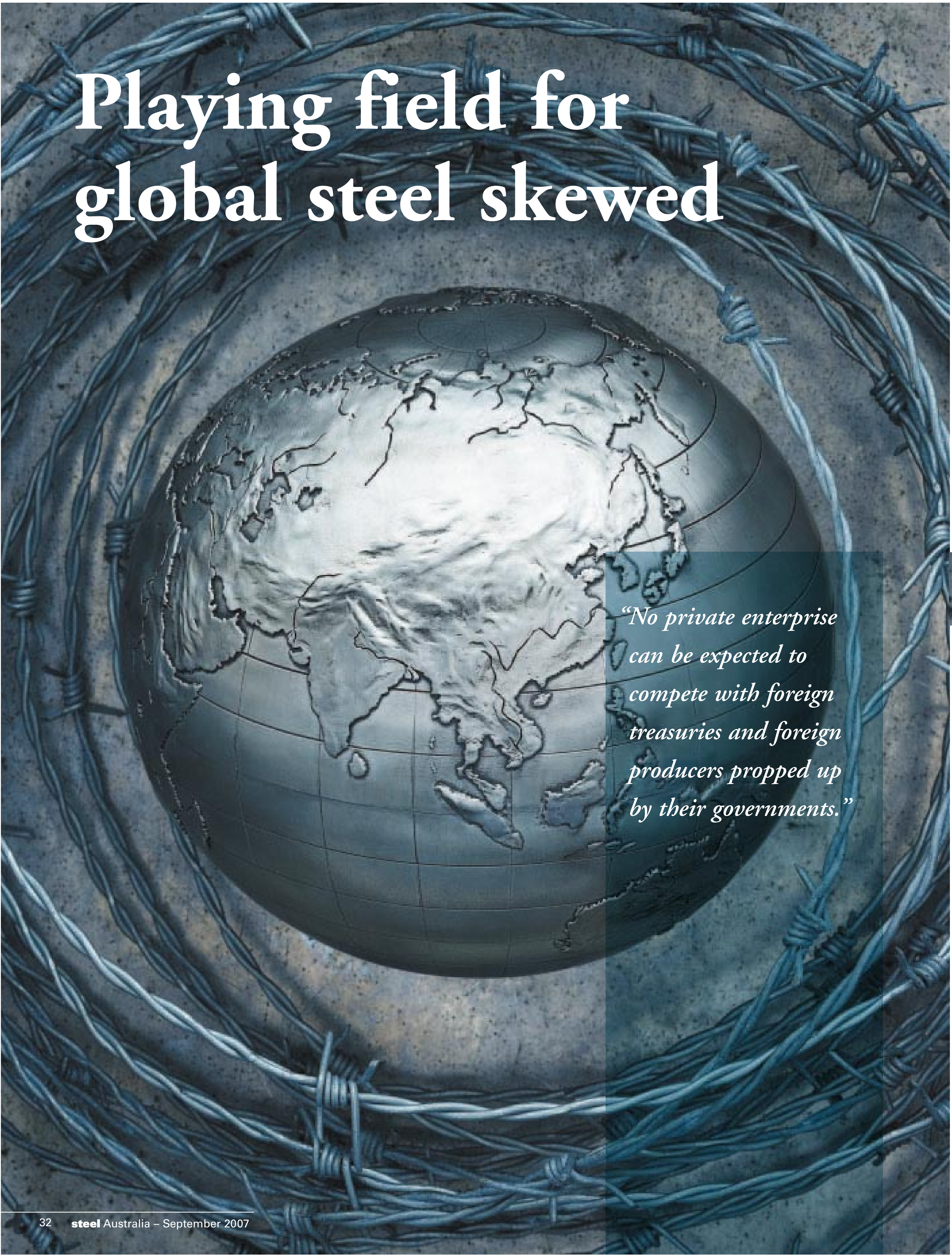
Playing field for global steel skewed



"No private enterprise can be expected to compete with foreign treasuries and foreign producers propped up by their governments."

Over recent years, Australian Steel Institute (ASI) members have experienced the effects of globalisation particularly in the sourcing strategies adopted by major resource and construction project proponents.

Globalisation provides the Australian project proponent and the engineering, procurement and construction management (EPCM) contractor with unprecedented opportunities to pursue offshore fabrication of steel with a view to reducing overall project costs.

ASI chief executive, **Don McDonald** said examples proliferate that strongly suggest project proponents and EPCMs need to better understand that local industry has the capacity, capability and competitiveness to deliver quality outcomes to projects.

"From our observations there is an increasing focus on establishing an 'offshore differential' than working with our members to achieve favourable outcomes for the projects utilising local capabilities," he said.

"Whilst progressively investing and opening our doors to overseas markets over the past few decades has led us to work more efficiently in Australia, we must keep reminding ourselves that not all foreign industry operates by the same rules as ours."

There are a number of common features which contribute significantly to Asian countries' burgeoning position in the fabricated steel market. Chinese manufacturers are not burdened with the same locally imposed compliance regulations as apply to the steel sector in Australia. That is on top of enjoying an exchange rate fixed at a hugely favourable level for their exporters.

Chinese fabricated steel also escapes export levies of between five and 10 percent that the country has imposed on other products, including some steel sections, further clearing the way for imported fabricated steel into Australia.

ISS International managing director and industry analyst, **Toby Forwood** pointed out that while China buys much of its steel inputs on the world market, simply the very low cost of labour does not fully explain the gap between the Chinese and other countries' prices.

A recently-published steel industry exposé from the US on the subsidisation of the Chinese steel industry made the point that the assistance is so massive that the recently announced tax on some steel exports and the reduction of export subsidies are unlikely to have any effect on China's export competitiveness.

A prominent US academic recently laid bare the number of significant factors that combine to give Chinese exports an unfair advantage.

As reported in *MSCI Forward* magazine (May-June 2007), **Professor Peter Navarro** from the Paul Merage School of Business at the University of California identified eight factors that together contribute an estimated 82 percent of the value of the so-called 'China price'.

"The ASI is advocating more strongly to Government and industry for major project proponents to demonstrate upfront commitment to providing full, fair and reasonable opportunity at the concept design stage."

The 'China price' is a term applied to pricing for Chinese goods that often arrive in the US for less than the cost of raw materials there, a situation reflecting a similar trade imbalance to that faced by Australia.

For instance, he pointed out that nearly all Chinese steel companies, even those with stock traded on public exchanges, are majority owned by the Government. This provides significant advantages in the form of subsidies, cheap or inexpensive land, 'free' money in terms of loans that don't have to be repaid, subsidised water and power, free infrastructure costs, low-cost healthcare and benefits.

Mercantilist factors he identified include subsidies and tax preferences (equal to a 17% share of China's cost advantage), currency manipulation (11%), piracy and counterfeiting of intellectual property (9%), lax health and safety regulations, and poor enforcement (2.5%), advantages conferred by unrestrained foreign direct investment (3%), and low labour costs (39%).

"No private enterprise can be expected to compete with foreign treasuries and foreign producers propped up by their governments," he said.

"Since 1996, China has built the equivalent of about 10 steel industries the size of Brazil's. That is not the result of market forces, but instead has been accompanied by an enormous amount of evidence of subsidies and unfair trade."

Closer to home, the ASI is advocating more strongly to Government and industry for major project proponents to demonstrate upfront commitment to providing full, fair and reasonable opportunity at the concept design stage and supporting the notion of early engagement by meeting with project management.

Representations are progressively underway to Australian Federal and State politicians with portfolios covering state development, infrastructure, industry and trade.