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January 16, 2007

Susan H. Kuhbach
Senior Office Director for Import Administration
Attention: Import Administration
U.S. Department of Commerce
Central Records Unit, Room 1870
14th Street and Constitution Avenue, N.W.
Washington, D.C. 20230

**RE: Application of the Countervailing Duty Law to Imports from the People's Republic of China and Other Non-Market Economies – Request for Comment**

Dear Ms. Kuhbach:

In response to a request (71 F.R. 7507, 12/15/06) from the Department of Commerce (DOC), the American Iron and Steel Institute (AISI), on behalf of its U.S. member companies[1], is pleased to submit comments regarding the application of countervailing duty (CVD) law to imports from the People's Republic of China and other non-market economies (NMEs).

The issue of whether the CVD law should be applied to imports from China is of critical importance to AISI, its U.S. member companies and the steel industry, just as it is to many other industries in the United States. Over the past few years, steel capacity in China has increased disproportionately with both domestic consumption growth in China and global steel production. Crude steel production in China has surged from 222.4 million metric tons ("MT") in 2003 to an estimated 418.5 million MT in 2006.[2] This increase of 196.1 million MT is

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1 AISI's U.S. members, together, account for approximately three-fourths of the raw steel produced annually in the United States.

2 World Steel Dynamics, "Inside Track #66" (Oct. 27, 2006) at 6.

roughly twice the total steel production in the United States.[3] What is of particular concern to AISI is that, while China's steel production continues to expand rapidly, the country's demand for steel is nowhere near in-line with production rates. China -- in the years prior to 2005, a large net importer of steel products -- is now a substantial net exporter of such products. These exports are currently flooding the U.S. market, and future shipments threaten to cause even more disruption and injury in the United States. Based on estimated full-year data (including November preliminary imports and December permits), China was on pace to ship over 5.3 million net tons of finished steel products to the United States during 2006. This would be an increase of 131% from the volumes reported in 2005.[4]

Large government subsidies have been a driving force in the unprecedented growth of China's steel industry. These subsidies appear in many different forms -- including debt-to-equity swaps, government grants and tax subsidies to state-owned enterprises operating at a loss, preferential loans and directed credit from state-owned banks, and assistance with energy, raw material and other input costs -- but the results have been the same: an explosion of production and capacity within the Chinese steel industry that threatens the stability of global steel markets. Detailed information on these subsidies is available in a July 2006 report issued by AISI and other steel organizations[5] as well as a September 18, 2006 submission by AISI regarding China's failure to comply with its World Trade Organization ("WTO") obligations.[6] These documents provide detailed confirmation of the aggressive government subsidization of the Chinese steel industry.

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3 In 2005, total crude steel production in the United States was 94.9 million MT. See International Iron and Steel Institute, World Steel in Figures 2006 at 3 (2006).

4 American Iron and Steel Institute News Release, "Asia Continues to Send Record Level of Steel Imports to U.S. Shores" (Dec. 27, 2006) at 2.

5 See "The China Syndrome: How Subsidies and Government Intervention Created the World's Largest Steel Industry" (Report Prepared for AISI, the Steel Manufacturers Association, the Specialty Steel Industry of North America, and the Committee on Pipe and Tube Imports) (July 2006).

6 See Letter from AISI to Gloria Blue, Executive Secretary of the Trade Policy Staff Committee (Sept. 18, 2006) at 6-15.

Based on the these findings, it is critical that the United States use all legal tools and remedies at its disposal to defend domestic industries, companies, workers and communities from non-market based assaults by heavily subsidized imports from China. AISI believes such tools must include the application of CVD law to China.

In fact, the DOC should apply CVD law to China and other NMEs for the following reasons:

- Past decisions by the DOC and U.S. courts on this issue provide no basis to prevent the DOC from enforcing CVD law on NME countries such as China, particularly given the changes in law since that time;
- The definition of a subsidy -- as determined during the Uruguay Round Agreements - mandates a change in the DOC's position not to apply CVD law to NME countries;
- The terms of China's accession to the WTO clearly provide for WTO Members such as the United States to apply the CVD law to China;
- China may and should have CVD law applied to it while it continues to be treated as an NME country for purposes of U.S. antidumping law.

AISI appreciates this opportunity to provide written comments to the DOC regarding the application of CVD law to imports from China and other non-market economies.

Sincerely,

Barry D. Solarz

**Barry D. Solarz**
Senior Vice President, Trade and Economic Policy