

**Submission concerning the Statement of Intended Preliminary Decision in Transition Review No. TF0006, Safeguard measures on certain steel products issued by the Trade Remedies Investigations Directorate on 19 May 2021**

**By Meridian Steel Limited**

**25 May 2021**

## 1. INTRODUCTION

1. On 1 October 2020, following the publication of the Notice of Determination, the Trade Remedies Investigations Directorate ("**TRID**") published the Notice of Initiation for a transition review of EU tariff rate quotas on certain categories of steel products under regulation 49 of the Regulations – Transition review TF0006 – Safeguard measures on certain steel products ("**Notice of Initiation**").<sup>1</sup> Subsequently, on 19 May 2021, TRID published the Statement of Intended Preliminary Decision in which it recommended that extended safeguard measure should apply to the following Product Categories: 1, 2, 4, 5, 13, 15, 19, 20, 21 and 26 ("**Statement**").<sup>2</sup>

2. The comments below are submitted by Meridian Steel Limited ("**Meridian**"), which is one of the largest steel stockholders and processors in the United Kingdom ("**UK**") and forms part of the Duferco Group. Meridian supplies galvanised, hot rolled, cold reduced, electro zinc and aluminised slit coil sheets and sheared blanks in both drawing and high strength grades. Meridian imports high quality hot rolled coils of specific grades, forming part of Product Category 1, from South Korea for further processing in the UK through its well-established business relationships. Meridian then resells the processed products to domestic end users and processors belonging to the construction, industrial and agricultural sectors, which produce products ranging from steel framing, storage tanks and farm machinery.

3. The proposed allocation of quotas for Product Category Number 1 should be revised to become applicable from 1 October 2021, instead of 1 July 2021, or at the very least, include a transitional mechanism allowing importers to adjust deliveries - especially with respect to fully committed orders - without incurring unnecessary losses. In particular, the addition of two country-specific quotas for Russia and Taiwan and the replacement of a 70% cap with a "no cap" on access to the residual quota: (i) frustrates Meridian's ability to deliver pre-existing orders to its downstream customers for contractually agreed prices; and (ii) violates the principle of legitimate expectations.

## 2. MEASURES IN PLACE PURSUANT TO THE NOTICE OF INITIATION

4. In the Notice of Initiation, the following quotas were applied to Product Category Number 1 in Q1 2021 and Q2 2021:

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<sup>1</sup> Notice of Initiation for a transition review of EU tariff rate quotas on certain categories of steel products under regulation 49 of the Regulations – Transition review TF0006 – Safeguard measures on certain steel products, 1 October 2020.

<sup>2</sup> Statement of Intended Preliminary Decision in Transition review TF0006 – Safeguard measures on certain steel products, 19 May 2021.





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## Annex 2: Quarterly Volume of Country and Residual Tariff-Rate Quotas (Year 3)

Product Category Number	Product Category	Area/Country	Year 3	
			From: 1/1/2021 To: 31/3/2021	From: 1/4/2021 To: 30/6/2021
			(tonnes)	(tonnes)
1	Non Alloy and Other Alloy Hot Rolled Sheets and Strips	EU	147,130	148,765
		Turkey	23,602	23,864
		Other Countries	46,033	46,544

5. There were two country-specific quotas for the European Union (“EU”) and Turkey, which are by far the largest importers of hot rolled sheets and strips to the United Kingdom. The residual quotas, respectively of 46,033 tonnes for Q1 2021 and 46,544 tonnes for Q2 2021 were allocated to the remaining importing countries, such as, notably, Korea. No exporting country could use more than 70% of the residual quota for Product Category 1 on an individual basis, which meant that access to the residual quota was limited to 32,581 tonnes.

6. On this basis Meridian made the following bookings for hot rolled coils of specific grades from South Korea, all of which already sold to UK downstream customers:.

SUPPLIER	PRODUCT	QTY(MT)	SHIPMENT	CTR NO.
HYUNDAI	HRC	2,700	End of April	2021 HDS 0215
HYUNDAI	HRC	3,470	End of May	2021 HDS 0401
HYUNDAI	HRC	2,435	End of May	2021 HDS 0308
HYUNDAI	HRC	4,730		
<b>HRC TOTAL</b>		<b>13,335</b>	15th August	2021 HDS 0507



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### 3. MEASURES PROPOSED IN THE STATEMENT OF INTENDED PRELIMINARY DECISION

7. According to the Statement, the following quotas will be applied to Product Category 1 in Q3 2021, Q4 2021, Q1 2022 and Q2 2022:

*Table 46: Quarterly volumes of country and residual tariff-rate quotas (in tonnes), year 1*

Product category	Area/country	From: 1/7/2021 To: 30/9/2021	From: 1/10/2021 To: 31/12/2021	From: 1/1/2022 To: 31/3/2022	From: 1/4/2022 To: 30/6/2022
1	EU	165,052	165,052	161,464	163,258
	Russia	11,782	11,782	11,526	11,654
	Taiwan	12,792	12,792	12,514	12,653
	Turkey	22,982	22,982	22,482	22,732
	Residual	15,621	15,621	15,282	15,452

8. In comparison to the Notice of Initiation, the Statement introduced two additional country-specific quotas for Russia and Taiwan. Since the total quarterly volumes for Product Category 1 have not been increased, the introduction of these additional country-specific quotas left the remaining exporting countries with a residual quota that will be as low as 15,621 tonnes for Q3 2021; 15,621 tonnes for Q4 2021; 15,282 tonnes for Q1 2022; and 15,452 tonnes for Q2 2022.<sup>3</sup> No justification appears to have been provided by TRID for the introduction of these additional country-specific quotas in relation to Product Category 1, nor has TRID identified a particular methodology for calculating the quarterly volumes for each country-specific quota. Meridian requests TRID to explain the precise reasons for making such a significant change to the residual quotas and for introducing country-specific quotas for Russia and Taiwan, especially as there were no such significant changes in relation to the other Product Categories set out in the Statement.

9. In addition to creating a specific quota for Russia and Taiwan, the Statement has introduced a "no caps rule", which replaces the previous 70% cap. In the Statement, TRID discusses the removal of the cap and the introduction of this new rule as follows:

*"Countries that have exhausted their country-specific quota in a given product category and period can access the remaining residual quota for that product category in the last quarter of each year without any restrictions (no caps). **The need to introduce caps on the residual quota use by countries with a country-specific quota could not be confirmed by TRID due to lack of data** that might evidence that countries*

<sup>3</sup> Statement, p. 94, Table 46.



*with country-specific quotas rapidly exhaust residual quotas during the last quarter, thereby crowding out traditional import flows from other origins.”<sup>4</sup>*

10. TRID appears to justify the removal of the cap on the lack of data that would confirm that countries with a country-specific quota rapidly exhaust residual quotas and thereby crowd out imports from other countries. Meridian is not convinced by this justification as it equally suggests that TRID also lacks evidence demonstrating that countries with a country-specific quota do **not** exhaust residual quotas.

11. The introduction of the no caps rule further limits the ability of importers who use other import flows, such as Meridian, to import the quantities of products falling within Product Category 1 which are needed by the downstream industry in the UK. This new rule will not only impact negatively the “*traditional import flows from other origins*” but the downstream industry will also suffer by this limitation which, as shown below, crowds out high-quality imports. At a time when the UK economy continues to recover following the COVID-19 pandemic, the introduction of this rule undermines these efforts by further restricting supply and demand. Moreover, the current market scenarios with prices steadily increasing coupled with additional restrictions on imports would not favour UK downstream industries, as this could only bring to a further increase on domestic prices and the impossibility for various downstream users to procure regular flows of quality products, unless they have the financing capacity to do so.

12. The Statement indicates that a liberalisation rate of 3% should be maintained until Q2 2022.<sup>5</sup> According to the Statement, this decision is based on an analysis of the expected development in steel-using industries, which asserts that a liberalisation rate that is higher than 3% would be more likely to cause over-supply on the UK market.<sup>6</sup> This claim cannot be supported when taking into account the trends on the global steel market for at least the last six months. Meridian considers that owing to increasing demand for the products in Product Category 1 in the UK, 3% is not adequate to cover future consumption by domestic users and processors. Meridian considers that the adoption of a stagnant 3% liberalisation rate could lead to supply shortages, thereby seriously undermining any recovery efforts.

#### 4. LEGITIMATE EXPECTATIONS

13. Taking into consideration international commercial practice and more specifically the UK’s long-standing practice, the quotas and cap set out in the Notice of Initiation in relation to Product Category 1 created a legitimate expectation for importers, including Meridian, that TRID would apply these quotas and the cap in the foreseeable future.

<sup>4</sup> Statement, p. 46, para. 158.

<sup>5</sup> Statement, p. 46, para. 159.

<sup>6</sup> Statement, p. 46, para. 159.



14. The introduction of the two additional country-specific quotas and the adoption of the no caps rule, frustrates importers' legitimate expectations. In comparison to the measures set out in the Notice of Initiation, industrial processors needing the high-quality material from Korea supplied by importers, like Meridian, will clearly suffer – with no reason - if the new measures are adopted. The introduction of the additional country-specific quotas and the no cap rule will undoubtedly undermine the ability of processors operating on the UK market by restricting traditional import flows from other origins than large exporting countries.

15. The introduction of country-specific quotas for Russia and Taiwan have created a particularly unfair imbalance that affects imports from smaller exporting countries and in particular Korea which is known to supply particularly high-quality material under particular specifications.

16. The fact that the Statement outlining TRID's plans was only published on 19 May 2021 adds another layer of unfairness especially since that orders falling under Product Category 1 are often placed many months in advance. This is particularly the case of Meridian which imports special quality material under strict specification requirements.

17. Meridian relied on the legitimate expectation that the quotas and cap set out in the Notice of Initiation would continue to apply at least until Q4 2021 (i.e; a full calendar year) when it entered into contracts with UK manufacturing businesses in anticipation of Q3 2021 deliveries. By the time TRID published the Statement outlining the new measures, Meridian already had a significant tonnage of imports from South Korea falling under Product Category 1 that is fully committed. Most of this material is planned for shipment or is already on its way to the UK and is scheduled to arrive to the UK during Q3 2021. The introduction of the additional country-specific quotas and the no caps rule jeopardise Meridian's ability to clear these imports within the increasingly small residual quota for Q3 2021, but it also undermines its ability to clear the substantial imports that are already packed and ready to be loaded in South Korea for Q3 and Q4 deliveries.

18. If TRID adopts the measures outlined in the Statement, Meridian's legitimate expectation will be frustrated. The adoption of these measures will mean that Meridian, as well as other processors/importers in the same situation that must use the residual quota, will suffer significant injury and losses at a time when these companies are in the process of recovery. The adoption of these measures will also strain and undermine Meridian's commercial relationships with its customers with which it has a long-standing relationship.

19. The adoption of the measures set out in the Statement will also cause injury to key downstream industries in the UK. Given that the products imported by Meridian from South Korea are of a special quality that is not readily available in the UK, and which is further enhanced through further processing, the lack of supply to the UK because of a heavily restricted residual quota and the impossibility to switch sources of supply without sufficient lead times, would cause the user industry to suffer potentially irreparable damage.

**5. CONCLUSION**

20. Meridian requests TRID to reevaluate the country-specific quotas and residual quotas for Product Category 1 set out in the Statement.

21. In the event TRID decides to maintain the allocation of quotas as proposed in its Statement, Meridian asks TRID to find a pragmatic interim solution that would allow importers to clear products imported after 30 June 2021 without the application of the 25% safeguard duty in relation to definitive and unconditional purchase orders placed before the Statement was published, namely 19 May 2021.

22. At the very least, the duty should not apply to imports cleared after 30 June 2021 on products where it can be demonstrated that shipping had already been committed by the transporter (products awaiting the vessel and/or loaded on the ship) and/or that shipping had already started on 19 May 2021.

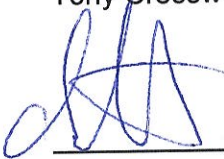
23. In the absence of such a solution, both Meridian and the downstream processing industries it supplies will unnecessarily suffer losses without any benefit whatsoever to the UK steel industry.

Yours sincerely,

**MERIDIAN STEEL LTD**

Tony Cresswell ,

Director & General Manager

  
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