
Hubei governments to boost steel usage and consolidation

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It is reported that Hubei Economic Commission and local top mill Wuhan Steel will convene a matching meeting tomorrow for its steel products in Wuhan and hundreds of local enterprises like Dongfeng Motor Corp will attend the meeting.

Mr Bai Fang spokesman of Wuhan Steel Group said "The move would boost local economic development and help us walk out of the current market downturn."

According to an insider of steel mill, Hubei government has issued a circular this February asking local steel consuming sectors like auto, household appliances, construction and machinery giving priority to Wuhan Steel-produced products on the same condition for production.

Mr Deng Qilin president of the steelmaker said it expects to take the chance to raise its steel products share in local market from the current 45% to a level that over 80% of local key steel consumers and key projects are using its products. In fact, several local governments like Guangxi, Hunan, Anhui and Henan etc have taken similar measures before the move.

Nanjing has held a matchmaking meeting on March 17th for Nanjing Steel's products with local state-run enterprises, with attendees' are all major steel consuming companies and responsible for over 60% of local key projects' financing and construction.

Ma'anshan City in Anhui province also held a meeting on March 31st and local top steel producer Ma'anshan Steel Group has signed sales contracts of 0.69 million tonnes or CNY 2.5 billion in value with 10 attendees on the meeting. Hunan Anyang Steel also inked supply contracts with 5 local enterprises on April 14th on a similar meeting held by local government. And Hunan Valin Steel Group nailed down 24 cooperative agreements with local key steel consumers on May 5th.

Mr Zhou Wenhong assistant to general manger of Valin Hengyang Steel's sales company said "A platform set up by governments for information communication amid market downturn is very effective, since steel producers are generally neglect local customers in light of the booming outside demand."

Besides in boosting local steel sales, governments are also actively intervened in local steel mergers and acquisitions. And so far, Shanxi, Shandong, Hebei, Anhui and Shan'anxi al have issued steel adjustment and support plans.

In detail, Hebei had clearly put forward the idea to form over 5 large scaled steel mills with annual output exceeding 5 million tonnes by 2011, while Shandong aims to forge Shandong Steel Group into a super large steel complex, with output ratio in local up to 70% from current 40%. Shandong also mulls to develop 3 to 5 medium-sized specialized steel manufacturers.

While Anhui province, which boasts the most abundant iron ore resources in East China is planning to promote the production of local top steelmaker Maanshan Steel to above 20 million tonnes from the current 15 million tonnes and ensure iron ore supply to the latter by optimizing local ore resources allocation.

Xinyu Steel, the No 1 steelmaker in Jiangxi also has inked framework agreement for regrouping with Hongdu Steel, the No 4 steel producer in local, which marks the prelude of local steel consolidation. Of which, Xinyu Steel produced steel of 5.32 million tonnes last year with Hongdu Steel yielding 0.65 million tonnes.

Shan'anxi also plans to establish Hanzhong Iron & Steel Group prior to this Oct by regrouping Hanzhong Steel, Lueyang Steel, Jialing Mining as well as some other affiliated companies to realize steel production capacity of 5 million tonnes. Meanwhile, the province also mulls a recombination between Hanzhong Iron & Steel and Longmen Iron & Steel to shape a 10 million tonnes steel giant.

Steel official in East China said "So far Hebei Iron & Steel Group has reaped some positive effects in internal integration by unifying production, supply and sales while the mergers & acquisitions in other regions are merely pro forma, and have no real meaning. The official said it is understandable for governments to intervene in local steel consolidation, however, it will be against market rules if they take moves by force, since it is still depend on the market force, than the governments to finally weed out the inefficient capacities."

