

View From the Front

China's surge as steel exporter linked to trade-distorting energy subsidies

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A comprehensive report released January 8 highlights the massive increase in China's trade-distorting energy subsidies to its steel industry. This correlates to a surge in steel production there that took China from being a net importer of steel in 2005 to being the world's largest exporter by volume in 2006.

Though subsidies fell in 2002 and 2003—following China's admission to the World Trade Organization (WTO) in 2001—subsidies jumped exponentially from 2004-2007. In fact, notes the report, from 2000 to 2006, China's total energy subsidies to the steel industry grew by 1,365 percent. In 2007, energy subsidies are estimated at \$15.7 billion, for a 3,800-percent increase since 2000.

"This shift from a net importer to the largest exporter in a span of only two or three years is staggering," says Dr. Usha C.V. Haley, Ph.D, and author of the report. "Our analysis shows that energy subsidies have a very strong correlation with Chinese steel exports. In fact, the connection is so clear that, essentially, it's possible to almost perfectly predict China's steel exports from its energy subsidies."

China shipped 5.4 million tons of steel to the U.S. in 2006—more than double the amount in 2005.

WTO membership calls for transparency in the reporting of state support for industry so as "to enable other members to evaluate the trade effects and to understand the operation of notified subsidy programs."

Yet China has not declared these subsidies, including for thermal and coking coal, electricity, and natural gas. The report states that China's subsidy notification to the WTO misstated subsidies to the steel industry by ignoring subsidies that reduced local steel producers' costs, ignoring subsidy programs from provincial and municipal governments, and ignoring the subsidy effects of maintaining a cheap currency.

The **Alliance for American Manufacturing** (AAM), which commissioned the study, is urging Congress and the administration to address this issue, which it says greatly slants international trade to favor China, and which is in explicit violation of free and fair trade stipulated by its membership in the WTO.

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