

NON-CONFIDENTIAL**8 August 2024****Subject: proposal for an authorised use scheme for imports of hot-rolled flat steel products**

Dear case team,

In the present submission, Tata Steel UK (TSUK) will put forward a detailed proposal to introduce an authorised use (AU) scheme for imports of hot-rolled flat steel products (HRFS). As will be described below, an authorised scheme will allow TSUK and other UK companies to import the required volume of HRFS for downstream processing while preserving historical import flows for the HRFS destined to the market.

1. Introduction

The present review was initiated following a request from TSUK in view of its transition to EAF-based steelmaking. TSUK remains the major and the only active producer of HRFS (product category 1) in the UK.

In the recent months, TSUK has taken a number of steps to progress in its transition plans, including the shutdown of Blast Furnace 5. [Confidential – information related to TSUK's transition plans.] In view of these developments, TSUK has to gradually increase imports of HRFS for processing to ensure continuity of its downstream assets.

As explained in TSUK's application for the present review, our company will continue to produce HRFS in the UK during the transition period. In order to do so, TSUK will import [non-confidential summary: a significant volume of] slab, which will be processed into HRFS at TSUK's hot strip mill in Port Talbot. Subject to the market conditions and UK demand for HRFS, TSUK is planning to sell domestically [non-confidential summary: sales volume similar to the current levels]. A significant share of TSUK's own production of HRFS will also be used for downstream processing. Therefore, HRFS imports will only complement rather than replace TSUK's own production, and will only be used for processing into downstream steel products, as explained in detail below.

2. Proposal for an authorised use scheme

In its application for the TRQ review, TSUK requested that the TRA introduce a licensing mechanism which would allow duty-free imports of HRFS if they were destined for downstream processing. TSUK provides further details on the design of the proposed mechanism below.

First, TSUK respectfully suggests that product category 1 be split into two sub-categories: product category 1A and product category 1B. This will allow for the differentiation of the quotas for imports destined for the market and imports of HRFS which will be transformed into another steel product as a result of downstream

processing. Both sub-categories should have the same country split and consist of the same commodity codes. Each sub-category should have its own quota, and the quota for product category 1B should be increased in line with the projected demand for HRFS for downstream processing.

Second, TSUK requests that the TRA work with HMRC to introduce an authorised use scheme with respect to HRFS pursuant to Part 4 of the Customs (Special Procedures and Outward Processing) (EU Exit) Regulations 2018 (“the Customs Regulation”) and Part 5 of Schedule 2 to the Taxation (Cross-border Trade) Act 2018. This would follow from the TRQ review conducted under Regulation 35B of the Trade Remedies (Increase in Imports Causing Serious Injury to UK Producers) (EU Exit) Regulations 2019. The use to which HRFS is to be subject (“the specified authorised use”) in the meaning of Regulation 33(1)(a) of the Customs Regulation should be downstream processing, which is further explained in section 4 below.

Third, the quota for product category 1A should remain the same and can be accessed by any company without any requirements as to the use of the imported HRFS. The quota for product category 1B should be subject to the authorised use scheme. Therefore, it will be accessible only to the companies that have obtained authorisation to use it. Such authorisation must be conditional upon the specified authorised use, i.e. downstream processing.

Lastly, it is crucial the use of the quota for product category 1B is monitored and that any company committing a breach of the specified authorised use is held liable in accordance with section 4(4)(d) of Taxation (Cross-border Trade) Act 2018 and the relevant customs enforcement provisions of the Customs and Excise Management Act 1979.

3. Volume of the tariff-rate quota for product category 1B

TSUK requests that the quota for product category 1B is increased to reflect TSUK’s own demand for imports of HRFS and the potential usage of this quota by other UK companies that have downstream processing capabilities.

TSUK will source HRFS from a diverse range of suppliers located in different countries as shown in Table 1 below. The exact import volume will depend on several factors, including the availability of slab. Indeed, TSUK’s production of HRFS during the transition period will be fully reliant on the volume of slab that TSUK will be able to procure and import. Moreover, the imported slab must satisfy TSUK’s needs in terms of chemical and physical characteristics in line with TSUK’s product range and associated customer requirements. If TSUK is not able to procure the required volume of slab, TSUK will have to rely on HRFS imports more heavily in order to compensate for the reduced HRFS production output. This will have a direct impact on the volume of HRFS imports that TSUK will require for downstream processing. In view of this, TSUK provides its assessment of the likely annual import volumes in Table 1 below, but underlines that the actual imports may vary as described above.

Table 1. TSUK’s projected imports per import source, kilotonnes (kt)

Source	Annual imports
EU*	[700-900]
Turkey	[0-100]
Taiwan	[0-50]
Other countries	[600-900]
Total	[1,400-1,900]

With respect to the projected imports from the EU, TSUK notes that such imports are mainly driven by customer-specific grade requirements. In order to meet such requirements for our downstream products, the HRFS substrate used in the production of downstream products must also possess the required chemical and physical characteristics, which may be only available within the EU in line with customers' existing qualification requirements.

[Non-confidential summary: the majority of imports] under the 'Other countries' quota will come from India, while the Netherlands [non-confidential summary: will be the main source under the EU quota]. This is due to the fact TSUK has related companies in these two countries, which will ensure consistency and security of the supply for our customers. As described above, TSUK will require a wide range of HRFS grades for processing and ensure appropriate quality control of the HRFS substrate to meet the demand for our downstream products. TSUK's related companies in the Netherlands and India meet both requirements, which will make our sourcing process reliable, consistent and efficient. These factors will be critical during the TSUK's transition period as the continuous operation of our downstream assets will to a large extent depend on consistent supply of high-quality HRFS substrate.

In view of the above and given the potential utilisation of the 'Other countries' quota by other companies, we suggest that this quota is increased by 700%. The increase proposed in Table 2 below is based on the assumption that the increase is proportionate for all import sources, but TSUK emphasizes that in this case, the total increase is driven by the increase in the 'Other countries' quota.

Table 2. TSUK's proposed increase in the tariff-rate quota for product category 1B, kt

Country	Quarterly quota	Annual quota
EU	1,312	5,250
Turkey	172	689
Taiwan	96	384
Other countries	165	660
Total	1,746	6,983

Alternatively, TSUK proposes to remove the country-specific split from the tariff-rate quota for product category 1B and create a global quota for all countries. In this case, the total quota of approx. 2.1-2.3mt would be sufficient to satisfy the demand for TSUK's downstream processing (including a possibly higher demand for HRFS in the event the required volume of slab becomes limited) and for other UK downstream processors. This would require a total increase of 112-132% compared to the current quota. TSUK notes that introduction of a global quota without a country-specific split will not have any negative impact on traditional trade flows, as the tariff-rate quota for product category 1A will remain unchanged and the traditional suppliers to the UK will not be disadvantaged in any way.

In TSUK's view, the above-described increase in the quota for product category 1B will allow TSUK (and other UK companies with the necessary downstream processing capabilities) to import the required volume of HRFS to ensure continuity of downstream operations.

4. Specified authorised use: downstream processing

TSUK submits that downstream processing should constitute the specified authorised use. TSUK proposes to define 'downstream processing' as follows: '*transformation into one of the following product categories: 2, 4, 5, 6, 20, 21, 24, 25A, 25B, 26*'.

Any other use of the HRFS imported under the authorisation should be considered a breach of the specified authorised use requirement. This concerns specifically but is not limited to such operations as decoiling, cutting and slitting, which do not constitute downstream processing. Moreover, transformation of HRFS into another finished product (including but not limited to car parts, wind towers, manufacturing goods, etc.) outside the scope of the above-mentioned product categories should also constitute a breach. Implementation of these end-use requirements will ensure that product category 1B is not used to circumvent the safeguard measures by simply reselling the imported HRFS to the market without downstream processing.

TSUK notes that there is a limited number of UK companies that have the capabilities to carry out downstream processing as defined above. TSUK respectfully suggests that this factor is taken into account when assessing applications for authorisation from other UK companies.