

## Chinese Taxes on Semi-Finished, Hot Rolled, Cold Rolled and Coated Steels

Tuesday, November 04, 2014 8:11 PM Written by [John Packard](#) Published in [Boasteel](#)

China has a number of taxes on steel, both domestically and for exports. This is one of the misunderstandings many countries have (including the United States). We have been speaking about the subject with one of our key Asian trading contacts over the past few days as we asked about possible suspension of Boron added steel (alloy steels) tax rebates. He told us, "John, everyone talks about Chinese Rebates and Subsidies, but does anyone in their right mind stop to think that China is the only country imposing an Export Tax on Steel???? Does the US, Canada, EU, Russia, India etc...?? No, but they sure know how to accuse China of taking advantage of Export Tax loopholes. I wish China would cut all export Taxes tomorrow and impose Import Taxes or Dumping margins on Iron Ore and other steel products which may be imported into China. Maybe that would help put a perspective in place for all these countries badmouthing China on export tax which no other country in the world imposes, but no one dares to discuss."

So, let's discuss the subject of Chinese taxes on steel and especially the rebates which are currently being offered on Boron added (alloy) steels when exported out of China.



There have been a number of [articles](#) lately about the possible suspension of the VAT rebate on boron added steels out of China. Even Baosteel's Chairman, Chen Derong, spoke about the possible elimination of some of the rebates exporters currently enjoy. Many of the articles are confusing or misleading so SMU with the help of one of our trading contacts in Asia would like to clarify a number of the issues which have arisen.

When speaking about steel, VAT is tax levied on the selling price of the steel in the market (VAT = Value Added Tax). The VAT is paid by the buyers if it is sold into the domestic Chinese market. If exported, the VAT is included in the price given by the steel mill to the trading companies.

"No exporter in China gets any relief from the VAT of 17% and it is paid domestically and on export," is how it was explained to Steel Market Update from our Asian trading source.

Besides the VAT of 17 percent there is an export tax of 25 percent which is added to semi-finished steels. This would include slabs, billets and blooms and is not charged on flat rolled or finished steels such as plate, hot rolled, cold rolled, galvanized or Galvalume (zinc-aluminum) steels.

So on semi-finished steels which are exported there is the potential of having a total of 42 percent tax on the products.

However, the issue is muddled when Boron is added to the steel in order to have the material listed as an alloy grade. As an alloy grade steel there is a Alloy HS Code in China which qualifies for an export rebate under the Chinese tax system.

"The amount of Boron is 0.0008% Min. John which is the requirement to get it listed under Alloy HS Code for Rebate. The rebate is only on Alloy Steels John, so actually the mills could add 0.0008% Boron to CR or other products (Micro Alloy) to get it under the HS Code. Of course the Buyers know it has Micro Alloy as it is listed in the Contracts. If the Steels are not under this HS Code, then they have to pay the full 17% export tax, plus any additional

Taxation added." This is how the process was explained to SMU by our trading source in Asia.

John Eckstein, metallurgist associated with Steel Market Update (SMU) [Steel 101 workshop](#), told us in an email on the subject, "...the addition of 0.0008% would be so small that it would not be a benefit on any sheet products and should not be classified as an Alloy Steel." He went on to advise us that boron additives as small as 0.0008 percent would have essentially no impact on the formability of the steel where it was being introduced.

Even so there is a rebate system in place in China for steels that are exported which contain Boron and are classified as Alloy Steels under the HS Code (0.0008%).

For semi-finished steels that contain Boron there is a 9 percent rebate which is taken off the 25 percent export tax. The 17 percent VAT remains in place. The tax burden then drops from 42 percent to 33 percent. Again, this is on semi-finished steels only: slabs, billets and blooms.

For plate and hot rolled coil the rebate for steels that contain Boron is 9 percent which is deducted from the 17 percent VAT. This means the tax burden would still be 8 percent on exported plate and HRC.

For cold rolled and coated products (galvanized and zinc-aluminum) the rebate for Boron added to the steel is 13 percent which is deducted from the 17 percent VAT. The total tax burden would be 4 percent.

On February 16, 2011 Nucor put out a press release on the practice of adding boron to cut to length (CTL) plate. The Department of Commerce at that time had just ruled in favor of Nucor regarding the Chinese circumventing dumping duties on plate by adding boron. The anti-dumping duty on Chinese plate was 128.59 percent at that point in time. We are providing a portion of the Nucor press release for your review:

"...Last year, Nucor Corporation (NYSE: NUE) and other domestic plate producers presented the Department of Commerce with compelling evidence that Chinese CTL plate with small amounts of boron added is being produced, marketed and sold to U.S. customers as a means to avoid paying antidumping duties. After completing its preliminary investigation, the Department of Commerce found that the boron-added CTL plate has virtually the same physical characteristics, uses and production process as CTL plate without boron. Therefore, Chinese CTL plate imports including minor amounts of boron will now be held subject to the antidumping duty order. Notably, the Department of Commerce's decision applies to all boron-added Chinese CTL plate imports - regardless of producer, exporter or importer.

"For years, Chinese producers have added boron to their CTL plate products as a means to fraudulently evade the antidumping duty order on CTL plate," said Dan DiMicco, Chairman and CEO of Nucor. "This was a straightforward case of circumvention, and we're pleased that the Commerce Department is closing this loophole and effectively enforcing the U.S. trade laws."

There has been much written over the past few months about Chinese billet being sold in the Middle East which affected Turkish steel production and therefore both the price and the amount of ferrous scrap being purchased by the Turkish steel mills. This in turn has affected U.S. scrap prices and was one of the early catalysts to the decline in domestic (USA) scrap prices.

We asked our trading source in Asia about the semi-finished steels that were being sold into the Middle East (and elsewhere) and how could this happen with such a heavy tax burden on semi-finished steel exports?

Our source told us, "Recently, A LOT OF BILLET AND BLOOM Exports due to low prices and the Ukraine uncertainties, plus Turkey was out of the market on exports until recently due to high Scrap prices, but now that scrap has crashed, they are BACK in the export market and because China producers are unsure of the possible Tax Rebate issue for January 2015, they are no longer offering for December shipment (possible delay in shipment which could run into the announcement "if" one comes). We started this Billet/Bloom run on exports in end August till now."

When asked specifically about the possible elimination of the Boron added rebates our trading source told us, "No one knows yet what is going to happen. 'If' anything happens, it will be the beginning of January and normally there is no prior announcement and is just decided and official..."

SMU Note: Bottom line for U.S. buyers I don't see any changes as most buyers here are not buying (or don't need to circumvent the system as there are no dumping duties on cold rolled and coated steels) boron added cold rolled or coated (unless they truly need an alloy product).



### [John Packard](#)

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