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BEFORE

UNITED STATES SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS, SUBCOMMITTEE ON INTERNATIONAL TRADE AND FINANCE

REGARDING

REAUTHORIZATION OF THE U.S. EXPORT-IMPORT BANK

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I appreciate the opportunity to testify here today on behalf of the American Iron and Steel Institute ("AISI") and its U.S. member companies who together account for approximately three-fourths of the raw steel produced annually in the United States.

American steel producers strongly support U.S. Government policies to open foreign markets and more specifically the goals of the Export-Import Bank ("Ex-Im Bank") to foster export of U.S.-produced goods and services. The financial well-being of our industry and of our domestic suppliers and customers is vital to our economy. At the same time, the domestic steel industry remains concerned about U.S. government-subsidized financings of manufacturing facilities which lead to the expansion of production capacity of a major commodity already in oversupply -- a problem that has been especially prevalent in the global steel industry.

Our concerns regarding overcapacity are deepened by the fact that world steel supply is likely to expand dramatically in the near future. Past experience clearly demonstrates that overcapacity is the root cause of the economic conditions that have regularly subjected American steel producers and workers to substantial injury caused by often unfairly-traded imports. As the Department of Commerce confirmed in its 2000 study entitled "Global Steel Trade: Structural Problems and Future Solutions," government-enabled distortions and government-tolerated anticompetitive practices are pervasive in the world steel market. The outcome is that market forces are not able to bring world capacity and supply in line with demand. Much of the resulting oversupply in steel ends up, directly or through displacement, in the open U.S. market. As a result, the American steel industry is repeatedly injured by import surges.

This is why the President has made reducing global steel oversupply a priority and in June 2001 launched a multilateral initiative designed to restore market forces to world steel markets and eliminate the unfair trade practices that harm the industry and its workers. In announcing his multilateral initiative on steel, President Bush confirmed the extent of foreign government interventions and the severity of the subsidy-induced global steel excess capacity problem and their direct impact on domestic steel producers and workers:

> *The U.S. steel industry has been affected by a 50-year legacy of foreign government intervention in the market and direct financial support of their steel industries. The result has been significant excess capacity, inefficient production, and a glut of steel on world markets. … Absent strict disciplines barring government support, direct or indirect, for inefficient steel-making capacity, the problems confronting the U.S. steel industry* -- *and the steel industry worldwide* -- *will only recur*.

The initiative included: (1) negotiations with America's trading partners seeking the near-term elimination of inefficient excess capacity in the steel industry worldwide; and (2) negotiations to eliminate the underlying market-distorting subsidies. Thus, when the Ex-Im Bank subsidizes loans which result in increased steel production capacity abroad, it directly contradicts the policies and goals established by the President.

Steel companies around the world have recently announced plans to expand steel capacity by close to 600 million metric tons from 2005-2012. While capacity expansion must of course be viewed in the context of demand growth, this capacity growth far exceeds any reasonable expectation for global consumption growth. The capacity expansion continues to occur in Asia and South America, with spurts of growth also occurring in Russia and other areas. These capacity expansion facts are sourced from a memorandum which AISI and five other major steel associations in the NAFTA region submitted recently to the OECD. This submission is attached hereto for inclusion in the record.

Much of the unprecedented building binge occurring in multiple regions of the world is taking place in countries which are producing more steel than they consume domestically, and as a result of decisions by governments to support the expansion of domestic steelmaking capability. For instance, India's government has announced that it aims to increase steel production to 110 million tons by the 2019/20 financial year -- tripling its current output.

The large, open and therefore vulnerable U.S. market is the natural choice for export by countries who produce more flat-rolled steel products than they consume and are heavily reliant on exports, as many other major steel markets are either effectively closed to imports, or net steel exporters, or both. A renewed import wave of surplus product flooding the U.S. market would be both harmful and unfair. It would threaten to undermine the significant progress that domestic steel producers have made in recent years in historic and ongoing restructuring efforts, which in turn would be put into serious jeopardy.

The U.S. steel industry does not oppose financings by the Bank so long as they are not undermining U.S. government policies to reduce global steel overcapacity. The industry wants to work constructively with the Bank in its consideration of requests for financing of global projects involving the steel industry to make certain that future Ex-Im Bank investments are not made that would increase production of a commodity product for which there already is overcapacity.

In 2002 Congress, responding to the Ex-Im Bank providing financing for foreign steel production over the objections of the Congressional Steel Caucus and Cabinet level officials, and other similar concerns, enacted legislation to prevent the Ex-Im Bank from financing production of foreign goods that have been found to injure U.S. producers. AISI and its U.S. members supported Congress' inclusion of provisions strengthening the Bank's economic impact analysis provisions in the 2002 Ex-Im Bank Reauthorization Act. While the statutory and procedural modifications to these rules were a great step forward, improvements can be made to make the rules more effective and more transparent. AISI therefore urges Congress to consider proposals -- both substantive and procedural, relating to increased transparency -- for inclusion in the Bank's reauthorization legislation:

- ***Define the term "substantially the same product" to include products that are one or two steps upstream or downstream from the product subject to an order or determination.*** This clarification would apply to the rules relating to both final trade measures and preliminary affirmative determinations under Title VII of the Tariff Act of 1930. This clarification would make the statute consistent with the legislative intent as expressed by Sen. Bayh and Congressmen Oxley and Toomey in 2002. Similarly, and thematically consistent with the intent of the economic analysis requirement, the analysis of whether the product is or will be in oversupply or is in competition with U.S. production of a same, similar or competing product should include also products that are one or two steps upstream or downstream from the product subject to the analysis.

- ***Specify that the Bank shall not provide financing to a firm for the production of substantially the same product that is the subject of a trade law order, regardless of the country of origin of the order against that firm.*** In other words, if there is a trade law order against a company producing hot-rolled steel in Country X, the Bank should not support a loan to that same company for improving existing plants or building new facilities for producing hot-rolled steel in Country Y.

- ***Specify that the Bank's $10 million and $5 million financing thresholds are to be aggregated for all financings and financing applications involving the same firm and substantially the same product within a 24-month period.*** Applicants for Ex-Im Bank financing should not be allowed to circumvent the rules by disaggregating financing applications into several smaller applications to avoid the economic impact analysis and Board consideration. This aggregation proposal would apply to the Bank's general $10 million threshold for an economic impact analysis; the $5 million and $10 million thresholds under the preliminary determination rules; and, the $10 million threshold under the section 201 investigation rules.

- ***Require the Bank to expand the public comment periods from 14 days to 30 days***. The statute requires that the Bank seek comments from interested parties to ensure that it refrain from financing activities which adversely affect American interests and that it has established procedures to notify interested parties and provide a comment period with regard to loans or guarantees it is reviewing. The current comment periods, however, are too short to allow full and meaningful private sector comment. In addition to the formal mechanism for comment and consultation, AISI encourages the Bank to consult closely with domestic industries to discuss proposed financings and their impact on excess foreign production capacity.

- ***Require that the Bank notify the Senate Committee on Banking, Housing, and Urban Affairs and the House Committee on Financial Services of proposed transactions subject to an economic impact analysis***. Currently, the Bank's procedures provide that it will notify the relevant U.S. government agencies but there is no required notification of the Congressional oversight committees.

In conclusion, the 2002 Ex-Im Reauthorization Act made significant changes to the economic impact procedures, but the additional amendments outlined above would help to ensure that the Bank undertakes a balanced, full and fair procedure with regard to its economic impact analysis.