Chinese Steel Mills Deal to Curb Pollution

Three steel manufacturers in the eastern province of Shandong inked deals earlier with Republic of Korea (ROK) environment technology firms to address air pollution.

Taishan Steel, Weifang Special Steel Group and Jinan Steel have retained environment technology firms KC Cottrell, POSCO ICT, J-E Tech in respective deals totalling 81.99 million yuan to reduce dust from their steel mills.

Industrial goods manufacturing has been a major contributor to the choking smog that

often covers much of China during winter. Protection measures were poorly enforced in the past as many local governments prized economic growth over the environment.

However, as industrial production no longer propels growth as it once did air pollution is stoking public ire, and the authorities are increasingly prioritizing environment protection an alternative industry driving sustainable growth.

The concentration of heavy industry in Shandong means there is huge demand for environmental services, said Ge Weiyan, deputy director of the Shandong Environmental Protection Bureau.

Ge added that the province is eyeing further co-operation with ROK firms in environmental protection.

Current Scenario Needs Steel Awareness Campaign

One common perception of the declining trend in prices in all commodities is a strong anticipation of an immediate rise, assuming that the current level is unsustainable. For iron ore, the new year has commenced with some firming up of prices from a level of $38 to $43 CFR China, although the expectation was further down to below $35 cfr China and even touching $30, which would have left a minimum margin to the average operating cost of the major four players after adding freight cost $5-6/t from Australia and $10-11/t from Brazil to China.

The current Chinese hot-rolled coil export price (SS 400 HRC 3.0 mm) has reached $275/t fob and Q 235 grade 5.5mm HRC is available ex-Shanghai at $312/t, inclusive of 17% VAT. If the marginal cost and the average operating cost of producing HRC in China can be taken as $322/t and $368/t, respectively, as reported in WSD, there is hope that both domestic and export prices would continue to move up in February and March and the domestic and export prices in China would be gradually delinked. This happens with the closure of BF at Hebei, elimination of capacities of other polluting units, massive losses incurred by many mills in China, Yuan devaluation coupled with steep fall in residential construction and infrastructure development.

Simultaneously, many other mills from the CIS and Brazil also took the Chinese competition head on by lowering their export offers to an unsustainable low level. For instance, the CIS mills offered HRC at $250/t fob Black Sea.

Thus, unsustainability of the declining prices and almost all countries joining hands to file antidumping and countervailing cases against China have led to firming up of prices in January/February in that country. This has also been reflected in some movement up in finished product prices in the Indian market.

The price rise should not lead to expectation that there would be continuity in the rising phase in the next few months. It needs to be kept in mind that increasing prices of Chinese export offers were due to supply-related factors, while there is hardly any signal of improvement in the demand factors.

The decline in fixed asset investment in infrastructure in China, which had a steel intensity of more than seven times compared with FAI in other sectors, has been coming down by 3-4% in the last two years with corresponding rise in investment in other non-steel intensive segments. This development, which is likely to deepen further in the coming months with a shift from investment to consumption, has been countered by Chinese analysts and business leaders to call for more use of steel in residential construction, from around 50kg of steel per square foot of house construction to more than 150kg of steel per square foot.

India is coping with the present crisis almost on similar lines as China.The Brownfield expansion of fresh capacities in steel have been staggered or put on hold till such time that the demand scenario improves.

Although some positive trend was visible in fresh investment in urban infrastructure and rail network, the volume is way below the level that could have triggered a recovery in demand.The lead in investment has to be taken up by the government itself, as it would singularly dispel uncertainty in business scenario and create an enabling environment for the private corporate sector to move in. The corporate debt trap that some of the major steel mills are faced with must find a workable solution in the form of fresh restructuring of loans and innovative methods of payback. More than the demand growth, the steel industry in the country has to counter the declining trend in steel intensity of investment in real estate and manufacturing. A countrywide awareness campaign of more use of steel as a preferred choice of materials due to its intrinsic value, durability and strength, and making quality steel easily available throughout the country is immediately needed to take full advantage of the anticipated rise in investment in various sectors, including infrastructure.