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## PRESS RELEASE

### **Report shows Chinese state-business relations provoke severe market distortions in the international steel market**

**Basis for future EU action / EUROFER asks Commission for strict enforcement of EU trade laws**

EUROFER presented yesterday at the European Parliament, under the patronage of Elisabetta Gardini MEP, a 166 pages report on *The State-Business Nexus in China's Steel Industry - Chinese Market Distortions in Domestic and International Perspective*, which has been prepared by Prof. Dr. Markus Taube of the renowned THINK!DESK China Research & Consulting.

"The report reveals in astonishing precision how the Chinese government organizations are severely interfering in the global market system by distorting the cost/price competitiveness of Chinese steel enterprises to the disadvantage of foreign steel makers. We are asking the European Commission and the Member States to strongly react on this by a strict enforcement of EU trade laws, based on the results of this important report. Any further dialogue with China must have the objective of securing a level playing field for European steel makers. This is even more important in order to reduce the impact of the current economic crisis over the next years", says Gordon Moffat, Director General of EUROFER.

The report reveals in detail how China's steel industry is firmly embedded in a powerful state-business relationship. Chinese steel companies are not operating in a competition based domestic market environment, but rather uphold very close relations to government agencies on local, provincial as well as central levels. The Chinese government programs the development of the steel industry by means of comprehensive and detailed catalogues outlining development goals and instruments of government intervention. A multi-layered system of politico-business alliances can be identified on the national level: 'China steel Inc.' made up of the National Development and Reform Commission (NDRC), the China Iron and Steel Association (CISA), the State-owned Asset Supervision and Administration Commission of the State Council (SASAC) as well as the top management of China's leading steel enterprises; and on the local level: Local governments and enterprises form their own local alliances promoting local steel production activity, protecting them in the face of adverse central policies. The politico-business alliances ("China Steel Inc.") as well as local levels result in irrational capacity expansion and creation of massive excess steel capacities (pre-crisis estimation of more than 100 million tonnes per year). Chinese governments support their steel companies by a broad array of mechanisms including, inter alia, grants, various kinds of 'in-kind' as well as fiscal subsidies, capital market interventions, preferential tax arrangements, subsidized loan facilities, access to systematically under-priced inputs, non-execution of internationally accepted minimum standards of labor protection and environmental sustainability.

China has shifted from a net importing country to the – by far – largest steel exporter worldwide (20.7 percent of global steel exports in 2007). Chinese steel exports to Europe have increased at an even greater speed than China's total steel exports. The Chinese share of total EU steel imports has quickly risen to reach almost 30 percent in 2007 from only 2 percent in 2003 – with a growing share in the area of higher value-added flat products. But China does not have a genuine competitive cost advantage in steel making; cost structures and sales prices of China's steel enterprises do not reflect real market constellations and scarcities. In general, China's steel enterprises are operating at artificially depressed cost levels. Chinese steel exports to Europe actually incur higher costs than those that arise to European producers supplying the local markets. Chinese steel mills have a clear cost disadvantage when trying to sell their products on the European markets.

However, the Chinese government is promoting export activities by domestic steel producers on a highly selective basis. Measures include an intricate set of cascading value added tax (VAT) rebates, export taxes and even export quota (coke), which may be coupled with income tax reductions, preferential export credits and guarantee schemes provided by the China Export Import Bank (China Eximbank) and other state-owned financial institutions.

By distorting the cost/price competitiveness of Chinese steel enterprises vis-à-vis foreign companies, Chinese government organizations are interfering in the global market system.

Please find attached to this press release the full report (166 pages) and a presentation of its results.

*Represented by EUROFER, the European steel industry is the world leader in its sector with a turnover of over EUR 160 billion and direct employment of 440 thousand people, producing over 200 million tons of steel per year.*

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