ASSOFERMET

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SAFE009R2
SECOND REVIEW
OF THE SAFEGUARD MEASURES ON IMPORTS OF CERTAIN STEEL PRODUCTS
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SUBMISSION FROM ASSOFERMET
ON THE IMPACT OF COVID-19 ON THE EUROPEAN STEEL MARKET

The spread of the Covid-19 epidemic throughout Europe has been a disruptive event in the business scenario, it will affect all the actors of the competitive arena, no exceptions. The manufacturing activity has been suspended in many European countries, and, where it has not happened, the slow-down has been in any case significant.

The shock of the epidemic has been both on the demand and on the supply side. Both of them have been hit with double digits reduction of all the indexes.

The steel market is experiencing the same trend, with some specific element though. Demand and supply have followed different patterns in terms of impact of the epidemic:

- the demand has been completely frozen whilst the steel mills, despite some slow-downs, have continued to produce steel.

The shock on the steel business has therefore been asymmetric with consumption and distribution severely hit and steel production affected to a much lesser extent. During the lock-down period the steel mills have be permitted to continue to produce, granting them a favourable treatment with respect to all the other economic actors.

In the last days, several documents have been submitted the European Institutions to ask for further restrictions of the current Safeguard system. Many EU MEPs have taken position on that topic with a distorted assumption that closing the EU steel market would be beneficial for the Union Industry.

The main assumption and evidence behind that is that the shock of the epidemic is asymmetric and that some countries would aggressively attack the EU steel market exploiting the weakness of the EU mills.

All these assumptions can be proven to be false and the proposal of further restrictions of the Safeguard system would be harmful for the Union Industry.

The Covid-19 epidemic has hit all the main steel market. With a very limited time delay, China, Europe, US and now also Russia, India and South America are involved in the

epidemic. China seems to be close to the exit door of the emergency, resuming most of its economic activity despite the wide epidemic containment system still in place.

All the other countries are facing a scenario that is similar, or even worse, than the European one. In this scenario, the alleged threat of Chinese steel is totally disarmed by the wide system of Antidumping Duties in place. There is not threat from China: for all the relevant steel import categories, Chinese products cannot be imported into the EU market. At the same time, other countries or regions are not in a better condition than Europe to approach the European market.

Conversely, given the relevant unbalance between demand and supply in Europe (as explained above, with the EU mills that have not stopped their production), EU mills will be a relevant threat for their target export market. In the second part of the document we will go deeper into the "*HRC Turkish case*".

Additionally, we should consider that:

- steel import into the EU market has steadily decreased over the last 15 months. In the first 3 months 2020 -28% vs same period 2019;

- there is no correlation between the imported volume and the dynamic of price, with the price being higher when import volumes are higher and prices lower when import volumes are lower:

  - Average HRC price ex works Ruhr (Source Platts SBB):

    - *512 Euro/mt in Q1*
    - *486 Euro/mt in Q2*
    - *469 Euro/mt in Q3*
    - *435 Euro/mt in Q4*

  - in coincidence with the most severe price fall, import volumes in the year 2019 have been substantially lower than in the same months of the preceding year;

  - the decrease of import volumes of all flat products (HRC, CRC, HDG and plates) in the second semester has reached 29% of the volume of the previous year; this has not prevented domestic prices from suffering major declines.

- The quarterly quota system distorts the import flows into the EU. With the current quarterly quota system at the beginning of each quarter there is sudden peak of volumes cleared, with a reduction in the following two months. Stockpiling is inevitable and sudden volumes of steel, cleared all in a sudden, will remain a key

pattern of the market. **Conversely, the quarterly quotas should be deleted to allow a regular flow into the EU market**.

The alleged injury to the EU steel industry has proven to be false. Margin squeeze and lack of orders for the European mills are due to the Covid-19 emergency and to the determination of the local governments to lock-down and not to the threat of the import.

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Any revision of the current Safeguard system will not deploy any effect on the import flows before 4-5 months from its announcement. New negotiations deal with material to be received at the European ports in September 2020. Any revision will therefore not affect the import flows before Q4 2020, and, at the same time, would be unfairly penalising for the European distributors and consumers that are holding contracts duly signed in good faith for delivery up to September 2020. **We strongly require that any change in the current system will allow exemptions for all the contracts signed before the publication of the revision**.

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Additionally, revising the current Safeguard system, with measures that could additionally limit the possibility to import, could choke from the very beginning the recovery of the European economy. After the drawdown that will be recorded in Q2 2020, we expect a significant rebound of the steel consumption in Q3. At the same time the European mills are reducing their production, even though with a significant delay. This will lead to a possible shortage of steel in Q3, when the tighter measures would be in place according to the request of the producers.

We suggest to analyse the steel market from a wider perspective:

- so far all the manufacturing businesses in EU (steel production included) have been supported through a number of actions (largely dependent from the condition of the Member States) such as layoff earnings, non-repayable loans, credit lines and subsidies to support the enterprises in the transition phase. Steel as well has been widely supported;

- real recovery in the European economy will require actions to impact on the demand, not on the supply that has already been secured. We suggest that all the efforts of the EU institution should be focused on:

  - supporting the EU steel demand by a wide infrastructure plan involving all the main European economies;

- supporting the EU steel demand through an income support plan;
- keeping a reactive and flexible business environment allowing enterprises to grab the rebound of the economy in the coming months.

From this perspective it is clear how the request of EUROFER of additional restrictions to the import goes in the wrong direction:

- it is basically a request of state support for an industry that accounts only for 0,10% of the EU GDP and less than 0,13% of the EU employees;
- it is a support that should be given at the expenses of the European consumers;
- it will undermine the European economic recovery;
- it will create frictions with the UE trade partners, that will likely react with additional protection measures that will hit finished products with a value added much higher than steel;
- It will grant secured profits to the European steel mills that will lose the incentive to innovate and modernize their production plants (as it has happened in the US).

The proposal of EUROFER is indeed aimed at decoupling the price trend in the European market from the trend in the global market. It is not a matter of volumes but a matter of prices.

Preserving the home market and approaching export market with aggressive strategies is a typical behaviour of a competitive environment. This is exactly what the European mills do in their export sales.

The HRC Turkish case

The import of HRC from Turkey has been mentioned over the last quarters as one of the main threat for the EU mills. The HRC is by far the most important among the steel product (7,2 mln ton out of a total import of 25,4 mln ton) and Turkey is by far the most important country of origin for HRC into Europe (2,8 mln ton out of a total HRC of 7,2 mln ton).

Some evidences deserve to be commented:

- European mills are systematically attacking the Turkish market by exporting HRC in the turkish market at prices that are much lower than the prices at which Turkish mills export into the EU;

HRC Trade Price Differences Between TR and EU

2019	TR Imports from EU		EU Imports from TR		Spread
Month	kton	€/ton	kton	€/ton	€/ton
1	52	468	476	522	54
2	71	504	233	507	3
3	136	483	284	486	3
4	135	479	306	480	1
5	131	441	228	476	34
6	101	430	172	495	66
7	99	447	131	484	36
8	102	463	102	479	16
9	107	437	200	476	39
10	93	421	176	472	51
11	87	398	175	457	58
12	182	363	70	452	89
Total	1.296	440	2.551	489	49

*HS6 Code: Sum of 720836, 720837, 720838, 720839

- when exporting, European mills systematically under-price European market: in order to export European mills have to dump the target markets where they export;

- when exporting Turkish mills normally overprice their domestic market: export is for them an opportunity to sell at better condition than in the domestic market.

	EUROSTAT HRC HS6 Codes (720836, 720837,720838,720839)	
Year/Month	TR Domestic Prices from SBB – TR Export Prices (€/t)	EU Domestic Prices from SBB – EU Export Prices (€/t)
2019	-36,7	12,5
2019-H2	-37,5	19,9
1	-79	9
2	-72	-34
3	-19	-9
4	-1	8
5	-12	26
6	-32	30
7	-22	24
8	-13	-3
9	-10	19
10	-53	23
11	-70	15
12	-58	42

European market is already overprotected, with a huge number of TDMs in place and all the major steel producing countries out the competitive game (China, Russia, Ukraine, Brazil, Iran, ecc).

The effect of these measures is to keep the European domestic prices artificially higher, a huge benefit for the European mills, at the expenses of the European consumer and undermining the competitiveness of the EU steel consuming sectors.

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Given all that elements, the proposal of **ASSOFERMET** can be summarized as follows:

- **the TRQs should be maintained as they are now, totally rejecting the specious request of EUROFER. Any revision for Q2 and Q3 2020 would be totally vexatious towards all the operators that hold contracts duly signed in good faith before the notification of the revision;**

- **the 30% country cap should remain unchanged, so far it has proven to be effective in avoiding concentration of flows from single countries;**

- **the quarterly allocation of the quotas should be eliminated, with beneficial effects for both producers and consumers of steel. If the quarterly quotas were maintained, the quarterly carry over mechanism should at least remain unchanged;**

- **the relaxation mechanism could be reviewed, according to the proposal of ESTA, by substituting the yearly increase in TRQs with a reduction of the tariff from 25% to 20%.**

We remain at your disposal for any further clarification.

Best regards.

ASSOFERMET	ASSOFERMET	ASSOFERMET ACCIAI
IL PRESIDENTE	IL DIRETTORE	IL PRESIDENTE
(Riccardo Benso)	(Luca Carbonoli)	(Tommaso Sandrini)

Milan 6th May 2020

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