JOINT STATEMENT OF NAFTA GOVERNMENTS

OECD Steel Conference
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Two years ago, in the context of our work together in the OECD's High Level Process on steel, the Governments of Canada, Mexico, and the United States established a North American Steel Trade Committee (NASTC). One of the driving motivations behind this government/industry collaboration was our common diagnosis of the structural problems afflicting the world's steel industry, as well as our shared determination to deal effectively with market distortions in the global steel sector. Since then, the NASTC has been useful in promoting continued cooperation on policy matters affecting the North American steel market and industry. Although the work of the committee has been broad-ranging, our attention has continued to focus mostly on the problems and challenges which gave rise to NASTC's creation, *i.e.*, the frequency and magnitude of inappropriate government intervention in the global steel industry and the distorting impact that such intervention has on business planning and international trade. It is with this in mind that the NAFTA Governments wish to use the opportunity of this conference to underscore the continued urgency of addressing the underlying structural problems associated with government intervention in the global steel sector.

While the global steel industry is at a stage of relative good health, history tells us that the current prosperity is apt to be just an interlude in a cycle marked by recurring periods of oversupply and depressed prices and profits. The OECD Secretariat's outlook (SG/STEEL (2007)7) indicates that global capacity will rise to approximately 1,247 million metric tons by 2005. Clearly, much of the anticipated 119 million metric tons of added capacity since 2003 is needed to satisfy rising world demand, and we recognize that the funding for many of the new capacity projects will come from market-based sources. Nevertheless, it seems that a sizable share of this added capacity will also be attributable to government support and other types of aid, capacity that would not be added in normal market conditions and which will inevitably contribute to excess production and unfair international competition, and lead to trade remedy responses. It is, therefore, incumbent upon governments to exercise restraint and refrain from subsidizing the growth of capacity since such decisions, and the capacity which they spawn, can become virtually impossible to reverse. Markets, not governments, must determine whether and where capacity is added.

The NAFTA Governments, consequently, reiterate their support for significantly strengthened international disciplines on government market-distorting practices that adversely affect the steel sector. To that end, we continue to advocate a steel subsidies agreement which prohibits all subsidies specific to the steel sector, with the possible exception of carefully circumscribed assistance linked to permanent capacity closure, such as assistance to facilitate worker adjustment and/or covering other social and environmental costs incidental to permanent capacity closure. The willingness of the NAFTA Governments to accept this standard with respect to subsidies in their own jurisdictions, at all levels of government, demonstrates our shared conviction regarding the market-distorting effects of government subsidization of the steel industry and the need for all parties to contribute to the development of stronger steel subsidy disciplines.

In a similar vein, the NAFTA Governments find that the OECD High Level Group's peer review process has helped to focus attention on the progress being made regarding capacity rationalization and to improve transparency and accountability on the part of governments with regard to market-driven industry restructuring. We recognize that there were both strengths and weaknesses in the High Level Group's capacity exercise, but we believe that the work of monitoring world steel capacity, demand trends and government steel policies is important and should be continued and enhanced. As a start, therefore, we believe that, building upon the achievements of the Capacity Working Group, the OECD Steel Committee should be considered as a forum to review government policies regarding new capacity and investment in the steel sector, particularly those policies that may contribute to the addition or maintenance of inefficient or uneconomic capacity. Further, it is our hope that non-OECD steel producing economies will be included in the Steel Committee process, given the importance of their contribution to the High-Level Group and their growing role in world steel markets.

Government intervention in the form of export restrictions in the raw materials market for steel is another example of the type of serious structural problem facing the steel industry today. This issue is of immediate concern to both the NAFTA Governments and the NAFTA steel industries. NAFTA Governments have noted with growing concern the increase in the number and variety of measures taken by other governments to restrict exports in steel inputs (*e.g.*, ferrous scrap, coke, and pig iron) in order to ensure their domestic supply at reasonable prices for their steel producers. Such measures, which contribute to supply constraints and price increases in global steel raw materials markets, encourage their over consumption in the markets where prices for these commodities are kept artificially low, thereby supporting inefficient steel producers and damaging otherwise efficient steel producers in other countries.

As global steel production continues to increase, the pressure on raw material prices will increase, as will the calls from some in the steel industry for additional government actions to restrict exports from their economies. Thus, in the context of world steel markets, NAFTA Governments urge the governments of other steel-producing countries to work with us to eliminate steel raw material export duties and restrictions, and to refrain from imposing new measures to restrict exports of these steel inputs.

In conclusion, our message is a simple one. We cannot be lulled into complacency by the recent strength of global steel markets. Many of the problems of yesterday remain unsolved today – in certain cases, they may have even gotten worse while a strong market has obscured or delayed their deleterious consequences. Continued government intervention in the marketplace places the stability of the steel sector in serious jeopardy and portends potentially escalating trade frictions. In the absence of ambitious, comprehensive and enforceable disciplines achieved through international cooperation, national trade remedy measures will remain the only appropriate means of preventing the effects of bad public policy and business decisions from being exported to other markets. Good times or bad, we will never succeed in putting the problems of this sector behind us until we have found a genuine and lasting way of getting government out of the steel business. The NAFTA Governments remain ready to work with others to achieve this aim.