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Report raps big subsidies for Chinese steelmakers

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By Len Boselovic, Pittsburgh Post-Gazette

China's rapid rise as the world's pre-eminent steel producer was stoked by more than $27 billion in subsidies for energy, according to a study released today by the Alliance for American Manufacturing.

The figure is based on estimates of subsidies Chinese steel producers received for coal, electricity and natural gas between 2000 and mid-2007 according to Usha C.V. Haley, the University of New Haven professor the trade group commissioned to conduct the study.

"The subsidies here are grossly underestimated," Ms. Haley stated, calling them "the tip of the iceberg." They do not reflect other subsidies such as preferential financing or the benefits of currency manipulation.

A study commissioned by the North American steel industry and released last summer said China had provided its steelmakers with more than $50 billion in subsidies. That study was authored by Wiley Rein, a Washington, D.C., law firm that counsels steelmakers on trade issues.

The energy subsidies "are typical of China's brazen subsidization as well as illegal practices like currency manipulation," said Scott Paul, the Alliance for American Manufacturing's executive director.

The Washington-based policy group's members include U.S. Steel, Allegheny Technologies and the United Steelworkers union.

China accounted for 37 percent of world steel production through the first 11 months of last year, up from 34 percent for all of 2006, according to the International Iron and Steel Institute. The industry group said China produced 446 million metric tons of steel in the first 11 months of last year vs. U.S. production of 90 million metric tons. China went from being a net importer of steel in late 2005 to being the largest steel exporter in 2006.

"That's an amazing propulsion," said Ms. Haley.

What makes it all the more amazing in her mind is that China's steel industry has not benefited from the consolidation that the rest of the global industry has profited from in recent years. China's steel industry is becoming more fragmented, with its 15 largest producers controlling less of the market in 2006 than they did in 2004, she said.

Other steelmakers have praised consolidation for its economies of scale, which lowers costs. Ms. Haley said Chinese producers haven't realized those benefits, as each province pushes to maintain and expand its own steel mill. Despite that disadvantage, Chinese steel typically costs 20 percent to 25 percent less than the same ton of U.S.-produced steel.

"You wonder where those cost benefits are coming from," said Ms. Haley, who concludes they come from subsidies.

She said estimating the size of the assistance was difficult because of the lack of credible data available from the Chinese government. Because the nation's accounting system doesn't measure up to international standards, Ms. Haley that said for the most part, she did not rely on accounting figures supplied by Chinese sources. Her estimates are based on Chinese government figures, information from the International Trade Commission and other U.S. government agencies, international agencies, investment firms and industry associations.

"There is an absolute lack of transparency, and people were afraid to talk to us," Ms. Haley said. "The amount of subsidies is enormous, and they are conservatively estimated in this report."

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