

# Limiting steel exports by China

China will take all measures including reducing or eliminating export incentives to control the export of resource-intensive products such as steel. The country's steel production capacity will be geared mostly to meeting domestic demand, while exports will be limited to a "reasonable" level, said Qi Xiangdong, vice general-secretary of China Iron and Steel Association. CISA is a semi-government body that helps the government draft industry regulations and policies. "We'll use economic leverages such as taxation," Qi said. "The taxation policies will consider domestic factors and comply with WTO regulations." Any limits on expansion in the sector or curbs on exports could on the one hand mean an easing of China-led demand pressures on the supply of key resources such as iron ore that the country imports in large quantities. On the other hand, it may also support international prices of steel if China stays mostly out of the export market.

Qi's comments follow record high Chinese exports of steel products in June, prompting concerns that cheap Chinese steel will flood the international market and depress prices. China's has turned to a net exporter of steel in the first half 2006 from being a net importer in 2005. Exports of steel products more than doubled on year in June to 4.43 million metric tons, surpassing the previous record in May of 3.49 million tons. In the January-June period, exports reached 17.10 million tons, up 48% on year, according to data released by the Customs Department. Meanwhile, steel imports in June fell 33% to 1.67 million tons, while imports during the first six months totaled 9.41 million tons, down 29% on year.

## Producers ship metal out on expected policy change :

Industry analysts have said high international prices along with market expectations of a change in Chinese export policy helped boost exports in May and June. Speculation in the market is that China may lower the value-added tax rebate for steel exports, making exports less competitive.

The value-added tax rebate is currently 11% and many are expecting this to be cut to 8%-9%. "Controlling the export of resource-intensive and energy-intensive products is one of our principles... The goal of domestic production is just to meet local demand," Qi said. In mid-July, Chinese official media quoted Assistant Minister for Commerce, Fu Ziying as saying the country "should end export-tax rebates for products that cause a lot of pollution and require a lot of energy and resources."

Although Fu didn't say which industries or products should

be controlled, it is widely believed that steel products are on the list. China's swelling trade surpluses and increasing trade friction with major trading partners are also prompting the government to move to limit exports. Representatives of the U.S. steel industry have sought action against the Chinese government which is "continuing to subsidize its steel makers." In a report titled "The China Syndrome: How Subsidies and Government Intervention Created the World's Largest Steel Industry," U.S. trade officials have said the quick growth of China's steel production to 349.4 million tons in 2005 from 67.2 million tons in 1990 was due to government support in the form of subsidies.

## Domestic demand, output to grow until 2010 :

But Qi said the strong growth in the Chinese economy will mean domestic steel production and demand will continue to rise at least until 2010. However, "exports will maintained at a reasonable level and the proportion of high value-added products (in the export basket) will rise," Qi said. China's total crude steel production is expected to hit 410 million tons in 2006 while net exports are expected to exceed 10 million tons, according to Qi. But CISA has estimated steel exports in the second half of 2006 will actually fall, following a reduction in export tax rebates.



However, under current regulations, any changes to value-added taxes require a three-month notice period before new rates take effect. This implies that a change in the rebate for steel exports is unlikely before early November. In a related move, the National Development and Reform Commission, China's top economic planning body, is also planning to eliminate 55 million tons of outdated steelmaking capacity before 2007 and another 100 million tons by 2010. By eliminating small furnaces, the government hopes tighten control on production and exports, as a smaller number of mills accounting for bulk of production will be easier to regulate.

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