Case TD0007: Wire Rod exported from the People's Republic of China

APPENDIX TO UK STEEL QUESTIONNAIRE RESPONSE

REDACTED NON-CONFIDENTIAL VERSION

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1 Likelihood of dumping

1.1 Relevant UK law and principles for establishing Normal Value

1.1.1 It is not appropriate to use domestic Chinese prices and costs

Regulation 7(1)[1] establishes the default position for the calculation of normal value stating that:

> *The TRA must use the comparable price to determine the normal value unless it is not appropriate to use that price.*

However, the regulations set out several alternatives to that position including two of particular relevance to this review:

- Regulation 14(1)(b) – which deals with situations where normal value can be calculated in an alternative manner because of the specific terms of their WTO members
- Regulation 7(2) – which details situations in which a ‘particular market situation’ exists in the exporting country

We deem that both of these situations hold true with regards to establishment of normal value in this particular review and as such it would not be appropriate to use the ‘comparable price’ to do so.

1.1.2 Regulation 14(1)(b) is applicable in establishing normal value

UK Steel strongly argues that regulation 14(1)(b) still applies to China and requests that China is treated in accordance with this provision. Whilst subparagraph 15(a)(ii) of the Chinese WTO accession protocol expired in December 2016, the remainder of paragraph 15 did not expire and remains in effect. China’s WTO accession protocol specifies that para 15(a)(ii) expires after 15 years, it does not provide any statement on para 15(a) as a whole or paragraph 15(a)(i) in particular. With the expiry of paragraph 15(a)(ii), paragraph 15 of China’s accession protocol now reads:

(a) In determining price comparability under Article VI of the GATT 1994 and the Anti-Dumping Agreement, the importing WTO Member shall use either Chinese prices or costs for the industry under investigation or a methodology that is not based on a strict comparison with domestic prices or costs in China based on the following rules:

(i) If the producers under investigation can clearly show that market economy conditions prevail in the industry producing the like product with regard to the manufacture, production and sale of that product, the importing WTO Member shall use Chinese prices or costs for the industry under investigation in determining price comparability.

This clearly allows WTO members the option of using a methodology that is not based on a strict comparison with domestic prices or costs in China. Without para 15(a)(ii), importing countries can still use an alternative methodology unless the Chinese producers clearly show that market economy conditions prevail in the industry producing the like product.

Furthermore, leaked press reports on the confidential interim panel report in the case of EU – Price Comparison Methodologies (DS516) suggest that a WTO panel was going to confirm that the above argument is correct. China has prevented this from being published by its request to suspend the proceedings but the UK would certainly be within its rights to use regulation 14(1)(b) of the UK dumping and subsidy regulations.

Regulation 14(1)(b) explicitly covers the situation where members of the WTO have specific provisions in their membership terms regarding the determinations of normal value. These provisions must have meaning in UK law and cannot just be ignored. UK Steel strongly argues that Regulation 14(1)(b) is applicable to China in this investigation and TRID should determine that this provision applies and that TRID should calculate normal value in line with the options available under Regulation 14. These include:

[1] Unless otherwise specified, all regulations quoted refer to statutory instrument 2019 No.450 The Trade Remedies (Dumping and Subsidisation)(EU Exit) Regulations 2019

- *In accordance with regulation 10 (appropriate third country or territory and representative price) or regulations 11 (costs of production) and 12 (the amounts for administrative, selling and general costs and for profits);*
- *on the basis of the costs of production of the like goods plus a reasonable amount for administrative, selling and general costs and for profits in an appropriate third country;*
- *where paragraph (1)(b) applies, in accordance with the terms of the membership in that paragraph;*
- *on any other basis the TRA considers is reasonable…*

With regards to the third bullet point immediately above, 'the terms of the membership' in this case should be read to refer to paragraph 15 of China's WTO Accession Protocol which provides significant flexibility stating that "..*the importing WTO Member shall use either Chinese prices or costs for the industry under investigation or a methodology that is not based on a strict comparison with domestic prices or costs in China.."*

UK Steel determines that the normal value methodology set out in this submission (Section 1.2) is permitted by all four of these options provided by Regulation 14 and set out above.

1.1.3 In the alternative, the existence of a 'particular market situation' means that all prices and costs should be adjusted in accordance with regulation 13

If TRID decides that it will not use Regulation 14(1)(b) against China, a position that UK Steel will continue to vigorously challenge, UK Steel requests in the alternative that TRID uses the provisions set out in Regulations 7, 8, and 13 are applicable and should be used in determining normal value in this case.

- Regulation 7(1) states that the comparable price must be used to determine normal value unless it is not appropriate to use that price.
- Regulation 7(2)(b) establishes that one of the reasons why it would not be appropriate to use the comparable price is because of the existence of a 'particular market situation'.
- Regulation 7(4) establishes that a 'particular market situation' includes situations where:
  a) Prices are artificially low
  b) There is significant barter trade
  c) Prices reflect non-commercial factors

This list is not exhaustive and may include other situations.

Based on the evidence presented in sections 4 and 5 of this appendix, UK Steel claims that a particular market situation exists in the Chinese wire rod industry. Prices and costs are artificially low and reflect non-commercial factors. Other trade remedy authorities (e.g. Australia, Canada, US, European Union) have also made similar findings that Chinese steel markets, including those of wire rod, are affected by significant distortions. The level of distortion renders domestic prices and costs wholly inappropriate to use in determining normal value and means that alternative methodologies should be used to determine normal value in accordance with regulations 8.

Regulation 8 sets out the alternative methodologies for normal value:

> ***8.****—(1) Where there is no comparable price, or it is not appropriate to use the comparable price in accordance with regulation 7(2), the TRA must determine the normal value of the goods—*
>
> *(a) by determining the costs of production plus a reasonable amount for administrative, selling and general costs and for profits;*
>
> *(b) by determining the price of the like goods when exported to an appropriate third country or territory provided that price is representative (see regulation 10); or*
>
> *(c) in accordance with regulation 14 (normal value in respect of imports from particular foreign countries and territories) where that regulation applies.*

In Section 1.2 UK Steel has provided a construction of normal value on the basis of Regulations 8 1(a). In the construction of normal value, based on costs of production and SGA/profits, UK Steel determines that Regulation 13 (Adjustments) is applicable and must be used in this case.

Regulation 13 allows for adjustments to be made in situations where costs "*…are unrepresentative because they do not reasonably reflect the overseas exporter's…costs or profits in a market if the markets if those costs and profits were substantially determined by market forces*." UK Steel provides evidence in Sections 4 and 5 that all Chinese costs are not substantially determined by market forces and, to this extent, constructed normal value should be based on information in accordance with regulation 13(4).

Regulation 13(4) sets out some guidelines for TRID in making such adjustments.

> *13(4) In making adjustments the TRA may have regard to the following—*
>
> *(a) corresponding costs of production, administrative, selling, general costs and profits in an appropriate representative third country or territory;*
>
> *(b) international prices, costs or benchmarks; or*
>
> *(c) any other factors it considers relevant.*

TRID, therefore, has considerable discretion in what information it uses to make such adjustments.

In establishing its constructed normal value, UK Steel has used and provided data to TRID that meets the standard required by Regulation 13 (4). TRID may obtain information from other interested parties that it can use in its determination of alternative cost information. However, in the absence of better information, UK Steel submits that the data it provides can and should be used as facts available.

1.1.4 Conclusion on UK law and principles in determination of Normal Value

In either case (either referring to regulation 14(1)(b) or 7(2)(b), 8 & 13), we argue strongly that the normal value for China needs to be calculated using an 'alternative methodology' according to Regulation 8, and that due to the widespread market distortions in the Chinese steel wire rod market, adjustments are required to the extent that no Chinese costs should be used. UK Steel proposes that normal value is constructed for China on the basis of cost of production plus SGA and profit in accordance with Regulation 8(1)(a), with adjustments made in accordance with Regulation 13.

1.2 Calculation of normal value

UK Steel has constructed the normal value based on cost of production information with the substitution of Mexican cost input values. Mexico was chosen as an appropriate third country for the following reasons:

- Mexico is regarded by the World Bank as a country with a similar level of economic development as China. It is classified as an "upper-middle income" country on a gross national income ("GNI") basis with a level of development comparable to that of China. That category of countries includes countries with GNI per capita between USD 4,036 and USD 12,535 in 2019, the year with the latest trade data available. It is therefore clear that Mexico is comparable to China in terms of economic development with China having GNI per capita of USD 10,410 in 2019 and Mexico having GNI per capita of USD 9,480[2]. Other wire rod producing countries with a similar level of economic development include Brazil ($9,130) and Turkey ($9,690). Some data is presented in this appendix for these countries as well for comparison purposes. India also has a comparable wire rod industry but its GNI is significantly lower ($2,120). Although some data has been collected for India, Mexico is preferred because it is closer to China's economic development and reliable data is available.

[2] https://data.worldbank.org/indicator/NY.GNP.PCAP.CD

- The US Department of Commerce has identified Mexico as one of six possible 'surrogate' countries that have a similar level of economic development to China. (See Annex 11).
- Mexico is a significant producer of wire rod, with production of 2.5m tonnes in 2019 (see Annex 5).
- Data from Mexico was publicly available for use. This includes steel import price data (to establish the cost of billets and raw material inputs), energy data, labour costs data, and overheads/SGA costs from the 2019 Annual report of Ternium Group, a Mexican producer of the product in question (see Annex 10).
- Ternium is identified as part of the Mexican wire rod industry in a 2016 definitive determination of the Mexican anti-dumping case involving wire rod from China in 2016[3].

Constructed normal values are calculated in tabs 2 and 3 of Annex 1. Two constructed normal values are calculated:

- Constructed normal value based on billets as a single input (tab 2, Annex 1). This is in line with the recent findings of the Australian review on AD duties covering steel rod in coil (November 2020) where the Australian Anti-Dumping Commission found that the "main raw material for steel rod in coil is steel billet which accounts for approximately 80%-85% of cost to make for steel rod in coil"[4]. Thus, a reasonable methodology to construct normal value is to take the cost of billets as a single input.
- Constructed normal value based on the raw materials that are used to make a billet (tab 3, Annex 2). As a double-check against the above methodology, it is also possible to construct a normal value based on the main raw materials used in the manufacture of billets.

Prices for billets, and the raw materials that constitute the inputs for billets, are taken from Mexican import statistics. This data is provided in tabs 3, 4 and 5 of Annex 2. SGA and profit levels from the Mexican producer Ternium are provided in tab 4 of Annex 1.

1.3 Likely Export Price

As a result of the existing measure, Chinese exports to the UK are negligible at just 38 tonnes in 2019 and 22 tonnes last year (see section 2.1 and Annex 4). Therefore, UK import price information is meaningless and should not be used to establish an export price for comparison with normal value.

Two sources of data are instead used to ascertain the likely export prices should the UK anti-dumping duty be removed and Chinese exports to the UK resume.

- Chinese export price data is provided from Kallanish Commodities in tab 1 of Annex 3.
- Chinese export prices to other major export markets can be derived from trade statistics. Export statistics from China are not available, so ISSB data for imports from China (at the six digit level) into other world markets has been used with adjustments made to arrive at ex-works prices. Calculations of Chinese export prices are provided in tab 5 of Annex 1. The detailed data on export prices is provided in tabs 3 and 4 of Annex 3.

The Chinese export price data is only available from ISSB at the 6 digit level and therefore potentially includes goods that are outside the product scope. However, an examination of the UK import data for wire rod from all sources, provided in tabs 3 (6 digit) and 4 (8 digit) of Annex 4, shows that this use of less granular data is unlikely to make any substantive difference for our purposes.

Tabs 3 and 4 of Annex 4 presents the prices for 2010-2020 for the 6 and 8 digit data respectively. The £ values are all identical between the two sets of data and the volumes have only tiny, insignificant differences. This indicates that the prices are identical for the 6 and 8 digit data as shown in tab 4. Thus, in the case of wire rod, the indication is that the 6 digit data does not include more products than the product concerned and that the 6 digit data for other countries is reliable to calculate the Chinese export price.

[3] https://www.dof.gob.mx/nota_detalle.php?codigo=5446020&fecha=28/07/2016
[4] Australian Anti-Dumping Commission – Report No 564, Review of anti-dumping measures applying to steel rod in coil exported to Australia from the People's Republic of China. 27 November 2020.

The biggest export market for Chinese wire rod is South Korea, accounting for 27.6% of Chinese exports in the POI. Also significant are Indonesia (16.0%), Thailand (12.6%) and the Philippines (10.2%). Prices to South Korea, therefore, indicate what likely Chinese export prices to the UK market would be should the current measures expire. Export prices to Indonesia, Thailand and the Philippines are also provided for comparison. Together, these four countries account for 66.5% of Chinese wire rod exports.

Tab 5 of Annex 1 provides calculations of the Chinese export prices including necessary adjustments:

- For the ISSB data, given that import prices are used, the Chinese export prices are on a CIF basis. This means that adjustments must be made to get back to a Chinese ex works export price. The adjustments include freight costs, border compliance costs, documentary compliance costs and Chinese inland transport costs.
- The Kallanish export prices are provided on a FOB basis. Thus, no freight costs are included in the price. However, adjustments are still made for the other compliance/documentary costs and inland transport costs.

1.4 Dumping calculation

The detailed dumping calculation is provided in tab 1 of Annex 1. The following table provides a summary of the dumping calculations using constructed normal value based on billet inputs.

	Kallanish Export Price	South-Korea Import Price	Indonesia Import Price	Thailand Import Price	Philippines Import Price
Normal Value (EXW)	£ (580-650)	£ (580-650)	£ (580-650)	£ (580-650)	£ (580-650)
Export Price (CIF)	£ (400-500)	£ (400-450)	£ (420-470)	£ (430-480)	£ (385-425)
Export Price (EXW)	£ (300-400)	£ (300-450)	£ (400-450)	£ (400-450)	£ (300-390)
Dumping Margin	£ (200-270)	£ (150-250)	£ (150-200)	£ (150-200)	£ (180-250)
Dumping Margin as % of CIF export price	(45-60)%	(40-50)%	(35-45)%	(30-40)%	(50-60)%

Using billets as the input to construct normal value, likely dumping would be between 30% and 60%.

The following table provides a summary of the dumping calculations using constructed normal value based on individual raw material inputs.

	Kallanish Export Price	South-Korea Import Price	Indonesia Import Price	Thailand Import Price	Philippines Import Price
Normal Value (EXW)	£ (450-550)	£ (450-550)	£ (450-550)	£ (450-550)	£ (450-550)
Export Price (CIF)	£ (400-480)	£ (400-450)	£ (420-470)	£ (430-480)	£ (385-425)
Export Price (EXW)	£ (300-400)	£ (300-450)	£ (400-450)	£ (400-450)	£ (300-390)
Dumping Margin	£ (100-200)	£ (50-100)	£ (50-90)	£ (40-80)	£ (70-150)
Dumping Margin as % of CIF export price	(25-35)%	(10-15)%	(10-20)%	(8-15)%	(15-30)%

Using individual raw material inputs to construct normal value, likely dumping would be between 8% and 35%.

UK Steel has been rigorous in exploring several sources of data and different approaches in terms of cost breakdown. All indications are that significant dumping is likely to recur should the current measures be terminated.

2 Likely recurrence of injurious dumping

2.1 Developments in Chinese imports

Table 2 of Regulation 703/2009 imposing definitive anti-dumping duties on wire rod from China indicates the level of EU dumped imports from China prior to the introduction of the original measures.

	2004	2005	2006	2007	IP
Volume (tonnes)	70,816	134,176	633,631	1,459,968	1,174,556
Index	100	189	895	2062	1659

Source: EU Regulation 703/2009[5]

Since measures normalised Chinese import prices, Chinese exporters have focused on other markets and exports to the UK have dropped to negligible levels. The following table shows UK imports of wire rod for the period 2010-20.

Tonnes	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Chinese Imports	1	1	0	1	98	0	54	2	1	38	22
% of total Imports	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total Imports	215,633	242,620	267,286	279,194	293,729	251,503	301,609	289,180	260,874	272,827	206,217

Source: ISSB Trade Database (See Annex 4 – Tab 5)

Evidence presented in section 1 suggests that China is still dumping exports of wire rod in export markets. To this extent, it can be expected that UK imports from China are highly likely to significantly increase if the current UK measures are removed. The original volumes from the EU investigation are

[5] https://www.legislation.gov.uk/eur/2009/703/pdfs/eur_20090703_adopted_en.pdf

a good indication of the types of volumes that might be made available to the UK market at dumped prices if the current measure is removed. This is especially the case if the EU maintains its current measure in the current EU expiry review[6] – which is highly likely.

2.2 Trade Measures in Third Countries

The likelihood of a resumption in injurious dumping by Chinese exporters is increased by, and evidenced by, the significant number of trade measures in place in third countries on exports of wire rod from China. Beyond the EU, these include Australia, Mexico, USA, India, and Indonesia. Reports concerning the most recent determinations or reviews in these cases have been provided in Annex 13. UK Steel was also able to identify measures in place in Thailand[7], although an accessible report was not available for submission at the time of writing.

The existence of these trade measures further supports the arguments and evidence provided in Section 1 that China continues to dump wire rod in its export markets and therefore would be highly likely to do so if the UK measures were removed. Furthermore, the high prevalence of AD measures in place in third countries, coupled with the standard/MFN customs tariffs on steel in all developing country markets, means that should the UK remove its own measures it would be one of the few open markets for this product globally and would be a target for dumping.

2.3 Spare production capacity in China

The likelihood of resumption of injurious dumping of wire rod by Chinese exporters is further increased, and evidenced by, the significant levels of production and spare capacity currently in existence in China. According to World Steel Association (see Annex 5), China accounts for 75% of global wire rod production (156.8m tonnes in 2019). The following chart shows how Chinese wire rod production has dramatically increased over the past 20 years, while the production of the rest of the world stayed relatively constant.

Chart removed in non-condential version – Copyright of WSA

Source: World Steel Association. (Data provided in Annex 5.)

While Chinese wire rod production has hugely increased, there is still a considerable amount of spare capacity that could come online going forward. Chinese wire rod capacity is estimated at 200-250 million tonnes for 2019, implying a capacity utilisation rate of 66% and 80 million tonnes of spare capacity (see Annex 5 for data). The UK market for wire rod in 2019 was 600,000-700,000 tonnes. Chinese spare capacity of 80 million tonnes was 120 times the size of this, with total production a massive 234 times bigger. Just 0.8% of China's wire rod spare capacity 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 AD measures be removed.

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Source: Various sources and UK Steel analysis – see Annex 5 for details

This huge overcapacity currently existing in China is now dormant. Chinese wire rod producers have considerably expanded and will continue to expand their production, some of which will be absorbed by increased domestic demand, but also creating more material available for export. As shown above, the relative size of the Chinese market compared to the UK wire rod market means that even a marginal increase of Chinese exports could completely wipe out the UK industry.

[6] http://trade.ec.europa.eu/tdi/case_details.cfm?id=2489
[7] Thailand – WTO Semi-annual report containing notification

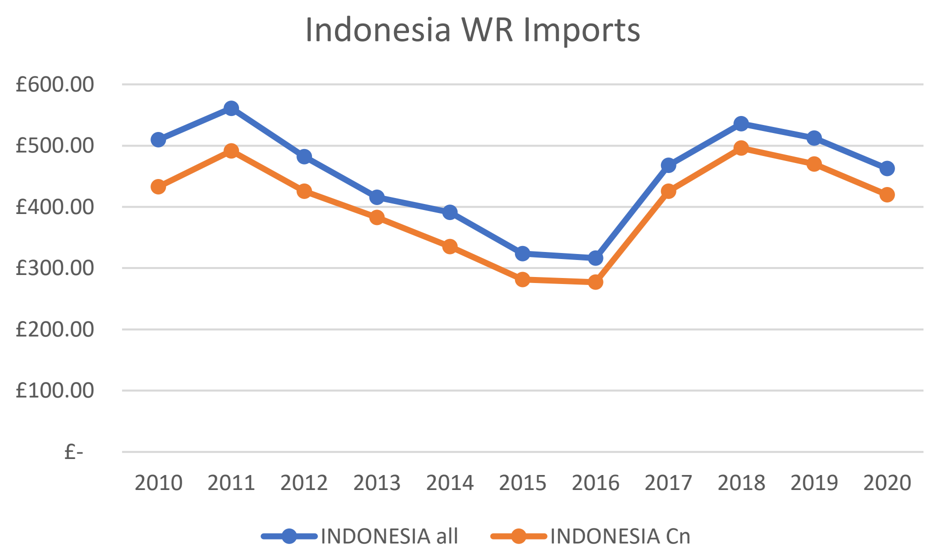
2.4 Likely price undercutting and attractiveness of the UK market

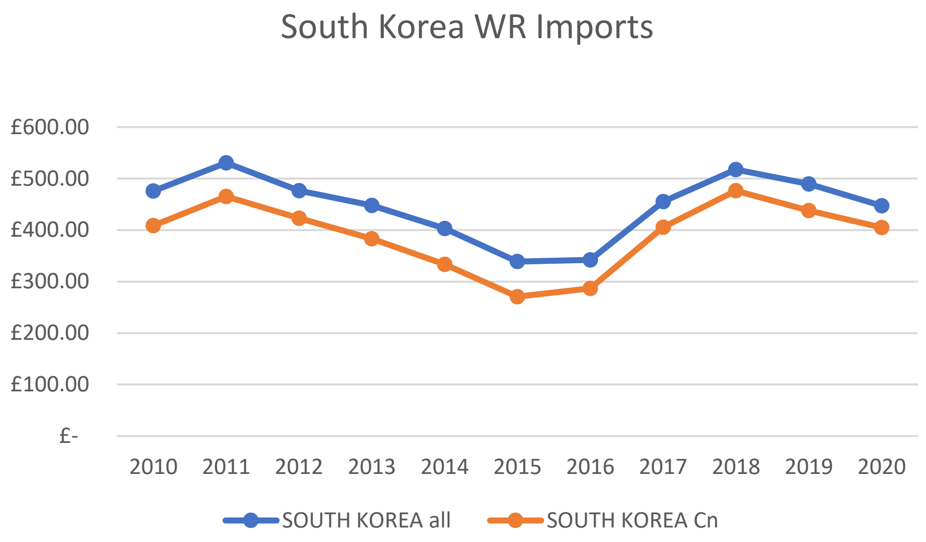
There is strong prima facie evidence that Chinese imports would undercut UK prices if the measures were removed. Tab 6 of Annex 1 presents price undercutting data based on a UK domestic industry price for wire rod taken from UK producer questionnaires.

The following table shows Chinese export prices to its main overseas markets as discussed in section 1.4 above.

	Kallanish Export Price	South-Korea Import Price	Indonesia Import Price	Thailand Import Price	Philippines Import Price
UK industry price	£ (400-600)	£(400-600)	£(400-600)	£(400-600)	£ (400-600)
CIF EP	£ (380-550)	£ (400-500)	£ (400-500)	£ (400-500)	£ (400-500)
Undercutting	£ (20-60)	£ (40-80)	£ (20-70)	£ (20-70)	£ (40-80)
%undercutting	**(5-20)%**	**(10-30)%**	**(5-20)%**	**(4-15)%**	**(10-30)%**

The various sources of Chinese export prices suggest significant undercutting of UK prices between 4% and 30%.Thus, the UK market would be highly attractive to Chinese exports should the current measures be terminated. Likely undercutting of UK prices is also suggested by the fact that China consistently undercuts other imports in all of the markets in which it sells. Analysis provided in tab 5 of Annex 3 shows that Chinese prices have mostly undercut other import prices in China's main export markets.




South Korea WR Imports
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£500.00
£400.00
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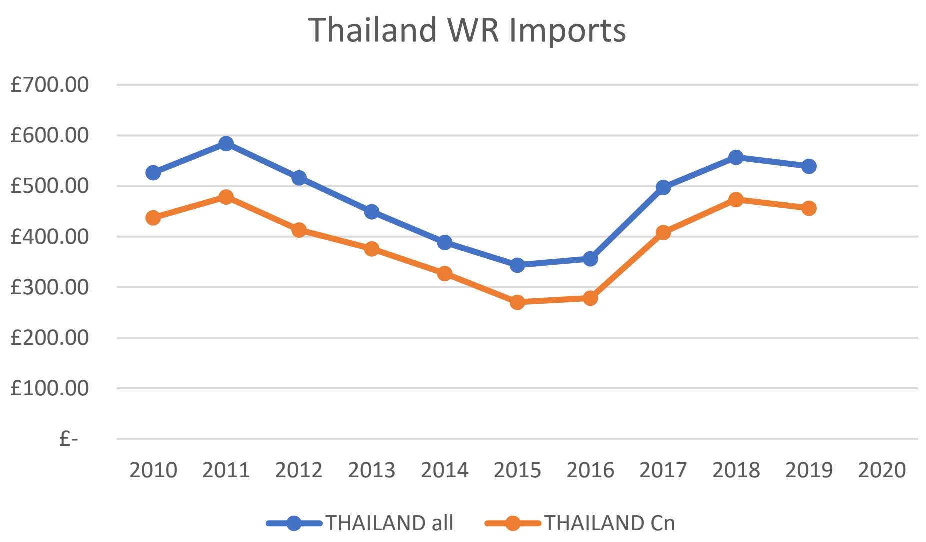
Thailand WR Imports
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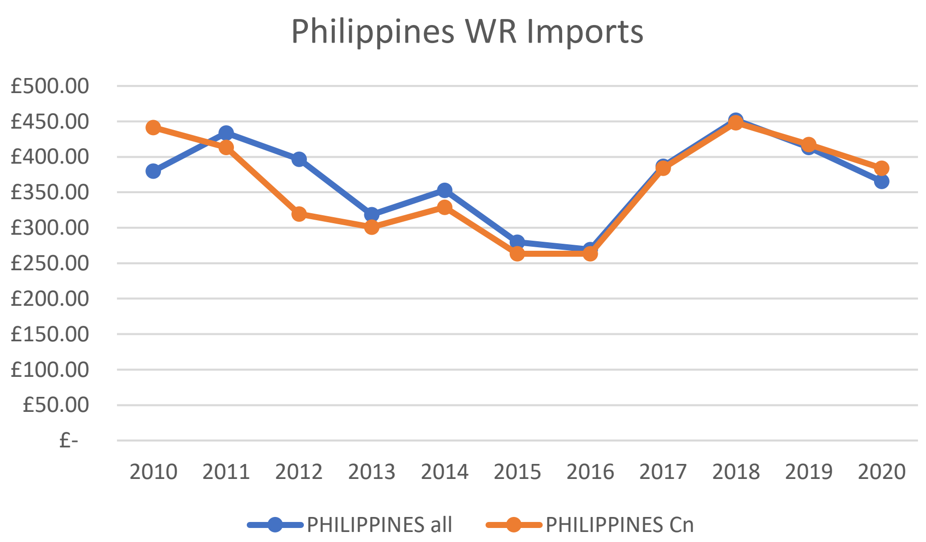
Philippines WR Imports
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£450.00
£400.00
£350.00
£300.00
£250.00
£200.00
£150.00
£100.00
£50.00
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2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020
PHILIPPINES all
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See tab 5, Annex 3 for these charts and data.

It is clear from the evidence presented here that current Chinese export prices would significantly undercut UK industry and the market more generally, as they are already doing so in other markets. Consequently, it is clear that UK market would become a highly attractive one for Chinese exporters if measures were removed and therefore the likelihood of a resumption in injurious dumping is very high.

2.5 Situation of UK industry

TRID will examine the detailed responses of the UK producers to consider injury indicators in detail, but at sector level it is clear that the industry is in a vulnerable position and highly susceptible to injury in the event of an increase in imports.

In the aftermath of the COVID-19 pandemic, the industry is having to recover from one of the greatest demand shocks in recent years. Even before the pandemic, the UK, EU and global steel markets (outside of China) had experienced a reduction in demand in 2019[8], and the impacts of the global pandemic massively reduced demand for steel products. In 2020, overall UK steel demand fell by 16%[9] and is not expected to recover back to 2019 levels before late 2022 – in line with projections for wider EU steel demand recovery and that of the UK economy as a whole. UK wire rod demand suffered even more, falling by 18%. In this context, the injury and economic impact of a resumption of injurious dumping would be significant.

Year	UK WR Production (tonnes)	UK WR Consumption (tonnes)	UK Exports (tonnes
2016	Confidential Information removed		
2017			
2018			
2019			
2020			

Source: ISSB

Following Brexit, the UK now has barriers to export to its biggest export market as a result of EU steel safeguards which are expected to be extended following the current review. Previously UK producers were able to partially offset declining domestic consumption by increasing exports but this will be much more difficult outside of the EU and with tariff rate quotas now in place. Considering that the top two export markets for UK steel are likely to have restrictions in place for the foreseeable future, in the form of potential EU safeguards as well US 232 tariffs, the outlook for an export oriented product is looking particularly challenging. Caps on UK steel exports will naturally limit the ability of UK producers to mitigate increases in imports which would inevitably take place in the absence of an antidumping duty and considering excess global capacity.

Additionally, as noted in Section 2.2 several other countries have trade restrictions in place on imports from China, including the US, the EU, Australia, Indonesia, India and Mexico. This would increase the likelihood of imports and injury to any country which left its market exposed as trade from other markets would be diverted.

Crucially, the price undercutting calculation provided in section 2.3 does not sufficiently measure the extent to which likely Chinese import prices would be injurious to UK industry. This is because the 2019 UK domestic price was not sufficient to cover the total cost to make and sell. This was caused by steady decreases in European wire rod through 2018 and 2019, coupled with significant increases in raw material prices. The chart below demonstrates this dynamic.

[8] World Steel Association data shows EU demand feel from 168.7 MT to 158.7 MT between 2018 and 2019, whilst the global market outside China fell from 872.3 MT to 860MT.
[9] ISSB Data shows UK Steel demand fell from 10.8 MT in 2019 to just 9.1MT in 2020.

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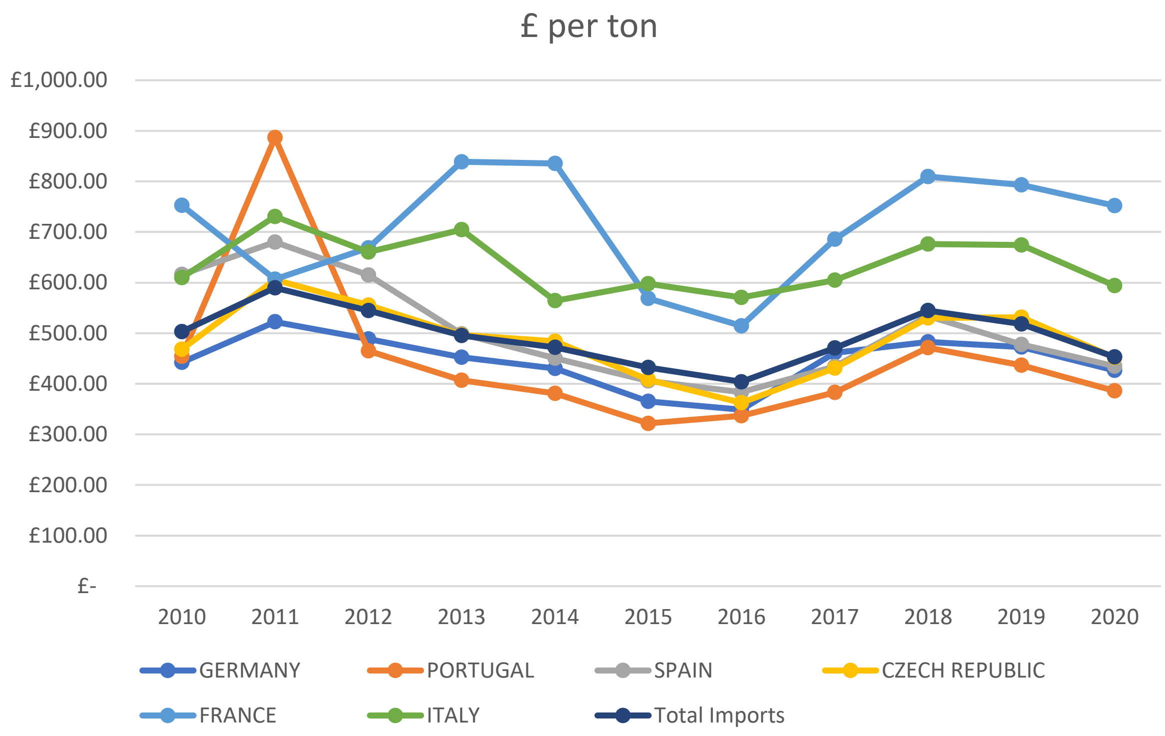
Source: Kallanish. See Annex 14 for details and data

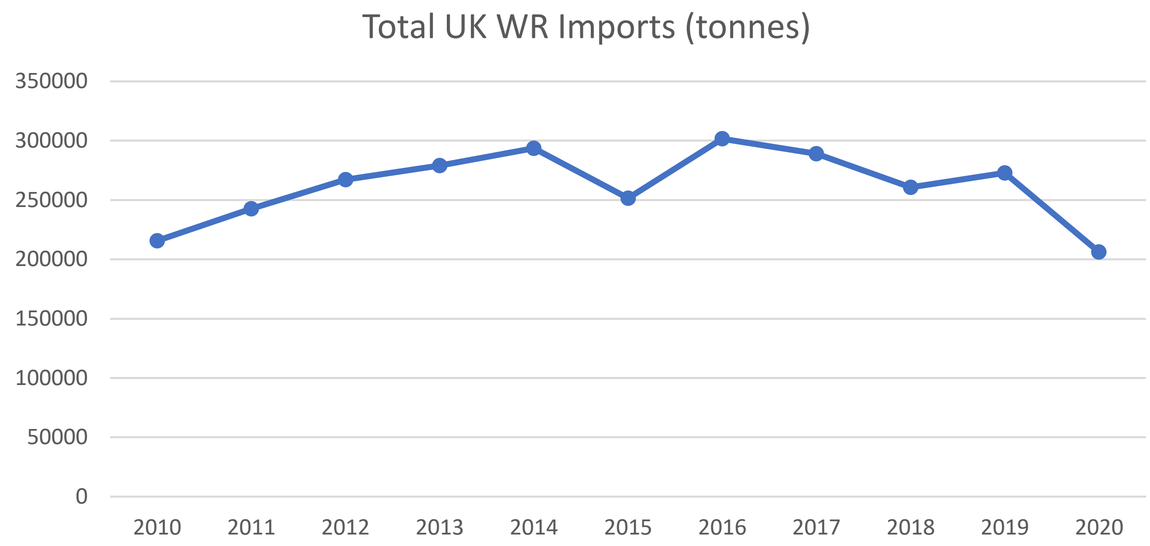
All EU producers of wire rod faced similar challenges, and this is demonstrated in the chart below with prices offered by many EU exporters in 2019, below UK domestic prices. Given that domestic UK prices failed to cover costs of production for key UK producers during the POI, it is highly likely that EU producers were also selling into the UK (and elsewhere) at a loss. Further investigation would be required to demonstrate that, but its is possible that the market dynamics during the POI led to dumping by EU producers into the UK market – i.e. on the technical definition of dumping of selling into markets at below the cost of production.

The chart below shows that imports from Portugal undercut all other major sources of UK imports. Spain and German imports are also undercutting the average UK import price.

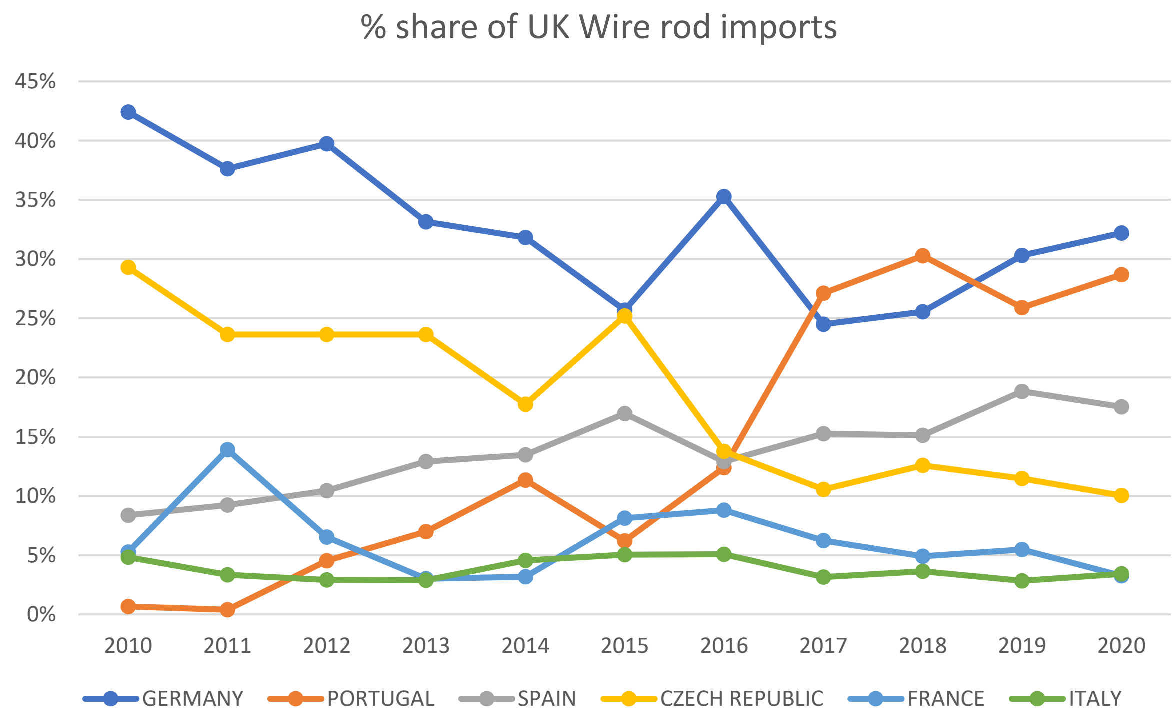


It is possible that many of these low priced sales from the EU do not cover production costs either and are ‘tactical sales’ rather than profit making ones.

Tab 5 of annex 4 shows that UK imports of wire rod have been falling since 2016.



However, imports from certain countries have increased and, as demonstrated above are undercutting. The following chart shows import volumes in tonnes for main sources (see tab 6, Annex 4).



Portugal has consistently increased its share of UK wire rod imports. Spain has also consistently increased its share. Germany's share has been falling between 2010-17 but has been increasing since then.

The evidence suggests that UK industry is already facing tough and probably unfair competition from other EU countries. Injury is also being caused by several other factors as outlined above. This makes it even more vulnerable to a recurrence of injury if Chinese dumping was to be permitted to recommence. Further, to the extent that there are other causes of injury currently creating problems for the UK steel industry, this does not break the link between the likely recurrence of dumping and injury that would be caused by termination of the current anti-dumping measures

3 Economic effects on the UK if the existing measure was no longer applied

3.1 Importance of the UK wire rod industry

The UK wire rod industry provides significant employment opportunities across the regions where operations are located and offering wages considerably higher than the local average. The contribution to the local economy is even more prominent when considering that plants are by and large located in less advantaged areas of the UK which the government is seeking to level up. Wire rod production specifically is concentrated in three main areas:

Local Authority	Avg of Median Wage Steel (£)	Avg of Median Wage Local Authority (£)	Steel Wage Higher Than Local Authority %	Steel Wage Ranking Within Local Authority	English IMD 2019 Rank (of 317)
City of Cardiff		25,000		Confidential information removed	
North Lincolnshire		25,175			120
Rotherham Met.		22,183			50

Source: Company data, ONS - Earnings and hours worked, place of work by local authority: ASHE Table 7, UK Steel analysis

3.2 Impact on upstream industry

Wire rod production represents a significant percentage of overall UK steel production, but the segment's real economic impact is much wider when considering steel production economics as well as the broader supply chain. Most plants will produce more than one type of steel product and the profitability of each will have an effect on wider production decisions, with implications for employment and future investment.

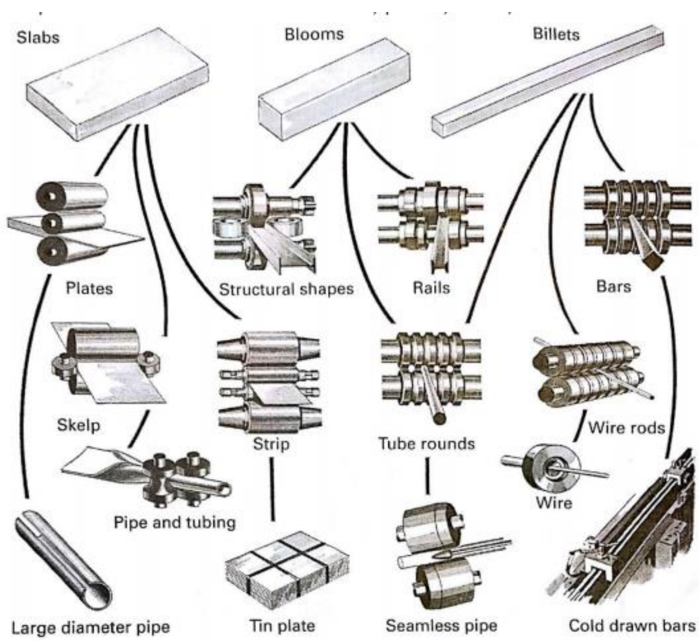
Similarly, the economic consequences of injury and closure of domestic steel production facilities will in many cases not be limited to the loss of employment and considerably above average wages in the immediate locality but also potentially other facilities further upstream which often supply other plants for further processing of steel products. UK wire rod producers also supply several domestic wire producers so any loss of UK wire rod production would disrupt domestic supply chains.

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

3.3 Interconnectivity of steel products

The interconnectivity of steel products means that product categories assessed independently from each other will not provide an accurate assessment of injury and economic impact to the UK.

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 set up to make. As shown below, wire rod is made through the billet route, and then can be further processed into wire. But a plant that makes billet will often also produce bars and tubes.



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, especially for the blast furnace route. This means that an integrated steel plant will typically need to run at around a 70-75% capacity utilisation rate before it will break even and begin to operate profitably. Blast furnaces run continuously as the refractory linings of both the blast furnaces and other high temperature processes (notably the coke ovens) will be destroyed if allowed to cool. Electric arc furnaces have some greater flexibility, but there are still considerable efficiency gains from running at high capacity.

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 might recover, without incurring the cost of stopping and restarting a plant.

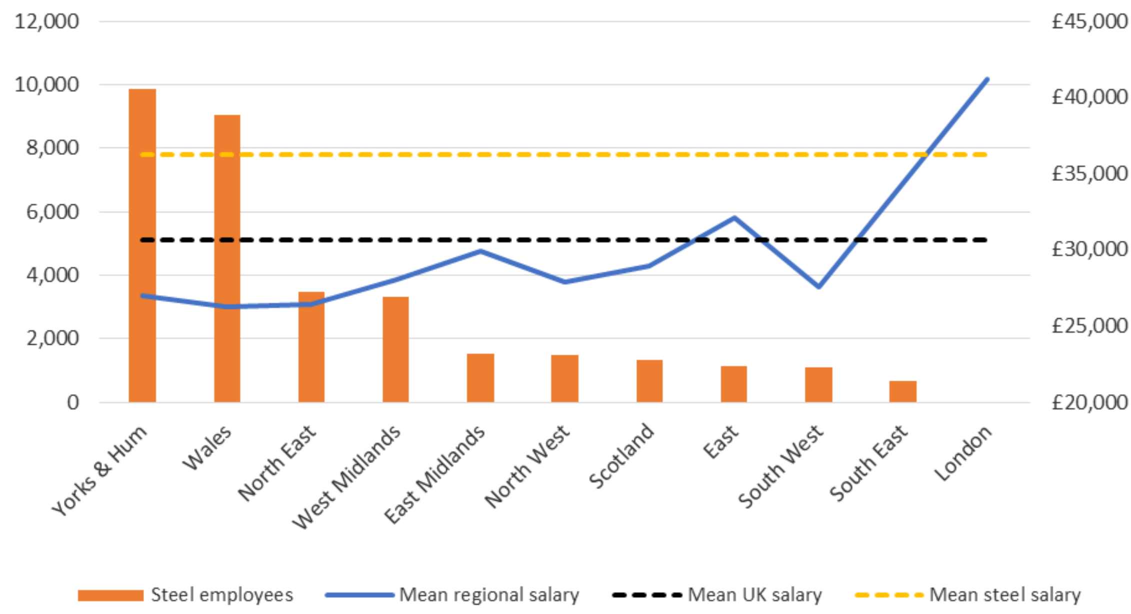
This highlights how delicate the balances are and knock-on effects that individual products can have on the overall profitability of a plant. Therefore the health of the wire rod sector is of broader economic significance, as it is a key component of the wider UK steel sector and the well-paid jobs it supports.

3.4 Importance of the wider UK steel industry

- The UK steel industry employs some 30,000 people in total across the UK – jobs that would be at risk if the health of domestic steel companies is compromised[10]
- The UK steel industry also supports a further 41,100 in its high-value supplies chains[11]
- 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 average wage of our workers (£36,238) is 18% higher than the UK national average and 36% higher than the regional average in Wales, and Yorkshire & Humberside[12]

UK Steel Employment and Pay

[10] ONS – Business Register and Employment Survey 2019 and ONS Type 1 employment multipliers
[11] ONS – Business Register and Employment Survey 2019 and ONS Type 1 employment multipliers
[12] ONS – Annual Survey of Hours and Earnings



Source: ONS Various and UK Steel Analysis

- The UK Steel Industry makes a £2.8 billion direct contribution to UK GDP and supports a further £3.6 billion in its supply chains [13]
- UK steel also makes a £2.5 billion direct contribution to the UK's balance of trade[14], critical to the Government's ambitions of developing a more a global trading Britain.
- 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.

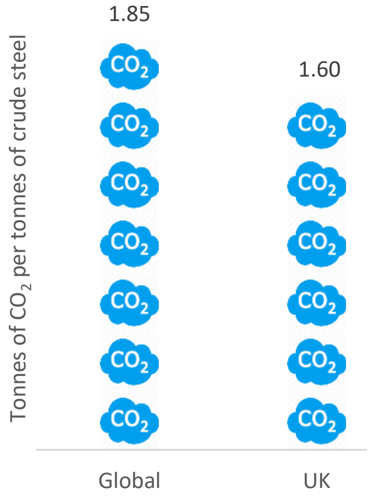
We provide the high-quality materials vital to an array of challenges. From delivering the Government's infrastructure revolution to creating a low carbon economy, steel is an essential ingredient. The UK directly consumes 10-11 million tonnes of steel each and every year – in infrastructure, construction, 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 besides means this demand will grow 10% this decade creating a huge £6 billion annual market. It is vital that we retain a strong and resilient steel industry in the UK to supply this.

[13] ONS GDP Output – low level aggregates 2019 and type 1 multiplier
[14] International Steel Statistic Bureau – UK steel exports net of import of raw materials/inputs

3.5 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_2 per tonnes of crude steel, depending on plant efficiency and production method (i.e. BOF vs EAF), with the weighted average being 1.85tCO_2/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 CO2[15]. 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 not be in the economic or public interest.

GHG Emissions per tonne of steel produced



4 Distortions in the Chinese market affecting wire rod production and prices

4.1 Horizontal distortions affecting steel industry

4.1.1 Constitution of the PRC and Constitution of the CPC

The Chinese steel industry and markets have to be viewed through the lens of the political system. Although there is no doubt that China is undergoing dramatic changes, and can no longer be considered as a pure planned economy, Chinese industry still operates in a system dominated by the state and government intervention.

For example, the Preamble of the current Constitution of the People’s Republic of China[16] states:

> *The victory in China’s New-Democratic Revolution and the successes in its socialist cause have been achieved by the Chinese people of all nationalities, under the leadership of the Communist Party of China and the guidance of Marxism-Leninism and Mao Zedong Thought, by upholding truth, correcting errors and surmounting numerous difficulties and hardships. China will be in the primary stage of socialism for a long time to come. The basic task of the nation is to concentrate its effort on socialist modernization along the road of Chinese-style socialism. Under the leadership of the Communist Party of China and the guidance of Marxism-Leninism, Mao Zedong Thought, Deng Xiaoping Theory and the important thought of Three Represents, the Chinese people of all nationalities will continue to adhere to the people’s democratic dictatorship and the socialist road, persevere in reform and opening to the outside world, steadily improve socialist institutions, develop the socialist market economy, develop socialist democracy, improve the socialist legal system and work hard and self-reliantly to modernize the country’s industry, agriculture, national defence and science and technology step by step and promote the coordinated development of the material, political and spiritual civilizations, to turn China into a socialist country that is prosperous, powerful, democratic and culturally advanced.*

This notes that China is still in the primary stage of socialism for a long time to come and that this guides the ‘basic task of the nation’. Further, the Chinese people will continue to adhere to the ‘people’s democratic dictatorship’ and the socialist road. It also talks about ‘coordinated development’.

Further, Article 7 of the constitution states:

[15] Defra conversion factor for large container vessel of 0.01267 kgCO2e/tonne product/km shipped. Shipping distance from Shanghai to Dover of 22,000 km. Estimated CO2e emissions of 278 kg per tonne.
[16] http://www.npc.gov.cn/zgrdw/englishnpc/Constitution/node_2825.htm

The State-owned economy, namely, the socialist economy under ownership by the whole people, is the leading force in the national economy. The State ensures the consolidation and growth of the State-owned economy.

The 'leading force' of the state is set out in Article 6:

The basis of the socialist economic system of the People's Republic of China is socialist public ownership of the means of production, namely, ownership by the whole people and collective ownership by the working people. The system of socialist public ownership supersedes the system of exploitation of man by man; it applies the principle of "from each according to his ability, to each according to his work".

In the primary stage of socialism, the State upholds the basic economic system in which the public ownership is dominant and diverse forms of ownership develop side by side and keeps to the distribution system in which distribution according to work is dominant and diverse modes of distribution coexist.

Article 6 talks of "socialist public ownership of the means of production" as the basis of the economic system. It also establishes the dominance of public ownership.

Likewise, the current Constitution of the Communist Party of China[17] affirms the dominant role of public ownership:

The Party must uphold and improve the basic economic system whereby public ownership plays a dominant role and economic entities under diverse forms of ownership develop side by side (page 3 of 28).

Further:

The Communist Party of China shall lead the people in developing the socialist market economy. It shall be firm in consolidating and developing the public sector of the economy and shall remain steadfast in encouraging, supporting, and guiding the development of the non-public sector.

In other words, The Communist Party China maintains a highly significant leadership role in the economy.

4.1.2 13th Five Year Plan

China has adopted five year plans since 1953 and this has been the way in which the state, and specifically the Communist Party, have guided and shaped the Chinese economy.

The introductory paragraph of the most recent five year plan covering the years 2016-2020 continues to emphasise the importance of the Communist Party in formulating economic and social policy:

Formulated on the basis of the Recommendations of the Central Committee of the Communist Party of China (CPC) for the 13th Five-Year Plan for Economic and Social Development of the People's Republic of China (2016–2020), the 13th Five-Year Plan sets forth China's strategic intentions and defines its major objectives, tasks, and measures for economic and social development. This plan is to serve as a guide to action for market entities, an important basis for government in performing its duties, and a common vision to be shared among the people of China.

The five year plans sit amongst a myriad of broader horizontal plans affecting all industries (including 'Made in China 2025' and the 'Belt and Road Initiative') and plans for specific sectors. A full review of all the plans is beyond the scope of this submission. However, they are thoroughly described in the European Commission Staff Working Document on distortions in the Chinese economy (particularly section 4)[18].

On the 'transformation and upgrading of traditional industries, Chapter 22 of the 13th Five Year plan states:

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[17] http://www.xinhuanet.com//english/download/Constitution_of_the_Communist_Party_of_China.pdf (Revised and adopted at the 19th National Congress of the Communist Party of China on October 24 2017.

[18] Commission Staff Working Document on 'Significant distortions in the economy of the PRC for the purpose of trade defence investigations'. SWD(2017) 483 final/2. 20 December 2017.

We will encourage mergers and acquisitions of enterprises so as to put in place a highly concentrated, specialized, and cooperative industrial structure with a core of conglomerate companies. We will support the development of specialized small and medium enterprises.

A high proportion, if not all, of these concentrated and cooperative enterprises are state-owned and, through this, the intention to control the economy and markets is clear.

The 'Steel Industry Adjustment and Upgrading plan for 2016-2020'[19] implements the 13th five year plan in relation to steel.

The iron and steel industry is an important basic industry of the national economy and the cornerstone of the country.

The opening paragraph of the steel plan confirms that steel is a favoured and strategic sector at the heart of government policy towards the Chinese economy.

4.1.3 14th Five Year Plan

In late 2020, the Chinese Communist Party approved a proposal for China's 14th Five Year Plan (2021-2025)[20]. Paragraph 20 states:

We must adhere to and refine the basic socialist economic system, fully exploit the decisive role of the market in allocating resources, make better use of the role of government, and promote a better combination of effective markets and active government.

Stimulating the vitality of various market entities. We will be unswerving in consolidating and developing the economy's public sector, and in encouraging, supporting and leading the development of the non-public sector. We will deepen the reform of state-owned capital and enterprises, and will strengthen, optimize and enlarge state-owned capital and state-owned enterprises (SOEs). We will accelerate the layout optimization and structural adjustment of the state-owned economy, and utilize the strategic supporting role played by the state-owned economy

Whilst reference to the market is made, the primary role of active government is emphasised in leading and stimulating the public and non-public sectors through strengthening and enlarging of state-owned capital and state-owned enterprises.

New guidance has recently been produced in January 2021 on promoting high-quality development of the steel industry[21,22].

A translation of this document is provided in Annex 12[23].

This document acknowledges that overcapacity continues to be a problem:

Entering the 14th Five-Year Plan period, the national steel industry still faces problems to achieve high-quality development as problems, such as overcapacity pressure….

The guiding ideology outlined above remains the same, confirming the continued primary guiding role of the Communist Party:

Adhere to the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, thoroughly implement the spirit of the 19th National Congress of the Communist Party of China as well as the 2nd, 3rd, 4th, and 5th Plenary Sessions of the 19th Central Committee of the Communist Party of China

The role of government in steel industry decision making and coordination is clearly stated:

Play a greater role in the global steel industry governance system.

[19] Translation on Australian Government website https://www.industry.gov.au/sites/default/files/adc/public-record/466-011.01_-_gatt_-_att_1_-_13th_five_year_plan_for_the_steel_industry_en_-_non-conf.pdf
[20] https://cset.georgetown.edu/wp-content/uploads/t0237_5th_Plenum_Proposal_EN-1.pdf
[21] Guidance on promoting high quality development of Steel Industry (October 2020) In Chinese.
[22] https://www.hellenicshippingnews.com/china-finalizing-high-quality-growth-in-steel-industry/
https://www.chinadaily.com.cn/a/202001/13/WS5e1bfe30a310128217270876.html
[23] This translation was provided to UK Steel by the European Steel Association (EUROFER).

Adhere to overall coordination. Adhere to the systemic concept of promoting high-quality development, adhere to a national coordination effort. Coordinate the relationship between the state and localities, industries and enterprises. Fully mobilize the polarities of all parties and give full play to the advantages of concentrating forces to do major events. Focus on solid foundation, promote advantages, make up for shortcomings, cultivate strengths and reinforce weak points. (section2)

Strengthen the coordination between policies, and form a policy synergy, so as to adapt measures to local conditions, maintain pressure, and implement precise policies (section 17).

Significant intervention to guarantee resource supply is highlighted:

Resource guarantee….Substantially enhance the guaranteed supply of iron, manganese, chromium and other ore resources. For iron, the domestic self- sufficiency rate shall exceed 45%......Establish equity control in 1-2 overseas iron mines with global influence and market competitiveness. (section 3)

Government is also directed to play an active role in location planning for the steel industry:

Optimize and adjust the industrial layout. The optimization of the layout of the steel industry must meet the requirements of national and local functional zone planning, environmental protection and related industrial policies. (section 6)

Guidance and co-ordination in relation to Chinese foreign economic policy is also encouraged:

Continue to strengthen the "Belt and Road" international steel production capacity cooperation, and guide superior production capacity to "go global" in an orderly manner. (section 13)

Thus, Chinese state documents produced in 2021 confirm the maintenance of a continued significant role for the state in the governance of the Chinese steel industry.

4.1.4 Decision No 40 of the State Council on Promulgating and Implementing the "Temporary Provisions on Promoting Industrial Structure Adjustment"

All levels of government are directed by Decision No 40[24] to play a major role in promoting structural adjustment.

The people's governments of all provinces, autonomous regions, and municipalities directly under the Central Government shall take the promotion of industrial structure adjustment as an important reform and development task at present and within a period in the future, establish the liability system, lay emphasis on implementation, and shall, in accordance with the "Temporary Provisions" and in light of the local situation on industrial development, formulate specific measures, rationally guide the investment directions, encourage and support the development of advanced production capacities, restrict and eliminate outdated production capacities, prevent blind investments and low-level redundant construction, and effectively propel industrial structure optimization and upgrading.

Article 12 of Decision 40 establishes the 'Guidance Catalogue for the Industrial Structure Adjustment' which guides investment directions and government policy.

The "Guidance Catalogue for the Industrial Structure Adjustment" is the important basis for guiding investment directions, and for the governments to administer investment projects, to formulate and enforce policies on public finance, taxation, credit, land, import and export, etc.

The catalogue identifies industrial sectors as 'encouraged', 'restricted' or 'eliminated'. Decision 40 remains in effect and the latest Guidance Catalogue was published in 2019[25]. The European Commission has confirmed that the steel industry belongs to the encouraged category[26]. The presence

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[24] http://www.asianlii.org/cn/legis/cen/laws/tpopisa783/

[25] The Chinese version of the new guidance catalogue is at http://www.gov.cn/xinwen/2019-11/06/5449193/files/26c9d25f713f4ed5b8dc51ae40ef37af.pdf. We do not have a translation of this but press reports confirm that it came into effect in 2019 e.g. https://www.china-briefing.com/news/chinas-2019-catalogue-guiding-industry-restructuring/ https://research.hktdc.com/en/article/MzUxODEwMjQy

[26] For example, EU Regulation No 215/2013 imposing a countervailing duty on organic coated steel prdoucts from China (recital 182).

of such categories confirms the significant influence that the Chinese state has in industrial decision-making.

4.1.5 Comment on the selection of quotes from the Chinese planning documents

We have not conducted a formal, detailed analysis of all the Chinese government documents both quoted above and the many more not cited. Rather we have selected provisions which clearly indicate that the state still plays an active role in the Chinese economic system such that markets remain significantly distorted.

It might be pointed out that there are other quotes that could be selected that suggest that the law requires that market principles apply. However, the fact that a provision is written into Chinese law provides no guarantee that it will be applied in practice. A concrete example of this was found by the European Commission in the hot-rolled flat products investigation[27].

> *…..the GOC quoted from Decision No. 40 that encouraged industries should receive credit support 'according to the credit principles'. According to the GOC it cannot be inferred that such support should be given on a preferential basis. However, the investigation has shown that the vague term 'credit principles' does not mean market-based and commercial behaviour, but rather that those credit principles include important public policy considerations, which override credit risk assessment or lead to a complete absence of any risk assessment. Furthermore, the sampled companies benefited from preferential lending policies where a proper credit risk assessment is effectively absent…..The Commission therefore rejected the GOC's assertion that lending to the steel industry was done on market based and commercial terms, and that the reference 'according to the credit principles' would constitute an obligation to follow those terms. The key point remains that according to Decision No 40, all financial institutions shall provide credit to encouraged industries, which includes the steel industry, and that that support is de facto provided on preferential terms disregarding the actual credit risk of the beneficiaries (recital 57).*

Recital 123 describes how the Commission's verification visits with cooperating, sampled companies revealed that most lending was taking place at rates close to the People's Bank of China benchmark interest rates regardless of the companies' financial and credit risk situation. No concrete evidence of creditworthiness assessments was provided and loans were found to be at below market rates when compared to the rate corresponding to the risk profile of the companies concerned.

This is a concrete example of how provisions apparently introducing market elements into the Chinese economy cannot always be taken at face value.

In conclusion, there are many clear provisions in Chinese law and guidance that unambiguously establish the primary role and influence of the state in the Chinese steel industry. This conclusion is not affected by particular statements in any of these documents that market principles apply.

4.2 Other countries' findings on horizontal China market distortions affecting the steel industry

4.2.1 Introductory Comment

The above analysis of widespread government intervention and market distortions affecting the whole Chinese economy, and thus the whole of the steel industry, has been confirmed by all other major trade remedy regimes.

4.2.2 European Commission Staff Working Document

The EU Commission's report "*ON SIGNIFICANT DISTORTIONS IN THE ECONOMY OF THE PEOPLE'S REPUBLIC OF CHINA FOR THE PURPOSES OF TRADE DEFENCE INVESTIGATIONS*" published in December 2017 sets out clearly the numerous and widespread interventions by the Government of China (GOC) in the Chinese Steel industry.

Important conclusions from the report include:

[27] Commission Implementing Regulation (EU) 2017/969 of 8 June 2017 imposing definitive CVD on hot-rolled flat products originating in the PRC.

- *The Government of China has consistently used a wide array of State support measures to promote the steel industry…These measures have a distortive effect on the market…*
- *State owned economy considered 'leading force of the national economy'*
- *Structures of state and CCP intertwined at every level*
- *Interventionist economic policy in pursuance of goals/political agenda set by CCP rather than prevailing economic conditions in free market.*
- *Complex system of industrial planning*
- *Financial system of China dominated by state-owned commercial banks*
- *Regulatory environment - public procedure rules regularly used in pursuit of policy goals. Significant control and influence over destination and magnitude of state and private investment.*
- *State presence in firms - CCP organisation established in every company.*
- *Steel industry, including production of HRF, regarded as key industry by Chinese government.*
- *Hot-rolled flat steel (HRF) producers owned by state - in anti-dumping investigation of HRF from China, Commission established that 3 of 4 sampled groups of exporting producers were state owned enterprise (SOE)*
- *Chinese bankruptcy system inadequate.*
- *Shortcomings of property rights. All land owned by Chinese state.*
- *Wage costs distorted. China not ratified essential ILO conventions.*
- *Chinese financial system characterised by strong position state owned banks.*
- *Various legal provisions refer to need to respect normal banking behaviour and prudential rules such as examining creditworthiness of borrower but overwhelming evidence that the provisions play only a secondary role in application of the various legal instruments.*
- *The Commission has recently established that the Government of China provided numerous forms of state support, some of which were found to be of a permanent and structural nature in the steel sector.*
- In the EU Commission investigation into *Hot rolled flat products from China* it was established that most of these state support schemes "*are permanent by nature, such as land use rights, tax breaks and grant programmes. Moreover, the credits received were a constant feature of Chinese industrial policy to support its steel industry. The Commission concluded that these subsidies were of structural nature.*
- These state interventions are noted to include:
    - Preferential policy loans, credit lines, preferential interest rates, other financing, and guarantees;
    - Grant Programmes;
    - Direct Tax Exemption and Reduction programmes;
    - Indirect Tax and Import Tariff Programmes;
    - Government provision of goods and services for less than adequate remuneration ('LTAR'), including: inputs, land use rights, water and electricity;
    - Equity programs, including: debt for equity swaps, equity infusions and unpaid dividends

4.2.3 Canada

Numerous anti-dumping and anti-subsidy investigations carried out by Canadian Border Services Agency (CBSA) have identified widespread and significant state distortions in the Chinese steel industry/market. For example, the CBSA's 'Statement of Reasons' in its investigation into dumping of corrosion resistant steel sheet from China[28] (for which the primary raw material is hot-rolled coil), examined a wide range of Chinese Government plans, strategies and policies as part of its 'Section 20 Inquiry'[29], that demonstrate the significant interventions the Chinese Government has in 'flat rolled steel industry' (which includes hot-rolled coil), ultimately distorting domestic prices. These include:

[28] CBSA (February 2019) Statement of reasons concerning the final determination with respect to the dumping of certain corrosion resistant steel sheet from China, separate customs territory of Taiwan, Penghu, Kinmen and Matsu (Chinese Taipei), India and South Korea.

[29] Section 20 is a provision of the Canadian Special Import Measures Act (SIMA) that may be applied to determine normal value of goods in a dumping investigation where certain conditions prevail in the domestic market of the exporting country. In

- **13th Five Year Plan.** The CBSA concludes that "*The analysis of the 13th Five-Year Plan….indicate that the GOC plays a key role in the control and administration of the steel industry, which includes the flat-rolled steel industry sector".*
- **Iron and Steel Industry Adjustment and Upgrade Plan** (2016-2020). The CBSA concluded that "*In analysing the Iron and Steel Industry Adjustment and Upgrade Plan (2016-2020)….indications are that the GOC continued its level of control in the administration of the flat-rolled steel industry sector"*
- **Iron and Steel Restructuring Policy** (2015). The CBSA quotes directly from this plan: "*There should be continuous innovation in the means of governmental administration; ongoing and respective oversight and services should be continuously strengthened; and the role of the government should be more effectively realised. Relevant laws and regulations should be better implemented in the industry to basically build a fair and competitive market environment."* This last sentence is particularly important, indicating as it does that the GOC does not believe the steel industry currently operates in a "fair and competitive market environment"
- **National Steel Policy** (2005). The CBSA highlights the key aims of the Chinese National Steel Policy which include: structural adjustment of the Chinese steel industry, industry consolidation, and government supervision and management of the steel industry
- **Steel Revitalisation/Rescue Plan** (2009). The CBSA sites the core objective as: strict control of total steel production and elimination of inefficient production, maintain stable imports of iron ore resources and rectify the market order, maintain the stability of the domestic market and the export environment, develop domestic and overseas resources and guarantee the safety of the industry, and optimise the layout of industry and overall arrangements of its development.
- **12th Five Year Development Plan for the Steel Industry** (2011-2015). The CBSA lists the objective of this plan as: Increased mergers and acquisitions to create large more efficiency steel companies (target top ten steel companies to account for 70% of production by 2020), government restrictions on capacity expansion, and government directed relocation of steel companies.

Elsewhere in the report, as part of the Section 20 investigation, the CBSA concludes:

- The GOC's extensive ownership and control of the majority of large Chinese steel producers means that these companies likely produce and market steel according to GOC objectives instead of market conditions.
- The GOC influences the price of hot rolled steel.
- The GOC maintains export controls on raw materials used in the production of steel – these include a 15% export tax imposed in 2017 on steel billet and slab, which creates an excess in supply in China and therefore lowers prices for producers of finished steel products (including wire rod) below what would exist in a competitive market without such government controls.
- That there is substantial evidence of subsidisation of steel production in China, reducing production costs of downstream finished steel products.

4.2.4 Australia

In the recent review of anti-dumping measures on steel rod in coil from China[30], the Australian Anti-Dumping Commission found that government involvement across the steel industry is the primary cause of prevailing structural imbalances.

> *The Commission considers the GOC's involvement within, and influence across the steel industry to be a primary cause of the prevailing structural imbalances within both the broader steel industry and the steel rod in coil market. This involvement includes the issuing of planning guidelines and directives, along with provisions of direct and indirect financial support. Other key mechanisms include the role and operation of SOEs, taxation arrangements and tariff policies.*

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the case of the prescribed country under paragraph 20(1)(a) of SIMA, it is applied where, in the opinion of the CBSA, the government of that country substantially determines domestic prices and there is sufficient reason to believe that domestic prices are not substantially the same as they would be in a competitive market. In other words, a Section 20 investigation examines the same factors and circumstances as the UK regulations require for the establishment of a particular market situation, and on the justification of price adjustments when constructing normal value.

[30] Australian Anti-Dumping Commission – Report No 564, Review of anti-dumping measures applying to steel rod in coil exported to Australia from the People's Republic of China. 27 November 2020.

In relation to state-owned enterprises, the Commission makes the following conclusions:

> *In 2016, sixteen of the world's 50 largest steelmaking companies were SOEs from China.66 In 2018, eight of the top ten steel producers in China were SOEs…..While the Commission does not consider that the presence of these entities alone causes markets to be distorted, it does consider that the presence of these entities is likely to result in the GOC's plans and directives being adhered to. The Commission also considers that the support provided to these entities by the GOC has enabled many of them to be operated on non-commercial terms for extended periods, significantly impacting supply and pricing conditions within the domestic Chinese market.70 Examples of these support mechanisms include government subsidies, support from associated enterprises (through direct subsidy, interest-free loans or provision of loan guarantees) and loans from state- owned banks.*

Further, the Commission concludes that no progress has been made on the over-capacity problem:

> *The effectiveness of the GOC's attempts to address overcapacity through mergers and acquisitions has been constrained by the GOC's desire to:*
> - *replace older mills with new larger and more efficient mills; and*
> - *close smaller mills to offset the commissioning of new larger mills.*
>
> *Its impact to date has been to increase production and exacerbate existing structural imbalances.*

4.2.5 United States

The United States still treats China as a non-market economy in anti-dumping investigations, as permitted under the Chinese WTO accession protocol. The DOC's most recent determination[31] concluded the following:

> *The Department of Commerce ("Department") concludes that China is a non-market economy (NME) country because it does not operate sufficiently on market principles to permit the use of Chinese prices and costs for purposes of the Department's antidumping analysis. The basis for the Department's conclusion is that the state's role in the economy and its relationship with markets and the private sector results in fundamental distortions in China's economy.*
>
> *At its core, the framework of China's economy is set by the Chinese government and the Chinese Communist Party (CCP), which exercise control directly and indirectly over the allocation of resources through instruments such as government ownership and control of key economic actors and government directives. The stated fundamental objective of the government and the CCP is to uphold the "socialist market economy" in which the Chinese government and the CCP direct and channel economic actors to meet the targets of state planning. The Chinese government does not seek economic outcomes that reflect predominantly market forces outside of a larger institutional framework of government and CCP control. In China's economic framework, state planning through industrial policies conveys instructions regarding sector- specific economic objectives, particularly for those sectors deemed strategic and fundamental.*

In relation to the 13th Five Year Plan, the US-China Economic and Security Review Commission[32] found that "*China's continued reliance on state-led economic growth rather than more market-based growth represents a considerable challenge for US firms facing competition from Chinese firms in China and abroad".*

The Commission's report concludes that the 13th Five Year Plan is a step back from China's pledge to allow the market to play a decisive role.

> *The 13th FYP represents a step back from China's Third Plenum pledge to allow the market to play a "decisive role" by reiterating the CCP's central role in China's economic and social development. The Chinese government's intervention in the economy, particularly its ham-*

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[31] US DOC Memorandum '*China's Status as a Non-Market Economy'* A-570-053 October 26 2017.
[32] US-China Economic and Security Review Commission, Staff Research Report, *The 13th Five year Plan*, February 14 2017.

fisted response to the stock market collapse in the summer of 2015 and early 2016, counteracts the very market drivers it is hoping to unleash

The Commission also quotes a report from the Center for Strategic and International Studies[33] in relation to the *One Belt One Road* (OBOR) initiative which it describes as a cornerstone of the 13th Five Year Plan's objectives.

CSIS researcher Chris Johnson noted that beyond these stated objectives, the Chinese government is hoping to use OBOR to export China's enormous excess industrial capacity and strengthen debt-laden SOEs' international competitiveness "through abundant financing and markets where competition is not particularly fierce."

5 Distortions specific to wire rod industry

5.1 Australia's continuation of anti-dumping measures on steel rod in coil

The Australian Anti-Dumping Commission recently completed a review of anti-dumping measures on steel rod in coil from China[34].

The Commission quoted from its previous analysis of raw material distortions on wire rod inputs. It identified the following impacts on raw materials:

- export duties on steelmaking raw materials for chromium, crude steel, iron ore, coke, coking coal, manganese, molybdenum, pig iron, and steel scrap;53
- the impact of the GOC's overarching macroeconomic policies and plans;
- non-automatic export licensing requirements for certain raw materials which gives the GOC control over the exportation of raw materials used in the production of steel rod in coil, generating extra transaction costs and hindering exporters ability to react quickly to sales opportunities;54
- including chromium mines as part of the Chinese iron and steel industry in the GOC's National Steel Policy, which has been found to have impacted and distorted the cost of raw materials;55 and
- defining chromium as a strategic mineral in the Plan, and the finding that these "strategic minerals are 'key elements of the mineral resources macro-control, supervision and management'" and "the plan mentions the role of governmental decision-making on the sector's development".

The Commission concluded that the level of government influence resulted in a particular market situation in the Chinese steel rod in coil market:

While the Commission is aware that the GOC has made significant efforts to reduce export tariffs and quotas for coke and coking coal, it is noted that scrap steel, iron ore and coking coal are still important raw materials in the manufacture of steel. While government tariff and quota measures have declined in recent years, they remain factors that are likely to distort the markets for these materials in China.57

It is apparent in light of the information above, and the further analysis in the following sections, that government influence by the GOC has resulted in a particular market situation in the Chinese steel rod in coil market.

The Commission found that the price of steel billet, the main input to wire rod in coils, would be substantially different in a market not characterised by GOC influence:

The Commission therefore considers that the GOC's historic and continued involvement within the Chinese steel industry, through its policies, planning guidelines, plans and directives, materially contributed to the steel industry's overcapacity, oversupply and distorted structure during the review period. It is the Commission's view that the prices of steel billet would be substantially different in a market not characterised by GOC influence.

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[33] Christopher K. Johnson, "President Xi Jinping's 'Belt and Road' Initiative: A Practical Assessment of the Chinese Communist Party's Roadmap for China's Global Resurgence," *Center for Strategic and International Studies,* March 2016

[34] Australian Anti-Dumping Commission – Report No 564, Review of anti-dumping measures applying to steel rod in coil exported to Australia from the People's Republic of China. 27 November 2020.

The Commission also found that "*subsidy programs have directly contributed to conditions within the Chinese steel industry and steel rod in coil market during the review period".*

In addition, the Commission concluded that input prices are artificially low:

> *The Commission has previously identified evidence of export taxes and export quotas on a number of key inputs in the steel making process, including coking coal, coke, iron ore and scrap steel in Anti-Dumping Commission Report No. 198.83 The Commission found that these measures would keep input prices artificially low and create significant incentives for exporters to redirect these products into the domestic market, increasing domestic supply and reducing domestic prices to a level below what would have prevailed under normal competitive market conditions.*

The Australian Anti-Dumping Commission concludes that market conditions are distorted and that there is a particular market situation on the Chinese domestic market for steel rod in coil.

> *The Commission has determined that the GOC has exerted influence on the Chinese steel industry, which has distorted competitive market conditions in the steel industry in China. The GOC was able to exert this influence through its directives and oversight, subsidy programs, taxation arrangements and the significant number of SOEs. As a result, the Commission considers that there is a particular market situation in the domestic market for steel rod in coil.*

5.2 US findings on subsidies directly affecting the Chinese wire rod industry

The recent sunset review of the countervailing duty on carbon and certain alloy steel wire rod from China[35] found the following countervailable programmes:

- ***Preferential Loans, Policy Loans, and Directed Credit***
  Chinese steel producing companies, including steel wire rod producers, get low-interest loans from state policy banks and state-owned commercial banks to fund their growth. The domestic interested parties contend that such subsidies are granted pursuant to political directives from the central or provincial governments, rather than creditworthiness or other market-based factors, and benefit SOEs and industries, such as the steel industry, that are favored by the GOC and in line with its goals.
- ***Treasury Bond Loans or Grants***
  China annually announces that certain projects will receive financial support through Treasury bond proceeds.
- ***Development of Famous Brands and China World Top Brands Programs***
  In 1992, the GOC initiated the Famous Brands Program to increase exports. According to the Office of the United States Trade Representative (USTR), the Famous Brands and China World Top Brands programs provide grants, loans, and other incentives to enterprises in China, in an effort to implement an industrial policy of promoting the development of global Chinese brand names, and to increase sales of Chinese branded and other Chinese merchandise around the world.
- ***Sub-Central Government Subsidies for Development of Famous Brands and China World Top Brands***
  In addition to the central government, a number of "sub-central" (i.e., provincial and local) governments in China have promulgated various policies to implement the goals of the Famous Export Brands and Top Brands programs. These programs provide additional financial support to companies with products designated as famous brands in order to increase sales of Chinese branded merchandise around the world.
- ***Funds for Outward Expansion of Industries in Guangdong Province***
  This program was established pursuant to Implementing Measures of Guangdong Province concerning the Support of Development of Outward Privately-Held Enterprises, and aims to provide eligible private enterprises located in the Guangdong Province with special funds to develop their export activities.

[35] US DOC – Issues and Decision Memorandum for the Expedited First Sunset Review of the Countervailing Duty Order on Carbon and Certain Alloy Steel Wire Rod from the People's Republic of China. C-570-013, March 24 2020.

- ***Provincial Fund for Fiscal and Technological Innovation***
  This program is administered by the Provincial Department of Finance and Economic and Trade Commission of Guangdong Province pursuant to the Provisional Measures on Administration of Exploration and Renovation Provincial Level Fund, and provides grants to firms with the goal of promoting technological and fiscal innovation.
- ***State Specific Fund for Promoting Key Industries and Innovation Technologies***
  The National Development and Reform Commission and the Ministry of Industry and Information Technology provide a one-time grant, under a special fund for promoting key industries and innovation technologies, to assist eligible companies, including steel producers, to develop production facilities. To receive the grant, an eligible company must submit an application that includes information regarding its estimated export revenues.
- ***Shandong Province's Special Fund for the Establishment of Key Enterprise Technology Centers***
  The purpose of the fund is to support the establishment of technical centers by key enterprises through providing funds for the purchase of equipment, training, technical cooperation, and communication. The legislation pursuant to which this program operates expressly limits access to the program to seven industrial chains and six pillar industries, including metallurgy.
- ***Grants for Antidumping Investigations***
  Several sub-central governments, including Shandong Province, Rizhao City, and Nanjing City, all offer grants to companies that made export sales and cooperated in antidumping investigations.
- ***Shandong Province's Award Fund for Industrialization of Key Energy-Saving Technology***
  The purpose of this program is to encourage reductions in energy consumption and to accelerate the industrialization of key energy-saving technologies in Shandong Province, because the GOC has directed all levels of the government to support industries with high energy consumption, such as steel, and target those sectors for saving energy and reducing energy consumption.
- ***Shandong Province's Environmental Protection Industry R&D Funds***
  The purpose of this fund is to promote pollution-preventing technologies and environmental product development, and to strengthen the innovation capability and market competitiveness of the environmental protection industry in Shandong Province. The GOC has directed all levels of the government to support industries with high energy consumption, such as steel, and target those sectors for saving energy and reducing energy consumption.
- ***Shandong Province's Construction Fund for Promotion of Key Industries***
  A program that provides construction funds to steel wire rod producers in Shandong Province.
- ***Waste Water Treatment Subsidies***
  This grant program was offered by provincial governments to address the problem of waste water pollution.
- ***Funds of Guangdong Province to Support the Adoption of E-Commerce by Foreign Trade Enterprises***
  Guangdong Province provides grants to support the adoption of e-commerce by foreign trade enterprises. The Commission of Economy and Information Technology of Guangdong Province administers this program, which consists of four separate funds: (1) special fund; (2) fund of provincial strategic new emerging industry; (3) special fund of internet services industry; and (4) special fund for small and medium-enterprises.
- ***Technology to Improve Trade R&D Fund***
  The Jiangsu Treasury Department provides a special fund to companies in an effort to induce R&D activities related to export products. To receive this grant, a company must submit an application that includes information regarding its exports or potential exports.
- ***Direct Government Grants to Hebei Iron & Steel***
  Hebei Iron & Steel's 2012 Annual Report indicates that the company receives numerous grants from the GOC.
- ***Provision of Steel Billet for LTAR***
  Steel billet is almost exclusively produced and sold by SOEs, which receive extensive subsidies from the GOC. Thus, Chinese steel wire rod producers receive steel billet from SOEs for LTAR.

- ***Provision of Electricity for LTAR***
  Steel wire rod producers receive electricity from the GOC for LTAR.
- ***The Provision of Land-Use Rights to SOEs for LTAR***
  Chinese producers of steel wire rod are eligible to benefit from the government provision of land-use rights for LTAR in the form of granted rights to encouraged industries and allocated rights to SOEs.
- ***Land-Use Rights Extension***
  The GOC issues land-use certificates to holders of land-use rights, which effectively extend their land-use rights by additional years without additional consideration. Land-use rights may be extended when a company purchases land-use rights from another entity or a business consolidation such as merger or acquisition takes place.
- ***Income Tax Reductions Under Article 28 of the EIT***
  Enterprises that are designated as HNTEs are entitled to pay a reduced tax rate of 15 percent instead of the standard corporate tax rate of 25 percent, according to Article 28 of the EIT.
- ***Tax Offsets for R&D Under the EIT***
  Article 30.1 of the EIT created a new program which allows enterprises to deduct research expenditures incurred in the development of new technologies, products, and processes.
- ***The Two Free/Three Half Program for FIEs***
  Article 8 of the FIE Tax Law exempts FIEs that are profitable and scheduled to operate for not less than ten years from income tax in their first two profitable years, and allows such companies to pay only half of the applicable tax rate for the following three years.
- ***Income Tax Reductions for Export-Oriented FIEs***
  FIEs may continue to pay half of its applicable income tax rate following the expiration of the "Two Free/Three Half Program" if exports constitute 70 percent of the company's sales. Additionally, export-oriented enterprises in specially-designated zones, already eligible to pay half the standard income tax rate, may receive a further rate reduction through this program.
- ***Income Tax Benefits for FIEs Based on Geographic Locations***
  "Productive" FIEs located in a coastal economic development zone, special economic zone or economic technology development zone receive preferential tax rates of either 15 or 24 percent, as opposed to the standard 25 percent rate.
- ***Local Income Tax Exemption and Reduction Programs for "Productive" FIEs***
  Local provinces can establish eligibility criteria and administer the application process for local income tax reductions or exemptions for FIEs, effectively extending the tax exemptions or reductions that are allowed to FIEs by the national "Two Free, Three Half program."
- ***Tax Offsets for R&D by FIEs***
  The GOC encourages R&D by FIEs by allowing tax offsets that permit the actual R&D expenses incurred in China which have increased ten percent or more from the previous year to be offset by 150 percent from the taxable income of the year.
- ***Tax Refunds for Reinvestment of FIE Profits in Export-Oriented Enterprises***
  FIEs that use profits to establish another FIE (or high technology company), or that reinvest those profits into the same FIE, can receive complete refunds of the corporate income tax already paid on the invested amount. The recipient of the investment must be export-oriented and scheduled to operate for at least five years to be eligible for the refund.
- ***Preferential Tax Programs for FIEs Recognized as HNTEs***
  The GOC provides preferential tax benefits to enterprises with foreign investment that are recognized as HNTEs, and for enterprises that are established in high or new technology industrial development zones. These benefits include a reduced income tax rate of 15 percent.
- ***Tax Benefits to Enterprises in the Northeast Region***
  Enterprises located in the Northeast Region (i.e., Liaoning, Jilin and Heilongjiang provinces) may: (1) reduce the depreciation life of fixed assets by up to 40 percent for tax purposes, thereby increasing the annual amount of depreciation expense that may be deducted from the company's income tax; and (2) lessen the period of amortization of intangible assets by up to 40 percent for tax purposes, resulting in a larger annual tax deduction for amortization expense.
- ***Forgiveness of Tax Arrears for Enterprises Located in the Old Industrial Bases of Northeast China***
  This program forgives all tax liabilities incurred prior to December 31, 1997, that have not been paid by enterprises located in the Liaoning, Jilin, and Heilongjiang provinces. The scope

of the tax forgiveness includes surcharges for overdue tax payments, such as interest and penalties on the overdue taxes, and applies to both state-owned and private enterprises.

- ***VAT and Import Duty Exemptions for Use of Imported Equipment***
  The GOC exempts FIEs and certain domestic enterprises in encouraged industries, such as iron and steel, from paying VAT and tariffs on imported equipment that is used in production, but not resold.
- ***VAT Rebates on FIE Purchases of Chinese-Made Equipment***
  The GOC refunds the VAT on FIE purchases of certain domestically-produced equipment, such as equipment falling under the "Encouraged" and "Restricted B" categories listed in the Circular of the State Council Concerning the Adjustment in the Taxation Policy of Import Equipment, and equipment for projects listed in the Current Catalogue of Key Industries, Products and Technologies the Development of Which Is Encouraged by the State.
- ***VAT and Tariff Exemptions for Purchases of Fixed Assets Under the Foreign Trade Development Fund Program***
  The GOC allows businesses in northeast China in the high-tech, equipment manufacturing, petrochemical, metallurgical, and selected other industries to deduct VAT for purchases of fixed assets from the VAT for sales of finished goods.

This confirms that there are extensive subsidy schemes that distort the production and sale of wire rod in China.

5.3 European Union findings on wire rod inputs

5.3.1 Hot-rolled flat products investigation

The EU findings in the hot-rolled flat products CVD investigation[36] confirm that there are significant distortions to the principal raw material inputs of wire rod in China.

The Commission found the following subsidy schemes that created distortions on the Chinese market:

- Preferential lending
- Land provision and acquisition at less than adequate revenue (LTAR). Provision of land is non-transparent and prices are arbitrarily set by the authorities.
- Direct tax exemption and reduction programmes.
- Indirect tax and import tariff programmes
- Grant programmes

5.3.2 Energy prices

The EU Commission's report into distortions in the Chinese economy provides significant detail of the various interventions national, regional, and local governments make into the energy market. In summarising, the report notes the following key findings:

- Energy prices are still not-market based and are largely controlled by the state. *"The prices for electricity and natural gas are regulated by the Chinese National Development Reform Commission and according to the Chinese government set on the basis of a procedure that includes cost investigation, expert appraisal, public hearings, and final price determination and publication*." In other words, energy prices in China are clearly not "*substantially determined by market forces*"[37]
- 50% of the generation capacity is state owned as well as the whole transmission grid.
- Price differentiation exists to the extent of favouring particular industries
- The Chinese state has in the past provided significant subsidies for the production of coal which in turn led to massive expansion of coal generating power stations – this in turn has led to an oversupply of electricity and therefore lower prices than would have existed in the absence of these coal subsidies

[36] COMMISSION IMPLEMENTING REGULATION (EU) 2017/969 of 8 June 2017 imposing definitive countervailing duties on imports of certain hot-rolled flat products of iron, non-alloy or other alloy steel originating in the People's Republic of China and amending Commission Implementing Regulation (EU) 2017/649 imposing a definitive anti-dumping duty on imports of certain hot-rolled flat products of iron, non-alloy or other alloy steel originating in the People's Republic of China
[37] As required under Regulation 13(3) of the Trade Remedies Act when determining whether adjustments should be made to production costs.

Given these significant distortions in the Chinese energy market, UK Steel argues that when constructing the normal value for wire rod in China, adjustments must be made with regards to price of energy inputs. For further details on the energy market distortions in China please see the EU Commission report pages 217 to 234.

5.3.3 Labour Costs

The EU Commission's report into distortions in the Chinese economy provides the following key points with regards to Chinese Government interventions into labour markets, which limit the extent to which market forces are able to determine wages:

- The Commission report states that "*Market based wages should be understood as wages freely bargained between the workers and management in an undistorted economic environment.*" And goes on to conclude that "*Chinese workers have no possibility to freely choose or establish a trade union in which they want to organise themselves, because there is only one legally recognized trade union, the ACFTU. Furthermore, although collective bargaining of wages exists, it is not well developed.*" Moreover, the report notes that the close integration of the ACFTU and the Chinese State, along with the Chinese State's role in many companies (particularly state owned enterprise) means the union effectively has limited independence to effectively act in the interest of workers to achieve wage settlements.

- Whilst significant reforms have been made since the 1980's, the *hukou system* (household registration) still places significant restrictions on the ability of Chinese citizens to move and find employment – this is particularly the case in terms of rural workers moving to the largest cities. The system actively prevents many would be migrant workers from gaining access to education for children, healthcare, welfare and affordable accommodation – this works to discourage and reduce labour mobility and ultimately distort wages.

- Previous trade remedies investigations have confirmed the existence of distortions in the labour market, examples of which include: lack of independence of companies from the state, GOC intervening in decisions of companies in relation to hiring and dismissals, labour contracts signed by Chinese workers with no reference to hours or remuneration.