

# Case TS0055: Organic Coated Steel from the People's Republic of China

## APPENDIX TO UK STEEL QUESTIONNAIRE RESPONSE

### 1 Likely recurrence of injury

#### 1.1 Excess production and production capacity in China

The significant levels of subsidised production and spare capacity of OCS in China is significantly larger than UK consumption and this highly increases the likelihood of injury to the UK industry.

According to Worldsteel data, China accounts for around 40% of the world's organic coated steel production (nearly [REDACTED] million tonnes in 2020), almost doubling its production in the last decade. The following chart shows how Chinese production has grown prodigiously over the past 20 years. Chinese production evidently dwarfs the UK's production of around [REDACTED] thousand tonnes. The product scope of the Worldsteel non-metallic coated sheet and strip production data may not exactly match the product scope of this review, however, the Chinese and UK production relevant to this case will still be proportional to these figures and therefore a good indication of the relative sizes of the OCS industry in China and the UK.

#### Chart 1: Global Production of Organic Coated Flat Steel Products 2003-2020

[REDACTED DUE TO WORLDSTEEL COPYTIGHT]

Source: World Steel Association. (Data provided in Annex 1)

Chinese OCS production is so many times multiple the size of the UK market that even a small proportion of Chinese OCS being directed to the UK and undercutting our market has the capacity to flood the market and cause material injury. Just a tiny fraction of China's OCS production could meet the entirety of the UK's demand requirements. It is clear that China has the capacity to very quickly flood and overwhelm the UK market should the countervailing measures be removed.

While Chinese OCS production has hugely increased, there is still a considerable amount of spare capacity that could be utilised in the future. UK Steel does not have access to capacity data at the product level, however, excess steel capacity is a well-established fact and a long-standing challenge for the global steel industry, as highlighted by the OECD amongst others<sup>1</sup>. Indeed, despite a slowing down of capacity expansion in China in recent years, there is still investment in new steel facilities. Demand in China has also weakened considerably so that even without new expansions, the excess capacity situation is worsening.

The latest OECD report<sup>2</sup> notes the following:

- *Steelmaking excess capacity is on the rise again and is expected to be as high as in 2014, at the start of the last steel crisis.*
- *Global steelmaking capacity is projected to increase significantly over the next three years (2024-2026), with 46 mmt of capacity additions underway and an additional 78 mmt in the planning stage. At the same time, prospects for global steel demand growth are clouded by growing risks of a serious downturn in Chinese steel demand as a consequence of the real estate downturn and its ripple effects on financial markets and the economy.*
- *In 2023, the global steel capacity-production gap widened to 610 mmt in annualised terms, in the midst of growing market challenges.*
- *China accounts for 47% of world capacity and is continuing to contribute to the expansion (2.2% estimated in 2023 vs 2019).*

<sup>1</sup> [Latest developments in steelmaking capacity 2024 \(oecd.org\)](#)

<sup>2</sup> Ibid.

- *Chinese steel companies are investing significantly overseas, specifically in ASEAN and other parts of Asia, as well as Africa. Capacity expansions by Chinese companies in third countries, through cross-border investments, account for 65.1% of total cross-border investments in new steelmaking capacity taking place around the world. Their investments in ASEAN account for 81% of the region's total capacity expansion.*

Even not accounting for excess capacity, the sheer size of Chinese OCS production relative to the UK market poses a significant risk as even a small percentage of Chinese OCS production could flood the UK market.

## 1.2 Rising production against weakening domestic steel demand in China

The pressure to increase exports will be even greater as China is seeing weak demand domestically, particularly by the construction sector, a key consumer of OCS. Worldsteel's reporting on China<sup>3</sup> shows that in the first four months of 2024 apparent crude steel use decreased by 5.6% year-on-year to [REDACTED] Mt, while crude steel production declined by 3% to [REDACTED] Mt. Over the same period, net exports of semi-finished and finished steel jumped by 30% year-on-year to [REDACTED] Mt. This confirms that China's surplus production is being directed into export markets.

### Chart 2: Chinese steel imports and exports Jan 2019 – Apr 2024

[REDACTED DUE TO WORLDSTEEL COPYRIGHT]

While the Chinese government is trying to provide stimulus to the property sector and the wider economy, it is widely expected and reported that this will not be enough.<sup>4</sup> The National Real Estate Climate Indicator in April 2024 stood at a 26-year low.<sup>5</sup>

The outlook for broader manufacturing is similarly not particularly optimistic with China's manufacturing PMI for the steel industry below the 50-point mark indicating a contraction in output.<sup>6</sup> While there is growth in infrastructure investment, automotive output and machinery, this is at a slower rate so far in 2024 compared to 2023.<sup>7</sup>

The capital-intensive nature of steel production means that steel mills must run at high levels of production capacity to recover fixed costs, so that when domestic demand weakens, rather than further cut production, producers will look for foreign markets to maintain as high capacity utilisation as they can.

Given high production levels against waning domestic demand, combined with trade defence measures in key export markets, the likelihood of injury should the UK drop its measures is extremely high, especially when considering the relative size of the UK market.

## 1.3 Situation of UK industry

The UK industry is in a vulnerable position and highly susceptible to injury in the absence of countervailing measures. Tata Steel is the only producer of OCS in the UK, at its plants in Llanwern and Shotton in Wales. Tata Steel had to mothball its Llanwern hot-rolling mill in 2015 as import pressure, including dumped imports, made the operation unsustainable. Hot-rolled products are now supplied to the mills for coating from Port Talbot.

Recent years have seen a challenging environment for the UK steel industry, first with the global pandemic and then with the energy crisis as a result of the war in Ukraine. Exorbitant energy costs have reduced production and demand in the UK and across Europe. In 2023, UK steel production and demand plummeted to new historic lows of 5.6Mt and 7.6Mt respectively, well below the levels seen even at the peak of the pandemic in 2020.<sup>8</sup>

<sup>3</sup> [China-Monthly-205.pdf](#)

<sup>4</sup> [China has finally unveiled its property rescue plan. Will it be enough? \(ft.com\)](#), [China's property prices are still plunging despite government efforts to rescue the market | CNN Business](#)

<sup>5</sup> [China-Monthly-205.pdf](#)

<sup>6</sup> *Ibid.*

<sup>7</sup> *Ibid.*

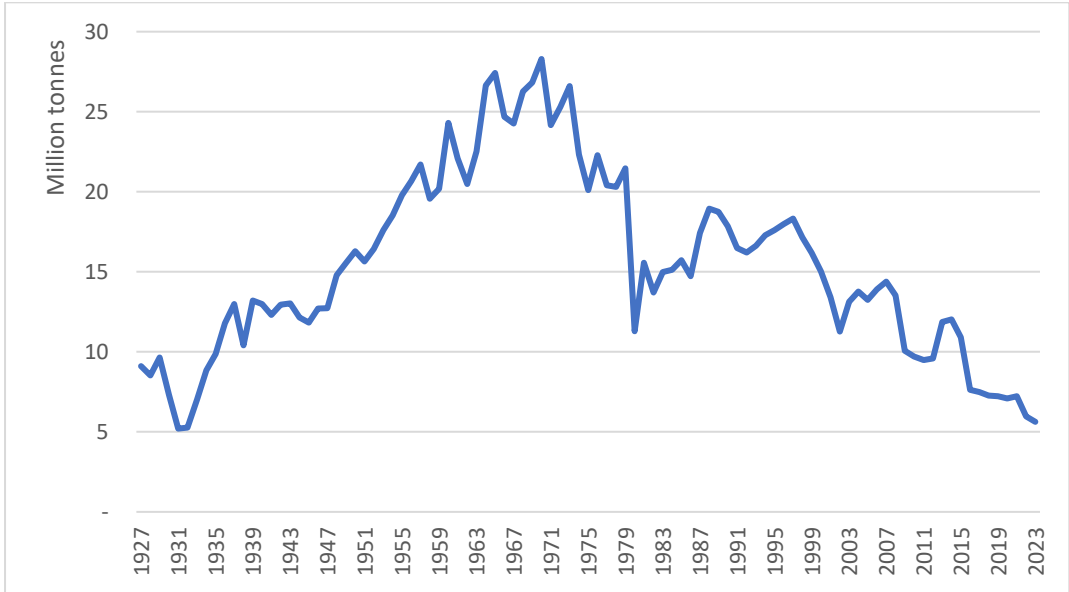
<sup>8</sup> ISSB data collected from UK producers

UK production in 2022 had already marked the lowest level since the Great Depression, but in 2023 it dropped by a further 6%, while demand fell by 14% on year.

All this while the import penetration in the UK market has continued to increase. In 2023, net imports stood at 4.6Mt claiming a 60% import share up from 55% the year prior.<sup>9</sup> In the first quarter of 2024, the import share climbed further to 67%.<sup>10</sup> This represent sharply rising import penetrating in an already shrinking domestic market. Meanwhile, weak demand in the EU is also dampening export opportunities to our largest export market.

In this challenging market environment, UK producers continue to face high costs, both energy and raw materials, and high market volatility. While input costs have normalised compared to 2021 and 2022, they remain well above pre-pandemic levels and indeed iron ore and coking coal prices trended upwards, particularly in the second half of 2023. UK producers also continue to experience higher electricity prices than their competitors not only in Asia and the Middle East but also in many EU countries.

**Chart 3: UK crude steel production 1927-2023**



Source: ISSB

The global outlook for 2024 and the coming years is highly uncertain, and so is the outlook for the UK market. The World Steel Association’s latest forecast sees some modest recovery to global steel demand in 2024 and 2025 of 1.7% and 1.2% respectively, but this was a downward revision from its previous forecast.<sup>11</sup> In 2023, steel demand in the EU and the UK dropped by 10% on year, witnessing the lowest level since 2000. The impact of the war, inflation, high interest rates and supply-chain challenges continue to weigh on the market. In 2024, only a “technical rebound” of 2.9% is expected driven by restocking, after which a meaningful recovery of 5.3% is forecast for 2025 for the EU and UK combined.<sup>12</sup> The 2024 forecasted steel demand is at similar levels to the 2020 lows of the pandemic.

Meanwhile, Chinese demand is expected to hold steady in 2024, having dropped by 3.3% on year in 2023, and then returning to the downtrend in 2025 with a forecasted 1% drop.<sup>13</sup> This projection will see Chinese demand at significantly lower levels than the recent peak demand year of 2020, by 100 million tonnes.

UK Steel’s own forecast sees a sharp reduction in steel demand for 2024 across the main end-use sectors (construction [REDACTED]%, automotive [REDACTED]%, mechanical engineering [REDACTED]%), and

<sup>9</sup> ISSB  
<sup>10</sup> ISSB  
<sup>11</sup> <https://worldsteel.org/media/press-releases/2024/>  
<sup>12</sup> Ibid.  
<sup>13</sup> Ibid.

staying flat or increasing only marginally into 2025. The Construction Products Association forecasts construction output in the UK to decline by 2.2% in 2024 before recovering slowly in 2025 with growth of 2.1%.<sup>14</sup>

This weak demand environment, coupled with high input and energy costs in recent years has left the UK industry, including the OCS industry, in a fragile state. This is further compounded by the huge global overcapacity issue. In this context, the injury and economic impact of imports that have an unfair cost advantage would be significant. Additionally, several other countries have trade restrictions in place on imports from China. This would increase the likelihood of diverted material and injury to any country which left its market exposed. Considering the weakened position of the UK industry, this trade diversion would certainly be severely injurious.

In contrast, importers and downstream users have great flexibility in where to source OCS products, given that these are produced by numerous countries around the world. Furthermore, importers do not face the capital costs that producers do, nor the scale of running costs that need to be covered. The same applies to fabricators. They are therefore far less vulnerable and can more easily pass on increased costs to consumers. In relation to downstream users, OCS costs are a tiny fraction of any end-product and therefore any cost implications would be negligible. Furthermore, it should be noted that OCS prices are governed by much broader drivers and dynamics and not by the specific supply of Chinese OCS to the UK.

## **2 Economic effects on the UK if the existing measure was no longer applied**

### **2.1 Importance of the UK OCS industry**

The UK OCS industry provides significant employment opportunities in Wales where operations are currently located and offering wages considerably higher than the local average. The contribution to the local economy is even more prominent when considering the Government's levelling up agenda which is important context within which the TRA should interpret Paragraph 25(4)(a)(iv) (likely geographic impact) of the Taxation (Cross-Border Trade) Act 2018.

OCS products are produced in Tata Steel's Llanwern and Shotton facilities, supporting skilled well-paid jobs in the area. The Shotton site also includes fabrication facilities for colorsteels, panels and profiles. Given that hot-rolled products are supplied for coating from Port Talbot, these jobs are also directly linked to the health of the OCS operations. Not only do these steel plants employ a large number of workers in Wales, but these steel workers receive wages that are considerably higher than the local median in Newport, Flintshire and Port Talbot. These salaries also rank above the [REDACTED]<sup>th</sup> percentile or higher of the local wage distribution. Most of Wales had Assisted Area status under European state aid rules, including local authorities like Neath Port Talbot which were defined as 'a' areas. These were areas whose GDP per capita was below 75% of the EU average. While this legislation is no longer relevant for the UK, the classification is indicative of less advantaged local economies. Removing the measures not only risks current UK production and employment but also future investment and therefore future high-wage employment opportunities which will be invaluable to the local community.

While Tata's OCS steel production is centred at Llanwern and Shotton, this is a core product line for Tata and any injury suffered would impact operations in other sites, putting at risk the jobs of thousands of workers who receive wages considerably higher than the local median across all site locations. The interconnectivity of steel products and economics of steel production, as explained in the next section, mean that one should not simply consider the potential injury on the elements of the business directly producing OCS, but also the impact on the wider business.

### **2.2 Interconnectivity of steel products and importance of UK supply chain**

The interconnectivity of steel products means that when considering the totality of injury that may occur in the absence of this measure, it is critical to look at the up and downstream elements of the steel business related to OCS production.

OCS and more widely hot-rolled flat products represent a significant portion of overall UK steel production, but the segment's real economic impact is even wider when considering steel production economics as well as the

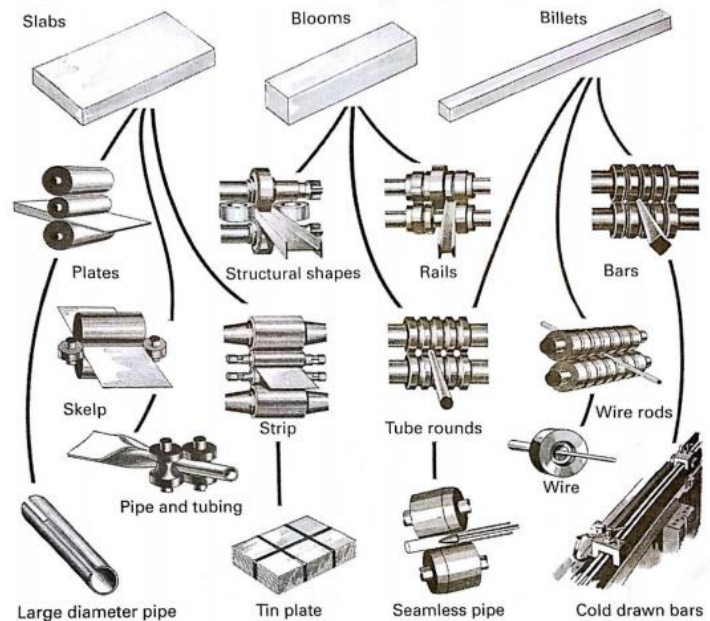
<sup>14</sup> [Construction Industry Forecasts - Spring 2024 \(constructionproducts.org.uk\)](https://www.constructionproducts.org.uk)

broader supply chain. Most plants will produce multiple steel products and the profitability of each product line will have an effect on wider production decisions, with implications for employment and future investment.

Steel production can come through a variety of different routes, largely depending on the kind of semi-finished product (slab, bloom, billet) that a plant is equipped to make. As shown below, a plant with a continuous slab caster and appropriate rolling mills (such as Port Talbot) can then go on to produce a variety of flat products such as strips and plates that can be further worked into an array of goods including cold-rolled, coated products, and tubes and will typically produce a combination.

The production economics of the steel making process means that economies of scale are key. As such, plants will typically produce more than one product and will often rely on all product lines running at high capacity utilisation rates to ensure profitability.

Steel making is highly capital intensive and with particularly high fixed costs. A steel plant will typically need to run at around a 70-75% capacity utilisation rate before it breaks even and begins to operate profitably. Thus, both the processes themselves, and their economics, require the plant to run at consistently high output levels and limit the ability to adapt to changed market conditions by reducing output volumes. This is why steel plants often continue to run even without making a profit. Commodity prices can also be volatile so sometimes it pays to weather a downturn, in expectation that prices will recover, thus avoiding the huge disruption, additional costs, and inefficiencies brought about by halting production. Indeed, many parts of the 'heavy end' such as production of coke and iron cannot simply be turned on an off.



This highlights how delicate the balances are and knock-on effects that individual products can have on the overall profitability of a plant. For example, Tata's Port Talbot facility does not only produce hot-rolled flat products but also cold-rolled products. Much of the hot-rolled output of Port Talbot is then transferred to other sites such as Llanwern, Shotton and Trostre to produce metallic and organic coated sheets and tin mill products. The Shotton site also includes fabrication facilities for colorsteels, panels and profiles. Further material is also transferred to sites in Corby and Hartlepool to be turned into pipes and structural hollow sections. Imports of subsidised OCS products would therefore damage market share and profitability more widely and would impact all production lines linked to OCS and hot-rolled flat products.

Therefore, in order to assess the economic significance of the OCS sector, it is useful to evaluate the contribution of the segment but also the wider steel sector that it forms an integral part of.

### 2.3 Importance of the wider UK steel industry

- The UK steel industry directly employs 33,700 people across the UK – jobs that would be at risk if the health of domestic steel companies is compromised.<sup>15</sup>
- The UK steel industry also supports a further 42,000 jobs in its high-value supplies chains.<sup>16</sup>
- The steel industry is predominantly based in the regions of the country that need levelling-up. We directly employ tens of thousands of skilled workers in Teesside, Yorkshire and Humberside, the West Midlands and Wales. The median wage of our workers (£37,315) is 26% higher than the UK national median and 35% higher than the regional median in Wales, and Yorkshire & Humberside.<sup>17</sup>

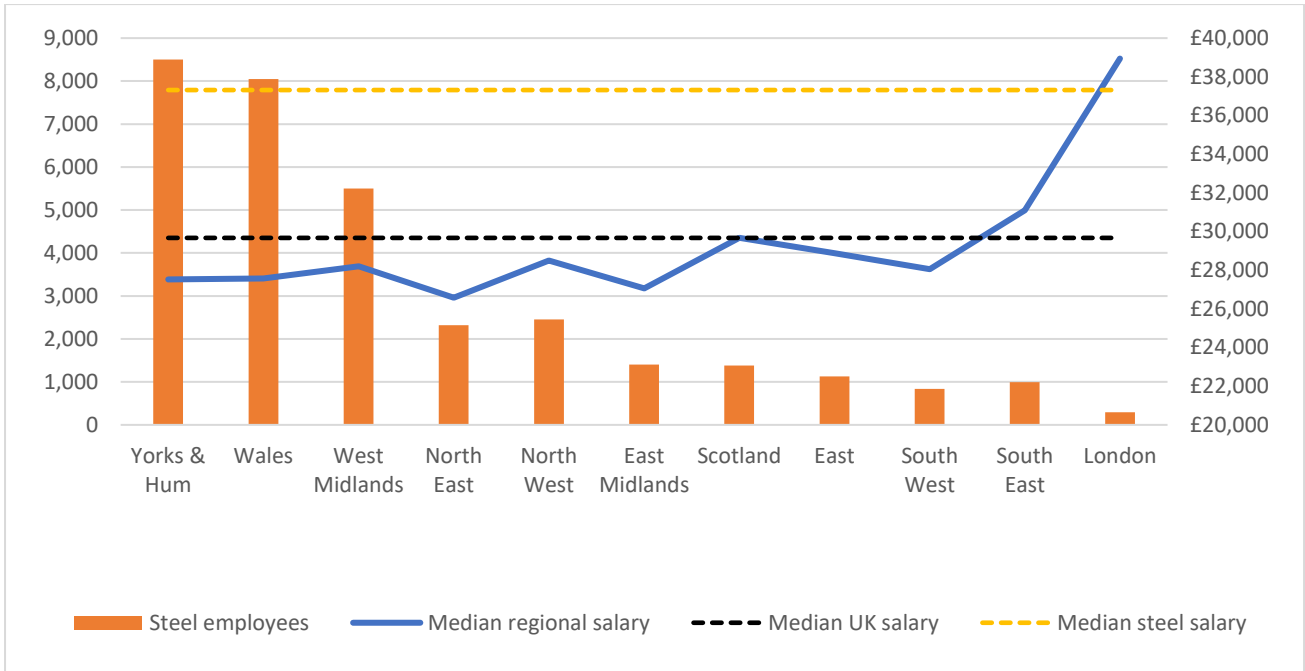
<sup>15</sup> ONS – Business Register and Employment Survey 2022

<sup>16</sup> ONS – Business Register and Employment Survey 2022 and ONS Type 1 employment multipliers

<sup>17</sup> ONS – Annual Survey of Hours and Earnings, ASHE Table 16 and ASHE Table 7

- The UK Steel Industry makes a £1.8 billion direct contribution to UK GVA and supports a further £2.4 billion in its supply chains. <sup>18</sup>
- UK steel also makes a £3.4 billion direct contribution to the UK’s balance of trade. <sup>19</sup>
- We train hundreds more skilled individuals every year, providing the United Kingdom with the engineers of the future. Approximately 65% of the technical workforce is educated to degree level, and around 40% possess a postgraduate qualification. By working together, Government and industry can ensure that we go on providing high-quality employment and opportunities.

**Chart 4: UK Steel Employment and Pay by Region 2023**



Source: ONS Various and UK Steel Analysis

We provide the high-quality materials vital to an array of challenges. From delivering the Government’s infrastructure revolution to creating a low carbon economy, steel is an essential ingredient. The UK directly consumes 7-8 million tonnes of steel each year in infrastructure, construction, and a vast array of manufactured products. Our increasing need for steel in high-speed rail, energy efficient buildings, low-carbon and electric vehicles, wind-turbines and much more, means this demand will grow this decade. It is vital that we retain a strong and resilient steel industry in the UK to supply this.

<sup>18</sup> ONS GDP Output – low level aggregates 2023 and type 1 multiplier

<sup>19</sup> ISSB – UK steel exports net of import of raw materials/inputs

## 2.4 Importance of domestic UK steel industry to decarbonisation

Increased reliance on steel imports could lead to higher emissions if imported steel is produced in a more carbon-intensive steel plant. Global carbon intensity varies from 0.29-3.38 tonnes of CO<sub>2</sub> per tonnes of crude steel, depending on plant efficiency and production method (i.e. BOF vs EAF), with the weighted average being 1.85tCO<sub>2</sub>/tCS in 2018. UK steel production sites are less carbon-intensive than the global average for both BOF and EAF steelmaking, and therefore increases in imports will likely lead to an increase in global greenhouse gas emissions. Additionally, increased imports of finished steel products will also increase transport-related emissions – for example shipping a tonne of product from China will result in an estimated 0.3 tonnes of CO<sub>2</sub><sup>20</sup>. Given this picture of lower production and transport-related emissions from domestically produced steel, it is clear that replacing domestic production with greater imports of steel would be defeating the point of trying to achieve net zero targets, when that would equate with simply offshoring our emissions to other countries. If any attempt to decarbonise is to be meaningful, then this must be aimed at consumption-based emissions and a real net-zero future is indisputably in the public interest.

We recognise that public interest considerations are not strictly within the TRA's remit. But even from an economic interest perspective, the UK stands to lose out from lagging in decarbonising its steel sector. Decarbonisation is essential for the future of the UK steel industry and will require a huge amount of investment. This in turn requires an environment which makes the UK steel industry an attractive investment proposition for the international parent companies who own them. A market which is exposed to damaging subsidised imports is exactly the opposite of what is required at this critical period of transition.

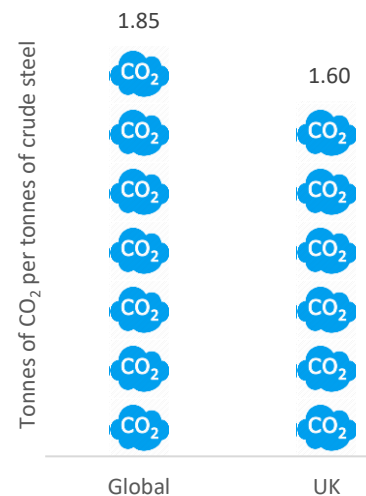
## 2.5 Presumption that the Economic Interest Test has been met

It is important to emphasise that the UK legislation<sup>21</sup> establishes a presumption in favour of the economic interest test having been met.

*“That test is presumed to be met unless the TRA or, as the case may be, the Secretary of State is satisfied that the application of the remedy is not in the economic interest of the United Kingdom.”*

Therefore, the burden of proof rests on the TRA (or Secretary of State) to demonstrate clearly that maintaining the measure would not be in the economic interests of the UK, if the Economic Interest Test (EIT) were to be used as justification for the revocation of the measure. Demonstrating that maintaining the measure would not be in the economic interests of the UK must require the presentation of reasonable, robust and verifiable evidence to support this conclusion. In the absence of this reliable evidence base that stands up to independent scrutiny, the legislation is clear that that the TRA should presume that the EIT has been met.

### GHG Emissions per tonne of steel produced



Source: WorldSteel, CO<sub>2</sub> Data Collection Summary Report 2018

<sup>20</sup> Defra conversion factor for large container vessel of 0.01267 kgCO<sub>2</sub>e/tonne product/km shipped. Shipping distance from Shanghai to Dover of 22,000 km. Estimated CO<sub>2</sub>e emissions of 278 kg per tonne.

<sup>21</sup> Taxation (Cross-border Trade) Act 2018, Schedule 4, Part 6, Paragraph 25 (3)