

China steel exports surge due to domestic overcapacity

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The sharp rise in China's steel exports last year and the fall in imports were the result of excess capacity and redundant production in the country, analysts said. The General Administration of Customs announced that China's 2005 steel and steel product exports rose 44.2% to 20.52 million tonnes while steel imports were down 11.9% at 25.82 million tonnes.

"There continues to be tremendous overcapacity and irrational production in China with domestic supply greatly outpacing demand, so the rapid rise in exports and falling imports would be the logical result," said Mr Wu Xianfeng, steel analyst at Guotai Junan Securities. But he added that China is unlikely to stop importing certain kinds of steel soon. "Although imports were down somewhat, China will continue to have a need for crucial high-end value-added steel and steel products going forward and imports are best suited to meet this demand," he told. He said there was no relief in sight, at least in the short term, for the ailing sector which has seen prices plummet in China by over 3,500 yuan per ton since the peak in April. "For crude steel, not only will overcapacity in China continue to boost exports and limit import demand, but will also prove a drag on selling prices for much of this year if not longer," he said.

Mr Tian Shuhua, senior analyst at China Galaxy Securities, said the rapid increase in exports was symptomatic of structural ills within the sector. "China's steel sector is experiencing many systemic problems. As recently as a few years ago, China was the world's largest steel importer and only exported token quantities. But the sharp rise in steel exports seen last year is an unhealthy development for the industry," he said. He said exports were further spurred by reductions in export tariffs, and helped pull down prices on world markets for a sector already suffering from shrinking margins." It is an unhealthy path for the sector to take and shows that massive restructuring is still needed to keep the industry afloat. The rapid rise in exports also suggests that many smaller, less efficient producers are desperately trying to offload steel on world markets due to overcapacity at home," Mr Tian said.

China has been encouraging consolidation in the sector to rein in redundant overcapacity. Some major producers have also shown restraint by pledging to cut production voluntarily. The country is expected to have overcapacity of at least 100 million tonnes of steel for 2005 amid expected demand of 300 million tonnes tons. The country's steel production capacity is expected to hit 490 million tonnes in 2006 and 538 million tonnes in 2008, up from 419 million tonnes in 2004, earlier media reports said.