CHAPTER 7

Avoiding Future Crises

Introduction

The President's Steel Action Program states, "We will continue a policy of zero tolerance of unfair trade." This commitment was maintained when the Administration reacted forcefully and responsibly to the steel crisis through the following actions:

- Since early 1998, the Commerce Department has conducted more than sixty trade remedy investigations on steel, many completed on an expedited basis, and is currently enforcing more than 100 antidumping or countervailing duty (AD/CVD) orders or agreements on steel products from all over the world. The Administration also provided relief for wire rod and line pipe under the "safeguard law," Section 201 of the Trade Act of 1974.
- The Administration actively engaged in bilateral consultations with various trading partners to address unfair practices supporting excess capacity. We have held several rounds of bilateral consultations with Japan and Korea, and the Administration negotiated a comprehensive agreement with Russia to reduce its steel exports to the United States.

These efforts were effective. However, the steel crisis showed that additional initiatives are needed to make the trade remedy process more timely and effective, and to address subsidization and other market-distorting practices in the steel industry that foster dumping. To accomplish these goals, the Commerce Department and the United States Trade Representative, in consultation with other agencies, have developed a strategy that includes the following points:

- Maintain strong U.S. trade laws consistent with the World Trade Organization (WTO).
  - Work to maintain strong trade laws in the WTO.
  - Increase resources for WTO dispute settlement litigation.
- Provide early warning of import surges and industry conditions.
  - Continue early release of steel trade statistics.
  - Monitor domestic industry trends.
  - Provide timely information to domestic steel firms and their workers on changing market conditions.
- Provide faster relief for industries, workers, and communities.
  - Ensure fair trade laws are responsive to crisis situations.
  - Establish a federal rapid response team to help communities and workers hit by unfair trade.
- Address market-distorting practices in global steel markets.
  - Continue focused bilateral engagement with Russia, Japan, Korea, and Brazil.
  - Monitor key new players.

- Reinvigorate the international steel policy agenda.
  - Make the Organization for Economic Cooperation and Development (OECD) Steel Committee a viable forum for real progress.
  - Restrict government and multilateral development bank lending to expand steel capacity.
- Promote more market-oriented financial systems, including in major steel-producing countries, through complementary measures.

Maintain Strong, WTO-Consistent U.S. Trade Laws

Recognizing the need to maintain effective trade remedies, the Administration firmly opposed all efforts to reopen the Antidumping Agreement during the WTO Ministerial in Seattle. The United States tabled a proposal to strengthen implementation efforts by the existing WTO Antidumping and Subsidies and Countervailing Measures Committees and to discuss certain implementation issues raised by developing countries regarding the existing agreements. Maintaining strong U.S. trade laws continues to be one of our highest priorities for a new round of negotiations.

The Administration also negotiated strong terms on antidumping and subsidies in the agreement regarding China's accession to the WTO. Under the terms of the U.S.-China bilateral agreement signed in November 1999, China has committed to important disciplines on subsidies and agreed to guarantee our right to continue using our current antidumping methodology (treating China as a nonmarket economy in antidumping cases for fifteen years after China's accession to the WTO).

Challenges to U.S. trade laws in WTO dispute settlement proceedings have been increasing. Japan has recently formed a special task force within its Ministry of International Trade and Industry to bring WTO challenges against trade remedy rulings made against Japan by the United States. In response, the Administration is strengthening its resources to forcefully defend U.S. trade laws in WTO dispute settlement litigation. The Commerce Department has increased personnel dedicated to WTO litigation support in the Department's Import Administration and Office of the Chief Counsel. Funding is also being sought in the Administration's budget request for FY 2001 to increase WTO litigation resources within the Office of the U.S. Trade Representative (USTR) and the Commerce Department.

Provide Early Warning of Import Surges and Industry Conditions

Early Release of Steel Trade Statistics

The Commerce Department's Bureau of the Census will issue steel import statistics on an expedited schedule (approximately one month early) at least through January 2002. The Bureau of the Census will also expand the list of products for the early release of statistics to include certain steel inputs and certain additional steel products.

These actions are an extension of the commitment made in the President's Steel Action Program to continue the early release of steel import statistics through December 2000. Domestic steel producers, steel workers, trading companies, and steel service center operators have indicated that the early release of steel statistics by the Census Bureau significantly enhanced market stability by allowing market participants to better assess market conditions. The early release of trade statistics also allows more rapid responses by government policymakers.

Monitor Industry Trends

Our experience in responding to the steel crisis and our consultations with steel industry representatives have highlighted the need for an early warning system for any potential future crisis. Accordingly, we propose to monitor additional data on the steel industry, steel consuming sectors, and steel demand each month to more quickly detect trends in the steel industry. No economic forecasting will be conducted; the focus will be to collect existing data to provide the greatest early warning for possible future steel industry downturns.

The types of data that the Department of Commerce will monitor include the following:

- Shipments of total basic steel mill products and shipments by steel sector.
- Raw steel production and raw steel capacity utilization.
- Apparent consumption (shipments minus exports plus imports) of major steel product groups.
- Industry productivity.
- Import penetration (imports as a percent of apparent consumption) by product group.
- Average weekly steel industry overtime hours and other U.S. Bureau of Labor Statistics steel industry employment data.

We will make this information available to the public on a comprehensive page within the Commerce Department Web site (http://www.ita.doc.gov) and circulate summary reports each month to key government agencies.

During the crisis, domestic steel producers, the United Steelworkers, and several members of Congress expressed concern that, after trade remedy investigations were begun on certain products, the industry and workers were still being economically injured by unfairly traded imports of related products and products from other countries. The Commerce Department believes that during times of extraordinary import surges such as occurred in the steel sector in 1998, intensive product-specific monitoring, including under Section 732 of the Tariff Act of 1930, can be an effective tool to monitor surges of potentially unfairly traded goods from other supplier countries. Such intensive monitoring would include monitoring of import volumes and prices.

Provide Timely Information to Domestic Steel Firms and Their Workers on Changing Market Conditions

Our discussions with smaller domestic steel producers and local unions have shown that sometimes they are not aware of changing market conditions until they begin losing orders and reducing the number of hours worked at their mills. Each month, the Commerce Department will provide the early warning information it obtains to domestic steel producers and their workers through an e-mail broadcast and make the data publicly available through the Internet.

Monitoring Global Steel Production and Consumption

The collapse of foreign steel consumption after the global financial crisis was a critical event in the 1998 steel crisis. To better assess upcoming market conditions, the Commerce Department will also monitor foreign indicators of steel production and consumption. In addition, the Administration’s FY 2001 budget request would support Commerce Department personnel in key posts abroad who could monitor foreign market trends such as production and home market consumption of specific products.

Steel Report Update

The Department of Commerce will continue to monitor foreign market-distorting practices in the steel industry and will issue an update to this report in 2001. This update will address trade trends and monitor movements toward open markets.

In addition to the market-distorting practices identified in this report which affect prices, there are differences in cost which result from the different endowments of producers around the world. These cost differences affect international competitiveness in steel production. We will conduct additional research to document the relative differences in these costs and to determine whether cost differences occur through normal market forces or through government subsidies or other distorting practices. The results of this research will be published in the update to the steel report in 2001 focusing on the following areas: legacy costs from downsizing; capital costs; and environmental regulation costs.

Provide Faster Relief for Industries, Workers, and Communities

Strengthening the Crisis Response Mechanisms in the Fair Trade Laws

The decline in total steel imports in 1999 was driven by the increase in products subject to AD/CVD investigations: Imports of hot-rolled steel in 1999 decreased 43 percent from 1998 levels; heavy structural steel imports decreased 49 percent; and cut-to-length plate decreased 57 percent in the same period. These statistics show that AD/CVD remedies can provide effective relief from a surge of unfairly traded imports. However, by the time the trade remedy petitions had been filed, there had already been substantial harm to the U.S. industry. The Administration established an informal group to meet with industry and union representatives to discuss legislative and other proposals to address these issues as appropriate.

Within existing laws, the Department of Commerce has also developed a number of initiatives to provide faster and more effective relief under the trade laws.

Reduced Incentives for Increasing Shipments Before Trade Remedies Take Effect

In many instances, import surges intensified after antidumping petitions were announced or filed by domestic producers and continued until the preliminary determinations were published by the Commerce Department. This occurred as steel traders rushed to “beat the clock” and ship greater quantities of steel before the AD/CVD remedies were put into place. To combat this, Commerce announced two policies during the steel surge: expediting antidumping investigations, and making early critical circumstances determinations.

Expedited Antidumping Investigations

In response to the tremendous surge of steel imports in 1998, the Commerce Department—for the first time ever—completed the preliminary determinations earlier than the normal schedule in fifteen antidumping investigations. Commerce compressed the schedule for its internal work while preserving the statutory time periods for participation by domestic and foreign parties to the proceeding.[1] This enabled Commerce to provide earlier relief from unfairly traded imports. In addition to instituting this practice, Commerce has issued a policy bulletin addressing the criteria to be used in deciding when it is appropriate to expedite an investigation. Because conducting expedited antidumping investigations is a resource intensive process, the Administration’s budget request for FY 2001 seeks funding for additional Commerce Department resources to allow the conduct of expedited antidumping investigations.

Early Critical Circumstances Determinations

Where critical circumstances exist, U.S. law and the WTO Antidumping Agreement provide for the imposition of retroactive antidumping measures for a period of ninety days prior to the preliminary determination of dumping. In October 1998, the Commerce Department announced a new policy on critical circumstances. Under this policy, a preliminary determination regarding critical circumstances may be made prior to the preliminary determination of dumping, assuming adequate evidence of critical circumstances is available. The early announcement of preliminary critical circumstances determinations will put importers on notice—earlier than ever before—that they could be liable for retroactive dumping duties as far back as ninety days prior to the preliminary dumping determination by Commerce.

Enforcement and Anticircumvention Initiatives

As the administrator of the antidumping and countervailing duty laws, the Commerce Department depends upon the efforts of the U.S. Customs Service to enforce these trade remedies at the border. As the 1998 steel crisis intensified, Commerce and Customs increased their coordination and enforcement efforts, with a special focus on preventing the circumvention of trade remedies. The two agencies expanded information and educational exchanges between steel experts at Commerce and Customs' Strategic Trade Center in Chicago and met with representatives of the domestic steel industry to identify their anticircumvention priorities.

As a result of this process, Commerce and Customs have agreed to enhance their mutual enforcement efforts in the following ways. First, the agencies will work with the Census Bureau to release statistics on the volume and value of imports subject to antidumping and countervailing duty trade remedies to the public on a more frequent basis. This will allow more precise monitoring to detect circumvention.

Second, the Customs Service has agreed to include language in relevant classification and country of origin rulings to highlight the fact that Customs decisions do not affect the coverage of antidumping and countervailing duty cases. For example, while the Customs Service might treat a steel product as a semifinished product for purposes of Harmonized Tariff Schedule classification, this import can also meet the definition of flat-rolled products covered by antidumping and countervailing duty actions. Including this language in Customs rulings will help to prevent importers from circumventing antidumping and countervailing duty trade remedies.

Third, because the vast majority of the antidumping and countervailing duty determinations apply to the manufacturer of the imported goods, the manufacturer's identity is critical to the U.S. government's ability to detect questionable trade patterns. Customs has agreed to require that importers report electronically in their entry documentation the actual manufacturer (rather than the exporter or seller) of goods subject to antidumping and countervailing duty trade remedies. This will facilitate any trade trend analysis that is undertaken.

Establish Federal Interagency Rapid Response Team to Help Communities and Workers Hit by Unfair Trade

In times of crisis, communities and workers are frequently unaware of the resources of the federal and state governments that are available to address the economic dislocation caused by import surges. Historically, there has not been a formal information sharing arrangement between the administrator of the antidumping and countervailing duty laws within the Commerce Department and the administrators of trade adjustment assistance programs within the Department of Labor and the Economic Development Administration (EDA) within Commerce. The agencies have now agreed to establish a process through which workers and communities identified in antidumping and countervailing duty petitions will be referred for counseling about trade adjustment benefits and programs.

In addition, the President's FY 2001 budget includes $35 million for the Community Economic Adjustment Initiative (CEAI) to provide for a coordinated federal response to communities facing

> ### *Community Economic Adjustment Initiative*
>
> *Coordinates federal response.* Provides a coordinated response to these affected regions utilizing resources of the Departments of Agriculture, Commerce, Education, Labor, and Treasury; the Small Business Administration; and other federal agencies. This will ensure that communities are aware of all available federal resources and that federal agencies respond in a coordinated way both in Washington and on the local level.
>
> *Creates an Office of Community Economic Adjustment (OCEA).* Crafts and coordinates Administration-wide responses and provide initial recovery funds for regions experiencing severe and sudden economic distress.
>
> *Expands economic adjustment assistance by $175 million over five years.* The Administration will propose a $35 million per year increase in additional economic adjustment funding as part of EDA's budget.

economic dislocations. The Initiative is modeled after the Department of Defense's highly respected Office of Economic Adjustment—the federal government's first point of contact with communities slated for a military base closure. Under the CEAI, an Office of Community Economic Adjustment (OCEA) would be created within EDA to coordinate Administration-wide responses and provide initial recovery funds to regions experiencing sudden and severe economic distress regardless of cause. The OCEA would focus on, but not be limited to, communities affected by trade. The OCEA will ensure that communities are aware of all available federal resources and that federal agencies respond in a coordinated way both here in Washington and at the local level. OCEA will provide planning grants and technical assistance to help communities organize themselves and develop an economic adjustment strategy. The Initiative also expands EDA's Economic Adjustment program to assist communities in implementing their adjustment strategy. On June 21, 2000, Representative John Larson of Connecticut, on behalf of a bipartisan group of 163 original co-sponsors, introduced the Community Economic Adjustment Act of 2000 (H.R. 4711), which closely tracks the President's proposed initiative *(see box).*

Address Market-Distorting Practices in Global Steel Markets

Bilateral Engagement

Bilateral engagement with foreign governments has proved to be an important means through which U.S. concerns over structural distortions in the steel sector can be raised and addressed, such as occurred with the Korean steel company, Hanbo Steel. The Administration pursued a comprehensive strategy to obtain an expeditious and commercially viable solution *(see box, next page).*

This successful approach will be used to address the underlying structural problems in the global steel industry. This will include the following:

- Intensive monitoring.
- Increased analysis by the Department of Commerce's Subsidies Enforcement Office to assess whether any activities identified constitute actionable subsidies under the WTO Agreement.
- Focused bilateral engagement through the ongoing formal dialogues on steel led by USTR; through informal bilateral meetings at all levels of government; and through multilateral forums such as the OECD Steel Committee.
- Potential WTO dispute settlement action.

This process of engagement will involve the concerted interagency efforts of the Administration.

Engaging Korea On Hanbo

In late 1997, the U.S. government initiated bilateral consultations with the Korean government regarding the financial support being provided by the Korean government to Hanbo Steel. The Administration engaged the Korean government at the highest levels in discussions aimed at ending any market-distorting subsidies to Hanbo and ensuring a market-driven sale of the company.

Working closely with the industry to gather information about potential subsidies to Hanbo, the Department of Commerce was then able to direct several rounds of detailed questions to the Korean government concerning any financial and operational support provided to Hanbo both prior to and following the company's 1997 bankruptcy. The Administration did not limit raising issues concerning Hanbo to bilateral consultations but also addressed these issues in other appropriate forums, such as the OECD Steel Committee meetings; WTO Subsidy Committee meetings; in letters exchanged between Korean Trade Minister Han and USTR's Ambassador Fisher and Commerce Under Secretary Aaron; as well President Clinton and Ambassador Barshefsky raising the steel problem with Korean President Kim during his State visit in June 1998. Secretary Daley and Under Secretary Aaron also raised the issue of Hanbo in meetings with top Korean government officials.

Hanbo has now been sold through a process led by an independent investment bank.

Russia

During the June 2000 Presidential Summit in Moscow, the U.S. government initiated a U.S.-Russia Steel Dialogue to focus on structural issues plaguing the Russian steel industry. The duration of the 1999 Comprehensive Steel Agreement provides the necessary stability in steel trade between the United States and Russia, creating the opportunity to address economic, structural, and commercial factors affecting the industry.

The Joint Steel Dialogue will have three components: high-level government-to-government exchanges; joint government-industry discussions and activities in which industry, unions, and governments develop programs to advance the goals of the Steel Dialogue; and direct industry-to-industry and union-to-union contacts devised and managed by the private sector.

The first government-to-government meeting will be held in the fall of 2000 and will focus on structural and market-based factors that have historically led to trade disputes in the steel sector; the impact of globalization on the steel industry; and technical assistance designed to avoid trade disputes, foster stability in steel trade and encourage the development of the Russian domestic steel market.

Japan

The information developed for this report underscores the importance of addressing the key underlying structural problems in the Japanese steel industry.

Addressing the apparent lack of competition among major producers. The apparent lack of competition between major integrated producers is the most significant structural distortion in the Japanese steel industry. Because the elimination of anticompetitive practices is necessary to the promotion of pricing and production decisions more in line with market forces, an interagency group consisting of the Departments of Commerce, Justice, and State; the USTR; and other interested agencies will further discuss with the government of Japan in an appropriate forum information in the U.S. government's possession concerning competitive conditions in the Japanese steel market.

In addition, the Administration is pressing Japan to strengthen its general antitrust enforcement by:

- Undertaking more aggressive enforcement activities against collusive cartel activity.
- Strengthening the criminal investigation and sanction powers of the Japan Fair Trade Commission (JFTC).
- Taking proactive measures to promote competition throughout Japan's economy.
- Significantly increasing the JFTC's staff and budget.
- Making necessary changes to create a workable system allowing private parties to bring private actions for injunctions and monetary damages.
- Taking additional measures to ensure the independence of the JFTC when it is transferred to another agency as a result of the central government reorganization in January 2001.

Opening the Japanese Market to Imports. The continued low level of Japanese steel imports (at a level well under 10 percent of Japanese domestic consumption) minimizes the foreign competition that could lower domestic prices and stimulate competition among major Japanese firms.

We will focus our bilateral discussions on import barriers by taking the following actions:

- The Administration will continue to press this issue bilaterally on all levels focusing on distribution barriers, certification requirements and restrictive international arrangements, such as the market sharing arrangements between Japanese and European seamless pipe producers which were the basis of a 1999 antitrust finding by the European Commission.
- The Administration will analyze regional steel trade patterns and inquire into why imports into Japan remain at such relatively low levels when the prevailing prices for steel in Japan are higher than those in nearby low-cost producing markets such as Korea and Taiwan.
- The Administration will monitor import trends, including (1) overall import levels, (2) import levels by major product, and (3) the extent to which imports compete directly with domestic products of the same product category, or whether imports are only complementary, filling product niches which are not supplied domestically.

Monitoring the Industrial Revitalization Law (IRL) and Its Implementation. The Japanese government enacted the IRL in 1999 to promote business restructuring. The IRL encourages corporate mergers and spinoffs, as well as the sale of unprofitable businesses and the scrapping of excess capacity.

Incentives which are provided under the IRL include low-interest loans, loan guarantees and various tax incentives. We are concerned that these incentives could be used in a manner that preserves excess capacity, indirectly subsidizes export efforts, or sustains nonviable enterprises.

We will focus on the following: (1) under what criteria recipients are chosen for receipt of incentives under the IRL, (2) which companies have been selected or will be selected, (3) the types of incentives that have been received, and (4) whether the incentives which are provided under the IRL are consistent with Japan's obligations under the WTO.

Monitoring the New Role of the Development Bank of Japan (DBJ). In 1999, the DBJ extended credit to several steel companies when Japanese private commercial banks, grappling with balance sheet difficulties, reduced lending across the board. Such lending raises concerns about government financing to a mature private industry. Accordingly, we will monitor the DBJ's new role, to ensure that it is consistent with Japan's obligations under the WTO.

Korea

Korea's steel industry has been characterized by underlying structural problems due to past practices, such as anticompetitive practices, unsound bank lending, and inefficient bankruptcy procedures. The Korean government has undertaken broad economic reforms, but these reforms are far from complete. As a recent OECD report stated, if reforms are not implemented in a timely fashion, structural weaknesses could worsen: "Without sustained reforms to complete the current visions, the Korean economy will be mired in a confusing and distorting policy environment that holds back growth and plants the seeds for future problems."[2] Monitoring to ensure that ongoing financial and corporate reforms in Korea continue will be especially important, given that Korea's International Monetary Fund program will be ending this year.

POSCO. While it has sold some of its holdings in POSCO, the Korean government remains the largest single shareholder in the company. Further, the company continues to have a monopoly position in the domestic market for certain major steel products and maintains its power over the distribution sector.

We will seek further information on the (1) elimination of government representation on POSCO's board of directors; (2) termination of Korean government involvement in POSCO through full privatization (including selling shares held by the Industrial Bank of Korea); and (3) implementation of the Korean Fair Trade Commission's antitrust recommendations regarding POSCO.

Steel Industry Restructuring. In stride with the Korean government's reform program, the Korean steel industry is slated for significant restructuring. Under the Korean government's guidelines for restructuring of the steel industry, support for selected steel producers that are financially weak, but potentially viable, is promoted. Support to be offered by a company's major creditor banks includes conversion of debt into equity, reductions in interest rates, and new loans. In addition, rationalizing the steel industry by promoting mergers, acquisitions, liquidations, and plant shutdowns is also encouraged.

We will focus bilateral discussions on (1) which steel companies enter into "support" agreements with their creditor banks, which creditor banks are involved, and what supports are being offered; (2) the basis for debt-to-equity swaps in the steel industry, how the swap ratios are determined and exactly what impact they have on the overall health of the companies; (3) how debt is being restructured or forgiven as part of the process of mergers and acquisitions in the steel industry, and the effect on production resulting from mergers; (4) plans for privatizing steel companies brought under the ownership of the Korean government by conversions of debt into equity, such as Kia Steel; (5) the relationship of the Korean Development Bank to the steel industry to ensure that it is consistent with Korea's obligations under the WTO; and (6) the disposition of steel company debt held by nationalized banks.

In addition, the Administration will continue to monitor ongoing restructuring in the financial and corporate sectors, in view of the potential risk that the Korean steel industry could benefit from targeted, industry-specific, distortionary policies.

Steel Restructuring and an Effective Bankruptcy System. One of several major objectives of the Korean government's corporate reform measures is to improve insolvency procedures. Such improvement would help facilitate a market-oriented exit system, which would address the problem of steel producers staying in the market well beyond their financial viability. Although Korea has already modified its bankruptcy laws, even with appropriate laws in place, the government must refrain from intervening in bankruptcy decisions for the exit market to function properly.

The Department of Commerce, in consultation with USTR and the Treasury Department, will focus on (1) the government's role in bankruptcy and out-of-court workout schemes for steel companies and (2) an examination of the workout procedures for steel companies under the Corporate Restructuring Accord, including deferred payment of principal or interest, interest rate cuts, debt-forgiveness, provision of new credit, cancellation of existing debt payment guarantee obligations, debt/equity swaps, and the allocation of any costs to creditors resulting from restructuring.

Brazil

Brazil has made significant strides to increase its market orientation and to enforce its competition laws. Nevertheless, distortions in the Brazilian steel industry can be linked to a home market protected by nontariff import barriers, a captive distribution system, and significant cross-ownership among steel manufacturers which have in the past resulted in price collusion.

Elimination of Cross-Ownership. In May 2000, Brazil's Economic Defense Administration Council (CADE) announced that it would begin investigating whether steel makers had formed a cartel to coordinate the recently announced uniform price increases of 12–14 percent on certain steel products. This recent probe underscores the need for the Brazilian steel industry to untangle the web of cross-ownership in this sector.

The Administration will urge Brazil to expand on the enforcement of its competition laws to prevent price collusion and other anticompetitive practices in the manufacture and distribution of steel. The Administration will also urge Brazil to encourage its steel industry to take measures to eliminate cross-ownership in the Brazilian steel industry and to remove the structural characteristics that facilitate anticompetitive behavior.

Revocation of Nonautomatic Import Licensing for Steel Products. Under Brazil's SISCOMEX automated import licensing system, licenses for most products are typically obtained within five days. However, the Brazilian government has made several products subject to a nonautomatic import licensing system, including steel wire rod and stainless steel. Importers of products subject to nonautomatic licensing procedures may face significant delays in securing import shipment clearance. In addition to potentially violating the provisions of the WTO Agreement on Import Licensing Procedures, nonautomatic licensing in Brazil has been linked to the problem of minimum reference prices, which are also used as a requirement to obtain import licenses.

In June 2000, the United States began formal WTO dispute resolution consultations over Brazil's use of a minimum reference price system for the declared values of imported goods. The Administration will also seek the removal of steel products from Brazil's list of nonautomatically licensed imports.

Iron Ore and Semifinished Steel Subsidies Monitoring Program. Given the concerns that have been raised about potential subsidies to iron ore and slab producers, the Commerce Department's Subsidies Enforcement Office will undertake an examination of subsidies to producers in these sectors in Brazil. This comprehensive examination will be completed within 180 days. If prohibited subsidies are found, the Administration will immediately begin consultations with Brazil for the elimination of those subsidies. If a satisfactory resolution is not reached within sixty days, the Administration will then determine whether additional action is warranted.

Reduction of Import Tariffs and Fees. Relatively high tariffs and multiple taxes and fees are an endemic problem in Brazil that affect imports across the board. We will urge the continued lowering of import tariffs and fees as part of Brazil's process of general, autonomous trade liberalization.

New Players: China, Ukraine, and India

China

Through its accession to the WTO, China will be committing to important disciplines on subsidies. Under the Administration's China Enforcement Plan announced in May 2000, the Commerce Department has established a China-specific subsidies monitoring team to help ensure that China abides by its WTO subsidy commitments. The Administration has encouraged the OECD Steel Committee to organize a special workshop with Chinese representatives on the state of the Chinese steel industry and has encouraged China's observer status in the Steel Committee.

Ukraine

In December 1999, the Commerce Department concluded a memorandum of understanding with Ukraine offering the same type of technical assistance package currently under way with Russia. Commerce will tailor the broader program to the specific needs of the Ukrainian government and producers.

India

The Subsidies Enforcement Office will continue to monitor the actions of the government of India, specifically with respect to practices identified in this report, to ascertain whether subsidies are granted to the steel industry and to ensure that financing for steel companies is undertaken in a market-driven manner.

Initiate Bilateral Dialogues on Steel with Additional Trading Partners

The President's Steel Action Program stated that the Administration will launch bilateral discussions with other countries that have contributed significantly to the steel import surge using information developed through the Administration's import and subsidy monitoring programs, and information from U.S. producers and workers to develop strategies to address specific issues.

The Administration is concerned about imports of steel from Taiwan. Since 1998, Taiwan has been subject to antidumping investigations on cold-rolled steel, stainless steel plate in coils and stainless steel sheet and strip in coils. Aggregate imports of steel products from Taiwan have increased dramatically. Imports during 1999 were up 54 percent from 1998 and 328 percent compared to 1997. Imports during the first three months of this year were up 159 percent compared to the same period in 1999. The Administration is formally requesting bilateral consultations on steel trade with Taiwan authorities.

Reinvigorate the International Steel Policy Agenda

Renovation of the OECD Steel Committee

For more than twenty years, the OECD Steel Committee has served as the primary international steel policy forum. During that time, the structure of the industry and market conditions have changed considerably. As a result, the committee should be reinvigorated and its operation made more results-oriented to address the key issues that foster instability in global steel trade.

Article 1 of the October 1978 Decision of the Council Establishing the Steel Committee charged the committee to seek solutions to the cyclical and structural problems experienced by the global steel industry. This original goal is still valid and important. In spite of recent constructive efforts on the part of the committee, this goal is not being fully met.

In recent years, the Steel Committee has expanded its membership and recruited additional observers such as Russia, Ukraine, and India; held special seminars on restructuring and assistance to countries of the former Soviet Union and on nonmember steel industries; agreed to hold a special seminar on China's steel industry available to all interested parties and a seminar on steel distribution and the role of e-commerce; initiated member and observer surveys of trade barriers, subsidies and other measures affecting steel trade; and, initiated a new industry-based and funded data collection effort. These efforts need to be reinforced through high level participation, and a more results-oriented structure and process.

We recommend injecting the following elements into the existing OECD Steel Committee to render it more effective.

Increase the Level of Participation in OECD Steel Committee Meetings

The OECD Steel Committee now meets twice a year. The meetings are comprised of career, mid-level government officials frequently accompanied by steel mill and union representatives. In order to bring policy weight to the discussions and to make them more results-oriented, the committee should be attended by representatives from each government who are of a higher rank and can speak definitively on behalf of their governments on steel matters.

Quality, Relevance, and Timeliness of OECD Steel Data

The Steel Committee needs to gather relevant steel market information in a more timely fashion and focus itself on more current events and trends. The current statistical program of the committee should be improved and expanded to collect data that is significantly more timely and relevant.

All participating countries should increase the frequency and relevance of steel data collection and evaluation. As a first step, every member and observer country should survey market indicators relevant to steel and itemize which are available on a weekly, monthly and quarterly basis. The United States and Canada have each devised their own approaches to improving the timeliness of steel import data. Each member country should explore the method which best suits its collection system. These data must be fashioned into a coherent, timely and relevant body of information subject to serious discussion by the senior delegations subsequent to commentary and analysis by a panel of private sector experts and the committee secretariat.[3] Assistance should be provided to members or observers, as needed, to improve data quality and timeliness.

These government analyses should be supplemented by industry-produced reports for the steel industry as a whole and by appropriate product category, as was agreed in broad principle in Paris at the May 2000 OECD Steel Committee meeting. Work on the essential details of such industry-produced reports is ongoing, and the United States must continue to ensure that potential antitrust concerns be met by avoiding, *inter alia,* the creation of short-term market forecasts.

Reinvigorated Agenda for the OECD Steel Committee

Committee meetings need to be more results-oriented and relevant to current global steel issues. Working groups should be established on specific issues. Low priority programs should be eliminated to free up resources for new initiatives. The United States will request that the OECD Steel Committee place a particular emphasis on the following items on its agenda.

- **Market reforms of the steel industries in Russia and Ukraine.** Building upon the seminar conducted by the committee in November 1999, concrete initiatives should be developed to coordinate multilateral government and private sector assistance to implement market reforms of the steel industry in Russia and Ukraine. The Committee should convene a meeting of experts from member states and international organizations to discuss how broader assistance programs can be focused on the market reforms of the steel industry in Russia and Ukraine.

- **Elimination of formal and informal import barriers to steel.** Despite substantial strides in reducing barriers to imports, there continue to be significant barriers remaining, including market sharing arrangements among companies, high tariffs and import fees, and nontransparent certification and import requirements. The Committee should analyze these barriers as they pertain to steel trade and make specific recommendations to members regarding their findings.
- **Examination of the role of trading companies and steel distributors in global steel trade.** The OECD should conduct a study and establish a dialogue at the committee's meetings to increase the understanding of steel distribution and trading in OECD and non-OECD countries. The topics could include (1) the role of trading companies, (2) the role of service centers in key markets, and (3) the difference between traders that hold inventory and those that do not.

In addition, the United States will request that the OECD Steel Committee place the following item on its agenda.

Examination of Official Export Credit Financing for Steel Projects and the Impact on Steel Overcapacity

Although official export credit support for steel projects has declined in recent years, such financing can contribute to global overcapacity. Accordingly, the United States will ask that the Steel Committee review the impact of official export credit financing on steel overcapacity and consider whether a request should be made to the OECD Working Party on Export Credits and Credit Guarantees that it limit official export credit support for projects that substantially increase global steel capacity.

Restrict Government and Multilateral Development Bank Lending on Expanded Steel Capacity

The President's 1999 Steel Action Program set forth a commitment to oppose international financial institution lending that increases subsidized steel production. We continue to be concerned about government intervention and support for the creation of additional steelmaking capacity around the world despite the mature condition of the global steel industry. Such programs contribute to the expansion of economically unjustifiable global steel capacity.

To address these concerns, we recommend the following actions to restrict government and multilateral development bank financing for projects which substantially increase global steel capacity.

Seek a Moratorium on Multilateral Development Bank Lending that Substantially Increases Overseas Steel Production

The U.S. government will seek a moratorium on lending by the multilateral development banks for projects that substantially increase steel production capacity overseas. Exceptions to this policy may be made in the case of projects in the least developed countries (as determined by International Development Association-only eligibility in the World Bank).[4] In implementing this moratorium, we will take into account the U.S. policy of encouraging privatization of state-owned steel mills, provided that no government subsidies are involved in the privatization.

Urge Ex-Im Bank to Revise its Economic Impact Procedures for Steel Projects

Currently, the Export-Import Bank of the United States (Ex-Im Bank) assesses whether its loans and guarantees are likely to cause substantial direct injury to U.S. industry, and is required by law not to extend such support if it would have a net adverse economic impact on U.S. production and employment. Because of the chronic overcapacity in the global steel industry and the historic levels of injurious dumping and subsidization that have occurred in steel trade, the Commerce Department, in its capacity as *ex officio* member of the Board of Directors of Ex-Im Bank, has urged Ex-Im Bank, in consultation with interested U.S. government agencies, to revise its economic impact procedures to give greater consideration to these factors and to the views of industry. Commerce has also urged Ex-Im Bank to share sufficient information in a timely manner to prepare a comprehensive analysis and discussion of financing requests.

Promote Market-Oriented Financial Systems in Major Steel-Producing Countries Through Complementary Measures

A wide range of factors contributed to the sharp rise in steel exports to the United States in 1998. Foremost was the 1997–1998 financial crisis that spread through Asia and that caused severe economic downturns in many countries. The situation has greatly improved: Many countries have seen economic recovery and a return to financial stability. To prevent and respond more effectively to potential future financial crises, the Administration initiated a broad-based effort to strengthen the international financial architecture. Through the international financial institutions and other international bodies, the Treasury Department and U.S. regulatory agencies have been working to promote stronger and more resilient market-oriented financial systems around the world.

In this context, the Treasury Department will continue to actively encourage other countries, including the major steel-producing countries, to implement policies and practices to increase transparency, enhance disclosure, improve accounting standards, develop risk management, strengthen supervision, establish effective insolvency regimes, and strengthen corporate governance. While not part of the trade remedy process, these efforts can be viewed as important complementary measures to address weaknesses in financial systems that have the potential to destabilize international markets and adversely affect trade in goods, as was seen in the case of steel.