

STEEL MANUFACTURERS ASSOCIATION

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Honorable Carlos Gutierrez
Secretary of Commerce
U.S. Department of Commerce
14th Street and Constitution Avenue, NW
Washington, D.C. 20230

Dear Secretary Gutierrez:

On behalf of the Steel Manufacturers Association, we wish to comment on the need for the application of U.S. Countervailing Duty (CVD) law against subsidized imports from non-market economy (NME) nations.

The Steel Manufacturers Association represents primarily electric arc furnace producers, or minimills, that make steel from recycled scrap. In 2006, approximately 59% of the steel produced in the US was made in minimills from and recycled steel.

The Department of Commerce determined in 1985 that it would not use the CVD statute to respond to subsidized exports to the U.S. from non-market economies. That, of course, was 26 years ago, when imports to the U.S. from the NMEs were almost non-existent. Today, for example, China, now a gargantuan NME, will shortly attain foreign monetary reserve holdings equivalent to one trillion U.S. dollars, most of which are in U.S. dollar reserves, earned predominantly from China's favorable trade balance with the United States. The international economic position of the U.S. has markedly deteriorated since 1985, and, accordingly, U.S. policies must also change to respond to new international economic challenges.

There is very little difference in the result whether “the resource allocation is determined by the state” in a non-market economy, or the subsidy was similarly accorded in a market economy. For example, the European Union and its member states, all market economies, injected \$60 billion in state subsidies into their steel industries in the 1970s. China has similarly subsidized its steel industry and the negative impact is the same. These subsidies have produced comparable results, namely, new steel capacity has been built and existing capacity, which would not otherwise have continued to exist, has been kept on line. The results and the negative impact of subsidies on competition and international trade are the same whether in the European market economies, or in a non-market economy.

We agree with Secretary Gutierrez’s comment that “any application of the CVD law should only occur after careful consideration of the broader policy and methodological implications to which such a decision would give rise”. Accordingly, we wish to emphasize that we are not proposing the indiscriminate use of CVD actions against NME exports, or the application of duties that are inaccurately quantified. This would be an unacceptable policy step. However, where a key core industry such as steel, which is essential to U.S. economic security, is inundated or threatened with subsidized imports, the U.S. should have no hesitation in informing that NME that, unless they desist, the U.S. will impose CVDs based upon the readily quantifiable subsidies provided to steel companies by their government.

Regrettably, for example, the steel sector has the potential to be a major source of increased U.S. trade friction with China, which has built the largest steel industry in the world with government subsidies, and now has steel-making capacity far in excess of its domestic requirements. In U.S. data from “Imports for Consumption of Steel Products for November 2006, China’s exports to the U.S. are 4.6 million tonnes, double over the comparable period in 2005. November’s preliminary numbers alone, at 472, 556 tonnes, demonstrate an intolerable level of steel imports from a subsidized industry. Increased U.S. steel imports, as a component of an increased U.S. bilateral trade deficit with China, will cause trouble. They could seriously injure North American steel producers. We urgently and respectfully ask that U.S. to use all of its trade laws, including CVDs, to counter disruption in U.S. markets from subsidized NME exports.

Respectfully, we submit these views as a prescription for an effective response to any future protectionist actions proposed by others.

Sincerely,

Thomas A. Danjczek
President
Steel Manufacturers Association

c.c. SMA Board of Directors