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Chinese Subsidies Hobble U.S. Steel Industry

By Fred White

The Chinese government has boosted its steel output over the last three years through massive, trade-distorting energy subsidies, according to a new report by the Alliance for American Manufacturing.

In 2007, Chinese steel production and global steel exports were estimated to have grown by 289 percent and 1,276 percent, respectively, from 2000. While China's global steel exports rose dramatically over the past three years, so too have the Chinese government's energy subsidies. From 2000 to 2006, the country's total energy subsidies to steel grew by 1,365 percent.

In 2007, energy subsidies are estimated at approximately $15.7 billion, showing a 3,800 percent increase since 2000, according to a new report commissioned by the Alliance for American Manufacturing (AAM), entitled *Shedding Light on Energy Subsidies in China*.

Some subsidies should have been eliminated when China joined the World Trade Organization (WTO) six years ago, critics say. Despite China's entry to the WTO in 2002, however, energy subsidies grew, totaling $25.07 billion through mid-year 2007, according to the new AAM report.

The subsidy issue extends from making steel to processing it, too. As IMT pointed out in December, "the U.S. found that Chinese pipe was subsidized by an average rate of 16.59 percent. Individual rates ranged from a high of 264.98 percent down to 0.0 percent for one company."

While the amount of subsidies has fluctuated throughout this decade, subsidies to steel producers and processors have persisted. "Substantial energy subsidies pervade China's steel production," the new AAM report explains. "These subsidies have contributed directly to the ballooning of Chinese steel exports and have affected the global and U.S. steel industries."

While China has identified steel as a strategic industry, and as both the central and provincial governments have decided to ramp up steel production with massive subsidies that have now been confirmed, U.S. steel producers are in a quandary in deciding how best to compete in financing this crucial industry.

According to a 2007 study by the Economic Policy Institute (EPI), more than 1.8 million U.S. jobs have disappeared since China joined the World Trade Organization in 2001.

Naturally, the different approaches of China and the U.S. to producing steel and steel products have led to some friction.

The AAM has taken a strong position: “These subsidies need to be urgently addressed and remedied by Congress and the Administration,” Scott Paul, AAM’s executive director, recently concluded in a statement. “They’re typical of China’s brazen subsidization as well as illegal practices like currency manipulation.

“Washington needs to take strong action to correct this one-sided approach to trade which has given Beijing an unfair competitive advantage while harming American businesses and workers,” Paul continued.

In addition to energy subsidies, there have been thermal-coal subsidies and coking coal subsidies to Chinese steel mills, the *Shedding Light on Energy Subsidies in China* report notes:

Thermal subsidies to Chinese steel from 2000 to midyear 2007 reached $11.16 billion. From 2002 (following China’s WTO entry through midyear 2007, the subsidies approximated $10.21 billion. Coking coal subsidies to Chinese steel from 2000 to midyear 2007 reached $15.29 billion. From 2002 (following China’s WTO entry) through midyear 2007, the subsidies approximated $13.88 billion.

Often these subsidies seem to have been woven into the fabric of China’s interactions between government and industry. Article 16 of the Chinese Industry Development policy prepared by the National Development and Reform Commission has provided for various types of state support in developing and modernizing the industry. “Article 18 ‘encouraged’ the Chinese steel industry to use domestically produced equipment, and to import equipment only if domestically made equipment were insufficiently advanced, unavailable or in short supply,” says the Congressional Research Service of the United States Library of Congress.

“You just can't have government subsidies flowing into the steel, one chief operating officer at a major U.S. steel company recently told IndustryWeek:

We know that the favorite steel companies in China — government-owned companies — get favorable power rates, favorable water distribution rates. We know that there are export rebates that take place, and while they’ve removed a lot of those they have not removed all of them. There are still rebate taxes on Oil Country Tubular Goods and line pipe, so our government needs to be more forceful in making sure that those laws are followed and applied.

In early December, Asia Times reported that China agreed to scrap some trade subsidies.

Even after the U.S. Commerce Department “slapped anti-dumping duties on imports of steel pipes used in plumbing and heating systems,” Reuters recently reported, “U.S. steel companies are pressing for legislation that would make it easier to win import relief against China.”

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