May 2022

Case TD0014: Heavy plate exported from the People's Republic of China

APPENDIX TO UK STEEL QUESTIONNAIRE RESPONSE

NON-CONFIDENTIAL

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 transition 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 an exporting country's WTO membership
- 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 any domestic Chinese prices or costs.

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

UK Steel strongly argues that regulation 14(1)(b) 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. Whilst 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(a) 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, press reports on the confidential interim panel report in the case of EU – Price Comparison Methodologies (DS516) strongly 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[2] 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 the TRA should determine that this provision applies and that the TRA 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

[2] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds516_e.htm

- *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 14(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.."*

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 the TRA decides that it will not use Regulation 14(1)(b) against China, a position that the TRA would need to justify in its Statement of Essential Facts and UK Steel will continue to vigorously challenge, UK Steel requests in the alternative that the TRA uses the provisions set out in Regulations 7, 8, and 13 as they 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 <u>unless it is not appropriate to use that price.</u>
- 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 section 4 of this appendix, UK Steel claims that a particular market situation exists in the Chinese plate industry. Prices and costs are artificially low and reflect non-commercial factors. Other trade remedy authorities (e.g. Canada, US, European Union) have also made similar findings that Chinese steel markets, including those of plates, 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 regulation 8.

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 plate 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 Comment on the product concerned

Plates are hot-rolled products rolled from slabs, produced in reversing plate mills or cut to length in a hot-strip mill. Plate can be either 'coil plate' or 'reversing plate'. Coil plate is made from a process involving continuous casting of slab, followed by a continuous rolling process. In contrast, reversing mill plates take continuously cast slabs, re-heat them in furnaces before re-rolling them back and forth until the plate is down to the required thickness, size and tolerances. It is the latter process used for UK plate production which allows for a wider product range than available from coil plate mills. Both mills purchase slab from third parties.

Three sectors drive plate demand in the UK – construction, pipes and yellow goods. Given the decline in heavy industry manufacturing, construction holds the largest share of demand. Other end-use sectors include pressure vessels, rail cars and shipbuilding/repairs. Plates are also used in wind turbine towers and with the massive expansion of offshore wind in the UK this decade – this sector will become the largest user of plate. However, to date the lack of any significant elements of a UK manufacturing supply chain for this sector, as well as limitations in the UK's plate capability, means UK plate producers have not been able to capitalise as much on the increasing demand from this sector.

Currently, there are two producers of steel plate in the UK – Liberty Dalzell in Motherwell, Scotland and Metinvest Spartan, in Gateshead England. Two plate mills have been shut down in the UK – a reversing plate mill owned by Tata Steel in 2015 and a coiled plate mill previously owned by Corus in 2003 – and both of these were located in Scunthorpe.

1.3 Likely export prices

As a result of the existing measure, Chinese exports of plate to the UK dropped dramatically from 2016 onwards and remain well below 3% of total plate imports, which both the UK legislation and the WTO anti-dumping agreement define as negligible imports. Therefore, UK import price information for Chinese made plate is insufficient and unreliable and should not be used to establish an export price for comparison with normal value.

Table 1: UK Heavy Plate Imports – (all tariff codes listed in the measure taken at an 8-digit level)

	2014	2015	2016	2017	2018	2019	2020	2021
Imports from China (tonnes)	12,678	38,267	2,128	75	123	245	114	393
Total plate imports (tonnes)	279,971	282,286	359,104	336,207	402,281	368,318	292,740	251,992
Plate imports from China as % of total imports	4.53%	13.56%	0.59%	0.02%	0.03%	0.07%	0.04%	0.16%

Source: UK Trade Info (See Annex 1 – Tab 2)

2 Likely recurrence of injurious dumping

2.1 Developments in Chinese imports

The original period under review for the EU investigation[3] 2012-2015 saw a huge surge in imports of Chinese plate into the EU, doubling from 343,545 tonnes in 2013 to 693,117 tonnes in 2014 and then doubling again to 1.4 million tonnes in 2015. As the data above shows, a similar trend was observed in the UK where plate imports from China tripled in just a year from 12,678 tonnes in 2014 to 38,267 tonnes in 2015.

Historical trends show that China is able to increase its exports to the UK very quickly and by a huge amount. To this extent, if the measures were removed there is a significant risk that China would again increase exports to the UK and that this would be done at dumped prices, considering the high spare capacity and limited export markets as a result of trade defence measures elsewhere.

2.2 Trade Measures in Third Countries

The likelihood of a resumption in injurious dumping by Chinese exporters is increased and evidenced by the significant number of trade measures in place in third countries on exports of steel plate from China. Beyond the EU, these include Canada, US, Turkey and Mexico. The existence of these measures ensures that many markets effectively remain closed for Chinese exporters thereby increasing the likelihood that, with fewer export opportunities, they would target a UK market in the absence of the current anti-dumping measures. Furthermore, these measures provide a strong

[3] COMMISSION IMPLEMENTING REGULATION (EU) 2016/ 1777 - of 6 October 2016 - imposing a provisional anti-dumping duty on imports of certain heavy plate of non-alloy or other alloy steel originating in the People's Republic of China (europa.eu)

evidence base for the likelihood of a recurrence of dumping with multiple authorities determining a continued and sustained threat of dumping from Chinese plate exporters. Reports concerning the most recent of these determinations and reviews in these cases have been provided in Annex 2. In addition to anti-dumping measures, the presence of US Section 232 tariffs further limit export opportunities for Chinese producers. The high prevalence of trade defence 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 exposed markets for this product globally and would be a target for dumping.

Other than trade measures in third countries, the imposition of sanctions on Russia will further change trade flows, with Russia eyeing Asian markets for its steel exports[4]. This will increase competition for Chinese producers in their neighbouring export markets for a number of steel products, including plate. Russia produces around 5 million tonnes of plate annually (Worldsteel, see Annex 1, tab 4) and exports a significant portion of this. With Russian steel imports now banned by the EU and the UK, Russian exporters are likely to be offering steep discounts and this could displace Asia's more usual suppliers, with China being the main one. This will in turn increase the likelihood of trade diversion of Chinese exports traditionally headed to Asia, to alternative export markets. An unprotected UK market would be prime destination.

2.3 Spare production capacity in China

The likelihood of resumption of injurious dumping of plate 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 1, tab 4), China accounts for 86% of global plate production ([Worldsteel copyright] million tonnes in 2020), doubling its production since 2008. The following chart shows how Chinese plate production has grown exponentially over the past 20 years, while the production of the rest of the world stayed relatively constant.

Chart 1: Global Production of Hot Rolled Plate (≥3mm) 2001 to 2020

[CHART REDACTED FROM NON-CONFIDENTIAL VERSION]

Source: World Steel Association (Data provided in Annex 1, Tab 4)

While the definition for the Worldsteel production data is wider than this review, heavy plate as specified in this investigation is a subset of it and the relative market sizes will be broadly proportional. For the purposes of drawing conclusions on the relative production and capacity in China for steel plate versus the rest of the world, the differentials are so large that even with significant error margin, the conclusions are indisputable. China produces more than six times the rest of the world combined. Chinese plate production is so many times multiple the size of the UK market that even a small proportion of Chinese plate being dumped in the UK has the capacity to flood the market and cause material injury. The UK market for plate is around [REDACTED FROM NON-CONFIDENTIAL VERSION] tonnes (see Annex 1, tab 3). Chinese plate production is a massive 600 times bigger than the UK plate market. Just 0.2% of China's plate production 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.

While Chinese plate production has hugely increased, there is still a considerable amount of spare capacity that could be utilised in the future. There is unfortunately little information available on steelmaking capacity at the product level, but excess steel capacity is a well-established fact and a long-standing challenge for the global steel industry, as highlighted by the OECD amongst others[5]. The US International Trade Commission found that there was a substantial global overcapacity in cut-to-length carbon steel plate and significant excess capacity in China with numerous capacity expansions planned[6]. In its 2018 expiry review[7], the Canada Border Services Agency (CBSA) concluded that there

[4] Russia eyes Asian steel exports with new strategy (kallanish.com)
[5] Latest developments in steelmaking capacity (oecd.org)
[6] Pages 34-36, Cut-to-Length Carbon Steel Plate from China, Russia, and Ukraine (usitc.gov)
[7] Pages 11-12, Steel Plate 3 - Measures in Force (cbsa-asfc.gc.ca)

was significant excess production capacity in China's plate rolling industry. The CBSA refers to data the shows Chinese plate production capacity at 353 million tonnes in 2017. Even assuming that no new capacity was added since then, that still leaves [figure inferred from Worldsteel data] million tonnes of excess capacity that could be used to supply into export markets. This estimated overcapacity is 200 times the size of the UK steel market and given the efficiency gains of higher capacity utilisation due to the capital-intensive nature of steel production against a backdrop of slowing domestic demand, there is a great deal of incentive to produce more and export at dumped prices. The CBSA concludes that "the Chinese overcapacity issue with respect to the steel industry will be a longstanding one, despite the Government of China efforts to reduce capacity and outputs by 2020."[8]

Even not accounting for excess capacity, the sheer size of Chinese plate production relative to the UK market poses a significant risk as even a small percentage of Chinese plate production could flood the UK market. The pressure to increase exports will be even greater as China is seeing weakening demand domestically, particularly by the construction sector[9], a key consumer of heavy plate, and compounded by further Covid-related lockdowns[10]. Despite government attempts to provide stimulus to the property sector, the continued credit problems of China's biggest developers cast doubt that any bounce back is sustainable[11]. This could further increase the incentive for Chinese producers to seek export markets to direct excess volumes even at dumped prices. There are already reports of mounting steel inventories in China as a result of the weakening construction sector and increased exports as a result[12]. As mentioned earlier, realignment of Russian trade could further add to the pressures to find new export markets, if traditional Chinese exports in Asia are displaced. Given trade defence measures in key export markets, the concentration of exports flowing to the UK if AD measures are removed would be even greater and the damage caused even higher, especially when considering the relative size of the UK market.

2.4 Situation of UK industry

The TRA 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 had 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[13], and the impacts of the global pandemic massively reduced demand for steel products. In 2020, overall UK steel demand fell by 16%[14] and while demand recovery in 2021 was much quicker than expected, the outlook is now once again uncertain in light of the war in Ukraine and its impact on steel and raw material markets. Worldsteel has revised down its 2022 global steel demand growth forecast to 0.4% on-year, to 1.84 billion tonnes, following a 2.7% increase in 2021, as a result of the war in Ukraine, inflationary pressures and the resurgence of Covid-19 primarily in China[15].

The global outlook for 2022 and 2023 is highly uncertain, and so is the outlook for the UK market. Not only have input and energy costs increased massively, but from a steel demand perspective, supply chains are hugely disrupted, impacting end-use sectors for steel. Rising costs combined with supply chain challenges are seeing construction projects in the UK delayed and potentially new projects cancelled[16]. The automotive sector, which has long been challenged by the semi-conductor shortage is now facing an even greater array of supply chain challenges, as is more broadly the manufacturing

[8] Ibid, page 19
[9] Crisis in China's Property Market Deepens With No End in Sight - Bloomberg
[10] More regions attract Chinese HRC amid weak domestic demand (kallanish.com),
Iron ore collapses on recession fears (kallanish.com)
[11] China property shares soar on Beijing stimulus, despite continued debt crisis | China | The Guardian
[12] Iron Ore's Crash Tests Faith in China's Stimulus Response - Bloomberg
[13] World Steel Association data shows EU demand fell from 168.2 MT to 158.3 MT between 2018 and 2019, and further to 140.4 MT in 2020, whilst the global market outside China fell from 875.9 MT to 864.8 MT to 778.8 MT.
[14] ISSB Data shows UK steel demand fell from 10.2 MT in 2019 to just 8.6 MT in 2020, recovering to 10.5 MT in 2021.
[15] worldsteel Short Range Outlook April 2022 | worldsteel
[16] Ukraine: conflict could halt UK projects due to supply chain disruption | Construction News

sector[17]. The main upside potential appears to be coming from policies around energy transition and energy security, with greater demand anticipated from renewables infrastructure such as wind turbines, but also likely increased pipes demand from new oil field projects being developed in the North Sea to reduce reliance on Russian gas[18]. But as noted previously, without onshoring larger parts of the wind turbine supply chain, UK producers will likely see little of the demand benefit, with components often imported as finished products, rather than made in the UK and using UK steel[19].

UK heavy plate demand fell by 14% in 2020 and continued falling in 2021 by another 36%. UK plate production has been steady over the last three years but has declined in previous years as a result of plant closures. Construction is by far the largest end-use market for steel plate and as described above, the market outlook is highly uncertain. A loss of UK market share to dumped imports would hugely exacerbate the challenges producers are already facing, not least in relation to soaring input costs. In this context, the injury and economic impact of a resumption of injurious dumping would be significant.

Table 2: UK Heavy Plate Production, Demand, Trade (thousand tonnes) – ALL TARIFF CODES

	Production	Demand	Imports	Exports
2018	100	100	402	112
2019	92	91	368	107
2020	90	78	293	104
2021	90	50	252	232

Source: Spartan UK, Liberty Steel, UK Trade Info (HMRC) PRODUCTION AND DEMAND INDEXED IN NON CONFIDENTIAL VERSION

The trade data from HMRC are only available at the 8-digit level and so will not be fully accurate to the 10-digit specification. In so far as imports are concerned, the 2021 figure is in line with what was registered against the safeguard quota for quarto plates (category 7), however the export figure appears much inflated when comparing EU exports to what was registered against UK category 7 quotas within EU safeguards which have been largely underutilised and show nothing like a doubling from historical levels. To an extent, the 8-digit versus 10-digit tariff code differential can account for this. In any event, based on the data from the previous years, this consistently shows that about two thirds of UK production is absorbed by the domestic market, while about a third is directed to the export market.

It is also worth noting that at the 8-digit level the tariff code 72259900 does not necessarily describe a plate product, certainly not one produced by UK plate producers. Importantly, we have noted some changes in exports being allocated to different tariff codes in 2021 which skews the picture of UK demand, particularly for 2021.

UK exports of 72259900 (a coated, alloy product) to Belgium and Ireland alone went from virtually none at all in 2019-2020 to 84,000 tonnes in 2021 – the equivalent volume was previously being exported under 72107080 (a non-alloy product which falls under safeguard category 5) (see Annex 1, tab 7 for data). Excluding this tariff code from the trade figures in table 2 provides a more stable trend which more closely reflects our understanding of the UK plate market. With the exclusion of tariff code 72259900, the trend in terms of falling UK demand is similar, although less extreme, but more importantly exports are not showing the highly unusual increase shown in table 2 above. Tata Steel does produce a coated packaging product within 72259900 but not under the tariff code at the 10-digit level 7225990045 which is covered by this measure. Given that 72259900 is not being produced by either of the UK plate producers with a registered interest in this case, it is also clear that there is not suddenly a new export opportunity that would offset the loss of domestic market share should plate imports start to get dumped in the UK market once again.

Instead, UK plate producers already have to face a shrinking and highly competitive UK market for plate, reduced export opportunities, partly as a result of Brexit, as well as skyrocketing input costs. Adding a resumption of Chinese dumping to the mix would therefore inevitably cause material injury to the UK sector.

[17] UK manufacturers face higher costs as Ukraine crisis hits supply chains | Manufacturing sector | The Guardian, Ukraine War Plunges Auto Makers Into New Supply-Chain Crisis - WSJ
[18] British energy security strategy - GOV.UK (www.gov.uk)
[19] Gone with the wind: why UK firms could miss out on the offshore boom | Energy industry | The Guardian

Table 3: UK Heavy Plate Production, Demand, Trade (thousand tonnes) – EXCLUDING 72259900

	Production	Demand	Imports	Exports
2018	100	100	372	111
2019	92	89	327	106
2020	90	79	268	97
2021	90	72	211	83

Source: Spartan UK, Liberty Steel, UK Trade Info (HMRC) PRODUCTION AND DEMAND INDEXED IN NON CONFIDENTIAL VERSION

Meanwhile, there is significant amount of unused plate capacity in the UK. In recent years, Spartan has largely operated at [REDACTED]% of its [REDACTED] tonne capacity, but Liberty has only operated [REDACTED]% of its capacity. In Liberty's case, not all of this spare capacity could be immediately put into use given shift patterns availability, but if there was increased need for domestic supply, this could be an opportunity for additional workers to come in to better utilise the Dalzell site's [REDACTED] tonne annual capacity. Based on the current shifts, the realisable capacity is closer to [REDACTED] tonnes, but this in itself is evidence of past pressures on the UK plate market, resulting in such huge underutilisation. Unused capacity has huge efficiency costs due to the high capital intensity of the steel making process. It also represents an opportunity cost in terms of untapped potential for more high-wage employment opportunities and value to the UK economy, as well as more local supply chains that reduce the carbon footprint of steel consumption.

The Dalzell and adjacent Clydebridge steel works were previously owned by Tata Steel, which closed both works in 2015. Both were acquired by Liberty Steel in 2016, with Dalzell coming back into operation, at reduced capacity, whilst the Clydebridge plant remained mothballed with the exception of some heat treatment of product rolled at Dalzell. Tata Steel also closed its plate mill in Scunthorpe over that same period. The decision to mothball the two Scottish sites and the Scunthorpe site in 2015 was strongly influenced by the increase in cheap imports, including those at dumped prices, and the increasingly challenging global environment created by the rapid build-up of huge steelmaking capacities, primarily in China, and aggressive trade practices which accompanied it.

Chart 2: UK Heavy Plate Capacity Utilisation
[CHART REDACTED FROM NON CONFIDENTIAL VERSION]
Source: Spartan UK, Liberty Steel

Dumped imports of plate would directly impact Spartan's and Liberty's profitability and market share and would therefore cause serious injury to the UK producers.

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

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

3.1 Importance of the UK plate industry

As noted above, it is highly likely that the removal of the existing measure would result in dumped imports from China into the UK and this would cause material injury to UK producers. The economic implications of this would be substantial in terms of jobs, local economies and supply chains.

The UK heavy plate industry provides significant employment opportunities in the Northeast of England and Scotland where operations are currently 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 economically advantaged areas of the UK which the government is seeking to level up. The levelling up agenda of the government is important context within which the TRA should interpret Paragraph 25(4)(a)(iv) (likely geographic impact) of the Taxation (Cross-Border Trade) Act 2018.

Spartan's plate mill is located in Newcastle upon Tyne and its workers receive wages that rank above the [REDACTED]th percentile of the local wage distribution. Newcastle upon Tyne is an economically disadvantaged local authority, ranking 74th most deprived (out of 317) in the English Index of Multiple Deprivation (IMD)[20], which highlights the significance of these well-paid jobs to the local economy. The IMD assesses a range of indicators including income, employment, health and education. Removing the measures not only risks current UK production and employment but also future high-wage employment opportunities which will be invaluable to the local communities.

Liberty's Dalzell plant is in North Lanarkshire, Scotland, whose workers receive a median wage that sits above the [REDACTED]th percentile of the local median. The steelworks are located just north of Motherwell, an area which had Assisted Area status under European state aid rules. While this legislation is no longer relevant for the UK, the classification is indicative of less advantaged local economies.

Company	Local Authority	Median Wage Steel (£)	Steel Wage Ranking Within Local Authority
Spartan UK	Newcastle upon Tyne	[REDACTED]	Above [REDACTED]th percentile
Liberty Steel	North Lanarkshire	[REDACTED]	Above [REDACTED]th percentile

Source: Company data, ONS - Earnings and hours worked, place of work by local authority: ASHE Table 7.7a

3.2 Importance for UK supply chain

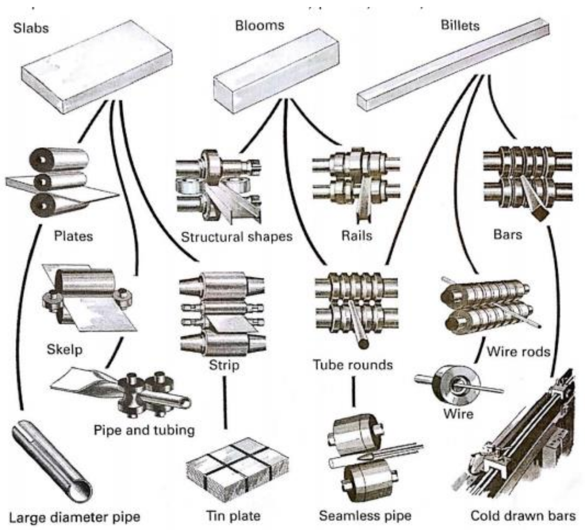
In the UK, heavy plate is produced from slabs which are either imported or sourced domestically and then this plate goes on to be used directly in construction and manufacturing or goes on to be further processed into large pipes and structural hollow sections. Therefore, the real economic impact of injury to domestic plate production is much wider when considering the broader supply chain.

In terms of the upstream sectors, a loss in UK domestic plate production would result in lost sales for UK slab producers with a potential market of [REDACTED]KT. UK slab production for plate rolling is currently exclusively provided by British Steel in Scunthorpe, another important area for the government's levelling up agenda.

In terms of downstream, pipe producers would have to source plate from abroad, or alternatively the end-users of pipes may choose to import the finished product and by-pass the domestic producer altogether. This would of course further increase the lost value to the UK economy and put at risk the jobs that depend on this supply chain. For example, Liberty's Hartlepool site which manufactures steel pipes would lose a secure supply of plate in the event that UK plate mills suffered serious injury and were unable to continue production. Crucially plate is used in a wide range of strategically important sectors from infrastructure projects like HS2, to energy projects including offshore wind, and oil and gas, as well as being the principal steel product used in defence equipment like ships, tanks and armoured vehicles. It is important to note that the UK's current plate capability is limited in relation to offshore wind and many defence requirements, but there remains an important supply of some materials and the potential to invest in capabilities in the future to meet demand. Such opportunities would be undermined by a resumption of dumping in the absence of measures.

Figure 1: Production Flow of Major Steel Products

[20] English indices of deprivation 2019, File 10: Local authority district summaries



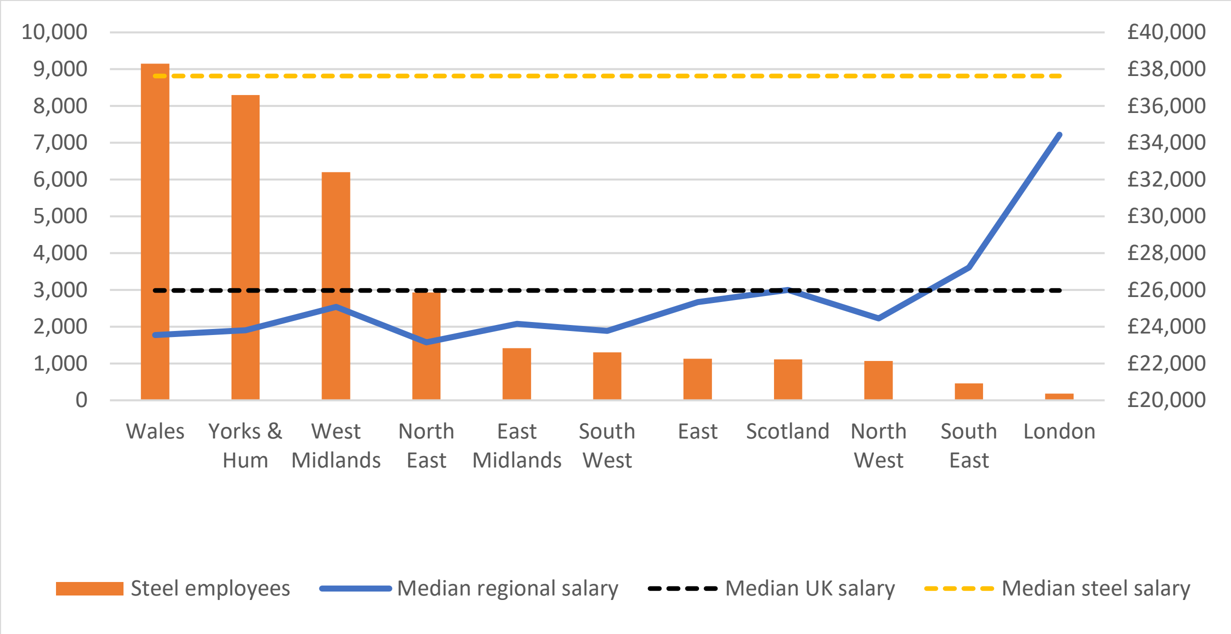
The Covid pandemic and the war in Ukraine resulting in sanctions being imposed on Russia have highlighted more than ever the significance of resilient domestic supply chains, in particular when it comes to products of strategic importance required for infrastructure and defence. High reliance on imported products exposes the supply chain to longer lead times and even shortages at times of disruption. Many of the Government's initiatives and ambitions regarding energy security and infrastructure, but also shipbuilding and defence[21] rely on a steady supply of steel and a robust supply chain. A robust domestic supply chain not only ensures that critical projects are not jeopardised, but also maximises value for the UK and the UK taxpayer when it comes to public infrastructure spending.

3.3 Importance of the wider UK steel industry

- The UK steel industry directly employs 34,500 people across the UK – jobs that would be at risk if the health of domestic steel companies is compromised[22]
- The UK steel industry also supports a further 43,000 in its high-value supplies chains[23]
- 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 median wage of our workers (£37,629) is 45% higher than the UK national median and 59% higher than the regional median in Wales, and Yorkshire & Humberside.[24]

Chart 3: UK Steel Employment and Pay by Region 2021

[21] New UK shipbuilding vision launched - GOV.UK (www.gov.uk)
[22] ONS – Business Register and Employment Survey 2020
[23] ONS – Business Register and Employment Survey 2020 and ONS Type 1 employment multipliers
[24] ONS – Annual Survey of Hours and Earnings, ASHE Table 16 and ASHE Table 7



Source: ONS Various and UK Steel Analysis

- The UK Steel Industry makes a £2.4 billion direct contribution to UK GDP and supports a further £3.1 billion in its supply chains [25]
- UK steel also makes a £2.4 billion direct contribution to the UK's balance of trade[26], 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.

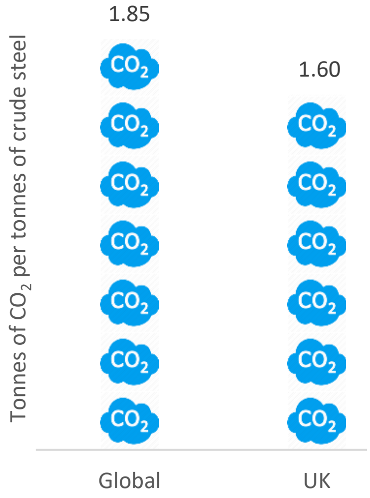
We provide the high-quality materials vital to an array of challenges. From delivering the Government's infrastructure revolution to creating a low carbon economy, steel is an essential ingredient. The UK directly consumes 10-11 million tonnes of steel each and every year – in infrastructure, construction, 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.

[25] ONS GDP Output – low level aggregates 2021 and type 1 multiplier
[26] International Steel Statistic Bureau – UK steel exports net of import of raw materials/inputs

3.4 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[27]. 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 be defeating the point of trying to achieve net zero targets, when that would equate with simply offshoring our emissions to other countries. If any attempt to decarbonise is to be meaningful, then this must be aimed at consumption-based emissions and a real net-zero future is indisputably in the public interest.

GHG Emissions per tonne of steel produced



Source: WorldSteel, CO2 Data Collection Summary Report 2018

We recognise that public interest considerations are not strictly within the TRA's remit. But even from an economic interest perspective, the UK stands to lose out from lagging in decarbonising its steel sector. In the next few years the EU will be introducing a Carbon Border Adjustment Mechanism (CBAM) which will penalise high emission steel with tariffs. This could see UK exports to the EU suffer if the pace of decarbonisation doesn't pick up. Even worse, if the UK does not introduce an equivalent CBAM, then large volumes of high emission steel could be diverted to the UK, putting UK production and jobs at risk. Decarbonisation is essential for the future of the UK steel industry and will require a huge amount of investment. This in turn requires an environment which makes the UK steel industry an attractive investment proposition for the international parent companies who own them. A market which is exposed to damaging dumped imports is exactly the opposite of what is required at this critical period of transition.

4 Distortions in the Chinese market affecting plate 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[28] 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,*

[27] 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.
[28] http://www.npc.gov.cn/zgrdw/englishnpc/Constitution/node_2825.htm

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:

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[29] 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 previous 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

[29] 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.

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)[30].

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

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'[31] 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)[32]. 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.

Guidance was produced in January 2021 promoting the high-quality development of the steel industry[33,34].

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….

[30] 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.
[31] 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
[32] https://cset.georgetown.edu/wp-content/uploads/t0237_5th_Plenum_Proposal_EN-1.pdf
[33] Guidance on promoting high quality development of Steel Industry (October 2020) In Chinese.
[34] https://www.hellenicshippingnews.com/china-finalizing-high-quality-growth-in-steel-industry/
https://www.chinadaily.com.cn/a/202001/13/WS5e1bfe30a310128217270876.html

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.*
>
> *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[35] 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.

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

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[36]. The European Commission has confirmed that the steel industry belongs to the encouraged category[37]. The presence 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[38].

…..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.

[36] 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

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

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

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*"[39] 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:

- *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;

[39] https://trade.ec.europa.eu/doclib/docs/2017/december/tradoc_156474.pdf

- o Government provision of goods and services for less than adequate remuneration ('LTAR'), including: inputs, land use rights, water and electricity;
- o 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[40], examined a wide range of Chinese Government plans, strategies and policies as part of its 'Section 20 Inquiry'[41], that demonstrate the significant interventions the Chinese Government has in 'flat rolled steel industry', ultimately distorting domestic prices. Any conclusions here are applicable to the Chinese plate industry, plate being a hot-rolled flat product. These interventions include:

- **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

[40] 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.]

[41] 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 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.

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[42], the Australian Anti-Dumping Commission found that government involvement across the steel industry is the primary cause of prevailing structural imbalances. Note that whilst the steel products concerned in this case are not related to rod, the conclusions we quote below pertain to the wider Chinese steel industry and are therefore relevant to heavy plate and this transition review.

> *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.*

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. 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.*

Similarly in its anti-dumping investigation on steel reinforcing bar from China[43], the Australian Anti-dumping Commission found several types of distorting subsidies provided to the Chinese steel industry including:

- *Steel inputs provided by the government at less than adequate remuneration.*
- *Coking coal and coke provided at less than adequate remuneration.*
- *Preferential Tax Policies for Enterprises with Foreign Investment.*
- *Preferential Tax policies for Specific Regions.*
- *Preferential Tax Policies for Foreign Invested Enterprises.*
- *Land Use Tax Deductions.*
- *Preferential Tax Policies for High and New Technology Enterprises.*
- *Tariff and value-added tax (VAT) Exemptions on Imported Materials and Equipment.*
- *Research and Development (R&D) Assistance Grants.*
- *Special Support Funds for Non State-Owned Enterprises.*

[42] 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.
[43] Australian Anti-Dumping Commission – Report No 300, Alleged dumping of steel reinforcing bar exported from the People's Republic of China. March 2016. [063_-_rep_300_0.pdf (industry.gov.au)]

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 on this subject[44] 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[45] 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-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[46] 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."*

4.3 European Union findings on plate cost inputs

4.3.1 Energy prices

The EU Commission's report[47] 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:

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[44] US DOC Memorandum '*China's Status as a Non-Market Economy'* A-570-053 October 26 2017.
[45] US-China Economic and Security Review Commission, Staff Research Report, *The 13th Five year Plan*, February 14 2017.
[46] 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
[47] https://trade.ec.europa.eu/doclib/docs/2017/december/tradoc_156474.pdf

- 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*"[48]
- 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

4.3.2 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.

[48] As required under Regulation 13(3) of the Trade Remedies Act when determining whether adjustments should be made to production costs.