



Trade Remedies Authority

North Gate House

21-23 Valpy Street

Reading RG1 1AF

20 October 2021

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Dear Sir or Madame,

Referring the Notification of particular market situation (PMS) allegation as the part of TD0011 anti-dumping proceeding concerning certain cold rolled flat steel products originating in the Russian Federation on behalf of NLMK Group we would like to submit the written comments below.

According to the UK Trade Remedies (Dumping and Subsidation) (EU Exit) Regulation 2019 “particular market situation” includes situations where:

- (a) prices are artificially low;
- (b) there is significant barter trade;
- (c) prices reflect non-commercial factors.

In addition The Regulation specifies that *“For the purpose of this regulation, domestic costs, prices and profits are “substantially determined by market forces” where they are substantially determined by free market forces and the costs or prices in the domestic market are not artificially low as a result of factors including substantial government intervention.”*

Herewith one of the Petitioners (Tata Steel UK Ltd.) requests in their submission from 28 July 2021 to understand the costs of Russian exporters unreliable due to the *vertically integrated nature of the production* on NLMK Group plants. As one of the supportive evidence, Tata Steel UK submits that *NMLK reports that it is 64% self-sufficient in energy, 64% self-sufficient in scrap, 100% self-sufficient in coke along with iron ore concentrate (as well as 95% self-sufficient in pellets).*



We would like to argue that the fact that after careful evaluation NLMK Group opted to develop vertically-integrated business model can prove only the absence of dumping due to extremely cost-efficient business and production scheme. The attempt to show this as the PMS evidence is the obvious information manipulation. We would like to claim that efficiency is one of our core values: *NLMK Group is committed to making products of the required quality as cost-effectively as possible¹* and integration is one of the key instruments to achieve this goal. There is no doubt that such motivation is fully commercial and is not connected with government interventions. We were ranked among top 5 most competitive global steel companies by World Dynamics. This respected global research institution for the steel industry ranked companies based on a set of more than 20 criteria, including vertical integration. This proves that vertical integration is one of the most steel company's goals and room for growth, not the distortion as the petitioners try to show. Moreover, such Petitioners' approach to improving cost-effectiveness models explains the cause of even the potential national material injury and proves that there is no correlation with Russian-origin steel sales. Measure prolongation would only limit the UK steel end-users ability to buy the products from the most efficient companies, which can afford RD investments.

Moreover, the petitioners presented additional arguments on Russian economy distortion:

1. *"Its energy market is distorted. Most famously its natural gas market is dominated by state owned companies. The Commission Report states that: "domestic wholesale prices [of natural gas] in Russia have been consistently below export process... Timing and size of some of the most recent adjustments of regulated gas prices do not appear to be related strongly with domestic economic indicators but rather to political situation and international process development, preventing convergence towards export prices." 18 As such, Russia's natural domestic gas prices are not substantially determined by market forces and, thus the accounting records would not reasonably reflect the true cost of natural gas and energy".* This point is not correct in terms of Russian economy in general and NLMK Group specifically. The prices for natural gas on the Russian market is in line with the global market. For example, in 2020 year, which is included in PoI, it was even more profitable for the Russian gas suppliers to sell the product to domestic market than export it. The only thing that saved Gazprom from export losses was "take or pay" clause specified in overseas agreements. In April 2020 the gas prices in Britain (NBP) and Netherlands (TTF) were 43\$ and 67\$ respectively (which could be approx. 20\$ on the Russian border) and the domestic

¹ <https://nlmk.com/en/responsibility/energy-efficiency/>



price on Russian market was around 60\$.² Moreover, NLMK Group buys natural gas only from Novotek, which is 100% private owned company, which was already proved in trade investigations, for example, US countervailing cases on Russian steel companies.

2. *“The government also highly regulates the electricity sector so that electricity prices are not substantially determined by market forces.”* The only goal of electricity prices regulation in Russia is to maintain stable price level for local households, mainly by cross-paying the higher price by the industry. These conditions not only are non-preferential for Russian steel producers (incl. NLMK), but contrary creating additional production costs. For example, energy-intensive industries have to pay the investment electricity premium – funding the generation infrastructure construction.

3. *“...the transport sector is also not substantially determined by market forces. In terms of rail, the intervention of the government seems to go beyond the regulation that is necessary because of the status of RZD as a natural monopoly according the Commission Report: “There is subsidisation to compensate the losses from regulated freight tariffs but also other non-market parameters (such as the below inflation cap) influence the determination of railways tariffs.” Some companies, including NMLK get even greater preferential treatment: “... some big companies such as Novatek, NMLK or PhosAgro were also benefitting from cheaper [freight] rates”.²⁰ As such, transport costs do not reflect market rates for the steel industry and, in particular, for certain steel supplier such as NMLK”.* This fact also does not correlate with reality. We have to admit that there is railway freight cross-subsidation scheme; however, it does not benefit the steel producers. On the contrary, higher transportation rate for high-margin products as steel is funding lower-margin products as coke and passenger traffic. Moreover, there is the special export premium, which NLMK has to pay to RZD the additional price for the export transportation, which also creates additional burden for NLMK Group and other steel producers.

4. *«Labour costs are also distorted. This is because labour regulations are not strictly enforced which potentially gives Russia an unfair advantage in comparison with market economies in Europe and elsewhere.»* Russia has been a Member of the International Labour Organization (ILO) since 1954. It has signed and ratified 59 ILO conventions and two protocols, including

² <https://www.rbc.ru/business/23/04/2020/5ea05fa39a79472367751eda>



the Freedom of Association and Protection of the Right to Organize Convention (Convention No. 87) and Right to Organize and Collective Bargaining Convention (Convention No. 98), the Discrimination (Employment and Occupation) Convention (Convention No. 111), and the Equal Remuneration Convention (Convention No. 100). Moreover, Russia boasts a total of 765 national labor, social security and related human rights laws, acts, and decrees. The framework for successful bargaining between labour and management in Russia in general, and for Russia's collective bargaining system in particular, is determined by the institution of "social partnership" (or "social dialogue"). Social partnership is one of the core principles underlying the "European Social Model" that has been adopted by many Western and Central European countries, including France, Italy, Germany and Finland. It is also an instrument of better productivity and competitiveness. This confirms that the determination of wages in Russia by means of the social partnership is an expression of market economy principles consistent with the European Social Model.

A good illustration of Russia's ongoing and successful social partnership between labour, government, and management is Russia's minimum wage. Overall, minimum wage bargaining among management, government, and labour has resulted in significant annual growth of the real minimum wage rate over the last decade (2010- 2019). During that period, Russia's real minimum wage grew annually by 4.4% on average, which compares favorably to other European countries, such as Greece (-1.6%), Belgium (-0.1%), France (0.2%), or Germany (0.3%). Moreover, as recently as 2020, Russia raised its federal minimum wage by another 9%.

Worker rights in Russia can be considered as strong or weak as those in many countries considered market economies. For example, Russia's score on the Global Rights Index published by the International Trade Union Confederation (ITUC) is the same as that of Australia, Belgium, Canada, Mexico, and the UK. The OECD has estimated collective wage bargaining coverage of 42% in Russia in 2017. This coverage rate compares favorably to Canada (30.4%), the United States (11.9%), Mexico (10.0%), or Lithuania (8.3%) – all countries typically considered market economies. As a result of collective bargaining, real wages in Russia grew by 4.6% from 2018 to 2019, whereas wages grew by only 1.0% in the United States, by 0.7% in Canada, by 1.3% in Mexico, and fell by 0.6% in Japan during the same period.



The Petitioners also submitted the view that export tax imposed from August 2021 on steel products, including the product concerned, creates the beneficial conditions for Russian steel producers. The real situation is precisely opposite. The fact that the export tariffs were imposed to force the producers satisfy the constantly growing local demand due to the sky rocketing global price. This fact proves both two facts: 1) there is obviously to sense for Russian producers to sell the steel product for the dumped prices as the prices already extremely high on both international and domestic market, 2) Russian exporters are not interested in expansion to the UK market as they already work on full capacity.

We would like to ask the Authority to evaluate all the factors in this investigation carefully and not to be deceived by unfounded allegations, presented by Petitioners. We need to highlight that there is no better evidence that their submission is not the result of detailed market research that the fact that Tata Steel UK misspelled even the title of our company (they write it as NMLK, not NLMK).