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January 7, 2010

New Duties Imposed on Chinese Steel

By David R. Butcher

In an escalation of the ongoing China-U.S. trade clash, the U.S. last week imposed new duties on imported Chinese steel pipes targeted for unfair subsidies.

On Dec. 30, the International Trade Commission (ITC) ruled that a surge of subsidized Chinese steel has "materially injured or threatened" to harm United States industry. The ITC voted to impose duties of 10.36 percent to 15.78 percent on certain pipes.

The ruling allows the U.S. Department of Commerce to impose countervailing duties "ranging from 10 percent to 16 percent on future imports from China of 'oil country tubular goods' [OCTG], which are the pipes used in the oil and gas industry," according to the Wall Street Journal.

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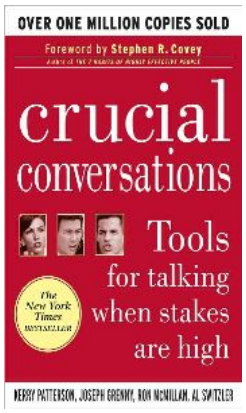

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Imports of steel pipes have surged in recent years. According to the latest Commerce Department figures, the volume of steel pipes imported from China more than tripled from 2006 to 2008, rising from $681 million to $2.8 billion, as a surge in oil prices led to increased demand for oil well tubing and casing. *(Source: The Washington Post)*

The new duties are meant to "offset the government subsidies that the U.S. government says China provides its steelmakers," the Chicago Tribune said.

A 2008 report commissioned by the Alliance for American Manufacturing (AAM) concluded that the Chinese government had already boosted its steel output exponentially over the previous few years through massive, trade-distorting energy subsidies. 2007 energy subsidies showed a 3,800 percent increase since 2000. While the amount of subsidies has fluctuated throughout the decade, subsidies to steel producers and processors have persisted, according to the AAM report, titled *Shedding Light on Energy Subsidies in China*.

"Substantial energy subsidies pervade China's steel production," AAM explained.

The AAM report found China's steel producers have received more than $27 billion in governmental energy subsidies since 2000. "These subsidies have contributed directly to the ballooning of Chinese steel exports and have affected the global and U.S. steel industries," the report claimed.

Last summer, a number of domestic steelmakers argued that Chinese mills benefit from subsidies for OCTG sold in the U.S. According to the companies that filed the complaint, along with the United Steelworkers union, Chinese government subsidies to steelmakers have unfairly allowed the Chinese firms to overwhelm their U.S. rivals. The U.S. companies alleged that their Chinese rivals received discounts on raw materials and loans from government-owned firms.

Like U.S. steel producers, European Union steelmakers also blame large government subsidies to the Chinese steel industry for flooding the world market with cheap steel and pushing prices down in recent years. Last year, the alliance of European steel manufacturers, Eurofer, accused China of systematically distorting steel markets through subsidies.

The pipe imports case, the largest steel trade dispute in U.S. history, will affect about $2.8 billion worth of Chinese imports, according to the Canadian Press.

For its part, China's Ministry of Commerce (MOFCOM) expressed "strong dissatisfaction and resolute opposition" to last week's ruling, calling on Washington to "correct its mistake" and avoid trade

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protectionism. "The financial crisis since late 2008 has led to a quick decline in demand for steel pipe used in oil and natural gas production. The US industry associations were wrong when they attributed the sluggish business to the Chinese imports and blindly charged Chinese products with dumping and subsidizing," a MOFCOM statement said. "The move and measure is groundless, Chinese exports do not harm the American industry," it added. *(Source: China Daily)*

U.S. companies and unions brought about a dozen trade cases against China in 2009, alleging not only government subsidies but also "steel dumping," the act of selling a product in a market below the home-market price it cost to produce it. In a preliminary determination in November, the Commerce Department said anti-dumping tariffs of up to 99 percent would be imposed on the pipes, stating they were sold in the U.S. at prices ranging from 40 percent to 90 percent less than normal value. China has also claimed the anti-dumping portion of the pending trade case is a protectionist measure.

Although steel products have been the focus of increasing trade conflicts between China and the U.S., they aren't the only materials over which trade tensions between the two countries have escalated.

"Trade disputes between Beijing and Washington over exports of tires, chickens, steel, nylon, autos, paper and salt are multiplying and further damaging the already tense relationship between the two economic powers," the Washington Post said on Monday.

The *Post* added that "the Obama administration says it only aims to protect the country's rights, but the Chinese counter that the United States started the whole thing by launching an unprovoked attack." Namely, a move in September to impose "a staggering 35 percent import fee on tires from China," which led to China responding "with a full arsenal of its own trade complaints."

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