



Government of China, Ministry of Industry and Information Technology (MIIT)
No. 13 West Chang' an Boulevard
Xicheng District Beijing 100804



Attention: Industry Policy Department of the Ministry of Industry and Information Technology

Reference: Notice of March 7, 2009 Soliciting Public Comments and Suggestions to Amend the Current Iron and Steel Industry Development Plan Published July, 2005

CPTI

THE COMMITTEE ON
PIPE AND TUBE
IMPORTS

In response to the above solicitation, eight steel associations from three continents -- the American Iron and Steel Institute, (AISI), Canadian Steel Producers Association (CSPA), Committee on Pipe and Tube Imports (CPTI), European Confederation of Iron and Steel Industries (EUROFER), Latin American Steel Producers Association (ILAFA), Mexican Steel Producers Association (CANACERO), Specialty Steel Industry of North America (SSINA) and Steel Manufacturers Association (SMA) -- hereby submit comments to the Industry Policy Department of the Ministry of Industry and Information Technology.



I. The Chinese Steel Industry Should Be Governed by Market Principles, Not Government Intervention

The “Iron and Steel Industry Development Policy” and other government interventions are the antithesis of a market-based steel industry. The policy:

- Outlines the central government’s development goals for China’s iron and steel industry;
- Details the Chinese government’s implementation measures to push steel companies in the intended direction; and
- Provides for sanctions to be imposed on companies violating the government policies.



A report prepared for EUROFER found that the politico-business alliances on the central (“China Steel Inc”) as well as local levels have led to a situation where market failures are reinforced by policy failures having resulted in irrational steel capacity expansion and the creation of massive overcapacities.¹

A report issued recently by the U.S. government (“2008 USTR Report to Congress on China’s WTO Compliance”) correctly summarizes the problem, noting that,

“{I}t appears that China has yet to fully implement important commitments, and in other areas significant questions have arisen regarding China’s adherence to ongoing WTO obligations, including core WTO principles. Invariably, these problems can be traced to China’s pursuit of industrial policies that rely on excessive, trade-distorting government intervention intended to promote or protect China’s domestic industries.”

¹ Marcus Taube, “The State-Business Nexus in China’s Steel Industry- Chinese Market Distortions in Domestic and International Perspective”, January 2009 (Taube Report)



II. China's Iron and Steel Industrial Development Plan and Other Government Actions Are Disrupting and Distorting the Global Steel Market

- Chinese crude steel production more than doubled from 222 million metric tons (MT) in 2003 to 502 million MT in 2008.² China's 2008 production increased 2.6 percent compared to 2007. In contrast, worldwide steel production (excluding China) declined 3.3 percent.³ In response to the world economic crisis and drastic reductions in steel demand, global steel production outside of China plummeted in the first two months of 2009 (including North America, -53 percent, EU -43 percent and South America, -39 percent). However, in spite of the large financial losses that China's steel producers themselves are claiming, Chinese steel production increased 2.4 percent in the first two months of 2009 compared to the same period in 2008,⁴ causing some analysts to say that "China continues to defy market fundamentals."⁵
- In 2008, China exported 61 million MT of steel, remaining the world's largest steel exporter. Governments in several steel producing countries conducted antidumping and countervailing duty investigations and found that Chinese exports of flat steel products, long steel products and steel pipe and tubular products were injuring domestic steel industries.

According to the China Iron and Steel Association ("CISA"), "China's annual crude steel capacity had reached 610 million MT by the end of 2008, exceeding actual consumption by 100 million MT." The result: "Major difficulties for China's steel industry include expansion of production capacity, shrinking demand, grim export {prospects}, excess supply on the domestic market, slumping steel prices and relatively high price raw materials."⁶ CISA has admitted that restoring Chinese steel production in January and early February despite the lack of any real recovery in demand "only resulted in record high market inventories, which triggered a further price collapse."⁷

- In 2008, China had realized investment of CNY 324 billion in the steel sector, up by 23.8 percent, which would add approximately 50 million MT of new capacity in 2009, raising total steelmaking capacity to 660 million MT -- and the estimated amount of overcapacity to at least 160 million MT.⁸ "These new capacity additions will focus on releasing in mid 2009 ... further exaggerating the overcapacity figure, especially for flat products in the second half since most of all new capacities are flat products."⁹

2 World Steel Association website release Jan 22, 2009

3 World Steel Association website release March 20,2009

4 World steel Association website release March 20,2009

5 Michelle Applebaum, "Steel Market Intelligence" report, March 22, 2009 – "February Global Steel Production Rises; Chinese Production Back to Near Record Levels"

6 Wu Xichun, Honorary Chairman of China Iron and Steel Association, "Responding to Challenges and Overcoming the Difficulties Together", 7th International Steel Market and Trade Conference, Shanghai 19-20 March 2009

7 Steel Business Briefing, March 20, 2009

8 Shanghai Securities New, February 24, 2009

9 Id. "Responding to Challenges and Overcoming the Difficulties Together"

III. Recommendations

The following recommendations would promote the development of a market based Chinese steel industry and are fully consistent with the commitments China made on its accession to the WTO:

1. The Chinese government should discontinue providing subsidies to its steel producers. The current Steel Policy specifically provides for government support in the form of “taxation, interest subsidy and scientific research funds” for major iron and steel projects utilizing newly developed domestic equipment.¹⁰ The Steel Policy also states that enterprises need only provide 40 percent or above of necessary investment capital for new projects of iron making, steel making and steel rolling, suggesting that the remainder of such capital will be supplied by government funds.¹¹
2. The Chinese government should stop controlling and directing the operations of steel facilities, whether through the use of state-owned enterprises (“SOEs”) or other means. China’s Steel Policy provides detailed guidance for all Chinese steel producers -- including SOEs -- with respect to many key decisions. In particular, the Steel Policy:
 - Proposes the reorganization of China’s steel industry so that the 10 largest Chinese steel producers will account for more than 50 percent of all Chinese production by 2010, and more than 70 percent of all Chinese production by 2020;¹²
 - Calls for the establishment of “iron and steel factories of the recycling type,”¹³ , i.e., electric arc furnaces (EAFs), even though China wholly lacks a comprehensive system for recycling steel scrap, a system that is normally needed for expansion of the EAF sector;
 - Directs that “large scale steel enterprises shall be mainly arranged in coastal areas”;¹⁴
 - Provides detailed guidance regarding the size of new plants,¹⁵ the minimum size of blast furnaces to be installed in such plants,¹⁶ and the amount of water and energy to be consumed in such plants;¹⁷
 - Stipulates that, as a matter of principle, non-Chinese companies are prohibited

10 NDRC, “Steel Industry Development Policy” (July 20,2005) at Article 16 (English translation)

Taube Report p. 130-131

11 Id at Article 23

12 Id at Article 3, Taube Report p. 67

13 Id at Article 5

14 Id at Article 11, Taube Report p. 68

15 Id at Article 12 (providing that new steel projects in coastal deepwater port areas shall have a capacity of more than 8 million MT), Taube Report p. 65

16 Id (providing that the blast furnaces for new steel projects in coastal deepwater port areas shall be over 3,000 cubic meters), Taube Report p. 65

17 Id (setting strict targets for water and energy consumption),

from controlling Chinese steel producers,¹⁸ a principle that is completely irreconcilable with the free movement of capital and equality of treatment that underlies the tenets of the WTO.

3. The Chinese government should dismantle raw material export restrictions and should not introduce more distortions in the raw materials market. China continues to impose WTO-inconsistent restrictions on exports of key raw materials. “Despite its commitments, since its accession to the WTO, China has continued to impose restrictions on exports of raw materials, including export quotas, related export licensing and bidding requirements, minimum export prices and export duties, as China’s economic planners have continued to guide the development of downstream industries. The export restrictions create disadvantages for foreign producers by artificially increasing China’s export prices for their raw material inputs, which also drives up world prices. At the same time, the export restrictions appear to artificially lower China’s domestic prices for the raw materials due to significant domestic oversupply, enabling China’s downstream producers to produce lower priced products from the raw materials and thereby creating significant advantages for China’s domestic downstream producers when competing against foreign downstream producers both in the China market and in export markets.”¹⁹ While China is restraining its raw material exports, the Chinese government is assisting China’s mining and steel companies in buying mines and other sources of raw materials in foreign countries.²⁰ To the extent that the Chinese government is subsidizing or otherwise supporting these purchases, such actions are inconsistent with market principles.

4. The Chinese government should stop manipulating its value-added tax (“VAT”) system and any other border measures that provide artificial competitiveness to China’s steel and manufacturing exports. “China’s economic planners also attempt to manage the export of many intermediate and downstream products, often by raising or lowering the VAT rebate available upon export and sometimes by imposing or retracting export duties. For example, China reduced or eliminated VAT export rebates in November 2006 and April 2007 and imposed export duties in May 2007, July 2007 and January 2008 on a wide range of semi-finished and finished steel products, as part of its efforts to discourage further unneeded creation of production capacity for these products in China. At the same time, these changes did not target all steel products, and the result was that Chinese steel producers shifted their production to high value steel products for which full or partial VAT export rebates were still available, particularly wire products and steel pipe and tube exports, causing a surge in exports of these products. In December 2008, China added even more uncertainty to the global steel market when it partially reversed course by eliminating export duties on some but not all semi-finished and finished steel products.”²¹ Most recently, China increased VAT export rebates on certain flat steels (carbon cold-rolled and coated sheets, electrical steels and stainless hot-rolled and cold-rolled sheets) and certain long products (carbon alloy bars, rod and wire and

18 Id at Article 23, Taube Report p. 149-150

19 2008 USTR Report to Congress on China’s WTO Compliance - “Export Restrictions on Raw Materials,” p. 36. Taube Report p. 145

20 See, e.g., A. Price et al., Raw Deal: How Governmental Trade Barriers and Subsidies Are Distorting Global Trade in Raw materials 14-20 (2008), Taube Report p. 150-151

21 Id “Vat Export Rebates and Export Duties on Intermediate and Downstream Products,” page 37

stainless bars and rod) coming at a time when global steel demand remains severely depressed and capacity utilization in many industries is below 50 percent.

5. China should establish more stringent environmental standards and enforce its environmental laws vigorously. The plan correctly calls for the steel industry to comply with local and state environmental laws, and for mills to include the equipment necessary to achieve compliance.²² All of this will be pointless, however, unless the Chinese government actually monitors compliance with environmental laws, and punishes firms that violate those laws. A recent study shows that China's environmental standards for steel production are not up to international norms and that, in any case, the Chinese government has failed to enforce even its existing environmental standards adequately.²³ Also, the Chinese government should accelerate the closure of the obsolete and cost-inefficient steel facilities.

6. China should stop manipulating its currency, which provides significant export subsidies. The renminbi's modest revaluation in July 2005 and its appreciation since then are grossly inadequate. However, according to Deng Xianhong, China's Deputy Director of the State Administration of Foreign Exchange, China will "push forward with reform of the exchange rate regime in a self-initiated, gradual and controllable manner and keep the rate basically stable at a reasonable equilibrium level."²⁴ The problem for the rest of the world is that the renminbi's fundamental misalignment acts as a major export subsidy for China's manufacturing base. It creates an artificial competitive advantage by making China's exports of steel and steel-containing manufactured goods cheaper than they would otherwise be, and further disadvantages imports in the Chinese market. There is a lot of blame to go around for the current global financial crisis, but the government of China is also partly responsible, because its massive, ongoing interventions in exchange markets have caused the renminbi to be significantly undervalued, and have contributed to global trade and financial structural imbalances. While government intervention in exchange markets is not part of the Steel Plan, currency has major impacts on Chinese steel and steel-related production and trade.

IV. Conclusions

The American Iron and Steel Institute (AISI), Canadian Steel Producers Association (CSPA), Committee on Pipe and Tube Imports (CPTI), European Confederation of Iron and Steel Industries (EUROFER), Latin American Steel Producers Association (ILAFA), Mexican Steel Producers Association (CANACERO), Specialty Steel Industry of North America (SSINA) and Steel Manufacturers Association (SMA) appreciate the opportunity to offer these recommendations and hope they will be given serious consideration. It has been seven years since China acceded to the WTO. By now, all of China's obligations under the WTO should have long since been fulfilled. Unfortunately, that has not happened.

²² Steel Industry Development Policy at Article 13

²³ Alliance for American Manufacturing study, "An Assessment of Environmental Regulation of the Steel Industry in China," January 2009, Taube Report p. 153

²⁴ Xinhua article, February 18, 2009

The Chinese steel sector should be healthy and market-based – not government-owned, controlled and directed. A proper role for the Chinese government would be to:

1. End state interventions and comply with WTO commitments;
2. Stop fostering conditions (subsidies, trade barriers) that encourage unfair trade; and
3. Urgently address obsolete capacity and effectively adopt and enforce world-class environmental regulations.

Until China's Iron and Steel Development Plan is ended as a state intervention into the market or substantially amended to comply with China's WTO accession commitments, the Chinese steel industry will continue to distort steel markets worldwide for years to come. This is not in the long term best interests of China if it seeks to attain its rightful place in the world economy.