Specialty Steel Industry
of North America

Remarks of David A. Hartquist
Counsel, Specialty Steel Industry of North America
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David A. Hartquist
Senior Partner
Kelley Drye Collier Shannon
3050 K Street NW, Suite 400
Washington, DC 20007
202.342.8450
dhartquist@kelleydrye.com

Good morning ladies and gentlemen. I appreciate being invited again to participate in the AMM Stainless Conference.

I am going to focus my remarks this morning as follows:

1. Chinese government subsidies to stainless producers.
2. China's manipulated and undervalued currency.
3. China and Cuban nickel.
4. The outlook for antidumping and countervailing duty (subsidy) trade cases against China.
5. The Doha Round WTO negotiations – what's happening.

So, let's get right to it.

1. Chinese Government Subsidies.

As you may recall, last year SSINA released two studies documenting Chinese government subsidies to stainless steel producers. Both of these reports, by the way, are on the SSINA website, www.ssina.com. We released the first study in April, 2007. That study needed to be updated as soon as we published it, because new Chinese government subsidies just keep coming. So, four months later we published an updated study documenting many additional subsidies. We are now in the final stages of preparing a third study. This time, however, we are not concentrating on subsidies to stainless steel producers. Rather, we are looking at Chinese government subsidies to downstream industries – basically, our customers. Unlike their competitors in the United States, including many of you, the downstream industries in China's stainless steel sector have not been forged by market forces. Rather, the Chinese government has implemented a comprehensive set of industrial policies to create privately-owned companies and state-owned enterprises ("SOEs") able to compete internationally.

Pursuant to these industrial policies, the Chinese government has encouraged and directed certain key industrial sectors considered by the government to be "pillar industries" of the national economy as well as key large-scale, SOEs operating within such industries, the so-called "national champions." Many of the stainless steel sector's primary downstream industries are among these favored "pillar" industries and are supported by Chinese governments at the national, provincial and municipal levels. Our report, which will be published in the next few weeks, focuses on the following sectors: automotive, electronics, oil and gas, aviation and aerospace, construction, pharmaceutical and machinery.

These favored industrial sectors and enterprises are being encouraged and directed through various governmental measures.

This is all part of top-to-bottom planning by China, starting with the acquisition of raw materials and ending with finished products sold to end users. In addition to direct subsidization, the Chinese government has employed carefully-crafted non-tariff barriers and other administrative measures to encourage the production and exportation of goods by downstream industries in China's stainless steel sector.

All of this, of course, affects companies like yours in several ways. China's industrial policies and the support measures used to carry out those policies give Chinese firms an unfair advantage when competing with U.S. domestic companies in the United States and in third-country markets. They also provide an incentive for U.S. companies to cease manufacturing in the United States and relocate their production facilities to China. In addition to harming U.S. companies, these actions also result in the loss of jobs in the United States.

I think you will find this report to be very interesting. We will let you know when it is published.

2. <u>China's Manipulated and Undervalued Currency.</u>

SSINA has been a very active member of the China Currency Coalition, and I am legal counsel to that group. We have been working for several years with the Bush Administration and Congress to encourage China to stop manipulating the value of its currency, and to revalue it to realistic levels. We believe the currency is undervalued by about 40 percent, giving Chinese producers yet another unfair trade advantage in selling their products in the United States and globally.

The Bush Administration chose to pursue a diplomatic route with the Chinese government. While the Administration has claimed some success in convincing the Chinese to loosen the controls on the yuan and argues that the yuan has increased in value by about 15 percent in the last three years, we respectfully disagree. In fact, when you net out inflationary factors, the real change in the value of the yuan has been a puny three percent – essentially no significant revaluation has occurred.

Seeing that the administration was not going to take tougher action, the China Currency Coalition changed our approach and focused on Congressional legislation. Many of you have been involved in that effort. I should mention that the Metals Service Center Institute has been a leading activist group within the CCC from the beginning. We now have the Ryan-Hunter bill in the House of Representatives, and a counterpart bill lead by Senators Bunning, Stabenow and Bayh in the Senate. Two Senate committees, the Committee on Finance, and the Banking Committee, have marked up bills dealing with China currency and are essentially competing with each other to determine which bill is taken up on the floor of the Senate.

The Congressional effort, unfortunately, now appears to be stalled in both the House and the Senate. Many Members of Congress are skittish about taking up such legislation in view of the deterioration in the economy. The Bush Administration, Treasury Secretary Paulson in particular, strongly opposes legislation and is urging Members of Congress not to do anything which may backfire in an election year. Congress should be moving ahead aggressively on China currency legislation. We are disappointed Congress is not doing so.

We are continuing to work with our Congressional allies, and looking for an opening to pursue this vital legislation.

3. China and Cuban Nickel

As you know, for many years the United States has maintained an embargo on imports from Cuba. SSINA has developed substantial evidence that Chinese stainless steel producers are buying nickel from Cuba, incorporating it into stainless steel, and shipping that stainless steel to the United States in violation of the Cuban Assets Control Regulations. We have met twice with officials of the Office of Foreign Assets Control (OFAC) to present evidence of these violations. OFAC is the Federal Government agency that enforces the Cuban embargo. In summary, here are our findings:

- China is now the top consumer of nickel exports from Cuba. In 2006, China imported 98.3 percent of Cuba's exports of nickel and cobalt.
- Public reports indicate that China is investing in nickel production projects in Cuba.
- The Cuban Assets Control Regulations prohibit the importation of any merchandise of Cuban origin, including products containing materials produced in Cuba.

We have encouraged OFAC to investigate whether the Chinese are violating the Cuban embargo. We believe the evidence is strong that Chinese exports of stainless steel to the United States contain Cuban nickel. If OFAC concludes that U.S. law is being violated, possible remedies include: (1) a certification program whereby Chinese stainless producers certify that their exports to the United States do not contain Cuban nickel; or (2) if the Chinese fail to adopt such a program, a ban on Chinese stainless steel imports into the United States. There is precedent for both of these remedies.

4. The Outlook for Antidumping and Countervailing Duty Trade Cases Against China.

SSINA is very carefully watching the growth of imports of stainless steel mill products from China. In the words of our Chairman, Doug Kittenbrink of Allegheny Technologies Incorporated, "China represents the single most serious threat to U.S. manufacturing that our country has ever seen." And that applies to the specialty steel industry as well. China has added huge capacity in our industry. In 2006, for example, China became the world's largest producer of stainless steel. They increased output by more than sixty percent (3 million tons) over the prior year. This year, Chinese stainless production is expected to increase another 1.5 million tons to reach about 7 million tons. That is about three times the apparent domestic consumption of stainless steel sheet and strip in the United Sates. China is quickly moving into being the dominant foreign supplier of stainless steel in all of our product lines.

I believe they are dumping their products in the United States, and I am certain that they are subsidizing their producers in violation of their WTO obligations and U.S. law.

Domestic producers have done reasonably well in recent years. But with this massive new threat, that can change, particularly if domestic demand moderates.

So you can bet that we are keeping an eye on China and will be prepared to act if and when the time is right.

5. The Doha Round WTO Negotiations.

I would like to conclude my remarks with a brief summary of the WTO Rules negotiations in Geneva. These are discussions with respect to possible modifications in the WTO antidumping code and subsidies code. In a nutshell, little progress has been made. In

2008, negotiators have met for a total of roughly five weeks, and nothing of consequence has been agreed to. But that work continues, and we are very conscious of the fact that a number of other countries around the world are attempting to substantially weaken U.S. trade laws. We resist such changes with great vigor, and thus far our government negotiators have stood firm.

The key to the future of the WTO trade negotiations rests primarily with the fate of negotiations in other sectors, including agriculture and non-agricultural market access ("NAMA"). Although the prospects for an overall Doha Round agreement are not good today, as you know these things can change quickly. So we are spending a lot of time in both Washington and Geneva working with our negotiators in support of strong trade laws.

It is a pleasure being with you today. Thank you.