Philip K. Bell
President

Phone: (202) 296-1515

21st Century Steelmakers

PUBLIC DOCUMENT

July 13, 2018

VIA REGULATIONS.GOV

Ambassador Robert E. Lighthizer
United States Trade Representative
600 17th Street, N.W.
Washington, DC 20508

Attn: Arthur Tsao

Re: ***Docket No. USTR-2018-0018-0001: Testimony on Section 301 China's Acts Policies and Practices Related to Technology Transfer, Intellectual Property and Innovation: Annex C Products to be included: Fabricated structural steel classified under HTS 7308.10, 7308.20, 7308.90***

Dear Ambassador Lighthizer:

I am writing on behalf of the Steel Manufacturers Association (SMA), representing 26 electric arc furnace steel producers in 43 states, and 115 Congressional districts. As SMA's President, I also serve on ITAC 7, the Steel International Trade Advisory Committee. With regard to the list of products developed by the Office of the U.S. Trade Representative (USTR) to be included for an additional 25 percent ad valorem tariff on imports from China, SMA supports the inclusion of fabricated structural steel classifiable under Harmonized Tariff Scheduled items 7308.10, 7308.20 and 7308.90 and listed in Annex C of the *Notice of Determination and Request for Public Comments Concerning Proposed Determination of Action Pursuant to Section 301: China's Acts, Policies and Practices Related to Technology Transfer, Intellectual Property and Innovation*, (83 FR 13248, June 20, 2018).

SMA member companies account for a substantial proportion of domestic steel used in U.S. production of fabricated structural steel, including hollow structural sections, steel plate and hot-rolled steel. In

response to the above *Federal Register* notice, I requested to appear on behalf of SMA at the July 24, 2018 hearing.

On July 6, 2018, USTR's Office of General Counsel informed me by email that my request to appear at the hearing has been granted. SMA hereby submits the attached testimony for the hearing in this proceeding to be held on July 24 and 25, 2018.

Please do not hesitate to contact me if you have any questions.

Sincerely,

Philip K. Bell
President

Cc: Honorable Wilbur Ross, Secretary of Commerce
Stephen Vaughn, General Counsel, USTR
William Busis, Chair 301 Committee, USTR
Terrence McCartin, Assistant USTR for China Affairs, USTR

Statement of Philip K. Bell

President, Steel Manufacturers Association (SMA)

Public Hearing Regarding China's Acts Policies and Practices related to Technology Transfer, Intellectual Property and Innovation

Before the Committee on Section 301 of the Trade Act of 1974

Office of the U.S. Trade Representative

July 24-25, 2018

Good morning, Mr. Chairman and members of the Section 301 Committee. Thank you for the opportunity to appear before you today. My name is Philip K. Bell and I am President of the Steel Manufacturers Association (SMA). The SMA is the primary steel trade association for electric arc furnace (EAF) steel producers in the United States. EAF steel producers account for over two-thirds of domestic steel production. As "21st Century Steelmakers" our members utilize post-consumer ferrous scrap as their principal feedstock, turning this recycled material into world-class steel.

I am here to support the inclusion of fabricated structural steel products **on the list of products to which an additional 25 percent *ad valorem* duty will be applied on imports**

from China. These products appear on USTR's proposed Annex C published in the *Federal Register* on June 20, 2018, [1] and are detailed in our written submission.

Fabricated structural steel is used to construct buildings, bridges, and industrial facilities. Steel beams, plates, rebar and tubes are fabricated into components of buildings and critical infrastructure projects. Steel is a vital to these important projects and fabricating structural steel is a critical manufacturing step to incorporate steel into structures such as bridges, airports, oil and gas facilities, utility projects, chemical plants, medical facilities, and port facilities. The American Institute of Steel Construction estimates that approximately 6.7 million tons of domestically-produced structural steel were used in domestic fabrication projects in 2017. Several SMA steel companies fabricate their own structural steel products in addition to making the steel inputs for these products.

China's state-sponsored growth in the steel sector has been detrimental not only to the U.S. steel industry, but also to the global industry, and is now affecting downstream industries, like fabricated structural steel. I want to emphasize a few relevant points about China's steel policies for the record. China's industrial policies including subsidies, investment restrictions, forced technology transfer, theft of intellectual property, export restraints on raw materials, and other distortive practices have contributed to the unprecedented growth of the Chinese steel industry.

In the early 2000s, China's steel capacity grew quickly to satisfy internal economic growth. But in 2006, China became a net exporter continuing to grow capacity even as their

[1] *Notice of Determination and Request for Public Comments Concerning Proposed Determination of Action Pursuant to Section 301: China's Acts, Policies and Practices Related to Technology Transfer, Intellectual Property and Innovation,* 83 FR 13248, June 20, 2018.

steel demand peaked. China continued to grow steel capacity through the financial crisis aftermath, when most of the world's steel industry suffered severe production cuts and closures. Between 2009 and 2015, China's capacity to make steel expanded a further 350 million metric tons. China's steel production began to vastly outstrip domestic demand and a flood of exports has saturated global markets since 2014.

China makes a lot of noise about its efforts to rein in excess capacity since 2014, but their actions have had very little practical effect. China's steel production in year-to-date 2018, is up 5.4 percent over last year's record levels. China currently accounts for 52 percent of global production, up from 50 percent last year. Chinese analysts are now predicting that "Overcapacity in China steel industry will still exist for the long run."[2]

U.S. steel producers responded to China's overcapacity and surges in exports in the last decade in a variety of ways including efficiency gains, cost-cutting and by bringing a series of successful antidumping and countervailing duty cases against unfairly traded steel imports from China and other countries, most recently in 2015 and 2016. Still, U.S. imports of steel increased 15 percent in 2017 over 2016 levels, due largely to country and product shifting. Now it appears that China is shifting to exports of value-added products, such as fabricated structural steel. U.S. imports of fabricated steel products from China increased 14 percent between 2015 and 2017.

As a result of China's increased exports of fabricated structural steels to our market, U.S. producers of fabricated structural steel are being harmed. Moreover, this harm is being

[2] *China Steel Industry Enters into High-Quality Development Stage; Analysis and Forecast on China Steel Market;* Dr. Wu Wenzhang, President and Chairman SteelHome China, Presentation at the American Metal Market/World Steel Dynamics Steel Success Strategies Conference, New York, June 27, 2018.

experienced throughout the steel supply chain, including by SMA steel producers who rely on the domestic fabricated structural steel industry for a significant portion of their sales.

China is seeking to expand its global share of infrastructure and construction projects. With regard to projects in China, however, the Government of China restricts foreign investment in infrastructure, including ports, domestic maritime transport, power plants, dams, bridges, and civil airports, which are all projects that are important markets for fabricated structural steels.

Steel, building materials and power and resource development are among the sectors China's State Council has identified for "international industrial capacity and equipment manufacturing cooperation,"[3] which includes but is not limited to Chinese companies' investment in these projects. The Government of China has pledged over $1 trillion to support its "One Belt One Road" Initiative (OBOR) to fund large ports, roads, bridges and other steel-intensive projects in the countries between China and Europe. However, the initiative might absorb only about 30 million tons of steel a year, according to a recent study by the European Union Chamber of Commerce, a fraction of China's annual steel overcapacity, estimated to be over 300 million tons. China's industrial overcapacity is a big motivator for the OBOR initiative.[4]

Because demand in its domestic construction and infrastructure market is fading, China is not only seeking new markets in developing countries through OBOR, but China's State Council

---

[3] *Findings of the Investigation into China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation under Section 301 of the Trade Act of 1974;* p 68. https://ustr.gov/sites/default/files/Section%20301%20FINAL.PDF

[4] *U.S. Firms Want in on China's Global "One Belt, One Road" Spending*, by Keith Bradsher, May 14, 2017. https://www.nytimes.com/2017/05/14/business/china-one-belt-one-road-us-companies.html
.

has stated that it is also seeking to "actively tap the markets of advanced countries"[5] such as the United States. Indeed, when President Trump announced his $1 trillion U.S. infrastructure initiative earlier this year, which we strongly support, government officials from China's Development Bank and other ministries urged the United States to work with Chinese companies to increase Chinese participation in U.S. infrastructure projects.[6] In our view, U.S. producers and fabricators should supply the steel and fabricated structural steel for U.S. infrastructure projects, consistent with U.S. laws and Buy America provisions.

To increase pressure on China to amend its unfair trade practices, address overcapacity and reduce or eliminate the adverse impact that imports are having on U.S. steelmakers and fabricators, the SMA requests that an additional 25 percent tariff be imposed on fabricated structural steel products. If USTR and the Committee decide to include these products among those receiving the additional tariffs, we also urge USTR and the Committee to work with Customs and Border Protection to ensure effective measures are implemented to prevent circumvention and evasion of the 301 tariffs once they are in place.

Thank you and I look forward to addressing any questions you may have.

#

---

[5] *Guiding Opinions on Promoting International Cooperation in Industrial Capacity and Equipment Manufacturing* (State Council, Guo Fa [2015] No. 30, issued May 13, 2015). English translation https://www.mizuhobank.com/fin_info/cndb/economics/briefing/pdf/R216-0027-XF-0105.pdf

[6] *China Can Help U.S. with Infrastructure Plan,* by Liu Yong, Chief Economist China Development Bank, January 30, 2018. http://www.chinadaily.com.cn/a/201801/30/WS5a6fb4b7a3106e7dcc1377ab.html

*China tells Donald Trump: we can help make America's infrastructure great again, b*y Catherine Wong, South China Morning Post, April 26, 2018. https://www.scmp.com/news/china/diplomacy-defence/article/2143586/china-tells-donald-trump-we-can-help-make-americas