

TF0006 – Steel Safeguards

UK Steel response to submissions on the public file

This paper responds to the following documents submitted to the TRID public file:

- Comments submitted by the British Independent Reinforcement Fabricators (“BIRFA”)
- Comments submitted by the Society of Motor Manufacturers and Traders Limited (“SMMT”)
- Comments submitted by Valbruna UK Limited (“Valbruna”)
- Comments submitted by Thyssenkrupp Materials UK Limited (“Thyssenkrupp”)
- Comments submitted by Duferco UK (“Duferco”)
- Comments submitted by POSCO Co. Ltd (“POSCO”)
- Comments submitted by Kromat Trading Limited (“Kromat”)
- Comments submitted by Stemcor Distribution Limited (“Stemcor”)
- Comments submitted by the Embassy of Brazil in London (“Brazilian Embassy”)
- Comments submitted by the Government of the Republic of Korea (“Korean Government”)
- Comments submitted by the Government of Indonesia (“Indonesian Government”)

1. Companies have to import due to insufficient UK capacity

Several submissions including those by BIRFA, SMMT, Valbruna, Thyssenkrupp, Kromat, Stemcor and Duferco claim that there is insufficient production capacity for certain products in the UK and therefore companies have no other option but to import a significant amount of their needs. This is used as an argument against safeguards as they would limit availability of supply. This line of reasoning ignores the fact that the safeguards have already been very much designed in recognition of the fact that the UK steel market relies on imports to meet demand and that historical levels of imports (plus additional volumes through liberalisation) can continue to enter the UK tariff free under the current measures.

UK Steel producers are not aiming at domestic self-sufficiency, or any sort of a ban or a restriction on imports. It is simply seeking adequate assurances that it can continue to operate without the threat of imports increasing excessively, as a result of a distorted global market where trade barriers in other key markets are not allowing for a level playing field.

Safeguards are not designed to reduce imports but only to prevent a surge in imports. Unlike other trade remedies measures such as anti-dumping duties, safeguards do not apply to all volumes imported. Instead, they allow for tariff-free trade at historical levels and only when these are exceeded does the 25% duty apply. Safeguard measures therefore do not disincentivise or penalise imports. The quotas are in fact designed to incorporate a yearly liberalisation and considering that demand is not expected to recover to 2019 levels until at least 2022, quotas would not be restricting supply based on the requirements of the UK market. If safeguard measures are extended for another 3 years, quotas could allow for imports at 120% of historical levels, therefore allowing for growth in demand most probably beyond what is likely to materialise. As noted and demonstrated in UK Steel submissions¹, the UK steel market has a relatively high import penetration (approx. 60% in) and the TRQs allow for this to continue, and indeed increase year on year. This is against a backdrop of expected reduced demand (compared to 2019) through 2021 and 2022.

Not only is the argument that safeguards reduce availability of supply theoretically flawed, but we now also have a full first quarter of data to evidence that safeguards are not curtailing supply. The first quarter of the UK’s own Safeguards has shown that quotas are not fully utilised and while importers are

¹ Submissions made on 11 December and 13 April

concerned over the theoretical possibility of having to pay tariffs, that is actually not reflecting the reality of the market. While some origins were exhausted, all product categories bar one had other origins open and available for tariff-free imports. Across all product categories, an average of 43% of quotas remained unused and available to carry over in the next quarter. While UK Steel recognises that the first quarter since Brexit may not be the most representative, the change in customs processes and challenges around logistics are arguably what mostly hindered trade flows rather than safeguards and tariffs.

Table – UK Safeguards Quota Utilisation Q1 2021 (as at 26 March 2021)

Product Category	Quota Size (tonnes)	Quota Used (tonnes)	Quota Used (%)
01 - HRC	216,765	127,832	59%
02 - CR	104,423	53,115	51%
04A - MCS	223,543	121,775	54%
04B - MCS	242,414	139,849	58%
05 - OCS	35,954	33,784	94%
06 - Tinsplate	40,451	9,755	24%
07 - Quarto Plates	83,859	53,816	64%
12 - Merchant Bars and Light Sections	67,907	51,058	75%
13 - Rebars	116,235	80,486	69%
14 - Stainless Bars and Light Sections	14,119	7,502	53%
15 - Stainless Wire Rod	371	283	76%
16 - Wire rod	67,985	23,648	35%
17 - Angles etc	163,735	70,388	43%
19 - Railway Material	1,761	1,353	77%
20 - Gas Pipes	25,678	16,264	63%
21- Hollow Sections	45,251	40,283	89%
25A - Large Welded Tubes - Large Projects	15,722	15,722	100%
25B - Large Welded Tubes	24,279	4,015	17%
26 - Other Welded Tubes	56,657	29,117	51%
27 - Cold Finished Bars	9,840	7,490	76%
28 – Non-Alloy Wire	34,605	19,068	55%

It is also important to note that even in a scenario in which TRQs were exhausted, this would neither be a demonstration of a lack of UK production capacity, nor a justification for the removal of safeguards. On the first point, the submissions from UK Steel (see submission dated 13 April) and UK steel producers show that significant additional production capacity is available domestically to meet increased demand across all products. On the second point, it must again be noted that the safeguard measures are there precisely to guard against rapid import surges against a backdrop of global overcapacity and the implementation of EU safeguards and US 232 measures. A filling up of a quota would be demonstration that imports of that product have increased by 11% compared to the 2015-2017 average.

2. Excluding certain product categories or tariff codes

Several submissions call for certain product categories or certain tariff codes to be excluded from the measures, or for the overall categorisation of tariff codes to be re-evaluated to better reflect the uses of products. Overall, UK Steel has called for product categories not to be assessed individually considering the interconnectivity of the steel production process and its economics. Having said that, UK Steel is not against tariff codes being excluded when a product or a like product is not supplied by UK producers. However, UK Steel would ask that TRID review any such propositions in consultation with the industry to ensure that indeed there is no UK production of a certain product or a like product and to fully appraise any unintended consequences of excluding any products.

TRID should also be mindful of potentially increased opportunities for circumvention of the quotas through a reduction in tariff codes covered by the measures. Already, HMRC is reporting incorrect use of the CHIEF override facility, resulting in potentially considerable volumes of imports not being appropriately registered against quotas. Imports coming into Northern Ireland via the Republic of Ireland or originating in the EU are also not being allocated against any quotas. As a whole, there are significant imports that have the potential to circumvent the UK quota system and so the fewer opportunities for this to occur, intentionally or not, the better. A measured approach to any potential exclusions of tariff codes, rather than vast numbers of products being excluded, would help minimize the risk of undermining implementation of the measure.

3. Reviewing the reference period for setting quota sizes

Submissions by Duferco and POSCO call for quota sizes to be set based on the most recent period rather than 2015-2017. As TRID is well aware, the period prior to the introduction of safeguards has been used because it is more reflective of 'normal' trade flows when measures were not in place either in the EU or the US. In addition, 2020 was a particularly unusual year. Using more recent years would in fact result in significantly lower quotas for several product categories. Using the three most recent years prior to 2020, so 2017-2019, would result in a 1.9% reduction in quota sizes as a whole, but some product categories would see their quotas shrink to as much as 64%, while others would see their quota sizes balloon. In the absence of a clear trend and with such great degree of disparity across product categories, there is unlikely to be a point of consensus across steel consuming groups or steel producers for the most suitable period on which to base new quota sizes. In the absence of a commonly agreed position, UK Steel submits that maintaining the status quo would be the most sensible choice.

4. Discontinuation of measures would result in little change to levels of UK imports

The submissions by Kromat, Duferco and Thyssenkrupp make claims that a removal of safeguard measures would have no impact and would not result in an increase in imports into the UK.

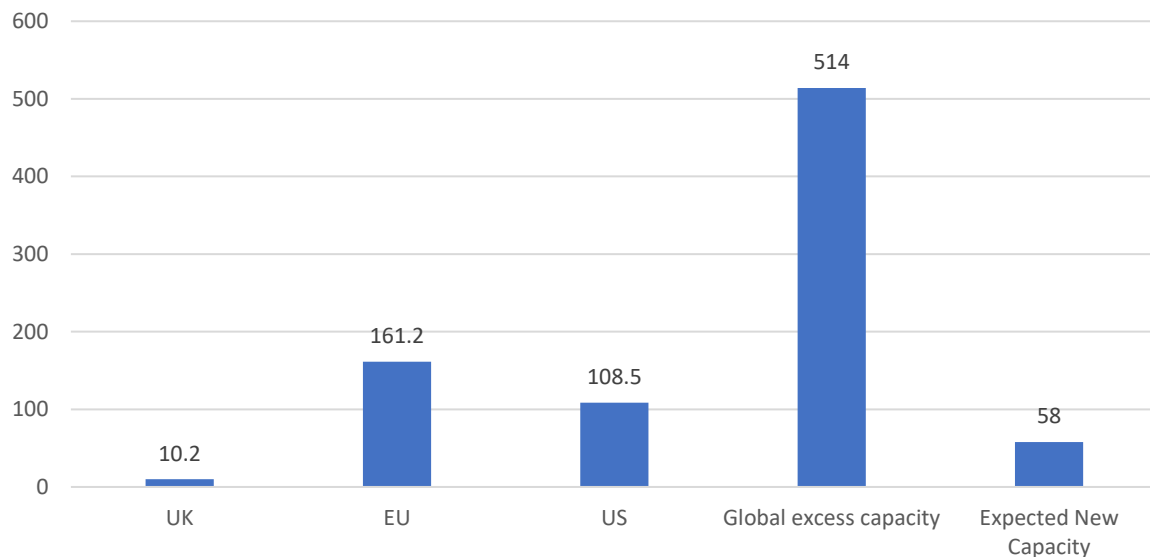
In response to section E2.2, Kromat claim that: "Quotas were introduced to protect EU producers from a flood of imports following the US Section 232 – to the best of our knowledge this flood never happened".

Similarly in Duferco's response to section E2.2 it is stated: "There has been no diversion of steel shipped to the EU that was originally destined for the USA. This did not happen."

Both of these statements are made as if the EU never had safeguard measures in place. In fact, neither submission provides any evidence around this and neither acknowledges that it is precisely because of those safeguards that the EU, and as part of it the UK, were shielded from diverted steel. Importantly, the comparison of the current situation (with measures in EU, UK and US) with the hypothetical of the UK removing its measures is not a fair one. The import trends in the UK are unlikely to remain unchanged in a scenario in which the UK unilaterally removes measures whilst the EU and US keep theirs in place.

Their hypothesis around discontinuation of UK measures having negligible impact on UK imports, while the EU and US have measures in place has not been put to the test and we are resolute in our view that the UK should not consider taking that gamble now, unilaterally removing measures. Global overcapacity in 2019 was estimated to be 514 million tonnes, dwarfing the 10.2 million tonne UK market. Just 2% of that excess production capacity would be enough to meet the entirety of UK demand and decimate the UK steel sector.

Chart - Steel Demand vs global excess capacity (2019)



Source: World Steel Association, OECD

In section F1.2 of the Kromat response it is also claimed that: “If UK producers have invested in modern, cost-effective plant then there should not be a threat of injury if measures were to be discontinued.” This statement is palpably false failing to recognise:

- The steel plants have, and continue to make, significant investments to improve efficiency (see responses from UK steel producers and adjustment plans)
- That injury is not just related to a domestic sector’s investments but also to wider global trends
- That such an argument rests on an assumption that the UK steel industry operates in a non-distorted, open global market, where it can compete on an equal basis. As demonstrated in previous submissions, this is evidently not the case at the current time. The UK’s position in a global context is even more vulnerable considering the relative size of its steel market.

Section E2.2 of the Stemcor submission states: “We do not expect big influx of exports to UK if safeguards were removed. If you look at current EU quotas, they are being heavily underutilised, so there is limited risk.” Once again, this argument is flawed in not recognising that:

- EU safeguards have acted to reduce trade diversions.
- That the TRQs are all considerably liberalised above historical levels of imports
- That the trade dynamic for the UK market would be fundamentally changed from the status quo if the UK unilaterally removed its measures whilst EU and US retained their own
- That EU and UK demand through 2020 was down by almost 20% therefore reducing use of TRQs

In addition, this statement contradicts Stemcor’s earlier claim that safeguards are restricting much needed imports – if that were the case quotas would not be underutilised.

Section G1.10 of the Stemcor submission states: “We understand that the EU has imposed quotas on UK exports of products to the EU. If the UK were to drop safeguard measures, we would expect the EU

to allow more free access for UK exports of these products to the EU.” This is entirely inaccurate. The UK Government has made attempts to agree a mutual exemption on respective safeguards but the EU has refused to even discuss the issue. The EU has made it clear that it will apply the safeguards measures to the UK in precisely the same way it does to other third countries, regardless of what the UK does. Whilst we do not entirely agree with the point, the EU is reportedly of the view that any form of exemption to its safeguards measures would be counter to WTO rules and therefore it will apply them on a completely non-preferential basis.

In the Thyssenkrupp submission it is also stated that: “The likelihood of trade diversion is unlikely due to the higher price of steel in USA”. However, higher prices in the US can surely not be seen as a permanent feature or a structural factor of the market. The presence of 232 tariffs will continue to act to deter exporters from sending material to the US, seeking instead alternative destinations for their product. It is only very recently that the US prices have rocketed to historic highs making the US market an attractive destination for exports even after having to pay the tariff. But 2020 has also seen US production at historic lows, which combined with lower imports as a result of 232 tariffs has led to prices increasing more than elsewhere. This combination of events cannot be counted on to ensure global excess material is absorbed in the US rather than an exposed UK market, neither can it be the basis for the UK’s trade regime, when the results of this excess material ending up in the UK could be catastrophic for the UK steel sector.

Finally, it is worth noting that Thyssenkrupp Material UK’s position, advocating for removal of UK steel safeguards, contrasts sharply with that of its European steel production arm, which has strongly supported the maintenance of EU safeguards and indeed the reduction in quotas sizes within them. It is disingenuous and entirely inconsistent for the same company to argue for the removal of UK measures at the same time as supporting the equivalent measures in the EU.

5. Increase in imports test

The submission by the Korean Government argues that the WTO agreement on safeguards stipulates that for safeguards to apply there must be an increase in imports which is “recent, sudden, sharp and significant” and that for the measure to be imposed there must be an actual surge of imports, not just the threat of imports increasing. The submission by the Brazilian Embassy makes a similar argument. Whilst this is undoubtedly true for the introduction of measures (and TRID is examining the 2013-2017 period for this purpose), there is no requirement to demonstrate a continued increase in imports during the period safeguards have been in place in order to justify an extension.

It is typical in extension reviews that there are no recent increases in imports, as indeed would be expected if an existing measure has been effective. Based on this interpretation, it would follow that no extension review would ever result in continuation of a measure. This is why both the WTO rules and UK legislation permit a review analysis to be based on likely recurrence of an increase in imports and injury if the measures are removed. As such the points made in this regard are not relevant to this transition review.

The increase in imports test is carried out for the original period of investigation and UK Steel has demonstrated in its principal submission that before the introduction of the EU steel safeguards, UK imports of steel increased by 25% between 2013 and 2017.

6. Supply will be inadequate based on the UK’s increased expected needs for infrastructure projects

Submissions by Thyssenkrupp, Kromat, Duferco and POSCO point to increased expected steel supply needs in the UK as a result of projects such as HS2 and investment in renewable energy infrastructure. Duferco specifically makes reference to a forecast of 2 million tonnes of steel required for the construction of HS2, 1.5million tonnes of which is estimated to be rebar. This, in addition to normal UK market annual consumption of approximately 850,000 tonnes of rebar would point to inadequate supply

for the product, according to Duferco. The figures quoted for HS2 are in line with UK Steel pipeline estimates. However, what the Duferco submission fails to specify is that this is the estimated steel requirement for HS2 over a period of 13 years. Of this total, 1.3 million tonnes are estimated to be consumed over 2020-2027 for Phase 1 of the project, with another 650,000 tonnes to be consumed from 2027-2033. This suggests an annual requirement of around 185,000 tonnes for the next 7 years or 46,000 tonnes per quarter. Moreover, it is wrong to claim that the HS2 requirements are all in addition to normal requirements. Every single year public infrastructure projects will have significant steel requirements, and whilst the HS2 does represent a particular big project, historical demand figures for steel products will already take into account a significant requirement for public projects. Additional it should again be noted that liberalisation of measures (currently 11% above historical import levels) provide additional flexibility.

It is not clear what Duferco's stated UK demand figure for rebar at 850,000 tonnes includes, as there may be broader or more narrow definitions of which products comprise the UK rebar market. For example, segments of wire rod production are sometimes calculated into rebar figures based on their end use. However, based on this investigation's definition, rebar comprises of tariff codes 7214 20 00 and 7214 99 10 which puts the UK demand figure at around 720,000 tonnes based on ISSB data. This is important in terms of comparing like for like when assessing the size of the quota versus the size of UK demand. This would correspond to 180,000 tonnes per quarter to be met through domestic supply and imports.

In the first quarter 2021, the rebar quota (Cat 13) amounted to 116,235 tonnes, of which 70% was consumed (80,500 tonnes). In the UK, rebar is mainly produced by Celsa, with a nominal capacity of [CONFIDENTIAL] tonnes per year for rebar, but over 2013-2019 it has had an average capacity utilisation rate of [CONFIDENTIAL] % (TRID will have this information from Celsa's submission to the safeguards case). This means there could be an additional [CONFIDENTIAL] tonnes per quarter that could be produced domestically if the demand was there. For major public infrastructure projects in particular, there is an opportunity for the UK to maximize the economic, social and environmental value of public procurement and there is a lot of work being done by the Government and the sector to improve transparency and publish procurement pipelines so that the domestic producers can plan ahead for bulk requirements.

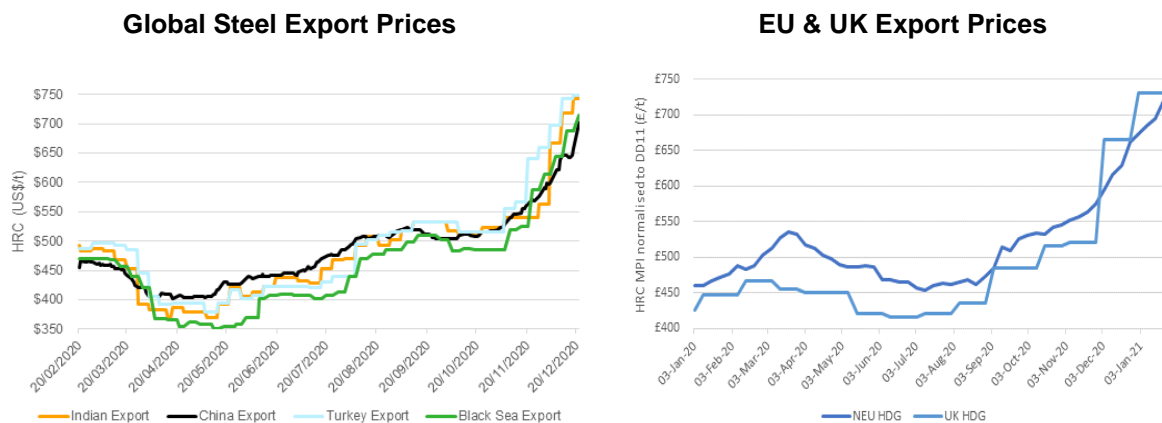
Major infrastructure projects aside and the opportunities for greater UK production, overall, the demand outlook for the next few years is subdued, meaning that import requirements should be well within quotas for most products. Even more so, considering that safeguards are designed to incorporate a liberalisation of quotas every year. If safeguard measures are extended for another 3 years, quotas could allow for imports at 120% of historical levels, therefore allowing for growth in demand probably beyond what is likely to materialise. The first quarter of 2021 showed exceptionally strong demand, but this to a great extent reflected catch up demand from a slow 2020 and is not expected to last. Forecasts point to the backend of 2022 before demand recovers to 2019 levels. With that in mind, and with the UK's ability to increase supply domestically even if demand levels exceeded expectations, there should be no concerns about the supply of major infrastructure projects.

7. Prices increased when safeguards were introduced

Steel end-users have recently been faced with price hikes for steel products and these have sometimes mistakenly been attributed to steel safeguards. Several submissions including Duferco and SMMT make points to this effect. However, rising steel prices has been a global phenomenon in recent months, and have nothing to do with safeguards. Most obviously, EU safeguards have been in place since July 2018, and the price increases started to emerge in mid-2020.

Instead, the price increases have been driven primarily by strong demand for steel in China which has grown considerably this year driving up the cost of raw materials. China became a net-importer of steel for the first time in 11 years over June-September last year and considering the relative size of the Chinese market, such a shift is enough to alter global balances.

High raw material prices, combined with the effect of COVID-19 on European supply has also seen regional fundamentals tighten. This was the result of demand recovering more quickly than expected following COVID-19 restrictions while producers have been unable to react quickly enough to the change in demand following previous production cutbacks. While some of the regional supply and demand balances are likely to recalibrate in the next few months, the global dynamics are likely to remain unchanged and continue to exert upward pressure on prices. It is therefore clear that high steel prices are not the result of safeguards but these measures are essential for the survival of the domestic UK steel industry.



High prices and short-term supply challenges have been reported not just in the steel sector but for an array of construction materials which are not subject to safeguards. Again, this demonstrates that there is no link between safeguards and tight market fundamentals, which have been accentuated by the unexpectedly strong Q1 demand from the construction sector and suppliers not having enough time to react. As already mentioned in point 1 of this document, most UK import quotas were underutilised, pointing to Brexit and COVID related challenges impacting customs, logistics, lead times and therefore making it more difficult to secure supply rather than because of full quotas and tariffs having to be paid. Added to that the global pricing environment, it should be obvious that in the current circumstance UK steel prices would be going up regardless of safeguards.

Finally, some comments point to higher prices as an indicator that the steel sector has not suffered injury. Other than the fact that high prices have only been a phenomenon of the last few months, it should be reiterated that high raw material prices drove much of the steel price increase, therefore not translating into higher production margins.

8. Price, quantity and quality of UK steel supply

SMMT claim that UK steel is not competitive and not produced in sufficient quantity and quality. The Indonesian Government submission also makes the point that injury to the UK sector is due to lack of competitiveness rather than as a result of increased imports.

On the point of competitiveness, while the UK does not have the most competitive cost base (for example higher energy costs, higher labour costs, higher environmental compliance costs), it certainly competes in a global market and exports around 45% of its production. That would not be possible if it did not offer competitive pricing. Having said that, it is not fair to assess the competitiveness of the UK steel sector when exports to its biggest trading partner are capped and it faces trade defence measures

in its second largest exports market and elsewhere. Considering the absence of an open trading landscape, competitiveness is relative and it is here where the UK's trade defence policy becomes critical to level the playing field.

With regards to availability of UK supply, UK Steel's additional submission of April 13 presents evidence on spare capacity in the UK and TRID will also have received this information from UK producers directly. While this will differ from one category to another, overall the UK has more than 30% unused steelmaking capacity, a figure which is even higher for products like metallic coated sheets used in car manufacture (for data please see Annex 1, Tab 14 of UK Steel April submission). As mentioned in point 2 of this response, UK Steel is not against reviewing the coverage of the measures when it comes to certain grades not produced by the domestic market as long as this is done in close consultation with the UK steel sector. And again as already mentioned, safeguards are designed to accommodate a balance of interests between the producing and consuming sectors, so that in effect very few consumers will actually end up paying tariffs since imports remain tariff-free at liberalised historical levels. Even in the few instances that tariffs end up being paid, the difference to the overall cost of the end-product will likely be marginal (see UK Steel April submission for examples). UK Steel understands the concerns of UK steel consumers but insists that any potential adverse consequences are likely to be of limited material effect, in contrast to devastating consequences for the UK steel sector of a unilateral lifting of measures by the UK alone.