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Steel market

China's exports of alloy products spur price declines

TOKYO -- China continues to export nominal value-added steel products, adding to an excess in supply in the Asian market and prolonging price decreases.

These types of steel products are not very different from ordinary ones, but they are treated as value-added because they are alloyed with a new element. Chinese steelmakers continue the practice in order to receive tax rebates when they export such products.

Shrewd tax avoidance

While ordinary steel products are not eligible for tax rebates, Chinese steelmakers "in most cases" add a minimum amount of a new element to products and then claim them as alloys to receive such funds, said an official at a trading house that handles steel products. The virtual subsidy helps domestic steelmakers, who account for half of all the steel production in the world. It also floods the global market with their products and undercuts overseas rivals.

The practice is especially noticeable in the market sector for semi-finished steel bars, called billets.

According to its trade data,
China exports almost no billets.

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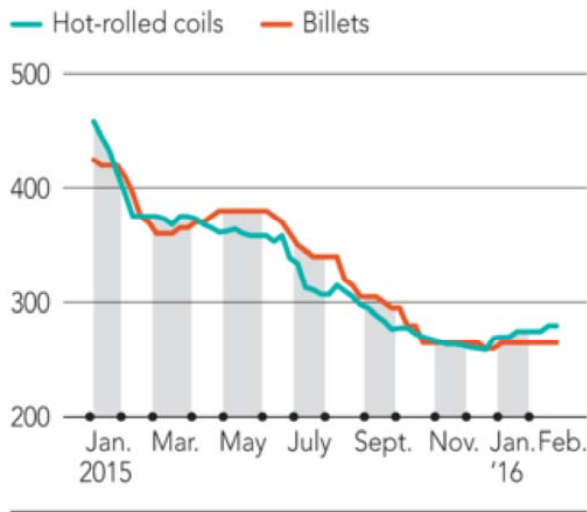


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Prices of steel products in Asia (in dollars per ton)



But billets actually on the market are categorized as "alloy steel bars," and exports of them from China totaled some 30 million tons in 2015, up more than 60% from the previous year.

Chinese data also show that only 90,000 tons of hot-rolled coils, known as hot strips, were exported from China in 2015. But exports of "alloy steel sheets" totaled about 24 million tons, up 2.2 times from three years earlier.

China abolished tax rebates on ordinary steel exports in 2010 in a bid to encourage local steelmakers to export valued-added products. In 2014, however, ordinary steel products containing a small amount of boron were widely distributed as alloy steel.

Faced with an outcry from countries unhappy with this practice, the Chinese government ended tax rebates on boron-added exports. But Chinese steelmakers are now exporting steel products alloyed with chromium, which is not subject to government regulations.

"A cat-and-mouse game continues between tax avoidance and regulations," said an official at a specialty steel manufacturer.

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