

COLUMN:

CURRENT SITUATION OF AND RESPONSES TO THE ISSUES OF EXCESS CAPACITY – FOR SECURING LEVEL PLAYING FIELD (LPF) –

There is growing concern about non-market policies and practices (“NMPP”) that have distorting effects on trade, and the need to ensure a level playing field (“LPF”) has been called for, as discussed in the previous columns¹. In recent years, issues of excess capacity in multiple industrial sectors and NMPP believed to be behind such issues have come back into the spotlight.

Around 2014, sectors such as steel, shipbuilding, and chemical fibers saw an expansion of production capacity without consideration for economic efficiency, mainly in emerging economies, leading to excess production². The resulting downturn in market conditions led to a decline in profits and triggered trade frictions across many parts of the world, including a rise in trade remedy measures. These issues were discussed in international fora such as WTO committees and the OECD. In particular, issues surrounding the steel industry were highlighted at the OECD Ministerial Meeting in May 2014. A report was subsequently compiled, drawing on discussions at the OECD Steel Committee. The report identified government intervention in the market as a contributor to excess capacity³.

In 2024, concerns about excess capacity or threat of excess capacity extended beyond traditional industries like steel to include cutting-edge industries such as electric vehicles (EVs) and semiconductors. Based on the awareness of the issue, not only advanced countries but also emerging and developing countries have increasingly resorted to tariff hikes and trade remedy measures.

As a consequence of excess capacity, in addition to the possible influx of cheap imports into the Japanese market, third countries where Japanese companies operate may also be affected. There is also a risk that the trade remedy measures and unilateral tariff hikes by various countries could result in a surge of the products flooding into the Japanese market due to limited alternative outlets. Therefore, these developments will require close monitoring.

In addition, international fora such as the WTO, the OECD, and the G7 have been actively discussing the relevant issues. This column provides an overview of the current state of excess capacity issues, and introduces measures taken by various countries to address the issues, and highlights trends in discussions in international fora.

1. CURRENT STATE OF EXCESS CAPACITY ISSUES

In recent years, the excess capacity issues have resurfaced. For example, concerning the steel industry, Figure 1 shows steel production and apparent consumption in China. With the efforts made in the “Global Forum on Steel Excess Capacity (GFSEC)” established after the 2016 G20 Hangzhou Summit⁴, the gap between production and apparent consumption had temporarily narrowed, but recently it has widened again. In China, despite the recent downturn in apparent consumption of steel due to the real estate recession, steel production has remained high, resulting in a significant expansion of the supply-demand gap every year since 2020.

¹ Refer to the past relevant columns, including “Recent Developments for Securing Level Playing Field (LPF),” pages 339-345, a column in the 2024 Report on Compliance by Major Trading Partners with Trade Agreements - WTO, FTA/EPA and IIA -.

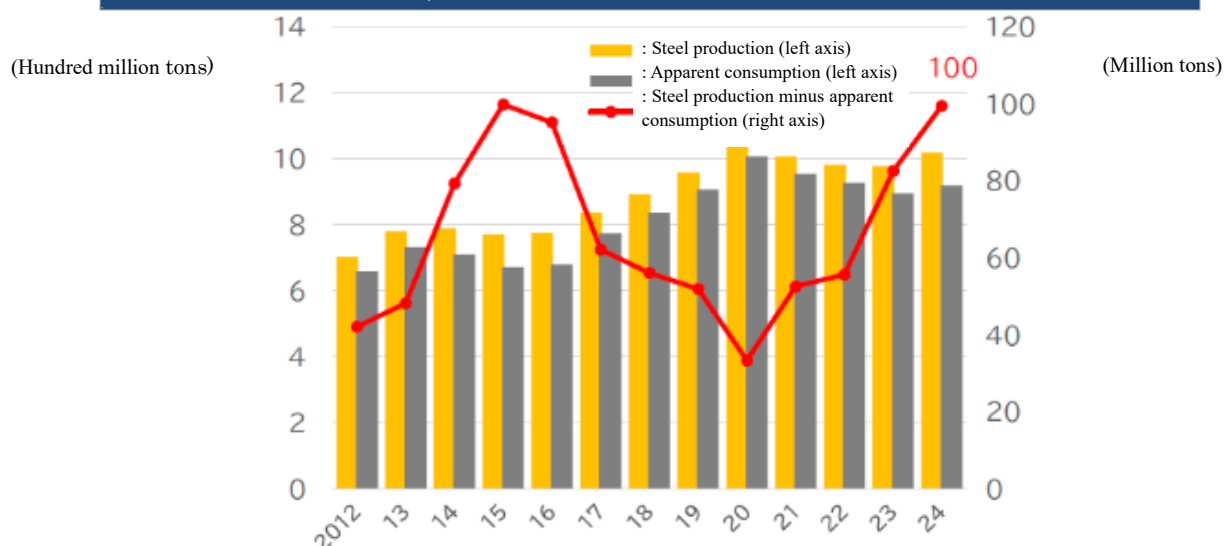
² Refer to “Issue of Excessive Production Capacity in the Steel Industry,” pages 333-336, a column in the 2015 Report on Compliance by Major Trading Partners with Trade Agreements - WTO, FTA/EPA and IIA -.

³ OECD (2015), Excess Capacity in the Global Steel Industry and the Implications of New Investment Projects, https://www.oecd.org/content/dam/oecd/en/publications/reports/2015/02/excess-capacity-in-the-global-steel-industry-and-the-implications-of-new-investment-projects_g17a25cf/5js65x46nxhj-en.pdf

⁴ Refer to “Discussions for Strengthening Disciplines on Subsidies,” pages 290-296, a column in the 2020 Report on Compliance by Major Trading Partners with Trade Agreements - WTO, FTA/EPA and IIA -.

Figure 2 shows global and Chinese steel export. China's share of global steel export has been rapidly expanding in recent years, reaching 42% in 2024. Based on all of aforementioned factors, it is believed that surplus steel produced in China but not consumed domestically has been redirected to low-priced exports to other countries for more than four years, suggesting that there is a structural problem behind this.

Figure 1 : Steel production and apparent consumption in China



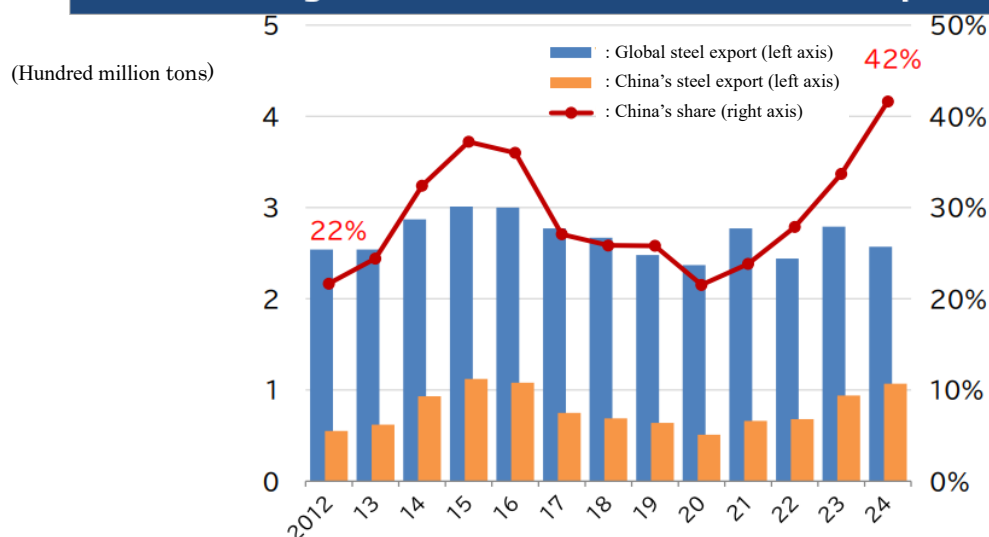
Source: worldsteel, statistics of China's customs

* The 2024 data are based on the records from January to July.

** Steel production and apparent consumption are estimated based on crude steel production and import & export data.

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Figure 2 : Global and China's Steel export



Source: worldsteel, statistics of customs of various countries

* Export data do not include intra-regional exports.

** The 2024 export data are based on the records from January to June.

2. RECENT DEVELOPMENTS

(1) DEVELOPMENTS IN VARIOUS COUNTRIES

In order to address these excess capacity issues, the United States, European countries, and other countries have stepped up trade restrictive measures (including unilateral measures) on Chinese products. In response, China has strongly opposed these measures. In addition to making requests for WTO consultations, it has initiated trade remedy investigations and an “anti-discrimination investigation,” which is a unique measure of China, and these movements have been accelerating these days.

(i) U.S. Section 301 Tariffs under the Trade Act

In May 2024, the United States announced a revision of tariffs under Section 301 of the Trade Act to impose an additional 100% tariff on Chinese electric vehicles (EVs) and an additional 25% tariff on Chinese steel and aluminum products. At that time, then-President Biden criticized China, by stating that “China heavily subsidized all these products, pushing Chinese companies to produce for more than the rest of the world can absorb. And then dumping the excess products onto the market at unfairly low prices, driving other manufacturers around the world out of business.” The United States further announced in December 2024 that it would impose an additional 25% tariff on certain tungsten products and to increase the additional tariff on solar panel wafers and polysilicon to 50%.

In response, China announced that, “the U.S.’s Section 301 tariffs is inconsistent with the WTO rules,” yet “the United States has not corrected its wrong practices,” and that “China will do whatever necessary to defend its own interests” (announced by the Ministry of Commerce of China on May 14, 2024; a statement to the same effect was made when the Section 301 measures were announced in December 2024).

The United States further initiated a new Section 301 investigation into foundational semiconductors (also referred to as legacy semiconductors or mature node semiconductors) in December 2024. The U.S. Trade Representative stated in the notice announcing the initiation of the investigation that China seeks to dominate domestic and global markets in the semiconductor industry and undertakes extensive anticompetitive and non-market means, including setting and pursuing market share targets, to achieve indigenization and self-sufficiency. It further raised examples of such measures including Communist Party’s guidance and directives, control within state-owned and private enterprises, activities of state-owned enterprises, restrictions on market access, preferential treatment or discrimination through opaque regulations, wage-suppressing labor practices, large-scale and ongoing state support, including through government guidance funds, and forced technology transfers, including cyberattacks and cyber theft of intellectual properties at the direction of the state.

In response, China has argued that the Section 301 tariffs is inconsistent with the WTO rules and are “clearly unilateral protectionist measures,” and that, despite the fact that U.S. companies account for nearly half of the global semiconductor market, the United States is criticizing China for so-called “non-market practices” and exaggerating the threat posed by Chinese industries (announced by the Ministry of Commerce of China on December 23, 2024).

(ii) Canada’s measures under the Section 53 of the Customs Tariff Act

In August 2024, Canada announced that it would impose an additional 100% tariff on Chinese EVs and certain hybrid vehicles, and an additional 25% tariff on Chinese steel and aluminum. Canada explained that its measures were exceptional responses to China’s NMPP, stating that the NMPPs distort markets, weaken the multilateral trading system, harm Canada’s industries and workers, and damage the manufacturing supply chains across Canada and the United States.

In response, China made a request for consultation to the WTO concerning the aforementioned additional tariffs (DS627) in September 2024, and also launched an “anti-discrimination investigation” based on Article 7 and Article 36 of the Foreign Trade Law. China also initiated respective AD investigations into Canadian canola and Canadian halogenated butyl rubber in the same month. In March 2025, the Ministry of Commerce of China announced the results of its anti-discrimination investigation, determining that Canada’s measures constituted “discriminative prohibition, restriction, or any other similar measures to the People’s Republic of China in trading connection” under Article 7 of the Foreign Trade Law, and that they had affected normal trade order and made significant adverse impact on China. Further, China announced that it would impose an additional 100% tariff on Canadian canola oil and other items and 25% additional tariffs on aquatic products, pork, and other items as “anti-discrimination measures,” effective on March 20, 2025.

(iii) EU’s countervailing duties on Chinese EVs

In October 2023, the EU initiated an anti-subsidy investigation into Chinese battery-powered electric vehicles (BEVs). In November 2023, Ursula von der Leyen, President of the European Commission, explained the reason for initiating the investigation that “[t]here is clear overcapacity in China, and this overcapacity will be exported. Especially if overcapacity is driven by direct and indirect subsidies. ...distort[ing] our market.” The EU began imposition of provisional duties⁵ in July 2024, and published the final report in October 2024, with the final decision to levy countervailing duties (“CVD”) of up to 35%.

In response, China submitted requests for consultation to the WTO regarding the provisional duties in August 2024 and regarding the final decision and the investigation that served as the basis therefor in November 2024 (DS626 and DS630, respectively). China initiated an AD investigation into EU-produced brandy in January 2024 and decided to impose provisional duties in October 2024. Furthermore, it initiated an AD investigation into EU-produced pork in June 2024 and an anti-subsidy investigation on EU-produced dairy products in August 2024.

(iv) Turkey’s measures against China

As of the end of June 2024, Turkey has imposed 53 AD measures against China. In 2023, Turkey extended its SG measures on synthetic fibers (in January) and PET chips (in December), citing increased imports from China. In July 2024, Turkey initiated an AD investigation into imports of cold-rolled steel sheets from China and Indonesia (In 2024, Turkey initiated a total of four AD investigations targeting Chinese products.). Further, in October 2024, Turkey imposed AD measures on imports of hot-rolled steel sheets from China, Russia, India, and Japan.

Furthermore, in July 2022, Turkey imposed an additional 10% tariff on EVs imported from China, in addition to the previous tariff rate of 10% (total tariff rate of 20%). In March 2023, it raised the additional tariff rate to 40% (total tariff rate of 50%). Moreover, in June 2024, it also imposed an additional 40% tariff on other types of vehicles imported from China (including vehicles with internal combustion engines and non-plug-in hybrid vehicles) (total tariff rate of 50%).

In response, China submitted a request for consultation to the WTO concerning the additional tariffs on EVs in October 2024. Subsequently, a panel request was submitted in January 2025, and a panel was established in February 2025 (DS629).

⁵ Although the provisional duties notice dated July 4, 2024 announced that the imposition of provisional duties would begin on the following day, July 5, the final decision was subsequently made to impose and collect only countervailing duties based on the final decision and not to collect provisional duties.

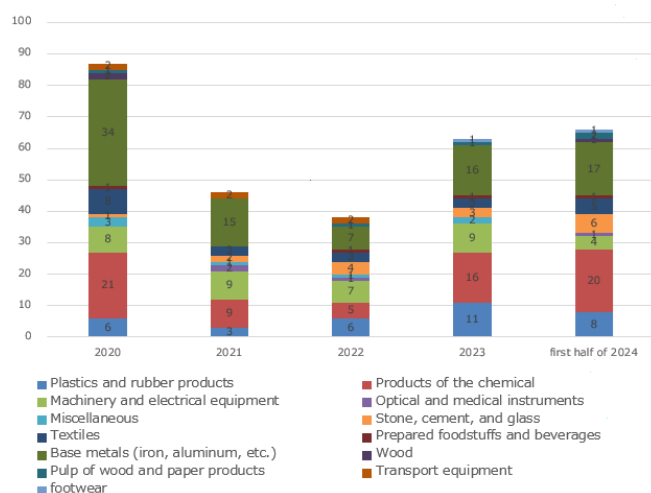
(2) INCREASE IN TRADE REMEDY MEASURES AGAINST CHINA

The number of trade remedy measures against Chinese products is also on the rise.

Based on the recent trends in AD investigations against China, the number of investigations initiated increased in 2020, but decreased in 2021 and 2022, and then increased again in 2023. As of the first half of 2024, the number of investigations initiated has already exceeded the number of those initiated in the full year of 2023. The number of investigations initiated against China related to steel sector has reached 30 in 2024⁶.

India has initiated the largest number of investigations against China since 2020, followed by the United States and the EU. Emerging countries are also utilizing these investigations, with Brazil, Colombia, and Turkey showing an increase in 2024. By industry, the number of investigations initiated against China has been highest in base metal (iron, aluminum, etc.) since 2020, followed by chemicals and machinery. Investigations into machinery include, for example, those into the wind turbine towers conducted by Canada and Vietnam (initiated in 2023).

Transition of the number of AD investigations initiated against China (by industry)



Unit: number of cases
Source: WTO Trade Remedies Data Portal (based on reports from each country)

Transition of the number of AD investigations initiated against China (by country)

	India	US	EU	Argentina	Brazil	Colombia	Korea	Vietnam	Mexico	Canada	Australia	Turkey	Japan	Others	Total
2020	24	10	6	3	3	4	1	3	1	2	5	0	0	25	87
2021	12	4	3	6	1	0	4	2	0	1	0	1	1	11	46
2022	14	2	2	6	0	0	2	0	2	2	0	0	0	8	38
2023	20	6	7	2	3	2	1	2	3	1	0	2	0	14	63
First half of 2024	18	6	7	1	7	4	2	1	2	2	3	4	1	8	66
Total	88	28	25	18	14	10	10	8	8	8	8	7	2	66	300

Unit: number of cases
Source: WTO Trade Remedies Data Portal (based on reports from each country)

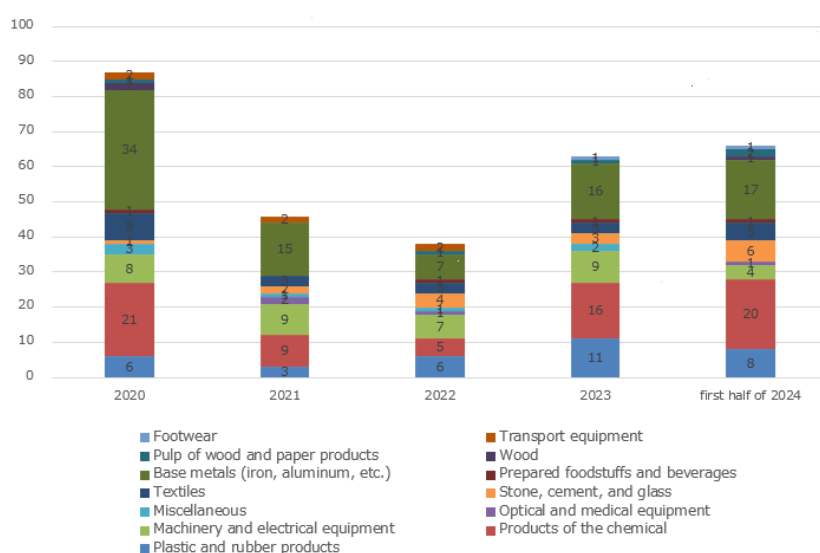
⁶ Source: Nikkei, January 30, 2025, "Steel dumping investigations reach record high: 41 cases worldwide last year; caution over cheap Chinese imports; Japan has yet to take countermeasures"

Furthermore, looking at recent trends in CVD investigations against China, the number of investigations initiated increased in 2020, but decreased in 2021 and 2022, and then increased again in 2023. Similar to AD investigations against China, the number of CVD investigations initiated in the first half of 2024 has already reached the same number as the total number of investigations initiated in the full year of 2023.

The United States has initiated the largest number of CVD investigations against China since 2020, followed by Australia, Canada, and the EU. Although the number is small, Brazil and India are also utilizing these measures. By industry, the number of investigations initiated against China has been highest in base metal (iron, aluminum, etc.) since 2020, followed by machinery.

In the first half of 2024, the United States has initiated the largest number of investigations against China, having already launched six investigations against China. By industry, the number of investigations initiated against China has been highest in base metal (iron, aluminum, etc.) and chemicals.

Transition of the number of CVD investigations initiated against China (by industry)



Unit: number of cases

Source: WTO Trade Remedies Data Portal (based on reports from each country)

Transition of the number of CVD investigations initiated against China (by country)

	US	Australia	Canada	EU	India	Brazil	UK	Total
2020	11	4	2	2	1	0	0	20
2021	4	0	1	1	0	1	0	7
2022	1	0	2	0	0	0	1	4
2023	6	0	1	2	1	1	1	12
First half of 2024	6	3	1	1	1	0	0	12
Total	28	7	7	6	3	2	2	55

Unit: number of cases

Source: WTO Trade Remedies Data Portal (based on reports from each country)

3. DEVELOPMENTS IN THE INTERNATIONAL FRAMEWORK

(1) DISCUSSIONS AT THE G7

At the G7 Summit held in Puglia, Italy, in June 2024, the issue of excess capacity was discussed. The leaders' statement agreed to strengthen cooperation in addressing harmful market distortions and global excess capacity caused by NMPP. The statement announced that they would take specific measures such as conducting joint monitoring of NMPP and the excess capacity resulting from them, as well as strengthening information sharing.

At the G7 Trade Minister's Meeting held in Calabria, Italy, in July 2024, it was agreed that the G7 Trade Track would contribute to the agreements reached at the Summit, namely, joint monitoring and information exchange initiatives.

G7 Leaders' Communiqué issued on June 15, 2024

We are more committed than ever to work together to address harmful market distortions and global excess capacity in key sectors resulting from non-market policies and practices, such as pervasive, opaque and harmful industrial subsidies, market distortive practices of SOEs and all forms of forced technology transfers. We acknowledge that such practices not only undermine the free and fair rules-based international economic order, but may also exacerbate strategic dependencies and vulnerabilities, and hinder emerging and developing countries' sustainable development.

Against this background, we will ensure that our toolkits are fit for purpose and strengthen our coordination. We will pursue joint monitoring to assess how non-market policies and practices are producing harmful overcapacities and other spillover effects. We commit to strengthen the exchange of information, including with like-minded countries, and consult on our respective responses, with a view to greater effectiveness, while avoiding unintended negative effects and considering the security of supply chains. We will intensify diplomatic efforts with those contributing to overcapacity to address the issue at its source, while engaging developing countries and emerging markets to collaborate towards a more equitable global trade and investment environment.

Ministerial Statement of the G7 Trade Ministerial Meeting issued on July 17, 2024

We are following up on the G7 Leaders' commitments to address, via strengthened coordination, harmful market distortions and global non-market excess capacity in key sectors resulting from non-market policies and practices. Through our work on non-market policies and practices, we will contribute, as appropriate, to forthcoming G7 efforts, as guided by our Leaders, to pursue joint monitoring of these practices and the resulting excess-capacity and other spillover effects and global distortions as well as to exchange information and consult on respective responses, to best position the G7 to cooperate on responding effectively.

We acknowledge that non-market policies and practices not only undermine the free and fair rules-based international economic order, but may also exacerbate strategic dependencies and vulnerabilities, and hinder emerging and developing countries' sustainable development. *(Omitted)* We will support diplomatic efforts with those contributing to overcapacity to address the issue at its source, while intensifying engagement with developing countries and emerging markets on our shared concerns on these practices.

(2) DISCUSSIONS AT THE WTO

At the meetings of the Committee on Subsidies and Countervailing Measures of the WTO (the "SCM

Committee”) in April and October 2024, the issue of excess capacity was raised and heatedly debated.

The United States expressed strong concerns over China’s excess capacity caused by its NMPP, as well as its opaque and distortive subsidies, and pointed out that the export of low-priced products from China, driven by its excess capacity, could flood the global market and adversely impact the international community. Citing data showing that, while China’s export volume increased by 11.5% year-on-year in the first quarter of 2024, its export value rose by only 1.5%, the United States argued that this was causing harm to U.S. companies and workers and having a particularly serious impact on developing countries.

The EU also stated that excess capacity is a systemic problem that is not limited to specific sectors, and that there is a risk of flooding overseas markets by exporting artificially low-priced products. It emphasized that developing countries unable to provide subsidies often face greater challenges and noted a recent rise in complex forms of support measures, such as below-market equity and below-market borrowings. It added that how to reduce subsidies that lead to excess capacity and to mitigate its impact on other Members should be discussed and reflected in the WTO rule updates.

Japan, the United Kingdom, Canada, and Australia pointed out that trade-distorting subsidies are causing excess capacity and that China’s excess capacity is not a problem limited to specific sectors such as steel, but has become a systemic problem, and expressed concerns that this could lead to a loss of competitiveness of companies in emerging economies.

China strongly opposed these claims. Specifically, it argued among others, that (1) the term “excess capacity” has no clear definition, is neither economically nor legally clearly defined, and has no criteria for judgment, so it should not be introduced into the discussion that could be misleading; (2) the utilization rate of manufacturing facilities in China is within the normal range, and there is no “surplus” or “excess”; (3) amid the transition to green economy, there is enormous potential demand for Chinese products (e.g., electric vehicles, solar panels) both domestically and globally, and its supply capacity cannot be said to be excessive relative to the demand; (4) “excess capacity” is not determined based on the amount of export, and the proportion of export in China’s production volume of new energy vehicles, for example, is far lower than that of Germany or Japan; (5) the causes of excess capacity stem from macroeconomic policies and protectionism of the United States, the EU and other Members; (6) the Chinese government does not interfere with market mechanism, and its support measures comply with the WTO rules; China’s industrial advantages are the result of high quality, rapid innovation, as well as long-term corporate efforts, and are shaped as a result of full market competition; (7) in developing countries, affordable and high-quality products from China contribute to improving the quality of life for consumers; and (8) some countries demand China to take responsibility for climate change mitigation measures, while hindering the free distribution of China’s green products, which constitutes a double standard.

4. FUTURE EFFORTS (SECURING LPF THROUGH ADDRESSING THE ROOT CAUSES)

In order to address the issue of excessive capacity, it is necessary to simultaneously address NMPP, such as opaque and market-distorting subsidies, which are one of the root causes of the issue. It is important for Japan to address the systemic problems posed by unfair trade practices by developing rules, formulating norms, and building tools, and Japan will proceed with its initiatives both within and outside the WTO to ensure LPF.

(1) EFFORTS WITHIN THE WTO

In the WTO, existing committees, such as the SCM Committee, have been conducting discussions on

enhancement of transparency of subsidies and compliance with notification obligations, and it is necessary to continue these efforts.

Informal dialogues on “trade and industrial policy” also began in September 2024. Currently, Members are taking turns hosting sessions, and many Members, including emerging and developing countries, participate in the discussions. Japan, together with the EU and Kenya, hosted a session on “transparency of industrial subsidies” in February 2025. Japan will continue to discuss NMPP from various angles, share awareness of the issues with a wider range of Members, and work to enhance momentum toward strengthening WTO’s disciplines on subsidies and other measures.

(2) EFFORTS OUTSIDE THE WTO

From the perspective of complementing efforts within the WTO, it is also important to establish global norms by both (1) introducing and strengthening high standards of discipline regarding industrial subsidies and state-owned enterprises in the CPTPP General Review and other bilateral and multilateral EPAs, and (2) promoting the formation of soft laws such as guidelines in addition to hard laws. For example, although there are no explicit provisions in the WTO Agreements on market-distorting practices by state-owned enterprises, the OECD has established guidelines governing the operations of state-owned enterprises. At the OECD Ministerial Council Meeting chaired by Japan in May 2024, these guidelines on state-owned enterprises, updated in reference to the disciplines of CPTPP and USMCA, was adopted. In addition to increasing the number of countries committed to high-standard disciplines through EPAs, it is also important to expand shared understanding of soft law by outreaching non-OECD Members. We will utilize both hard and soft laws to formulate norms.

In addition, it is also important to establish tools that enable cooperation among like-minded countries. At the 2024 G7 Summit and G7 Trade Ministers’ Meeting, it was agreed to promote cooperation among G7 countries to establish criteria that take into account not only economic factors but also other factors than prices such as sustainability, with the aim of strengthening supply chains. We will stimulate demand through incentive measures and work on implementing “criterion” regarding factors such as decarbonization, stable supply, and cybersecurity in subsidies, government procurements and other policy tools to ensure that “factors other than prices” will be appropriately evaluated in the market.