

**Safeguard measures applicable to imports of certain steel products into the UK – Tata Steel UK (“TSUK”)’s request to establish a licensing mechanism or an additional quota for imports of hot-rolled flat steel (“HRFS”) (Product Category 1) for use in downstream processing**

**NON-CONFIDENTIAL VERSION**

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## I. Introduction

1. TSUK hereby respectfully requests that the Trade Remedies Authority (“TRA”) uses its power to vary, following a review, a definitive safeguard remedy to introduce a licensing mechanism or, alternatively, an additional quota, for imports of hot-rolled flat steel (“HRFS”) which fall under Product Category (“PC”) 1 and are destined for downstream processing.<sup>1</sup> The request is made with reference to Regulation 35B of the Trade Remedies (Increase in Imports Causing Serious Injury to UK Producers) (EU Exit) Regulations 2019 (the “Safeguards Regulations”).<sup>2</sup>
2. As explained below, the licensing mechanism or additional quota is needed because TSUK, the only currently active HRFS producer in the UK, has been experiencing significant operational issues at its steelmaking facilities leading to a shortage of HRFS substrate for its downstream assets. In order to secure stability of such downstream assets, TSUK may have to import HRFS from third countries. In addition, operational stability, which will be achieved through a license or a separate quota, is needed to support TSUK’s transition to proposed EAF-based steelmaking, as the company must maintain its full downstream portfolio and production output to undertake a necessary modernisation of its production facilities for the purposes of developing more environmentally sustainable and economically viable production processes.
3. At the same time, as explained below, the existing safeguard measures on imports of HRFS into the UK, and TSUK’s status as the only steel producer in the UK currently producing HRFS, mean that if the licensing mechanism or additional quota is not introduced and TSUK has to pay a 25% safeguard duty on HRFS imports to feed its downstream operations, there is a considerable risk that supply of HRFS and other steel products in the UK will be disturbed. This is likely to have a severe negative impact on TSUK itself due to the insufficient supply of the main input material for downstream products, as well as on the users of a wide range of such products.
4. TSUK therefore requests that the TRA makes a recommendation to the Secretary of State to establish a licensing mechanism or additional quota that would allow tariff-free imports under PC 1 (HRFS) if such imports are destined for downstream processing. This will allow TSUK to adapt and avoid serious disruptions of supply in downstream markets.

## II. Legal basis

5. Regulation 35B of the Safeguards Regulations set out the legal basis for the TRA to carry out tariff-rate quota reviews.

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<sup>1</sup> Non-alloy and other alloy hot-rolled sheet and strip; Commodity Codes (72081000, 72082500, 72082600, 72082700, 72083600, 72083700, 72083800, 72083900, 72084000, 72085210, 72085299, 72085310, 72085390, 72085400, 72111300, 72111400, 72111900, 72126000, 72251910, 72253010, 72253030, 72253090, 72254015, 72254090, 72261910, 72269120, 72269191, 72269199).

<sup>2</sup> A link to the Safeguards Regulations may be found here: [The Trade Remedies \(Increase in Imports Causing Serious Injury to UK Producers\) \(EU Exit\) Regulations 2019 \(legislation.gov.uk\)](https://www.legislation.gov.uk/uk/2019/12/12/35B).

6. In accordance with Regulation 35B(7)(b), following the conclusion of a review, the TRA may determine “*that the tariff rate quota to which goods are subject should be [...] varied*”.
7. Regulation 36A provides a non-exhaustive definition of “varied”, including that such variation may “among other things” comprise or include “the variation of the level or pace of liberalisation”.
8. Pursuant to Regulation 35(B)(6)(b), for the purpose of the above-mentioned determination, TRA must consider, among other things, “*whether there has been a change in circumstances [...] since the application of the relevant tariff rate quota*”. According to Regulation 35(B)(9)(a), 35(B)(9)(b) and 35(B)(9)(e), a change in circumstances may, among other things, be “*the fact that the tariff rate quota, or any part of the quota, has been exhausted*”, “*a change in demand for the relevant goods*”, and “*the impact of the tariff rate quota on traditional trade flows*”.
9. As demonstrated below, TSUK submits that there has been a significant change of circumstances – notably a change in demand for the relevant product – which requires that the form of safeguard measures applicable to PC 1 (HRFS) be varied. TSUK therefore calls on the TRA to undertake a review with respect to these safeguard measures and establish a licensing mechanism or additional quota allowing duty-free imports of HRFS if such imports are destined for downstream processing.

### **III. Market conditions have changed**

#### **1. Background information**

10. TSUK is the only producer of HRFS in the UK market. TSUK also produces a wide range of other downstream steel products that span across 10 different product categories in the context of the safeguard measures (in addition to hot-rolled steel covered by product category 1):
  - Cold-rolled steel (product category 2);
  - Metallic coated steel (product category 4);
  - Organic coated steel (product category 5);
  - Packaging steel (product category 6); and
  - Tubular steel products (product categories 20, 21, 25A, 25B and 26)
11. All of the above-mentioned products require HRFS as the initial input material. TSUK’s current production output of HRFS is around [non-confidential range: 3mt-4mt] per annum. TSUK sells approximately [non-confidential range: 400kt-600kt] of its output directly to the UK market, while the major part [non-confidential range: 60%-80% or 2mt-2.5mt] of HRFS is consumed internally for further processing into the above-mentioned downstream products. The latter are also supplied to the UK market satisfying the demand and requirements of a great number of local businesses in various sectors, including but not limited to Automotive, Domestic Appliances, Construction and Engineering.

12. As will be explained below in more detail, TSUK has been experiencing severe issues with the performance of its upstream assets which have disrupted – and are likely to continue to disrupt – TSUK’s HRFS production. While TSUK has already complemented its supply of HRFS substrate for downstream processing with HRFS imports from third countries, the company is likely to require a higher level of imports in the near future. Moreover, as TSUK has announced a plan to shift towards a more environmentally sustainable and viable business model, it is crucial for TSUK to have access to HRFS substrate to remain operationally viable in preparation for the transition period to proposed EAF-based steelmaking.

## 2. **The change in the market conditions and demand for HRFS**

### *(a) Recent developments that affected the UK market*

13. The state of the UK market for HRFS has been relatively stable after a number of significant changes took place in the period from 2015 to 2018.
14. *First*, in 2015, TSUK mothballed its hot strip mill in Llanwern, Newport with a total capacity of [non-confidential range: 2.5mt-3mt] million tonnes per annum. This was due to “difficulties brought by surging Chinese imports in Europe as well as adverse currency movements”. As a result, by 2016, TSUK’s capacity for HRFS decreased from [non-confidential range: 6mt-7mt] per annum to the current level of around [non-confidential range: 3mt-4mt] per annum. This change in TSUK’s HRFS production capacity has had a fundamental impact on TSUK and the state of the UK HRFS market in general. Most notably, TSUK’s supply of HRFS to the domestic market decreased to an average of approximately [non-confidential range: 400kt-600kt] per annum. This had created a new market reality in which UK importers, traders, and users of HRFS adapted to a new level of domestic supply and demand for imports from third countries.
15. *Second*, in 2017, the EU imposed a number of anti-dumping and anti-subsidy measures with respect to HRFS, namely: (i) anti-dumping and anti-subsidy measures on imports of HRFS from China; and (ii) anti-dumping measures on imports of HRFS from Ukraine, Brazil, Iran and Russia.
16. These measures applied directly in the UK before the UK’s withdrawal from the EU and were transitioned as UK trade defence measures after the withdrawal.
17. *Third*, in 2018, the EU imposed safeguard measures in the form of tariff-rate quotas (“TRQs”) on a number of steel products, including HRFS. Similarly, the safeguard measures were transitioned by the UK after the withdrawal from the EU.
18. While a number of other factors continued to influence the UK HRFS market (e.g., raw material price hikes, contraction of UK demand, the Covid-19 pandemic, import volumes and prices of other exporting producers, etc.), these three developments have had the most significant impact on the current state of the UK HRFS market.

### *(b) TSUK’s stability issues and the increased demand for HRFS substrate*

19. Over the last year, TSUK has been severely impacted by stability issues on its Blast Furnaces causing a significant volume loss for liquid steel, which has had a knock-on

effect on TSUK's hot-rolling mill due to insufficient supply of slab for processing. In November alone, TSUK's production output of liquid steel and HRFS was [Confidential – information related to TSUK's operational losses. This information is confidential by nature and is not susceptible of summary.] and [Confidential – information related to TSUK's operational losses. This information is confidential by nature and is not susceptible of summary.] below target, respectively. The year-to-date data as of end November shows a striking [Confidential – information related to TSUK's operational losses. This information is confidential by nature and is not susceptible of summary.] deviation from the production plan for liquid steel and [Confidential – information related to TSUK's operational losses. This information is confidential by nature and is not susceptible of summary.] for HRFS.

20. [Non-confidential summary: Insufficient supply of steel substrate has already negatively impacted TSUK's downstream assets. This has had a significant negative impact on TSUK's financial performance, aggravated by the impact of fixed costs which are traditionally high in the steel industry.]
21. In order to remedy the above-described situation, TSUK has imported HRFS from several sources in third countries over the last year. TSUK's imports were limited in volume and only partly helped to compensate for the insufficient operating stock of slab and HRFS. Given that TSUK does not expect any immediate improvements in the performance of its steelmaking assets, it is clear that in order to secure operational stability of the downstream production facilities, TSUK may have to import a more significant volume of HRFS from third countries. TSUK expects that such imports may exceed the current quota levels for HRFS, especially as far as the 'Other countries' quota is concerned.
22. While TSUK could continue to import HRFS once the quotas have been fully consumed, the 25% safeguard duty applicable to such imports would make them unfeasible for processing purposes from the cost perspective. This would have a dramatic impact on TSUK, and could lead to suspension of operations and closures of processing facilities across the UK, thereby impacting users of downstream processed products. This may apply to TSUK's own facilities that currently employ more than 8,000 people in the UK, with this number increasing two-fold if contractors and local jobs supported by TSUK are factored in. While it is difficult to estimate the impact on the UK users of TSUK's downstream products, it is fair to assume that it may have severe consequences in terms of domestic production of certain goods and employment. Therefore, it is crucial to enable TSUK to access duty-free imports of HRFS for downstream processing, separately from and in addition to the current TRQ for HRFS. TSUK notes that it would also be in the interest of other UK importers of HRFS.
23. In view of the above, it is clear that the on-going disruption of TSUK's production of liquid steel and HRFS makes it necessary to introduce a licensing mechanism or an additional quota for the safeguard measures with respect to the product concerned.

**(c) *TSUK requires operational stability to transition to the proposed EAF-based steelmaking***

24. TSUK notes that the continued availability of HRFS substrate and the stability of its downstream assets is necessary for TSUK's transition to an environmentally

sustainable green steel production, which is required for the company to remain a responsible and competitive UK steel manufacturer. Currently, the UK produces 7 million tonnes of steel each year, giving rise to around 11.6 million tonnes of CO<sub>2</sub> (with a significant part of such emissions occurring at TSUK's blast furnace in Port Talbot). It is impossible to achieve a meaningful reduction in the level of emissions without transitioning to the proposed EAF-based steelmaking, and such transition will be impossible if TSUK is not able to operate its downstream production facilities during the current preparation stage and, after that, during the transition period.

25. Such a transition is also required in the wider context of the UK's net zero initiatives, as steel will be a critical material to support the UK's transition to net zero, through its use in wind turbines, electric vehicles, infrastructure, and the energy sector, making decarbonisation of steelmaking essential to the overall decarbonisation of UK industry. Moreover, reducing emissions would be in line with the UK's Industrial Decarbonisation Strategy which sets out indicative targets of reduction of two thirds by 2035 and 90% by 2050.<sup>3</sup>
26. TSUK's commitment to transition towards a more environmentally sustainable business model and the UK Government's support for such plans have been confirmed in UK Government's press release of 15 September 2023, in which the UK Government and TSUK have agreed on a proposed joint investment package, which is expected to "*secure a sustainable future for steelmaking in Port Talbot, modernise production of greener steel and protect skilled jobs, subject to consultation and regulatory approvals.*"<sup>4</sup> As noted in the press release:

*Tata Steel is expected to invest £1.25 billion, including a UK Government grant worth up to £500 million – one of the largest government support packages in history – in a new Electric Arc Furnace for greener steel production at Port Talbot, which is currently the UK's largest single carbon emitter.*

*This is expected to replace the existing coal-powered blast furnaces – which are nearing the end of their effective life – and reduce the UK's entire carbon emissions by around 1.5 percent as a result.*

27. Therefore, by securing its operational stability through external sourcing of HRFS substrate for further processing, TSUK will also ensure that it is in the position to undergo the above-described transition.

### **3. The effect of the change on UK producers and their ability to adjust**

#### **(i) Effect of the licensing mechanism/additional quota on TSUK and its adjustment**

28. As explained above, TSUK may have to import a significant volume of HRFS to sustain its downstream operations amid the continuous stability issues of its steelmaking assets. This will not be possible without a licensing mechanism or an additional quota allowing TSUK to carry out such imports duty-free and outside of the existing quota for PC 1, as the associated costs (i.e. the 25% duty applicable to

<sup>3</sup> See Industrial Decarbonisation Strategy ([publishing.service.gov.uk](https://publishing.service.gov.uk)).

<sup>4</sup> See UK Government Press Release here: [Welsh steel's future secured as UK Government and Tata Steel announce Port Talbot green transition proposal - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/press-releases/2023/09/15/welsh-steel-future-secured).

imports made in excess of the quota) will mean that downstream processing is not economically viable. In such circumstances, it may have a dramatic knock-on effect on TSUK's employment at its downstream production facilities (such as at Trostre, Llanwern, Corby and Hartlepool, as well as numerous distribution centres and steel service centres). It would also have a negative impact on UK steel users who currently rely on TSUK's downstream products.

29. By contrast, a licensing mechanism or an additional quota that would enable duty-free imports of HRFS into the UK – separately from and in addition to the current quota for HRFS – would contribute to the stability of TSUK's downstream assets and will facilitate TSUK's on-going adjustment to the existing market conditions. Indeed, TSUK's transition to proposed EAF-based steelmaking and the associated significant change in circumstances must be viewed in the context of TSUK's adjustment plan and the company's objective to shift to environmentally sustainable and economically viable business model. Such transition and adjustment can only be achieved if TSUK is able to operate its downstream assets, which requires substantial imports of HRFS to feed TSUK's downstream operations.
30. Importantly, the scope of this request focuses on HRFS as a substrate used for further processing into downstream products. Therefore, imports of HRFS are necessary for TSUK to continue and facilitate adjustment not just for PC 1, but for all products manufactured by TSUK, as they require HRFS as the main input.

**(ii) Liberty Steel's mothballed production likely not to restart**

31. Although another UK steel producer, Liberty Steel, technically has a facility at which HRFS can be manufactured, this facility has been mothballed without any specific plans to resume production.<sup>5</sup> Therefore, TSUK could not rely on supply from Liberty Steel in order to complement TSUK's supply for its downstream operations.
32. Liberty Steel's plans to mothball its HRFS production were announced as early as the beginning of 2023 when the company's plans to shut down its production line was reported by the press. By way of example, a MetalMiner press report "Liberty Steel UK Cuts its Steel Production"<sup>6</sup> dated 23 January 2023 noted that:

*LSUK will also mothball hot rolled coil producer Liberty Steel Newport in south Wales, turning it into a sales and distribution hub. That site can roll hot rolled coil in 980-1,540mm widths and in 1.5-12.5mm gauges. These tend to supply the construction, automotive pipe and tube, yellow goods, materials handling, and power sectors.*

33. Another press report by the Guardian dated 12 January 2023 also confirmed Liberty Steel's plans to shut down capacity.<sup>7</sup>

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<sup>5</sup> See [Hundreds of jobs at risk as Liberty Steel mothballs manufacturing sites in Wales - Wales Online](#); [Liberty Steel UK to idle sites, cut jobs | Argus Media](#).

<sup>6</sup> See [Steel Production Cut at Liberty Steel - MetalMiner \(agmetalminer.com\)](#).

<sup>7</sup> See [Liberty Steel plans to cut 440 jobs in UK and reduce production | Sanjeev Gupta | The Guardian](#).

34. It must be also noted that Liberty Steel is unlikely to start producing HRFS in the light of the above-described change, as the key reasons for mothballing their HRFS facility will remain in place.
35. Moreover, Liberty's range of HRFS products is limited in terms of grades and physical characteristics, and would not necessarily match TSUK's products (or the products that TSUK may have to import). For example, according to Liberty Steel's own information, their HRFS range is limited to the following characteristics: widths between 980mm & 1540mm in a combination of thicknesses from 1.5mm to 12.5mm.<sup>8</sup> The widths that Liberty Steel could offer would fail to meet TSUK's requirements for several downstream products, in that these widths are:
- not sufficiently narrow for TSUK's Corby facility that manufactures tubes and the Trostre facility where TSUK manufactures packaging steel products, some of which require HRFS with width of less than 980mm;
  - not sufficiently wide for TSUK's production of automotive steel products that are manufactured in Llanwern;
  - not wide enough to double width roll it and cut in half.
36. Lastly, it must be noted that no injury can be caused to Liberty Steel as a result of TSUK's imports of HRFS for further processing, as Liberty is not producing HRFS and is very unlikely to restart production.

#### **IV. Option 1: a licensing mechanism**

37. In order to enable TSUK to access the required quantity of HRFS imports for its downstream operations, and to avoid disruption to users of those downstream products which rely on TSUK, TSUK would propose as its primary solution that the TRA vary the safeguard measure to introduce a licensing mechanism. Given that the significant change in circumstances is limited to production and imports of HRFS and is not relevant to any other product categories, it is important the mechanism is also limited and tailored to imports of PC 1.
38. As explained above, TSUK may require significant HRFS imports in order to address the ongoing stability issues and remain operationally viable during the transition period to proposed EAF-based steelmaking. In these circumstances, TSUK wishes to outline two possible options for the practical implementation of the licensing mechanism:
1. a blanket license issued to TSUK for an unlimited quantity of HRFS in a given period. The license could be based on a defined timeframe (e.g., calendar year or quarter) and extended or re-issued as necessary.
  2. a shipment-specific license issued to TSUK on an individual basis for each shipment of HRFS.

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<sup>8</sup> See [LIBERTY STEEL NEWPORT | LinkedIn](#).

39. In both cases, the license would be conditioned on TSUK certifying that the HRFS in question was for use in downstream processing. TSUK would also submit ex post quarterly reports showing the volume of HRFS imported using the license was consistent with TSUK's downstream processing output, taking account of stock movements.
40. Either of the above-mentioned options would enable TSUK to import the required quantity of HRFS duty-free and would help to avoid competition between TSUK and other UK importers of PC 1 for access to the quota. As a result, the TRA would not only facilitate TSUK's adjustment and make it possible to maintain downstream operations, but would also provide more clarity and make planning easier for a number of other UK companies involved in the importation of HRFS to the UK.

## V. Option 2: an additional quota for HRFS used to make downstream products

41. As a secondary alternative, TSUK would propose that the TRA make available a specific quota for PC 1 (HRFS) that is used to make downstream products that are already covered by the safeguard measure. This quota would be separate to – and come in addition to – the existing TRQ for PC 1. In this case, the existing TRQ for PC 1 should remain unchanged in terms of its total volume and volume allocation per country.
42. As the TRA is aware, there is already an established precedent for dividing specific product categories in this way, based on the downstream use of the imported product. By way of an example, TSUK would invite the TRA to consider the European Commission's findings in the original EU safeguard investigation which led to the imposition of safeguard measures on imports of steel into the EU;<sup>9</sup> measures which were transitioned into the UK's trade remedies system following the UK's withdrawal from the EU.<sup>10</sup>
43. In that investigation, the European Commission split PC 4 "Metallic Coated Sheets" into one of two sub-categories ("4A" and "4B") depending on the downstream use of the products. While imports under PC 4A covered imports of "generic" metal coated products, PC 4B was reserved for metal coated sheets (also known as "corrosion resistant sheets"), to be used in downstream manufacturing by automotive producers. The Commission justified its decision as follows:

*“Category 4 – corrosion resistant sheets – include both products produced specifically for the automotive industry, based on precise product specifications and subject to long term contracts, and other standard products. For the former products, suppliers need first to obtain a certification necessary to supply the industry over a long time period, based on a just-in-time system. For this product category, the Commission acknowledges that there is a risk that some specific product types are crowded out from the free of duty quota by standard*

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<sup>9</sup> See Commission Implementing Regulation (EU) 2019/159 of 31 January 2019 imposing definitive safeguard measures against imports of certain steel products C/2019/709, *OJL 31, 1.2.2019, p. 27.*

<sup>10</sup> See NOTICE OF INITIATION TRANSITION REVIEW No. TF0006 Safeguard measures on certain steel products Initiation of a Transition Review of Safeguard Measures of 1 October 2022 ([Notice of Initiation TF0006\\_20201001142841.pdf \(trade-remedies-doc-storage-prod-eu-west-2.s3.amazonaws.com\)](https://www.amazonaws.com/TF0006_20201001142841.pdf)).

*products that can be massively supplied and stockpiled at the beginning of the year.*"<sup>11</sup>

44. As noted, this TRQ allocation based on the further use of the imported product downstream was later adopted by the TRA when the safeguard measures were transitioned into the UK system. In TSUK's view, the creation of additional sub-categories covering imports based on their use is essentially similar to what TSUK is requesting now, namely for the TRA to split PC 1 (HRFS), into one sub-category covering "generic" HRFS imports, and a second one covering imports of HRFS products to be used by TSUK – and potentially other users – in the production of downstream products, which require HRFS as the initial input material. TSUK notes that such downstream products are also covered by the safeguard measures. However, no change to TRQ volumes is needed for the downstream products themselves. This additional TRQ volume for PC 1 (HRFS) would ensure there will be sufficient HRFS supply for downstream production in the UK and ensure that there are sufficient volumes of downstream products being produced in the UK to supply users and to preserve normal market conditions.
45. As TSUK already explained, the introduction of such an additional TRQ will not have any negative effects on the market (as it will preserve traditional trade flows) but will merely make up for TSUK's lost production volumes due to the stability issues outlined above and during the period of adaptation to an environmentally friendly production. Introducing such an additional sub-category will actually help preserve market conditions in terms of market supply, as they were at the time the safeguard measures were put in place and will help save jobs. Failure to introduce such an additional TRQ to cover TSUK's needs for input material on the other hand risks causing serious disruptions and job losses in downstream markets.
46. The additional quota should be made conditional on the applicant certifying that it has the facilities to produce downstream products in the UK which are themselves covered by the safeguard measures. It is crucial to ensure that the additional quota can be used only for imports of HRFS which is further processed into another product category in the context of the safeguard measures. For instance, if the importer cold-reduces the imported HRFS material, the latter would fall under product category 2, meaning that it would undergo a substantial transformation. This would be necessary to avoid situations whereby an importer uses the additional quota and carries out minimal processing operations (such as simply slitting the imported HRFS or cutting it to length) without transforming the imported material into another downstream product. This should not be an overly burdensome task for the TRA to monitor as it already has the relevant data from the Transition Review. The applicants for this quota – notably TSUK – would be required to submit ex post quarterly reports showing the volume of HRFS imported under the special quota was consistent with their downstream processing output, taking account of stock movements.
47. Finally, TSUK notes that any changes to the existing TRQ for PC 1 would be unwarranted. The above-described additional quota will allow TSUK and, if the conditions for downstream processing are met, any other UK producer to import HRFS in the required volume without utilising the existing TRQ. As a result, other

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<sup>11</sup> See Commission Implementing Regulation (EU) 2019/159 of 31 January 2019 imposing definitive safeguard measures against imports of certain steel products *C/2019/709, OJL 31, 1.2.2019, p. 27, para 156.*

UK importers are likely to have better access to the quota volume available under the existing TRQ. Therefore, there is indeed no reason to change the structure of the existing TRQ for imports of HRFS which will continue to function separately from the additional quota.

## **VI. Conclusion**

48. TSUK submits that its ongoing operational stability issues have a severe negative impact on its production output of both HRFS and a range of downstream steel products, making it necessary to complement its substrate mix with imports of HRFS from third countries.
49. TSUK therefore calls on the TRA to vary the safeguard measure to introduce a licensing mechanism or an additional quota with respect to imports of PC 1 (HRFS) whereby HRFS could be imported duty-free for further processing into downstream products.