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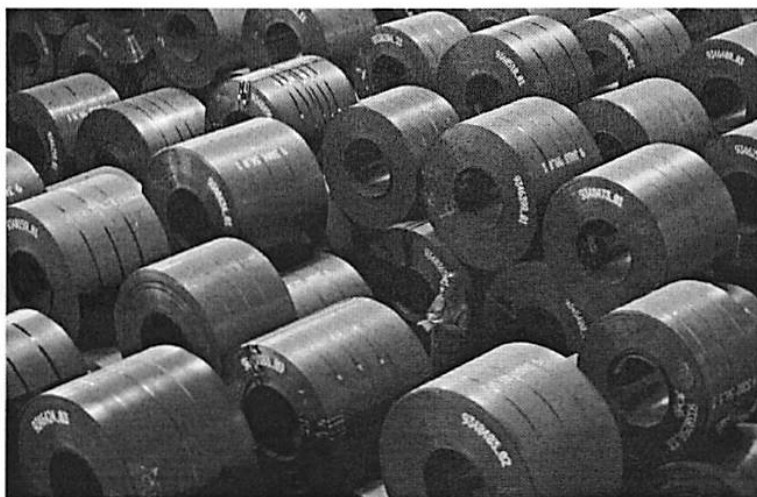
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Gaming the system: China steel exporters look for tax advantage

MANILA/LONDON | BY MANOLO SERAPIO JR AND MAYTAAL ANGEL



An employee works inside a steel export factory in Taiyuan, Shanxi province, in this April 10, 2013 file photo.

1 of 3

REUTERS/JON WOO/FILES

Chinese steel exporters are gaming the nation's tax system to pump ever greater amounts of surplus steel into world markets, crafting slightly different alloys to ensure their products sidestep Beijing's cutbacks to trade subsidies.

Steel exporters claimed up to \$2.4 billion in tax rebates in the first eight months of this year, on track to surpass the 2014 total despite government moves to tighten the kinds of shipments eligible for such refunds, Reuters calculations showed.

The rebates, along with steps such as those announced on Wednesday to reduce taxes on some steel exports, are helping many Chinese steel mills deeply undercut rivals overseas. China's steel exports topped 100 million tonnes for the first time this year, more than four times 2014 shipments from the European Union's largest producer, Germany.

That has fueled a plunge in steel prices to 12-year lows and driven scores of countries to slap anti-dumping duties on Chinese steel, as well as sparking mill closures. Some 5,000 steel jobs were cut in Europe this quarter, prompting EU ministers to hold crisis talks.

Amid growing [trade](#) tensions, Beijing at the start of the year halted rebates on steel exports containing boron, an element used to harden steel for uses ranging from

agricultural tools to mining. But steel executives in and out of China said the refunds continued on steel products containing another element, chromium.

"Boron-added exports have now almost dried up. But at the same time non-boron alloy exports have shot up. When one loophole closes, another one opens," said Jeremy Platt, an analyst at British consultancy MEPS.

Chinese exports of steel products alloyed with just 0.3 percent of chromium can get a 9 percent to 13 percent tax rebate as part of Beijing's efforts to promote higher-value steel.

There has been speculation the government could also stop rebates on chromium-added steel, but that would likely only prompt exporters to shift to forming steel alloys with other elements such as titanium or manganese, said Roberto Cola, president of the ASEAN Iron and Steel Council.

"Titanium looks to be the next most economic," he said. "They should stop the rebates completely."

An official at China Iron and Steel Association, which groups both state-run and private steel producers, said the organization and the government did not encourage exports of "too much" steel.

"Individual companies - many times traders instead of producers - make their own decisions to export and they are trying to get as much legitimate benefit as they can," said the official, who declined to be named as he was not authorized to speak to media.

DIFFERENT DEFINITIONS

Of the 72 million tonnes of steel products that China exported in January-August, 44 million tonnes were declared as alloy steel, according to the country's customs data.

Using the maximum rebate of 13 percent, the refunds due Chinese exporters from this volume would be \$2.4 billion, Reuters calculations showed, compared to \$3.5 billion for the whole of 2014.

While some of the rebates will have been awarded to exporters pushing to sell more value-added steel, further data indicates that around half may have been granted to shipments containing just tiny amounts of alloy elements.

Customs numbers from importing countries showed alloy steel imports from China only reached 20.6 million tonnes in January-August, based on estimates by MEPS, which has been tracking China's steel industry since the late 1990s.

That is a 23.4 million-tonne discrepancy with the Chinese figures, suggesting that many shipments classified as alloys by Beijing did not contain enough alloy elements to receive a similar classification in their destination countries. For example, many importers consider a product to be specialty steel only if it contains more than 0.5 percent alloying element.

China's customs and tax authorities did not immediately respond to requests for comment.

"(The British government) will consider raising any robust evidence of misclassification with the appropriate authorities," said a UK business department spokesman, who declined to be identified due to the sensitivity of the matter.

Most of the 5,000 steel jobs lost in Europe were in the UK, which steelmakers there have blamed largely on cheap Chinese steel, although the global market is plagued by overcapacity.