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by MAURA KELLER

China currently has over 52 percent of worldwide steel production and yet, every year it adds more capacity equivalent to the total production of Japan, the second largest steel producer. PHOTO by Jian Gao | Dreamstime.com

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After enduring one of the worst downturns ever, American steelmakers and the subsequent American metal recycling industry is thanking the U.S. Department of Commerce (DOC) for imposing preliminary duties on imports of cold-rolled steel, used to make auto parts, appliances and shipping containers.

Seven countries, including China, are targeted because of their dumping (selling below cost) that has significantly hampered the U.S. steel industry and deflated steel prices around the world.

The massive tariff, set at more than 500 percent for Chinese steelmakers, is meant to punish dumping which allows China and others to improperly gain market share. The DOC said it had determined that imports of Chinese cold-rolled steel should be subject to anti-subsidy duties of 256.4 percent and anti-dumping duties of 265.8 percent. These imposed duties will specifically affect Chinese cold-rolled flat steel, which is widely used in the automotive industry, for appliances and in the construction industry.

The DOC also issued anti-dumping duties of 3 percent to 92 percent on producers of corrosion-resistant steel in Italy, India, South Korea and Taiwan.

Brian J. Grant, managing director at Conway MacKenzie, Inc. and turnaround professional currently consulting in the metals industry, explained that U.S. consumers are usually unaware of what's going on in the background and don't realize that although the U.S. has some of the lowest import taxes in the world, many goods imported into the U.S. are subject to some level of duties.

"As the most lucrative market in the world, the U.S. attracts goods from around the globe and these duties play an important part in both supplying U.S. consumers with affordable goods and protecting domestic industries," Grant said. "In cases where the government suspects that goods from another country are being sold below market value, or "dumped," the government often levies anti-dumping and countervailing duties goods at the time of importation to help protect domestic producers."

As Grant further explained, in response to dramatic domestic growth, China has invested heavily in steel production capacity over the past decade. However, as domestic consumption has slowed, China has increasingly exported their excess supply of steel around the world, often at depressed prices; prices are well tracked in the industry and often show that Chinese steel is priced well below other producers, sometimes by as much as 50 percent.

"As Chinese imports have flooded into the U.S. market over the past decade, the Department of Commerce has already put in place anti-dumping duties on 19 categories of Chinese steel," Grant said. However, in response to a record free fall in steel prices over the past several years, the DOC recently increased duties on cold-rolled steel, which is a popular form of steel used in various industries such as automotive, from China – and several other countries – to 266 percent."

Usha Haley, professor at West Virginia University, has researched Chinese manufacturing and advised companies and governments on Chinese trade and investments for over a decade. Her research supported the U.S. federal regulation, the Non-Market Economy Trade Remedy Act. Haley said that the global steel industry is playing a catch up game, reeling under this extraordinary and continually rising production from China.

"China is currently disputing its WTO categorization as a Non Market Economy, insisting that markets set prices," Haley said. "My research for over a decade indicates this is not so: Chinese subsidies reduce steel prices to well below costs. If China is classified as a Market Economy, duties on imported Chinese products will be reduced drastically, perhaps by more than 90 percent, contributing to the quick demise of the steel industry outside China. Under those circumstances, China will become a monopoly steel producer, with free rein to raise steel prices at will. Currently the prices of recycled steel products have fallen below the costs of steel exports from China."

Impact on U.S. Steel Market

So what impact does the dumping of steel products at low rates by such countries as China have on the U.S. steel market? China has invested heavily in their steel industry and now accounts for almost half of global annual steel production, therefore their pricing has a significant impact on the global market and in turn, on the competitiveness of U.S. steel producers.

"Market pricing is well tracked in the industry and clearly shows that Chinese prices are often significantly lower than other producers, sometimes by as much as 50 percent," Grant said. "Without tariff protection, this makes it nearly impossible for domestic producers to compete. Out of necessity to cover costs and keep plants running, domestic producers have had no choice but to essentially continue to produce at a loss, as demonstrated by the record losses realized by U.S. steelmakers in recent years."

Not surprisingly, the Chinese dumping situation has hurt the domestic recycling industry in two primary ways. First, recyclers' primary customers – domestic steelmakers – have struggled to compete at these lower prices, racking up record losses and in some cases, idling or shutting down plants, which affects demand for recycled steel.

"Recyclers typically make a certain processing fee per ton, but they do hold commodity risk," Grant said. "When prices are flat or increasing this is fine, but over the past several years prices have fallen dramatically – prices at the end of last year were around 67 percent lower than they were 3 years earlier – and even recyclers that turn their inventory quickly have realized losses as prices have fallen."

On the Forefront

The U.S. may have the most economic clout and ability to confront China on the dumping of steel, but isn't the only country whose domestic producers that have been impacted. The European Union is now similarly investigating China.

Grant said that the new levies against China will help the steel industry and are already starting to have an impact as demonstrated by the recent increase in prices, and the recycling industry will likely benefit proportionally with the domestic producers.

Haley's research has further shown that billions of dollars of subsidies have been fueling China's excess capacity in steel production and will continue to do so, depressing steel prices worldwide.

"Chinese steel producers have no competitive advantage in manufacturing – the industry is composed of over 10,000 mostly small companies that have no technological advantage, no efficiencies and no economies of scale," Haley said.

"Yet, Chinese steel routinely sells for at least 30 to 50 percent below U.S. and EU steel because of these subsidies, a lot more for some steel products."

China currently has over 52 percent of worldwide steel production and yet, every year it adds more capacity equivalent to the total production of Japan, the second largest steel producer.

"For various institutional reasons, supply side measures have not worked with China, just as fast as the provinces cut steel capacity, they add even more," Haley said. "This year is no different, as Chinese steel production is estimated to hit all time record levels and steel prices are continuing to fall below costs, driving US companies out of business. The U.S. has no alternative except to resort to demand side measures including tariffs."

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