Opinion: Is global steel glut caused by China going to start a trade war?

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FORMER Prime Minister Tony Abbott once famously warned that Whyalla would be “wiped out” by a carbon tax; left a ghost town, an “economic wasteland”.

Now the South Australian industrial centre faces just that fate but it has zero to do with any carbon price and much to do with larger, global forces.

Right now, administrators of Whyalla’s major employer, Arrium, are picking over the operations following the company’s collapse in recent days.

MINISTER: Business solution needed for Arrium

Principal among these is the loss-making steelworks and associated iron ore export business, not to mention the $2.8 billion debt the company is carrying.

There is room for considerable debate about some of the decisions of Arrium management and the direction the company has taken since being spun out of BHP as OneSteel back in 2000.

There also is the question of what is going to cost governments (and the banks) more. Letting the Whyalla operations close with the loss of some 2000 direct jobs and many thousands more indirect, resulting in a knock-on effect of local defaults, soaring unemployment and Abbott’s wasteland warning come to life?

Or stitching together some sort of rescue package not dissimilar to the South Australian government-backed bailout of the Port Pirie lead smelter on the other side of the Spencer Gulf?

Regardless of how the Arrium drama plays out though, it must be remembered that what is happening in Whyalla is symptomatic of wider problems facing the global steel industry, and similar scenarios are playing out around the world at the moment.

What we have is a global steel glut of unprecedented proportions brought about, in no small part, by massive overcapacity in China.

The Government can either allow Whyalla operations to close or stitch together some sort of rescue package.

This is now feeding through to accusations Chinese firms are “dumping” large quantities of subsidised, poor-quality steel on global markets, leading to increasingly aggressive protectionist measures in retaliation.

Consider this: In the past decade China has increased its steel capacity from 150 million tonnes a year to 800 million tonnes, or roughly half the entire global capacity.

Last year its domestic economy consumed 664 million tonnes of this, according to the China Metallurgical Planning and Research Institute, while exports accounted for another 100 million tonnes. That leaves some 40 million tonnes – or 20 times Whyalla’s entire annual output – sitting stockpiled.

And all this while China’s steel sector shows no substantive signs of rebalancing to cater for both slowing domestic and global demand. In fact the country’s largest steelmaker, Baosteel, is reportedly planning to increase production by 20 per cent this year.

The situation is such that China’s steel output is starting to test relations with some of its major trading partners.

In Britain, for example, Indian giant Tata intends to sell or close its steel operations because of global conditions, with even Prince Andrew raising the issue with Chinese President Xi Jinping on a recent visit to China. The situation has not been helped by a recent Chinese decision to whack a 46 per cent tariff on just the sort of hi-tech steel Tata produces.

And, just this week, US Steel said it would shed 25 per cent of its workforce in the face of low prices and cheap foreign imports.

At a federal level the US has recently clapped a tariff of more than 200 per cent on some Chinese steel, after the Department of Commerce ruled this was the equivalent some Chinese firms received in subsidies.

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All this equates to a bleak outlook globally and there are now growing calls for the reintroduction of procurement policies stipulating the use of Australian steel in government-funded projects.

This requirement was scrapped by the Coalition Government in 2014 and replaced with a “least cost” policy.

All of this exasperates local industry players, not just operators of the remaining blast furnaces, but also fabrication businesses and the metals recycling sector.

Australian Council of Recycling CEO Grant Musgrove said his part of the steel sector welcomed the renewed debate on procurement but what would really benefit the industry, aside from recycling specific measures, is much tougher enforcement of anti-dumping regulation.

“The metals recycling industry does not want protectionism,” Musgrove said, “but it’s time to stop being the only virgin in the brothel since the GFC.

“We are in a global currency and trade war and simply pretending it’s not happening.”

So-called free trade can sometimes be a lot more expensive than we realise.