

# 2023 MANUFACTURING CONFERENCE

OCTOBER 24, 2023, WASHINGTON DC



## Global Arrangement on Sustainable Steel and Aluminum (“GSA”) Overview

Since late 2021, the United States and the European Union (“EU”) have been negotiating a “carbon-based sectoral arrangement” that would address the carbon intensity and global overcapacity of steel and aluminum. Specifically, the arrangement would create an international consortium of countries that would enjoy friendlier trade terms regarding metals produced with less carbon emissions, and similarly impose tariffs on metals produced by countries with higher embodied carbon. This proposed group, known as the “Global Arrangement on Sustainable Steel and Aluminum,” (“GSA” or the “Arrangement”) would require members to ensure their steel and aluminum industries comply with mutually agreeable emissions standards, and would also be subject to production limits to curb overcapacity, which recently has resulted in lowered global metal prices.

Despite nearly two years of dialogue, negotiations have barely left the starting gate. Indeed, representatives of both parties just last week confirmed that they thus far are unable to resolve key differences in their approaches to these issues. And as tariffs implemented by the previous administration become effective in January, 2024, pressure has begun to mount to reach a consensus.

### History

Here is a brief timeline of how negotiations to create the GSA began:

- In 2018, the previous administration imposed steel and aluminum tariffs against all trade partners under Section 232 of the Trade Expansion Act of 1962, citing “risks to national security.”
- The EU responds by imposing extra duties on a litany of steel and aluminum products, and initiating a legal proceeding with the World Trade Organization (“WTO”).
- Meanwhile, the G20 Global Forum on Steel Excess Capacity was held to resolve global overcapacity in steel markets driven by an unprecedented build-up of a steelmaking capacity in China.
- The previous and current U.S. administrations transition and trade reconciliation talks begin in the second half of 2021. Similarly, the current administration revisits climate issues, and recommits the U.S. to the Paris Agreement.
- The intersection of trade and climate issues coalesced while the EU promulgated its Carbon Border Adjustment Mechanism (“CBAM”), which charged goods imported into the EU who operate without carbon prices. CBAM was passed to create fair trade from entities outside the EU, as EU-member countries are subject to carbon prices. This created tension between the EU and the U.S., as CBAM penalizes American producers who operate under some of the most environmentally-sensitive production standards in the world.

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- With this backdrop, GSA trade talks were initiated to resolve trade/tariff issues as well as to address climate concerns, especially by way of offsetting costs imposed by the EU's CBAM.

## Initial Talks

In the [U.S.-EU Joint Statement](#), the parties express their desire to “address non-market excess capacity so as to preserve their critical steel and aluminum industries” via:

- Ongoing cooperation: Specifically as it relates to trade remedy/customs cooperation, monitoring trade between the parties, cooperation on non-market excess capacity, and annual review.
- Undertaking actions to restore market-oriented conditions and address carbon intensity: Members of the arrangement would be required to restrict market access for non-participants that ensure domestic policies comply with low carbon intensity production, meet conditions developed to reduce excess capacity and lowered-carbon intensity, and conduct other actions that generally attempt to match production with demand and ensure lower embodied carbon in all metals produced.
- Resolving WTO Disputes: The parties have agreed to suspend WTO disputes, and in the meantime establish arbitration rules for the disputes to be resolved under should the issues continue go unresolved.

## Proposals So Far

The EU's primary request is that the current administration lift the tariff-rate quotas that temporarily replaced the previous administration's tariffs on EU steel and aluminum. This would effectively abate the threat of U.S. tariffs being revived should negotiations fail. The U.S. appears unwilling to compromise this leverage. Instead, this administration has proposed extending these quotas, which tolerate a small amount of EU steel to be imported into the United States sans tariffs, while negotiations continue. To effectuate these negotiations, there have been rumors of a two-year extension.

Similarly, some experts speculate that there is a small deal in the works, but it supposedly won't cover climate and excess capacity in one fell swoop. Instead, it would only impose tariffs on metals from nations that heavily subsidize production (*i.e.*, overproduce), starting at 25 percent for steel and 10 percent for aluminum. Then in a separate measure, the White House and EU Commission could begin talks to mitigate carbon intensity by 2026. Should no deal be reached, the previous Administration's tariffs on European steel restart on January 1, 2024. Ironically, some experts view the construction of GSA to be a violation of the WTO's “most favored nation” rules as it creates new hurdles to transact with non-member countries.