TD0010 – HFP Rebar from China

UK Steel response to submissions on the public file

This paper responds to the following documents submitted to the TRA public file:

- Comments submitted by the China Chamber of International Commerce ("CCIC")
- Comments submitted by the China Iron & Steel Association ("CISA")
- Comments submitted by the Ministry of Commerce of the People's Republic of China ("MOFCOM")

1. UK rebar already benefits from safeguard protection

The CISA submission contends that an anti-dumping (AD) measure is redundant when the same product is protected by a safeguards measure, however, this argument does not hold. Safeguards and anti-dumping duties are different measures, designed to address different issues. Safeguards will protect from surges in imports and trade diversion but cannot guarantee that imports are coming at non-dumped prices. WTO rules and the UK trade remedies framework allow for both types of measure to apply simultaneously for this reason. For products that are subject to both measures, only one of the two duties applies at any one time; the stated AD duty applies until the quota is exhausted, after which time both apply but the AD rate is adjusted to ensure that the maximum charged is either 25% or the stated AD duty level, whichever is the higher.

Safeguard measures act to limit imports above a certain level, and therefore will have some impact on the volumes of dumping. However, dumping is perfectly possible within the volumes allowed by a TRQ. Indeed, UK Steel already has concerns of manipulative market behaviour by exporters of other products, for example certain steel tubes and merchant bar/light sections which it will continue to monitor. Importantly, if the anti-dumping measures on Chinese HFP rebar were removed then the design of the UK safeguard measures would require China be provided with its own annual TRQ at an estimated 140,000-150,000 tonnes on account of the huge levels of dumped imports (approx. 380,000 tonnes) it flooded the UK market with in 2015. Whilst it is true the safeguards would limit China dumping the volumes it did back in 2014/2015, it could still cause a huge amount of damage if able to dump within a quota of 150,000 tonnes.

Finally, the safeguard measures will only be in place until June 2023 providing no protection at all after this point. An extension of the anti-dumping measure would provide critical protection for at least two years beyond this point.

2. There are other causes of injury to UK steel industry than Chinese imports

The UK Steel industry faces a number of competitive challenges and the CCIC quotes extensively from UK Steel reports outlining some of these. However, the presence of these does not mean that Chinese imports at dumped prices have not been a major cause of injury in the past and could not be so once again. Far from it, the fact that the UK steel sector faces these challenges means that it is even more likely that any injury suffered will have severe consequences. The UK Steel submission provides evidence of Chinese exports being dumped in other key export markets as well as the attractiveness of the UK market. The fact that the UK steel sector has suffered from other causes of injury does not negate the huge spare capacity in China and the clear risk of trade diversion and dumping as a result of trade measures in other countries, limiting exporting options for Chinese producers. The only reason why Chinese exports to the UK have reduced in recent years is due to the presence of anti-dumping measures. Dumping is likely to resume should the measure be removed and particularly given the situation of the UK industry, this would cause serious injury.

The CCIC submission further points to other countries, such as Belarus, Russia, Ukraine, and Turkey exporting the goods subject to this review to the UK at significant quantities and progressively lower prices and undercutting the UK market. Once again, this does not lessen the injurious impact of dumped imports from China, simply aggravates it. It also means that UK prices are already likely supressed, therefore any undercutting analysis will underestimate the true injury level.

3. Threat of injury is lessened by China’s cancellation of export tax rebate

This CCIC, CISA and MOFCOM submissions all point to China’s cancellation of export tax rebates on some steel products as an indicator that China will be more focused on the domestic market and will have less of an incentive to export, therefore reducing the threat of injury to the UK. This however is misleading. First, the tariff codes 72283010 and 72283090 to which this applies and which are referred to in the CCIC submission are not within the scope of this investigation and 72142000, accounting for the largest volumes of UK imports, has not had a rebate since 2007. Clearly the cancellation of the rebates in 2007 wasn’t sufficient to prevent dumping back in 2014 and 2015. Furthermore, in some cases Chinese steel producers developed inventive ways to continue claiming the rebate, including fraudulently miscategorising their products, or adding small amounts of minerals to classify them as alloy steels[1].

Second, these VAT rebates of 13% that have been removed are lower than the anti-dumping duty of 18.4-22.5% therefore the removal of this tax incentive does not match the effect of the anti-dumping measure. CCIC further claim that removing import duties on raw materials such as pig iron, DRI, scrap and billets is additional evidence that China is reorienting to importing more steel resources and reducing domestic steel production. This once again is misleading. The removal of these tariffs is aimed at reducing raw material costs for steel producers, including those of rebar. It alone says nothing about a strategy to reduce domestic steel production or exports, and indeed it could easily result in the opposite – higher levels of finished steel production and increase export at lower prices.

In fact, later in its submission the CCIC says: “As provided in the OECD Steel Market Developments Report for Q4-2019/20, the iron ore industry in China is import-oriented, which means that one of the most significant factors which can significantly affect the cost and selling price of steel products (including the goods subject to review) is the import price of iron ore from abroad.”

Impact on market incentives aside, such government policy is easily reversible and there is no guarantee that this will not be the case in coming years. Finally, the presence and removal of such tax incentives with the purpose of influencing trade flows is clear evidence of government intervention in the Chinese steel market. It is evidence that prices and costs are distorted and reflect non-commercial factors, so that a particular market situation evidently applies.

4. Economic Interest

The CISA submission contends that the measure does not meet the economic interest test on grounds that there are many more downstream industries and jobs which would be at risk as a result of the measure, when there is only one UK producer of rebar. Firstly, there are now two producers of rebar in the UK, with Liberty Steel having commenced production in October 2020[2].

Secondly, the CISA has not provided any evidence of injury to fabricators and other downstream businesses caused by the AD measure even though it has been in place for five years now. In the absence of this, or any representation in this review from UK fabricators, one can only reasonably conclude that no notable injury has been caused by the AD duties.

In contrast, the surge in imports ahead of the measure being introduced, caused significant and proven injury to the single UK rebar producer in 2015, putting it at risk of closure – an outcome which would

[1] https://www.reuters.com/article/uk-usa-trade-china-steel-factbox-idUKKBN1KF0DY
[2] Liberty is not an active participant in this review because it was not producing the product in question for 90% of the injury period and 50% of the investigation period. It does however firmly support the retention of these AD duties.

have likely been permanent and irreversible and would have had far more severe consequences for the UK economy (including UK based rebar fabricators, steel service centres and the construction sector) than any posited harm caused to rebar fabricators and traders.

Critically, the likely injury caused by the removal of these AD duties, and the resumption of dumping must be viewed not only in terms of direct loss in steel company GVA and jobs, but also damaging the domestic construction supply chain. Downstream businesses would be far worse off if they depended solely on imports and had no domestic supply chain which could respond to shorter lead time requirements and would not be impacted by trade flow restrictions, Brexit and Covid-19 being prime examples of this. Domestic production is essential for supply chain resilience and a domestic supply chain multiplies the economic value to the UK, supporting additional jobs in logistics, warehousing and processing. It is therefore in the economic interest of end-users but also of the UK as a whole to maintain and support domestic production of steel.

5. The Chinese export price to UK and the world is higher than the domestic price during the injury period

The CCIC and MOFCOM submissions state that the Chinese export price to the UK and the world is higher than the UK domestic price during the injury period. There are several reasons why this assessment is inaccurate:

- **For the UK comparison, the CCIC analysis is done based on 722830 alone at 6-digit level:** This data set covers a variety of steel bars and rods that are mostly not rebar and includes higher value products such as alloy steels, and engineering bars which skews the analysis. Not only does the CCIC analysis include goods that are outside of the product scope but crucially it completely ignores products under 721420 which is the primary tariff categorisation for HFP rebar. As outlined in the UK Steel submission, even at the 6-digit level, all products under 721420 are bars and rods "*containing indentations, ribs, groves, or other deformations produced during the rolling process or twisted after rolling*" and therefore are in fact rebar – meaning this is the only code covered by the AD measures that when taken at a six digit level can provide us with a reasonable comparison of rebar prices.

- Within the 7228xx classifications, it is only at the 10-digit level that the full range of tariff codes in scope would yield the right product mix. What is more, the tariff codes under 722830 are not specifically produced in the UK, even though like/directly competitive products (72142000) are. Therefore the comparison to the UK domestic price is irrelevant as it is actually seeking to compare the price of higher value engineering products under 722830 with a UK domestic HFP rebar price under 721420. It is also telling to examine the imports into the UK of products under the two different tariff code groupings. The table below clearly shows that the data under 72142000 provides a more accurate picture of HFP rebar flows into the UK, since imports drop to truly minimal levels in 2016 which is what one would expect when an effective anti-dumping measure comes in place. The obvious reason why there remain some imports of products under the other tariff codes (722830), is that they are not rebar.

UK rebar imports from China: 72142000 vs all tariff codes covered by AD measure

	2014	2015	2016	2017	2018	2019	2020	2021
72142000	254,583	365,409	44	2	4	57	810	0
All tariff codes	262,105	372,659	1,285	959	1,974	6,832	5,203	223

Source: UK Trade Data (HMRC)

- **Export volumes to the UK are too small for value data from export statistics to be meaningful:** When volumes are small the sample size is not big enough to provide a useful average and smaller volumes are also typically higher priced. There is therefore no useful export price indication that can be inferred from export statistics during the injury period.

- **In terms of export prices to the rest of the world, the 6-digit data suffers with the same problem of inaccuracy as above when looking at exports to the UK:** For the rest of world analysis, the CCIC submission includes all the tariff codes but the volumes under 722830 are 10 to 50 times higher than the volumes under 721420, which is skewing the figures since as noted above this includes high value engineering bars and alloy steels.

- **The UK Steel submission provides evidence of dumping in export markets:** The dumping calculation provided in UK Steel's submission provides a strong indication that China is still dumping in its two primary export markets for rebar, South Korea and Hong Kong. Historical trends also show that China is able to increase its exports to the UK very quickly and by a huge amount. 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 and this is highly likely to be at dumped prices, considering activity in other export markets, high spare capacity and limited export markets as a result of trade defence measures.