**Comments of Metals Service Center Institute (“MSCI”)**

**Concerning Policy Recommendations on the Global Steel Industry Situation and Impact on U.S. Steel Industry and Market Docket No. USTR-2016-0001**

The following comments are submitted on behalf of the Metals Service Center Institute (“MSCI”), a U.S. trade association representing over 300 U.S. and Canadian member companies which operate in over 1,200 business locations across North America and employ more than an estimated 50,000 workers. Member service centers supply the steel requirements of more than an estimated 300,000 downstream manufacturers and fabricators, many of whom operate in an increasingly competitive global economy. Collectively, service centers are the largest domestic customers of U.S. mills, purchasing more than an estimated 30 percent of all carbon and well over an estimated 50 percent of all specialty steels produced and distributed in this country. Service centers cut, fold, shape, polish and further process steel purchased from mills and then sell processed steel directly to manufacturers, machine shops and others in the steel supply chain.

Given the position of service centers within the steel distribution chain, MSCI believes its interests mirror the “national interest.” Steel service centers, as the “middlemen” in that chain, are an important barometer of the health of the entire industry. Service centers purchase both domestically and foreign produced steel for processing. Yet if service center shipments are down, that is generally an indication, like the proverbial canary in the coal mine, that there are problems in the steel production and steel consuming industries as well.

Service centers will suffer economic harm if the domestic mills collapse because of the need for a strong and viable U.S. production base. Likewise, service centers will suffer harm if needed imports are cut off or its customers find themselves priced out of their own markets due to high material costs. Like the country as a whole, the service center industry requires

thoughtful trade policy initiatives that avoid the binary or sterile choices of the past. The U.S. economy, as well as the service center industry, needs a competitive domestic steel sector *and* a competitive domestic manufacturing base in the broadest sense.

**The Problem**

The global steel industry today is confronting significant challenges as a result of the growing disjunction between global steelmaking capacity and global steel demand. As noted in a recent OECD report, global steel capacity has more than doubled since the early 2000s. OECD (2015), *Excess Capacity in the Global Steel Industry and the Implications of New Investment Projects*, OECD Science, Technology and Industry Policy Papers, No. 18, OECD Publishing ("OECD Report"), at 5. The causes of the current conditions are not a mystery. The disjunction between capacity and demand has been fueled in large part by the intentional actions of foreign governments, some of whose economies are free market in name only. In particular, China has, through various anti-competitive mechanisms such as massive state-sponsored subsidies, substantially increased its domestic steel industry in the last several years, including during a time of stagnant—and negative—growth in its own steel consumption, when free market forces would instead dictate industry restructuring and consolidation. With investment in new capacity continuing to grow, and with growth in steel consumption expected to remain moderate, world-wide excess capacity in the steel sector will, if left unaddressed, continue to increase.

There is no question that the U.S. steel industry has suffered from these developments, as measured by demand for carbon steel, which is reflected in service center shipments. As the chart in Exhibit 1 shows, steel shipments from MSCI member companies in 2015 were only 65% of peak shipments before the 2008 great recession. While shipments have recovered somewhat

in recent years, the peak-to-peak period for recovery from the 2008 recession, as the chart in Exhibit 2 shows, has taken more than twice the average recovery period of previous recessions.

MSCI believes that the health of the U.S. domestic steel industry is critical to the entire U.S. manufacturing sector, as well as to the broader U.S. economy as a whole, and that the problems posed by foreign government-sponsored capacity expansion demand a U.S. government response. The OECD Report urged governments "to work towards removing market distorting policies, such as subsidies that promote the emergence of new capacity or delay the closure of failing companies, eliminating trade and investment barriers that slow the restructuring that is needed for the industry allowing market-based investment decisions in the steel sector, and ensuring that new plants are subject to the standards that protect the environment and uphold worker safety." OECD Report at 6. It is imperative, and consistent with the recommendations of the OECD Report, that the U.S. government join with its trading partners and respond to the challenges posed by global excess capacity in the steel sector if the most severe economic impacts to the U.S. economy are to be avoided.

In crafting an appropriate response to the problems of the U.S. steel industry, however, it is critical that U.S. policy makers consider the impact of U.S. trade policy on downstream U.S. markets and U.S. manufacturers, as well as domestic steel producers. The recent increase in imported steel-containing goods ("indirect steel imports"), as shown in the chart in Exhibit 3, reflects the increase in the off-shoring of U.S. manufacturing capability. Finished goods are no longer consuming steel in the United States, but are being manufactured abroad and imported back into this country.

As previously noted, steel service centers purchase both domestic and foreign steel for further processing and sale to manufacturers and other downstream markets. Simply increasing the price of imported steel, through special tariffs or otherwise, will inevitably increase the input costs of U.S. manufactured steel products, potentially making important segments of the U.S. manufacturing base less competitive in the global economy. To the extent that foreign steel, otherwise subject to higher duties, is used in the foreign manufacture of furnished products that compete with U.S. manufactured products, the U.S. manufacturing base will be further compromised.

U.S. steel policy in these circumstances thus requires careful balancing.

**MSCI's Recommendations**

MSCI is a strong proponent of free and fair trade. But foreign government policies that distort markets—such as subsidies that promote new capacity or delay the closure of unneeded existing capacity, and currency manipulation—undermine free and fair trade by circumventing the basic rules of the marketplace. The U.S. government has attempted to ensure free and fair trade through its membership and participation in the World Trade Organization and by entering into various multilateral, bilateral, and regional trade agreements to establish the rules of international commerce. MSCI has generally and strongly supported these agreements. However, the effectiveness of trade agreements in promoting free and fair trade depends on vigorous monitoring of each party's compliance and prompt and vigorous enforcement against violators. To facilitate expanded trade and commerce, the United States government must redouble its commitment and efforts to enforce its trade agreements and laws.

MSCI recommends that, in addressing the problem of foreign government-induced excess capacity in the global steel sector, U.S. trade policy should be guided by the following three principles and objectives:

First, U.S. trade negotiators should engage with our trading partners directly to reduce global excess capacity through negotiation, both bilaterally and multilaterally. It should be a stated principal objective of U.S. trade policy to target excess capacity in countries that increase capacity through market distorting policies. The objective should be to reduce global excess capacity, as determined by U.S. trade agencies, by a certain percentage over a period of, say, five years. Failure to reach negotiated reductions would be subject to offsetting trade sanctions, such as tariffs or licenses.

Second, MSCI believes that one of the principal forms of market distortion continues to be currency manipulation by certain countries — principally China. A substantially undervalued Chinese currency makes all Chinese exports to the U.S., not just steel, cheaper and hurts U.S. producers. This is one of the major reasons for the growing merchandise trade deficit with China, which last year exceeded $366 billion. It is long past time to recognize the facts and declare the Chinese government as a currency manipulator.

And third, if the United States were to impose additional tariffs on imported steel, to avoid unintended damage to the U.S. manufacturers that utilize steel in their manufactured products, it would be essential to impose a corresponding and offsetting tariff on steel-containing products identified by USTR in consultation with domestic steel consuming companies. The offsetting duty on the steel component part of the foreign imported product should be based upon, and equivalent to, the additional tariff imposed on the imported steel itself. Any such tariff

program should, if adopted, be temporary and gradually phased out in regular intervals as import values increase until the applicable tariffs reach zero.

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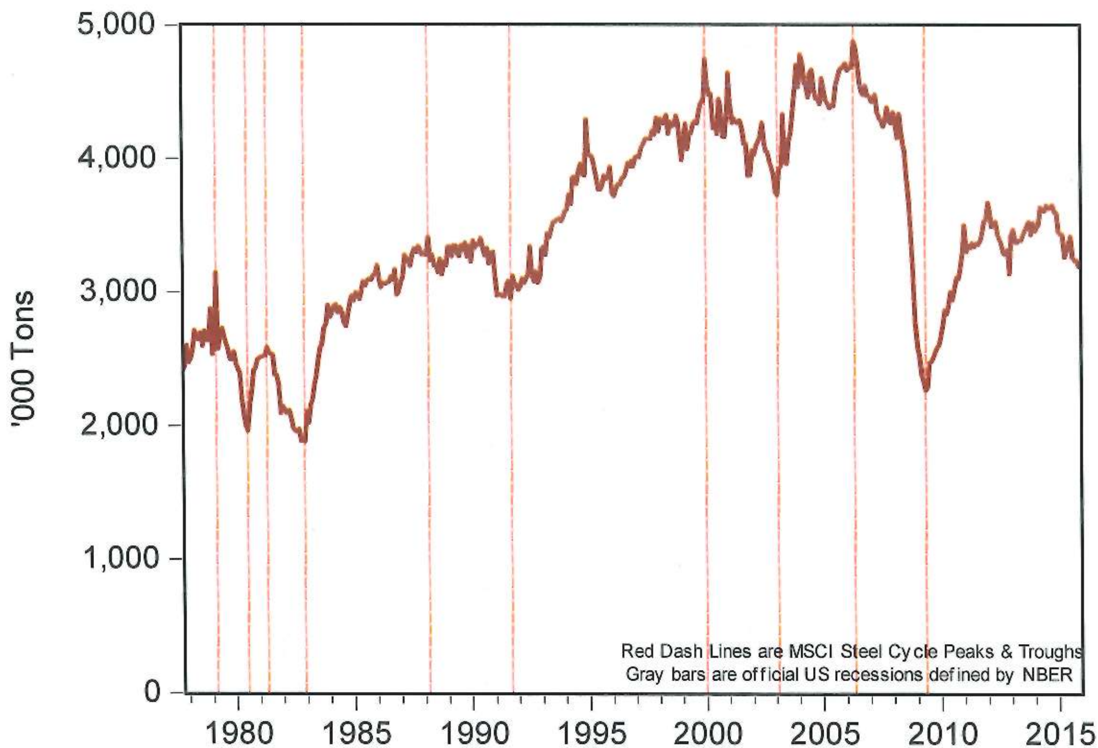
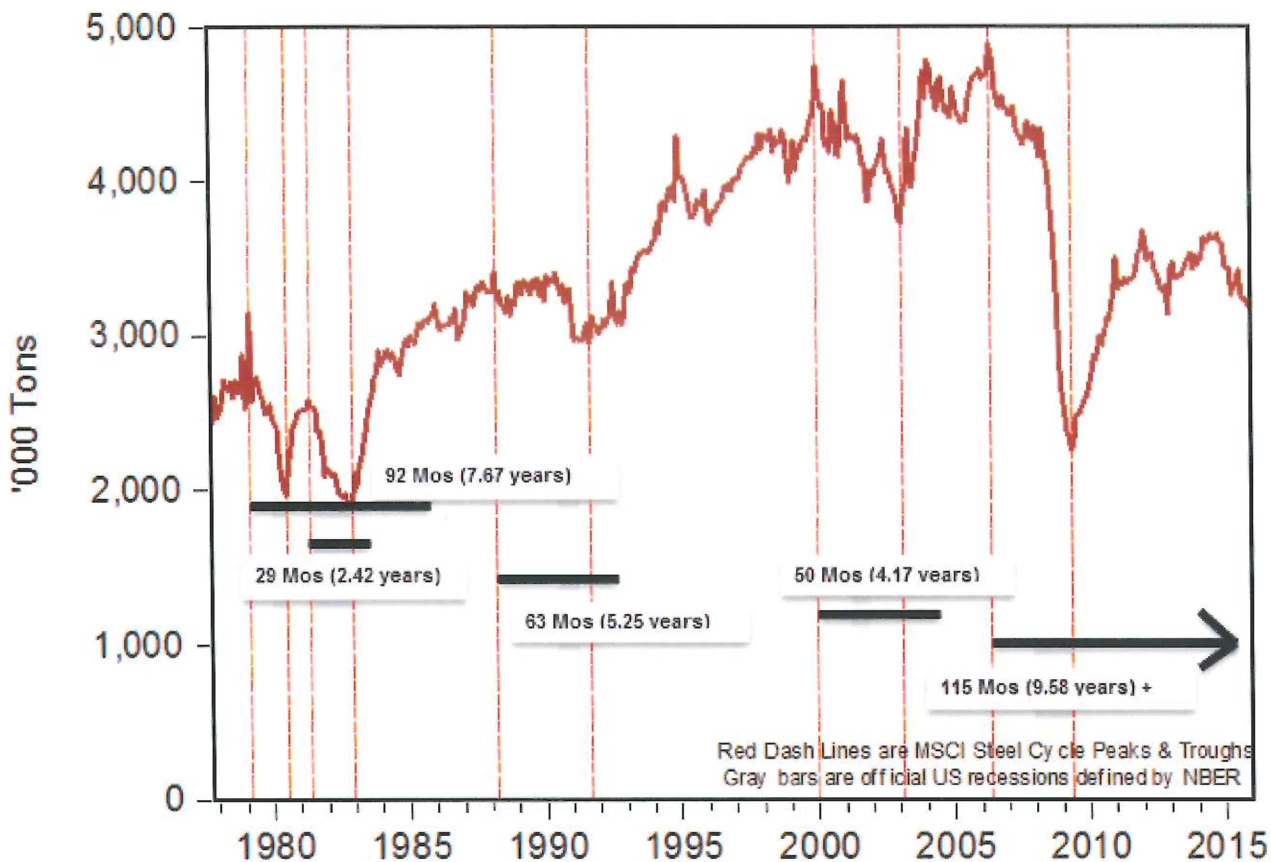
The causes of global excess capacity in the steel sector may be many, but, if unaddressed, the consequences to the U.S. steel industry and the U.S. economy will be severe. In fashioning a remedy for a growing problem, however, it is critical that the remedy is carefully considered and not cause undue harm or unintended consequences to the U.S. manufacturing base or the rest of the U.S. economy.

EXHIBIT 1

# Demand for carbon steel, as measured by service center shipments, ***has not returned to long-term trend*** since the 2008 Great Recession



# Peak to Peak Duration of Recovery



# U.S. Indirect Steel Import Summary – Market Sectors

2014 Indirect steel imports expanded upon the high imports levels set in 2013 and have increased for 5 consecutive years. The dollar value and the steel content of indirect steel products imported in 2014 increased by 4% and 3%, respectively, vs. 2013. The steel content contained in these finished goods was up by 1.1 million tons and the trade value increased by $23 billion. The overall increase of 3% ('14 vs. '13) was due to import tonnage gains in Machinery (+7%), Construction (+9%) and Appliance (+15%) partially offset by a decline in Automotive (-4%).

| | IMPORT TRADE VALUE – ($ Billion) | | | | | | IMPORT STEEL CONTENT - (Million NT) | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| MFG. SECTOR | 2010 | 2011 | 2012 | 2013 | 2014 | 14 VS. 13 | 2010 | 2011 | 2012 | 2013 | 2014 | 14 VS. 13 |
| AUTOMOTIVE | 199.9 | 223.6 | 262.6 | 276.8 | 274.4 | -0.9% | 12.0 | 13.4 | 15.2 | 15.5 | 14.9 | -4.0% |
| MACHINERY | 141.2 | 175.5 | 194.1 | 192.1 | 212.0 | 10.3% | 11.5 | 13.9 | 15.2 | 15.1 | 16.2 | 7.4% |
| Other Indirect Mkt. | 63.0 | 66.6 | 73.6 | 78.8 | 78.5 | -0.4% | 5.6 | 5.9 | 6.3 | 6.6 | 6.6 | -0.7% |
| CONSTRUCTION | 18.6 | 21.2 | 24.2 | 23.9 | 25.8 | 7.8% | 2.4 | 2.7 | 3.1 | 2.9 | 3.2 | 9.1% |
| Appliance & Utensils | 22.2 | 23.2 | 24.1 | 25.7 | 29.3 | 14.0% | 2.1 | 2.1 | 2.1 | 2.3 | 2.7 | 14.6% |
| totals | 444.8 | 510.0 | 578.5 | 597.4 | 620.0 | 3.8% | 33.6 | 37.9 | 42.0 | 42.5 | 43.5 | 2.5% |