

## **SMMT BRIEFING PAPER: STEEL SAFEGUARD REVIEW**

### **Background**

Since 2019, a safeguard measure applies to imports of a large number of steel products from all over the world. In principle, these trade restrictions are meant to prevent an increased inflow of cheap steel imports from China, Turkey and other major producers following the application of a 25% tariff in the US in 2018.

The safeguard measures take the form of tariff-rate-quotas (TRQs), with in-quota shipments exempted from additional duties and out-of-quota imports subject to a 25% tariff. Since the end of the transition period, TRQs applies to imports of steel from the EU.

Steel is an important input to the UK automotive industry, with the World Steel Association estimating that, on average, 900kg of steel is used per vehicle. The UK steel industry is a key partner of the UK automotive sector, with car makers and automotive suppliers sourcing steel products from both the UK domestic market as well as the EU and non-EU markets. As one of the largest users of steel, a competitive UK steel sector is therefore vital for the UK automotive sector.

In general, most of the steel used in UK automotive production is imported, this is because the UK steel sector does not currently produce steel competitively in sufficient quantity or quality to meet the demands of the UK automotive sector. As downstream users of steel, the automotive sector is exposed to potential additional costs from the continuation of the measure.

**Due to the importance of EU and non-EU steel imports to the UK automotive industry, it is essential that UK car makers and suppliers can continue to source imported steel without incurring significant additional costs.**

### **Preliminary Decision: a first step in the right direction.**

The SMMT welcomes the publication of the Intended Preliminary Decision and the possibility to provide comments before a final decision is taken. Although the Trade Remedies Investigations Directorate (TRID) recommends maintaining the most impactful TRQs for the sector, the Preliminary Decision contains some recommendations that would reduce the burden of the measure on our industry.

In particular, the SMMT welcomes the proposed revocation of safeguard measures on a number of steel gradients utilised by automotive manufacturers, including:

- Two commodity codes of hot-dip galvanised steel falling under category 4B that were found not to be manufactured in the UK;
- Special steel long products destined to mechanical application such as engine parts and bearings falling under category 12;
- Certain types of valve steel falling under category 14;
- Steel products falling under categories 7 (Non-Alloy and Other Alloy Quarto Plates), 17 (shapes and sections of iron or non alloy steel), and other categories (25B, 27, 28).

In addition, for those products where TRID recommends maintaining TRQs, the SMMT welcomes the decision not to further restrict import quotas on the basis of the anomalously low import volumes caused by the Covid-19 pandemic.

**The final decision should uphold the recommendation to lift TRQs on some metallic coated sheets of steel falling under category 4B and revoke measures on other categories of interest, including categories 12, 14, 7, 17, 25B, 27 and 28.**

## Preliminary decision: key concerns

The preliminary decision maintains TRQs on a large number of steel products utilised by automotive manufacturers, including most metallic coated sheets of steel falling under category 4B, Category 1 (Non-Alloy and Other Alloy Hot Rolled Sheets and Strips) and Category 2 products (Non Alloy and Other Alloy Cold Rolled Sheets). **These categories account for the vast majority of all steel used in motor vehicles.**

For metallic coated sheets, the current safeguard measures distinguish between steel commodities mainly utilised by automotive manufacturers (category 4B) and similar products used by automotive and other industries (category 4A). However, the preliminary recommendation does not envisage two separate categories. Category 4B was created by the Commission to avoid the so-called “crowding out” effect for hot dipped galvanised steel - where non-auto products eat up the quota destined for our industry.

**TRID should clarify whether categories 4A and 4B will be maintained or, if a single category 4 is established, how government intends to solve the issue of the ‘crowding out’ effect.**

The recommendation recognises “**that there are some potentially significant negative impacts**” for downstream users of commodities subject to TRQs, including automotive. According to TRID, these adverse impacts on steel users do not outweigh the benefits for domestic producers from maintaining the measures. However, these impacts must be considered in all future reviews of the measure.

In assessing current trends, TRID has not taken into consideration the impact of Covid-19 beyond the period under investigation. TRID claims that “looking forward, neither the short term nor the long-term impact of COVID-19 on the steel industry is clear but we see no evidence that this would break the causal link between a potential surge in imports and the likely serious injury that would be suffered by UK industry.” Although TRID excludes this would have any impact on future assessments of the causal nexus between imports and injury, TRID must not discard the possibility that ongoing market trends can have significant impacts when evaluating whether the safeguard is in the UK’s economic interest.

While SMMT is currently assessing the trends of the UK steel market, in the broader European industry the covid-19 outbreak has radically changed the conditions of the European steel market. This cannot and must not be discarded by TRID in future revisions of the measure.

- **Prices are critically high:** since the end of the summer, European auto manufacturers are faced with record-high prices not seen in more than a decade. The price of hot dipped galvanized steel increased from less than €550/ton mid-2020 to more than €1150/ton lately. Given that manufacturers utilize in average just a little less than one ton of steel in a car, this could translate into a price increase of over €500 per car. Heavy duty vehicles use three tons of steel per vehicle on average, with a potential price increase of €1500 per vehicle.
- **Acute capacity shortages:** European steel mills are at capacity for many of the specialised steel needs of the automotive sector and the few European suppliers operating in specialised segments are unable to react flexibly on demand fluctuations.
- **Long lead times:** Due to very strong demand from steel users, automotive suppliers currently are facing extended lead times for a range of steel types, there are gaps identified between order and delivery date of 4 – 8 weeks. Depending on steel type, delivery times have doubled.
- **There is no way to assess the status of quotas in the UK, given that data on quota fulfillment is not available, as recognized by the TRID’s assessment.** In the EU, the safeguard instrument makes it nearly impossible to source alternative steel from India or China as quota are regularly (nearly) exhausted.

**Government should put in place the necessary mechanisms to regularly monitor quotas’ usage. Future reviews must consider current trends of the UK and EU steel market and preserve the ability of steel users to have a stable supply of raw materials.**

TRID emphasises potential trade diversion as a key threat to UK steel manufacturers. According to the preliminary recommendation, lifting the measure could result in an increase in imports from a combination of global overcapacity, the US 232 measures and the application of trade restrictions by other jurisdictions in response to the US steel tariffs. These concerns are legitimate, although it remains dubious that these circumstances would be sufficient to meet the WTO criteria allowing safeguards only in the event of “unforeseen” developments. However, when assessing trade diversion risks and appropriate safeguarding measures, TRID must consider the following:

- **Impact of 232 tariffs:** major exporters of steel to the US benefit from a full or partial exemption from the application of 232 measures (Canada, Brazil, Mexico and South Korea).
- **Trade restrictions in other jurisdictions:** the EU is in the processes of reviewing its own safeguard measure. The removal of the EU safeguard would radically change the market conditions and the competitiveness of EU steel users, including automotive manufacturers.
- **Overcapacity:** China has decided to remove export rebates on many steel products as of May 1, 2021, including steel gradients traditionally used by automotive manufacturers.

**Should the EU remove TRQs on categories of interest for automotive producers, TRID should reconsider the continuation of the measure in the UK in light of the new market conditions. In assessing future threats of trade diversion, TRID should take into consideration 232 exemptions and policy developments in China and other major producing countries.**

Finally, a simple quantitative analysis is largely insufficient to assess potential impacts on the automotive sector. In its assessment of adverse impacts on individual downstream industries, TRID highlights that steel costs are small compared to the overall size of the automotive industry (e.g. 0.5% of the sector's turnover in 2016). This finding does not take into account:

- The reduction of sector's turnover in the following years and the decline of the industry's output following the referendum on the UK's withdrawal from the EU.
- The impact on automotive businesses operating on wafer-thin margins, with profitability eroded also by new barriers in trade with the EU since the end of the transition period and the impact of the covid-19 pandemic.
- The impact of increasing prices of raw materials on UK manufacturers of parts and the possibility for OEMs to supply components from the rest of the world, further depleting the UK automotive supply chain.
- The threat of rebalancing measures from trading partners affected by the measure beyond June 2021, nor the potential impacts of retaliatory measures from future WTO disputes.

**Future reviews should factor-in the risk of rebalancing measures and conduct a detailed assessment of sector-specific impacts on downstream industries.**

#### **ABOUT UK AUTOMOTIVE AND SMMT**

The Society of Motor Manufacturers and Traders (SMMT) is one of the largest and most influential trade associations in the UK. It supports the interests of the UK automotive industry at home and abroad, promoting the industry to government, stakeholders and the media. The automotive industry is a vital part of the UK economy accounting for £78.9 billion turnover, £15.3 billion value added and invests more than £3 billion each year in automotive R&D. With some 180,000 people employed directly in manufacturing and 864,000 across the wider automotive industry, it accounts for 13% of total UK exports of goods with over 150 countries importing UK produced vehicles, generating more than £100 billion of trade. More than 30 manufacturers build more than 70 models of vehicle in the UK supported by over 2,500 component providers and some of the world's most skilled engineers.