on world steel markets. From that standpoint, lessons learned from the U.S. experience could be instructive.

First of all, it is likely that the environmental problems associated with idle steel sites in Russia are far greater than those in the U.S. because of years of operation under minimal or no environmental controls and due to the lack of adequate enforcement over a longer period of time. Nevertheless, it is *also* possible that cleanups in Russia could be more readily achievable and redevelopment more feasible because of institutional differences between our two countries.

Because Russia does not have a law comparable to the U.S. Superfund law, many of the problems confronted by brownfields developers in the United States might be avoided in Russia. Case in point: it should be easier to define clean-up measures based on risk assessment and tailored to site-specific conditions than has been the case in the U.S. For example, contaminated ground water in Russia might be cleaned up to appropriate site-specific, risk-based levels that could be developed in consideration of reasonably anticipated future land use and exposure assumptions. Training in risk assessment and remedy selection decision-making processes might be especially helpful in this area. By contrast, in the U.S. -- without changes to Superfund

-- standards might not permit such an outcome. In addition, liability laws or traditions in Russia could be much less of an obstacle to satisfactory remediation and to business transactions for redevelopment than in the U.S. In Russia, governments and courts might have more authority to hold parties harmless in questions of liability.

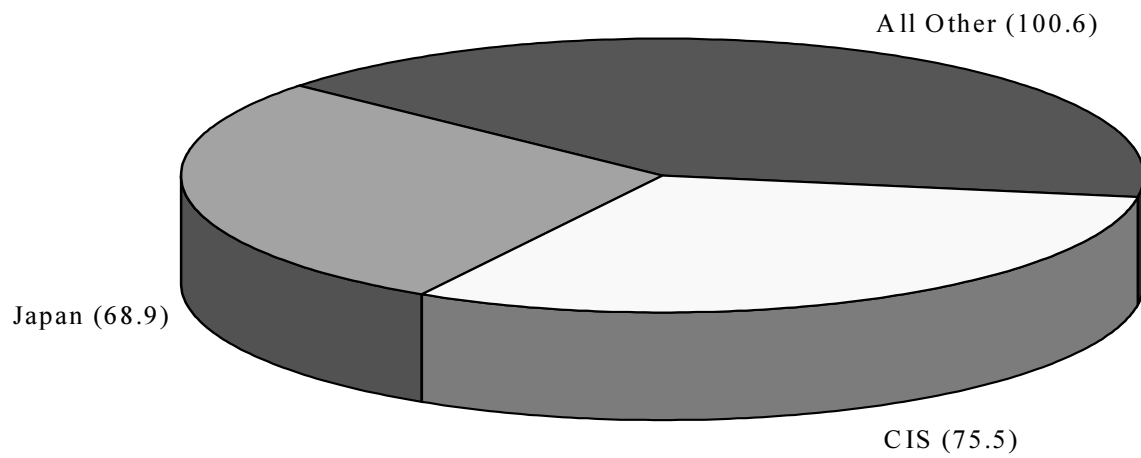
Other Issues

In addition to helping to shut down completely, permanently close, clean up and redevelop obsolete and uneconomic steel sites in Russia, there is the issue of what to do about remaining steel capacity that still requires major improvements in energy efficiency, environmental performance and productivity. With respect to this problem, and as noted in the OECD Steel Committee concept paper, positive initiatives are possible, and mill visits, information exchanges and technical assistance could all be part of the mix. However, any U.S. government effort that involves using U.S. taxpayer dollars (subsidies) to help modernize, clean up and *make more competitive* remaining steel capacity in Russia would meet with stiff political resistance in the United States.

Against the background of an ongoing, severe liquidity squeeze, the steel crisis in Russia presents a complex set of issues, which go well beyond the need for environmental remediation and brownfields redevelopment. In this regard, it is clear that, even within the context of environmental issues, any successful effort would have to focus on other areas of related need. These include worker retraining, small business assistance and steps to rebuild domestic steel demand in Russia.

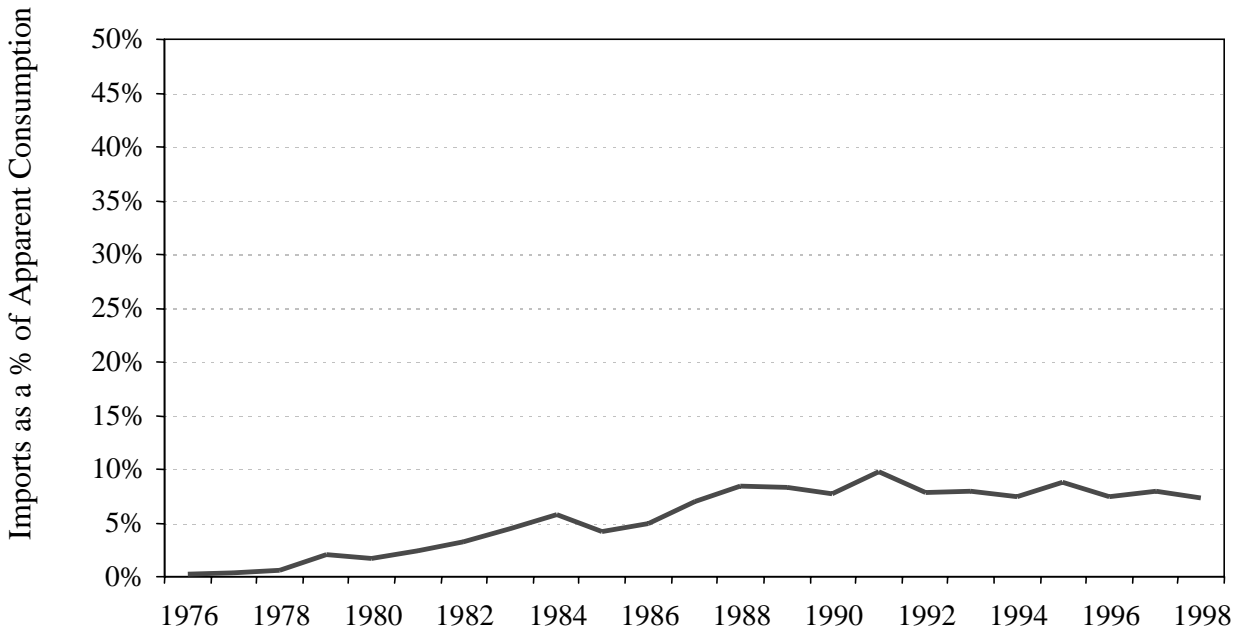
**Estimated World Excess Capacity for Finished Steel Products
in 1998 Was 245 Million Metric Tons**

Excess Capacity is Capacity in Region that Exceeds Demand in Region

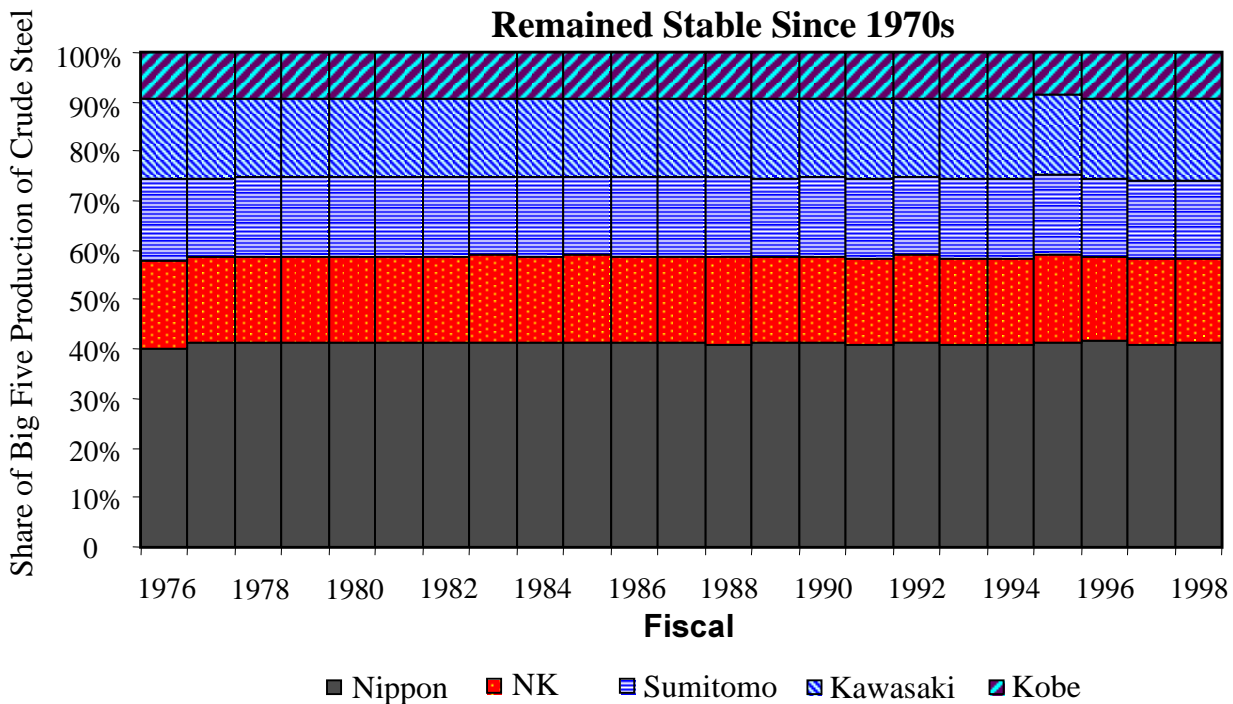


Source: Capacity: OECD, The Steel Market in 1997 and Outlook for 1998 and 1999 (OECD, 1998); Demand: IISI, Short and Medium Term Outlook for Steel Demand (October 4, 1999).

Steel Imports as a Percent of Apparent Consumption Have



Japanese Production Shares Have Remained Stable Since 1970s



Source: Corporate financial statements filed with Ministry of Finance, Table D. Note that single-percent likely the result of rounding errors (some data provided in thousand-ton increments). The 1994 JFTC Study zero shift among producers during 1976-1993 period, despite changes implied by rounded