

## Case SE0041: Safeguard Measure of Certain Steel Products Extension Review

UK Steel submits that the UK's steel safeguards must be maintained across all product categories until June 2026. UK Steel provides evidence and analysis in this response demonstrating that:

- Surges in imports are highly likely to recur as a result of global overcapacity and trade diversion.
  - Global excess capacity is increasing while steel demand has declined – future trends point to continuing growth in capacity against slow demand recovery.
  - Section 232 tariffs will remain in place for the foreseeable future.
  - The EU is highly likely to retain its safeguards until 2026.
  - Chinese production and exports are increasing against a backdrop of a struggling domestic market.
  - Global conditions point to a large amount of surplus material that will be looking for export markets – a UK market without safeguards would become prime target
- Increased imports are highly likely to cause serious injury to UK producers.
  - The UK industry is in a vulnerable state due to high costs and weak demand – in such an environment, increased imports resulting in a loss of domestic market share and suppressed prices will undoubtedly cause serious injury to UK producers.
  - The scale of likely trade diversion and excess capacity is such that it dwarfs the many times smaller UK market – even a small proportion of global surplus material ending up in the UK would completely overwhelm the UK market.
  - The interconnectivity of steel products and steelmaking production economics mean that injury to individual product lines will have wider knock-on effects, amplifying the injury suffered.
- The steel industry is a strategic foundation sector which supports national and local economies and thousands of highly-skilled, well-paid jobs across the country.
  - Removing the measure would gravely impact the sector and the jobs it supports, and undermine its competitiveness at a critical time of Net Zero transition.
  - Maintaining the measure helps level the playing field in a global market rife with distortions.
- The sector has been making adjustment efforts, but recent years have seen a number of unforeseen shocks, including the pandemic and war in Ukraine, which the sector needs longer to adapt to.

### 1. Import trends

Total UK imports of the products under review decreased during the period of investigation, as did UK production and demand. Imports dropped by 33%, production by 19%, while demand dropped by 27%.<sup>1</sup> There are a number of reasons for the reduction in imports other than the introduction of safeguards, including the impacts of the Covid-19 pandemic, Brexit and the war in Ukraine, plus sanctions on Russia, all of which impacted global supply chains and lead times, therefore impacting imports. However, imports for certain product categories increased substantially, namely rebar and large welded tubes.

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<sup>1</sup> ISSB, using data collected from steel companies and HMRC trade data.

**Table: Annual UK imports, production and demand of goods subject to review on a fiscal year basis (April to March) [REDACTED]**

	2018-19	2019-20	2020-21	2021-22	2022-23
<b>Imports (Tonnes)</b>	5,906,479	4,877,177	3,716,717	5,035,480	3,941,673
<b>Imports Index</b>	100	83	63	85	67
<b>Production (Tonnes)</b>					
<b>Production Index</b>	100	92	97	93	81
<b>Demand (Tonnes)</b>					
<b>Demand Index</b>	100	87	75	91	73

Source: ISSB

While quota utilisation has been low particularly in recent quarters, it should be noted that these quotas had been calculated when steel demand was higher and they have been further liberalised every year since 2018 when the measure was first introduced. Import pressure remains, particularly from certain origins where there is excess capacity and which benefit from lower costs.

Furthermore, even if quotas are not being exhausted, the presence of safeguards acts as an essential safety valve and deterrent. Removing UK safeguards when the EU maintains its own measures, would signal that the UK welcomes any surplus diverted steel that other markets are shielding themselves from.

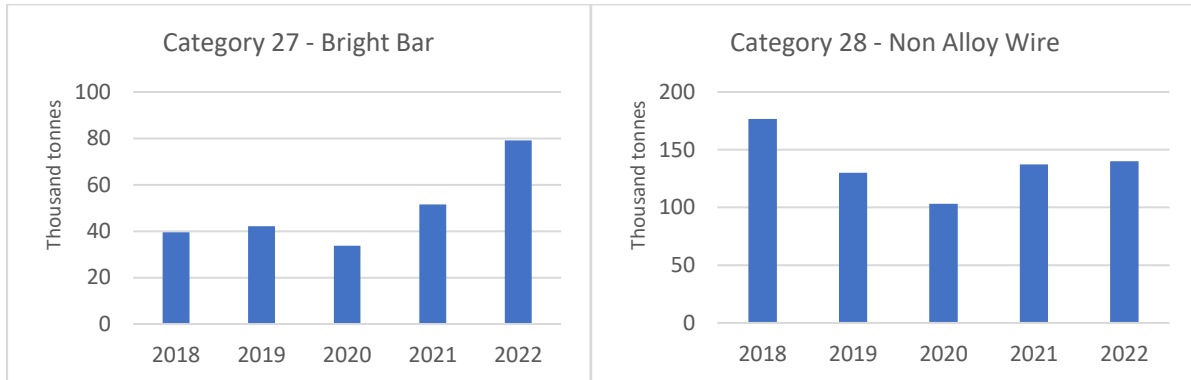
## 2. Likelihood of recurrence of an increase in imports

Steel imports into the UK will undoubtedly surge and cause serious injury to UK producers, should the current safeguard measure be terminated. All the factors that first led to the introduction of the measure are still very much in place: global excess steelmaking capacity and US Section 232 tariffs. For this very reason, the EU is likely to maintain its own measure until 2026. The UK is exposed to double the amount of trade diversion in the absence of a safeguard, not just from the volumes diverted away from the US, but also those diverted away from the EU. Increases in imports into the UK will therefore certainly recur as a result of trade diversion, should the measure be removed.

This has been exemplified in cases where certain countries that are considered developing and are exempted from the safeguards, have taken advantage of their exemption and significantly increased their exports to the UK. The TRA found this to be the case in its latest review of developing country exceptions.

Significant increases in imports have also taken place for bright bar and wire (previously categories 27 and 28 respectively) since the safeguard measures were removed for these products, while the EU has retained its own measures. Imports of wire into the UK have climbed to above 2019 levels, while imports of bright bar have nearly doubled since 2019. While there has been reduction in domestic bright bar production over the period by one producer, this demand has not been picked up by other domestic producers even though there is spare capacity. Instead, this market share has gone directly to imports as bright bar from abroad is able to undercut the UK market. This is clear evidence of what would occur across all product categories in the absence of safeguards.

**Chart: UK imports of bright bar and wire, 2018-2022**



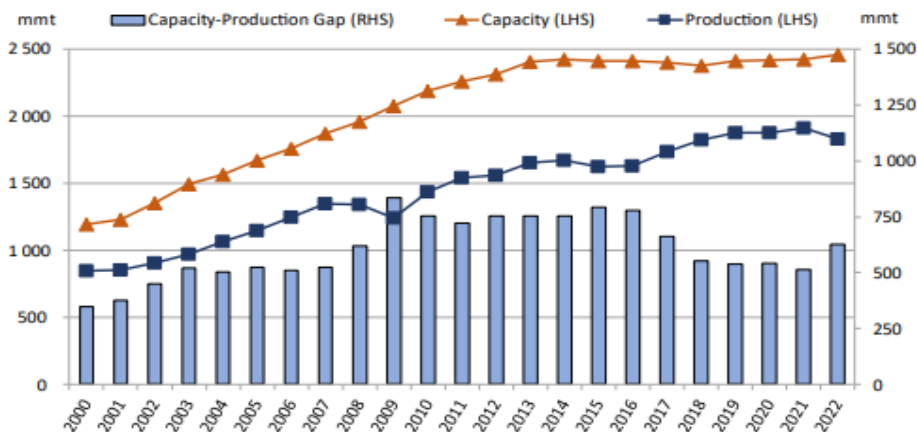
Source: ISSB

For as long as Section 232 tariffs and EU safeguards are in place, and for as long as the global steel market continues to suffer from excess capacity fuelled by government subsidies, then the UK industry will be exposed to trade diversion and serious injury. The global steel market is subject to severe distortions, meaning that UK producers are having to compete in an unfair trading environment. Excess volumes will find their way into any market that leaves itself exposed, suppressing prices and profitability for UK producers and threatening their long-term viability. With the US and EU markets protected, the UK would become prime target for excess material, so imports are bound to increase significantly without a safeguard in place.

### Excess capacity is increasing

Excess steel capacity is a well-established fact and a long-standing challenge for the global steel industry. The most recent estimates by the OECD point to continuous increases in steelmaking capacity, resulting in a surge in the gap between global capacity and crude steel production to 627.7 million tonnes (Mt) in 2022 from 512.6 in 2021.<sup>2</sup> In 2022 alone, global steelmaking capacity increased by 32.1Mt to 2.5 billion tonnes, the highest global capacity figure in history. To put this into perspective, Vietnam which is a large steel-producing country has a capacity of 26Mt and yet the yearly increase in capacity is much larger than that – it is also more than five times the entirety of the UK’s production last year.

**Chart: Global crude steelmaking capacity and crude steel production 2000-2022**



<sup>2</sup> [Latest developments in steelmaking capacity 2023 \(oecd.org\)](https://www.oecd.org/industry/steel/latest-developments-in-steelmaking-capacity-2023/)

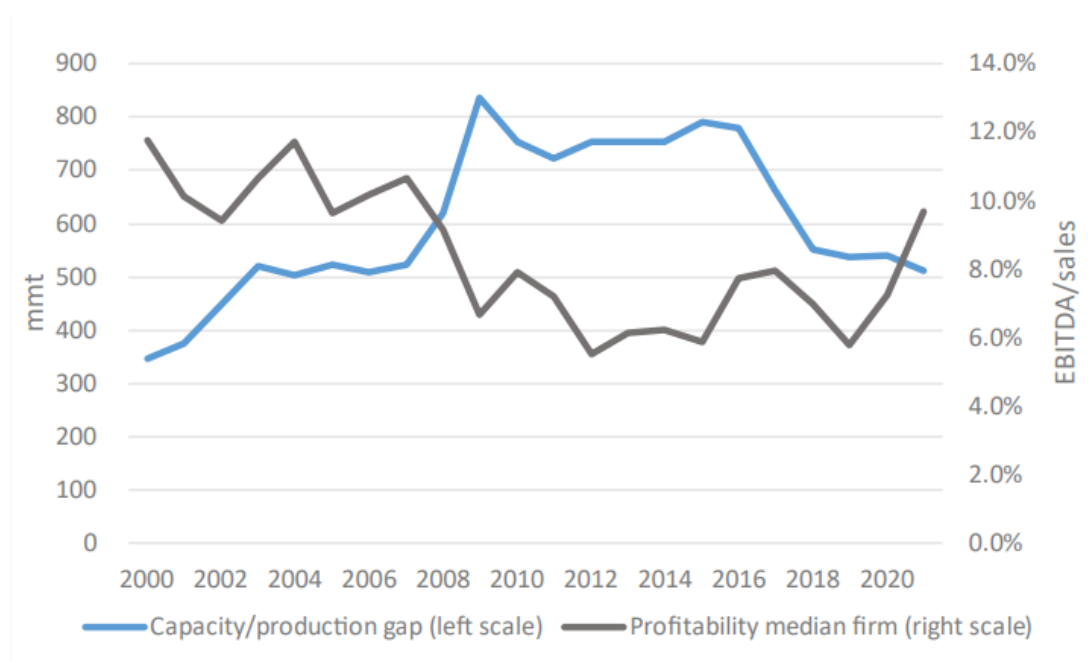
Source: OECD, Latest Developments in Steelmaking Capacity 2023 (data from OECD for crude steelmaking capacity and World Steel Association for crude steel production)

The OECD notes: *“Despite declining steel demand, and a weak outlook, capacity expansions continue at a robust pace, often in pursuit of export markets. [...] The recent rise in excess capacity poses risks for the long-term health and viability of the steel industry, and its ability to enable economic growth and prosperity. Tackling excess capacity therefore remains a prerequisite for enabling stable steel market conditions, where steel companies operate on a fair and level playing field.”*<sup>3</sup> Furthermore, the OECD report describes the falling levels of capacity utilisation (74.5% in 2022 versus 78.9% in 2021) as *“not in line with a healthy and financially viable industry”*.

The OECD reports a total of 59.9Mt of capacity expansions underway for completion over the next three years and an additional 106.2Mt in the planning stages, which would increase global steelmaking capacity by a further 6.8%. The OECD highlights that the significant capacity expansions in many countries over the past five years have not been matched by sufficient demand growth, therefore resulting in surplus volume released in export markets, depressing prices and profitability.

In an environment where global overcapacity continues to increase, surplus material will continue to look for export markets to be directed to. The UK market of less than 10Mt is dwarfed in comparison to this surplus material in excess of 600Mt. Even if a small part of this was diverted to the UK, this would very quickly flood our market and severely injure domestic producers.

**Chart: The negative relationship of capacity/production gaps and profitability in the steel industry**



Source: OECD, Latest Developments in Steelmaking Capacity 2023 (data from OECD, Worldsteel, Refinitiv)

<sup>3</sup> Ibid, page 4.

## **Expectation US Section 232 tariffs will remain in place for the foreseeable future**

The Biden administration is showing no appetite of removing Section 232 tariffs, certainly not ahead of the Presidential election. A change of administration is also unlikely to result in any changes in that respect. Section 232 tariffs have worked very well for the US industry and are a very popular measure domestically. The US has proceeded to form deals with several countries including the UK, the EU and Japan to create a system of tariff-rate quotas, but tariffs are very much still in place on the vast majority of imports into the US. Therefore, there is no change in terms of the risk of trade diversion and the reason why safeguards were introduced in first place. The countries with which the US has formed deals with are not in any event the countries responsible for rising overcapacity. These deals further confirm the US intention to retain 232 tariffs.

US negotiations with the EU on the Global Arrangement on Sustainable Steel and Aluminium are ongoing with an announcement due by the end of October. While we will have to see the outcome of these discussions, our understanding is that the focus is primarily on addressing the issue of excess capacity. The US is keen to apply tariffs on imports – we will have to see whether this will be on an emissions basis or otherwise. In any event, the direction of travel for US policy is towards more tariffs not less. We do not expect much change in the status quo by the October announcement, but even if Section 232 tariffs were to be removed, it would only be for them to be replaced by other tariffs. In that sense, trade diversion from the US market will continue to impact the UK market.

## **Expectation the EU will extend its own safeguard, doubling impact of trade diversion**

The European Commission confirmed in June this year that EU safeguards will be maintained until June 2024 as early termination of the measure “would not be justified”<sup>4</sup>. This was in relation to the EU’s interim review which was built into the latest two-year extension of its steel safeguards in 2022. The notice stated that the main reason why safeguards were first introduced, namely the risk of trade diversion as a result of US Section 232 tariffs, is still in place and will remain so in the near future, while global steelmaking overcapacity has further increased.

Furthermore, there is no evidence of shortage for EU steel users, but ample quota availability to source material tariff-free from a variety of origins. The Commission notes that this is underpinned by lower consumption, but actually import pressure remains and imports maintain a historically high market share. Besides, tariff-rate quotas will be further liberalised by 4% for July 2023-June 2024 as planned.

It is unlikely that the Commission will come to a different conclusion in its upcoming extension review to that reached just a few months ago. Furthermore, the EU carbon border adjustment mechanism (CBAM) will be fully implemented in 2026. While CBAM is of course a very different type of measure designed to address carbon leakage and not an increase in imports, it will almost certainly feature in the Commission’s thinking given the timelines involved. Safeguards can only be extended for a maximum over another two years until 2026 and would have to expire after that. There is no reason why the EU would leave its market completely unprotected for two years, when it could offer its industry a smooth transition from one measure to the other. There are also increasingly calls in the EU to consider new tools to address the problem of overcapacity, given that safeguards cannot be extended beyond 2026.<sup>5</sup> The Global Arrangement on Sustainable Steel and Aluminium could offer a new approach and could lead to more tariffs against imports from sources of non-market excess capacity. This further demonstrates the EU’s growing inclination to take a stronger stance on tackling high-emissions overcapacity.

The UK and the EU will be carrying out their safeguards investigations in parallel and the maintenance of the EU measure will of course be a key factor in assessing the magnitude of likely trade diversion.

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<sup>4</sup> [EUR-Lex - 32023R1301 - EN - EUR-Lex \(europa.eu\)](#)

<sup>5</sup> [EUROFER calls for robust EU-US Global Arrangement to address steel industry’s existential challenges](#)

The Commission's findings in its latest review provide a strong indication of the direction of travel in the EU and therefore the TRA must review the UK safeguards under the assumption that the EU will also be maintaining its measure.

## Weak steel demand in China against rising production

China produces more than half the world's crude steel and consumes about half of it as well, so market developments and conditions in China are central to world steel trends and dynamics. The domestic Chinese market has been struggling for some time, particularly the construction sector, and this represents a structural change for global steel demand.

While the Chinese government has been trying to provide stimulus to the property sector and the wider economy, the impact has been relatively marginal, with increases mainly in infrastructure spend, while the real estate sector continues to struggle, as demonstrated by the charts below. This is also confirmed by the recent National Bureau of Statistics report showing January-August 2023 property investment decline further, posting a drop of 8.8% year-on year from 5.7% at the beginning of the year.<sup>6</sup> August investment at CNY 918.3 billion (\$125.9 billion) was almost flat to July, the latter representing a six-year low excluding January-February 2023, and down 19.1% from a year ago.<sup>7</sup>

[CHARTS REDACTED DUE TO WORLDSTEEL COPYRIGHT]

Source: World Steel Association

The downturn in the Chinese real estate market combined with high levels of indebtedness have seen major developers descend into deep financial difficulties. In August, real estate conglomerate Evergrande filed for bankruptcy protection, having defaulted in 2021. Country Garden is feared to be the next major developer to be in the same position. Overall, companies responsible for about 40% of Chinese home sales have defaulted since 2020.<sup>8</sup> Infrastructure demand is also reported to be hampered by local government debt issues, and overall construction steel demand in China is expected to remain subdued for some time to come.<sup>9</sup>

The outlook for broader manufacturing is similarly not particularly optimistic. According to the China Federation of Logistics and Purchasing (CFLP), China's manufacturing PMI for the steel industry in August 2023 decreased by 4.7 points to 45.2 compared to July 2023.<sup>10</sup> The wider manufacturing PMI was higher at 49.7 but still below the 50 mark, indicating contraction in activity.

The challenging domestic environment is also reflected in the financial performance of Chinese steel producers. According to the China Iron & Steel Association, the total profit of its members slumped 68.76% on-year in the first half of 2023, and 44.57% of its members suffered losses during the period.<sup>11</sup>

Despite weak domestic demand, steel production in China is continuing to increase, as are exports. Crude steel production in the first seven months of 2023 increased by 2.5% on year to [REDACTED DUE TO WORLDSTEEL COPYRIGHT]Mt, while apparent crude steel use declined by 0.5% to [REDACTED DUE TO WORLDSTEEL COPYRIGHT]Mt.<sup>12</sup>

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<sup>6</sup> [China's property industry struggles in August \(kallanish.com\)](#)

<sup>7</sup> Ibid.

<sup>8</sup> [China's property crisis deepens with developer Country Garden at risk of default | China | The Guardian](#), [China property: accelerating meltdown threatens other markets | Financial Times \(ft.com\)](#), [Country Garden: Debt-laden China property giant in record loss - BBC News](#)

<sup>9</sup> [China's construction steel demand expected to be subdued for rest of 2023 | S&P Global Commodity Insights \(spglobal.com\)](#)

<sup>10</sup> [China Monthly 196.pdf \(worldsteel.org\)](#)

<sup>11</sup> [Five Chinese listed steelmakers report slumping profit \(kallanish.com\)](#)

<sup>12</sup> [China Monthly 196.pdf \(worldsteel.org\)](#)

## Chart: Chinese crude steel monthly production 2022-2023 (Jan-Jul)

[CHART REDACTED DUE TO WORLDSTEEL COPYRIGHT]

Source: Worldsteel

Furthermore, inventories were reported to have increased over the summer, particularly for rebar and hot-rolled coil.<sup>13</sup> Recently there were also reports of mills pushing exports of wire rod to reduce inventory pressure.<sup>14</sup> Government rhetoric around curtailing production has not materialised in practice, certainly not at the rate of the drop in demand. While there are some localised cuts in production, overall output continues to increase and inventories continue to build.<sup>15</sup> This is reflected in falling prices in China for both flat and long products – indeed prices that are substantially lower than European prices, further increasing the incentive to maintain high production for exports.

## Chart: HRC and rebar weekly prices in China and Northern Europe

[CHART REDACTED DUE TO KALLANISH COPYRIGHT]

Source: Kallanish

Chinese steel production has consistently been larger than its domestic demand and in recent years, demand has been declining at a faster rate than production. Production is indeed on the rise so far in 2023, as mentioned earlier.

## Chart: China crude steel production and demand 2015-2022

[CHART REDACTED DUE TO WORLDSTEEL COPYRIGHT]

Source: Worldsteel

Weak domestic demand while production remains high would further increase the incentive for Chinese producers to seek export markets to direct excess volumes, particularly when prices are much higher at destination markets. Indeed, exports of semi-finished and finished steel over January-July 2023 jumped by 30% year on year to [REDACTED DUE TO WORLDSTEEL COPYRIGHT].<sup>16</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.

## Chart: Chinese steel monthly exports 2022-2023 (Jan-Jun)

[CHART REDACTED DUE TO WORLDSTEEL COPYRIGHT]

Source: Worldsteel

In short, the market conditions in China can be summarised as high production levels against waning domestic demand, mounting inventories and a wide price differential between Chinese and Northern European prices (which UK prices track), combined with trade defence measures in key export markets. As a result, the likelihood that Chinese exports will be directed in increased quantities to the UK if safeguard measures are dropped is extremely high. Furthermore, weak demand in China has a knock-on effect on other Asian producing countries which trade with China and which have increasing capacities themselves, such as Vietnam. This means even more excess material looking to be diverted.

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<sup>13</sup> [Steel futures return to falling as inventory hikes \(kallanish.com\)](#)

<sup>14</sup> [China wire rod exports fall on domestic rout \(kallanish.com\)](#)

<sup>15</sup> [China waits longer for large-scale steel production cuts \(kallanish.com\)](#),  
[Chinese HRC prices fall to year low \(kallanish.com\)](#),  
[China's rebar market collapses after holiday \(kallanish.com\)](#)

<sup>16</sup> [China Monthly 196.pdf \(worldsteel.org\)](#)

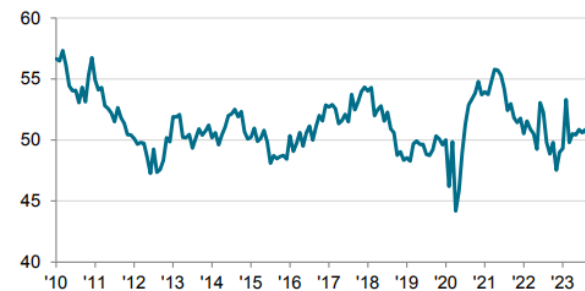
## Global market conditions

Steel is a global commodity that is highly internationally traded and therefore global conditions have a bearing on the steel market in the UK. 25% of all steel produced globally crosses borders and the figure rises to 45% when excluding China. High levels of production are unlikely to be absorbed when economic activity remains dampened, with the European region being the hardest hit. According to the IMF's latest projections, global economic growth will slow from 3.5% in 2022 to 3% in 2023 and with the 2024 forecast downgraded by 0.1% from its summer projection to 2.9%.<sup>17</sup> For the Euro Area, the 2023 and 2024 figures are 0.7% and 1.2% respectively, while for the UK, growth prospects are even slower at 0.5% and 0.6%.<sup>18</sup>

The picture is confirmed in a steel context, by the global steel users PMI pointing to a near stagnation at only marginally above 50, but with contractions in the US and even more so in Europe.<sup>19</sup>

S&P Global Steel Users PMI

sa, >50 = improvement since previous month

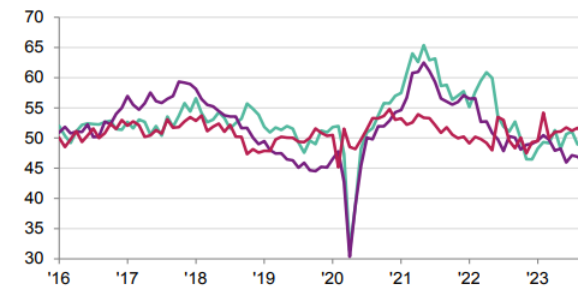


Source: S&P Global PMI.

Steel Users PMI by region

Europe USA Asia

sa, >50 = improvement since previous month



Source: S&P Global PMI.

The World Steel Association expects world steel demand to grow by 1.8% in 2023 and 1.9% in 2024, after contracting by 3.3% in 2022.<sup>20</sup> This represents a downward revision from the April forecast of 2.3% growth for 2023, but a slight improvement from 1.7% for 2024. For the EU and the UK, steel demand is expected to fall by 5.1% in 2023 (revised down from -0.4% in the April forecast) and recover more strongly in 2024 by 5.8%, albeit following a drop of 7.8% in 2022. For China, the World Steel Association expects an increase of 2% for total steel demand in 2023, staying flat into 2024, both of which are subject to government stimulus, after a drop of 3.5% in 2022. Forecasts have also been downgraded for ASEAN countries, including Vietnam. Downside risks are identified in the shape of persistent inflation, regional conflicts, as well as “volatility and uncertainty” for the Chinese economy given that it is in a “structural transition phase”.<sup>21</sup>

<sup>17</sup> [World Economic Outlook, October 2023: Navigating Global Divergences \(imf.org\)](https://www.imf.org/en/Publications/WEO/Issues/2023/08/01/wEO-23-01)

<sup>18</sup> Ibid.

<sup>19</sup> <https://www.pmi.spglobal.com/Public/Home/PressRelease/a432fbcfbced4eb6bfbd4dc891cbe3b>

<sup>20</sup> [worldsteel Short Range Outlook October 2023 - worldsteel.org](https://www.worldsteel.org/en/short-range-outlook-october-2023)

<sup>21</sup> Ibid.

**Table: Top 10 steel using countries – World Steel Association short-range outlook October 2023**

Countries	2022	2023 (f)	2024 (f)	2022	2023 (f)	2024 (f)
China	920.9	939.3	939.3	-3.5	2.0	0.0
India	116.2	126.1	135.8	9.3	8.6	7.7
United States	94.5	93.5	95.0	-2.6	-1.1	1.6
Japan	55.0	53.9	54.2	-4.2	-2.0	0.6
South Korea	51.3	53.0	53.6	-8.5	3.3	1.1
Russia	41.7	43.8	43.8	-5.0	5.0	0.0
Türkiye	32.5	38.7	40.6	-2.6	19.0	5.0
Germany	32.4	29.2	32.3	-8.8	-10.0	10.6
Italy	25.1	23.3	24.4	-5.6	-7.2	4.8
Mexico	25.0	26.6	27.2	-2.0	6.6	2.0

*f - forecast*

Source: Worldsteel

The weak global demand conditions against the backdrop of global excess capacity, coupled with trade defence measures in key markets for steel, create ripe conditions for surges in imports to the UK as surplus material will be diverted to unprotected markets. The widening discrepancy in the cost base faced by steelmakers around the world, particularly energy and carbon costs, further adds to the competitive challenges. Europe and the UK have been disproportionately affected by the recent energy crisis given our energy systems' reliance on gas. Furthermore, steelmakers in the EU and the UK face carbon costs which the vast majority of steel producers around the world do not. Indeed, over 90% of the steel produced globally faces no real carbon cost and 40% of the UK's imports are from countries that do not face comparable carbon costs.<sup>22</sup> This further adds to the lack of a level playing field for steel companies in the UK and provides an unfair advantage for exporters to undercut our market. This means that the UK market would be an additionally attractive destination for surplus steel looking for export markets.

### 3. Likelihood of serious injury

The UK industry is in a vulnerable position and highly susceptible to injury in the event of an increase in imports.

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 and now the impact of high inflation and interest rates on end-use demand. Exorbitant energy costs have reduced production and demand in the UK and across Europe. In 2022, overall UK steel production plummeted to the lowest level since the Great Depression at 6 million tonnes, a drop of 17% on year.<sup>23</sup> Much of the world saw drops in steel production last year as a result of reduced demand and high energy prices, but not quite as steeply as the UK (-4.3% globally and -10.5% for EU27)<sup>24</sup>. This is partly because the UK electricity market is more exposed to gas prices than other competitors in the region, making steel production more expensive. UK demand also plummeted in 2022 by 15% to 8.9Mt, only slightly higher than the 8.6Mt in 2020 during the pandemic.<sup>25</sup>

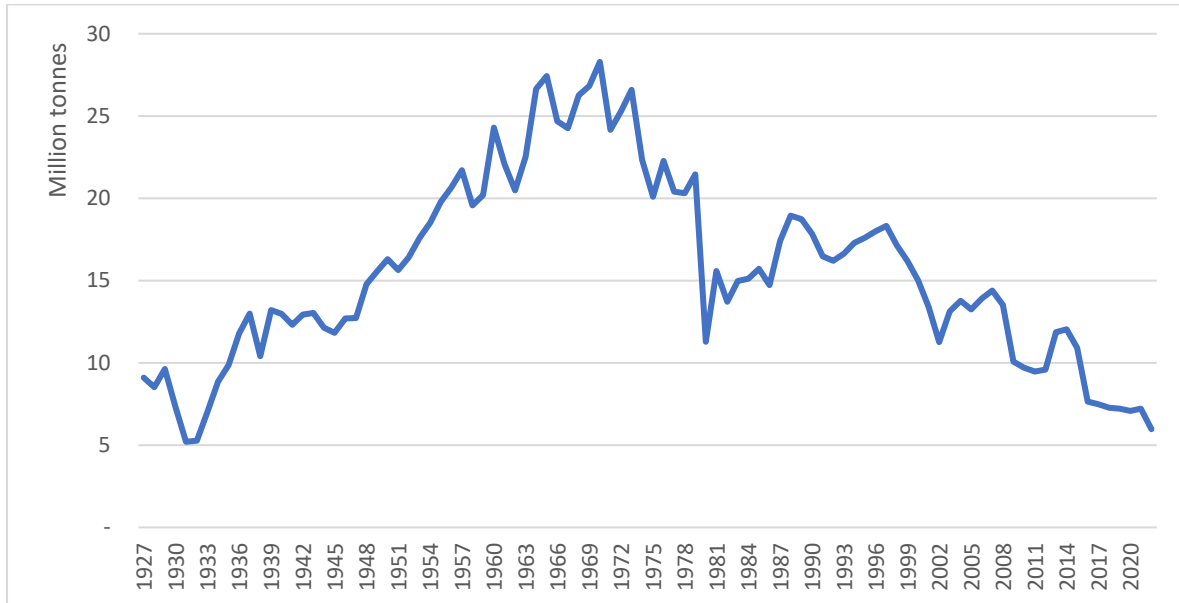
<sup>22</sup> ISSB and UK Steel analysis.

<sup>23</sup> ISSB data collected from UK producers, [UK Steel Key Statistics 2023 | Make UK](#)

<sup>24</sup> [December 2022 crude steel production and 2022 global crude steel production totals - worldsteel.org](#)

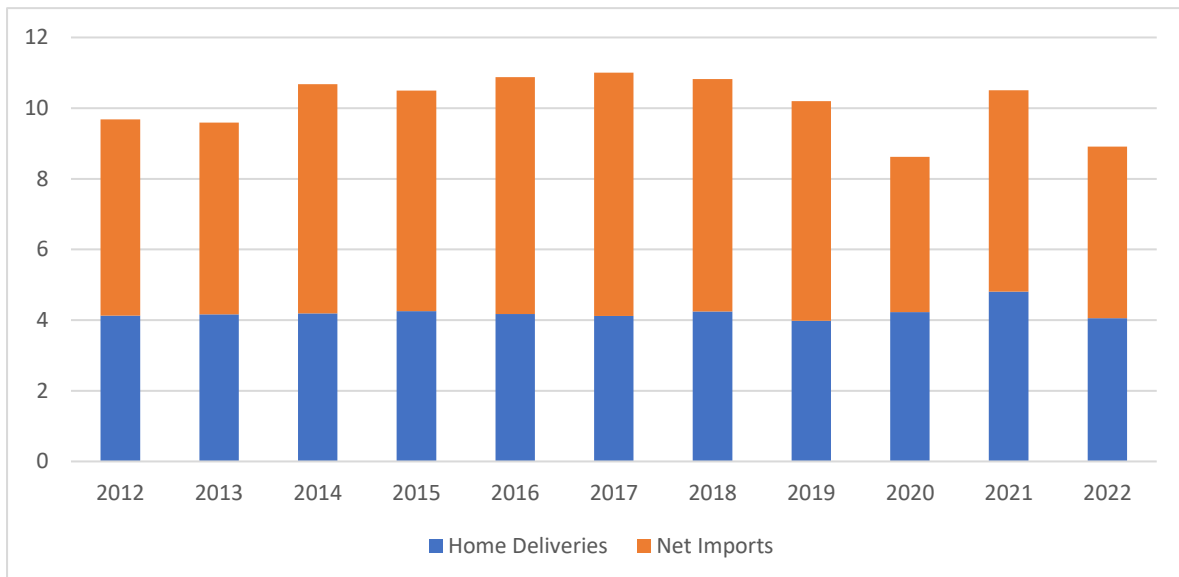
<sup>25</sup> ISSB for UK domestic deliveries, HMRC for imports.

**Chart: UK crude steel production 1927-2022**



Source: ISSB

**Chart: UK demand for steel mill products 2012-2022**



Source: ISSB

The global outlook for the coming years is highly uncertain, and so is the outlook for the UK steel market. UK Steel's own forecast sees a very modest recovery in steel demand for 2023 and 2024 across the main end-use sectors, and staying flat or increasing only marginally into 2025. This follows a sharp contraction in demand in 2022 and even by 2025 demand levels are expected to remain well below 2019 levels.

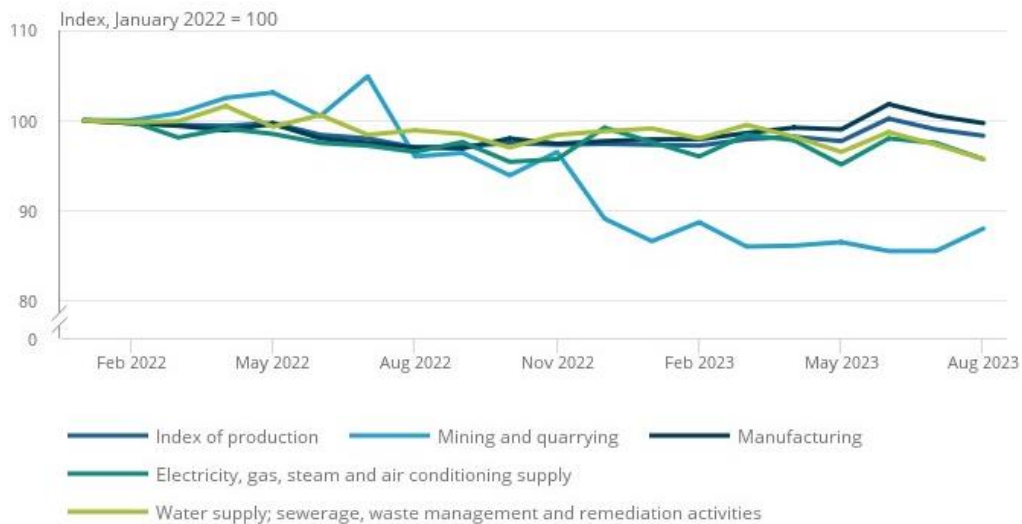
**Table: UK steel demand by end-use sector (Mt), actual 2018-2022, forecast 2023-2025**

[CONFIDENTIAL]

Source: ISSB, UK Steel

These forecasts are likely to suffer downward revisions by the next quarter as 2023 figures have been supported by a better than expected performance in the first half of the year, but Q3 demand has been reported by market participants as markedly slower with low forward orders.<sup>26</sup> This is in line with ONS estimates which record a flat GDP trajectory for the UK economy, and even that, largely held up by services, with a drop in production output by 0.7% in August 2023, after falling by 1.1% in July.<sup>27</sup> The largest driving sub-sector was manufacturing, which fell by 0.8% in August, while construction sector output fell by 0.5% in August, following a drop of 0.4%.<sup>28</sup>

**Chart: UK production output monthly index, January 2022-August 2023**



Source: GDP monthly estimate from the Office for National Statistics

**Chart: UK construction output monthly index, January 2010-August 2023**

<sup>26</sup> 2023 demand contains actual demand figures for the first half of the year, with the second half being forecast by UK Steel based on Oxford Economics GVA projections and historical demand data provided by ISSB.

<sup>27</sup> [GDP monthly estimate, UK - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk/gdp/monthly-estimate-uk)

<sup>28</sup> Ibid.

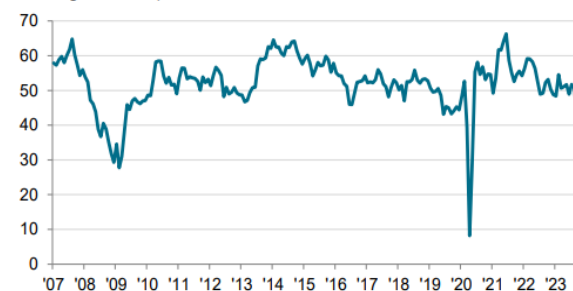


Source: Construction output and employment from the Office for National Statistics

The Construction Products Association has a more pessimistic forecast with construction output in the UK expected to drop by 7% in 2023 before recovering slowly in 2024 with growth of just 0.7%.<sup>29</sup> Inflationary pressures, high interest rates and wider economic uncertainty have weighed on activity across end-use sectors and expectations for recovery have been pushed back every quarter.

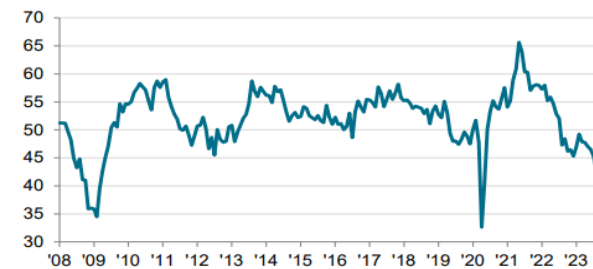
This is confirmed by the latest UK construction PMI, slumping to 45 in September and posting the steepest decline in construction output since May 2020.<sup>30</sup> Housebuilding activity has been slow for some time, but now commercial and infrastructure builds have also been cut back, leading business expectations to be at their lowest in 2023.<sup>31</sup> Meanwhile, the UK's manufacturing PMI has been indicating contracting activity for the last seven months, recording some of the weakest readings over the past 14 years. The September reading was at 44.3, while August at 43 represented a 39-month low.<sup>32</sup>

Construction Total Activity Index  
sa, >50 = growth since previous month



Sources: S&P Global, CIPS.  
Data were collected 12-28 September 2023.

UK Manufacturing PMI  
sa, >50 = improvement since previous month



Source: S&P Global PMI.  
Data were collected 12-26 September 2023.

The only exceptions to this gloomy picture are the more specialised sectors of oil and gas, defence and aerospace, where demand has remained buoyant, but these represent small fractions of overall steel demand.

<sup>29</sup> [Construction Industry Forecasts - Summer 2023 \(constructionproducts.org.uk\)](https://www.constructionproducts.org.uk)

<sup>30</sup> <https://www.pmi.spglobal.com/Public/Home/PressRelease/df818938668b447aa81b86640e52ccae>

<sup>31</sup> Ibid.

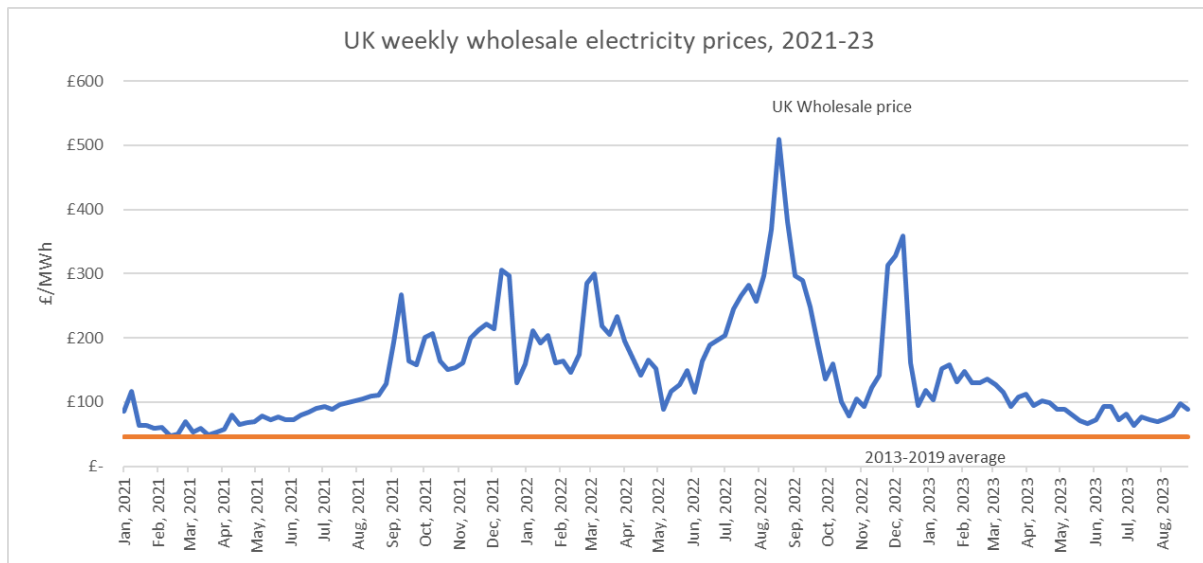
<sup>32</sup> <https://www.pmi.spglobal.com/Public/Home/PressRelease/fa9e229d403f4149ba6769f32fc24b51>

In the EU, our largest export market, steel demand has also suffered and the outlook is subject to a high degree of uncertainty. The European Steel Association, Eurofer, foresees a 3% contraction to steel demand in 2023 (revised downwards in July from -1%), with a 6.2% recovery expected in 2024.<sup>33</sup>

While steel prices remain at higher than pre-Covid and pre-war levels, this is a result of the high input prices faced by producers, both electricity and raw materials. While many of these costs have normalised from the peaks of 2021 and 2022, they remain above historic levels. Therefore higher steel prices should not be mistaken for high profits.

[CHARTS REDACTED DUE TO KALLANISH COPYRIGHT]

Source: Kallanish



Source: NordPool Group

Against the weak steel demand environment both at home and at export markets, the massive increase in input and energy costs over the past year has left the UK industry in a fragile state. This is further compounded by the huge global overcapacity issue. In this context, a sharp increase in imports would certainly be severely injurious.

### Interconnectivity of steel products amplifies the effects of injury

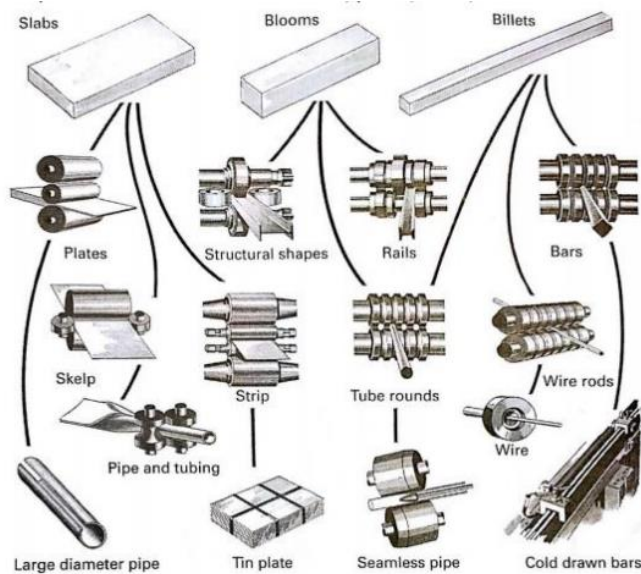
While we understand that the TRA must assess the likelihood of injury at the individual product category level, the interconnected nature of steel products and steel production economics are such that injury on one product line will have a knock-on effect on multiple other products.

Most plants will produce multiple steel products and the profitability of each 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. For example, a plant with a continuous slab caster and appropriate rolling mills 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. Similarly, from billet, a plant can make rebar and wire rod and will often make both, which in turn can be further processed into other downstream products. Indeed, rebar

<sup>33</sup> [Economic and steel market outlook 2023-2024, third quarter \(eurofer.eu\)](https://www.eurofer.eu/economic-and-steel-market-outlook-2023-2024-third-quarter)

and wire rod are completely interchangeable in terms of production technology and can also be substitutable in terms of their end use.

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. Steel plants will typically need to run at around a 70-75% capacity utilisation rate before they break even and begin 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. Indeed, many parts of the 'heavy end' such as production of coke and iron cannot simply be turned on and off. This highlights how delicate the balances are and knock-on effects that individual products can have on the overall profitability of a plant.



In contrast, importers and downstream users have great flexibility in where to source steel 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. They are therefore far less vulnerable and can more easily pass on increased costs to consumers. In relation to downstream users, steel costs are a tiny fraction of any end-product.

## 4. Economic effects of the measure

Maintaining the UK's safeguards until June 2026, would enable the domestic steel industry to compete on a level playing field at a time when global distortions are rife and when the industry is having to continuously adapt to shocks: the effect of the pandemic and the war in Ukraine on costs and supply chains, weak demand and outlook uncertainty, decarbonisation pressures and rising carbon costs, as well as carbon leakage. The UK steel sector must remain shielded from surges in imports beyond traditional flows. Already quotas are generously sized when accounting for the lower levels of demand. But even if quotas are not getting filled, import pressure remains high.

It is essential that the safeguard remains in place, given the enormous risk of trade diversion that could flood the many times smaller UK market. While the UK steel industry faces wider challenges, a surge in imports would truly and significantly damage the sector. With the safeguards in place, the UK steel sector would have the space to continue to adjust and continue to support national and local economies, as well as well-paid, highly-skilled jobs across the country. The steel industry is also central to the UK's supply chain resilience as well as its decarbonisation journey. Letting the safeguards expire at this time, would put all that at risk.

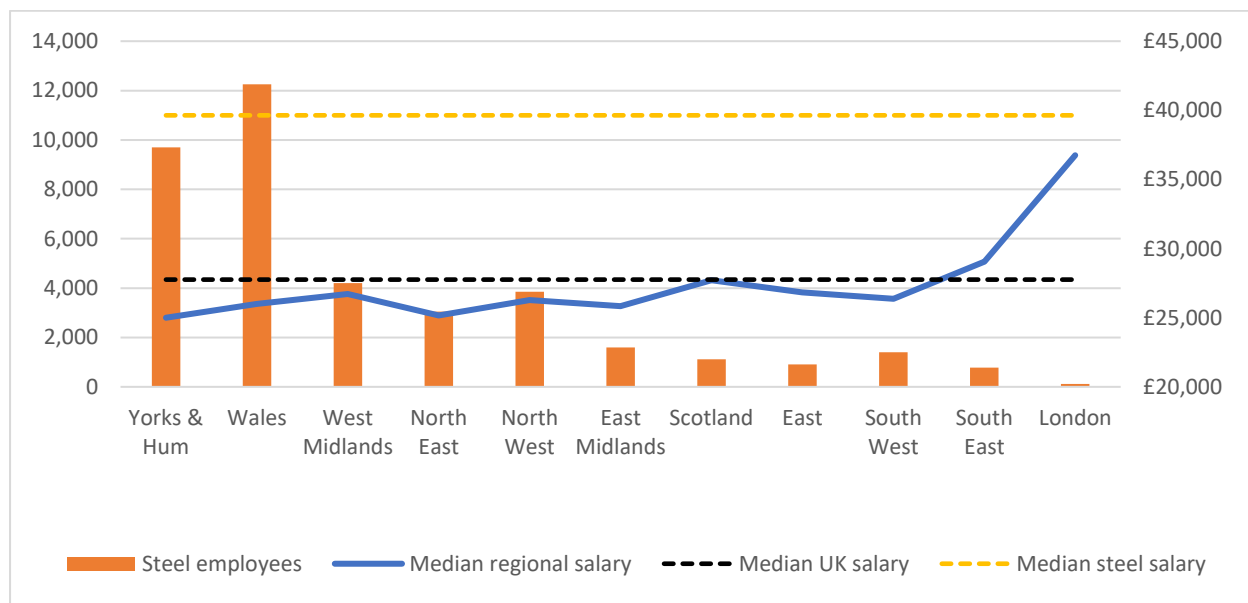
### National and regional economic value and employment

The UK steel industry provides significant employment opportunities across Teesside, Yorkshire and Humberside, the West Midlands and Wales and offers 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.

- The UK steel industry directly employs 39,800 people across the UK – jobs that would be at risk if the health of domestic steel companies is compromised.<sup>34</sup>
- The UK steel industry also supports a further 50,000 in its high-value supply chains.<sup>35</sup>
- The steel industry is predominantly based in the regions of the country the Government is seeking to level-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 (£39,637) is 43% higher than the UK national median and 56% higher than the regional median in Wales, and Yorkshire & Humberside.<sup>36</sup>

**Chart: UK Steel Employment and Pay by Region 2022**



Source: ONS Various and UK Steel Analysis

- The UK Steel Industry makes a £2.9 billion direct contribution to UK GVA and supports a further £3.8 billion in its supply chains.<sup>37</sup>
- UK steel also makes a £2.4 billion direct contribution to the UK’s balance of trade<sup>38</sup>, critical to the Government’s ambitions of developing a more a global trading Britain.
- We train hundreds more skilled individuals every year, providing the UK 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.

<sup>34</sup> ONS – Business Register and Employment Survey 2021

<sup>35</sup> ONS – Business Register and Employment Survey 2021 and ONS Type 1 employment multipliers

<sup>36</sup> ONS – Annual Survey of Hours and Earnings, ASHE Table 16 and ASHE Table 7

<sup>37</sup> ONS GDP Output – low level aggregates 2022 and type 1 multiplier

<sup>38</sup> International Steel Statistic Bureau – UK steel exports net of import of raw materials/inputs

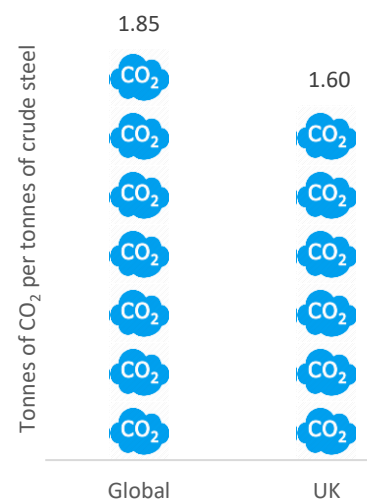
Steel is a foundation industry, feeding into everything from construction to transport, critical national infrastructure, defence, energy pipelines, household goods, food packaging, and medical, industrial and agricultural equipment. Without a homegrown steel industry, these sectors would be at the whim of global events. Steel is the bedrock of the UK’s supply chains and is fundamental to the future of the UK economy, our economic resilience and national security. Steel is also central to any ambition to decarbonise the UK economy and, thanks to its infinite recyclability, it is an essential component of a circular economy. It is used in every single technology that a green economy relies on, from wind turbines and solar panels to electric vehicles and hydrogen infrastructure. It is essential to that we maintain a strong domestic steel sector to underpin a strong, resilient, low-carbon economy.

## Importance of domestic UK steel industry to decarbonisation

Letting the safeguards expire at this time, would imperil the steel sector’s decarbonisation trajectory and also undermine wider efforts to transition to a Net Zero economy.

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 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>39</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.

## GHG Emissions per tonne of steel produced



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

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. By 2026, the EU will be introducing a Carbon Border Adjustment Mechanism (CBAM) which will apply a compliance cost on high emissions steel. This could see UK exports to the EU suffer if the pace of decarbonisation doesn’t pick up. Even worse, if the UK does not introduce an equivalent carbon leakage measure, then large volumes of high emission steel could be diverted to the UK, putting UK production and jobs at risk. 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 UK steel companies an attractive investment proposition for the international parent companies who own them. A market which is exposed to floods of damaging imports is exactly the opposite of what is required at this critical period of transition.

## 5. Adjustment

<sup>39</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.

UK steel producers have made considerable efforts to adjust to the new realities of the market, however, this has been hampered by unexpected events. Just as UK producers were recovering from the effects of the pandemic, Russia's invasion of Ukraine shook world markets in multiple ways and created a whole new set of challenges for companies to adjust to.

First, soaring energy prices drastically increased the cost base for UK steelmakers but also impacted end-use sectors, meaning lower demand, inability to pass on increased costs and ultimately lower profitability. The impact of this war will be long-lasting and the war itself appears no closer to coming to an end. Even when it does, sanctions on Russia will likely take a long time to be removed. Until the time when the UK's electricity market becomes less reliant on gas, UK wholesale electricity prices will remain above those in most competitor countries.

Second the imposition of sanctions on Russia and its steel exports changed trade flows and market dynamics for some products. Given the limited markets for Russian steel, Russian semi-finished products were being sold at steep discounts to countries that are happy to accept Russian material, such as China and Turkey. After processing, these products were then finding their way into the UK market, circumventing the sanctions and being offered at low prices – the initial below-market price for the semi-finished steel allowed for a margin to be made even at these lower export prices. This distorted market dynamics and to counter it, UK Steel called for sanctions to be extended to Russian steel that has been processed in third countries. The UK Government implemented this as of the start of October.

Amidst all this turmoil, UK steelmakers are also being called upon to make huge investments to decarbonise their operations. All while global excess capacity is rising and is set to continue to increase, with global capacity expansions centred on higher emissions blast furnace operations that are not subject to carbon costs. Until the time when an effective carbon leakage mitigation policy is in place in the UK, domestic producers will continue to face an uneven playing field.

The TRA will receive the detail of adjustment strategies from individual producer responses, however it is clear that there is a growing number of challenges and recent changes to market conditions that UK producers will need longer to adjust to.