Steel Business Briefing
Quality News First

Special report: Chinese mills enter Brave New 'B-free' World

Friday, 16 January 2015

Steelmakers in China, particularly those chiefly producing carbon steel, are still exploring how best to maintain export volumes, now that the central government has abolished the 9-13% tax rebate on the export of key boron-added steel products beginning January 1.

"The policy will reduce China's steel exports, maybe for the next six months or so, as producers still have to find an effective solution to the tax rebate's removal. After all, boron-added products occupied a big proportion of China's over 100 million metric tons of steel exports last year," a China Iron & Steel Association (CISA) official said. Boron-added steel accounted for some 40% of China's total steel exports for 2014 including long and flat products.

Steels containing at least 0.0008% boron are classified as 'alloy steel' by Chinese Customs and avoid a 15% export duty applied to carbon steel. Moreover, producers are able to claim at least a 9% rebate on the 17% VAT that would usually apply, giving exporters of these items a combined incentive of 24% – which Chinese exporters usually pass on to buyers. Beijing's removal of the rebate has left mills scrambling to find a way to stay competitive.

Chinese mill officials are considering several options such as delivering boron-added steel to bonded warehouses to avoid taxation, or adding chromium, titanium or vanadium to their steel to retain the 'alloy' classification.

CISA, however, is strongly encouraging producers to avoid the quick-fix and undertake serious technological upgrading and optimize their business structure. "Chinese Customs is not so naive as to readily pass steel with other metals or alloys randomly added," CISA's official said. "And different metals will add different characteristics to the finished steel that may not be acceptable to overseas buyers."

A Beijing-based metallurgical researcher agreed, explaining that chromium – currently the solution *du jour* -- may enhance steel's strength and corrosion resistance but has drawbacks when used in rebar and wire rod. Besides, the chromium content has to be at least 0.3% – larger than boron's 0.0008% – which will certainly change the steel's characteristics, he said.

"All the other metals are more expensive than boron so together with higher proportion, it means higher production costs," said an official at a privately-owned mill in Hebei province, lamenting that margins are already thin.

Indeed, during January-November the average margin on steel sales among Chinese mills was only 0.74%, as reported.

-- *Hongmei Li*