

A Guide to Your Business in China

MARKET REPORT

2008 Report on China's Steel Industry

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Description

1. China's steel industry is to be faced with the greatest wave of corporate restructuring in its history

Although China is the world's largest steel producer, the concentration of its steel industry is low compared to those in other countries. So far only Baosteel and Ansteel are able to push their annual outputs of crude steel beyond 10 million tons. As for annual output of more than 5 million tons, 15 of China's producers fall into the category, and they account for only 45% of the country's steel output, while in Japan the top 6 steel producers account for 90% of the country's steel output. In South Korea, Posco Steel Processing Center alone is responsible for 65% of the country's steel production, and the top 6 steel producers in the 15 member countries of the European Union cover 74% of the Union's steel yielding. Arcelor of France is even more impressive because it alone accounts for almost all the steel output in the country. So China's Policy on Steel Industry was developed to encourage trans-regional M&A: the number of steel corporations of the country is expected to reduce significantly by 2010, and the top 10 producers should account for more than half of China's output of steel by then and more than 70% by 2020. The Policy also says that there should be two steel producers with the production capacity of 30 million tons annually, plus several more capable of producing 10 million tons, and they should be competitive in the international market by 2010. With the drive of the Policy, a historically unprecedented wave of corporate restructuring is expected to come from 2008 through 2010.

2. Heavy Overcapacity

China will add 50 million tons to its steel production capacity in 2008, and the total output is estimated to reach 400 million tons by the end of the year. Not only does such a big capacity exceed the demand at the current time, but even goes beyond expectation for the near future. According to China Iron & Steel Association, the increased trend of China's steel consumption may turn in 2015 but the peak capacity of the industry now has already passed the expected demand in 2015. It's particularly interesting that production with medium- and low-level technology claims a significant part of the capacity, and the fossilized converters of under 30-ton capacities still produce 80 million tons annually. Moreover, the production capacity in China is still increasing strongly. In the first half of 2008, while steel producers in other countries were cutting their production due to the reducing demand for and dropping prices of steel, China's output of crude steel delivered a yearly increase of 21.1%, reaching 124.7 million tons.

3. The industry is shifting to coastline

Currently, most of China's large steel producers, such as Shougang Steel, Wisco, and Tisco, are located at large cities or other places with insufficient water supply. Alternatively, the geographical conflict costs China's steel producers much to transport steel to where it is needed. So China's Policy on Steel Industry thinks that large steel producers should be located along the coastline for the convenience of ores, energy supply, resources, water supply, transportation, and market conditions at home and abroad. Consequently, China's steel industry would gradually shift to coastland.

In fact, China steel producers have already been building plants close to sea ports. For example, Baosteel's plant under construction at the coastland is the milestone of the change of China's layout of its steel industry. And Shougang was approved in 2005 to move its operation to Caofeidian, which is between Tanggu New Harbor and Qinhuandao harbor. Wisco took action too. It signed an agreement with the Guangxi Government and planned to build a steel plant with the annual capacity of 10 million tons of steel in Fangcheng Harbor. Meanwhile, Guangzhou Iron & Steel Enterprise (GISE) also developed plans to move to Nansha and to build a 10-million-ton production base on the sea.

This report details the development environment, market structure, supply and demand, import and export, competitive landscape and other related issues of China's steel industry, and provides analysis of the current situation and risks of investment. In addition, the report also issues a quantitative forecast for the development of the steel industry in China.

Table of Contents

Chapter One: Overview of Steel Industry

- 1.1 Definitions and Categories
- 1.2 Industrial Features
 - 1.2.1 Technical Features
 - 1.2.2 Economic Features
- 1.3 Industrial Chain
- 1.4 Industrial Life Cycle

Chapter Two: Overview of Global Steel Industry

- 2.1 Status Quo
 - 2.1.1 Overview
 - 2.1.2 Production Structure
 - 2.1.3 Consumption Structure
- 2.2 Development Trend

Chapter Three: PEST Factors of China's Steel Industry

- 3.1 Political
- 3.2 Economical
- 3.3 Social
- 3.4 Technological

Chapter Four: Analysis of China's Steel Market

- 4.1 Overview
- 4.2 Product Mix
- 4.3 Regional Layout
- 4.4 Market Structure
- 4.5 Production Structure

Chapter Five: Development of China's Steel Industry

- 5.1 Overview
- 5.2 Standards of Technology
- 5.3 Competition
 - 5.3.1 Competitive Landscape
 - 5.3.2 Competitiveness of Market Players
- 5.4 Operation Status of China's Steel Industry
 - 5.4.1 Profit
 - 5.4.2 Production and Sales
 - 5.4.3 Prices

5.5 Demand and Supply

5.5.1 Demand

5.5.2 Supply

Chapter Six: Investment in China's Steel Industry

6.1 General

6.2 Investment Pattern

6.3 Private Investment

6.4 Foreign Investment

6.5 M&A

6.6 Investment Feasibility

Chapter Seven: Risks in China's Steel Industry

7.1 Market Risks

7.2 Risks in Interdependence

7.2.1 Interdependence between Upstream and Downstream Sectors

7.2.2 Risks of Steel Industry Depending on Energy, Transport, and Water Supply

7.2.2.1 Shortage of Coke and Coking Coal

7.2.2.2 Power Supply

7.2.2.3 Railway Transport

7.2.2.4 Rising Oil Prices

7.2.2.5 Shortage of Water Supply

7.2.2.6 Property Sector

7.3 Risks of National Policies to Steel Industry

7.4 Risks in Business Environment

7.5 Risks in Altering Technologies

7.6 Rating of Risks

Chapter Eight: Trends in China's Steel Industry

8.1 Development Trend

8.2 Development Objectives and Strategies of Chinese Government

8.3 Industrial Concentration and its Changing Trend

8.4 Forecast for Supply and Demand

8.4.1 Supply

8.4.2 Demand

Charts

Regional Layout of Production of China's Steel Industry

Outputs of Major Steel Products in China 2006-2007

Comparison of Outputs of World Top-10 Countries of Steel Production

Comparison of Outputs of World Top-10 Steel Producers 2002-2007

Comparison of World Major Countries of Steel Consumption

Output of Steel in China in 2007

Consumption of Steel in China in 2007

China's Steel Export in 2007
Prices of China's Steel Exports in 2007
Outputs of Major Steel Products in China in 2007
China's Steel Import in 2007
Average Steel Prices in China's Major Cities in 2007
Strategies of China's Major Steel Producers for the Future
Foreign-Invested Steel Projects in China
Sector-specific Consumption of Steel in China 1998-2007
Rating of Risks in China's Steel Industry
Forecast for Steel Demand in China
Forecast for Steel Supply in China
Forecast for Steel Demand in China 2008-2015
Profits of China's Steel Industry 2000-2007
Output and Consumption of Crude Steel in China 2000-2007
How Private Capital Enters into Steel Industry through Bank Loans
How Foreign Capital Enters into China's Steel Industry

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