FOR IMMEDIATE RELEASE
OCTOBER 14, 2010

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STUDY FINDS CHINA'S EXTENSIVE GOVERNMENT INTERVENTION AS REASON FOR ITS UNPRECEDENTED WORLD GROWTH IN STEEL PRODUCTION

China's WTO violations, subsidies and state ownership harm U.S. manufacturers

WASHINGTON, D.C. - A new study released today concludes that the unprecedented growth of the Chinese steel industry is inconsistent with commercial considerations and has been facilitated by massive government intervention. The report entitled, *The Reform Myth: How China is Using State Power to Create the World's Dominant Steel Industry*, documents how China has accounted for all of the world's growth in steel production in the last decade, largely as a result of extensive government ownership, control and subsidization of the steel industry.

The study, written by Wiley Rein LLP and prepared for the American Iron and Steel Institute (AISI) and the Steel Manufacturers Association (SMA), expands upon earlier research on the Chinese government's ownership, direction and subsidization of the Chinese steel industry. The report details how the Chinese government continues to exercise extensive ownership and control over its steel industry, in violation of its commitments regarding market reforms made upon accession to the World Trade Organization (WTO) in 2001.

"China's pervasive government ownership and control over its steel industry is increasing, not decreasing, in direct violation of China's WTO commitments," said Alan Price, partner at Wiley Rein LLP and one of the study's authors. "New data demonstrate that eight of the ten largest Chinese steel groups are 100 percent owned and controlled by the Chinese government, while 16 of the top 20 steel groups are 100 percent owned and controlled by the government. In fact, more than 95 percent of the production of the top 20 steel groups is subject to government ownership. The extraordinary level of government intervention is inconsistent with China's WTO commitments."

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In addition to government ownership, the report examines the Chinese government's industrial plans and other policy directives that allow the government to intervene in the operations of individual steel companies. Since 2005, the government has issued a number of industrial plans specifically covering the steel industry that have significantly increased the government's control over the development of the industry.

"These policies allow the Chinese government to control virtually every aspect of the steel industry," said Thomas Gibson, president and CEO of AISI. "Chinese steel producers are operating in an environment where basic market forces do not apply and where commercial decisions are mandated by the government," Gibson said. "This is a direct violation of China's WTO commitment not to influence the commercial decisions of state-owned enterprises."

The report also reviews China's "Going Abroad" Policy, the next step in China's industrial strategy. Pursuant to this policy, the Chinese government is deploying its massive "national champions" overseas to further the government's objectives, which include obtaining raw materials and technology, and increasing China's economic and political influence on a global scale. The Anshan Iron and Steel Group ("Anshan") is one of the many Chinese state-owned enterprises being directed to invest abroad by the Chinese government. On May 17, 2010, Anshan announced that it was forming a joint venture with the Steel Development Company of Amory, Mississippi to build up to five new steel plants in the United States.

"We welcome foreign investment in the U.S. market, but not Chinese government intervention," commented Thomas Danjczek, president of SMA. "U.S. steel producers cannot compete against the Chinese government. The Anshan investment, for example, will force U.S. steel companies to compete directly against the Chinese government in the U.S. marketplace, creating significant imbalances that will harm U.S. workers and distort the steel market. The U.S. government should take all appropriate measures to prevent market distortions and other imbalances caused by foreign government intervention."

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From 2000 to 2009, Chinese steel production increased by an unprecedented 346 percent, while steel production in the rest of the world decreased by 10 percent. "The growth of the Chinese steel industry has not been driven by market forces," Price noted. "China's dominant position is the result of massive government intervention, including ownership, control and subsidization."

The report urges the United States and other trading partners to intensify their efforts to ensure that China complies with its WTO commitments and international legal obligations.

Click here to read report, "*The Reform Myth: How China is Using State Power to Create the World's Dominant Steel Industry*."

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