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Market Research Report on China's Steel Industry

In 2007

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the time. This is mainly because the producing capacity of iron and steel in China has formed. If steel export is only controlled from the end side, it is likely to lead to large amount of waste, which will do great damage on the financial system which is being reformed. Meanwhile, it is also disadvantageous for domestic iron and steel industry to compete in the international market and to improve international competitive power. However, adjusting tax this time will cause parts of iron and billet without advantages withdraw from the market, and the producing capacity of this part is always supplied by small producing equipment. That is to say, the government expects to get rid of the producing capacity through administrative means in the first phase. It is predicted that the market price of billet and iron in China is likely to fall, which will cause the market price of steel products to fluctuate.

The government has taken the first realistic step in getting rid of out-of-date producing capacity of iron and steel. On November 13th, the National Development and Reform Commission, the Ministry of Land and Resources, State Environmental Protection Administration, and China Banking Regulatory Commission combined to publish the Notice of clearing the increased iron and steel producing capacity in Hebei province so as to promote the restructuring of iron and steel industry. As the notice says, there are three serious problems in the iron and steel industry in Hebei province, such as the blind enlargement against rules, low industrial concentration, and low-level repeated construction. Later, as the Development and Reform Commission in Hebei announces, there is an unprecedented iron and steel producing capacity clearing activity under way at present. By the end of 2007, 26 out-of-date iron and steel manufacturing equipment enterprises will have been eliminated all over the province. As insiders point out, this clearing activity refers to 3.98 million tons of pudding capacity and 3.73 million tons of steel-making capacity covering six cities of the eleven cities with districts all over the province, which is also an unprecedented iron and steel industry restructuring activity. As the Development and Reform Commission in Hebei announces, the list of the

second and third batch of enterprises with out-of-date equipment will be publicized next March and September. As for the enterprises enlisted because of not eliminating out-of-date equipment within the limited time stipulated by the government, their business licence will be canceled, water and electricity will be cut, and the enterprises will be forced out of market.

1.6 Main events of iron and steel industry in China in 2006

1、 Baogang gets the primary price of iron ore for the first time.

On December 21st, 2006, Baogang and CVRD, the largest iron ore producer, agree on the benchmark price of the international iron ore in 2007. As a result, the price of CVRD's power mines in the north and south will rise by 9.5% respectively on the base of 2006. This is the first time for Baogang standing for Chinese steel enterprises to agree on the benchmark price of iron ore with CVRD, the largest iron ore producer in the world.

2、 Capacity controlling policies for the whole year will come on. At the end of the year, the out-of-date producing capacity of iron and steel will be cut off for the first time.

On March 12th, 2006, State Council of the People's Republic of China has published Accelerating the Restructuring of the Sectors with Production Capacity Redundancy. It requires to expedite the work of eliminating, annexing, regrouping and innovating of the industries with surplus producing capacity and to strengthen restructuring. Iron and steel industry is the key object to carry out the notice. On June 30th, the National Development and Reform Commission published 《A notice on Total Output Controlled, Backwardness Eliminated, Structure Adjusted of Iron and Steel Industry》. The notice has listed the schedule of eliminating the out-of-date producing capacity: before 2007, the emphasis will be put on eliminating both blast furnace with producing capacity of 200 m³ and below and converter as well as electric cooker with

production for 11 years in a row. In 2007, under the guidance of "better and faster" development goal, China's steel industry will continue to change the management concept from production and scale centered to return-centered. Meanwhile, we will make great achievements on adjustment of products structure, technique innovation and return increase and cost reduction.

1. Macro-control policy is beneficial to the healthy and orderly development of steel industry.

Since 2004, the state enhances the macro-control for steel industry in order to restrict excess capacity. 2006 witnessed the most macro-control measures. The state makes use of market means, regulation and administrative means. The overall guidance is to support the strong and eliminate the weak. The on-going macro-control measures are beneficial to the sustainable development of steel industry. The fast growth of market demand for steel products declined, some illegal projects closed and some projects that is not in accordance with state industrial policy are eliminated. From long-term perspective, the stable growth of the market demand for steel in China depends on overall investment for fixed assets and reasonable and stable increase of consumption and the adaptability between the growth of steel capacity and economic growth. In addition, China's steel industry should improve the resource using rate, promote merger and reorganization of enterprises, develop big corporations and increase industry concentration.

2. Steel capacity is still in high level.

With the execution of macro-control measures, the investment scale for steel industry is limited and fall-out capacity is eliminated quickly. It is predicted that production increase will decline in 2007 and the output will increase 40 million tons compared with that of 2006, reaching 460 million tons, and the increase rate will reduce from 19% in 2006 to 11%. Meanwhile, it is predicted that the apparent consumption of crude steel in domestic market will reach 430 million tons, 10% increase year on year.

3. The supply and demand of steel is in balance.

From the demand part, major steel consumption industries keep rapid growth in 2007 and the demand will be large without big decline. From the supply part, the macro-control effect of the state to steel investment is obvious. It is the last year for the policy to eliminate blast furnace under 200 steres and