

## PUBLIC RECORD

### ANNEXURE

## ASSESSMENT OF CHINESE DOMESTIC MARKET CONDITIONS FOR ROD IN COIL

The Commissioner of the Anti-dumping Commission (**Commissioner**) has previously observed that:

‘The role of government at all levels in the Chinese economy, controlling trade and foreign direct investment liberalisation for social and economic purposes, has created a hybrid system in China where decisions of the market are heavily influenced by government as opposed to ordinary conditions of competition.

‘Chinese firms selling and purchasing in China’s steel markets set prices and make purchasing decisions that are influenced by the directives and policies of the GOC [Government of China]. These conditions are created in part by the prevalence of state-owned enterprises (SOEs) that reflect the economic, social and fiscal goals of the GOC, and impact the conditions of competition and pricing for private firms.’<sup>1</sup>

### **Government of China (GOC) Capacity Reduction policies**

*Opinions of the State Council on resolving excess production capacity and achieving development out of difficulties in the steel industry (2016)*<sup>2</sup>

This is an example of a supply-side reform initiative implemented to address imbalances in the Chinese steel market.

This policy proposed reducing SOE steel mill capacity by 100 to 150 million tonnes by 2020.<sup>3</sup> In support of this policy in February 2016, the Central Government pledged a CNY 100 billion fund for employee compensation, social security payments and plant closure incentives in the coal and steel sectors,<sup>4</sup> and prohibited the registration of new production capacity in any form and required that any

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<sup>1</sup> REP 632 – *Railway wheels ex China and France*, p. 101

<sup>2</sup> [https://www.gov.cn/zhengce/content/2016-02/04/content\\_5039353.htm](https://www.gov.cn/zhengce/content/2016-02/04/content_5039353.htm) (accessed 1 October 2025)

<sup>3</sup> H Liu and L Song, ‘Issues and prospects for the restructuring of China’s steel industry’ in L Song, R Garnaut, C Fang and L Johnston (eds), *China’s new sources of economic growth: vol 1*, ANU Press, 2016, p. 338.

<sup>4</sup> L Brun, *Overcapacity in steel: China’s role in a global problem*, Centre on Globalization, Governance & Competitiveness, Duke University, 2016, p. 38.

production that does not meet environmental, energy consumption, quality, safety or technical standards be taken offline.<sup>5</sup> In support of this policy, capacity management measures utilised by the GOC include targets to limit steel production in 2023 to the levels recorded in 2022.<sup>6</sup> Other examples of capacity management measures announced include tightening bank lending to smaller mills, industry consolidation through mergers and acquisitions, and use of stricter environmental regulations to forcibly shut down capacity.<sup>7</sup>

### *The impact of Capacity Reduction Policies*

Although these policies and initiatives are targeted at correcting current imbalances and resulting distortions, they are in fact evidence of the extent of the GOC's involvement within and influence over the broader steel industry, during the proposed investigation period.

The OECD reports that China has reduced its capacity by 6.7 mmt since 2019 (to 2024) but still adds significantly to excess capacity growth, with a demand decline estimated at 41 mmt during this period.<sup>8</sup> In other words, these capacity reduction policies have not resulted in the exit of loss-making firms from the Chinese steel market.

### *The emergence of "zombie mills"*

The capacity reduction policies have resulted in the emergence of inoperative steel mills ordered by the GOC to cease production for periods of time, also referred to as "zombie mills".

"Zombie mills" in the context of Chinese steel production refers to state-owned or heavily indebted steel companies that continue operating despite being financially

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<sup>5</sup> [https://www.gov.cn/zhengce/content/2016-02/04/content\\_5039353.htm](https://www.gov.cn/zhengce/content/2016-02/04/content_5039353.htm) (accessed 1 October 2025)

<sup>6</sup> <https://www.reuters.com/markets/commodities/some-chinese-steel-mills-ordered-cap-output-this-year-sources-2023-07-25/#:~:text=Three%20mills%20owned%20by%20the,the%20orders%20were%20delivered%20yesterday> (accessed 1 October 2025)

<sup>7</sup> S&P Global, 'Global market outlook', Platts Steel Business Briefing, S&P Global Insights, January 2016, p. 14.

<sup>8</sup> OECD (2025), OECD Steel Outlook 2025, OECD Publishing, Paris, p. 25.

unviable, sustained only by government support or easy credit from state-owned banks.

The problem with “zombie mills”, is that they reflect capacity that is idle rather than capacity permanently removed from the market. This means that, while the temporary removal of capacity helps moves toward competitive market conditions, those same plants have potential to return to production when higher steel prices prevail, leading to further distortions, in particular a suppression of domestic selling prices.<sup>9</sup> For example, in 2016, a significant amount of capacity was removed which was already idle. As a result, the real capacity permanently removed was estimated to be in the range of 12 million to 20 million tonnes per year, compared to the reported 65 million tonnes.<sup>10</sup>

Therefore, as of April 2017, it was reported that China had an estimated 339 million tonnes of overcapacity, and favourable market conditions would likely extend the lifespan of “zombie mills”, which delayed the GOC’s steel industry reforms.<sup>11</sup>

In February 2024, it was reported that 75 of 201 steel production companies in China were inoperative, reflecting 115 blast furnaces not operating at that time.<sup>12</sup>

InfraBuild submits that the presence of loss-making firms (including “zombie mills”) in the Chinese steel market is the result of overcapacity which has, in turn, led to over-production that depreciates prices. Overcapacity, in turn, is a function of various aspects of GOC influence in the Chinese steel market. Furthermore, through its capacity reduction efforts, the GOC policies directly influence the steel sector in terms of both production output and prices. Local governments also play a role in this overcapacity market distortion by not fully implementing the central directives on capacity reduction, with reports that steel mills engage in “capacity swapping” by moving capacity to more favourable regions, thereby maintaining or increasing the mill’s capacity.<sup>13</sup>

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<sup>9</sup> S&P Global, ‘Global Market Outlook’, Platts Steel Business Briefing, S&P Global Insights, January 2017, p. 10.

<sup>10</sup> S&P Global, ‘Global Market Outlook’, January 2017.

<sup>11</sup> NON-CONFIDENTIAL ATTACHMENT 1, pp. 5 and 9.

<sup>12</sup> <https://www.yicai.com/news/101985042.html> (accessed 1 October 2025)

<sup>13</sup> <https://www.reuters.com/article/idUSKCN1SF0YV/> (accessed 1 October 2025). See further, <https://www.reuters.com/article/idUSKBN1ZM1HE/> (accessed 1 October 2025).

Furthermore, in terms of raw material overcapacity and supply into the steel industry, research continues to identify overcapacity in coal production. Causes identified include through local officials' GDP-oriented performance system and promotional pressure where coal-based cities tend to persistently develop coal mining and production under the restriction of a single industrial structure, resulting in more coal production.<sup>14</sup>

The GOC's attempts to address overcapacity through mergers and acquisitions have been largely ineffective by reason of the following outcomes:

- the replacement of older mills with new, larger and more efficient mills; and
- the closure of smaller mills to offset the commissioning of new, larger mills.

As such the impact of this policy, to date has been to increase production and exacerbate the existing structural imbalances. Examples of this include the announcement of the China Baowu Group in 2016 that it would decommission 2.5 million tonnes of capacity to address overcapacity, but also commissioning 9 million tonnes of new capacity at its Zhanjiang facility.<sup>15</sup> Furthermore, in 2019, the China Baowu Group also increased its annual steel production capacity by 20 million tonnes after an agreement to merge with Magang (Group) Holding Co Ltd (**Ma Steel Group**).<sup>16</sup>

Overall, InfraBuild contends that the GOC's interventions within the domestic steel industry to address existing structural imbalances have had limited success to date. In turn this further supports InfraBuild's view that the GOC, through its policies, directly influences the domestic steel sector, and is responsible for the creation of a "particular market situation" in the Chinese domestic market for the goods the subject of this application.

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<sup>14</sup> Q Zhang, XL Etienne and Z Wang, 'Reducing coal overcapacity in China: a new perspective of optimizing local officials' promotion system', Environmental Science and Pollution Research, 2022, 29:90364–90377

<sup>15</sup> S&P Global, 'Global market outlook', Platts Steel Business Briefing, S&P Global Insights, June 2016, p 11.

<sup>16</sup> <https://www.reuters.com/article/us-china-steel-m-a/china-baowu-steel-to-take-majority-stake-in-rival-magang-idUSKCN1T3079/> (accessed 1 October 2025).

***Industry planning guidelines and directives***

The central body responsible for developing and administering planning directives and providing overarching approval of large-scale investment projects within China is the National Development and Reform Commission (**NDRC**). It has been previously found by the Commissioner that directives from the NDRC, as the GOC's central planning authority, are central to both industry-specific 'five-year plans' and the planning decisions of all levels of government more generally.<sup>17</sup> Indeed, enforcement mechanisms are reflected in the *Notice of the State Council on Further Strengthening the Elimination of Backward Production Capabilities and Guidelines*.<sup>18</sup>

The GOC's mechanisms to address non-compliance include:

- revocation of pollutant discharge permits;
- restrictions on financial institutions providing new credit support;
- restrictions on examination and approval of new investment projects;
- restrictions on approval of new land for use by the enterprise; and
- restrictions on issuing of new, and cancelling of existing, production licenses.

The *Notice of the State Council on Further Strengthening the Elimination of Backward Production Capabilities and Guidelines* states that enterprises not conforming to the industrial policy shall not be provided financial support by financial departments. More implicit enforcement mechanisms are reflected by the regulatory powers of bodies, such as the GOC's *Ministry of Industry and Information Technology (MIIT)*. The (Australian) Department of Industry, Innovation and Science's (December 2015) *Resources and Energy Quarterly* report noted that such bodies maintain lists of companies that are deemed to be either compliant or noncompliant with national standards on production, environmental protection, energy efficiency and safety. Those deemed non-compliant are liable to be closed down:

'As part of measures to curb oversupply in key industries, China's Ministry of Industry and Information Technology released a list of companies that comply with national standards on

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<sup>17</sup> REP 632, p. 105.

<sup>18</sup> NON-CONFIDENTIAL ATTACHMENT 2.

production, environmental protection, energy efficiency and safety. Those not on the list are to be closed.<sup>19</sup>

China's *National People's Congress* released its *13<sup>th</sup> Five-year Plan for Economic and Social Development (13<sup>th</sup> Five-year Plan)* on 15 March 2016.<sup>20</sup>

This plan outlined the GOC's goals, principles and targets for infrastructure, the environment, financial services, health and social and economic development for the five years to 2020. The plan had a strong emphasis on supply-side structural reform that promoted the upgrade of industrial structures, strengthening market-oriented reforms, reducing industrial capacity, inventory, financial leverage and costs, and correcting structural shortcomings.

To support the Chinese steel industry's development in line with the 13<sup>th</sup> Five-year Plan, the MIIT developed the *Steel Industry Adjustment and Upgrade Plan (2016–2020)*.<sup>21</sup> This adjustment and upgrade plan proposed to raise the average annual growth rate of industrial added value from 5.4% in 2015 to 6% by 2020, raise the capacity utilisation rate from 70% in 2015 to 80% by 2020, and raise the industrial concentration in the top 10 producers from 34.2% in 2015 to 60% by 2020.

Examples of the Chinese steel industry's response to these directives was reflected in the restructuring of the China Baowu Group. As of 2024, China Baowu Group was the largest producer of crude steel, both in China and worldwide.<sup>22</sup>

China's *National People's Congress* released its *14<sup>th</sup> Five-year Plan for Economic and Social Development (14<sup>th</sup> Five-year Plan)* on 11 March 2021.<sup>23</sup>

According to the OECD (*Steel Outlook 2025*), under this current plan (2021-2025), the GOC is providing financial incentives and support mechanisms focusing primarily on energy efficiency, emission reduction technologies and the development of advanced materials, aligning with the nation's commitment to begin to slow carbon emissions before 2030, with a view to achieving carbon neutrality by 2060. With

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<sup>19</sup> NON-CONFIDENTIAL ATTACHMENT 3, p. 47.

<sup>20</sup> Refer NON-CONFIDENTIAL ATTACHMENT 3.

<sup>21</sup> <https://www.piie.com/blogs/china-economic-watch/chinas-excess-capacity-steel-fresh-look#:~:text=November%2014%2C%202016:%20The%20Ministry,50%20million%20tons%22%20in%202017.> (accessed 1 October 2025).

<sup>22</sup> <https://worldsteel.org/data/top-steel-producers/> (accessed 1 October 2025)

<sup>23</sup> [https://en.ndrc.gov.cn/policies/index\\_4.html](https://en.ndrc.gov.cn/policies/index_4.html) (accessed 1 October 2025)

respect to standards, guidelines have been released aimed at boosting intelligent manufacturing. The GOC also increased fiscal, taxation and financial support aimed at driving industrial value growth in the steel industry. These programmes focus on achieving a target growth of over 4% industrial value growth in 2024 by supporting high-end, intelligent and green manufacturing.<sup>24</sup>

In the 2024 Annual Report for Ma Steel, the preferential tax arrangement for certain state-supported enterprises is stated<sup>25</sup>:

‘Pursuant to Article 28 of the Corporate Income Tax Law of the People’s Republic of China, corporate income tax (CIT) is levied at a reduced rate of 15% for state-supported key high-tech enterprises. In accordance with Article 9 of the Administrative Measures on Accreditation of High-tech Enterprises, the qualification of an accredited high-tech enterprise is valid for three years from the date of issuance of the certificate.

‘The Company qualified as a high-tech enterprise in 2022, and the applicable income tax rate has been 15% since then and will remain so for 3 years.’

Below, are a number of key GOC planning guidance and directives used to influence the structure of the Chinese steel industry. In REP 632, the Commissioner summarised some of the key themes and objectives of these policies and concluded that although the GOC’s national five-year plans, *‘provide the overarching framework for the industry and local government plans’*, the industry specific planning guidelines and directives, noted below, are not merely for guidance, but are also enforceable through a number of mechanisms.<sup>26</sup>

**1. Steel Industry Adjustment Policy (2005, revised in 2015)** [original fn 174]

- Upgrading product mix.
- Rationalising steel production capacity.
- Adjustments to improve organisational structures.
- Energy conservation, emission reductions, environmental protection.
- Production distribution.
- Supervision and administration.
- Guiding market exit.
- Methods of orientation and oversight of mergers and reorganisations.
- Consolidate number of steel companies.
- Lifting capacity utilisation rates to 80% by 2017.

<sup>24</sup> OECD (2025), pp. 40-41.

<sup>25</sup> NON-CONFIDENTIAL ATTACHMENT 5, p. 179.

<sup>26</sup> REP 632, p. 109.

**2. Notice of the State Council on accelerating the restructuring of industries with overcapacity (2006)** [original fn 175]

- Promoting economic restructuring to prevent inefficient expansion of industries that have resulted from blind expansion.
- Intensifying the implementation of industrial policies related to the iron and steel sector to strengthen the examination thereof and to improve them in practice.

**3. Guiding opinions of the General Office of the State Council on promoting the restructuring and reorganisation of central enterprises (2016)** [original fn 176]

- SOEs restructuring and reorganisation should serve national strategies, respect market rules, combine with reforms, follow laws and regulations, and stick to a coordinated approach.
- State-owned capital should support SOEs, whose core businesses are involved in national and economic security and major national programmes, to strengthen their operations, and allow non-state-owned capital to play a role, while ensuring the state-owned capital's leading position.
- Related departments and industries requested to steadily promote restructuring of enterprises in fields such as equipment manufacturing, construction engineering, electric power, steel and iron, non-ferrous metal, shipping, construction materials, tourism and aviation services, to efficiently cut excessive overcapacity and encourage restructuring of SOEs.

**4. Steel Industry Adjustment and Upgrade Plan (2016 to 2020)** [original fn 177]

- Enacting supply-side reforms with removal of 100 to 150 million tonnes of capacity between 2016 and 2020.
- Raising capacity utilisation rates to 80% by 2020.
- Further industry consolidation through mergers, leading to 10 largest producers accounting for 60% of production by 2020.

**5. Guiding opinions on accelerating the merger and acquisition and reorganisation in key industries (2013)** [original fn 178]**6. Three-year action plan to win the Blue Sky War (2018)** [original fn 179]**7. Work plan for stable growth of the steel industry (August 2023)** [original fn 180]

- For 2023, maintaining supply and demand while also steadily growing fixed asset investment.
- For 2024, growing industry value by more than 4% and improving the industry's development environment and structure.
- Promoting corporate mergers and restructures.
- Continuing to strengthen and improve the work of resolving excess production capacity in steel.

**8. Guiding opinions of 3 ministries and commissions on promoting high-quality development of the steel industry (January 2022)** [original fn 181]

- Curbing increases to steel production capacity.
- Promoting the elimination of 'backward' production capacity (production facilities that are below industry standard).
- Promoting corporate mergers and restructures.
- Accelerating the promotion of improved and upgraded quality of steel products in fields including advanced rail transit and automobiles.<sup>27</sup>

The mechanisms through which the GOC is able to enforce these guidelines and directives include:

- the presence and role of State-owned Enterprises (**SOEs**) within the broader steel industry,
- the role of the GOC's *National Development and Reform Commission (NDRC)*; and
- explicit enforcement mechanisms.

*Presence and role of SOEs within the broader steel industry*

For example, where the GOC is also the majority owner of an SOE, it can exert its influence through the appointment of board directors and chief executives.<sup>28</sup>

SOEs' significant share of total Chinese steel production, and propensity to follow government guidance and directives, ensures that the GOC can influence broader trends in industry capacity and steel production.

*Role of the NDRC*

The NDRC has a dual role of developing planning guidelines and directives and approving large-scale investment projects. As such it has the capacity to ensure that the broader objectives of the GOC are implemented.

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<sup>27</sup> REP 632, pp. 107-108.

<sup>28</sup> REP 177 – *HSS ex China, Korea, Malaysia, Taiwan and Thailand*, p. 123.

*Explicit enforcement mechanisms**Examples include:*

- the *State Council Notice on Further Strengthening the Elimination of Backward Production Capabilities and Guidelines* which includes a range of sanctions, such as revocation of pollutant discharge permits, restrictions on the provision of new credit support, restrictions on the approval of new investment projects, and restrictions on the issuing of new and cancelling of existing production licenses.<sup>29</sup>
- *Standard Conditions of Production and Operation of the Iron and Steel Industry* which sets out the minimum requirements for production and operation in the Chinese steel industry. As such Chinese steel industry enterprises are incentivised to comply with the standard conditions, as doing so provides the basis for policy support. In contrast, enterprises that do not conform are required to reform, and if they still fail to conform, must gradually exit the market.
- *Normative Conditions for the Iron and Steel Industry (2025) (Normative Conditions)* issued by the GOC's MIIT intend to steer the sector toward 'high-quality development' by phasing out inefficient capacity, encouraging a shift to low-carbon production via electric arc furnaces (EAFs) and hydrogen metallurgy, promoting market consolidation, and focusing on advanced equipment and products. These standards, which include benchmarks for basic requirements, process equipment, environmental protection, safety, and quality management, are designed to address challenges like overcapacity and emissions while fostering sustainable growth.<sup>30</sup>

The key goals of the 2025 Normative Conditions are to:

- Phase out outdated capacity: Eliminate inefficient, polluting, or technically obsolete equipment like sintering machines and blast furnaces.
- Accelerate low-carbon transition: Promote EAFs and hydrogen metallurgy, which are less carbon-intensive than traditional blast furnace routes.

<sup>29</sup> <https://treasury.gov.au/publication/economic-roundup-issue-2-2013-2/economic-roundup-issue-2-2013/chinas-unfinished-state-owned-enterprise-reforms> (accessed 1 October 2025)

<sup>30</sup> <https://www.mysteel.net/analysis/5076329-china-unveils-new-guidelines-to-move-its-steel-industry-forward> (accessed 1 October 2025).

- Promote market consolidation: Encourage greater efficiency and competitiveness within the industry.
- Increase high-end production: Focus on developing high-quality, specialized, and advanced steel products.
- Achieve sustainable development: Aim for a green, low-carbon, and sustainable development pattern for the industry.<sup>31</sup>

*The Normative Conditions will operate by:*

- *Revising Standards:* The guidelines set benchmarks for "normative enterprises," covering areas like environmental protection, resource consumption, safety, and quality.<sup>32</sup>
- *Capacity Replacement:* While the capacity replacement policy requiring new capacity to offset retired capacity was suspended in late 2024, the overall guidelines still emphasise phasing out older equipment.<sup>33</sup>

In summary, decisions about levels of production in the Chinese steel market are often based on GOC policy goals as opposed to properly functioning price signals.

### **Role and operation of SOEs in Chinese steel markets**

The Chinese economy is commonly described as a 'socialist market economy' as it features dominant SOEs co-existing with market capitalism and private enterprise.

SOEs account for a significant portion of the revenue earned by the largest business enterprises in China.<sup>34</sup>

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[https://en.ndrc.gov.cn/news/mediarources/202203/t20220325\\_1320408.html#:~:text=Chinese%20authorities%20issued%20a%20guideline,compared%20with%20a%20year%20before](https://en.ndrc.gov.cn/news/mediarources/202203/t20220325_1320408.html#:~:text=Chinese%20authorities%20issued%20a%20guideline,compared%20with%20a%20year%20before). (accessed 1 October 2025)

<sup>32</sup> <https://www.seaisi.org/details/26174?type=news-rooms#:~:text=Specifically%2C%20the%20basic%20indicators%20serving,been%20added%20to%20the%20guidelines> (accessed 1 October 2025)

<sup>33</sup> <https://www.seaisi.org/details/25934?type=news-rooms#:~:text=At%20Tuesday's%20press%20conference%20held,steel%20capacity%20over%202016%2D2020> (accessed 1 October 2025)

<sup>34</sup> <https://www.scmp.com/business/companies/article/3019632/first-china-has-more-companies-fortune-global-500-list-us> (accessed 1 October 2025).

Available information from the World Steel Association (**WSA**) suggests the significance of SOEs in the Chinese steel sector. In particular, for the largest 10 Chinese steel firms by production (**TABLE A**, below), greater than 70% of steel production was by Chinese SOEs. Steel production by these six SOEs alone accounted for greater than 30% of total crude steel production in China in 2024. It is also observed that these SOE enterprises increased steel production in 2024, when compared to 2023.

Company	State-owned/invested	Crude steel production (mmt)		World Rank	
		2024	2023	2024	2023
China Baowu Group	Yes	130.09	130.77	1	1
Ansteel Group	Yes	59.55	55.89	3	3
HBIS Group	Yes	42.28	41.34	5	5
Shagang Group	No	40.22	40.54	6	6
Jianlong Group	No	39.37	36.99	7	8
Shougang Group	Yes	31.57	33.58	9	9
Delong Steel	No	29.33	28.26	11	11
Hunan Steel Group	Yes	24.9	24.8	13	14
Jingye Group	No	22.72	14.51	15	29
Shandong Steel Group	Yes	19.45	19.45	17	17
<b>TOTAL (SOEs in China top 10)</b>		<b>307.84</b>	<b>305.83</b>		
<b>TOTAL (China top 10)</b>		<b>439.48</b>	<b>426.13</b>		
<b>TOTAL China</b>		<b>1,005.1</b>	<b>1,028.9</b>		

**Table A:** The largest 10 Chinese steel firms by production (million MT, mmt)

Source: <https://worldsteel.org/data/top-steel-producers/> (accessed 1 October 2025)

The OECD found that China's steel subsidisation rate (as a percentage of firm revenues) is five times higher than the average for other partner economies, with Chinese state-owned enterprises (SOEs) receiving even more than private firms in China. In particular, SOEs with more than 50% state ownership receive more than three times the level of below-market borrowings compared to firms with less than 10% state ownership, after adjusting for size.<sup>35</sup>

<sup>35</sup> OECD (2025), p. 17.

Similarly, the World Bank has found that SOEs have close connections with the Chinese government and are more likely to enjoy preferential access to bank finance and other important inputs, privileged access to business opportunities, and even protection against competition.<sup>36</sup>

In the 2024 Annual Report for Ma Steel, the company reports equity interests in SOE 'Baowu Water Technology Co., Ltd ("Baowu Water")' amongst others, stating that 'the directors of the Company believe the Company can exercise significant influence over Baowu Water, despite the equity share being 14.98% (under 20%)<sup>37</sup>.

SOEs in the Chinese steel industry are a significant contributor to market distortions, and their presence in the industry and Chinese steel markets are likely to result in adherence with the GOC's plans and directives. Furthermore, the support provided to these entities by the GOC has enabled many of them to be operated on non-commercial terms for extended periods, significantly impacting supply and pricing conditions within the domestic Chinese market.

According to a report by (Australia's) Department of Industry, Science and Resources in 2016, the various ways the GOC financially supports SOEs acts to 'reduce the normal commercial pressures for companies to operate efficiently and for poorly performing firms to cut back or cease operations'.<sup>38</sup>

Similarly, in a 2024 report, the European Commission identified persistent deferred or reduced loans in China, including SOEs, in spite of GOC plans to reduce such practices.<sup>39</sup>

An academic study by H Liu and L Song, found that 'the share of loss-making enterprises was 51 per cent' in the steelmaking sector in 2015, and 'for some enterprises, the losses have even exceeded the sum of depreciation, wages and interest—yet these firms have continued production', and that 'these enterprises can in fact operate into the long term while making continuous losses' through various

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<sup>36</sup> World Bank and the Development Research Centre of the State Council, People's Republic of China, China 2030: building a modern, harmonious, and creative society, World Bank, Washington DC, 2013, p. 25.

<sup>37</sup> NON-CONFIDENTIAL ATTACHMENT 5, p. 173.

<sup>38</sup> <https://www.industry.gov.au/publications/analysis-global-steel-and-aluminium-markets> (accessed 1 October 2025)

<sup>39</sup> [https://ec.europa.eu/transparency/documents-register/detail?ref=SWD\(2024\)91&lang=en](https://ec.europa.eu/transparency/documents-register/detail?ref=SWD(2024)91&lang=en) (accessed 1 October 2025)

forms of GOC support.<sup>40</sup> According to this study, the selling costs for almost half of the enterprises in China's steelmaking industry exceeded their selling prices in 2015.<sup>41</sup> This study also found that SOEs were far more likely than private firms to be sustaining operating losses over prolonged periods.<sup>42</sup>

Examples of the support mechanisms that enabled SOEs to sustain ongoing operational losses include government subsidies, support from associated enterprises (through direct subsidy, interest-free loans or provision of loan guarantees) and loans from state-owned banks. As discussed, above, the prevalence of so-called "zombie mills" in the Chinese steel sector; that is, firms that sustained prolonged operating losses in the steel sector and yet have not entered liquidation nor restructure; are evidence of this outcome. Such firms can continue operating through these kinds of support mechanisms.<sup>43</sup>

These loss-making firms have also faced barriers to entering bankruptcy or liquidation despite continuing to make sales at unprofitable rates, because of the particular incentive structures pertaining to SOEs. An example of how this operates relates to the treatment of transfers of shares in SOEs. Such transfers are not valid unless approved by the *State-owned Assets Supervision and Administration Commission of the State Council (SASAC)*. In one study, it was found that this meant that the 'inability to transfer ownership results in the ability of SOEs to generate losses for a long period without fear of bankruptcy, including the ability to engage in anticompetitive practices such as below-cost pricing without fear of falling equity prices or bankruptcy'.<sup>44</sup>

In a study by L Brun, it found that, with respect to taxation, 'local governments receive the majority of their business tax revenues from a factory's production, not on profit'. This served to incentivise local governments to deter bankruptcy.<sup>45</sup>

A study by H Liu and L Song, found that a 'policy of 'securing jobs' has been deeply entrenched in the running of SOEs' such that 'leaders of SOEs as well as local

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<sup>40</sup> H Liu and L Song (2016), pp. 343, 346 and 349.

<sup>41</sup> H Liu and L Song (2016), p. 346.

<sup>42</sup> H Liu and L Song (2016), pp. 345–350.

<sup>43</sup> H Liu and L Song (2016), p. 348.

<sup>44</sup> L Brun, *Overcapacity in steel: China's role in a global problem*, Center on Globalization, Governance & Competitiveness, Duke University, 2016, p. 26.

<sup>45</sup> L Brun (2016), p. 29.

governments have tended to tolerate losses rather than risk dismissing staff, which would generate an alternative – and noisier – problem on the social front'.<sup>46</sup> This aligns with the Commission's finding in REP 301 that given that steel mills are typically major employers, sources of significant tax revenue and providers of health care and education services within their respective regions, there are significant incentives for provisional and local governments to resist directives from the Central Government to remove excess capacity and to provide these producers with support to enable them to continue operating.<sup>47</sup>

In summary, the initiatives and support mechanisms considered above have enabled certain firms in the Chinese steel sector, particularly SOEs, to be operated on non-commercial terms for extended periods, and have contributed to the rapid expansion of steel production capacity in the SOE segment, despite repeated attempts by the Central Government to reduce the scale of steel production. In terms of these initiatives and support mechanisms towards a situation in the Chinese domestic steel markets, they have protected recipient enterprises from ordinary price and profit signals and hence have significantly contributed to the excessive investment in capacity, excess steel production, distorted prices and, at times, ongoing loss-making.

The significance of SOEs to the broader Chinese economy, including the steel industry, is also reflected in the State Council of China's *Guidance on the promotion of central enterprises restructuring and reorganisation*.<sup>48</sup> In introducing this guidance, the State Council notes the important role of SOEs in actively promoting structural adjustment, optimisation of structural layout and quality improvement within the Chinese economy. The guidance also indicates that the State Council will deepen reform of SOE policies and arrangements to optimise state owned capacity allocation, promote transformation and upgrading. Details concerning the promotion of central enterprises restructuring and reorganisation include the 'safeguard measures' theme, the strengthening of the organisation and leadership of SOEs,

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<sup>46</sup> Liu and Song (2016), pp. 351–352.

<sup>47</sup> REP 301 – *Steel Rod in Coils ex China*, p. 58.

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[https://english.www.gov.cn/policies/latestreleases/202505/26/content\\_WS683468b7c6d0868f4e8f2ddc.html#:~:text=China%20expects%20to%20establish%20a,Code%20bm0100001%20Registration%20Number:%2005070218](https://english.www.gov.cn/policies/latestreleases/202505/26/content_WS683468b7c6d0868f4e8f2ddc.html#:~:text=China%20expects%20to%20establish%20a,Code%20bm0100001%20Registration%20Number:%2005070218) (accessed 1 October 2025)

strengthening of industry guidance, increased policy support and improved support measures more generally.

In 2019, the GOC announced its intention to introduce a three-year action plan on SOE reform, which reflects the continuation of the significance of SOEs to the Chinese economy.<sup>49</sup> The plan was designed to target mixed-ownership reform and strategic restructuring in sectors including coal and electricity, steel and non-ferrous metal. In recent years, SOE reform has focussed on consolidation through mergers and acquisitions, which has, in turn, increased the state's presence in the market.<sup>50</sup>

In summary, the role of SOEs in 'capital intensive sectors that produce intermediate but highly tradable goods with important linkages to other upstream and downstream economic activities, such as the mining, chemicals or even electronics sectors'<sup>51</sup> provides a buffer to the Chinese steel industry from external market forces. In other words, decisions relating to the terms of transactions in the Chinese steel market are insulated from price signals.

In terms of the market situation this creates, those SOEs operating in upstream sectors provide inputs to steel companies at below market prices and on preferable terms. This is relevant to the rod in coil market in China, as the major input into rod in coil is steel billet, which is supplied to Chinese producers and exporters of the like goods into a Chinese domestic market also supplied by SOEs during the proposed investigation period, most likely, below cost.

### ***Role of the GOC in private steel industry enterprises***

Private steel industry enterprises engage with the policies and objectives of the GOC by aligning their commercial interests with industry directives and where relevant, appointing party members on supervisory boards. The decisions of such enterprises in the Chinese market are often based on GOC policy goals as opposed to properly

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[https://english.www.gov.cn/statecouncil/ministries/202007/20/content\\_WS5f14facdc6d00bd0989c63db.html](https://english.www.gov.cn/statecouncil/ministries/202007/20/content_WS5f14facdc6d00bd0989c63db.html) (accessed 1 October 2025)

<sup>50</sup> H Yu, 'Reform of state-owned enterprises in China: The Chinese Communist Party strikes back', *Asian Studies Review*, 2019, 43(2):332–351.

<sup>51</sup> G Mattera and F Silva, 'State enterprises in the steel sector', *OECD Science, Technology and Industry Papers*, 9 September 2018, p. 5.

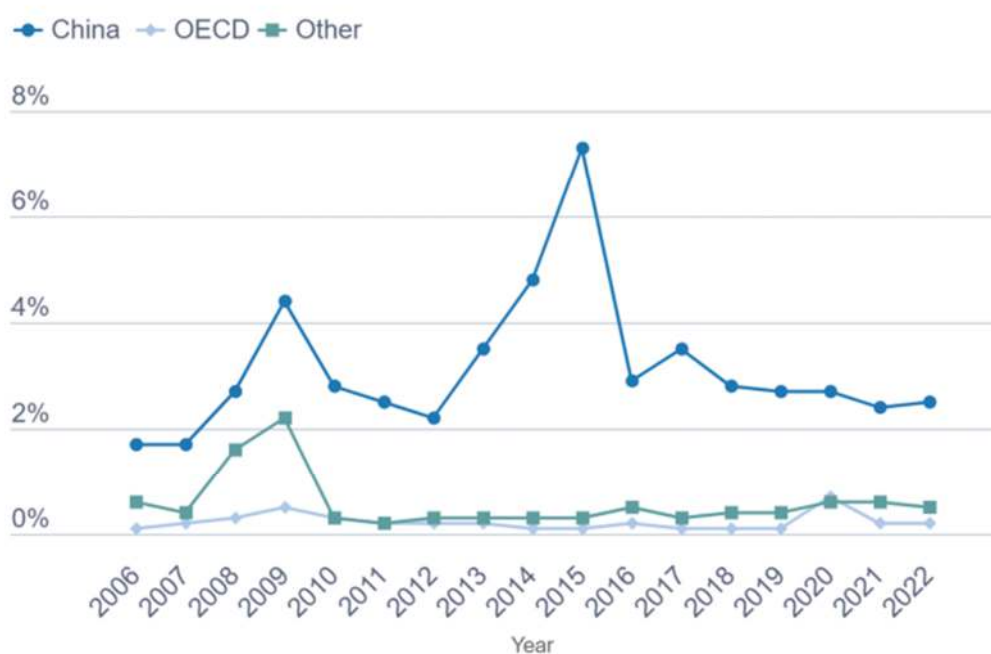
functioning price signals. The European Commission observed that the overcapacity arising from GOC influence impacts the overall market in ways that put downward pressure on prices, as do the unprofitable sales of firms (often SOEs) transacting at losses in the Chinese steel sector.<sup>52</sup>

### Direct and indirect financial support

The 2025 OECD Report found that China's steel subsidisation rate (as a percentage of firm revenues) is five times higher than the average for other non-OECD economies, which in turn is double that of OECD countries. The extent of direct and indirect financial support is illustrated in following figure published in the OECD Report (Figure 1.4).

Figure 1.4. Steel subsidisation rates in China, OECD countries and other countries, 2006-22

As a percentage of firm revenues



Note: Subsidies indicated in the figure above are the sum of the subsidies entailed in cash grants, below-market borrowings and income tax concessions.

Source: OECD Manufacturing Groups and Industrial Corporation (MAGIC) database.

Source: (OECD, 2025), p. 18.

<sup>52</sup> [https://ec.europa.eu/transparency/documents-register/detail?ref=SWD\(2024\)91&lang=en](https://ec.europa.eu/transparency/documents-register/detail?ref=SWD(2024)91&lang=en) (accessed 1 October 2025), pp. 402–403.

These subsidies and tax concessions reduce the operating costs of Chinese steel enterprises, confer a competitive advantage through the ability to offer steel products at lower prices and increase the profitability of steel production.

Although subsidies affect specific exporters differently based on the level of subsidy they receive, subsidisation supports unprofitable producers, delaying or preventing their timely exit from the industry.

This is one reason that explains why sales of both upstream and downstream steel products in the Chinese market are made by suppliers that sustain ongoing operational losses and tolerate unprofitable terms. In effect, such support enables loss-making firms to continue selling steel products (including upstream steel inputs) into the market at rates that do not correspond to the cost of production for those products in China.

### **The impact of subsidies on crude steelmaking capacity**

The OECD Secretariat recently published the report of the Steel Committee, titled the “*The drivers and impacts of subsidies to steel firms*”<sup>53</sup> In that report, the Steel Committee concluded the following:

- typical Chinese steel firms receive five times more subsidies per unit of revenue than firms in other partner economies, and ten times more than firms in OECD Member countries.<sup>54</sup>
- the subsidies covered in their report; specifically, cash grants, below-market borrowings (**BMB**), and corporate income tax concessions; are disproportionately directed towards firms with higher government ownership, larger size, and greater indebtedness.<sup>55</sup>
- sustained annual grants of USD 1 million are associated with capacity increases ranging from 5 000 to 15 000 metric tonnes.<sup>56</sup>

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<sup>53</sup> OECD (October 2025), “*Quantifying the role of state enterprises in industrial subsidies*”, OECD Science, Technology and Industry Policy Papers, No. 184, OECD Publishing, Paris, NON-CONFIDENTIAL ATTACHMENT 6.

<sup>54</sup> OECD (October 2025), p. 18.

<sup>55</sup> OECD (October 2025), pp. 21-22.

<sup>56</sup> OECD (October 2025), p. 30.

- BMB also display countercyclical characteristics with intensified use during steel crises potentially preventing market-driven capacity adjustments.<sup>57</sup>
- Outside of crises, a USD 1 million increase in BMB is associated with approximately 1 000 metric tonnes of additional capacity.<sup>58</sup>

### **Taxation arrangements**

The Commission has previously identified evidence of export taxes and export quotas on several key inputs in the steel making process for steel billet including coking coal, coke, iron ore and scrap steel in REP 466.<sup>59</sup>

These measures keep input prices artificially low and create significant incentives for exporters to redirect these products into the domestic market, increasing domestic supply and reducing domestic prices to a level below what would have prevailed under normal competitive market conditions.

### **Competition in Chinese steel markets**

The GOC's involvement and influence over the steel industry is a primary cause of the prevailing structural imbalances within the broader steel industry. The issuance of planning guidelines and directives along with provisions of direct and indirect financial support creates a domestic market that benefits domestic producers and supports inefficient enterprises, but does not support access and therefore competition from foreign producers.

According to the study by L Brun, the GOC's supply side structural reform targets the structure of production, to make it more efficient and to balance the supply side of China's economy with the demand side.<sup>60</sup> The supply-side structural reform is a 'suite of policies [focusing] on reducing distortions in the supply side of the [Chinese] economy and upgrading the industrial sector'.<sup>61</sup> China's steel industry has been a

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<sup>57</sup> OECD (October 2025), pp. 7 and 30.

<sup>58</sup> OECD (October 2025), pp. 8 and 30.

<sup>59</sup> Refer REP 466, pp. 41–43.

<sup>60</sup> L Brun (2016), p. 24.

<sup>61</sup> <https://www.rba.gov.au/publications/bulletin/2018/dec/chinas-supply-side-structural-reform.html> (accessed 1 October 2025)

key focus of these policy reforms. Notwithstanding the limited success of the GOC to achieve its stated objectives, the policies, incentives and guidance have constructed a Chinese steel market that relies on preferential treatments, whether focussed at SOEs or not, creating a situation of ‘competition for factors of production’ rather than market driven competition based on price, service and value.<sup>62</sup>

Therefore, the GOC’s historic and continued involvement in the Chinese steel industry, through its policies, planning guidelines, plans and directives, materially contributes to its steel industry’s overcapacity, over supply and distorted structure during the proposed investigation period. These features have also limited foreign competition. That is to say, the GOC has significantly affected the dynamics and price setting in the domestic market.

### **The GOC role in the market for the goods**

The GOC exerts significant influence over the Chinese steel sector, including the steel billet market. In REP 301, the Commissioner concluded that:

‘...the Chinese Government materially influenced conditions within the Chinese RIC [rod in coil] market during the investigation period. The mechanisms through which the Chinese Government exerted this influence include government directives and oversight, subsidy programs, taxation arrangements and the significant number of state owned steel companies. The Commission also concludes that because of the significance of this influence over the Chinese RIC market, the domestic price for Chinese RIC was substantially different to what it would have been in the absence of these interventions by the Chinese Government. Based on this analysis, the Commission has determined that during the investigation period the domestic price for Chinese RIC was influenced by the Chinese Government to a degree which makes domestic sales of RIC unsuitable for use in determining normal values under subsection 269TAC(1) of the Act.’

By way of demonstration, Government grants and VAT credits feature strongly in the 2024 financial report of Hunan Valin Steel Co.,<sup>63</sup> the parent company of the producer and exporter of rod in coil from China named in InfraBuild’s application for continuation of measures<sup>64</sup>. Specifically, the financial report indicates that Hunan

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<sup>62</sup> <https://treasury.gov.au/publication/economic-roundup-issue-2-2013-2/economic-roundup-issue-2-2013/chinas-unfinished-state-owned-enterprise-reforms> (accessed 1 October 2025)

<sup>63</sup> NON-CONFIDENTIAL ATTACHMENT 7.

<sup>64</sup> EPR 675/001, p. 5.

Valin Steel Co., Ltd. reports government grants in aggregate under Chinese Accounting Standards, with no detailed per-project list in the 2024 Annual Report. Total grants recognised in profit or loss reached 678.32 million RMB through "Other Income," comprising asset-related amortization (69.38 million RMB) and income-related grants (608.94 million RMB). The company received 1.016 billion RMB in cash from grants, while unamortized asset-related deferred income stood at 1.466 billion RMB at year-end. Non-recurring grants totalled 334.75 million RMB (mainly for energy-saving, environmental protection, and technical development), with certain items like resource utilization tax refunds (274.19 million RMB) and asset amortization reclassified as recurring.

*Main categories of reported government grants*

The report classifies grants into two main types:

Category	Amount Recognized in 2024 (RMB)	Amount in 2023 (RMB)	Presentation in P&L	Notes
Asset-related (amortized from deferred income)	69,383,769.06	77,422,117.89	Other Income (recurring)	Matched to useful life of related assets
Income-related (immediate recognition)	608,940,919.59	370,795,274.91	Other Income (part recurring, part non-recurring)	Includes ongoing operational subsidies
<b>Total in Other Income</b>	<b>678,324,688.65</b>	<b>448,217,392.80</b>		

Source: NON-CONFIDENTIAL ATTACHMENT 7, pp. 172-173.

Therefore, the *recognition of government grants in the Profit or Loss*, may be summarised as:

- Total government grants credited to profit or loss in 2024: 678.32 million RMB, entirely through "Other Income."
- Asset-related amortization: 69.38 million RMB (down from 77.42 million in 2023).
- Income-related grants: 608.94 million RMB (up significantly from 370.80 million in 2023, reflecting higher operational subsidies).

*Deferred income from government grants (Asset-Related)*

All deferred income stems from asset-related government grants.

Item	2024 Amount (RMB)	Notes
<b>Beginning Balance</b>	989,491,599.57	
<b>New Grants Added</b>	545,981,800.00	Primarily for capital projects
<b>Amortized to P&amp;L</b>	69,383,769.06	To Other Income
<b>Ending Balance</b>	1,466,089,630.51	

Source: Source: NON-CONFIDENTIAL ATTACHMENT 7, p. 172.

As such, the balance sheet shows deferred income entirely attributable to government grants (asset-related), in summary:

- New additions in 2024: 545.98 million RMB (for property, plant, equipment, or tech upgrades).
- Amortization: 69.38 million RMB.
- Net increase led to year-end balance of 1.466 billion RMB (from 989.49 million beginning).

*Cash Flows and Non-Recurring Classification*

- Cash received from government grants (in operating activities): 1,015,900,811.65 RMB.
- Non-recurring grants (excluded from recurring profit calculations): 334,746,458.72 RMB, described as mainly energy-saving, environmental, and technical development related.
- Items reclassified as recurring include resource comprehensive utilization VAT refunds (274,194,460.87 RMB) and the full asset-related amortization.

*Non-Recurring Grants in Profit & Loss Table (Extract)*

Item	2024 Amount (RMB)	Explanation
Government grants (excluding closely related to normal operations)	334,746,458.72	Mainly energy conservation, environmental protection, technical development grants

Source: NON-CONFIDENTIAL ATTACHMENT 7, p. 203.

Therefore, for non-recurring profit calculations, the company excludes grants "closely related to normal operating business" that are ongoing and predictable. The report lists 334.75 million RMB as non-recurring government grants, primarily for energy-saving, environmental, and technical development initiatives not deemed ongoing core supports. It reclassifies the full asset amortization (69.38 million) and resource utilization VAT refunds (274.19 million) as recurring.

*Overall cash flow impact*

Cash inflows from government grants (included in "other operating cash receipts") amounted to 1,015.90 million RMB, significantly higher than 461.73 million in 2023.

This represented actual funds received, including both immediate income-related grants and funding for asset projects added to deferred income. The difference between cash received and new deferred additions reflects timing and immediate-recognition grants.

Importantly, Government grants contributed meaningfully to profitability amid steel industry challenges. The 678 million recognized helped offset a 60% drop in net profit to ~2.03 billion RMB. Cash receipts of over 1 billion supported liquidity.

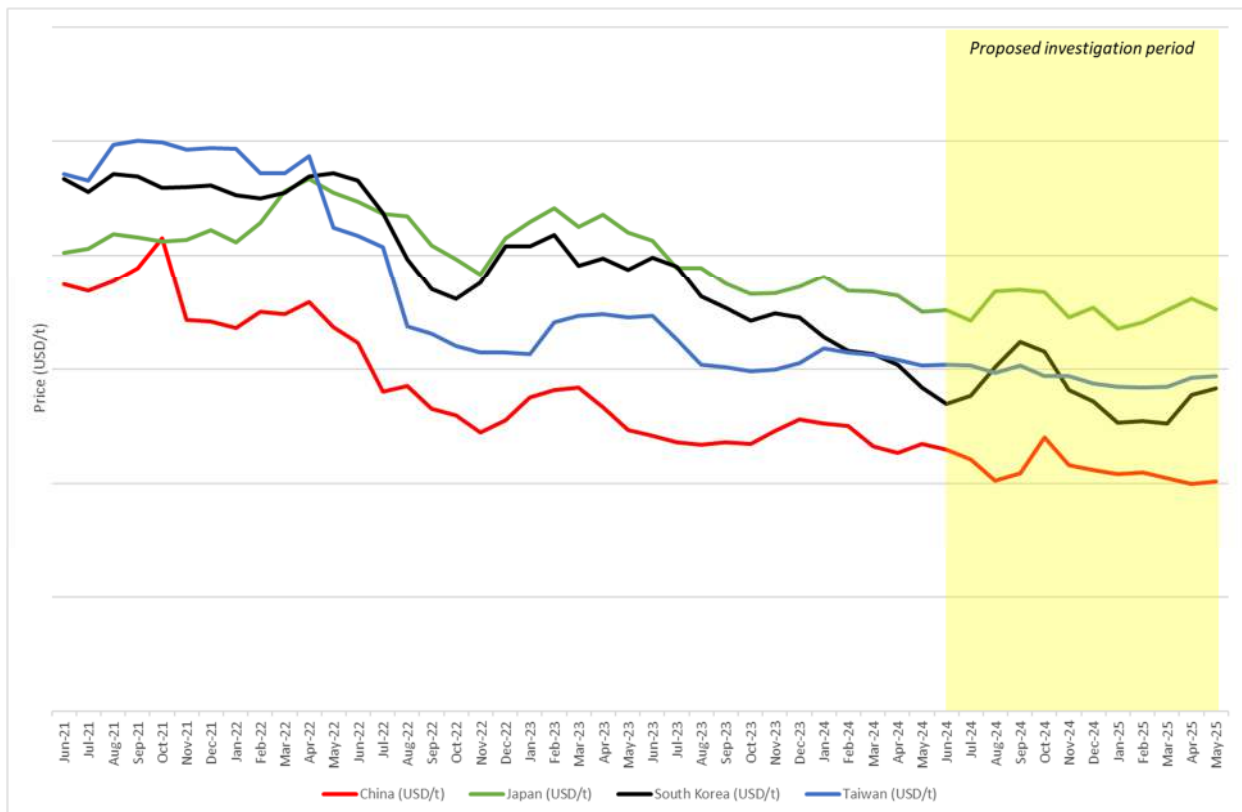
The effect of the GOC influence on steel billet prices, and by extension rod in coil, in China has therefore influenced the cost of the primary steel input feed in the manufacture of the goods by Chinese producers.

### Significance of steel billet costs in the production of rod in coil and the goods

Steel billet is the major raw material input used in the production of rod in coil. Steel billet was approximately ██████% by percentage of InfraBuild Steel's cost to make rod in coil.<sup>65</sup>

Given the likely high proportion of steel billet in the production of rod in coil and its influence on pricing decisions, InfraBuild contends that steel billet prices have a significant impact on both the production cost and selling price of rod in coil in China.

In support of this contention, InfraBuild has compared the domestic sales prices for rod in coil sold in China, to domestic selling prices in Japan, South Korea and Taiwan. **FIGURE B**, below, illustrates that the domestic sales price in China was consistently below its regional counterparts across the proposed investigation period.



**FIGURE B** Domestic Prices, Wire Rod Source: CONFIDENTIAL ATTACHMENT 4

<sup>65</sup> For 12-months ending 31 March 2025.

**Conclusion**

InfraBuild considers that the conditions in the Chinese steel and steel input markets directly affects the domestic market for rod in coil in China. There is a particular market situation that affects the Chinese market for rod in coil, primarily through the distortion of steel billet costs, the principal raw material used in the production of the rod in coil in China.