

CBM Submission to TRID re Steel Safeguarding Measures, Case TF0006

SUMMARY

The Confederation of British Metalforming (The CBM) represents some 200 British manufacturers operating in the forging, sheet metal and presswork, and fasteners and precision component sectors.

The CBM is ardently committed to the development and promotion of British manufacturing and, in particular, the viability and prosperity of its own members.

This includes wanting, indeed needing, to see a viable, globally competitive and valued British steel manufacturing industry, which can effectively and reliably support CBM members in ensuring they also achieve and maintain global competitiveness and sustainable profitability.

The CBM believes that one of the keys to ensuring a strong future for UK steel manufacturing is for Government to address the massive differential in energy costs, especially electricity in which the UK is very uncompetitive¹, faced by comparison with continental European counterparts.

The CBM also believes the UK steel industry must receive consistent and effective support from the British Government, including a clear long-term industrial strategy for Great Britain and clarity and transparency on achievement of its environmental and global trade goals.

However, the CBM is not convinced that the steel safeguarding measures transitioned from the European Union are effective in supporting UK steel manufacturing and may, in fact, be counterproductive to it achieving that essential global competitiveness.

CBM is also deeply concerned that the rigidity of the steel safeguarding measures, presents a supply environment in which CBM members are unable to exercise essential flexibility in order to respond to UK market demand and growth requirements, and to deliver the maximum contribution to the economic welfare of Great Britain, at a time of considerable supply and demand market turmoil.

In particular, the CBM believes that the continuation of the current steel safeguarding measures in the current global and domestic environment, represents a major inhibition to the growth of some of its members and to UK economic growth and global competitiveness at a crucial juncture in its development, having exited the European Union.

The CBM's concerns have been substantially heightened in recent weeks by questions of the financial viability of Liberty Steel and indications from its owner that some elements of its UK production are unprofitable, with the implication that they may face closure, impacting the mix and volume of steel materials available in the UK.

The CBM, therefore, urges the Trade Remedies Investigative Directorate to determine that the steel safeguarding measures should NOT be reimposed following their expiry in June, at least for a period of one year, to provide a critical 'window' for British metalformers to exercise maximum flexibility in sourcing in order to respond effectively to both domestic and export demand growth.

CBM concerns about the safeguarding mechanism

CBM is concerned that safeguarding is a somewhat blunt instrument in that it cannot target and remedy specific sources of unfair competition or export practices but seeks to limit overall import volumes of the cited products. CBM believes these concerns are more effectively targeted through precisely focused anti-dumping and anti-subsidy measures, which then present a clear and stable tariff regime on which companies can base long-term sourcing strategies.

Safeguarding quotas, through necessity, are based on historic data. Those data, and hence the quotas, cannot accurately reflect current and future conditions in either the UK or global supply chain – *especially in a period of demand growth and global steel industry turmoil*.

In the current global market environment of high but unpredictable demand, as economies recover from the pandemic, constrained supply and consequent hyper-inflation of steel costs, it is inevitable that UK steel producers will focus available capacity on higher added value product to the detriment of availability of other products, which may have previously been available to British metalformers.

The CBM has received multiple reports from its members about this situation - and has worked closely with one in particular to explore its impact (see Confidential Case study Annex 1 and 2).

It is clear that specific steel grades are not readily available from UK steel manufacturers. This situation is further exacerbated by very limited capacity and substantially extended lead-times from European steel mills.

CBM members facing this situation have, therefore, two choices.

1. Secure supplies from global sources to sustain production and meet customer demands – which are currently growing substantially – and in doing so risk major negative impact on profitability if/when safeguarding tariffs are incurred.

Important to note, that safeguarding measures mean the importer cannot know with any confidence whether quota will be available at the time goods arrive at the UK border. With currently extended and unreliable lead-times from all global steel producers this creates a major jeopardy of incurring tariffs, resulting in negative profitability.

2. Alternatively, the companies constrain their production in order to avoid the risk of incurring tariffs, thereby limiting the ability to support their customers and losing the ability to respond to growth opportunities in both domestic and export markets. The net result of this is to undermine the growth of the UK economy as a whole at one of the most critical points in British history.

Compliance with the safeguarding regime increases company administration. This comes at a time when companies are already grappling with:

- a) the extraordinary challenging conditions imposed by the coronavirus pandemic, including enhanced Covid-19 security in the workplace, home working and managing without employees required to shield or to self-isolate.
- b) the introduction of the UK border with the EU, and consequent major increases in 'paperwork' in relation to both import and exports.

Global Steel Cost and Availability Trends

The current, unprecedented escalation in global steel costs is well documented by financial and industry media, as well as analysts such as MEPS and S&P Platts. Reports from the latter are generally copyright so CBM is unable to include them in this submission.

CBM would, however, like to briefly comment on the impact of current steel supply chain conditions as reported by its members:

- Delivery lead times on most grades of steel extending by many weeks, in some instances trebling in duration.
- In some cases, mills simply declining to offer supply of product for the foreseeable future.
- These situations are severely stretching materials in hand and in some instances necessitating curtailing production, or at least not being able to respond to market demand growth.
- Global steel costs are rising at an extraordinary rate. Further increases during Quarter 2 have now been notified resulting in unprecedented levels of inflation.

To meet these conditions, and have any chance of ensuring material supply continuity, in order to deliver the best possible value to UK and export customers, British metalworking companies need to exercise maximum sourcing flexibility.

Continued safeguarding measures, certainly for the next year, significantly curtail that flexibility, and laid addition pressures in CBM members to the detriment of their viability and abilities to support their customers.

UK Steel

The current challenges of Liberty Steel's holding group and its financial position have over the last few weeks been well documented in the media.

In the last week, CBM has been deeply concerned to receive reports from its members, that Liberty Steel is requiring pro-forma payment for steel products even before they are rolled. This obviously creates real cash-flow and/or supply continuity challenges for the companies already stressed by the effects of the coronavirus pandemic.

More specifically, in relation to safeguarding, it brings starkly into question the sustainability of supply from Liberty Steel UK operations.

CBM is also deeply concerned over media statements from the holding group that it considers some of Liberty Steel's UK operations unprofitable, with implications those operations may not be able to continue to supply the market reliably in the longer, or potentially even in the shorter, term.

This domestic supply uncertainty places even greater emphasis on not extending steel safeguarding measures, in order to provide British metalworking businesses maximum sourcing flexibility in an already highly volatile global supply market.

Conclusion

The CBM requests that UK steel safeguarding not be reimposed following expiry, at least for a period of one year, in order to provide British metalformers with essential sourcing flexibility so that they may do their utmost to respond to growth conditions and continue to contribute to British economic success.

The CBM and its members will be pleased to discuss any of this submission further with the case handlers.

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Appendices

Appendices 1 & 2 present detailed information from a study conducted by a CBM member, underpinning and justifying the concerns expressed above.

As this study provides a significant insight into the member's commercial situation, these appendices are submitted as confidential documents.

Notes:

1. UK Steel – Closing the Gap: How competitive Electricity Prices Can Build a Sustainable Low-Carbon Steel Sector 04.02.2021.
<https://www.makeuk.org/insights/publications/uk-steel-electricity-price-report>