

UK Steel Safeguards Meeting – 24.02.2021

UK Steel

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Agenda

1. Increase in Imports
2. Likelihood of increased imports
3. Likelihood of injury
4. Economic Interest Test
5. Other issues for consideration

Considering whether goods belonging to each specified category of steel products were imported into the UK in increased quantities

Product concerned = single group not 19 separate categories

Interrelation and strong competition between products

Not the equivalent of 19 AD/CVD investigations

'UK imports' in single market not a meaningful concept

Global analysis supplemented by product family analysis

Non-EU imports v Total (EU + Non-EU) imports

Increased imports 2013-17

Global/Product-Family

	UK Trade Info		ISSB NonEU+EU
Category	Non-EU	NonEU+EU	NonEU+EU
Global	56%	18%	25%
Flat	81%	28%	31%
Long	20%	2%	10%
Tube	38%	20%	46%

Increased Imports 2013-17

In the alternative: By Category

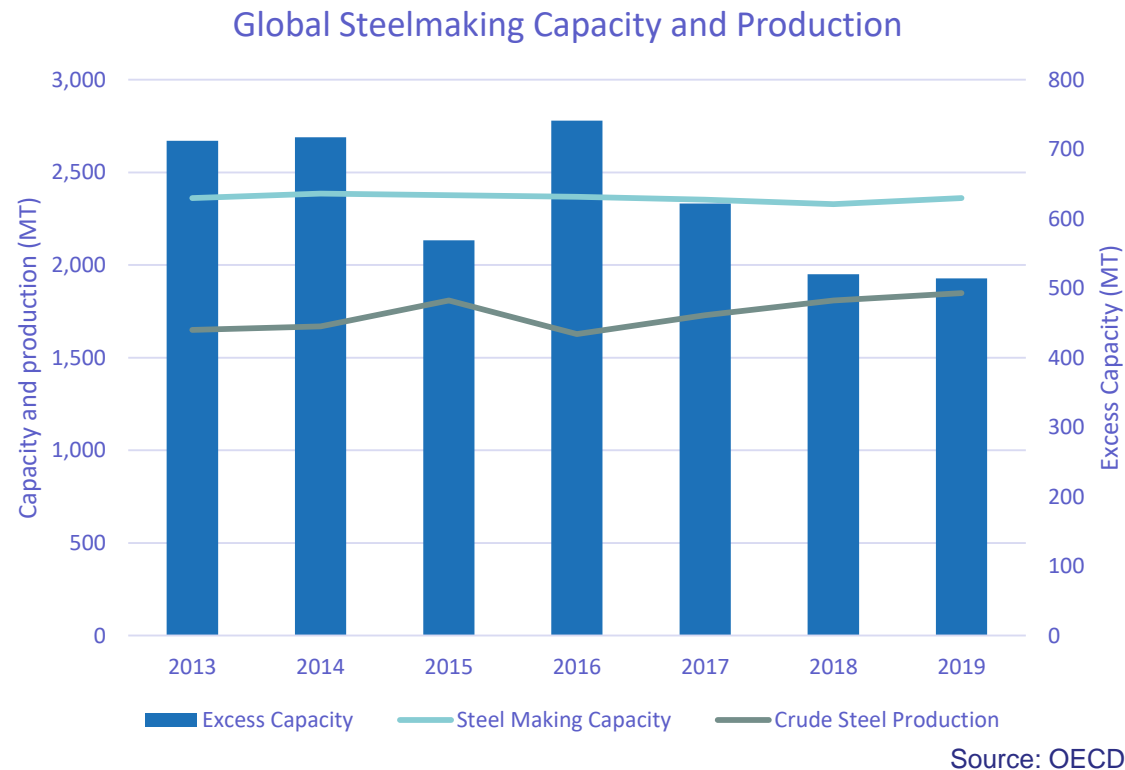
	UK Trade Info		ISSB NonEU+EU
Category	Non-EU	NonEU+EU	NonEU+EU
1	8%	5%	9%
2	27%	21%	25%
4	200%	45%	49%
5	3173%	106%	116%
6	55%	-2%	0%
7	17%	11%	14%
12	13%	-6%	11%
13	38%	22%	24%
14	-7%	-17%	-11%
15	140%	45%	27%
16	-41%	-4%	4%
17	14%	0%	5%
19	229%	11%	2%
20	-3%	7%	12%
21	35%	14%	18%
25A	-89%	-72%	-63%
25B	354%	109%	369%
26	111%	40%	44%
27	-20%	-44%	-36%
28	33%	26%	47%

Increased Imports 2013–17

In the alternative – By category relative to production

	UK Trade Info		ISSB NonEU+EU
Category	Non-EU	NonEU+EU	NonEU+EU
6		2%	
12		6%	
14	-19%	-18%	-22%
16	-39%	-1%	
17		-35%	
20	187%		
25A	92%	409%	580%
27			

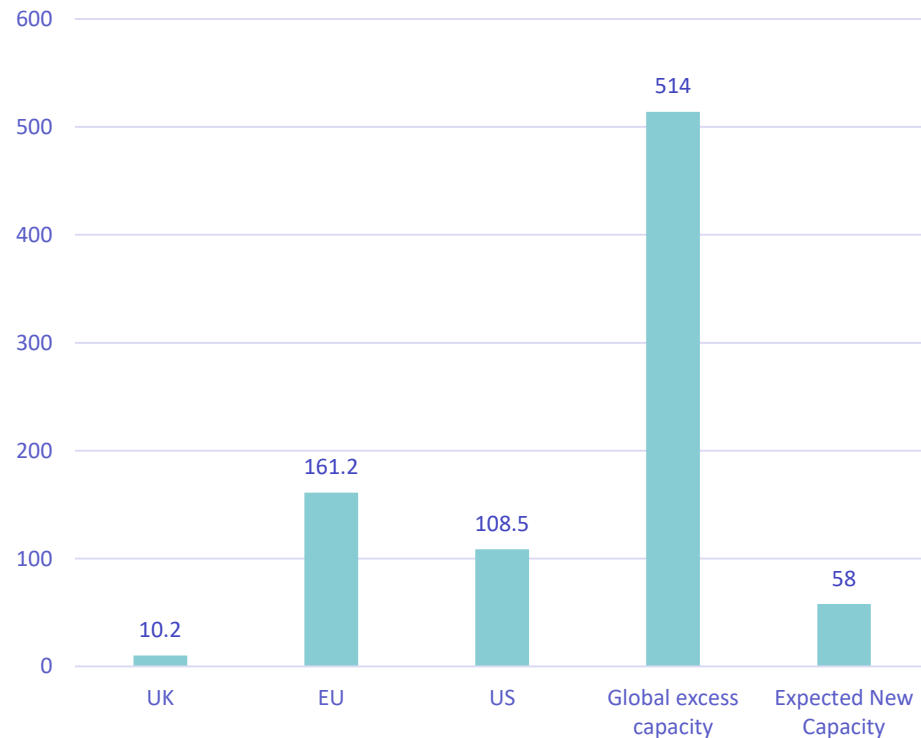
Global Market Conditions: Overcapacity



- Global overcapacity of steel remains a major issue, steel production steadily increasing since 2015 and capacity increasing again in 2019
- 2016 saw peak in global capacity at 741 MT – which led to major crisis in steel sector and closing of Teesside Steel Plant and loss of 2,000 jobs
- Capacity once again growing, pointing to worsening of situation. OECD report detailing 58 MT of new capacity in period up to 2022, with further 20 MT in planning stages
- Safeguards needed as safety valve against this

Global excess capacity dwarfs UK market

Steel Demand vs global excess capacity (2019)



Source: Worldsteel Association, OECD

- Global overcapacity stands at estimated 514MT in 2019.
- Just 2% of global excess production capacity would be enough to meet the entirety of UK demand
- Presence of 232 tariffs & EU safeguards would divert trade flows to the UK in the absence of UK measures
- The UK market will very quickly become overwhelmed compared to much larger EU and US markets of 161MT and 108MT respectively

Very few major open steel markets

Market	Market Size	Import Restrictions	Import Penetration %
China	907.5	MFN Tariffs	2%
EU	158.7	Safeguards	25%
India	101.5	MFN Tariffs	9%
US	97.7	S232	28%
Japan	63.3	Open, but culture of low imports	10%
South Korea	53.2	Relatively Open	26%
Russia	43.5	MFN Tariffs	16%
Turkey	26.1	MFN Tariffs	48%
Mexico	24.2	MFN Tariffs	54%
Brazil	20.6	MFN Tariffs	11%
UK	10.2	Possible Safeguards	70%

- **This review must operate on the basis that EU and US measures will remain in place...**
- Of top ten largest markets, only two don't have some form of tariffs/quotas – Japan and S Korea
- Very little flexibility for additional absorption of global exports. Removal of UK safeguards would make UK one of few truly open markets
- UK already stands at 70% import penetration, lack of safeguards would massively exacerbate the situation

Section 232 and EU Steel Safeguards

- We cannot know for certain but it looking increasingly likely that US Section 232 tariffs and EU Steel Safegaurds are here to stay
- President Joe Biden has committed to a full review of S232 measures, which is likely to stretch beyond Q2 of 2021. Recent comments from presumptive Commerce Secretary Raimondo indicate desire to retain measures, whilst balancing interests of steel consumers.
- EU Commission is set to formally launch its safeguards review in next few weeks – pressure has come from all major MS to continue measures: Germany, France, Italy, Spain, Poland and seven others
- It is clear the UK's review must be conducted on assumption that EU and US measures will remain in place. This is the likely global market dynamic that we will face in July, the month after the possible expiry of UK measures

Quota utilisation – 2018/19 Safeguard

Cat No	Product Category	2019/19 Use of Quota	% of historical Imports	EU Quotas Exhausted?
1	Non Alloy and Other Alloy Hot Rolled Sheets and Strips	116%	122%	No
2	Non Alloy and Other Alloy Cold Rolled Sheets	91%	95%	Some
4	Metallic Coated Sheets	95%	100%	Some
5	Organic Coated Sheets	148%	155%	Some
6	Tin Mill products	46%	48%	Some
7	Non Alloy and Other Alloy Quarto Plates	126%	133%	Some
12	Non Alloy and Other Alloy Merchant Bars and Light	107%	112%	Some
13	Rebars	71%	75%	All
14	Stainless Bars and Light Sections	116%	122%	All
15	Stainless Wire Rod	98%	104%	Some
16	Non Alloy and Other Alloy Wire Rod	53%	56%	Some
17	Angles, Shapes and Sections of Iron or Non Alloy Steel	99%	104%	Some
19	Railway Material	151%	158%	Some
20	Gas pipes	83%	87%	Some
21	Hollow sections	99%	104%	Some
25	Large Welded Tubes	31%	33%	Some
26	Other Welded Pipes	82%	86%	Some
27	Non-Alloy and other alloy cold finished bars	91%	96%	Some
28	Non Alloy Wire	91%	90%	Some

- Import data since 2018 gives an imperfect idea of likely increases in imports in absence of measures
- Imports to UK obviously limited during this period, however....
- No overall cap on UK imports, and imports from EU were not restricted at all.
- Even with overall EU restrictions 9 out of 19 product categories saw imports above what the equivalent of UK quota levels and over half saw imports over and above historic levels
- Clear real risk that imports in most product categories would increase above historic levels if measures removed

Injury Analysis

Evidence of injury across all indicators

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Falling UK steel exports & domestic demand



Source: ISSB Trade Data

- Few open global markets, contributed to falling UK demand
- UK steel exports to the US have reduced from over 350,000 tonnes in 2017 to around 240,000 tonnes in 2019 - a decrease of 30%
- Low demand and slow recovery in the aftermath of COVID-19, Brexit
- Weakens ability of industry to absorb shocks such as an increase in imports, therefore increasing likelihood of serious injury

Increased vulnerability of UK industry

	UK Steel Demand (tonnes)
Q1 2019	3,096,613
Q1 2020	2,446,448
Q1 Demand reduction	-21%
Q2 2019	2,607,419
Q2 2020	1,797,998
Q2 Demand reduction	-31%
Q3 2019	2,636,929
Q3 2020	2,154,795
Q3 Demand reduction	-18%
Q1-Q3 2019	8,340,960
Q1-Q3 2020	6,409,554
Q1-Q3 Demand reduction	-23%

- COVID-19 caused a 23% drop in UK steel demand in Q1-3 2020
- Demand levels not expected to recover until as late as 2023
- Brexit has also severely damaged export opportunities and those of our UK customers – time is required to adjust to these new trading conditions

Economic Interest Analysis

Steel jobs critical for less advantaged areas of the UK

Local Authority	Avg of Median Wage Steel (£)	Avg of Median Wage Local Authority (£)	Steel Wage Higher Than Local Authority %	Steel Wage Ranking Within Local Authority	2019 English IMD Ranking (out of 317)
Carmarthenshire		23,274		Above 80th percentile	Assisted Area 'a'
City of Cardiff		25,000		Above 50th percentile	
Corby		25,874		Above 75th percentile	70
Flintshire		26,757		Above 75th percentile	
Hartlepool Borough		20,000		NA	25
Neath Port Talbot		23,543		Above 75th percentile	Assisted Area 'a'
North Lanarkshire		26,519		Above 60th percentile	
North Lincolnshire		25,175		Above 80th percentile	120
Redcar & Cleveland		20,741		Above 75th percentile	62
Rotherham Met.		22,183		Above 70th percentile	50

Source: Company data, ONS - Earnings and hours worked, place of work by local authority, UK Steel analysis

Economic Interest Analysis

Steel wages consistently higher across product categories

Continuation of UK Safeguards would not damage consumers

	UK Steel Demand Actual and Estimated (million tonnes)
2015	10.49
2016	10.88
2017	11.03
2018	10.82
2019	10.24
2020	8.19
2021	9.01

- TRQs are set 11% higher than 2015-17 level with possible further liberalisation
- 2021 demand expected at 80-85% of historical levels
- TRQs therefore will allow imports to increase to 80-90% of demand compared with historical circa 60%.
- Furthermore, there is significant additional UK capacity ensuring there would be no supply shortage
- Tariffs are only likely to be applicable in scenarios in which, UK steel demand increases to unlikely levels, or UK steel consumers seek significantly increase imports
- Even if imports surged by 20% above 2018/19 levels and tariffs had to be paid – it would represent negligible costs increases for consumers.
- Safeguards would prevent the flooding of the UK market and prices collapsing to artificially low levels as a result of a distortion in global trade dynamics

Issues for consideration in review

Northern Ireland Quota Adjustment

- Imports into Northern Ireland are currently not allocated to the UK TRQs – and this looks set to be the long term situation.
- UK quotas are therefore oversized and must be adjusted to account for this

Developing Country Exemptions

- Certain major steel producers are exempt from elements of the safeguards due to 'developing country status'. Evidence suggests some seeking to take advantage of this, imports are increasing and undercutting UK supply. Essential TRID reassesses these exemptions based on 2020 data

EU/UK Exemption

- How is TRID considering possible UK/EU exemption within its review

Adjustment Plans

- Views sought from TRID on need for and scope of adjustment plans