



Thai steel pipe makers struggling to cope with the imports



Highlight

- The global steel oversupply, especially from China's overproduction of steel products, has slammed Thailand's steel pipe industry, with a rapid hike in steel pipe imports from China hurting Thai steel pipe producers by cutting prices and taking market share. This has led to a request for antidumping (AD) protection for welded stainless steel pipe, the type of pipe with the highest import growth. The EIC feels that Thai steel pipe makers will not be able to compete with their Chinese counterparts on price, while AD protection will only provide short term protection for Thai steel pipe producers. Furthermore, the EIC expects welded stainless steel pipe imports to rise even further as traders make speculative purchases before AD measures are implemented. Moreover, consumers will not be able to enjoy low prices for steel pipes even with an AD policy.
- In the short term, Thai producers should try to preserve their customer base by winning them over through customer service and credibility. In the long term, Thai producers need to find strategies to meet price competition since China will always enjoy economy of scale advantages. Instead, Thai producers can compete by enhancing efficiency and reducing costs as well as adding more value and diversifying their products. Furthermore, they can develop marketing and branding strategies to build brand awareness.

The increase in steel pipe imports is mostly due to China, with Chinese pipe imports almost doubling as a result of an oversupply in Chinese steel. In 2014, steel pipe imports in Thailand grew 22% from 2013, with 66% of that increase coming from China, while imports from other countries contracted by 8%. The share of Chinese producers in the steel pipe import market in 2014 reached 55%, an increase of 40% from the previous year (Figure 1). These numbers show the tremendous challenge that the influx of Chinese steel products poses to domestic producers. The number of steel pipes imported from China continued to grow in 2015, increasing by 16% in the first six months in comparison to the same period in 2014. In 2014, China produced 89 million tons of steel pipes, which consisted of 58 million tons of welded steel pipe and 31 million tons of seamless steel pipe. Meanwhile Chinese domestic steel pipe demand was sluggish. As a result, imports of welded and seamless steel pipe in 2014

increased by 7% and 4% from 2013, respectively (Figure 2). Another reason for the rising inflow of steel pipe from China is due to the lack of compulsory Thai Industrial Standards (TIS) certification for imported steel pipe, with general TIS requirements serving only as guidelines. This left importers unregulated and importing steel pipe freely. The current lack of standards not only affects domestic producers, but is also detrimental to consumer safety.

Welded pipes are the most frequently imported steel products from China, with imports doubling in 2014 over the previous year. Most of the imports are welded stainless steel pipe products used in the heavy, furnishing, and manufacturing industries. The Chinese imports directly affect the Thai welded steel pipe market since these pipes are also produced in Thailand. Meanwhile, seamless steel pipes are not produced in Thailand, only imported. Since welded stainless steel pipe saw the most increase in imports, Thai welded stainless steel pipe producers were facing a great threat that moved them to request AD and safeguard measures from the government.

Thai welded pipe producers will have a hard time competing with their Chinese counterparts since raw material prices in China are lower and continue to drop at an increasing rate (Figure 3). The main raw material for welded steel pipes is hot rolled steel. In 2015 the price of hot rolled steel in China is 32% lower than in Thailand. EIC sees Thai steel producers facing this challenge until global steel overproduction subsides. Furthermore, Thai producers cannot take advantage of the low prices for hot rolled steel from China due to previous AD measures against Chinese hot rolled steel. These factors put Chinese producers at a competitive advantage over Thai producers, which led to an increase in steel pipe imports from China. Furthermore, the price of Chinese welded stainless steel pipe has been declining at a faster rate. As a result, the effectiveness of the AD measures might only be short-lived. For example, the price of Chinese welded stainless steel round pipe has continuously declined to only 1,364 USD per ton in the third quarter of 2015, a 24% price drop from the first quarter of 2014. On the other hand, the price in Thailand stood at 2,905 USD per ton in the third quarter of 2015, only a 10% price drop from the previous level. In fact, the average price in the first half of 2015 in Thailand is 89% higher than the average price in China (Figure 4).

The EIC expects more imports of welded stainless steel pipe as many are stocking up their inventories while prices are low before any AD measures are imposed. Increased steel pipe imports from China suppress domestic prices as well as take market share from the domestic steel pipe industry. This has led Thai producers to request AD protection from the Department of Foreign Trade under the Ministry of Commerce. On September 17, 2015, Thailand announced an antidumping investigation on stainless steel pipe products coming from Korea, China, Taiwan, and Vietnam, including both hot rolled and cold rolled, circular and non-circular cross-sections with an outer circumference not exceeding 508 mm. Products imported from China under the investigation grew 177% in the first half of 2015 from the same period last year (Figure 5). Highest growth was seen in welded round steel pipes and rectangular welded steel pipe, usually used in manufacturing industries, heat exchangers, and furniture. The EIC anticipates increased welded stainless steel pipe imports as many are building up their inventories to take advantage of lower prices before any AD measure imposition will muffle imports, especially if the measure is taken against all the above mentioned countries. All-inclusive enforcement would likely have different effects from US AD and CVD

measures that successfully reduced steel pipe imports from China (Figure 6) but backfired with increased imports from Korea.

Moreover, the EIC expects that AD protection will benefit domestic producers only in the short term and take away opportunities for consumers to enjoy imports at lower prices. In the short term, producers will benefit from decreased competition from imports. However, if global oversupply persists over the long term, prices of Chinese steel products will drop at higher rates and faster than those of Thai products. Thai steel product producers will only be shielded in the short term and eventually will have to face price competition. AD protection would also affect producers of related products, since many would switch to importing more substitute products due to lower prices. The EIC expects little impact on steel pipe traders, since their profits (the difference between selling and buying prices) would change only slightly. However, they would lose opportunities to buy cheaper products from China, which reduce their costs and increase their profits. Rising prices as a result of AD protection will hurt consumers currently importing cheap steel pipe from China. The EIC expects the AD measures to reduce steel pipe imports only in the short run, while Thai producers will eventually have to compete with steel pipe imports from China, where prices are dropping faster in the long run.

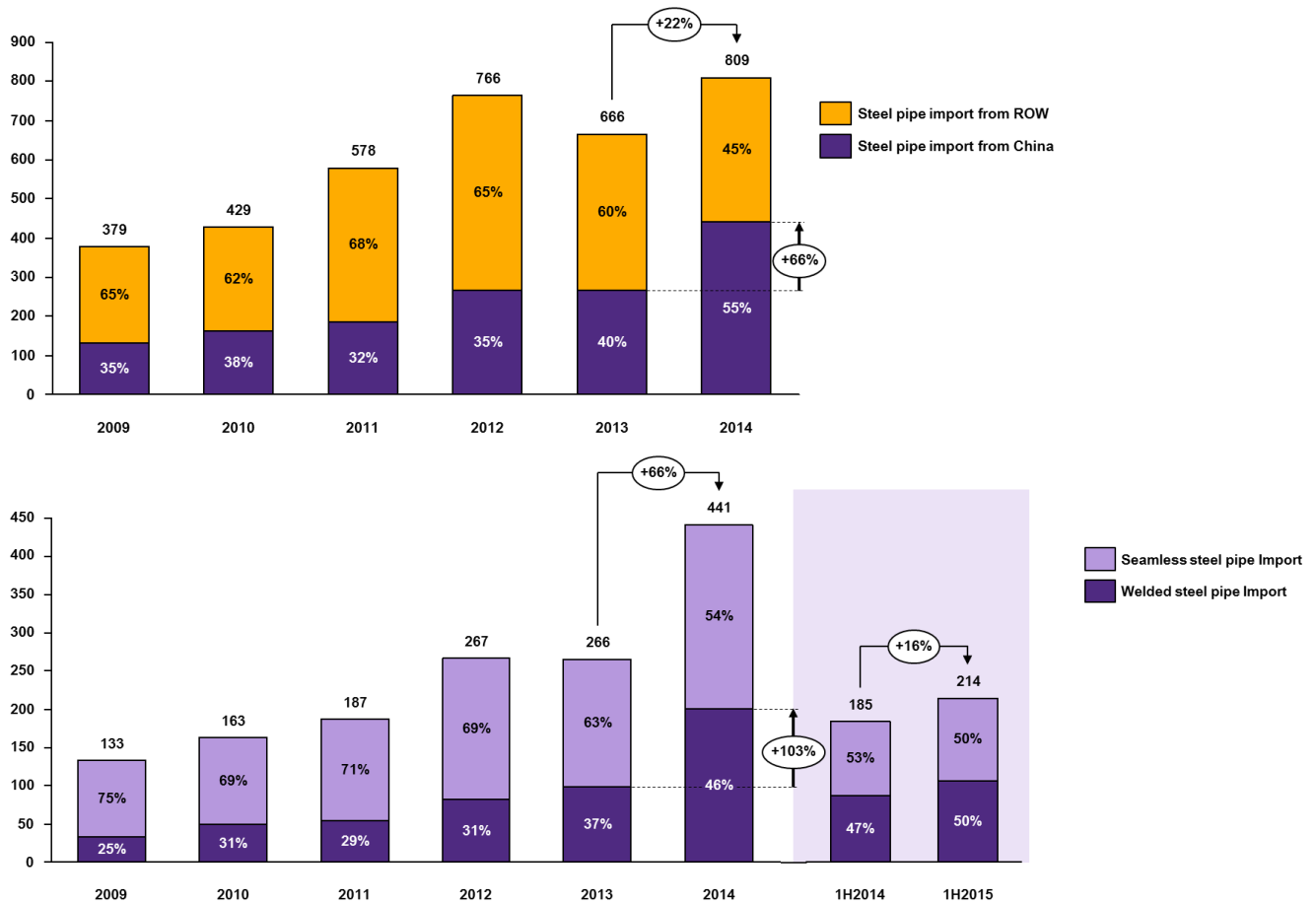
Implication

- In the short term, Thai producers should try to preserve their customer base by raising their customer service quality and credibility. Careful consideration before announcing the AD measure will give producers time to adjust. During this time, producers should maintain their customer base and improve their credibility, for example, by delivering products on time, providing customers with the qualities and specifications that match their needs, and providing quality certificates. If producers can build credibility and satisfy customers during this challenging time, they will gain consumer loyalty in the future.
- In the long term, Thai producers should find ways to surpass in price competition, cut costs, create value-added products, and diversify their offerings, as well as develop marketing and branding strategies. Thai producers should avoid direct price competition with China given that China enjoys the advantage of greater economies of scale. Producers should focus on increasing efficiency and reducing costs, such as by exchanging know-how with other domestic and foreign producers, and collaborating with research institutes to create new innovations. For example, developing seam-welded steel pipes that can replace seamless steel pipes and producing steel pipes in different shapes to expand their customer base.

Figure 1: Steel pipe imports to Thailand (2009-2014) and steel pipe imports from China by types (2009-1H2015)

Imports from China in 2014 sharply increased, especially welded steel pipe imports, which doubled from 2013.

Unit: thousand tons



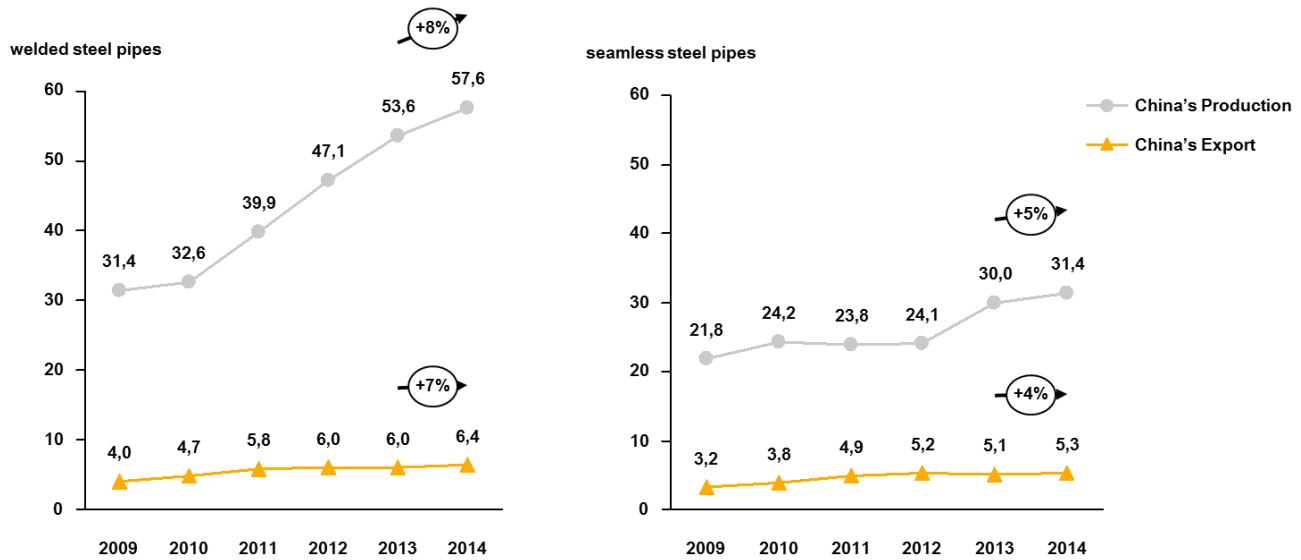
Source: EIC analysis based on data from Trademap

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Figure 2: China's production and exports of welded steel and seamless steel pipes (2009-2014)

China's production and export growth of welded steel pipes are higher than those of seamless steel pipes.

Unit: million tons

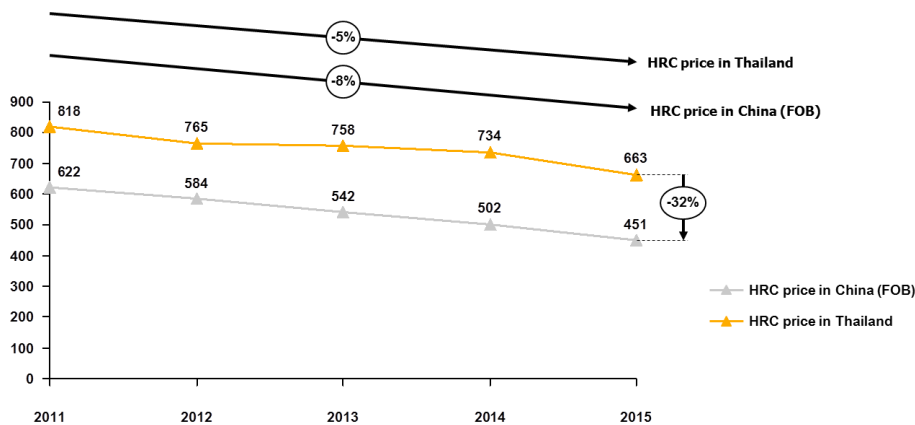


Source: EIC analysis based on data from CEIC and Trademap

Figure 3: HRC steel prices in Thailand and in China (FOB) (2011-2015)

The cost of raw material for seam-welded steel pipes production in China is lower than in Thailand, and also falling at a faster rate.

Unit: USD per ton



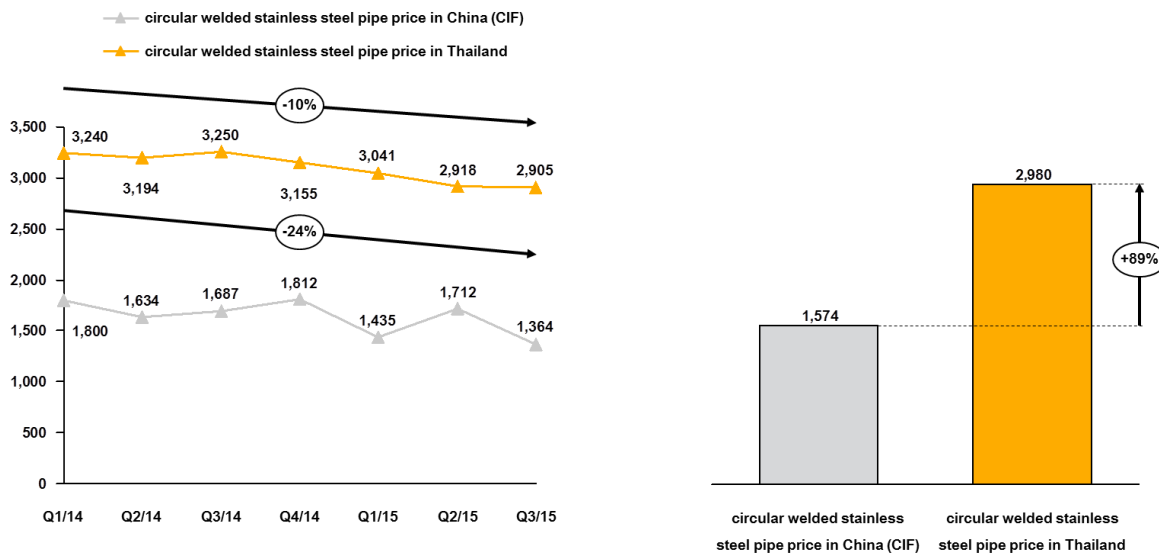
Source: EIC analysis based on data from Bloomberg and ISIT

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Figure 4: Price differences between round welded stainless steel pipe in China (CIF) and Thailand (2014-3Q2015) prices dropped faster in China.

The average price in the first half of 2015 in Thailand is higher than the average in China.

Unit: USD per ton



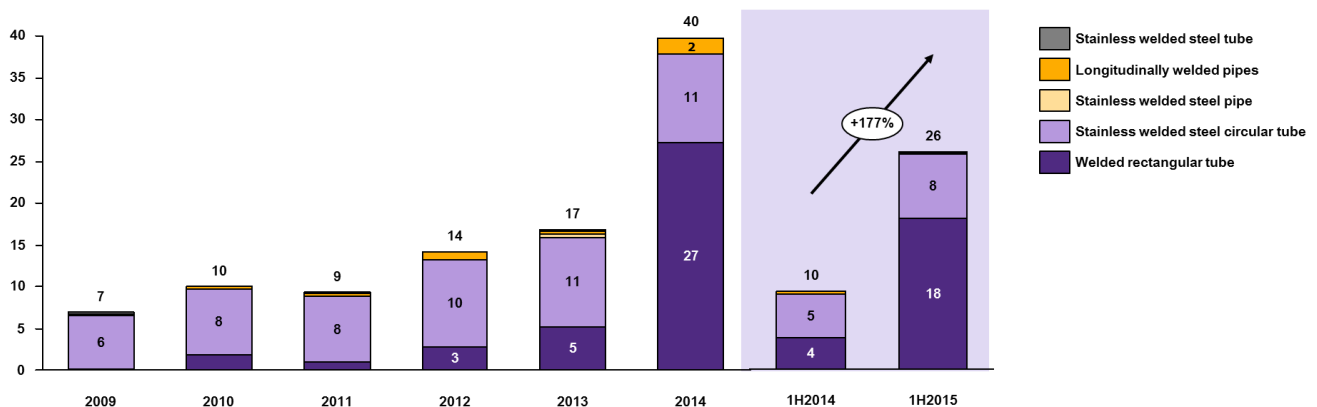
Source: EIC analysis based on data from Trademap

Notes: Prices used are estimated prices of round welded stainless steel pipes

Figure 5: Welded stainless steel pipe imports to Thailand from China (2009-1H2015) by product type

Welded stainless steel pipe imports especially rectangular pipes increased sharply for two consecutive years since 2014.

Unit: thousand tons



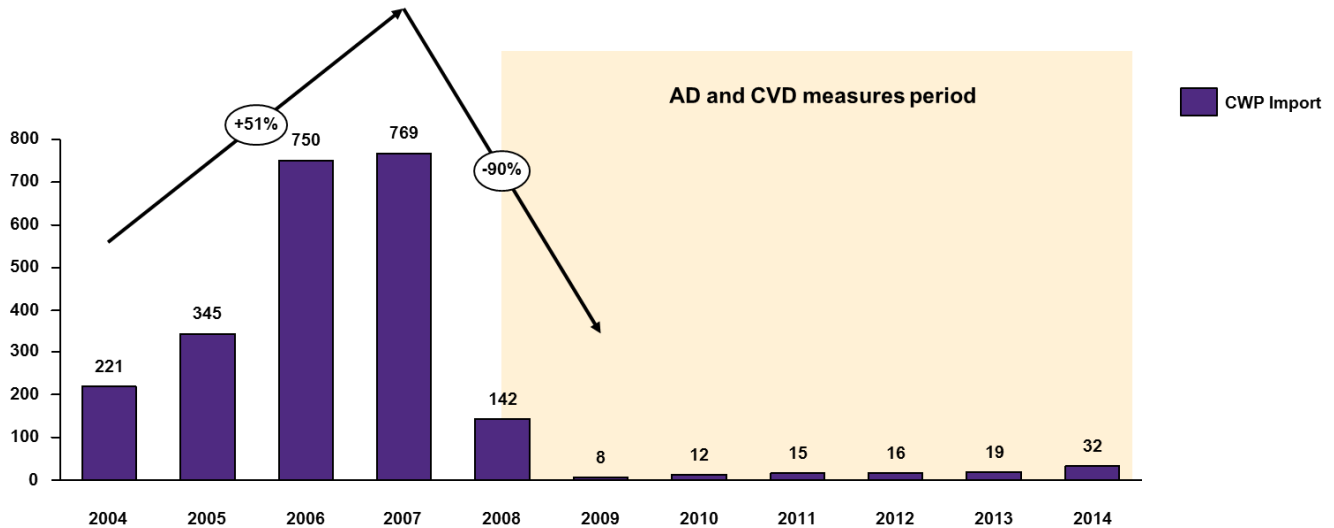
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Figure 6: Circular welded pipe (CWP) imports to the US from China (2004-2014)

CWP imports decreased significantly after the AD and CVD measures were enforced.

Unit: thousand tons



Source: EIC analysis based on data from Trademap

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