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Steel mills must adjust after safeguards decision

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Following the government's decision to impose three years of safeguard duties on some steel imports on April 13, the petitioners represented by the Malaysian Steel Association (MSA) now have to implement their promised adjustment plans.

The individual plans vary, but generally aim to boost efficiency and productivity by improving processes and investing in plant upgrades and modifications, among others.

In an emailed statement to *The Edge*, the Ministry of International Trade and Industry (MITI) says it will monitor the implementation of these plans through regular progress reports submitted by the petitioners.

"During the implementation phase, the government reserves the right to review and make changes to the safeguards measure after taking into consideration various circumstances such as the adjustment plan," the ministry says when asked on possible consequences if the implementation is less than satisfactory.

The Safeguards Act 2006 provides that MITI may review the safeguards during the implementation phase and either maintain, liberalise or withdraw the duties following such a review.

The specific numbers in these plans, including projected costs and investment sums, were redacted from non-confidential versions of the petition documents made public by MITI.

It is understood that some of the measures may incur upwards of hundred millions of ringgit, though such a sum is not seen as overly huge for a capital-intensive sector such as steel.

To recap, the petitions were over the imports of concrete reinforcing bar (rebar), steel wire rods (SWR) and deformed-bar-in-coil (DBIC) into Malaysia.

MSA says increased imports for these products between Oct 1, 2012, and Sept 30, 2015, had gravely hurt domestic producers who consequently lost market share and were forced to scale back both operations and workforce.

It asked for a reprieve via safeguard duties in order for the local players to implement adjustment plans and obtain financing for new investments, which MITI granted two weeks ago.

MITI had made a preliminary decision last September to impose provisional safeguard duties of 13.42% on rebar imports and 13.9% on SWR and DBIC imports in the wake of the petitions.

These duties were for 200 days from Sept 26 for rebar steel and from Sept 27 for SWR and DBIC. The April 13 decision confirmed that the safeguard duties will be in place for three years.

The MSA petitioners are Ann Joo Steel Bhd, Lion Industries Corp Bhd subsidiaries Amsteel Mills Sdn Bhd and Antara Steel Mills Sdn Bhd, Southern Steel Bhd and Malaysia Steel Works (KL) Bhd (Masteel).

Collectively, the steel mills account for 73.4% of local rebar output and 100% of local SWR and DBIC production. The petitioners did not reply to queries.

How effectively the steel mills can implement their adjustment plans is expected to be closely watched moving forward, especially by parties adversely affected by the safeguard duties.

While the safeguards benefit petitioning steel mills, other businesses may see their margins being squeezed on higher raw material costs. These include construction firms, property developers and downstream steel product manufacturers such as Chin Well Holdings Bhd, Engtex Group Bhd, Leader Steel Holdings Bhd and YKGI Holdings Bhd.

Observers note there had been intense protests against the safeguards from the beginning and the pressure is unlikely to ease.

The request for temporary relief from the pressure of surging imports was premised on the strategic importance of a domestic steel industry to support economic growth, especially via the construction and property development sectors.

But the protection comes with a cost to downstream consumers of such products who argue that it would increase business costs and hurt their competitiveness.

In a late-February written submission to MITI sighted by *The Edge*, Master Builders Association of Malaysia argued that the additional construction costs from safeguard duties would ultimately be passed to end-buyers, citing steel components which make up 30% of raw material requirements for housing projects.

The message was echoed by property developers last week. At a media briefing, Real Estate and Housing Developers Association warned that the measure may push up home prices if contractors and developers are unable to absorb higher steel component costs.

Faced with opposing interests, the government did a balancing act when it made the final decision on the safeguard duties.

"During the investigations, the government assessed the issues and concerns submitted by all interested parties in accordance with the Safeguards Act 2006 and Safeguards Regulations 2007," MITI said on April 13.

Structural issues remain

Beyond the safeguards period, however, analysts say the steel sector still faces structural issues that need to be addressed in the longer term.

The question is whether steel players can leverage the three-year period to rebuild sufficient competitiveness so that further protection will not be needed, an analyst says.

The analyst notes that there is a risk that the safeguards may not achieve its intended effect as the protection may spur underutilised mills domestically to restart production, which may lead to domestic oversupply down the road.

The relatively small domestic market presents scale and volume issues that are hurdles to becoming competitive beyond Malaysian shores. This is exacerbated by a fragmented industry.

While consolidation may help improve competitiveness, it remains a difficult proposition for family-controlled steel players.

Additionally, steel industry players and analysts say overcapacity in China's steel sector is a problem that is unlikely to go away in the near future.

China produces nearly as much crude steel as the rest of the world combined: in 2015 its steel output was 803.8 million tonnes out of a global total of 1,620.9 million tonnes, according to World Steel Association figures.

Slowing steel consumption in China's domestic market in recent years led to a surge of exports that flooded various foreign markets, including Malaysia, causing outcry worldwide.

China pledged early last year to cut capacity by about a tenth or up to 150 million tonnes over five years. The effectiveness of the cuts, however, remains in question.

Research by environmental group Greenpeace and Custeel, a consultancy affiliated with the China Iron and Steel Association, found that China's net operating capacity actually increased last year despite the cuts as the closures included mills that were already idle, Reuters reported in February.

That said, one steel company official says looking at the larger issues, it is crucial that steel mills be given breathing space via safeguards to recover from the injury caused by surging imports.

The official adds that ultimately the safeguards are temporary and thereafter the question still boils down to the competitiveness of the steel mills that the adjustment plans sought to rebuild.

"Three years for the steel industry is very short. After that, you need to be on your own, hence the adjustment plans," he says. ■

Developers warn that safeguard duties may push up home prices if contractiors and developers cannot absorb the additional costs

SOURCE: MITI

MITI's definitive safeguard duties

PRODUCT	DURATION	DEFINITIVE SAFEGUARD DUTIES
Rebar	14 April 2017 – 13 April 2018	13.42%
	14 April 2018 – 13 April 2019	12.27%
	14 April 2019 – 13 April 2020	11.10%
SWR and DBIC	15 April 2017 – 14 April 2018	13.90%
	15 April 2018 – 14 April 2019	12.9%
	15 April 2019 – 14 April 2020	11.90%