

PAO Severstal's commentaries on Statement of Essential Facts (SEF) of transition review of an anti-dumping measure applying to certain cold rolled flat steel products originating in the People's Republic of China and the Russian Federation

These comments are provided by PAO Severstal with regard to the SEC issued by the Trade Remedies Authority of the Department for International Trade of the Government of the United Kingdom (hereinafter – TRA) on March 31, 2022.

Commentary with regard to sanctions

1. HM Treasury on 15 March 2022 included Severstal's major shareholder Mr. Mordaschov into the List of financial sanctions. This leads to inability of PAO Severstal to sell any products into the UK market.
2. Also, the logistic restrictions (prohibition on port entry, closing the airspaces) do not allow Russian steel mills to ship their goods into the UK.
3. Finally, Russia (Sanctions) (EU Exit) (Amendment) (No. 8) Regulations 2022 totally banned import of steel products from Russia into the UK.
4. All these factor ensure the absence of Severstal's steel products in the UK market for an unpredictable period of time and, therefore, guarantees the lack of injury to the UK producers from Russian steel import.

Commentary on section G3

Comments on G3.1.1 and G4.1.1 Natural gas

5. Gazprom is not the only natural gas supplier in Russia. For instance, PAO Severstal purchased natural gas from a non-state company PAO NOVATEK during the POI for production of CRFS (the evidence was provided to TRA during the verification). The fact that Severstal buys part of its natural gas from NOVATEK also means that TRA increases those NOVATEK's prices by the adjustment factor calculated for Gazprom prices, which is a flaw in TRA's methodology.
6. In addition to that, US natural gas prices cannot be used as a replacement for Russian natural gas prices. There is a regular and significant surplus in the Russian natural gas market. All other things being equal, this means lower gas prices in Russia.

Comments on G3.1.2 and G4.1.2 Rail freight

7. The suggested US rail freight prices cannot be used as a replacement for Russian rail freight prices. The data shown on chart at U.S. freight rail rates ends in 2019. Applying adjustment calculated on 2019 data to the actual freight of 2020-2021 is incorrect.

8. Not to mention that the data provided by Association of American Railroads does not reflect actual US freight rates. Below the chart, there is a note saying that it is “based on average revenue per ton-mile in 2019 dollars”¹. In other words, what TRA uses is an inflation-adjusted revenue-based **indicator** of US rail freight. This indicator is obviously not comparable to the actual Russian rail freight prices. The other source of information² also does not have any US rail freight prices listed, especially for period of 2020-2021. Therefore, it is unclear how TRA came to 11.6% adjustment (which still cannot be used due to a flawed freight prices comparison methodology).

Comments on G3.2.1 and G4.2.1 Continued dumping

9. The fact that the EU commission included the sales to the UK market and found dumping does not mean that there is a historic evidence of dumping to the UK. The UK represents a minor fraction of European CRFS market. It is incorrect to extend the findings of the EU Commission from the entire EU to the UK alone.
10. Moreover, Russian Federation made a claim into WTO objecting the imposed measures and the dispute is still in process. Also, Russian steel companies are in litigation in the European courts regarding these measures.
11. Hence, there is no factual evidence that there was continued dumping to the UK at the time and there are no substantial facts to support this statement.
12. Taking into account that TRA did not calculate the dumping margin for Russian companies and confirmed that “there has been no dumping, capable of meaningful assessment, of the goods subject to review during the POI”³, the only possible determination as a result of the current review can be that the application of an anti-dumping amount to goods should be revoked.

Comments on G3.2.2 and G4.2.2 Production capacity

13. Most Russian producers of CRFS are working at full or close to full capacity.
14. Russian producers tend to sell most of CRFS on domestic market. The capacity utilization is traditionally tied to levels of demand, so there is no need to increase or decrease it arbitrarily.
15. The statement that Russian CRFS producers could meet all the UK demand for the product is dubious. Russian producers are far away from the UK. This means high transportation costs for them, which have significantly risen due to the COVID-19 pandemic. This renders Russian merchandise barely competitive. In addition, Russian producers have been absent from the UK

¹ See <https://www.aar.org/data/average-u-s-freight-rail-rates-since-deregulation/> (link taken from TRID’s Statement of Essential Facts)

² Economic and Fiscal Impact Analysis of Class I Railroads in 2017. See <https://www.aar.org/wp-content/uploads/2018/11/AAR-Class-I-Railroad-Towson-Economic-Impact-October-2018.pdf> (link taken from TRID’s Statement of Essential Facts)

³ See par.75 of the Statement of Essential Facts

market for many years, which will make it even harder for them to find demand for their merchandize.

Comments on G3.2.4 Production levels

16. The TRA concludes that the production levels are high in Russia. However, it disregards the trend of production levels. From MetallExpert production volumes for MMK, NLMK and Severstal it is clear that the production have been stable during the period of investigation and even slightly decreased. Stable production levels combined with high capacity utilization rates limits the ability of Russian CRFS producers to ship goods into the UK even if measures were removed.

Comments on G3.2.6 and G4.2.6 Price comparison between Russian-produced goods and UK-produced goods

17. The suggested range for price comparison is incorrect due to methodology flaws described in comments above.

18. As for the cost of sea freight from St Peterburg to the UK, the TRA seems to use outdated information. The MoverDB price, which TRA uses as a reference, is accurate as of early 2017 (as the note⁴ on the website suggests). Additionally, the website states that the estimated rates listed there are based on port-to-port sea based shipping of \$50,000 USD worth of **household goods**. It means that these rates do not represent commercial delivery of commodity goods and cannot be used in calculation.

19. In addition to that, freight costs are constantly changing as they depend on volumes loaded, period of loading and ports of delivery. Moreover, the transportation costs can now be volatile due to COVID-19 pandemic. These facts were also not taken into account. Therefore, TRA did not provide a solid methodology when defining the cost of sea freight from St Peterburg to the UK and the suggested rate cannot be used in calculation.

Comments on G3.2.7 and G4.2.7 Export to third countries

20. The claims that Severstal sells to third markets at dumped prices appear to be speculative. TRA would require a diverse data set (such as normal price levels in those five non-CIS countries, accurate freight costs to those destinations etc.) to accurately assess the alleged dumping margins. As demonstrated in comments on sections G3.1.1, G3.1.2 and G3.2.6, TRA tends to use inconsistent or incorrect data to make its assessments. These inconsistencies make it even more dubious that the “indicative dumping margins” calculated by TRA are accurate and reliable.

⁴ See information below the table <https://moverdb.com/freight-costs-uk/> (link taken from TRID’s Statement of Essential Facts)

Comments on G3.2.8 and G4.2.8 Conditions in the exporters' domestic market

21. TRA's arguments do not refute information provided by MMK and NLMK. The Fitch⁵ and Steelorbis⁶ articles provided in the Statement of Essential Facts do not describe the conditions on Russian CRFS market. The Steelorbis article is about Russian flat steel market, which is a broad umbrella term. In Russia, hot-rolled coils and sheets represent most of flat steel market. Hence, the demand contraction described there most likely applies to these products.
22. CRFS, as well as any other commodity market, is subject to price fluctuations. However, the Russian economy has now recovered to above its pre-COVID-19 peak, with growth driven by a strong rebound in consumer demand. In 2022 this growth will be supported by continued strength in commodity markets, as well as additional demand from recovering industries. It will make domestic market attractive to CRFS producers.

Comments on G3.2.9 G4.2.9 Attractiveness of the UK market

23. TRA estimates the annual CRFS consumption in the UK is about 399,000 – 470,000 tons. This amount indicates that CRFS in the UK is a small market with fluctuating demand. Local producers will still be able to meet most or almost all of CRFS demand.
24. The present trade-remedy measures in the EU, US and Pakistan have no impact on sales in other markets, which are still open to Russian CRFS. These markets are bigger and it is still possible for Russian producers to export the subject merchandise there.

Commentary on section G4

Comments on G4.2.5 Ability to switch production to the goods subject to review

25. TRA states that some products are out-of-scope only because of coatings applied and hence there is an opportunity to switch to CRFS production. From commercial standpoint, it is more profitable for Severstal to sell coated products, as they are more valuable to the end users than plain CRFS. Therefore, switching from more profitable to less profitable products makes no sense.
26. Also, the share of CRFS in total Severstal's revenue for the investigation period is less than [8.5]% in value and even less in volume. Severstal traditionally makes most of its profit on other products than CRFS. Thus, the

⁵ See <https://www.fitchratings.com/research/corporate-finance/fitch-affirms-severstal-at-bbb-outlook-stable-31-03-2021> (link taken from TRID's Statement of Essential Facts)

⁶ See <https://www.steelorbis.com/steel-news/latest-news/george-pearson-hot-rolled-steel-usage-in-russia-expected-to-grow-by-25-in-2022-1224900.htm> (link taken from TRID's Statement of Essential Facts)

importance of CRFS, as well as the possibility and necessity of transferring production to it for Severstal is exaggerated.

Conclusion

27. As demonstrated above, there are no signs that the dumping will resume if the measure is withdrawn – only allegations and data speculations. In addition to that, the methodology TRA applied to adjustments to price data is flawed, which makes calculated price range incorrect for price comparison.
28. The recent sharp increase in prices on commodities markets (including CRFS) supports the UK steel producers and show the lack of any injury for the domestic industry.
29. Imposed sanctions prohibit Severstal's shipments to the UK for the unpredictable period of time.
30. Summarizing the above facts, it is obvious that the duty should not be levied on Russian producers of CRFS and, in particular, on PAO Severstal.