



October 27, 2008

## Strategic Direction of North American Steel Trade Committee (NASTC) and NAFTA-Wide Trade Policy Activities: Value-Added, Priorities, Results

At the July 17 Policy and Planning Committee, as part of a strategic review of the NASTC and the NASC, staff was asked to expand further, at the November 9<sup>th</sup> NASC meeting, on two questions related to AISI-led NAFTA-wide trade-related activities. Summary answers below are based on feedback from NAFTA government officials and industry representatives in all three countries.

### 1. **What Does This Activity Add Beyond What We Are Already Doing Separately With Government In Individual Countries?**

The NASTC and NAFTA-wide policy activity have been **highly valued by each of the three NAFTA governments**. As a direct result of this activity, NAFTA Leaders have called steel a “strategic” industry, and the NASTC has been called a “model” of sectoral cross-border policy cooperation. If this activity is valuable to NAFTA governments, it should be valuable to us. By our estimate, the key trade policy officials who participate in the NASTC devote upwards of 5 percent of their annual work time (10-12 days) to this activity. The incremental value (beyond what we are doing separately in our individual countries) is that it:

- **Promotes regular exchanges that build personal trust and relationships, and provide stronger and faster coordination among NAFTA governments.** These exchanges (before, at and between semi-annual NASTC meetings) allow the three countries to monitor, discuss and prepare for matters of mutual interest on a more timely and open basis. In addition, in cases of disagreement, they minimize the chance of unpleasant surprises in multilateral settings (e.g., WTO).
- **Causes beneficial government action that might not have come about otherwise.** Examples include: the U.S. decision to begin applying CVD law to China -- the U.S. learned from the Canadian experience, and trade law administrators in the three countries continue to share “best practices” on China trade enforcement; and Canada’s eventual support (as a “third party”) of the U.S./Mexican WTO case against China’s prohibited subsidies -- the NASTC played a positive role in the Canadian government decision finally to support that case.
- **Fosters inter-governmental cooperation and collaboration that have produced deliverables in the area of external trade.** Among other things, NAFTA governments have: coordinated questioning of Chinese government subsidies to steel as part of the WTO “Trade Policy Review Mechanism,” and spoken with one voice at the OECD about excess capacity, China and other shared concerns. They are expected to do so again at the December OECD Steel Committee/Worldsteel



raw materials workshop, in a joint submission expected to stress united opposition to foreign governments' export restrictions on raw materials.

- **Produces NAFTA-wide data and information that serves the interest of the three governments and many others.** The “NAFTA Monitor,” on the NASTC website, allows for apples-to-apples import monitoring on a NAFTA-wide basis in a user-friendly format. NAFTA-wide data has many uses (OECD, World Steel Association, etc.). A newly established NAFTA Steel Data Task Force aims to: (1) expand our ability to produce detailed and timely historical and non-proprietary data on a NAFTA-wide basis; and (2) explore the gaps (detail and timeliness) in U.S. vs. Canada vs. Mexico steel industry and trade data and determine appropriate ways to provide NAFTA steel associations and members with consistent coverage of these data to the greatest extent possible.<sup>1</sup>
- **Enhances appreciation of the NAFTA “Border Story,” and generates worthwhile ideas for addressing the “thickening” of NAFTA borders.** Regardless of the uncertainties about the future of the Security and Prosperity Partnership (SPP) and the North American Competitiveness Council (NACC), the NAFTA steel industry’s priority recommendations for addressing customs and border infrastructure problems will continue to serve as a model of practical recommendations for facilitating trade without diminishing domestic trade rule enforcement.
- **Provides a “window” on what non-NAFTA countries are doing.** Government officials in each of the NAFTA countries travel in different circles, and NASTC activity sometimes offers a “window” into rooms otherwise not open to them. At the last NASTC meeting, government officials suggested that it is in the U.S. and Canadian interest to engage with Mexico on climate change, because it will allow a better understanding of the thinking of other, larger emerging economies such as China and India.
- **Increases the influence of steel in trade and trade-related national policy.** The softwood lumber dispute with the U.S. is a major factor guiding government of Canada trade policy. The steel industry has a different perspective that the NASTC reinforces. Thanks to the NASTC and NAFTA-wide steel industry policy activities, there is more positive opportunity for cooperation between the two countries on trade policy issues of common concern, such as China subsidies. The NASTC provides a collective, louder voice with which to register steel industry perspectives.

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<sup>1</sup> A recent issue has developed in Canada, in which the government has threatened to eliminate monthly surveys of key production data. The NSG/NASIC industry group immediately seized the importance of the issue to all of us, and members agreed to make appropriate representations to the Canadian government. Such a response would not have happened in the absence of the NASTC and the NSG/NASIC.



- **Offers an additional way of getting the attention of one's own government, while pushing it to strengthen relations with other NAFTA government officials.** From a Mexican steel industry perspective, this is an especially important benefit of the NASTC and NAFTA-wide policy activity. In addition, the “three-flag” letters signed by major NAFTA steel associations (e.g., on China and on the trade/climate change nexus) get the attention of NAFTA governments both politically and bureaucratically. Thanks in part to our recent climate change letter, for example, government trade officials have been paying more attention to the international trade and investment dimension of this issue. With all three governments, the NASTC has afforded the industry yet another opportunity to drive home the trade and investment dimensions of climate change policy.
- **Gives additional credibility to domestic arguments opposing those seeking to weaken trade laws and trade law enforcement.** In the U.S., the Consuming Industries Trade Action Coalition (CITAC) and other groups are lobbying hard for trade law weakening. We see additional problems in some of the bilateral free trade agreements. Moreover, in the WTO Doha Round negotiations on Rules, we were also able to develop consensus NAFTA-wide steel industry positions opposing trade law weakening (with one major exception). Having NAFTA-wide support through the NASTC for strong trade laws is useful, particularly given the degree of cross-border investment in the NAFTA region by steel's manufacturing customers.
- **Yields results on an opportunistic basis.** Now that the industry is entering a period of downturn, we need a NAFTA-wide avenue/connection and direct channels to governments more than ever. **Against the backdrop of global economic crisis, the NASTC meeting in Halifax on November 20-21 presents a great opportunity to communicate to our governments** (1) the sudden and profound changes in NAFTA and world steel markets, (2) the risk to NAFTA steel and (3) what we and NAFTA governments can do about it to help prevent trade-related injury before it occurs.

**The task now is to think strategically about how NAFTA governments and steel industries can best work together to combat the trade threats emanating from the economic crisis and to support our North American customer base.**

One last point to think about is, notwithstanding its value, **the NASTC is not immune to the major resource allocation debate that is expected under the new U.S. Administration.** This debate will occur regardless of who is elected, but there will be special challenges if Sen. Obama is elected and does, in fact, seek to amend or renegotiate the NAFTA. In an Obama Administration, there could be intense interest in what the NASTC has produced or might produce, and those results would be weighed against possible advances in other fields using the same government resources. **There are no guarantees.**



## 2. What Do We Want To Accomplish Through the NASTC In Terms of Deliverables Over the Next Year?

The NASTC is an iterative inter-governmental process that is **not always susceptible to short-term deliverable goal-setting**. In recent weeks, world steel markets and the global economy have been turned on their head. In the United States, the world of politics and public policy is experiencing similar upheaval. It is now essential that we **look at our NAFTA-wide policy priorities and goal-setting in the context of this global economic crisis and changing political environment**.

We are entering new and uncharted waters. Global economic turmoil is placing new and increased pressures on the NAFTA steel industry, with **the threat of a return to import surges** -- especially in light of recent capacity expansions and weakened growth offshore. Through the NASTC, the industry has built the case for NAFTA governments to maintain market-based, rules-based trade. However, our credibility depends on continuous interaction with NAFTA governments, and the next two years will be critical. With respect to a forward agenda over the next 18 months, **the "forest" for NAFTA steel producers is the global economic turmoil. The "trees" are:**

- ❑ **The renewed threat of large steel trade distortions**, owing to foreign subsidies, raw material and other market manipulations, excess capacity, dumping and the very real prospect of major export surges to the NAFTA market;
- ❑ **Next-stage trade negotiations**, through a push for more trade liberalization in the WTO and more free trade agreements, and through an uncertain NAFTA debate under the new U.S. Administration;
- ❑ **The trade/environment nexus and actions in support of NAFTA industry competitiveness**, including on infrastructure, climate change R&D and energy; and
- ❑ **Other actions in support of the North American manufacturing base**, including policies to help key customer segments, such as automotive, which are now in such serious financial trouble.

We need realistic expectations about what the NASTC can and cannot do. Against the backdrop of economic crisis, **the focus must remain on external trade policy issues** where the NASTC and NAFTA-wide policy activity can make a difference: supporting market-based and rules-based trade, and addressing **China trade and industrial policy and foreign trade distortions such as subsidies and raw material export restrictions**.

We can continue to use the NASTC to educate NAFTA government officials on other issues (e.g., infrastructure), but the focus should remain squarely on our shared external trade challenges and on the need to maintain and enhance the existing trade rules. In this regard, we need to **(1) understand what trade mechanisms or other approaches are available to us and our governments to address unfair trade surges, (2) determine if the existing tools are adequate and (3) decide how these tools can be employed most effectively and expeditiously**.



In terms of **the most important “deliverable”** over the next year, we need to develop a **new North American Steel Strategy for NAFTA governments -- one that is focused on addressing the potential major external trade threats arising from this historic global economic crisis**. Our second priority must be vigilance on the climate change front, from a trade/investment perspective. Even if the economic downturn suggests a slower pace to regulation development, there will remain much public and political pressure to act. It also bears watching to see to what extent imminent regimes in the EU, Australia and, of course, Canada are adjusted to deal with the new realities.

The place to start will be in Halifax next month.