American Iron and Steel Institute

CPTI

THE COMMITTEE ON PIPE AND TUBE IMPORTS

SSINA

Specialty Steel Industry of North America

SMA

STEEL MANUFACTURERS ASSOCIATION

UNITED STEELWORKERS

USW

UNITY AND STRENGTH FOR WORKERS

March 23, 2009

Ambassador Ronald Kirk
United States Trade Representative
600 17th Street, N.W.
Washington, DC 20508
United States of America

Re: ***Chinese Actions to Boost Steel Exports***

Dear Ambassador Kirk:

We are writing on behalf of the American Iron and Steel Institute, the Steel Manufacturers Association, the Committee on Pipe and Tube Imports, the Specialty Steel Industry of North America, and the United Steelworkers. Together, the companies represented by these trade associations and the members of the USW account for almost all steel production in the United States. The People's Republic of China, the United States' second-largest trading partner, is considering actions that will profit China at the expense of the steel industries and workers in the U.S. and other countries. These moves could raise unemployment in the United States and destabilize the world economy.

China is the world's largest steel producer, and its largest exporter. In addition, Chinese steel has been found repeatedly to be highly subsidized, and to have been dumped in the U.S. and other markets. Despite the unprecedented decline in steel demand in the United States, China remains the largest offshore supplier of finished steel to the U.S. market. Nevertheless, due to a recent decline in its global steel exports, China is considering the reintroduction or enlargement of Value Added Tax ("VAT") rebates upon the exportation of certain high value steel products. Significantly, China is considering this move even though, unlike the rest of the world, steel production in China so far in 2009 has actually risen compared to 2008.

If China moves forward with this plan, unfairly traded Chinese steel exports to the United States and other countries are likely to expand rapidly. China's action could hardly come at a worse time. An increase in imports from China would have a devastating impact on the American steel industry, and on its workers and communities across the country. With the collapse in demand in the automotive and construction sectors, America's steel producers are reeling. Monthly steel production in the United States has fallen by over 50 percent since last May, and thousands of jobs have been lost in the industry. American steel producers are operating at close to 40 percent of capacity, levels not seen since the Great Depression. The Chinese steel industry, on the other hand, has expanded production in the first two months of 2009, and continues to operate at high levels of capacity utilization. Basically, China is attempting to keep its steel mills running by exporting more steel to the United States, at the very time the American steel industry has seen demand for its products plummet. In essence, China is trying to export its unemployment here. A further surge at this time in unfairly traded exports of Chinese steel would force America's steel producers to cut production even more, and could lead to the loss of many more jobs.

As importantly, the reintroduction or increase of VAT rebates on exports could further destabilize of the world economy. Several countries around the world, including India, Turkey, Russia, Ukraine, and Egypt, have recently raised tariffs or taken other steps to erect barriers to imports of steel from China and other countries. This means that Chinese steel producers will have no choice but to rely on the U.S. market even more, putting still greater pressure on American producers and workers, while U.S. producers might find it more difficult to export their steel.

As you know, American manufacturers already face a significant and unjustifiable competitive disadvantage resulting from inequitable WTO rules relating to tax rebates. These rules allow rebates of VATs for exports, but prohibit equivalent rebates of direct taxes such as U.S. income taxes. Congress has repeatedly instructed our negotiators to raise this issue in various international negotiations. China's continuing manipulation of its VAT system to promote production and export of certain products only exacerbates this underlying unfairness.

If pursued, China's policies could ultimately make everyone worse off, including both the United States and China. For these reasons, we urge you to consult with other governments and to request immediate consultations regarding this issue with the Chinese government. The United States government should make it absolutely clear to the government of China that China's proposed course of action will damage the American economy at a time when global economic recovery depends very much upon recovery in the United States. If China wishes to produce more steel, it should do so by stimulating its own domestic demand for steel, not exports.

Sincerely,

Thomas J. Gibson
President, AISI

Leo W. Gerard
President, USW

David Hartquist
Counsel, SSINA

Thomas A. Danjczek
President, SMA

Roger B. Schagrin
Executive Director & General Counsel, CPTI