

State support for Chinese steel mills 'massive', says report

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Chinese government sources and analysts have attacked a report from a US manufacturing association which claims China's steel export surge in recent years was a result of "massive, trade-distorting energy subsidies".

The Alliance for American Manufacturing (AAM)'s 43-page report claims that from 2000 to the middle of last year, Chinese steel mills benefited from a total of \$27.11 billion in energy subsidies.

"This shift from a net importer to the largest exporter in a span of only two or three years is staggering," said **Usha Haley**, the report's author. "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."

Chinese mills have benefited from subsidised supplies of thermal and coking coal, iron ore, electricity and natural gas, the report said. These could amount to as much as \$15.7 billion in 2007.

The research apparently provides some statistical back-up to repeated claims by foreign steelmakers - vehemently denied by the Chinese industry - that China's steel mills are competing unfairly on the global market thanks to government support.

It is also being used by AAM to support renewed calls for Washington to take punitive measures against the Chinese steel industry.

But an official from China's ministry of commerce told MB that there is no basis for anti-subsidy or anti-dumping duties against the Chinese industry.

"I have not got hold of the report you mentioned, but what I can say generally is that the United States has so far not acknowledged China as a market economy country, which has left it no grounds to launch any anti-dumping and anti-subsidy investigations against the Chinese products or accuse us of any subsidies," he said.

A steel analyst in Beijing claimed the report "shows little understanding in the US of the Chinese economy".

Beijing has no control over coal prices, so it not possible for the steel industry to be granted any preferential policies, steel analyst Xu Xiangchun told MB.

"Some steel mills may be able to secure lower prices because of their strategic relationships with some coal companies, but then again it is all market conduct. This has nothing to do with the government," he said.

"On the contrary, Beijing has requested the electricity suppliers to charge higher prices to consumers from energy-intensive and heavily-polluting industries including steel, ferro-alloys and a number of non-ferrous industries since mid last year."

The AAM report is also scathing about Beijing's attempts to consolidate China's steel industry and slow down rapid expansion in capacity, efforts which have been bogged down in political problems.

"What one hand takes away, the other hand gives and vice versa," the report said. "The centre and provinces differ on policies and goals. The central government's removal of subsidies often results in the provincial government increasing them."

Scott Paul, AAM's executive director, said: "These subsidies need to be urgently addressed and remedied by [the US] Congress and the administration. They're typical of China's brazen subsidisation 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."

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