

Extending the EU Steel Safeguard – Key Elements

EUROFER Request to Open a Review to Extend the EU Steel Safeguard

Summary

The original period of application of the EU safeguard measures against imports of certain steel products (“safeguards”) ends on 30 June 2021, after three years. Given the threatening situation in which foreign trade is finding itself at present, it is extremely important that the European Commission assess the possibility of extending the safeguards.

The critical conditions that led the Commission to introduce the measures in 2018 continue to persist. The steel industry is struggling. Global excess capacity in the steel sector has grown further, not least as a result of the coronavirus crisis. This has also exacerbated the risk of renewed diversions of trade onto the EU market for steel. The punitive U.S. tariffs imposed under Section 232 will continue to apply, rendering a continuation of the safeguards indispensable.

The steel industry is in a profound transformation process as it is adjusting to the import situation and introducing low-carbon processes.

1. Distortions on the global markets are on the rise.

The critical conditions that originally led the European Commission to introduce the safeguards continue to persist and have even deteriorated in the period since the introduction of the safeguards:

Global structural crisis worsening

- Global steel production capacities have increased further. The latest data available to the OECD (June 2020) shows that global capacity grew for the first time since 2014 in 2019, and that it might continue to expand in 2020. The OECD has revised its figures on global steel production capacity for 2019 to 2.414 million tonnes, and is forecasting a rise to 2.456 million tonnes by the end of 2020 (+ 1.7%, +41.8 million tonnes compared to 2019), (this is on the basis of the most recent information on capacity expansion and decommissioning).
- Beyond this, the announcements made on investment projects suggest that global gross capacity is currently being expanded by 17.3 million tonnes which should be ready to operate between 2021 and 2023, with another 26.6 million tonnes of capacity in the planning stages. If all these projects are implemented, this would mean that almost 44 million tonnes of new capacity would be added within three years.

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- There is no reason to expect that the global structural crisis will be resolved in the mid-term future. The Chinese Government, in particular, considers the overcapacity issue resolved. In its Communication on the 14th Five-Year-Plan and the new Vision 2035 Guidelines, there is no longer any mention of reducing capacity. As recently as in September 2020, the OECD established that crude steel capacity in China is expanding again. In addition to China, India and Saudi Arabia have now also withdrawn from the Global Forum on Steel.

Global protectionism on the rise

- This development coincides with a significant tightening of the protectionist measures in place in the global steel trade. In addition to the restrictive (non-)tariff measures that were adopted by a number of third countries (including Turkey, South Africa, and India), a total of 25 new anti-dumping and anti-subsidy measures and 13 safeguards were adopted between July 2019 and June 2020. As a result of these, exports are being diverted to the open EU market, which – in contrast to those of the vast majority of major steel exporters from third countries – is continuing to post a negative trade balance.
- Meanwhile, the United Kingdom is preparing to introduce its own steel safeguard as of January 2021. A review has already been initiated, so that the country could continue its own safeguards when the EU safeguards expire in June 2021.
- If the British safeguards are extended in the absence of an EU safeguard, the steel that would have been bound for the United Kingdom would inevitably be diverted to the EU.

Market distortions caused by U.S. measures will persist

- Just as had been expected three years ago, the strongest impact of the protectionist measures is caused by the U.S. tariffs imposed under Section 232. First, this has meant a palpable decline of EU exports to the U.S. Between 2017 and 2020, EU exports fell by 48%, from 5.2 million tonnes to an estimated 2.6 million tonnes.
- Much more important and devastating, however, have been the massive diversions of trade to the EU. These are goods that would traditionally have been absorbed by the U.S. market, but are now looking for new destinations. In the focus here are source countries including Russia (82% fall in exports to the U.S. between 2017 and 2020), Turkey (-71%), Ukraine (-76%), and India (-70%). These countries in particular and others are now shifting their deliveries to the EU steel market.
- It has become apparent that the open EU market is affected much more than other regions by these repercussions. Imports rose by 12.5 million tonnes between 2013 and 2019. In the same period, the U.S. was able to reduce its imports by 3.2 million tonnes, mostly as a result of measures imposed under Section 232. Consequently, the EU has consolidated its position as the world's largest importer of steel.

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- The impact of the measures under Section 232 will continue to worsen. Since the introduction of these measures, the U.S. has added new steel capacity. It is likely that there will be more capacity added in the next few years (several publications state a figure of just under 14 million tonnes of new capacity). Capacity utilisation fell to 66% between the beginning of the year and August – a figure well below the long-term U.S. average of 77.5%. In view of this development, it is doubtful whether the U.S. will return to its previous role of an important steel importer.
- It is true that the measures under Section 232 have brought U.S. steel imports down. Nevertheless, the U.S. imported approx. 27 million tonnes in 2019. This illustrates that there are still considerable amounts of steel and steel products about that could also make their way on the EU market if the safeguards are not extended.
- All in all, there are no reasons to expect that the measures under Section 232 will be abolished any time soon. There are no expectations that U.S. foreign trade policy will change quickly on this matter when Joe Biden takes office.

2. Import situation in the EU steel industry remains strained

Pressure from imports continues despite crisis of demand

- The current situation on the global steel markets clearly suggests that the EU market will be flooded after the safeguard has expired in July, and that this will cause serious harm to what is already an endangered European industry. The import figures for the following groups of products, for instance, can serve as evidence for this:
 - **Hot rolled flat products (HRF)** (product category 1): Despite the introduction of safeguards and anti-dumping measures vis-à-vis China and four other countries, imports have constantly remained at the same high level since 2017. Countries like Serbia, which are not subject to any measures, have increased their exports to the EU. At the same time, EU consumption has dropped by 12% since 2017. The overall market share of imported HRF grew from 20.7% in Q1 2020 to 28.2% in Q2 2020.
 - **Rebar and wire rod** (product categories 13 and 16): In 2018, imports rose by 36% and 31% respectively over the average import figures for 2015-2017 – despite the introduction of the safeguards in July 2018. Imports from Turkey even soared by 245% for wire rod and 191% for rebar in 2018. And despite the crisis, rebar imports from Turkey grew by approx. 5% in the first semester of 2020 compared to the first semester of the preceding year.
 - **Cold rolled stainless steel** (product category 9): Despite the safeguards and the anti-dumping measures imposed vis-à-vis two countries, imports are still at a historic high, with imports continuing to gain market shares from EU producers: in July 2020, the import share was approx. 42%.

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High utilisation of TRQs demonstrates need for safeguards

- Another piece of evidence for the massive diversion of imports to the EU as a result of Section 232 tariffs is the fast and disproportionately extreme utilisation of TRQs. This was confirmed by the European Commission in its two review investigations. It was found that several exporting countries continued their highly aggressive export practices in a large number of product categories through the second year of the measures by using up most (or all) of their country-specific quotas at an unusual speed – a trend that has recently accelerated further.
- Among the product categories for which this has been observed are hot rolled flat products, for which Turkey and India, in particular, used up 39% and 30% of their respective allocated TRQs within the first two days of Q4. It also took Turkey only a few days at the beginning of each safeguard period to use up its TRQs for rebar and wire rod. In July 2020, for instance, the beginning of the third safeguard year, 91% of the TRQ for rebar and 84% of that for wire rod were used up after only three days.
- Overall, the disproportionate use of TRQs has continued unabated. In Q1 of the third safeguard year (i.e. 1 July to 30 September 2020), utilisation of TRQs stood at 90% or above in 25 of 28 product groups (89%). Among the TRQs that were fully used up, Turkey (8 products), Russia (3 products), and India (3 products) are in the focus.
- This suggests that the safeguards are having a steering effect on the massive export capacities in existence and indicates that the attractive EU market would be flooded if the safeguards were to be lifted. This is all the more true if one considers that the safeguard tariffs only apply once TRQs have been exhausted: the TRQs were designed in such a way that historical import volumes can still enter the EU market free of tariffs.

3. Economic situation/damage/situation for individual product categories

Economic indicators show massive damage

- This year, crude steel production will amount to less than 35 million tonnes. It is true that new order volumes have stabilised, but at a low level. Next year is set to be the third consecutive year in which the mark of 40 million tonnes will not be reached. As of today, there are no indications of a strong recovery of demand.
- The main reason for this beside the pandemic is the external economic situation, which is extremely challenging. The phenomenon of an asymmetrical recovery is still ongoing: whilst China has been heavily increasing its production again, output in the rest of the world has dropped by double-digit rates. This has further increased China's influence on the global steel market (to recently approx. 60%). The market shares held by the EU and NAFTA are only approx. 15%.

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Damage indicators for individual product categories

The serious position in which the European steel industry is finding itself at the end of this year can also be observed for individual products groups:

- **HRF** (product category 1): EU producers of HRF are already showing signs of significant damage. The considerable efforts for restructuring undertaken in the past years led to a partial recovery in Q1 2020, but this was cancelled out by the latest slump in demand. The results have been a strong decline in capacity utilisation, a drop in sales by almost 15% compared to 2018, and significant losses in 2020.
- **Wire rod** (product category 16): The industry saw a similar picture of recovery in early 2020, followed by a significant deterioration of the situation caused by the slump in demand. Capacity utilisation and sales fell considerably, and the modest earnings of 2020 turned into losses.
- **Metallic coated sheets** (product category 4): In this industry, too, sales and capacity utilisation fell considerably in Q2 2020. Prices have been falling along with import prices since 2018, whilst costs have been increasing. This has led to heavy losses this year.
- **Rebar** (product category 13): Signs of damage appear in the sales figures and in terms of negative profitability in Q2 2020.
- **Stainless long products** (product categories 14 and 15): Capacity utilisation saw a dramatic decline in 2020 due to the fall in demand and increasing pressure caused by imports. Sales volumes dropped by almost 20% and even more than 21% for stainless steel bars and stainless wire rod.

In sum, **the European steel industry is in a vulnerable position** given persisting import pressure in a context of a downturn in demand since 2019. It is currently **suffering injury**, and is **threatened with further serious injury** should the safeguards not be extended.

4. The threat of serious injury is caused by imports and global excess capacity

In the absence of safeguards, low-priced steel imports will flood the EU market causing further injury to EU steel producers:

- This is inevitable given the growing world capacity for steel and the worsening imbalance between supply and demand.
- The likelihood that imports will continue to enter the EU market at low prices, thereby putting pressure on EU producers' prices, is shown by the continuing undercutting by imports, seen broadly for all steel products.
- COVID has led to demand being lower, globally. But it is the persistent excess capacity globally, that drives countries to try and export their way out of problems – including COVID-related problems.
- The existence of increased trade protection measures, including U.S. section 232, mean that the EU faces a heightened risk of facing a surge of deflected imports.

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Thus, causation is clear: if the safeguards are not extended, the import surge would cause the EU industry to face serious injury. That is why the safeguards should be renewed.

5. Suitable framework for foreign trade is indispensable

EU safeguards are the only effective instrument available

- The latest revision of the safeguards delivered improvements, in particular on quota management (individual TQRs for the most important exporters, introduction of quarterly TQR management, restrictions on the carry-over of unused volumes). In the present situation, these measures are affording the steel industry much-needed protection.
- This protection cannot merely be replaced by an increased use of ‘traditional’ trade-defence instruments (anti-dumping and anti-subsidy investigations). Should the safeguards expire in the middle of next year, the TDIs will not be able to guarantee a stabilisation of overall import volumes, because TDIs
 - *are too slow:* Measures do not enter into force until a year later.
 - *are too narrow in scope:* The procedures target individual countries and products. A broad safeguard cannot be replaced by isolated AD or AS measures. If measures are imposed on one country, other third countries would move in. There is sufficient global capacity to flood the EU market.
 - *are designed to tackle different problems:* They resolve the problem of unfair pricing and subsidies, but not that of volumes – the problem the safeguards were designed to address.
- It is therefore important to use a combination of safeguards and AD/AS measures, which can be a powerful tool for responding to the growing challenges in trade policy.

The steel industry is facing enormous challenges as it needs to adjust

- The steel industry finds itself in an unprecedented process of transformation, seeking to adjust to the import situation and to move to low-carbon technologies. Without specific political measures against carbon leakage and disruptive effects in foreign trade, there is a danger that steel companies faced with an ever greater burden will shy away from important investments in climate-friendly technologies and that jobs will be lost.
- In the interest of the climate targets, it is important that primary steel production, in particular, should make a complete transition to new processes. This will require enormous investments (of a scale of €30 billion by 2050) and significantly raise operational costs. One important goal is to trigger significant investments in new facilities before 2030. These investments will not be made if global excess capacity is dumped on the EU market. This would jeopardise the beginning of a successful transformation.



European Steel Tube Association
Association Européenne du Tube d'Acier

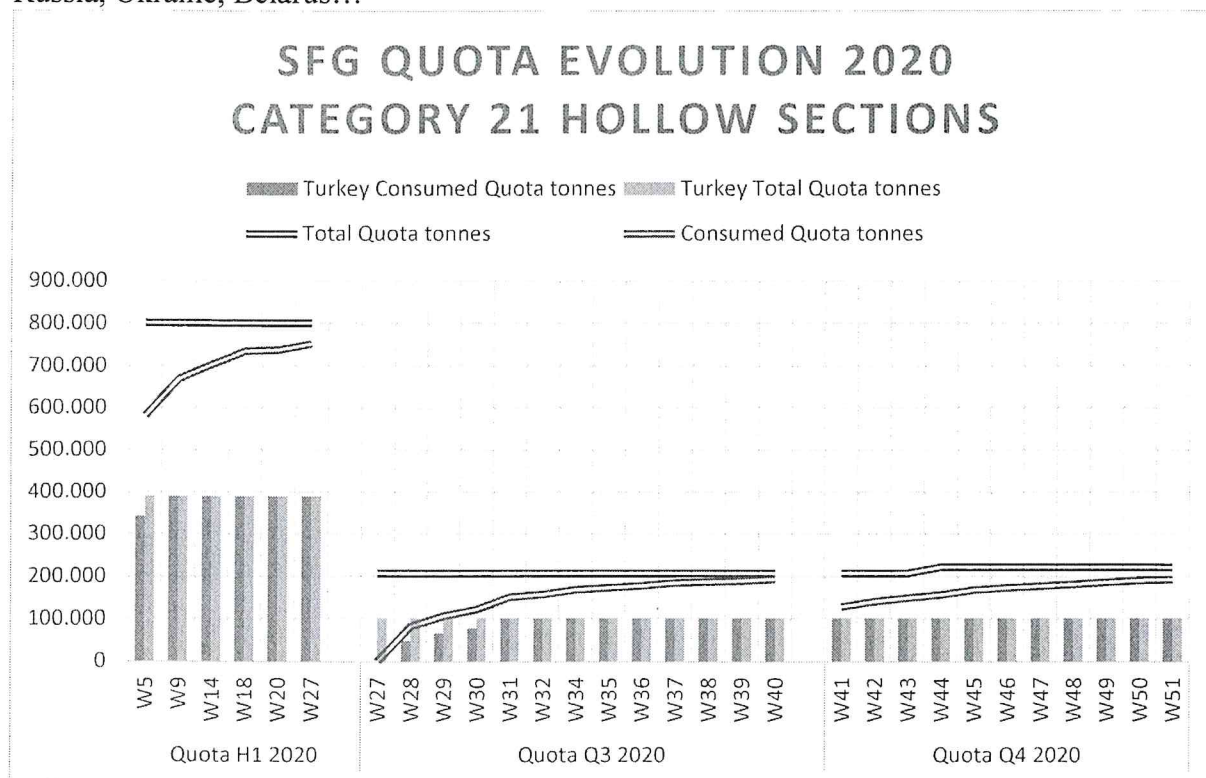
Boulogne, 4th January 2021

Object: Request for an expiry review of steel safeguard measures

The European Steel Tube Industry, represented by ESTA, hereby states the necessity of an expiry review of the current existing safeguard measures in place until 30th June 2021. These measures are covering 27 steel product categories, featuring 7 steel tubular product categories (20-21-22-24-25a-25b-26).

1) Safeguard measures implemented in 2018 were necessary

When implemented in 2018 the EU safeguard measures prevented in the Union huge surge of imports that would have been triggered by US section 232 and consecutive TDI measures in steel products around the world it generated. These measures were necessary as the management of the Tariff Rate Quotas showed a concerning speed of exhaustion in some product categories. For example, in category 21, which is the biggest tubular category in imported volume, Turkey, the biggest importer, had their quota valid until 30th June 2020 fully depleted end February 2020, their quarterly quota for Q3 2020 totally consumed end July and the Q4 allocation fully exhausted the first week of October. In this product category the same more or less happened with the other significant importers such as Russia, Ukraine, Belarus...





2) European Steel Tube Industry did adjust during the period

Simultaneously to the implementation of safeguard measures, the European Steel Tube Industry carried out significant restructuration, adapting the production structure to the macro economic conditions. These adjustments are carried out through drastic capacity reductions that are translating into mills closure, production lines definitive stop and employee layoffs. For example, in category 24 – Seamless pipes other than stainless – where are currently existing Anti-Dumping measures against the 3 main importers, China, Russia and Ukraine, one producer definitely closed in 2020 (Eschweiler in Germany). The remaining 15 EU producers reduced their theoretical production capacities by 21% and their workforce by 11% from quarter1 2018 to Quarter 3 2020.

3) European Steel Tube industry remains fragile

In spite of the restructuring effort carried out by the EU Industry to adapt and optimize the production, it is still fragile and under the threat of further injury would the imports suddenly surge.

Even with the current existing safeguard measures, the EU steel tube industry remains in a difficult situation as the economical worsened in the last 18 months.

Then, already weakened EU Industry had to suffer the sudden and unforeseeable impact of the sanitary crisis in spring 2020. This crisis not only impacted the final demand on both EU domestic market and export business, but it also profoundly disrupted the supply chains, the production conditions and access to work force. It also created an asymmetric situation with imports originating in countries where production recovery was already initiated in spring 2020.

For the 7 steel tube product categories (20-21-22-24-25a-25b-26), the current state of play is the following in terms of production: after a reduction of – 7.1% in 2019, decrease accelerated in the first 9 months of 2020 at -16.1% vs 2019.

4) European demand significantly reduced

In current difficult economic conditions linked to a reduction of the demand that started in 2019 in sectors like energy, automotive and mechanical engineering, enhanced by the sanitary crisis, the apparent consumption drastically reduced in the 9 first months of 2020 compared to 2019

In small welded tubes (cat20-21 and 26) apparent consumption in EU reduced by 12.5%

In large welded tubes (cat25a and 25b) apparent consumption in EU reduced by 28.4%

In seamless tubes (cat22 and 24) apparent consumption in EU reduced by 20.3%

5) Main threat: Production overcapacities in steel tubes around the world continue to thrive

According to Wirtschaftvereinigung Stahlrohre, steel tubes total world production capacities amounted to 306 million tons end 2019. World steel tube production in 2019 was 172 million tons, hence with an average situation of 56% of ratio of use worldwide, the pressure of production overcapacities in trade flows remains ominous.

In summary, the current economical context features worsened conditions compared to the already critical situation that led the Commission to implement safeguard measures in 2018 :

- Structural production overcapacities around the world, supported in many exporting third countries by state subsidies.
- Abundance of trade defense measures in steel products around the world in steel products in general and in steel tubes in particular, leading to deflection of trade flows to the EU market.



- Unexpected sanitary crisis that impacted deeply the economic activity and more particularly the steel demand and generated an asymmetric situation for the EU industry that is just starting a very slow and painful recovery, confronted with low priced imports originating in third countries already running at full capacity.

All these parameters will entail a growingly stronger pressure of imports on the EU market

Would safeguard measures, already very liberal in terms of volumes compared to the actual evolution of the demand in EU, terminate on 30th June 2021, the EU Steel tube industry, currently in critical situation, would suffer further unbearable injury. In such circumstances, only the extension of safeguard measures would maintain the balance of trade flows by preventing a brutal surge of imports and enable the necessary conditions of slow recovery for the EU market and the EU Industry.

Having carried out significant structural adjustment during the implementation of current safeguard measures, but still being in a precarious situation and facing considerably worsened conditions, the European Steel Tube industry has no other alternative than to emphasize the necessity of carrying out an review of current measures aiming to adopt necessary steps to address the situation and the Threat of Injury foreseeable were the measures to cease in June 2021.

A handwritten signature in dark ink, appearing to read "F. Michalet", with a long, sweeping horizontal stroke underneath.

François Michalet
Secretary General