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China steel subsidies could wreak havoc overseas: expert

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If national governments and trade blocs do not increase pressure on China's government significantly, the devastation that its subsidies have wreaked on other countries' economies will continue, said **Usha Haley**, a professor at West Virginia University's College of Business and Economics.

Speaking at the Latin American steel congress, Alacero-56, in Buenos Aires, **Haley** said that, even though China's highly fragmented industry has no scale or technological edge, its steel sells for 25% less than US and European steel.

"Because of massive Chinese subsidies to several industries, no free trade exists and markets have failed. To survive, national governments, companies and trade blocs must intensify calls against Chinese subsidized products," she said.

Haley said that from 2000 to 2006 energy subsidies in China grew 1,365%.

"Chinese steel costs are between 20% to 30% less than US or EU steel, which forces depressing prices worldwide," she said, adding that China's government will continue subsidizing the companies and the situation will not change in short term.

According to her studies, 2,235 Chinese-listed companies (88%) received government subsidies totaling $5.24 billion in the first half of 2014. Subsidies accounted for 80% of listed Chinese steel companies' profits in 2014.

China is the largest producer and consumer of steel with about 50% of global production, up from 16% in 1999.

"Its steelmaking capacity more than doubled from 2005 to 2012 and is continuing to grow," she said.

"Some have argued that Chinese subsidies help consumers by keeping prices low. Our research leads us to conclude that like other monopolies, Chinese companies will raise prices as international competition retreats," she said.

Steel remains the prime beneficiary of bank lending and stimulus packages, **Haley** said, fueling enormous excess capacity. Last year, the steelmaking capacity from China was 1.2 billion mt, or 14 times annual output of US and six times the annual output of Latin America.

Forecasts point to a continued imbalance of the supply-demand in China, with a gap of at least 100 million mt, she said.

"Pressing China is our only alternative," **Haley** said.

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