TS0018 - Transition anti-subsidy ("AS") review into imports of hot-rolled flat and coil ("HRFS") products from China - Tata Steel UK ("TSUK")'s comments in favour of extending the AS duties for another five-year period

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I. Introduction

This submission is made on behalf of TSUK, a HRFS producer based in the UK[1] in the context of the above investigation. TSUK welcomes the Trade Remedy Administration ("TRA")'s decision to open the ongoing transition review, and finds it to be well justified and needed.

As the TSUK demonstrates below in this submission, all facts on the record support a conclusion that extension of the AS measure is merited in this case. A failure to do so would lead UK HRFS producers, which remain vulnerable despite five years of measures, to once again suffer injury due to dumped HRFS imports from China. The information provided below shows that the applicable legal tests are met, and extension of the AS measures is justified in this case.

First, the AS measures have been effective. Chinese unfair HFRS imports dropped to very low levels upon the imposition of duties and have remained so throughout the period considered.

Second, removal of the AS measures would also likely lead to a recurrence of injury. The information provided by TSUK shows that despite a moderate recovery in the POI, the UK HRFS industry is still in a vulnerable state, and would be injured by another surge of subsidized Chinese HRFS imports. This is among other things due to other developments such as the COVID-19 pandemic, which did not allow the UK HRFS industry to benefit fully from the AS measures in place.

Third, as TSUK explains below in this submission, the existing vast excess capacity in China, Chinese exporters' export behaviour, as well as the fact that other markets are closed for Chinese HRFS exports points to only one conclusion – Chinese exports will once again flood into the UK market if the measures are allowed to lapse.

Fourth, TSUK will demonstrate that given the Trade Defence Instruments ("TDI") measures currently in place, Chinese export prices to the UK were much higher compared to Chinese prices to other export markets. In TSUK's view, Chinese export prices to third country markets are indicative of the price levels at which Chinese HRFS will be sold in the UK in the event that the AS measures are allowed to lapse.

Finally, TSUK demonstrates that the Economic Effects Test ("EET") is met in this case, and extension of the measures would be in the interest of all interested parties involved.

II. TSUK and the structure of the UK market

TSUK is one of the two UK HRFS producers together with Liberty Steel, and TSUK represents the major share of UK production. As demonstrated below in this submission, TSUK's HRFS capacity is approximately [2-4] million tonnes per year. While TSUK does not

[1] https://www.tatasteeleurope.com/

have precise knowledge of Liberty Steel's capacity, the company estimates it to be a maximum of [0.5-2] million tonnes with production significantly below its maximum capacity; TSUK estimates total HRFS capacity in the UK

of [3-5] million tonnes, of which TSUK holds the major share.

There are multiple importers/distributors and users of HRFS in the UK. Approximately [60-80]% of TSUK's sales are made to independent steel service centres. The key sectors of users are: (i) automotive (14%), (ii) construction (9%), (iii) tubes (33%), and (iv) engineering (44%). Users predominantly buy HRFS from steel service centres ("SSCs"), although there are some direct sales to final users as well.

TSUK is thus the main HRFS producer in the UK, and its performance can be viewed as representative for the UK industry as a whole. TSUK also has a detailed and unique insight into the UK HRFS market.

III. The situation of the UK HRFS industry remains vulnerable. Injury to the UK industry would be likely to recur if the AS duties are left to expire

This conclusion becomes obvious if one looks at the current situation on the UK market as well UK producers' economic and financial performance.

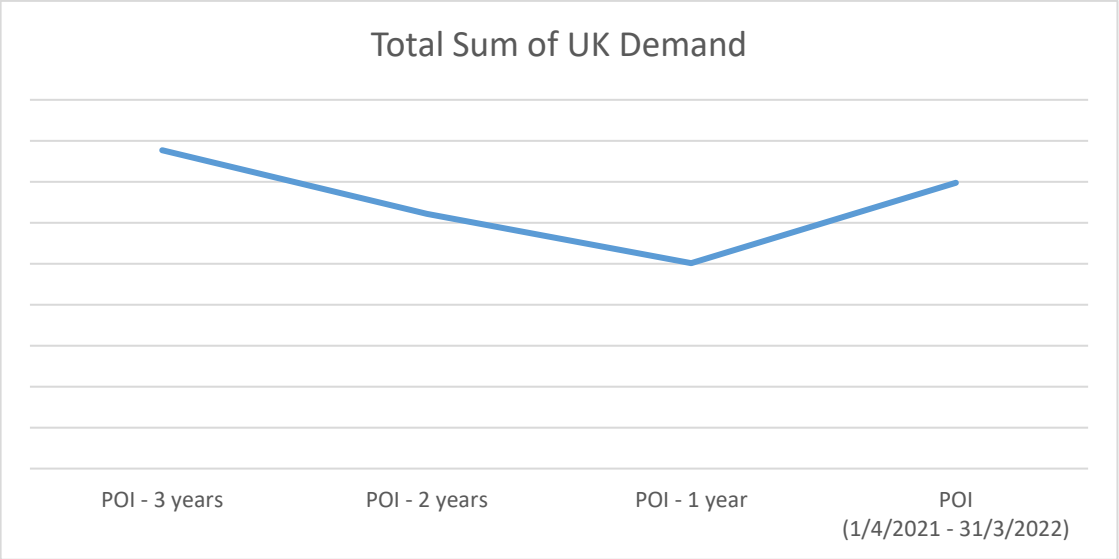
1. UK consumption

After the imposition of the measures in 2017, UK consumption increased in POI-3 (1 April 2018-31 March 2019), but then fell in POI-2 (1 April 2019-31 March 2020) and POI-1 (1 April 2020 -31 March 2021). Demand increased in the POI (1 April 2021-31 March 2022) but remained below POI-3 levels.

UK apparent consumption (000 tonnes)	**POI-3 years**	**POI-2 years**	**POI-1 years**	**POI (1 April 2021 – 31 March 2022)**
UK Consumption	[Confidential]	[Confidential]	[Confidential]	[Confidential]
Index	**100**	**80**	**65**	**90**

Source: TSUK market data (ANNEX 2)

This is also reflected in the graph below, which shows the change in UK demand over the years:

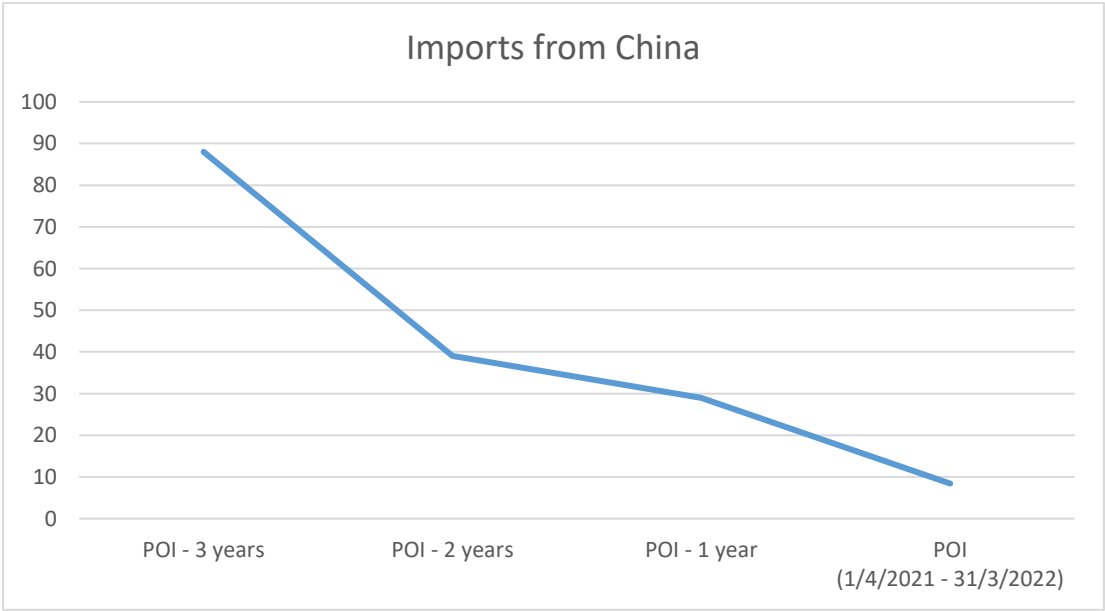


Source: TSUK market data (ANNEX 2)

Thus, even if we have seen a recovery, UK demand is still below its earlier levels; thus, given the existing sufficient supply on the market (from both local and foreign sources), there is no risk of any supply shortages.

2. Imports from China

Following the imposition of AS duties in 2017, Chinese imports into the UK dropped significantly and basically disappeared from the market.



Source: TSUK market data (ANNEX 2)

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It is important to say however that the only reason why this drop occurred were the AS measures in place, which have been effective. The UK import data does confirm that the

imposition of definitive measures in 2017 reduced significantly Chinese imports into the UK, as Chinese exports were diverted to other markets. Without the pressure from Chinese imports, the UK industry was able to improve its performance; this however was only temporary given market conditions, as well as pressure by other imports coming from Russia, Ukraine, Brazil, Iran, and Turkey, and other external factors such as the COVID-19 pandemic, which did not allow the UK industry to fully recover.

If measures are allowed to lapse, there will undoubtedly be recurrence of subsidized imports and injury, which will be detrimental to the industry, which remains vulnerable. Therefore, the duties should be renewed for a period of five years in order to allow the UK industry to fully recover and maintain healthy levels of performance.

3. The vulnerable financial situation of the UK industry

Following the imposition of AS measures in 2017, the situation of the UK industry remained difficult due to other factors such as dumping by imports from other countries (i.e. Russia, Ukraine, Brazil, Iran), pressure by low-priced imports from other countries such as India, South Korea, Turkey, as well as the COVID-19 pandemic, which hit international markets in 2020. While the situation did improve in the POI mainly driven by improved demand and supply-demand imbalance following COVID, this situation is expected to be temporary in nature. UK producers remain vulnerable to renewed injury should the measures elapse. The future of HRFS production in the UK is dependent on the producers being able to make a profit. While the profitability has improved in recent months due to the high level of steel prices resulting from market disruptions, prices have started to fall back, and are likely to remain in a downward trend. With prices falling back to normal levels, as the underlying fundamentals of the steel market remain unchanged, the UK industry will find itself in a fragile position to face subsidized Chinese imports. If the industry is forced to face surging subsidized Chinese imports, it will experience a recurrence of material injury.

This is also seen in recent economic data for UK HRFS producers, detailed below, which shows overall declining performance from POI-3 to POI-1 with a modest recovery in the POI. The industry is therefore fragile. The end of the measures will likely result in a very negative impact on UK producers, as Chinese imports would flood the UK market.

An overview of the UK industry indicators provided in the section below (further details in ANNEX 5) illustrates its vulnerability to renewed injury should the measures elapse.

The industry lost production volume over the period considered. Production decreased from POI-3 until POI-1, then rose during the POI, to roughly POI-3 levels. As regards capacity, it remained stable over the entire period. Capacity utilisation remained stable with UK producers putting their production capacity to work to satisfy any current and future increase in UK HRFS demand.

TSUK's production, capacity and	**POI-3 years**	**POI-2 years**	**POI-1 years**	**POI (1 April 2021**

utilization rate (tonnes)				**– 31 March 2022)**
Total Production	[Confidential]	[Confidential]	[Confidential]	[Confidential]
Index	100	100 - 110	90 - 100	100 - 110
Capacity	[Confidential]	[Confidential]	[Confidential]	[Confidential]
Index	100	100 - 110	100 - 110	100 - 110
Capacity Utilization	[Confidential]	[Confidential]	[Confidential]	[Confidential]
Index	100	100 - 110	90 - 100	100 - 110

Source: TSUK's Injury Data (ANNEX 5).

The table below illustrates the drop in production and utilization in the period POI-3 – POI-1, and the following improvement in the POI.

[Confidential information removed – graph showing TSUK's production, capacity, and utilization. The data is considered sensitive as its disclosure may give a competitive advantage to competitors.]

The improvement in the POI came only in the third year as the measures were not fully effective due to a number of other external factors. The improvement was also driven by the supply-demand imbalance caused by COVID, which is expected to be temporary in nature.

In terms of volume of sales, UK producers have again only started to recover during the POI.

TSUK's' UK Sales to unrelated (tonnes)	**POI-3 years**	**POI-2 years**	**POI-1 years**	**POI (1 April 2021 – 31 March 2022)**
Sales	[Confidential]	[Confidential]	[Confidential]	[Confidential]
Index	100	90 - 100	90 - 100	110 - 120

Source: TSUK' Injury Data (ANNEX 5).

After a deteriorating performance between POI-3 and POI-1, following the downward trend in UK demand, the industry managed to marginally improve its performance in the IP (driven by the temporary rise in demand).

[Confidential information removed – graph showing TSUK's volume of domestic sales. The data is considered sensitive as its disclosure may give a competitive advantage to competitors.]

The UK industry's market share remained relatively stable in the period considered, mainly due to the lower pressure of imports.

TSUK's market share or UK Sales (%)	**POI-3 years**	**POI-2 years**	**POI-1 years**	**POI (1 April 2021 – 31 March 2022)**
Sales	[Confidential	[Confidential	[Confidential	[Confidential]
Index	100	120 - 130	140 - 150	120 - 130

[Confidential information removed – graph showing TSUK's market share. The data is considered sensitive as its disclosure may give a competitive advantage to competitors.]

UK producers' prices dropped dramatically from POI-3 to POI-1, driven by market developments and pressure by imports, and then recovered during the IP given the sudden increase in demand and the whipsaw effect, described above in Section (c).

TSUK's prices for sales to unrelated in the UK (GBP/tonne)	**POI-3 years**	**POI-2 years**	**POI-1 years**	**POI (1 April 2021 – 31 March 2022)**
UK prices	[Confidential	[Confidential	[Confidential	[Confidential]
Index	100	80 - 90	80 - 90	140 - 150

Source: TSUK's Injury Data (ANNEX 5).

As explained above, the important price drop from POI-3 to POI-1, despite the measures in place against China, was caused by various market disruptions and pressure from imports. The pressure UK producers endured from other imports, now also subject to measures, was important. The undercutting by imports forced UK producers to try to align their prices in an attempt to preserve their market share and capacity utilisation, putting the UK industry into a cost-price squeeze. The later increase of prices after POI-3 can be explained by the global supply chain disruption caused by the COVID-19 pandemic, as well as the rise in raw materials

price, which led to higher steel prices globally. This situation is demonstrated by the following graph.

[Confidential information removed – graph showing TSUK's domestic prices for HRFS. The data is considered sensitive as its disclosure may give a competitive advantage to competitors.]

It is important to note that prices peaked in March 2022, and are now falling as demonstrated by the following graphs.

[Confidential information removed – graph Platts prices for HRFS in Northern and Southern Europe in the period 2019-2022. The data is considered sensitive as it is subject to copyright.]

Thus, the price hikes and the resulting high profitability in recent quarters was temporary, and is not expected to last.

These elements show that the UK industry remains vulnerable to a new surge of subsidized imports, which as explained below will inevitably follow if the duties are lifted. Should the measures expire without being renewed, there will undoubtedly be recurrence of subsidized imports and injury. Therefore, the duties should be renewed for a period of five years in order to allow the EU industry to fully recover.

In addition, the pressure from imports from Russia, Iran, Brazil and Ukraine is gone due to AD measures now in place. The UK industry is now in a position to regain lost ground – provided that the AS measures on Chinese imports are continued, this avoiding subsidized Chinese imports from again flooding the market.

After more than three years in losses, caused by market disruptions and pressure by imports from other countries, profits in the POI improved as prices went up due to the increased demand resulting from the short-term supply-demand imbalance and whipsaw effect. The industry has managed to generate profits during the POI, as demonstrated below:

TSUK's Profitability	**POI-3 years**	**POI-2 years**	**POI-1 years**	**POI (1 April 2021 – 31 March 2022)**
Total company	[Confidential	[Confidential	[Confidential	[Confidential]
Index	[Confidential	[Confidential	[Confidential	[Confidential]
HRFS	[Confidential	[Confidential	[Confidential	[Confidential]
Index	[Confidential	[Confidential	[Confidential	[Confidential]

[Confidential information removed – graph showing TSUK's profitability. The data is considered sensitive as its disclosure may give a competitive advantage to competitors.]

TSUK's profit margin could not recover in the period PO-3-POI-1 as the industry remained loss making. As explained above, such a trend in profits is clearly linked to the pressure UK producers were facing at the time from dumped imports from other countries including India, South Korea, Turkey, and others, when UK producers had to lower their prices and endure [Confidential information removed] to survive. As demonstrated by the graph above, during most of period considered, UK producers continued to generate [Confidential information removed. TSUK showed improved profitability [Confidential information removed] during the POI, notably due to the COVID-driven supply/demand imbalance; this situation however is not expected to last.

Indeed, it is important to note that UK producers' recent profitability is transitory due to the whipsaw effect resulting initially from the supply chain disruption. There is also a short term effect of the initial shock of the war in Ukraine, which is already starting to disappear. With prices on a downward trend, as demonstrated by specialized forecasts, market conditions have started to get back to normal and profit margins will develop accordingly. In this regard, after seeing stagnating profits in Q1 and Q2 2022, profits are likely to fall during the course of 2022 and to be at long-term average levels by the end of 2022.

This forecast takes into consideration all the efforts that the industry has put into its recovery, and since the fundamentals of the market dynamics have not changed, it remains vulnerable to an onslaught of Chinese subsidized imports if the measures are allowed to expire, in which case profits would clearly be at a much lower level.

Indeed, the situation on the UK market has not allowed UK producers to fully recover. While signs of recovery can be perceived in the POI as regards employment, it is also the case that in the POI employment remained 18 percentage points lower than in POI-1.

[Confidential information removed – graph showing TSUK's employment. The data is considered sensitive as its disclosure may give a competitive advantage to competitors.]

Employment	**POI-3 years**	**POI-2 years**	**POI-1 years**	**POI (1 April 2021 – 31 March 2022)**
Employment	[Confidential]	[Confidential]	[Confidential]	[Confidential]
Indexed	100	120 - 130	140 - 150	120 - 130

Source: TSUK's Injury Data (ANNEX 5).

Even with the UK industry endeavouring to maintain jobs, employment still fell in the POI compared to the preceding 12-month period. Therefore, more job losses will be inevitable if the pressure from subsidized Chinese imports comes back.

UK producers' stocks decreased slightly over the last years, which may have been a consequence of the supply chain disruption caused by the COVID crisis.

TSUK's stocks (tonnes)	POI-3 years	POI-2 years	POI-1 years	POI (1 April 2021 – 31 March 2022)
Stocks	[Confidential]	[Confidential]	[Confidential]	[Confidential]
Index	100	100 - 110	80 - 90	90 - 100

Source: TSUK's Injury Data (ANNEX 5).

[Confidential information removed – graph showing TSUK's stocks. The data is considered sensitive as its disclosure may give a competitive advantage to competitors.]

4. Conclusion on recurrence of injury

If measures are left to expire, Chinese imports – which had dropped as a result of the AS measures - would rapidly regain their previous volumes, given Chinese excess capacity (as explained below), and the trade defence measures in most third-country markets. Chinese export prices to the UK would drop sharply, in line with current prices offered to third markets.

In addition, it is clear that the UK industry is still vulnerable, is in a fragile state, as it has not been given full opportunity to recover due to dumped imports from other countries and the COVID-driven market turmoil. The performance in terms of profitability of the UK industry during the POI is not representative, as better results were linked to market disruptions and post-COVID recovery, which led to abnormally high prices. Although the UK industry is sound, and has employed its best efforts to improve performance, it remains vulnerable after the pressure from imports and the supply chain disruption caused by COVID and rising steel and raw materials prices.

Considering all the above, the likelihood of recurrence of material injury in this case is clearly established. A resurgence of Chinese subsidized imports would translate into a significant increase of Chinese imports' market share, also because users can relatively easy switch to other suppliers. This means, in turn, that UK producers can easily lose customers, resulting in fewer sales, lower production and capacity utilization. That could leave UK producers with no choice but to lower their prices, leading to a further injurious scenario. In addition, as explained below, the spare capacity in China is much bigger than the UK HRFS market, which only aggravates the problem.

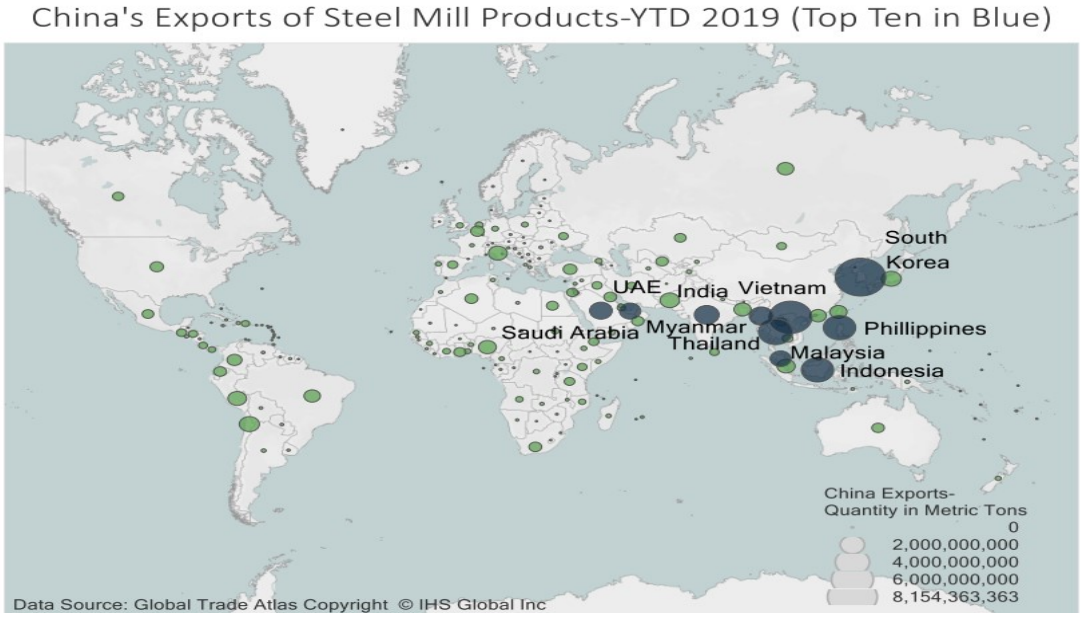
IV. The state of the Chinese steel market and industry guarantees that injurious subsidized imports will continue if the AS measures are left to expire

1. The Chinese steel market is export-oriented

As demonstrated below in this submission, and in ANNEX 6, Chinese capacity has been increasing for a long time, and significantly exceeds domestic demand in China. This means that Chinese HRFS producers have no other choice but to export their HRFS production to third countries, including to the UK

The trend in Chinese HRFS exports mirrors overall trends in Chinese steel - market imbalance, irrational growth, and state subsidies. Chinese steel producers continue to add capacity, as the government forces mergers to create super-large steel mills.[2] In fact, because of the ongoing and structural problem of overcapacity, the Chinese steel industry is dependent on the global market for sales[3] resulting in a downward pressure on prices worldwide.

It is therefore not surprising that China is the world's largest steel exporter.[4] In 2019, about 15% of all steel exported globally came from China, representing 62 MMT, almost double the volume exported by the world's second-largest exporter, Japan. China exports steel to more than 200 countries and territories. The map below highlights the 10 top markets for China's exports of steel, which received more than 1.4 MMT each in 2019.



Source: US Department of Commerce – IHS Markit Global Trade Atlas.[5]

2 ThinkDesk China Research & Consulting, "China's State-Business Nexus Revisited – Government Interventions and Market Distortions in the Chinese Steel Industry", 17 October 2021, page 285, as attached in ANNEX 1.

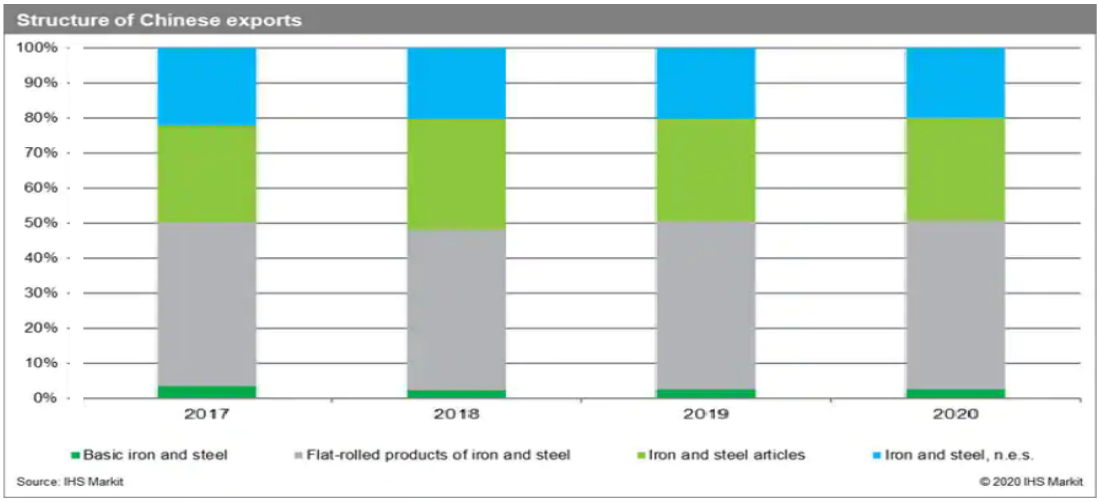
3 Statista, 'Steel industry in China – Statistics and Facts', 13 October 2020. https://www.statista.com/topics/5695/steel-industry-in-china/.

4 Global Steel Monitor of US Commerce, "Steel Exports Report: China", May 2020, https://legacy.trade.gov/steel/countries/pdfs/exports-china.pdf.

5 Global Steel Monitor of US Commerce, "Steel Exports Report: China", May 2020, https://legacy.trade.gov/steel/countries/pdfs/exports-china.pdf

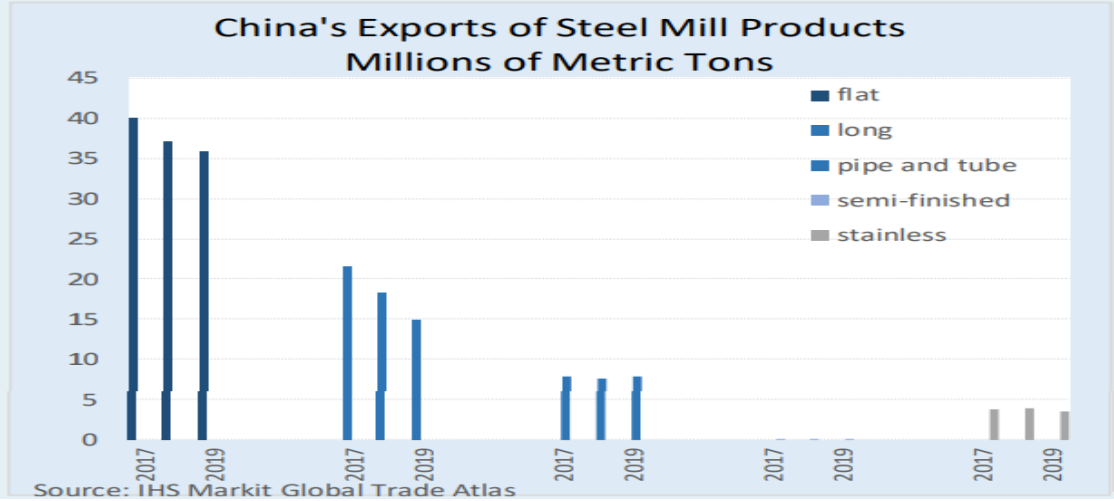
Chinese steel producers' reliance on exports to try and fill their mills' capacity can be also attested by the fact that China has maintained a trade surplus in steel products throughout the last decade.[6]

In addition, TSUK highlights that flat products account for around half the volume of China's iron and steel exports, and their share of total exports has been increasing, as demonstrated in the graph below:



Source: IHS Markit, "Trade analysis: China's steel and iron exports", 23 January 2020.[7]

This is also demonstrated by the following graph showing that, over the course of 2019, flat products accounted for over half of steel exports, reaching 57.7 percent (35.8 MMT).



The export data above demonstrates that exports are important for the HRFS Chinese sector, whose capacity and output continues to grow and to exceed domestic demand. As a

6 Global Steel Monitor of US Commerce, "Steel Exports Report: China", May 2020, https://legacy.trade.gov/steel/countries/pdfs/exports-china.pdf

7 IHS Markit, "Trade analysis: China's steel and iron exports", 23 January 2020, https://ihsmarkit.com/research-analysis/trade-analysis-chinas-steel-and-iron-exports.html

result, exporting the excess production is the only alternative and, if the measures expire, these exports will target the UK.

2. HRFS capacity in China is enormous and new capacity is being added, encouraged and subsidized by the Chinese government

Since 1990, the Chinese steel industry has expanded at a phenomenal rate to become the largest steel industry in the world. Over this period, China has gone from being a net importer of steel to being the largest net exporter. Indeed, in 2005, China made more steel than the next four largest producers combined. From 2000 to 2005, China's steel production increased by over 170%, as the Chinese industry added capacity at a furious rate. Between 1998 and 2005, China's steel exports more than quadrupled, as China established itself as one of the world's leading exporters. This explosive growth in both production and exports would not have been possible without the support of the Chinese Government. It continues to the present day, including in the HRFS sector, where capacity continues to grow, albeit in a less accelerated pace.

Since 2017, China's steel output has increased steadily. According to Wood Mackenzie, in the first half of 2021, Chinese steel mills produced nearly 12% more steel than in the same period of 2020.[8] Worldsteel data shows monthly output levels have exceeded [75-95 MMT] from April to August 2019 and again in [12 of 13] months beginning April 2020:

[Confidential information removed – graph showing monthly steel output in China. The data is considered sensitive as it is subject to copyright.]

The table below presents a non-exhaustive overview of available information on new steel plants in China planned or added during the IP:

LOCATION	COMPANY	EQUIPMENT	CAPACITY	STATUS	START
Meishan City, SicHunan	Sichuan Jinsheng	EAF	1 000	operating	2020
Xinpu, Henan	Anyang Zhoukou Steel	BOF	1 750	underway	2021
Zijin Country, Guangdong	Heyuan Derun Iron and Steel	EAF	-	plan	2021
Luzhou City,	Luzhou Xinyang Steel	EAF	2 000	operating	2020

[8] CNBC, "China wants to curb steel production, some way it is virtually impossible, 02 August 2021, https://www.cnbc.com/2021/08/02/china-wants-to-curb-steel-production-some-say-its-virtually-impossible.html

SicHunan					
Shanxi province	Shanxi Jinnan Iron and Steel	BOF	3 400	plan	-
Ningde, Fujian	Fujian Dingsheng Iron and Steel	EAF	2 000	operating	2020
Zhanjiang, Guangdong	Guangdong Shaoguan Iron & SteelCo., Ltd.	BOF	3 625	underway	2021
Ningde, Fujian / 福建、寧德	Anshan Iron & Steel	Steelmaking	10 000	plan	-
Yancheng city, Xiangshui	Xuzhou Baofeng Special Steel	Steelmaking	8 000	plan	2020
Hanzhong, Shaanxi	Shaanxi Hanzhong Iron and Steel	EAF	700	plan	-
Fangchenggang, Guangxi /防城港	Jinxi Iron and Steel	Steelmaking	-	plan	-
Hebei, Laoting / 河北、楽亭県	HBIS Laoting Steel Co., Ltd.	BOF	7470	plan	-
Jiangsu province	Baowu Iron & Steel Group	Steelmaking	-	plan	-
-	Baowu Iron & Steel Group	Steelmaking	3100	plan	2021
Wuzhou, Guangxi	Wuzhou Yongda Iron and Steel	EAF	1000	operating	2020

Source: OECD Report, "Latest developments in steel making capacity", February 2021. See ANNEX 6.

HRFS capacity in China is also continuing to increase every year. World Steel Dynamics points to [290-330] Mt in 2019, and [300-335] Mt in 2018 (see ANNEX 6).

The apparent inconsistencies in different databases concerning Chinese steel producing capacities further reveal the difficulty in obtaining accurate data. Nonetheless, all sources demonstrate that HRFS capacities in China are massive. The table below presents a non-exhaustive overview of Chinese HRFS capacity breakdown by producer to TSUK's best knowledge:

[Confidential information removed – table showing list of Chinese steel capacities provided by Metal Expert. The data is considered sensitive as it is subject to copyright.]

The available data demonstrate the scale of the huge capacity of Chinese HRFS, a lot of which is excess capacity that simply cannot be absorbed by the domestic Chinese market, as explained and illustrated below.

3. Spare capacity in China remains significant

A natural consequence of the massive recently added capacity is that there is substantial spare capacity in China's steel industry, in general and among HRFS producers, in particular.

The comparison of capacity and production shows significant unused capacity of Chinese HRFS producers. Estimates produced by MySteel point to a utilization rate of only [75-85]% in 2019 and [73-83]% in 2020, suggesting the utilization level is falling and more spare capacity of HRFS is foreseeable in China (See ANNEX 6).

If the duties in place have been effective in allowing the UK industry to regain some force and improve its performance, the situation on the Chinese market remains the same: very large production capacity, which is excessive in relation to domestic demand, and as a result significant spare capacity. We can see some fluctuation during the period considered, but essentially the graph shows that steel overcapacity is an ongoing issue in China, with latest trends confirming this is unlikely to change anytime soon.

The situation on the Chinese domestic HRFS market is therefore the paradigm for the need for an anti-subsidy remedy to prevent a threat of injury. Chinese capacities are too big compared to the actual needs of the Chinese economy. The massive (and still growing) Chinese excess capacity makes it imperative for China to export, resulting in significant pressure on prices in third-country markets. Chinese mills are (as usual) trying to export their way out of trouble.

As a result, it is clear that the only thing stopping Chinese HRFS excessive capacities from flooding the UK market is the trade measures in place.

4. Chinese domestic demand is going to follow a downward trend in the coming years

During the global pandemic, HRFS demand in China remained steady. With advanced economies worldwide facing lockdowns, consumption shifted from services to the purchase of goods, such as electronics and furniture, manufactured in China. As global economies are now getting back to normal, Chinese HRFS demand is declining. This situation exposes the full size and impact of China's excessive steel industry.

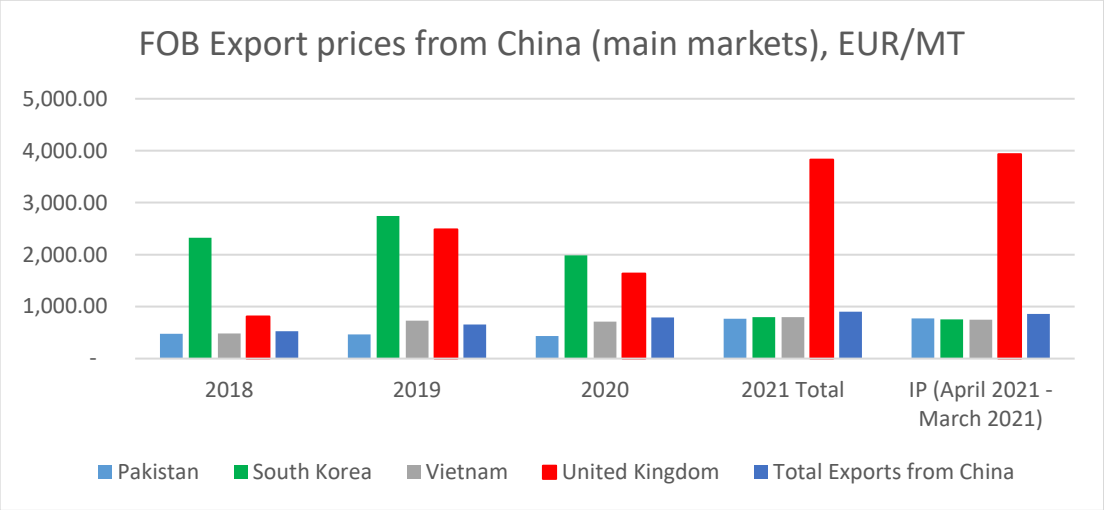
[Confidential information removed – graph showing Chinese steel consumption going down provided by CRU. The data is considered sensitive as it is subject to copyright.]

This forecast of decrease in domestic demand combined with domestic production capacities continuing to grow will mean higher exports, which will put pressure on steel prices

5. Likely evolution of the level of Chinese prices and likely demand for further imports

In light of China's enormous spare capacity and the need to export to fill that excess capacity, China continues to export HRFS at low prices.

Given the low volumes of Chinese exports to the UK, they are not a good reference to assess the Chinese export prices with which imports would flood the UK market if measures were left to expire. This is proven by the fact that Chinese export prices to the UK were significantly higher than the export prices to all third country markets. Data from TDM, showing prices at which exporters from China sold HRF globally, as well as to each particular export destination, show that, during the POI, Chinese HRF exports to the UK reached a much higher average price of 3,931 EUR/MT, in contrast with an average of 861 EUR/MT for all third markets (*See* ANNEX 2).



Source: TDM exports (ANNEX 2)

Chinese exporters therefore continue to dump HRFS in third countries where there are no trade defence measures in place. As can be seen, to these destinations, Chinese export prices are much lower than those offered to the UK. Moreover, current Chinese export prices (judged on a CIF third country basis) are not representative of the situation going forward, as they are unusually high due to increased freight costs and the supply-demand imbalance driven by the COVID crisis. If the AS measures were to end, the UK market will be flooded with Chinese HRFS imports sold at much lower prices than today, which will undercut UK producers' prices.

V. Chinese exporters are likely to target the UK market in the event that the measures are left to expire

First, the UK is one of the likely targets of Chinese exports in the event that the AS measures are permitted to end because other major HRFS markets, such as Brazil, Canada, the EU, Indonesia, Malaysia, Mexico, and the US have already introduced (or are in the process of introducing) trade defence measurers on HRFS imports from China (See ANNEX 3)

These barriers reduce considerably the ability of China to direct its excessive production to other third country markets, and make the UK among the few remaining attractive options in the event that the measures are lifted.

Second, the UK market, due to its size and open/competitive nature, with a stable and strong currency, is clearly an attractive target for Chinese HRFS exporters. Imports will therefore undoubtedly focus on the UK market if the AS measures expire.

Another important reason why also imports from China are likely to flood the UK market if measures are removed, is the expected recovery of steel demand going forward. As TSUK explained, the COVID crisis severely impacted apparent HRFS consumption in the UK, which took a dive in POI-2 and POI-1, but recovered in the POI. Available data shows that UK steel market is expected to remain stable in the following years.

Clearly, the existing (and forecasted) demand in the UK will attract Chinese HRFS exports in the event that the measures are repealed.

VI. The Economic Interest Test ("EET") is clearly met in this case

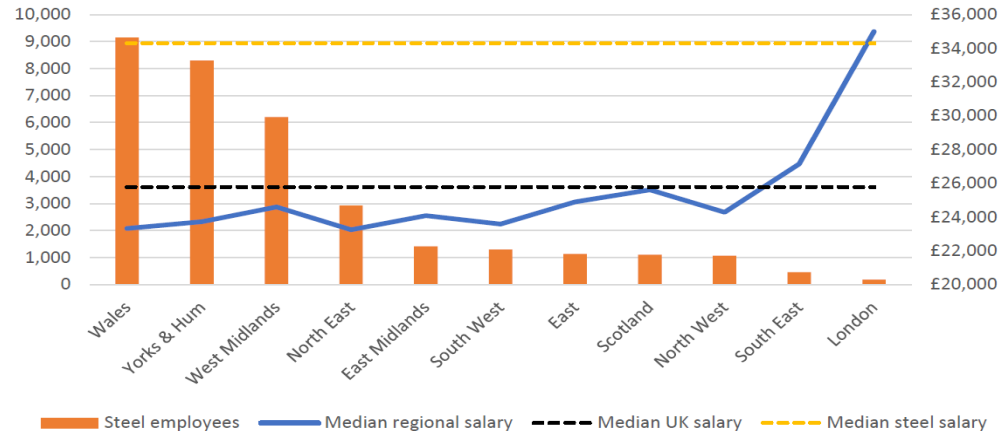
There is indeed a strong economic interest in the continuation of the measures to prevent recurrence of subsidized imports causing injury to the UK industry. To fail to extend the AS measures in place in these circumstances would open the door to a surge of subsidized HRFS products into the UK market and to put the future of the UK industry and its workforce at grave risk.

The EET is clearly met in this case as continuing of the measures will preserve fair market conditions on the UK market, as explained in further detail below. Besides ensuring a future for the UK HRFS industry, the measures will ensure that end users have long-term and reliable sources of supply of HRFS, since there is no risk of shortage, because (a) imports could continue to enter the UK (on a fairly-traded basis) and (b) there is sufficient spare capacity in the UK and in third countries to cover any shortfall. In addition, measures would not result in any adverse effect on users nor on employment in end user industries.

1. Importance of the UK HRFS industry

First, the UK steel industry directly employs 33,700 people across the UK – jobs that would be at risk if the health of domestic steel companies is compromised. The UK steel industry also supports a further 42,000 in its high-value supplies chains. The steel industry is predominantly based in the regions of the country the Government is seeking to level-up.

Chart: UK Steel Employment and Pay



Source: ONS Various and UK Steel Analysis

The UK HRFS industry provides significant employment opportunities in parts of the country where operations are currently located and offering wages considerably higher than the local average.

Second, the UK steel industry provides 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. The 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 the steel industry in the UK retains a strong and resilient steel industry in the UK to supply this.

Third, the domestic UK steel industry is also important to decarbonisation. Increased reliance on steel imports could lead to higher emissions if imported steel is produced in a more carbon-intensive steel plant. 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. 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 not be in the economic or public interest.

Lastly, the interconnectivity of steel products means that product categories assessed independently from each other will not provide an accurate assessment of injury and economic impact to the UK. HRFS products alone 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 more than one type of steel product and the profitability of each will have an effect on wider production decisions, with implications for employment and future investment.

2. The continuation of the measures will not be against the interests of various market operators

First, the continuation of measures does not entail a risk of shortage of supply. There is sufficient capacity both within the UK and in other third countries to supply the UK market. UK HRFS producers do have sufficient capacity to address any increase in demand. As far as the UK is concerned, under pressure by imports, TSUK had had no other option but to Confidential information removed.] Currently, TSUK is running [Confidential information removed]. If there were a significant long-term increase in demand that could not be satisfied through current local production plus imports, TSUK could [Confidential information removed]. In addition, Liberty Steel also appears to have lots of spare capacity. Finally, TSUK could easily opt to sacrifice some of its downstream products that use HRFC as a raw material, and sell more HRFC in the event that the HRFC market is strong. Thus, it is clear that there is sufficient local capacity to satisfy any increase in demand.

In addition, there is sufficient capacity in third countries to cover any shortfall. Indeed, there are significant volumes of HRFS products available on the global market, amounting to some 20-30 million MT (See ANNEX 6), that could be shipped to the UK to satisfy any unmet demand.

TSUK further recalls that the application of anti-subsidy measures is not intended to exclude imports from the four countries from the market, but only to ensure that those imports are sold at fair prices, which would not result in recurrence of injury. The level of duties that are likely to be imposed will not exclude such imports from the UK market, but merely ensure they are sold at fair prices.

Second, the continuation of measures will not have an impact on users. It is in the interest of end users as well as the UK HRFS industry that the market functions in a fair way, with a healthy UK HRFS industry to ensure continuity of supply for the future. It should be noted that the UK industry is capable of serving the UK market and that there are many other producers of HRFS around the world who could also supply the UK market. Moreover, HRFS products represent only a very small percentage of the cost of a typical consumer product that uses HRFS. As an example, TSUK has provided in ANNEX 7 estimates of costs for production where they demonstrate HRFS represents only a negligible part of the cost of typical consumer product that uses HRFS. Hence, the price of HRFS would have no real effect on decisions whether or not to purchase such a product

Third, the non-imposition of measures would result in loss of UK HRFS industry jobs, whereas imposition of measures would not impact jobs in end user industries. An independent analysis by Oxford Economics on the impact of job losses in the steel sector on industries depending on it (See ANNEX 8) shows that each job lost in the steel sector means a further 7.7 direct and indirect jobs lost in industries dependent upon it for business.[9] The indirect economic impact on the broader community around steel production sites is therefore even bigger. The negative impact of the subsidized imports from China far outweighs any potential impact on

[9] See Oxford Economics, The Impact of the European Steel Industry on the EU Economy (ANNEX 8) at page 4.

end users absent anti-subsidy measures, situation under which UK producers will be forced to continue to curtail production and lay off workers.

More broadly, given the actions by other countries such as Brazil, Canada, the EU, Indonesia, Malaysia, Mexico, and the US to limit access by imports to their markets via trade defence instruments, it is clearly not in the UK's interests to leave its market open to unfairly traded imports, with the consequent impact on UK jobs.

Lastly, all information on the record demonstrates that the years of measures have not compromised supply or had a negative impact on users or any other sector of the UK economy. This was mainly because UK producers have sufficient capacity to satisfy local demand and there are also sufficient alternate sources. Thanks to the measures in place, and despite COVID, the UK industry has managed to improve its performance, but has not yet fully recovered. At the same time, the measures have not had any negative impact on users in the UK as supplies have been readily available at competitive prices coming from UK producers and from other countries. Measures should therefore not be allowed to lapse; otherwise, industry's efforts to improve performance will be undermined.

TSUK also strongly believes that long-term competitiveness and stability of the UK HRFS industry is in the best interests of the UK users. Should subsidized imports from China once again flood the UK market, it may lead to eventual disappearance of the UK HRFS industry. Users would then lose out in terms of having less choice, less flexibility and availability of supply, less R&D and technical innovation (including action to combat climate change) and lower quality service. Clearly, this cannot be in the UK users' best interest.

VII. Conclusion

While the UK measures in place current protects UK HRFS producers, Chinese exporters are continuing to dump their products in third countries. The existence of vast spare capacity in China, and the fact that other third-country markets – major destinations for Chinese HRFS – have imposed measures on imports of HRFS from China make it certain that Chinese imports would once again surge on the UK market if the existing AS measures were not continued, leading to a recurrence of subsidized imports and injury to UK producers. TSUK therefore calls on the TRA to ensure that the AS measures are extended for a further period of time.

List of Annexes