

26th May 2021

British Steel response to TRID UK Safeguards recommendation

British Steel is very disappointed with the initial recommendations published by TRID on 19th May 2021, and we request they reconsider their view to propose the safeguard measures are extended for all product categories.

British Steel's view is that the current proposal on safeguard measures will cause significant economic damage to British Steel for the reasons detailed below.

The basis on which TRID should reconsider is set out below, from a British Steel perspective this response will refer to products manufactured by British Steel, but we also support the sector response submitted by UK Steel.

1. Data reference to review import levels

The increase in import levels as reported by TRID is based on incomplete HMRC data. More accurate and comprehensive data is available from ISSB (International Steel Statistics Bureau) and this is the data used by all UK steel producers to assess market demand and import levels.

ISSB data shows a higher increase in import volumes during the relevant period when compared to the HMRC data, this is significant to TRID and to the initial recommendation. These higher levels of imports are coming into the UK, the market is accustomed to these levels and therefore this should be the overriding factor to amend the initial recommendation.

Summary of why HMRC data differs to ISSB import data

The difference between HMRC data and ISSB data is limited to imports from the EU27 into the UK. All VAT registered businesses are required to declare the value of their intra-EU trade in goods on their VAT returns. Additionally, until 31 December 2020 businesses were also required to provide more detailed statistical returns in their Intrastat declaration, which includes information on volume of trade. However, companies importing into the UK from the EU whose annual value of imports was below a certain threshold, did not have to submit an Intrastat declaration. This was a measure which aimed to reduce the administrative burden from the collection of trade statistics on smaller businesses.

HMRC has raised the Intrastat exemption thresholds over the years, most notably in 2010 and even more sharply in 2014 and 2015. The changes to the UK's thresholds were based on a formula set by the European Commission, which was amended in 2013 to only require Member States to capture 93% of their estimated trade with other EU states. It had previously been 95%. This means that an increasing volume of imports was not being captured by HMRC statistics, therefore under-reporting the increase in steel imports between 2013 and 2017.

The ISSB data includes HMRC estimates of trade by companies that fall below the threshold. The methodology for the Below-Threshold Trade Allocation (BTTA) is based on the assumption that the allocation of below-threshold trade is equivalent to the allocation of the just-above threshold trade (JATT). The methodology then seeks to infer volume from value.

The steps can be summarized as follows:

1. Obtain the value of below-threshold trade (BTT) from VAT returns
2. Aggregate value of above-threshold trade for each trader and sort in ascending order
3. Select the portion of above-threshold trade that equals or just exceeds the total value of BTT – this represents JATT
4. The trade in the JATT for each country and 8-digit commodity code is then mirrored as the annual BTTA

The following page sets out the two different data sets and highlights the increase in imports for 3 product groups relevant to British Steel when using ISSB data vs the HMRC data which has been used initially by TRID.

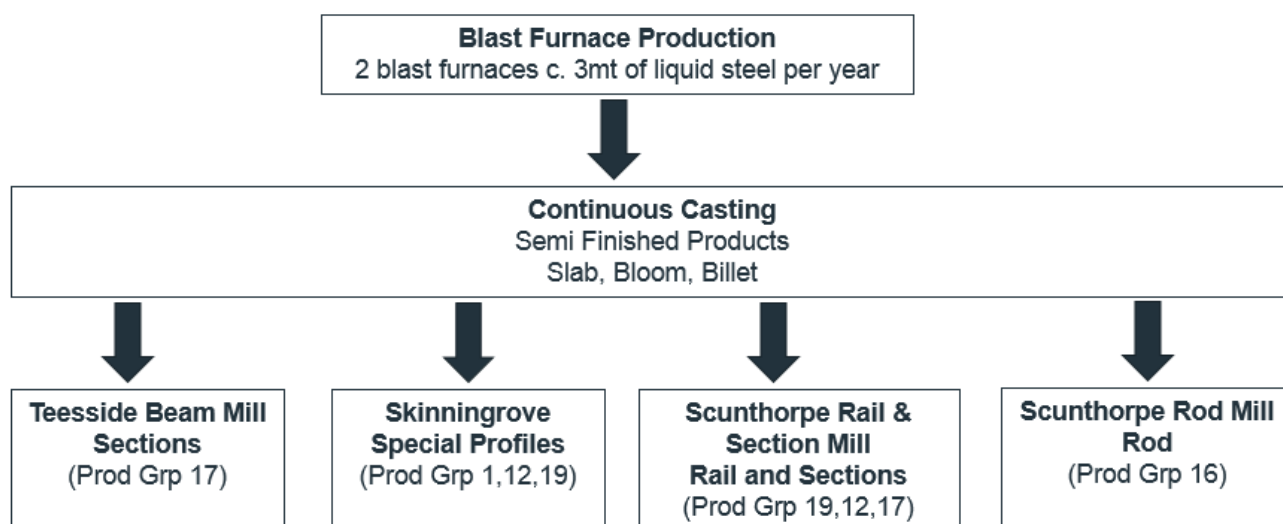
				HMRC Data		ISSB Data	
	Product Category	TRID Recommendation	TRID Reason for Revocation	2013-2017 Import Increase	2013-2016 Import Increase	2013-2017 Import Increase	2013-2016 Import Increase
1	Non Alloy and Other Alloy Hot Rolled Sheets and Strips	Retained		5.0%	4.1%	8.5%	7.7%
2	Non Alloy and Other Alloy Cold Rolled Sheets	Retained		21.3%	10.4%	24.9%	13.4%
4	Metallic Coated Sheets	Retained		45.2%	50.8%	48.5%	54.2%
5	Organic Coated Sheets	Retained		106.0%	64.1%	116.4%	69.3%
6	Tin Mill products	Revoked	No Increase in Imports	-2.0%	16.3%	0.3%	19.9%
7	Non Alloy and Other Alloy Quarto Plates	Revoked	No likelihood of serious injury	10.6%	19.1%	14.4%	28.7%
12	Non Alloy and Other Alloy Merchant Bars and Light Sections	Revoked	No Increase in Imports	-5.9%	-10.6%	11.3%	3.1%
13	Rebars	Retained		21.9%	13.9%	23.7%	16.3%
14	Stainless Bars and Light Sections	Revoked	No Increase in Imports	-17.3%	-21.5%	-11.0%	-19.8%
15	Stainless Wire Rod	Retained		45.1%	7.1%	26.8%	10.5%
16	Non Alloy and Other Alloy Wire Rod	Revoked	No Increase in Imports	-3.7%	-5.0%	3.6%	8.0%
17	Angles, Shapes and Sections of Iron or Non Alloy Steel	Revoked	No Increase in Imports	-0.3%	2.4%	4.5%	5.2%
19	Railway Material	Retained		11.2%	73.1%	2.0%	39.4%
20	Gas Pipes	Retained		7.3%	35.2%	12.2%	44.0%
21	Hollow sections	Retained		13.7%	2.9%	17.8%	6.9%
25A	Large welded tubes	Revoked	No likelihood of reoccurrence of injury	-72.0%	-3.7%	-62.6%	43.2%
25B	Large welded tubes	Revoked	Goods not meeting the economic interest test	109.0%	237.4%	368.6%	303.2%
26	Other Welded Pipes	Retained		39.8%	43.3%	43.7%	48.5%
27	Non-alloy and other alloy cold finished bars	Revoked	No Increase in Imports	-43.8%	-51.2%	-36.3%	-41.7%
28	Non Alloy Wire	Revoked	No UK Production	25.9%	32.3%	47.3%	46.9%

Product Groups 12, 16 & 17, all show an increase in import levels over the 2013 to 2017 period. Considering the levels of these increases, they are comparable to the levels of other product groups where TRID has recommended an extension, therefore by way of this data British Steel would ask TRID to reconsider their recommendation.

2. Interconnectivity of steel products

The interconnectivity and production processes must be taken into consideration, British Steel is an integrated system and making decisions on one product line can have unintended severe consequences for other product lines and for the production economies of scale of the entire business.

British Steel manufactures 4 finished product groups, (1) Sections, (2) Special Profiles, (3) Rail, (4) Rod, the integrated system relies on each line to be operating at a specified capacity to ensure coverage of group costs as much as possible. Below is a simple diagram of the operations and product groups manufactured by British Steel.



As an example, for British Steel, removing the measures on product group 17 Sections, will likely lead to an increase in imports of this product. This will reduce the domestic sales British Steel is able to make as the market size is defined at typical levels of 1.2mt, but this year is only 920kt, a 23% decline due to COVID. Even in typical market conditions, with the measures removed British Steel will not be able to sustain the current 2020/21 levels of sales to the UK if the likely import surges occur. This would mean British Steel has to consider alternative less profitable sales (of which we are restricted due to EU and US measures – see point 3) or volumes for the entire integrated system will need to be adjusted as the costs for each semi-finished product will increase if the blast furnace production levels reduce materially below the 3mt per year capacity.

Removing the measures will also impact other product lines, and to note the shared asset of the Scunthorpe Rail & Section Mill as a major concern, because if there is not enough sections demand for a viable operating model, it will increase the costs of rail produced on the shared asset and as a result rail product costs will increase, making our rail product sales increasingly uncompetitive.

Based on the interconnectivity and impact to the entire integrated operating system it is clear that TRID needs to undertake analysis at a broader level to consider the realities of the steel production processes and the impact any decision will cause the business in its entirety.

3. Injury to UK Steel Producers, given EU and US measures remain in place

The overarching reason for the EU safeguards that were introduced in 2018 was to protect the market from diverted trade flows following the introduction of US Section 232 that same year. Following Brexit, the UK adopted the safeguard measures to protect the UK market, and as all these factors remain in place today, we are asking TRID to reconsider their recommendation.

Revoking the measures in the UK market will lead to higher import levels, and the consequence of this is inevitably lower domestic sales for British Steel.

With lower domestic sales, injury will be caused to British Steel in several ways

1. UK sales are c. [£ not disclosed] better financially than export sales, principally due to much lower logistics costs for delivery to domestic customers, and if we replace domestic sales with additional exports, then lower returns will not cover the business fixed costs.
2. Limited options of alternative sales to other markets due to EU and US measures
 - a. **Sections** – limited EU quota of only 23kt per quarter, currently this is being utilised to service British Steel's own service centre in Northern Ireland. Therefore, British Steel cannot export any sections to the EU. For context removing the measures in the UK allows EU producers access to a recovering market of c. 0.9mt – 1.2mt per year, yet British Steel are now effectively excluded from selling into mainland EU where market size is c 6-8 mt per year. A long-term solution for trade from Great Britain to Northern Ireland needs to be sought to remove this barrier. Even with a solution, the quota levels of 23kt per quarter are small in the context of market size and our available capacity.
 - b. **Sections** – [volume not disclosed] per year of sections we are not able to sell in the US due to S232
 - c. **Rail** – EU quotas allow only approximately 12kt per year of UK sales in a market of more than 1.6mt. This is unmanageable with quarterly quotas and project phasing and the reality is that 12kt per year is insufficient to service any major EU network providers. British Steel sales potential to EU could be [volume not disclosed] per year. Due to the length of the product (108m or 120m), rail typically does not travel economically beyond mainland EU therefore other markets are difficult to service and returns are not viable. As set out in section 2 of this report, the producing mill for rail also produces sections, if there are no alternative sales opportunities for rail, British Steel relies on sections to consume the additional mill capacity, if sections demand is reduced due to increase in imports in to the UK then this means the mill and the business will need to be configured differently impacting job levels, local communities and UK manufactured product availability and will lead to increased production costs and loss of competitiveness.

It is clear that the dynamics of the steel market are complex and, for British Steel, individual product decisions could have major implications to other product lines and to the overall business which is currently trying to recover from COVID and the impact of Brexit. The examples set out above attempt to highlight the significant economic impact British Steel faces and the impact to the viability of the business if TRID do not change their recommendation.

4. Conclusions

British Steel has set out several key points in the hope that this provides TRID with greater clarity and insight as to the potential damage the current recommendation may have on British Steel. British Steel strongly believes the measures should be extended for all steel products, to allow a level of protection as the markets recover and give some stability to allow business owners to prepare strategic plans for investment and decarbonisation. Without this level playing field, the UK Steel sector is at serious risk to injury and the wider implications of this are unthinkable.

Key British Steel Metrics

- 3,900 direct employees, c 20,000 in entire supply chain
- £1.6bn turnover
- 2.8mt finished product sales, of which 50% to UK markets
- Only UK producer of Rail, Structural Heavy Sections and Special Profiles

British Steel is more than happy to review or discuss any points raised in this paper, please contact [redacted personal information]