

TD0011 – Cold rolled flat steel from China and Russia

UK Steel response to China Chamber of International Commerce submission

This paper responds to the China Chamber of International Commerce (CCOIC) submission on the public file on 2 December 2021, which was in response to the UK Steel submissions.

1. Likelihood of dumping and threat of injury

The CCOIC takes issue with the UK Steel assertion that China's removal of export tax rebates will not lessen the threat of injury on grounds that this is mere allegation.

First, this is not a new investigation, it is merely a review of a measure that has been in place for the last five years. The fact of dumping was proven by the EU investigation and the purpose of this review is solely to examine whether the measures are still required, not to prove the fact of dumping once again. Therefore, the argument that dumping must be proved in fact and not conjecture is irrelevant. The UK Steel submissions provide significant evidence that dumping is highly likely to reoccur if the measures are removed, which is the objective of this review.

But even if we were to start examining fact versus conjecture, it is the CCOIC argument which seeks to conjecture a possible outcome of a removal of export tax rebates and increase in raw material import duties. UK Steel simply provided an alternative expected outcome of this policy change, namely that it would reduce raw material costs, including pig iron, crude steel and scrap, for Chinese steel producers, which could result in higher levels of finished steel production and increased incentive to export at lower prices. Ultimately, UK Steel agrees that this policy change provides no conclusive evidence and says nothing about a strategy to reduce domestic steel production or exports. UK Steel would therefore argue that it is the CCOIC submission which is based on allegations.

On the contrary there is ample evidence that China has dumped cold-rolled flat steel before and has caused material injury in other markets and the UK. The presence of anti-dumping measures on cold-rolled flat products in the EU, Canada, the US and India attests to that. This is clear fact established by at least four different investigating authorities.

It is also clear that the presence and removal of tax incentives with the purpose of influencing trade flows is evidence of government intervention in the Chinese steel market, that prices and costs are distorted and reflect non-commercial factors and that a particular market situation exists.

These are all factors which increase the likelihood of dumping to the UK market, which would certainly cause material injury given its fragile state.

The CCOIC submission further labels UK Steel's statement around Chinese exporters previous fraudulent exporting behaviour as speculative and lacking in evidence. UK Steel provided evidence based on media reports in its November submission, showing that Chinese exporters were finding inventive ways back in 2014-15 in order to circumvent export duties and take advantage of the rebate system.¹ In the UK this was most notable in the rebar market, where one of the most common ways for Chinese exporters to claim the rebate was to add a small amount of some element (often boron) in order to classify the product as an alloy. Not only was this taking advantage of a loophole but also led

¹ [Factbox - Taxing issue: China's controversial steel rebate policy | Reuters](#)

to an array of safety concerns as this changed the typical specification of rebar and was not in line with the normal welding techniques used. The fact that the Chinese government had to take action in 2015 to remove boron-added steel from the products eligible for rebates is surely enough evidence that this took place on a wide scale and was a huge issue.² Another article quotes Wu Xichun, China's former metallurgy minister and an adviser to the China Iron and Steel Association (CISA) as saying that: "Three quarters of the export increase this year [2014] has relied on the government providing tax rebates for the addition of just 0.0008 percent of the trace element of boron."³ No doubt other loopholes could be found if there is an incentive to do so.

The CCOIC submission cites a number of other factors which it sees as reducing the likelihood of a significant increase in Chinese exports should the anti-dumping measures be removed.

- **High iron ore prices:** While it is true that iron ore prices climbed to historic highs over the summer, they have since plummeted back in line with 2019 levels.

Spot Iron Ore Price Trends

Chinese Iron Ore Imports Fines 62% Fe spot



Source: Kallanish Commodities

- **Domestic Chinese steel demand:** Domestic Chinese steel demand has slowed this year, largely as a result of a slowing construction sector in China where high debt levels incurred by large real estate companies has dented confidence in the construction sector.⁴ Steel production in China has also reduced in response to slowing demand and the Worldsteel Association is currently forecasting no growth in steel demand for China in 2022. It is therefore not at all clear that Chinese demand will be recovering and that the overseas markets will not be a priority. Besides, the size of the Chinese steel market is such that even if the export market is not a priority, relatively small proportions of exports by Chinese standards could be huge compared to the UK market. The threat is increased by the fact that

² https://www.steelbb.com/?PageID=164&article_id=138867 (industry.gov.au)

³ [Iron ore at 5-1/2 year low, China buyers wary of tax loophole closure | Reuters](#)

⁴ [China's property distress sours steel sector in warning sign for economy | Reuters](#),

[China's slowing total social financing growth to weigh on construction steel demand: sources | S&P Global Platts \(spglobal.com\)](#),

[China's steel-related manufacturing slows; to weigh on steel prices, margins | S&P Global Platts \(spglobal.com\)](#)

the EU, Canada, the US and India, which combined with 232 tariffs in the US, leave few open export markets to Chinese producers of the product. The likelihood that trade would be diverted to the UK market in the event the measure was dropped is therefore extremely high, implying a significant threat of material injury. The other causes of injury to the UK steel sector are separate and a conclusion on threat of material injury could easily be reached regardless of them. The relative sizes of the Chinese and UK steel markets are such that the UK could easily be flooded with what would be small volumes of exports by Chinese standards. The additional causes of injury to the UK industry simply add to the likelihood of material injury assessment, demonstrating that the industry is not in a state that could brush off the effect of dumped imports. In other words, the already fragile state of the UK industry makes the likelihood of material injury even greater.

3. Safeguards and injury caused by dumping

The CCOIC submission contends that safeguards limit the injury that can be caused by dumping given that this limits the volume of dumped imports, and dumping in and of itself is not prohibited unless it causes material injury. While safeguards may reduce the injury suffered it does not eliminate it altogether and does not prevent it from being material. Indeed, safeguards and anti-dumping measures address two completely different types of injury, i.e. serious injury (safeguards) and material injury (anti-dumping). The two types of injury have very different standards, whereby serious injury means a much higher degree of deterioration in domestic industry's performance than material injury. Moreover, performance of the domestic industry is assessed in a completely different context for serious injury and material injury, as the latter occurs due to unfair and illegal imports (which are dumped or subsidized) whereas serious injury is caused by predominantly legal imports. If the safeguard measures could indeed address material injury, then there would never be any anti-dumping measures where safeguard measures are in place. This is clearly not true and therefore the presence of safeguards in itself is not adequate to conclude that Chinese imports of cold-rolled flat steel would not cause material injury to the UK.

UK Steel's previous response to public file submissions provides extensive reasoning as to why safeguarding would not prevent adequate protection from dumped imports of cold rolled flat steel, including that China is currently exempt from the safeguard for this product due to its developing country status and low imports in recent years while the anti-dumping measure has been in place. Recent developments make this point particularly pertinent and concerning, as the UK has experienced surges in imports from countries like India and Vietnam in products where they are exempt from the safeguard. Growing steel production in these markets, combined with global distortions of trade such as Section 232 tariffs, have seen increasing volumes of imports directed to the UK market and far exceeding the 3% exemption threshold. Hot-rolled coil imports from India accounted for 15% of UK imports in the first three quarters of 2021, with a huge spike in Q3, more than doubling on the previous quarter. Metallic coated sheets from Vietnam now account for 18% of UK imports, up 60% on the quarter in Q3 and more than five times higher on the year. Given there is no established formal schedule or process in the UK for the review of the developing country exemption list, this is something that could take months to review. A similar pattern would likely be followed by China should the anti-dumping measure be lifted, leaving the UK cold rolled market severely exposed.

Furthermore, the safeguard measures are only likely to remain in place until June 2024 providing no protection at all after this point, whereas an extension of the anti-dumping measure would provide critical protection for at least two years beyond this point.

The response to point 2 above further elaborates on the main factors that increase the likelihood of material injury to the UK from dumped imports from China. The presence of safeguards does nothing to negate any of the above.

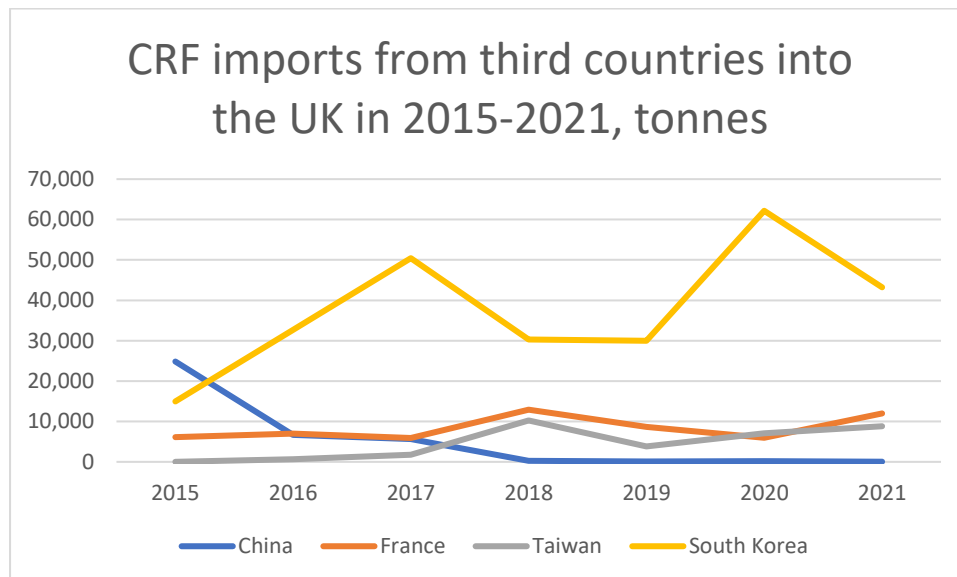
4. Protectionism versus free and fair trade

According to the CCOIC submission the measure has been too effective and amounts to protectionism as it has resulted in only negligible amounts of imports making their way into the UK. The logic here is unconventional and flawed. One would certainly expect import volumes to sharply drop after the imposition of an anti-dumping duty if effective. The reason why said imports were entering the market in increased quantities in the first place was because they were offered at dumped prices.

The submission further quotes the UK Competition and Markets Authority saying that “*when a market is **well-functioning**, we would expect it to be possible for new more efficient firms to enter the market and displace older less efficient firms, which exit the market.*” (emphasis added)

The global steel market is well known to be not well-functioning. Global overcapacity, trade distortions, government intervention are some of the factors that prevent the steel market from functioning as it should and creates uneven operating and trading environments for steel producers. The UK is particularly exposed to these distortions since leaving the EU, and risks to become an easy target for aggressive exporters who are increasingly blocked from the largest open steel markets. Indeed, there would be no need for trade remedies if markets were free, functioned properly, and all parties played by the same rules. It is therefore essential that the UK employs its trade remedies powers to ensure a level playing field for UK steel producers and this is precisely the purpose of this measure. Anti-dumping duties are not there to protect inefficient industries, they are there to ensure a fair-trading environment for the UK and they should continue to do so.

In addition, the CCOIC’s quote of the UK Competition and Markets Authority is in fact applicable to what happened in the UK CRF market after Chinese imports became subject to the anti-dumping measure. As can be seen from the chart below, older less efficient firms from China have been replaced in the UK market with new market participants.



Source: HMRC data (2021 is annualised based on the data for the period from January to September 2021)

5. Economic interest

As above, UK Steel has never advocated against free trade, so long as it is also fair. Furthermore, UK Steel has never argued that the UK is or should be self-sufficient in terms of its steel requirements. But imports must come in at fair prices, and should not be at the expense of domestic industry’s market share through unfair trading practices. UK Steel has highlighted the value of having a resilient domestic supply chain and not an over-reliance on imports for downstream users and the UK as a whole. Any

recent supply chain challenges and shortages are entirely unrelated to the UK's trade defence which the CCOIC seems to suggest, but primarily to logistical problems, further compounded by the market dynamics created by the pandemic. If anything, this further confirms the point about the value of domestic industry in terms of supply chain resilience. The aim here is not to block imports, only to prevent unfair trading practices from damaging domestic industry.