UK STEEL
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Case TD0026: Hot-rolled flat and coil products exported from Russia, Ukraine, Brazil and Iran

APPENDIX TO UK STEEL QUESTIONNAIRE RESPONSE

NON CONFIDENTIAL

1 Comment on product concerned

Hot-rolled flat and coil (HRF) steel products are produced from steel slabs and passed through a rolling mill to achieve the required thickness when the metal is still at a high temperature. They can be delivered in coils, cut lengths or narrow strips. It is a highly commoditised product and can be sold as is. HRF can also be cold-finished, coated and further processed into further downstream products such as pipes and hollow sections. Hot-rolled coil is the largest flat finished steel product by volume in any market globally. It represents a core product for large integrated flat products plants and as such it is crucial for the production economics of the plant. The main end-use sectors are construction, automotive, mechanical engineering and energy pipelines. HRF products are produced by two producers in the UK – Tata Steel in Port Talbot and Liberty Steel in Newport and Brinsworth. Tata Steel's hot rolled coil mill in Llanwern was mothballed in 2015 following surges in imports and dumping.

2 Likelihood of dumping

2.1 Likely export prices

Exports of HRF steel to the UK from Ukraine, Brazil and Iran are well below 3% of total HRF imports, which both the UK legislation and the WTO anti-dumping agreement define as negligible imports. Therefore, UK HRF import price information in relation to these three countries is insufficient and unreliable and should not be used to establish an export price for comparison with normal value. Imports from Russia have continued to enter the UK despite the imposition of the anti-dumping measure. This is likely because the anti-dumping duty set against Severstal was very low at 5.3%. Should the TRA chose to use Russian export prices in any dumping calculations, it should not use domestic Russian prices and costs as these are not sufficiently determined by market forces as explained in sections 2.2 and 2.3.

Table 1 : UK HRF steel imports (tonnes)

	2018	2019	2020	2021	2022 (Jan-May)
Russia	31,206	67,182	47,693	39,477	12,542
Ukraine	30	69	801	0	2,121
Brazil	315	0	0	0	0
Iran	0	0	0	0	0

Table 2: RUBI import share of UK HRF

	2018	2019	2020	2021	2022 (Jan-May)
Russia	4%	8%	10%	6%	4%
Ukraine	0%	0%	0%	0%	1%
Brazil	0%	0%	0%	0%	0%
Iran	0%	0%	0%	0%	0%

Source: UK Trade Info Data (HMRC) (See Annex 1)

Russia, Ukraine, Brazil and Iran (RUBI) were dumping HRF in the EU prior to 2017 and the European Commission found dumping margins of up to 73%. In addition, Tata Steel's submission calculates and finds significant dumping margins for all countries as detailed in its separate submission. Should the EU maintain its measure and the UK drop its equivalent measure, then the UK would be exposed to trade diversion and a high likelihood of dumping. These countries have a propensity to dump and this has been found by a number of trade authorities around the world, as detailed in section 3.1. Given that several major export markets are closed to RUBI exports, the UK would become a very attractive market should this anti-dumping measure be dropped.

2.2 It is not appropriate to use domestic Russian prices and costs

Should the TRA decide to perform a dumping calculation, it should not use domestic Russian prices and costs, as these are not sufficiently determined by market forces.

Regulation 13 requires the TRA to make adjustments to costs that *"are unrepresentative because they do not reasonably reflect the overseas exporter's production, administrative, selling or general costs or profits in a market if those costs and profits were substantially determined by market forces".*

In a highly vertically integrated company, the records kept will not reasonably reflect the costs of production (under regulation 11(3)(b)) as those costs will be internal costs (or transfer prices) rather than the costs which would ordinarily be payable by a non-vertically integrated company. A similar point can be made about SGA and Profits. In addition, those production costs have not been substantially determined by market forces, as per regulation 13, because they are internal costs. Therefore UK Steel submits that the TRA should treat the costs recorded in the accounting records of vertically integrated companies with caution and is entitled to adjust them.

Russian producers NLMK and Severstal which have registered for this case are both vertically integrated companies. NMLK describes itself as "*a vertically integrated group with a well-balanced value chain controlling every stage of steel production, from the mining of raw materials through to finished high-tech product sales to end-users*". 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).[1] Severstal also refers to its "*vertically integrated business model*" in its Annual Report 2020[2] covering raw materials, midstream and downstream operations and distribution. Severstal explicitly makes the connection between its vertically integrated model and its unusually low costs in this report: "*Severstal's efficient, vertically integrated structure means it is largely self-sufficient in primary steel-related raw materials, which enables the Company to maximise efficiencies and reduce production costs*."[3]

In light of this, the records kept by the companies will not reasonably reflect the costs of production of HRF steel (under regulation 11(3)(b)) as the vertically integrated nature of the production process mean that those costs would be far too low and are not properly reflective of what would ordinarily be paid in the market. Furthermore, based on the evidence presented in section 2.3, UK Steel claims that there are significant distortions across inputs which affect the steel industry in Russia, as well as distortions specific to the steel industry itself, including HRF steel production. The TRA is therefore entitled to reject any cost data provided by Russian producers and use another basis to make its cost estimate for the purposes of normal value calculation or adjust these costs as they were not substantially determined by market forces (as per regulation 13).

2.3 State intervention in the Russian steel market

There is evidence of increasing state intervention in the Russian steel sector in recent months since the invasion of Ukraine and sanctions that western governments have imposed on Russian steel. In March, the Russian government proposed the introduction of a national commodities and goods pricing regime and directed Russian steel companies to cut profits to ensure lower prices for the domestic market, while export prices remained unregulated.[4] Just a few weeks ago, the Russian Ministry of Industry and Trade announced it would include iron ore, hot rolled and cold rolled coil amongst other products to the list of "high-tech products" which can benefit from preferential financing for export contracts.[5] Kallanish quotes the ministry's press service saying:

> *"The Ministry of Industry and Trade of Russia on a regular basis makes changes to the list of high-tech products, works, and services based on the position of the relevant departments of the ministry. Relevant proposals are received by the department from interested federal executive bodies and the business community. Changes to the list are aimed at expanding state support by providing subsidies to compensate for lost income by the steelmakers in connection with the provision of concessional financing for export contracts."*

There was already evidence of state intervention prior to the war as evidenced by the export tax on a range of metal products including steel introduced over August – December 2021, which was intended as a means to control the price of key materials domestically.[6] The Russian government then decided not to roll the tax over to 2022 as global prices were on the decline.

It is clear that the Russian government does not hesitate to intervene in its steel market whenever it sees fit. But it is not just temporary interventions. The EU Commission's report on "significant distortions in the economy of the Russian Federation for the purposes of trade defence investigations" published in October 2020[7], sets out the areas of intervention by the Russian government affecting the cost of production of steel in Russia. The Commission report found distortions in the energy market and the transport sector as well as government support and tax interventions.

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[1] NMLK, Annual Report 2020, page 10, https://nlmk.com/upload/iblock/906/NLMK_about.pdf1

[2] Severstal, Annual Report 2020, page 8, https://www.severstal.com/files/55798/Annual_Report_2020_ENG_final_light.pdf

[3] Ibid., page 17

[4] Russian govt directs metal companies to cut profits, keep domestic prices low | S&P Global Commodity Insights (spglobal.com), Russia set to centralise ferrous pricing (kallanish.com)

[5] Russia eyes financing steel export contracts (kallanish.com)

[6] Russia does not plan to apply elevated export duty on metals in 2022: official | S&P Global Commodity Insights (spglobal.com)

[7] Commission Staff Working Document on significant distortions in the economy of the Russian Federation for the purposes of trade defence investigations, October 2020, https://trade.ec.europa.eu/doclib/docs/2020/october/tradoc_158997.pdf

The Commission found distortions in the natural gas market which is dominated by state-owned companies, while the Russian government also highly regulates the electricity sector so that electricity prices are not substantially determined by market forces.

The report makes reference to the Commission's findings from the anti-dumping investigation on certain seamless pipes and tubes, of iron or steel originating in Russia, which found that the state-owned energy producer Gazprom charged the domestic steel producers much less for gas used in production than it charged its customers in Eastern and Western Europe. This was an implication of the company's formal obligation to supply gas to Russian consumers at prices regulated by the FTS which are lower than the international prices for natural gas. As a result, the Commission concluded that:

> *"In view of these findings, it was considered that the gas prices paid by Russian producers in the investigated period could not reasonably reflect the costs associated with the production and distribution of gas. Similarly, in the case of imports of certain welded tubes and pipes of iron or non-alloy steel, the European Commission found that that the domestic gas price paid by the exporting producers was around one fourth of the export price from Russia, far below market prices paid in unregulated markets and, consequently, not reasonably reflected in the exporting producers' records. In view of these findings, the calculations of gas costs of the concerned Russian exporting producers had to be adjusted based on the price of gas for export to Western Europe at the German/Czech border in Waidhaus (the main hub for Russian gas sales to the EU), net of transport costs and excise duty and adjusted for local distribution costs."*

The Commission finds that transport costs also do not reflect market rates. Rail is the main mode of transport for steel products within Russia and Russian railroads are owned and run by RZD, a company which has a monopoly on provision of locomotive services. The report states:

> *"The rail transportation tariffs are regulated according to the Price List No. 10-01. The design of transportation tariffs has a number of features which are relevant in the context of the steel sector. First, the Price List sets the country-wide tariffs for the main component of the cost of freight transport by rail — the payment for infrastructure and locomotive services. This typically accounts for about 85% of total charges. The remaining 15% are wagon services and this element is partially unregulated. This means that the bulk of the charges related to rail transport are not set according to competitive pressures and market forces but by state policies."*

The Commission report has a specific section on the Russian steel industry which lays out some of the targets and support provided by the state which affects the competitiveness of the industry. Russia's plans for the steel industry are laid out in the Development Strategy of the Steel Industry 2014-2010 and for the Perspective until 2030 and the Draft Strategy for the Development of the Metallurgical Industry for Russia for the Period till 2030 – with a key part of the strategy being to maintain Russian producers' position in foreign markets. In 2016, state support for ferrous metallurgy amounted to RUB 249 million. There is also an export tax on metal waste and scrap under Government Decree No. 754 of 30 August 2013. The Commission Report concludes that:

> "*Certain elements of the country's electricity, natural gas and rail transport pricing policies, as well as export restrictions on scrap, may be contributing to lower costs of production and domestic and international delivery of Russian steel products*."

In its final determination on the cold-rolled transition review TD001, the TRA agrees on the existence of PMS in the Russian natural gas and rail freight market (section G3.1). Since Russia's invasion of Ukraine, there is clear evidence of even greater state intervention in Russia's steel sector so that key input costs and export prices are not sufficiently determined by market forces.

2.4 Developments in Russia increasing incentives to dump

Western sanctions on Russia have included bans on steel imports for finished steel products, while the UK has also imposed a 35% tariff on semi-finished steel products. Russian steel producers are highly export oriented and have historically supplied their upstream products, such as slabs and HRF to third countries for further processing. As key markets for Russian steel have been restricted, Russian exporters increasingly are offering their steel at steep discounts to Asian markets or whoever is willing to take their product, for example Turkey. Turkey's imports of slab from Russia more than doubled over January-May 2022 compared to the same period last year increasing from 354KT to 922KT. Imports of Russian slab to China also surged from 126KT to 553KT in the same period. A similar trend can be observed for imports of Russian slab, billets and blooms to Taiwan, which also more than doubled in the same period, from 92KT to 221KT. Russian exports of HRF are already

sparking some concerns of dumping by some countries such as Taiwan "amid reports of cut-price Russian offers".[8] Anecdotal evidence as well media reports point to Russian steel offered 40% lower than the market price and Russian steel producers selling at a loss to offload piling stocks.[9]

Russia's urgent need for hard currency means that Russian steel producers have a strong incentive to increase their exports and even perhaps government direction to do so, even if it's at dumped prices. The Ministry of Finance of the Russian Federation officially ordered all Russian exporters to sell 80% of their revenue in foreign currency as of 28 February, which confirms that the Russian government is desperate to obtain hard currency. Given that the other key sources of export revenue in hard currency are either restricted (e.g., gas and oil) or completely banned (high-technology and military exports), steel remains one of the main streams of hard currency available to the Russian government.

Furthermore, Russia can leverage its cost base to undercut the UK market. Russian producers have not been exposed to the surging gas prices and raw material costs that producers elsewhere in Europe and the UK have. Russia is a huge producer of energy and raw materials for steel production, and the Government has significant control of prices for these key inputs, clearly distorting the market and making it easy for Russian exporters to massively undercut export markets.

The sharp devaluation of the Russian ruble further amplifies the difference between Russian producers' costs and export market prices and makes exports even more attractive in foreign currency terms.

The demand situation in Russia's domestic market also adds to the likelihood that Russian producers would dump as soon as they are given the chance. The World Bank conducted an assessment of Russia's invasion of Ukraine on various economies including Russia's. The report[10] states: *"Before the invasion of Ukraine and the ensuing sanctions, Russia's economy was recovering well. Growth in 2021 reached 4.7 per cent, following a 2.7 percent decline in 2020"*. However, the invasion has profoundly changed Russia's growth forecasts: *"Due to its invasion of Ukraine, Russia faces the largest coordinated economic sanctions ever imposed on a country. Russia's economy will be hit very hard, with a deep recession looming in 2022. GDP is expected to contract by 11.2 percent, with little recovery in the ensuing two years".* The report notes that this contraction of gross domestic product will be largely driven by contraction of domestic demand. The pronounced negative shock to general demand will make itself felt across all sectors of the economy including demand for HRF steel.

More specific analysis has been conducted on the steel sector in Russia. Russia's steel maker association, Russkaya Stal, had forecast that steel demand would rise by 2%-3% in 2022.[11] However, since the invasion, the association has significantly downgraded its forecasts: *"Russia's steel demand may slump 30%, or 13 million mt, year on year in 2022"*.[12] The association specifically draws attention to the decline of automotive production in Russia which is a heavy user of HRF steel: *"Ferrous metals producers in Russia are facing a significant decrease in domestic demand for their products, which, among other things, is owed to production stoppages within the automotive industry -- eight of 14 Russian car plants have been idled, and the cumulative decline in car production may reach 50% this year".*[13] Russian producer NLMK also forecasts a reduction in Russian domestic steel demand in 2022 by 12.9% in construction and by 25.4% in engineering.[14] Given the negative demand shock which will see demand for HRF severely contract, the likelihood of continued dumping has significantly increased since the invasion.

There is no specified timeframe for how long EU and UK sanctions will be in place, nor is there a guarantee that they will be removed at the same time. Therefore, sanctions cannot be used as justification that there is less need for anti-dumping measures. To the contrary, the current environment increases the incentive and likelihood that Russia will export at any price and dump and therefore it is critical that the anti-dumping measure is maintained.

2.5 Developments in Brazil increasing likelihood of dumping

Brazilian HRF exporters have dumped in the past as demonstrated by the number of anti-dumping measures against them (detailed in section 3.1) and the current economic environment in Brazil increases the likelihood

[8] Asian Steel Markets Hit by Inflows of Cheap Russian Metal - Bloomberg
[9] Russian Steel Producers Face Huge Discount Demand From Willing Buyers - Bloomberg
[10] https://www.worldbank.org/en/region/eca/publication/europe-and-central-asia-economic-update
[11] Russian steel demand may slump 30% in 2022: steelmakers association | S&P Global Commodity Insights (spglobal.com)
[12] Ibid.
[13] Ibid.
[14] NLMK forecast 23% decline in exports of Russian steel products in 2022 - Business & Economy - TASS

that Brazilian exporters would dump once again. Brazil's steel industry is traditionally export-oriented. In 2018, Brazil exported 40% of its steel production, with flat products representing 18% (2.5 million tonnes) of all exported steel products from Brazil.[15] The latest OECD Steel Market Developments report (Q2 2022) notes that "rising inflation, the war in Ukraine, and tighter financial conditions have eroded business sentiment and household purchasing power, which should strongly dent domestic demand [in Brazil] in the first half of 2022" and that "the 2022 presidential election is adding uncertainty, which may contribute to subdued investment until 2023".

Meanwhile the Canadian Border Services Agency (CBSA) found in its 2021 anti-dumping expiry review on HRF products that Brazilian export prices of hot-rolled steel sheet and strip (HRSS), a subset of HRF, have been significantly lower than prices in their domestic markets and at prices lower than their cost of production during January 2018 to March 2021.[16] This is a recent finding which aligns with the period under consideration for the TRA in this current review. The CBSA also notes that Brazil faces increasing challenges in its domestic market due to the exponential increase of low-priced imports of HRSS from China. The CBSA concludes that this will add pressure on Brazilian producers to lower their domestic prices and therefore they may need to aggressively pursue new markets to maintain capacity utilization.

2.6 State intervention in the Iranian steel sector

The OECD's Steel Market Developments Q2 2022 report includes extensive analysis on Iranian steelmaking capacity and the close economic ties Iran shares with China, particularly in the steel sector, with a focus on engineering and technology provision and installation. Such ties could potentially grow further under the 25-year China-Iran Strategic Cooperation Agreement, signed in Teheran in March 2021, through which China commits to investing over US$400 billion in various sectors of the Iranian economy over 25 years, in exchange for a regular supply of oil in return and being allowed to exploit mines in Iranian territory. Clearly there is both the finance available and the intention to continue to grow Iranian steelmaking capacity. State-owned companies drive Chinese involvement in the Iranian steel sector, including notably Sinosteel, China Non-Ferrous Metal Mining Group (NFC), China Metallurgical Group Corporation (MCC), CITIC Group Corporation and Shandong Iron and Steel, according to the OECD report.

In 2006, the Economic Council of the Islamic Republic of Iran issued a decision to increase the national capacity of crude steel during the Fourth Five-Year Plan which resulted in seven government-funded projects, which also benefitted from Chinese financing. The OECD report notes:

> *"Overall, the seven projects signal the scope of the Iranian government's encroachment in the country's steel sector. Even though private investments played a significant role for the completion of the projects, their design and implementation were advanced by a strong political will to reinforce the sector at the national level, to the extent of accepting foreign financing from the Chinese Bank for Development. Moreover, the projects benefit the biggest steel firms in a disproportionate manner, as they were able to acquire stocks in companies that since their inceptions were ideated as state-owned, at least partially. Khuzestan Steel and Mobarakeh, for instance, drew consistent advantage from the opportunity of participating in these projects, which, incidentally, are also located in the vicinities of their facilities."*

The expansion in Iran's steelmaking capacity is not in response to increased market demand but a state driven initiative, which will likely increase the incentive and the ability of these companies to dump in exposed export markets.

3 Likely recurrence of injurious dumping

3.1 Trade Measures in Third Countries

The likelihood of a resumption in injurious dumping by RUBI exporters is increased and evidenced by the significant number of trade measures in place in third countries on exports of HRF products from RUBI. The EU[17], Canada, the US and Thailand, all have anti-dumping measures in place against RUBI HRF. The existence of these measures ensures that major markets effectively remain closed for RUBI exporters thereby increasing

[15] Steel Market developments Q2 2022 (oecd.org)
[16] Certain flat hotrolled carbon and alloy steel sheet and strip 2021 Statement of Reasons: Expiry review determination (cbsa-asfc.gc.ca)
[17] EUR-Lex - 32017R1795 - EN - EUR-Lex (europa.eu)

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 evidence base for the likelihood of a recurrence of dumping with multiple authorities determining a continued and sustained threat of dumping from RUBI HRF exporters.

Further to anti-dumping measures on HRF products broadly in line with the product scope of this investigation, there are numerous other measures on flat rolled steel products from RUBI which further demonstrate the propensity of RUBI exporters to dump. The table below summarizes existing measures on HRF and other flat rolled steel products, all of which are downstream products to HRF steel, using the same inputs and sharing the same production process, with an additional stage of processing at the end. The measure on corrosion-resistant coated flat steel has only just been introduced (August 2022) and found dumping margins of up to 39.8% for Russian imports into the EU.

Table 3: Anti-dumping measures on RUBI HRF and downstream products

Russia	Ukraine	Brazil	Iran
• EU - HRF • US - HRF[18] • Thailand - HRF[19] • Pakistan - CRF[20] • EU - CRF[21] • EU - grain oriented flat-rolled silicon-electrical steel[22] • EU - welded tubes and pipes[23] • EU - corrosion-resistant coated flat steel[24]	• EU - HRF • Thailand - HRF[25] • Canada - plate[26]	• EU - HRF • US - HRF[27] • Canada - HRF[28] • Thailand - HRF[29] • EU - electrolytic chromium coated steel[30] • Canada - plate[31]	• EU - HRF • Thailand - HRF[32]

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.

[18] Federal Register :: Certain Hot-Rolled Flat-Rolled Carbon-Quality Steel Products From the Russian Federation: Final Results of the Expedited Sunset Review of the Antidumping Duty Order
[19] Intervention 17017: Thailand: Extension of antidumping duty on imports of flat hot rolled in coils and not in coils from Algeria, Argentina, Chinese Taipei, India, Indonesia, Japan, Kazakhstan, the Republic of Korea, Romania, Russian Federation, Slovak Republic, South Africa, Ukraine and Venezuela (globaltradealert.org)
[20] Intervention 71852: Pakistan: Definitive antidumping duty on imports of cold-rolled coils, sheets and strips from Canada and Russia (globaltradealert.org)
[21] EUR-Lex - 52021XC0803(02) - EN - EUR-Lex (europa.eu)
[22] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32022R0058&from=EN
[23] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32021R0635&from=EN
[24] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32022R1395&from=EN
[25] Intervention 17017: Thailand: Extension of antidumping duty on imports of flat hot rolled in coils and not in coils from Algeria, Argentina, Chinese Taipei, India, Indonesia, Japan, Kazakhstan, the Republic of Korea, Romania, Russian Federation, Slovak Republic, South Africa, Ukraine and Venezuela (globaltradealert.org)
[26] Steel Plate 6 - Measures in Force (cbsa-asfc.gc.ca)
[27] Federal Register :: Hot-Rolled Steel Flat Products From Australia, Brazil, Japan, Korea, the Netherlands, Russia, Turkey, and the United Kingdom; Institution of Five-Year Reviews
[28] Flat Hot-Rolled Carbon and Alloy Steel Sheet and Strips - Measures in Force (cbsa-asfc.gc.ca)
[29] Intervention 15023: Thailand: Definitive antidumping duty on imports of flat hot rolled in coils and not in coils from Brazil, Turkey and Iran (globaltradealert.org)
[30] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:JOC_2021_387_R_0002&from=EN
[31] Steel Plate 7 - Measures in Force (cbsa-asfc.gc.ca)
[32] Intervention 15023: Thailand: Definitive antidumping duty on imports of flat hot rolled in coils and not in coils from Brazil, Turkey and Iran (globaltradealert.org)

3.2 Excess production and production capacity in RUBI

The likelihood of resumption of injurious dumping of HRF by RUBI exporters is further increased and evidenced by the significant levels of production and production capacity that are many times multiple the size of UK production and the UK market for HRF. This increases both the incentive and the ability of RUBI exporters to dump.

According to Worldsteel data (see Annex 2), RUBI production accounts for 8% of the world's HRF steel production ([REDACTED FOR COPYRIGHT REASONS] million tonnes in 2020) and 15% of world HRF production excluding China. Russian production represents around half of the combined RUBI production. Russian production alone is 7 to 8 times the size of the UK's production, while Brazil's production is more than 5 times larger. Ukraine and Iran also produce double the amount the UK produces each year. RUBI combined produce around 64 million tonnes, over 17 times the amount the UK produces in a year, clearly dwarfing the UK's production of [REDACTED FOR COPYRIGHT REASONS] million tonnes. This is before even accounting for spare capacities in each country. The product scope of the Worldsteel HRF production data is wider than this review, however, the RUBI and UK production levels relevant to this case will still be proportional to these figures and therefore a good indication of the relative sizes of the HRF industry in RUBI and the UK.

Chart 1: Global Production of Hot Rolled Flat Products 2001-2020

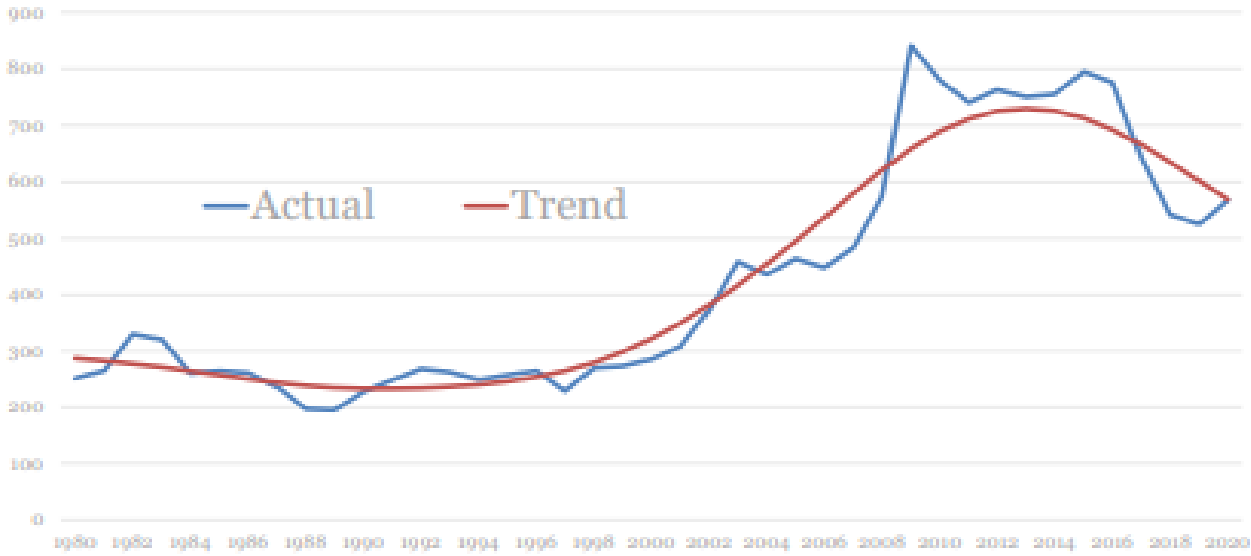
[REDACTED FOR COPYRIGHT REASONS]

Source: World Steel Association. (Data provided in Annex 2, tab 1)

RUBI exporters both individually and combined have the capacity to very quickly flood and overwhelm the UK market should the anti-dumping measures be removed.

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[33] and the GFSEC[34] amongst others. Despite efforts to reduce global excess capacity in recent years, it remains structurally very high and the OECD foresees the capacity-demand gap persisting over the next few years, as some 137 million tonnes of new capacity are already under construction or are planned, in particular in Asia and the Middle East. If realized, capacity could grow by an additional 5.6% during 2021-24.

Chart 2: Capacity-demand gap (million tonnes)

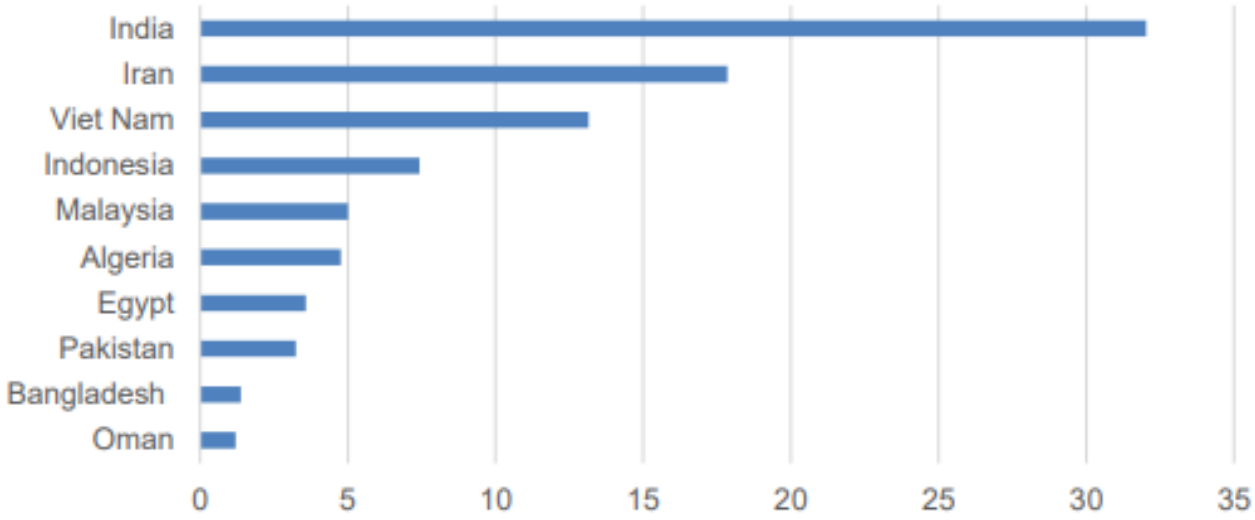


[33] Latest developments in steelmaking capacity (oecd.org)
[34] gfsec-ministerial-report-2021.pdf (steelforum.org)

Source: GFSEC Ministerial Report 2021

Iran in particular has experienced extremely rapid growth in its steel capacity, adding nearly 18 million tonnes over 2015-2020 and seeing its industry more than double in size since 2010. Expansion is expected to continue, bringing Iran's capacity to 68.7 million tonnes by 2023 and making Iran the seventh largest steelmaking country in the world, surpassing both Germany and Turkey.[35] As noted in section 2.6 further investment and expansion is envisaged over the next 25 years as per the China-Iran Strategic Cooperation Agreement.

Chart 3: Largest capacity increases 2015-2020 (million tonnes)



Source: OECD

Clearly, there is considerable amount of new capacity added in Iran and other countries, while Russia, Ukraine and Brazil are amongst the largest steel producers in the world. Meanwhile, steel demand is now slowing down in most parts of the world. The capital-intensive nature of steel production means that steel mills must run at high levels of production capacity to recover fixed costs, so that when domestic demand weakens, rather than further cut production, producers will look for foreign markets to maintain as high capacity utilisation as they can. Given high production levels against waning domestic demand, combined with trade defence measures in key export markets, the likelihood of injurious dumping should the UK drop its measures is extremely high, especially when considering the relative size of the UK market.

3.3 Situation of UK industry

Tata Steel and Liberty Steel are the producers of HRF in the UK and there are no other domestic producers of the product. The TRA will examine the detailed responses from Tata Steel and Liberty Steel 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 dumped imports.

Prior to the imposition of anti-dumping measures on Chinese and RUBI HRF imports, Tata Steel had to mothball its Llanwern plant in 2015 as import pressure, including dumped imports, made the operation unsustainable. In the years following the introduction of the measures in 2017, the conditions for the UK industry remained challenging having to recover from dumping, facing pressure by low-priced imports from other countries such as India, South Korea, Turkey, and a declining demand trend culminating in the COVID-19 pandemic when industry experienced 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[36], and the

[35] gfsec-ministerial-report-2021.pdf (steelforum.org)

[36] 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.

impact of the global pandemic massively reduced demand for steel products. In 2020, overall UK steel demand fell by 16%[37] 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, raw material and energy 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[38].

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 the pessimistic economic outlook is weighing on end-use sectors and steel demand. The S&P Global/CIPS UK Construction Purchasing Managers Index (PMI)[39] for July at 48.9 pointed to a contraction in UK construction output for the first time in 18 months, followed by an August PMI of 49.2[40]. This is now two consecutive months of a PMI below the 50 point threshold indicating a reduction in construction output, down from 52.6 for June, and 56.4 in May which were already pointing to a slower pace of expansion and a loss in momentum in UK construction activity, well below the peaks of over 59.1 in February and March. New order growth is now the weakest since June 2020 and there is no indication of recovery any time soon. Similarly the automotive sector, which has long been challenged by the semi-conductor shortage, continues to face supply chain challenges, as is more broadly the manufacturing sector[41]. UK car production in the UK in the first half of 2022 fell 19% year on year.[42] The S&P Global/CIPS UK Manufacturing PMI was at a 27-month low in August at 47.3, with output and new orders contracting sharply, down from 52.1 in July.[43] These issues are not in any way linked to trade remedies measures in the UK but to global factors impacting steel producers and users around the world.

Warnings of recession are increasing, not least by the Bank of England which has now just raised interest rates for the seventh consecutive time to the highest level in 14 years and has warned the UK may in fact already be in a recession. The Bank of England is forecasting the UK economy to shrink in the backend of this year and continue shrinking until the end of 2023. This recession is expected to be the longest since the financial crisis, which back in 2008 hit the construction and manufacturing sectors hard and took years to fully recover from. This further increases the vulnerability of UK steel producers to dumped imports and injury suffered would be even more acute.

Global steel prices had risen significantly over 2021, but so had virtually all production costs including coal, iron ore, energy and labour and so profitability was fragile. Even with some profit, it would have to be sustained for a long period to time to offset the losses of 2020 and previous years. Steel prices are now already plummeting as inflationary pressures, rising interest rates and the weak economic outlook are hitting steel demand, while production costs, particularly energy, remain extremely high. Northern European HRC prices have already fallen by 44% since the March 2022 peak and look set to continue the price decline that started in August 2021 and was interrupted by market disruption caused by the war in Ukraine.

Chart 4: HRC Northern Europe ex-works price

[REDACTED FOR COPYRIGHT REASONS]

Source: Kallanish (data provided in Annex 2, tab 2)

The UK steel sector, and including the HRF industry, has suffered a long period of weak or negative margins as a result of huge global overcapacity, leaving the industry in a fragile state and is now further knocked by a weak economic outlook reversing any post-Covid recovery. In this context, the injury and economic impact of a resumption of injurious dumping would be clearly significant. Furthermore, HRF is a highly commoditised product and therefore highly price sensitive. This means that UK producers can easily lose customers who would easily switch to the cheapest source, therefore resulting in lower sales, production and capacity utilization. That could leave UK producers with no choice but to lower their prices below profitable levels, leading to further injury.

[37] 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.
[38] worldsteel Short Range Outlook April 2022 | worldsteel
[39] https://www.pmi.spglobal.com/Public/Home/PressRelease/18e38b512f3647c295e77d539721a495
[40] https://www.pmi.spglobal.com/Public/Home/PressRelease/7b47674e3c3249dda788ec1e76971f7d
[41] 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
[42] SMMT UK Automotive new vehicle and manufacturing data
[43] https://www.pmi.spglobal.com/Public/Home/PressRelease/fab7f96eac7b44ba8b1dc331f1187a71

Additionally, as noted in Section 3.1 several other countries have trade restrictions in place on imports from RUBI. This 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. Considering the weakened position of the UK industry, a resumption of dumping would certainly be severely injurious.

In contrast, importers and downstream users have great flexibility in where to source HRF products, given that this is not a speciality product but a highly commoditised and internationally traded product. Furthermore, importers do not face the capital costs that producers do, nor the scale of running costs that need to be covered. The same applies to fabricators. They are therefore far less vulnerable and can more easily pass on increased costs to consumers. In relation to downstream users, HRF costs are a tiny fraction of any end-product and therefore any cost implications would be negligible. While steel prices have recently been high for consumers, these are equivalent to the high input prices faced by producers so this is a factor equally impacting each segment of the supply chain and not an additional cost specifically imposed on importers or end-users.

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

4.1 Importance of the UK HRF industry

The UK HRF industry provides significant employment opportunities in Wales 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 the Government's levelling up agenda which 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.

HRF products are produced in Tata Steel's Port Talbot facility and Liberty's Newport and Brinsworth facilities. Not only do these steel plants employ a large number of workers in Wales, as well as Sheffield, but these steel workers receive wages that are [REDACTED FOR CONFIDENTIALITY REASONS] % and [REDACTED FOR CONFIDENTIALITY REASONS] % higher than the local median in Neath Port Talbot and Newport respectively. These salaries also rank above the [REDACTED FOR CONFIDENTIALITY REASONS] th percentile or higher of the local wage distribution. Most of Wales had Assisted Area status under European state aid rules, including local authorities like Neath Port Talbot which were defined as 'a' areas. These were areas whose GDP per capita was below 75% of the EU average. While this legislation is no longer relevant for the UK, the classification is indicative of less advantaged local economies. Removing the measures not only risks current UK production and employment but also future investment and therefore future high-wage employment opportunities which will be invaluable to the local community.

While Tata's HRF steel production is centred at the Port Talbot facility which directly employs over a thousand workers in the production of HRF, this is a core product line for Tata and any injury suffered would impact operations in other sites, putting at risk the jobs of nearly [REDACTED FOR CONFIDENTIALITY REASONS] workers who receive wages considerably higher than the local median across all site locations. Likewise for Liberty, production in Newport and Brinsworth directly depends on and supports jobs in Stockbridge and Rotherham. It is also part of a supply chain feeding into other Liberty plants. Therefore it is not just the [REDACTED FOR CONFIDENTIALITY REASONS] workers employed in Newport and Brinsworth whose livelihoods are at stake but also the [REDACTED FOR CONFIDENTIALITY REASONS] workers across the various Liberty plants that could be impacted. The interconnectivity of steel products and economics of steel production, as explained in the next section, mean that one should not simply consider the potential injury on the elements of the business directly producing HRF but also the knock on effects on other parts of the business.

Table 4: Wages Steel vs Local Authority 2021

Company	Local Authority	Median Wage Steel (£)	Median Wage Local Authority (£)	Steel Wage Ranking Within Local Authority

Tata Steel	Neath Port Talbot	[REDACTED FOR CONFIDENTIALITY REASONS]	25,698	Above [REDACTED FOR CONFIDENTIALITY REASONS] th percentile
Liberty Steel	Newport	[REDACTED FOR CONFIDENTIALITY REASONS]	23,270	Above [REDACTED FOR CONFIDENTIALITY REASONS] th percentile
Liberty Steel	Rotherham	[REDACTED FOR CONFIDENTIALITY REASONS]	23,075	Above [REDACTED FOR CONFIDENTIALITY REASONS] th percentile

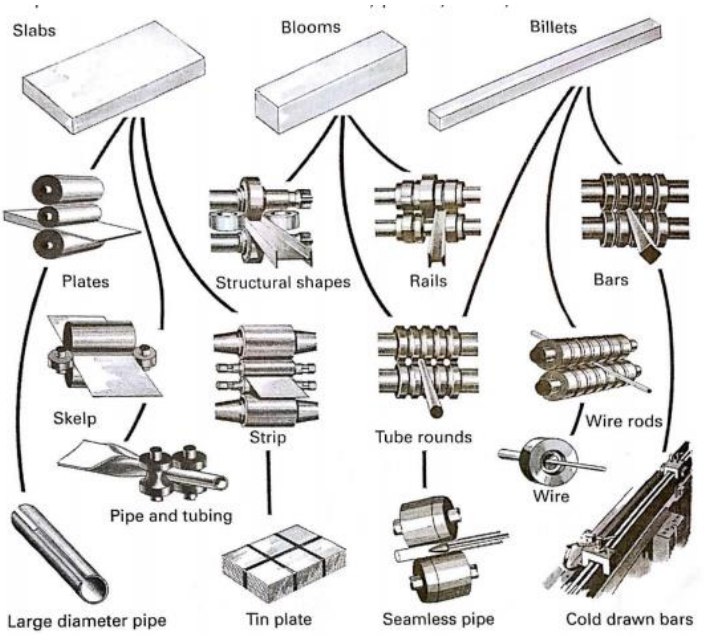
Source: Tata Steel, Liberty Steel, ONS - Earnings and hours worked, place of work by local authority: ASHE Table 7.7a (for data see Annex 2, tab 3.)

4.2 Interconnectivity of steel products and importance of UK supply chain

The interconnectivity of steel products means that when considering the totality of injury that may occur in the absence of this measure, it is critical to look at the up and downstream elements of the steel business related to HRF production, not simply the rolling of HRF itself.

Hot rolled flat, and related products represent a significant portion of overall UK steel production, but the segment's real economic impact is even wider when considering steel production economics as well as the broader supply chain. Most plants will produce multiple steel products and the profitability of each will have an effect on wider production decisions, with implications for employment and future investment.

Steel production can come through a variety of different routes, largely depending on the kind of semi-finished product (slab, bloom, billet) that a plant is equipped to make. As shown below, a plant with a continuous slab caster and appropriate rolling mills (such as Port Talbot) can then go on to produce a variety of flat products such as strips and plates that can be further worked into an array of goods including cold-rolled, coated products, and tubes and will typically produce a combination.



The production economics of the steel making process means that economies of scale are key. As such, plants will typically produce more than one product and will often rely on all product lines running at high capacity utilisation rates to ensure profitability.

Steel making is highly capital intensive and with particularly high fixed costs. Steel plants will typically need to run at around a 70-75% capacity utilisation rate before it will break even and begin to operate profitably. Thus, both the processes themselves, and their economics, require the plant to run at consistently high output levels and limit the ability to adapt to changed market conditions by reducing output volumes. This is why steel plants often continue to run even without making a profit. Commodity prices can also be volatile so sometimes it pays to weather a downturn, in expectation that prices will recover, thus avoiding the huge disruption, additional costs, and inefficiencies brough about by halting production. Indeed, many parts of the 'heavy end' such as production of coke and iron cannot simply be turned on and off.

This highlights how delicate the balances are and knock-on effects that individual products can have on the overall profitability of a plant. For example, Tata's Port Talbot facility does not only produce HRF products but also cold-rolled products. Much of the HRF output of Port Talbot is then transferred to other sites in Wales to

produce metallic and organic coated sheets and tin mill products. Further material is also transferred to sites in Corby and Hartlepool to be turned into pipes and structural hollow sections. Imports of dumped HRF products would therefore damage market share and profitability more widely and would impact all production lines, particularly as HRF is such a core product.

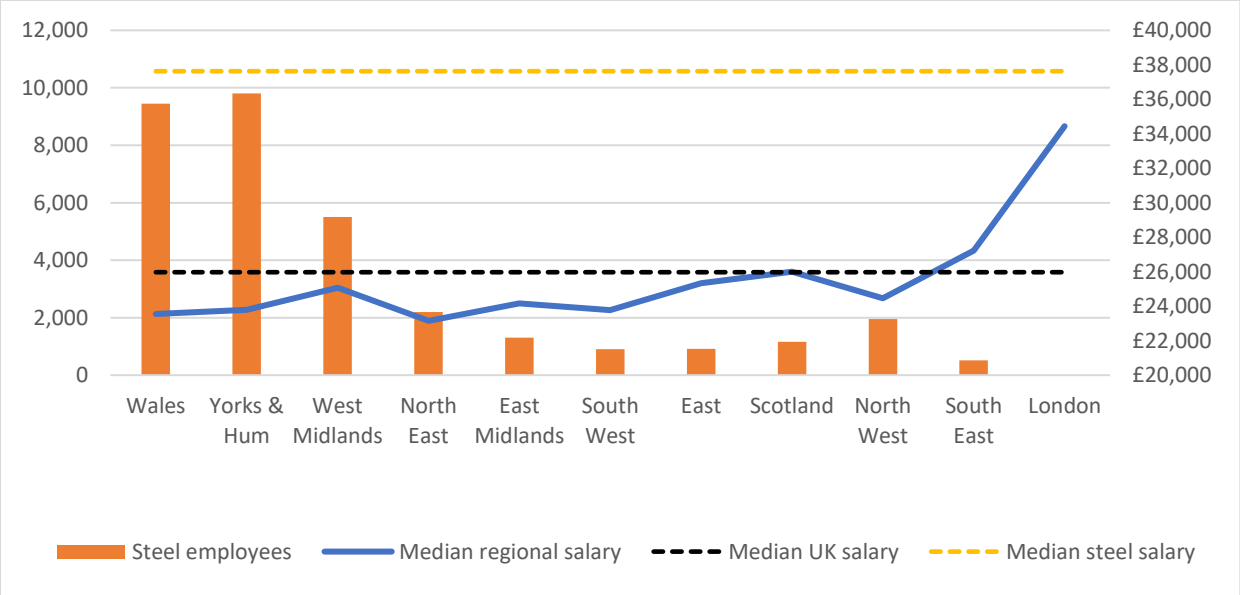
Similarly for Liberty Steel, the plant in Newport produces wide strip and the plant in Brinsworth produces narrow strip. Newport sources most of its slab from British steel, while Brinsworth sources its slab from Liberty's Stocksbridge facility rolled from ingots or blooms, which in turn have been melted and poured at its Rotherham facility. This clearly highlights the supply chain linkages upstream and therefore the wider injury implications for other Liberty plants and other UK steel producers. Downstream as well, Newport wide strip is supplied to a number of UK customers but also to Liberty's own Tredegar plant to be turned into welded pipes and tubes. Brinsworth narrow strip is sold globally but also supplies Liberty Performance Steels in West Bromwich for cold precision drawing. This is in fact the only precision cold roller in the UK, whose entire supply chain depends on three different Liberty plants whose operations, revenue and profitability are interconnected.

Therefore, in order to assess the economic significance of the HRF sector, it is useful to evaluate the contribution of the segment but also the wider steel sector that it forms an integral part of.

4.3 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[44]
- The UK steel industry also supports a further 43,000 in its high-value supplies chains[45]
- 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.[46]

Chart 5: UK Steel Employment and Pay by Region 2021



Source: ONS Various and UK Steel Analysis

[44] ONS – Business Register and Employment Survey 2020
[45] ONS – Business Register and Employment Survey 2020 and ONS Type 1 employment multipliers
[46] ONS – Annual Survey of Hours and Earnings, ASHE Table 16 and ASHE Table 7

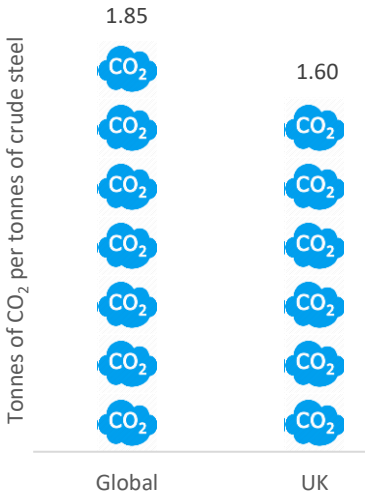
- The UK Steel Industry makes a £2.4 billion direct contribution to UK GDP and supports a further £3.1 billion in its supply chains [47]
- UK steel also makes a £2.4 billion direct contribution to the UK's balance of trade[48], critical to the Government's ambitions of developing a more a global trading 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.

4.4 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. 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.

4.5 Interplay between safeguards and anti-dumping measures

Foreign exporters often contend that the safeguard measures in place make anti-dumping duties redundant. This view is palpably incorrect.

Safeguards and anti-dumping duties are different measures, designed to address different issues. Safeguards will protect from surges in imports and trade diversion but cannot guarantee that imports are coming at non-

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

dumped prices. WTO rules and the UK trade remedies framework allow for both types of measure to apply simultaneously for this reason. For products that are subject to both measures, only one of the two duties applies at any one time; the stated AD duty applies until the quota is exhausted, after which time both apply but the AD rate is adjusted to ensure that the maximum charged is either 25% or the stated AD duty level, whichever is the higher. Safeguard measures act to limit imports above a certain level, and therefore will have some impact on the volumes of dumping. However, dumping is perfectly possible within the volumes allowed by a tariff-rate quota.

Other than the general point around the difference between the two measures, currently Brazil and Ukraine are exempt from the safeguards on HRF, as they are considered developing countries whose exports to the UK fall below the 3% threshold. If the anti-dumping duty was dropped, there would be no safeguarding mechanism in place at least for a period of time until the developing country exemption was reassessed. Even when developing country imports are reviewed it would take at least a year after the removal of the anti-dumping duty before there is enough data showing increased imports from these countries. In that period, Brazil and Ukraine could export unlimited quantities without any restriction in place and by the time their exempt status was reassessed, their exports could cause considerable damage to the UK market.

Additionally, the safeguard measures will only be in place until June 2024 providing no protection at all after this point. An extension of the anti-dumping measure would provide critical protection for at least three years beyond this point.

The TRA has agreed with all the above points in its final determination for TD0011 (section G3.2.6 point 162 and section H5).

4.6 Interplay between sanctions and anti-dumping measures

Russia's invasion of Ukraine has resulted in sanctions imposed on Russia which include a ban on finished steel imports and have impeded Ukraine's ability to produce and export steel. This however is and should be viewed as entirely separate to this anti-dumping review. There is no timeframe for how long the sanctions on Russia will be in place so no assumptions can be made around that. If anything, as noted earlier, the impact of sanctions on the domestic Russian market increases the likelihood of dumping by Russian producers, the moment that sanctions are lifted.

Furthermore, the sanctions against Russian steel and the anti-dumping measure serve two different purposes. The purpose of the sanctions is to advance the national security interests and the foreign policy objectives of the UK, whereas the purpose of the transitioned anti-dumping measure on HRF is to remedy the dumping of goods in the UK. Because of this, it is thus necessary to keep both the anti-dumping measure alongside the sanctions on steel to ensure both objectives are met. For example, in cases where licences are obtained to allow import or where the sanction is ended, it is important that the dumping order be preserved so that any imports of HRF that do enter the UK continue to enter at un-dumped prices by applying the anti-dumping tariff to those goods.

The TRA agrees with this assessment as stated in its final determination in relation to the cold-rolled case TD0011 (section G3.2). The TRA notes that:

- it is unclear how long UK sanctions on the goods subject to review from Russia will remain in place
- it is unclear whether the form of sanctions might vary in future
- it is too early to determine what the medium- or long-term impacts might be on the Russian domestic or export markets
- sanctions should not be relied upon to prevent dumping, because they are designed for a different purpose

All of the above also apply in relation to this HRF review.

4.7 Presumption that the Economic Interest Test has been met

It is important to emphasise that the UK legislation[49] establishes a presumption in favour of the economic interest test (EIT) having been met.

> "*That test is presumed to be met unless the TRA or, as the case may be, the Secretary of State is satisfied that the application of the remedy is not in the economic interest of the United Kingdom."*

The Secretary of State guidance[50] on the issue further elaborates on this:

> *"A measure is not in the economic interest of the UK if the negative impacts are* ***disproportionate*** *to the positive impacts. The burden of proof is on TRID to demonstrate that this is the case.* ***It is not enough to simply show that the costs of a measure outweigh the benefits****."* (emphasis added)

This guidance must be taken account of by the TRA as stipulated in the Trade Bill (2021)[51]:

> *"In performing its functions, the TRA must have regard to guidance published by the Secretary of State."*

Therefore, the burden of proof rests on the TRA to demonstrate clearly that maintaining the measure would not be in the economic interests of the UK, if the EIT were to be used as justification for the revocation of the measure. Demonstrating that maintaining the measure would not be in the economic interests of the UK must require the presentation of reasonable, robust and verifiable evidence to support this conclusion. In the absence of this reliable evidence base that stands up to independent scrutiny, the legislation is clear that that the TRA should presume that the EIT has been met. This submission has also provided evidence in section 4 to confirm that the EIT has clearly been met.

[49] Taxation (Cross-border Trade) Act 2018, Schedule 4, Part 6, Paragraph 25 (3)
[50] Trade Remedies Investigations Directorate (TRID) dumping, subsidisation and safeguarding investigations guidance - Economic interest test - Guidance - GOV.UK (www.gov.uk)
[51] Schedule 4, Paragraph 34 (1)