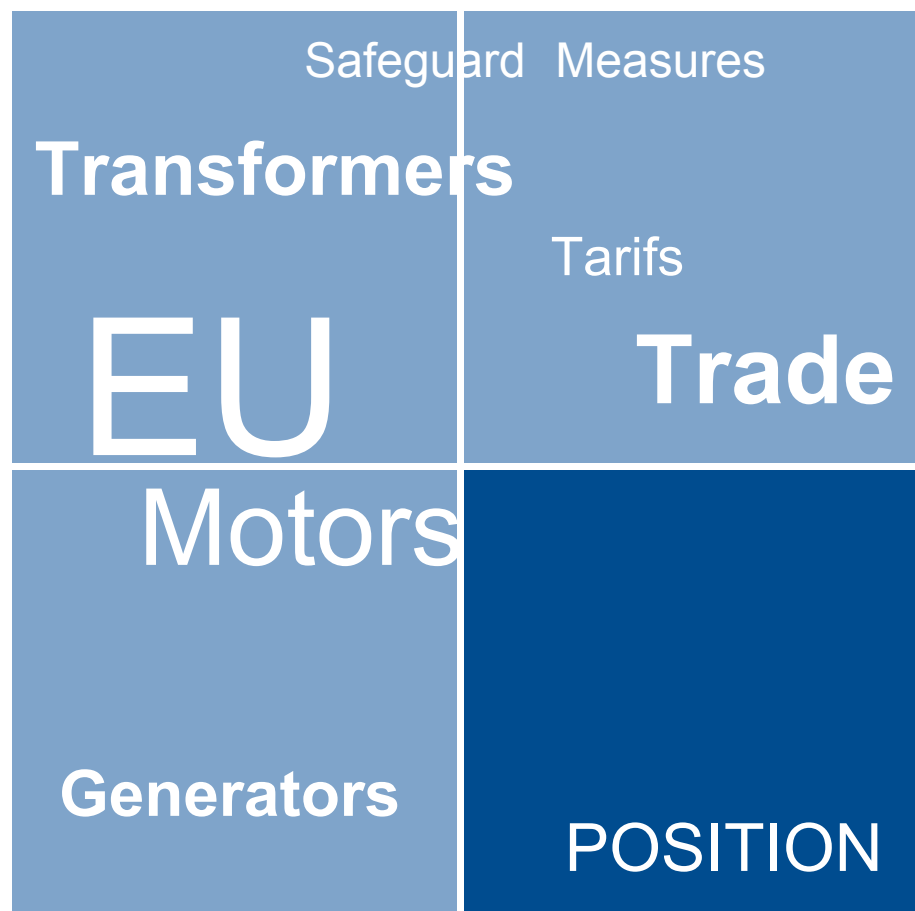


Position Paper

EU Safeguards on Steel Imports

The case of electrical steels (GOES & NGOES)



July 2018

EU Safeguards on Steel Imports

EU Safeguard Investigation on Steel Products

On 26 March 2018, the EU Commission initiated a safeguard investigation concerning imports of steel products (2018/C 111/10). The investigation encompasses today 28 product categories, including grain-oriented electrical steel (GOES) and non-grain-oriented electrical steel (NGOES). On 5 July 2018 the EU Safeguard Committee decided provisional safeguards for 200 days (EU Commission Implementing Regulation 2018/1013). These provisional measures concern 23 steel product categories, including NGOES, and will take the form of a Tariff Rate Quota (TRQ). For each of the 23 categories, tariffs of 25 per cent will be imposed once imports exceed the average of imports over the last three years. The quota is allocated on a first come first serve basis.

While GOES have for now been excluded from the provisional safeguard measures, the final decision on EU safeguards - that could last for four years - is expected for December 2018.

ZVEI is deeply concerned about the negative safeguard measures on the imports of GOES and NGOES for the electrical steel processing industry in Germany and Europe. ZVEI calls on EU member states and the European Commission to refrain from the introduction of additional safeguard measures for GOES and NGOES imports.

The ZVEI, together with our European partners T&D Europe and CEMEP, rejects any claims that imports of GOES and NGOES to the European Union are causing harm to the European electrical steel producing industry. On the contrary, import barriers for electrical steels endangers the European industries for transformers, motors, and generators, which employ over 200.000 people. The quota system from the EU Commission - based on the level of traditional imports - limits the growth and investment opportunities for an industry that plays a crucial role in the European energy transformation and the attainment of the EU's environmental goals.

In this positive economic climate it can be expected that imports will also increase. Considering the current investment level of EU steel producers in GOES and NGOES production in comparison to the expected demand it is obvious.

Domestic producers will not be able to satisfy the entire demand in the near future. EU steel producers themselves predict that demand for steel in the EU will increase by up to 2 per cent this year.

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According to the WTO rules the condition for a member to establish safeguard measures or provisional safeguard measures are: “such product is being imported into its territory in such quantities, absolute or relative to domestic production, and under such conditions as to cause serious injury to the domestic industry that produces like or directly competitive products” (WTO Safeguard Agreement Art. 2.1 & Art. 6). In the case of GOES and NGOES, there is no evidence of such serious injury over the last three years. In contrast, any safeguard measure that would increase the costs of GOES and NGOES imports to the EU would cause serious injury to the domestic electrical steel processing industry, which is already harmed by the 2015 EU antidumping measures, which set a minimum import price for GOES (EU Commission Implementing Regulation 2015/1953).

There are in addition no indicators that the recent Section 232 measures against steel products by the United States of America - which the EU Commission mentions as one of the primary reasons for the investigation - have caused, or will cause any increase in imports of NGOES to the EU market. In October 2014, the US Government imposed antidumping measures of up to 400 per cent import duties on NGOES from China, which means that the recent measures of the USA will not bring significant change to the already existing situation and will not, contrary to the EU Commission’s assumption, lead to trade diversion of Chinese electrical steels from the US to the EU. China itself has a growing demand for NGOES due to the exponential growth in the production of electric and hybrid cars in the country, which might actually lead to demand competition in the global electrical steel market.

The European Commission has published a list of 85 interested parties who are eligible for the hearing sessions in September 2018.

ZVEI is concerned about the fact that the list is very supportive towards steel producers, but includes only very few representatives of European users of steel.

The case of GOES

Grain-oriented electrical steel (GOES) is almost exclusively sold as an input for transformer production. Transformers are used to increase or decrease the alternating voltages in electric power applications. Transformers are vital for the operation of the electricity network. They are also used in a large range of industrial processes. In its 2014/15 Investigation the EU Commission itself acknowledged the shortage of high-permeability GOES, which is a premium category of GOES that leads to lower energy losses, more compact transformers and a lower environmental impact. Even if GOES are excluded

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for now from the provisional measures, it is necessary that this exclusion will also continue for the final decision in December 2018.

An analysis of the developments in the EU and global market for GOES has found no evidence of a recent, sudden, sharp and significant increase of imports of GOES that could cause serious injury to the producers of GOES in the EU. Consequently, EU safeguard measures to protect EU producers of GOES do not appear to be warranted. If the EU were to impose EU safeguard measures on those grades of GOES categories that EU steel makers are not able to produce in the necessary quantities and with the necessary quality, it would increase production costs, weaken the competitiveness of EU transformer manufacturers and risk the loss of the EU's global technology leadership. We call on the European Commission to refrain from the introduction of additional safeguard measures for GOES imports.

Currently the EU is home to a world leading transformer industry, which is facing increasing competition from other parts of the world. Higher costs for GOES lead to higher energy costs for public utilities, other industries, and all end-users of electricity in all member states.

The imposition of safeguard measures on GOES would risk a processing industry that employs 30.000 people within the EU, and which acts on a highly competitive global market.

Further, the EU Ecodesign Directive from July 2015 sets minimum mandatory requirements for the energy efficiency of products, including transformers. For the implementation of tier 1 of the Ecodesign Directive European transformer producers need more high-permeability GOES to produce more efficient transformers that fulfill the new standards. EU production of conventional, high-permeability (Hi-B) and domain-refined high-permeability (DR) GOES is insufficient. This situation is likely to continue as tier 2 of the Ecodesign Regulation sets even higher transformer efficiency standards from 2021 onwards. The EU Commission's own findings in antidumping case AD608 confirm the impact of the implementation of the Ecodesign requirements on the increased demand for high-permeability GOES and resulting increases in prices of imports.

The case of NGOES

Non-grain-oriented electrical steel (NGOES) is required for the construction of electrical machines, i.e. motors and generators. Due to the legal requirements for high efficiency of motors and generators, the demand of NGOES is currently increasing and is likely to continue to do so in the future.

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There are no indications, that domestic NGOES production will be able to supply the necessary amount of products when imports are limited or too expensive due to safeguard measures.

Driving up costs for an industry that is essential to reach the EU's emission reduction goals is in stark contradiction to the EU's policies on environmental protection, as the 20-20-20 goals and the even more ambitious goals for 2030. The NGOES processing industry is the main driver for energy efficiency, environment friendly motors, wind power generators, and e-vehicles.

The EU applies provisional safeguard measures on all steel product categories with a positive import rate over the last 5 years. This is not reflecting the actual value of growth, the situation of the domestic industry, or the necessity of imports to compensate increasing domestic demand. However this is essential to investigate the imports of electrical steels to the EU. The slight increase of NGOES imports over the last 5 years was neither unexpected, nor have there been harming import spikes. In the same period of time the domestic NGOES industry could actually increase their production and exports volume. And the demand of the NGOES processing industry has tremendously grown and is expected to grow even further, so that the capabilities of the domestic production and a quota on traditional imports will not be able to satisfy the market. Higher tariffs would significantly harm an industry for which the costs of electrical steels are the main driver of the products final price.

The current inclusion of NGOES in the EU TRQ safeguarding system sets a quota of 178.704 net tons for the 200 day period after 19 July 2018. All NGOES imports exceeding this quota are exposed to a 25 per cent tariff. Since the imports of NGOES to the EU in Q1 2018 already had a volume of 114.451 net tons, NGOES imports will definitely exceed the set quota this year and will become affected by these damaging additional EU tariffs. This tremendously worries the European NGOES processing industry.

Imports of NGOES to the EU have indeed increased by 42 per cent since 2013, but this was neither unexpected, nor unpredictable. The global demand for end-products in which NGOES is used increased, because some of these products are essential for the move to a greener economy, such as electric and hybrid cars and wind power generators. And during the same period European production of NGOES has grown slightly as well, while prices remained constant. Furthermore, statistics clearly show an increase in exports of EU produced NGOES in recent years, which indicates the healthy and strong economic situation of domestic producers.

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Currently, there is a shortage of NGOs in Europe - domestic producers are not able to meet the expected demand. Imports are therefore necessary to keep the European NGOES processing industry competitive. Since competition in these industries is fierce and producers have low margins, there is a big risk that additional costs caused by safeguard measures will lead to reduced competitiveness and forced relocation of production facilities to third countries, causing job losses in the EU member states. This has already happened before, when the 2015 antidumping measures on GOES led to massive relocation of production from the EU territory to towards Turkey, Ukraine and other countries.



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