

**Testimony before the U.S.-China Economic & Security Review Commission
China's Shifting Economic Realities and Implications for the United States
John Ferriola
Chairman, CEO & President of Nucor Corporation
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Thank you, Co-Chairs Cleveland and Wessel, and members of the Commission, for the opportunity to testify before you today on global steel production overcapacity. I am John Ferriola, Chairman, Chief Executive Officer and President of Nucor Corporation, the largest steel producer and recycler in North America. I also serve on the boards of the American Iron and Steel Institute and the World Steel Association.

Global steel production overcapacity has been a problem for a long time, but today it is a crisis. Overcapacity has led to a significant increase in unfairly traded imports entering our market, stealing recent demand growth from more efficient U.S. producers. Last year, finished steel imports accounted for a record 29 percent of market share. At the same time, domestic capacity utilization averaged only 70 percent, and fell as low as 60 percent in the final weeks of 2015 (see Chart 1).

China is the main driver of production overcapacity. The speed and scale in which its steel industry grew in the last 15 years is unprecedented. In 2000, China had roughly the same annual steelmaking capacity as the United States—just over 100 million tons. Today, China's steelmaking capacity is 1.2 billion tons. It went from being a net steel importer to being the largest steel exporter in a matter of years.

Just how bad is the overcapacity problem? According to the American Iron and Steel Institute, it is estimated that global steel production overcapacity in 2014 was more than 700 million tons per year, 425 million tons of which was China's overcapacity. This is much worse than the steel crisis of the late 1990s, when nearly two-thirds of the U.S. steel industry was in bankruptcy. At that time, global steel overcapacity was estimated to be 300 million tons.

China's massive buildup of steelmaking capacity was not driven by market forces, but by excessive government intervention in the market. The Chinese government literally owns most of the steel industry. China has subsidized the growth of its steel industry through grants, low-interest loans, free land, low-priced energy and other raw material inputs. It also limits foreign ownership of steel companies, restricts some raw material exports and creates import barriers. Additionally, China manipulates its currency in order to drive exports of all of its manufactured goods, including steel. Simply stated, the Chinese government is a company disguised as a country engaged in economic warfare.

Last year, China exported a total of 123 million tons of steel (see Chart 2). To put that number into perspective, China exported more steel last year than all three NAFTA countries produced combined. China's exports are flooding every market around the world, creating a domino effect on trade flows. When Chinese steel displaces a country's home market, that country is forced to export its steel as well, which often ends up here because we have the most open market in the world. Other countries are more aggressive than the U.S. in putting safeguards and tariffs in place to stem the tide of steel imports. As a result, the U.S. market is a magnet for unfairly traded imports.

China's steel exports are expected to remain high this year. China's economic growth appears to be slowing sooner than experts anticipated. The slowdown in economic growth is impacting steel demand in China, which was forecast to drop 3.5 percent last year and 2 percent this year. Steel consumption in China peaked in 2013, and its industry is losing money. According to the China Iron and Steel Association, its member companies lost 10 billion dollars last year.

Steel companies in countries that play by the rules are paying the price for overcapacity. While foreign governments prop up inefficient steelmakers, lower-cost and efficient producers in market economies are the ones that end up shutting down. That is not how a functioning market is supposed to work. This market-distorting behavior is creating real harm for American workers. The American Iron and Steel Institute estimates that 12,000 layoffs were announced in the steel industry last year. Job losses reverberate throughout the entire steelmaking supply chain and into our local communities. For example, in 2015, global overcapacity and low capacity utilization rates in the steel industry contributed to the loss of 2,000 iron-ore mining jobs on Minnesota's Iron Range alone.

Consistent with our long-standing practice, Nucor has not laid off a single teammate due to economic factors. However, our nearly 24,000 teammates and their families are suffering the impacts caused by the overcapacity crisis every day. Our teammates' pay is tied directly to the number of quality tons, safely produced – when unfairly traded imports capture greater and greater market share, they are literally taking money out of our teammates' pockets.

The uncertainty created by global overcapacity puts investments in the domestic industry at risk. In 2014, Nucor purchased Gallatin Steel, a flat-rolled mill in Kentucky for 770 million dollars. The mill has traditionally produced a variety of products for the energy market. Since that acquisition, a flood of unfairly traded imports targeting that product market, combined with the effects of lower oil and gas prices, has wiped out demand from that sector. Although we have been able to keep our no lay off practice in place for our nearly 500 Nucor Steel Gallatin teammates, they are bringing considerably less money home to their families each week. That is not the case for every steel company. A neighboring Kentucky mill is currently shut down because of the surge in unfairly traded imports, with 700 employees now out of work.

Fortunately, there is a growing international consensus that more needs to be done to tackle this overcapacity crisis. Like us, our trading partners – in the E.U., Turkey, Japan, NAFTA, and elsewhere – view this massive excess capacity as a threat to the viability of their steel industries. In fact, the OECD Steel Committee recently called for “immediate action to address the excess capacity challenge” and the “current steel crisis.” Last June, OECD Steel Committee Chairman Risaburo Nezu warned that “a failure to address or halt market distortions will result in subsidized and state-supported enterprises surviving at the expense of private and efficient companies operating in environments with minimal government support.” In my view, there must be cooperation from all major steel-producing countries and a commitment from governments to get out of the steel business. No ownership, no control, and no subsidies. The upcoming OECD High Level Meeting in April is a step in the right direction, as is the ongoing cooperation among the NAFTA governments. But, more needs to be done. Unless China deals with its state-sponsored overcapacity, no solution will be effective.

China recently claimed it will cut capacity by 100 to 150 million tons, though it has failed to specify a time frame or a strategy to achieve these reductions. Based on past behavior, we are skeptical that this will actually be achieved. In fact, the exact opposite may occur. Recent reports suggest that Chinese state-owned enterprises are buying and restarting money-losing capacity. Without meaningful trade relief as the hammer, China will always prioritize its internal need to maintain employment and Communist party control. The U.S. and our trading partners should accept nothing less than these reductions, and then some. China should provide a specific capacity-reduction plan, and we should strictly verify those reductions.

Overcapacity and other government interventions in the steel market have to be addressed in a comprehensive manner. The future of our domestic industry depends on it. Immediate steps need to be taken to remove inefficient excess capacity from the market and foreign governments must step aside and allow market forces to operate. If not, our country's steel industry – and the more than one million jobs it supports – will continue to disappear before our eyes.

Thank you.

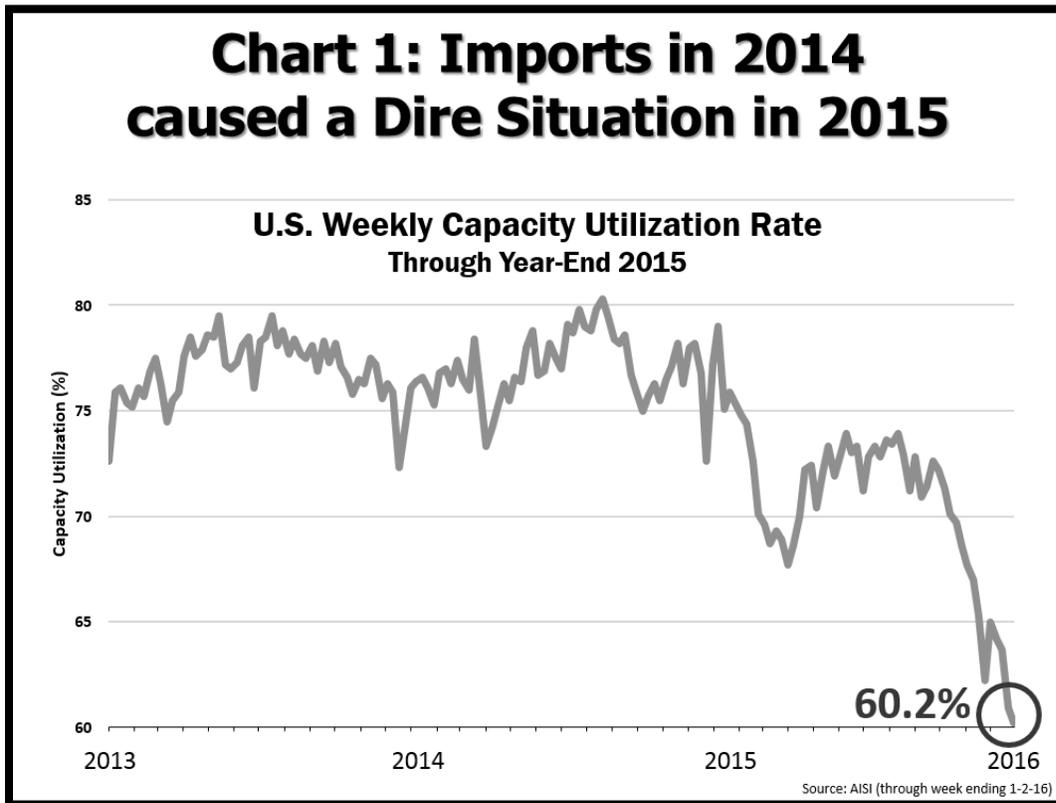
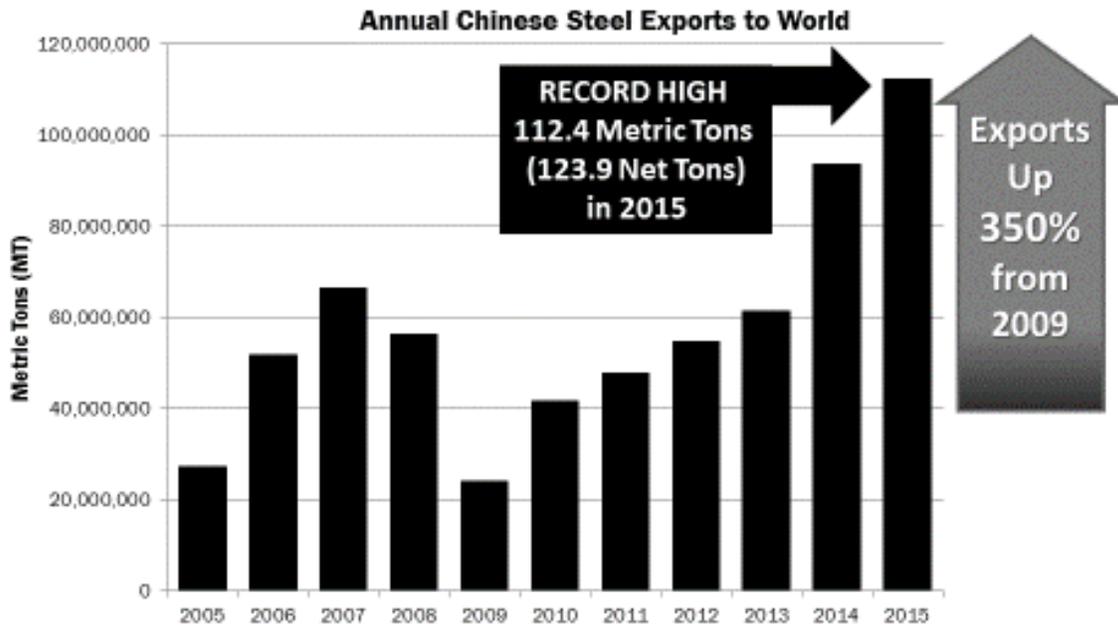


Chart 2: China's Steel Exports Hit All-Time Record



Source: WorldSteel Association, Government of China