

Huge energy subsidies fuel China steel export

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WASHINGTON - Massive government energy subsidies have fueled China's transformation into the world's largest producer and exporter of steel, according to a new study released yesterday.

"In 2007, energy subsidies to Chinese steel are estimated at approximately US\$15.7 billion, showing a 3,800% increase since 2000," the study prepared for Alliance for American Manufacturing, a U.S. industry group, said.

The report provides new ammunition for U.S. steel companies that complain Chinese government subsidies are responsible for a surge in steel imports from that country. Imports totaled 5.35 million tons in 2006, more than double the 2005 level.

It also could lay the groundwork for a possible case against China at the World Trade Organization for violating world trade rules on subsidies.

"The China steel industry in its current form is the creation of the Chinese government. It has benefited from massive direct and indirect subsidies, many of which violate the WTO's subsidies agreement, China's obligations under its WTO accession agreement, or both," the study said.

The report's author, **Usha Haley**, a professor of international business at the University of New Haven in Connecticut, said she collected data from Chinese and U.S. government agencies, the International Energy Agency, international investment houses, U.S. industry groups and some individual

Chinese companies.

By comparing Chinese and world prices for thermal coal, coking coal, natural gas and electricity, Haley calculated the Chinese steel sector received US\$27.11 billion in energy subsidies from 2000 through the middle of 2007.

Chinese provincial and local governments are responsible for the bulk of the subsidies because steel mills provide both employment and tax revenues, Haley said.

"Every province wants its own steel mill," she said.

As a result, the Chinese steel industry became increasingly fragmented during a period when the steel sector in other countries was consolidating, Haley said.

As recently as 2003, China imported 43.2 million tons of semi-finished and finished steel products, or about 13% of the global steel trade, the report said.

Despite central government plans to curb growth, Chinese steel production has risen rapidly and accounted for around one-third of world output in 2006, the report said.

"Under true market conditions, China would undoubtedly have had a large and diverse steel industry, but not one that has grown to a staggering 34% of total world steel production in three years," the report said.

Last week, the U.S. Commerce Department slapped anti-dumping duties on imports of steel pipes used in plumbing and heating systems that have risen rapidly from China in recent years.

U.S. steel companies are pressing for legislation that would make it easier to win import relief against China.

Reuters