

China's Efforts to Resolve Steel Overcapacity

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Ministry of Commerce of the P.R.China
5 December, 2013; Paris

1

Contents

I

Causes of steel overcapacity in China

II

Government policies to address overcapacity

III

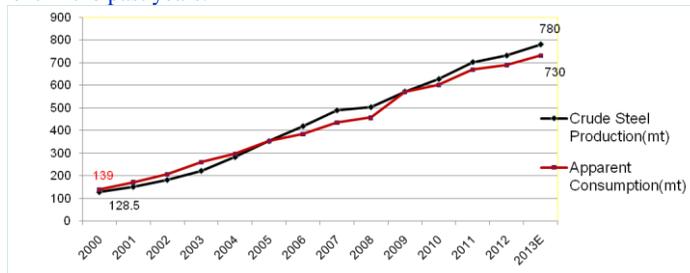
Prospects of Resolving Steel Overcapacity

I . Causes of Steel Overcapacity in China

2

□ Rapid Growth of Steel Production Driven by the Domestic Demand

Since the beginning of the 21st century, Chinese steel industry has stepped into a rapid development track. It is estimated that Chinese steel production will reach 770-780 million tons in 2013, more than 6 times of that in 2000. The rapid development of Chinese steel industry has been mainly driven by increasing domestic demand. It is hardly conceivable that steel demand can be met by imports for such a big steel consumer as China, which is in the process of industrialization and urbanization. Therefore, it is not surprising that Chinese steel industry has undergone such a rapid development in the past years.



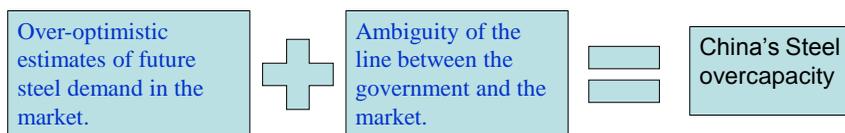
I . Causes of Steel Overcapacity in China

3

□ Two Major Factors Contributing to China's Steel Overcapacity

By the end of 2012, the production capacity of crude steel in China reached one billion tons and the capacity utilization ratio was around 72%, obviously lower than the reasonable level in the industry.

China's steel overcapacity is attributed to the following factors:



II. Government Policies to Address Overcapacity

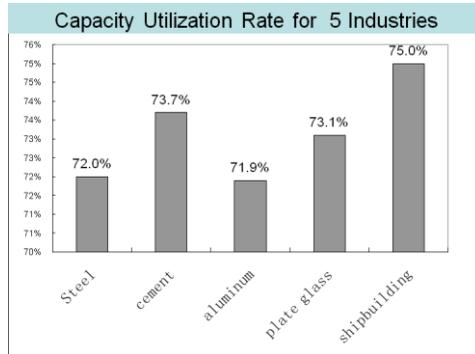
4

□ “The Guideline to Resolve Serious Overcapacity” Issued Recently

According to the guideline, China will spend the next five years solving the problem of overcapacity in steel, cement, aluminum, plate glass and shipbuilding industries.

Targets of the plan include:

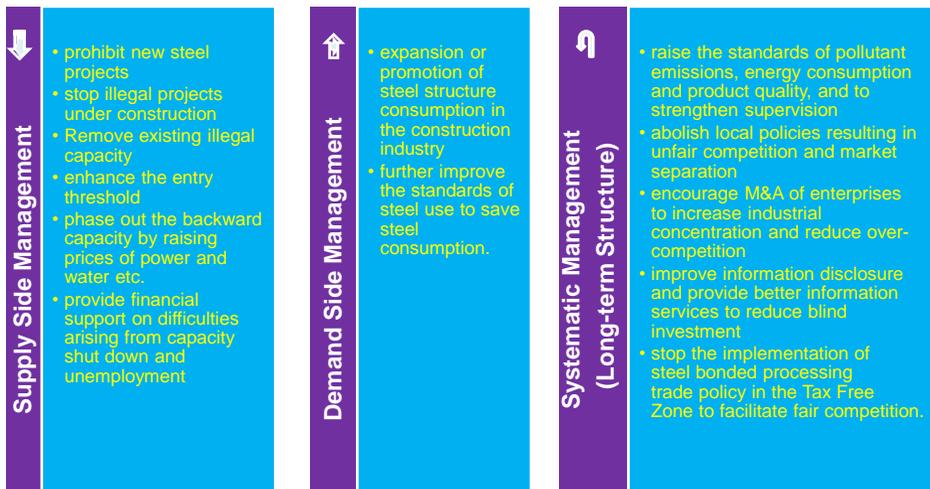
- reasonable capacity utilization
- improved industrial concentration and structure
- higher development quality
- efficient environmental protection
- normal level of profit margin and asset-liability ratio
- long-term effective mechanism in self-regulating capacity



II. Government Policies to Address Overcapacity

5

□ Three Types of Main Measures to Resolve Steel Overcapacity



III. Prospects of Resolving Overcapacity

6

□ **More Market Oriented Reform and Better Governmental Supervision and Services**

Last month, the Third Plenary Session of the 18th CPC Central Committee approved a decision on “major issues concerning comprehensively deepening reforms”, in which, the core of economic system reform is to deal with the relationship between the government and the market, to enable the market to play a decisive role in resource allocation and enable the government to play a better assisting role. In particular, for the steel industry, resource allocation should be mainly determined by the market, and the government should be responsible for supervising and providing public services, creating fair trading market environment, and knitting a social safety net to handle post-effects of phased out steel capacity.

III. Prospects of Resolving Overcapacity

7

□ **Steel Overcapacity will Gradually be Eased**

- China has not yet completed its industrialization and urbanization. In the next 5-7 years, the demand for steel is expected to continue its growth.
- China’s plan of resolving overcapacity will work by limiting the entrance of new capacity and removing backward product capacity.
- It is expected that Chinese steel overcapacity problem will gradually be eased.
- China is an important participant of the world economic integration and a responsible player in the world steel industry. Through the joint efforts of the government, the industry and enterprises, China will strive to achieve the goal of resolving overcapacity as soon as possible and make contributions to the world steel industry for realizing the same target.

Thank You!