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Argus White Paper:

Explaining the EU steel safeguard

The EU will implement its definitive steel safeguard in early February, designed to prevent the redirection of imports to the European market as a result of US steel tariffs introduced last year. Longs imports will see the biggest impact from the new quota, while flats, and particularly hot-rolled coil, could be largely unaffected. Cold-rolled coil and hot-dip galvanised imports from established sources could slip, but there is scope for growth in imports from new suppliers. Since early December, Argus has been publishing market-leading and market-moving coverage of the safeguard, its likely structure and impact on the market. Argus will continue to update its coverage of the safeguard as developments unfold.

EU leaves door open for steel quotas revisions

The EU says it will initiate an initial investigation into the definitive steel import quotas that came into effect on 2 February, and may need to adjust allocated volumes for some products.

The European Commission highlighted electrical sheet, metallic coated sheet, tin mill products and wire rod, but said that reviews would apply to all product groups. The first review will begin by 1 July.

The quotas would be revised in the event of an increase or contraction in EU demand for certain products, the imposition of new anti-dumping or anti-subsidy measures, or developments concerning the US Section 232 import duties. And the EU would consider the effects of the measures on “preferential trading partners”.

The review clause allows the commission to fine tune the measures in the interests of EU users, exporters and industry associations, a source familiar with the matter said.

Buyers of certain steel products — such as wire rod and galvanised sheet — have been vocal about the potential adverse effect of shortages in the EU, alleging that domestic production does not meet demand and that the definitive quotas do not allow for sufficient imports.

The commission said on 1 February that it had received complaints from several interested parties — following the imposition of the preliminary measures — about expected shortages of some material, but said it rejected the claims and decided against excluding any products because similar or directly competing products are made in the EU.

The final version of the definitive tariff rate quotas are nearly identical to the proposed ones, which EU members approved on 16 January. A key difference is that fewer volumes have been allocated to subcategory 4A and more to 4B (see table on p2).

Both categories fall under metallic coated sheet, but those in 4A are mainly used in the construction industry and have been subject to anti-dumping duties on Chinese-origin material since 2017, while 4B products are used in the automotive sector. The overall metallic coated sheet quotas volume is unchanged.

Three-year plan

The EU’s safeguard measures on steel imports cover a period of three years, subject to review. A 25pc duty will be applied on imports that exceed product-specific tariff rate quotas.

The commission says that the tariff rate quotas “fully preserve” historic import levels into the EU and will increase progressively. It has opted to allocate country-specific quotas to those with a “significant supplying interest”, meaning more than 5pc of imports for the product category, based on imports over the past three years. This is in line with the notification to the World Trade Organisation (WTO), as first reported by Argus on 28 December.

A global tariff rate quota based on the average of the remaining imports over the past three years is allocated to all other supplying countries and to countries whose exports have substantially diminished because of anti-dumping or countervailing duty measures.

On hot-rolled coil (HRC) — for which anti-dumping measures cover almost 60pc of the EU's imports — the commission opted for a global quota with no country-specific allocation.

Supplying countries exhausting their specific tariff rate quotas can access the residual — or "other countries" — quotas, but only during the final quarter of the quota period. The residual tariff rate quota itself will be divided quarterly to prevent excessive stockpiling at the beginning of the period. Unused quarterly tariff rate quota allocations will automatically carry over into the next period.

And the EU will exclude from tariffs any products from developing country members of the WTO, if their product import share is under 3pc and WTO developing country members have an import share of under 9pc. Also excluded are Norway, Iceland and Liechtenstein.

The commission is committed to daily publishing of import data under the tariff rate quota and the free of duty quota, and to a first review of the quotas by 1 July. The review could cover any products, including "but not limited" to electrical sheets, metallic coated sheets, tin mill products and non-alloy and other alloy wire rod.

European steel producers association Eurofer has urged the commission to rethink quotas during the first review in July, especially as the quotas were enlarged by 5pc on 1 February and will be revised upwards again by 5pc in July.

"This disproportionate change will only benefit importers who, in any case, have taken market share of 25pc up from an historical 17pc in just three years," says Eurofer director-general Axel Eggert.

"The quota was already set at the maximum level reached in a global market suffering massive overcapacity and distortions in foreign producer countries," says Eggert. He says that 2018 imports will turn out 12pc above record 2017 levels, even if domestic producers' deliveries grew by only 0.6pc.

Eurofer calculates that European steel consumption growth will be just 0.5pc in 2019.

Steel quota balances will be unknown until 19 February

The commission's website detailing quota balances will not update for the first 11 working days following their implementation on 2 February.

This is likely to stoke much uncertainty, particularly around wire rod and rebar, with the biggest countries expected to fill their quotas almost immediately.

Turkey has a 117,231.8t tariff free quota for the first period, from 2 February to 30 June. Sources expect this to be filled in days.

Proposed EU steel quotas t

Products	Allocation by country	Volume from 2 Feb 2019 to 30 Jun 2019	Volume from 1 Jul 2019 to 30 Jun 2020	Volume from 1 Jul 2020 to 30 Jun 2021
Hot-rolled coil	All third countries	3,359,532.08	8,641,212.54	9,073,273.16
Cold-rolled coil	India	234,714.39	603,720.07	633,906.07
	South Korea	144,402.99	371,425.82	389,997.11
	Ukraine	102,325.83	263,197.14	276,357.00
	Brazil	65,398.61	168,214.89	176,625.64
	Serbia	56,480.21	145,275.43	152,539.20
	Other countries	430,048.96	1,106,149.42	1,161,456.89
Galvanised sheet	South Korea	69,571.10	178,947.15	187,894.51
	India	83,060.42	213,643.66	224,325.84
	Other countries	761,518.93	1,958,739.13	2,056,676.09
	China	204,951.07	527,164.42	553,522.64
	South Korea	249,533.26	641,836.39	673,928.21
	India	118,594.25	305,041.91	320,294.00
	Taiwan	49,248.78	126,675.12	133,088.88
	Other countries	125,598.05	323,056.72	339,209.55
Rebar	Turkey	117,231.80	301,537.50	316,614.37
	Russia	94,084.20	241,998.46	254,098.38
	Ukraine	62,534.65	160,848.36	168,890.77
	Bosnia-Herzegovina	39,356.10	101,229.71	106,291.20
	Moldova	28,284.59	72,752.14	76,389.74
	Other countries	217,775.50	560,150.74	588,158.28

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For the first 11 working days of the safeguard the rules and volumes will apply and be counted but quota levels will be unavailable, creating additional insecurity as importers and buyers adapt to the new rules and how they are administered.

Some say this uncertainty could assist European mills, freezing their appetite to procure more. But the material that will clear customs during this period is undoubtedly already at ports awaiting the start of the new quota, after the preliminary measures went critical — meaning that the 25pc duty was payable — over the past month.

First residual quotas accessible from 1 April

Countries that have exhausted their own quotas under the first period of the EU's definitive steel safeguard will be able to compete for residual quotas from 1 April, sources have told Argus.

The first period will run from 2 February until 30 June, while the second and third periods will run from 1 July 2019 to 30 June 2020 and 1 July 2020 to 30 June 2021, respectively. Under the safeguard, countries that have exhausted their quotas can compete for the "other countries" quota in the fourth quarter of the second and third periods.

In the first period, the biggest beneficiary could be Turkey, as it could fill its rebar quota of 117,231t very quickly. The "other countries" rebar quota for this period is 217,775t.

The commission did not reply to requests for comment on when countries can compete for the residual quota in the safeguard's first period.

UK rebar buyers are particularly concerned with the quota. Since China was hit with anti-dumping duties in 2016 — after making up half of the UK's import supplies — Turkey has become by far the UK's largest Cares-approved supplier.

Traders in the UK immediately began to buy cargoes after Argus published the likely structure of the definitive quota on 28 December.

EU carmakers bemoan steel safeguard

The commission's definitive steel safeguards will hurt the competitiveness of European carmakers, according to the European Automobile Manufacturers' Association (ACEA).

Access to European steel is "extremely tight and imports remain necessary to fill supply chain gaps", ACEA says. In addition, EU steelmakers are reaping the benefits of long-term high prices and excellent capacity utilisation, the association says.

"Motor vehicle manufacturing has increased by 5mn units/yr since 2014, and some increase in steel imports has been necessary to meet this higher demand," ACEA secretary-general Erik Jonnaert said.

ACEA said there has been a "relatively minor drop" in exports to the US, so there is "little reason" to assume these shipments will divert to the EU because of the US Section 232 tariffs.

The steel safeguard is designed to prevent the redirection of steel shipments from the US to the EU and not to restrict fairly traded imports.

HRC will remain subject to a global quota under the safeguard, but cold-rolled coil (CRC) and hot-dip galvanised (HDG) coil — both of which carmakers use — have country-by-country and quarterly quotas that could have a greater impact on supply.

The ACEA warning comes against the backdrop of a slowing European car market over recent months, as the transition to a new testing regime has impacted production and sales heavily. The move away from diesel engines also poses a major threat to some carmakers, while UK producers are worried about Brexit and its potential impact on just-in-time deliveries to and from continental Europe.

As a result, some carmakers are reducing their contractual supply with European mills. Carmakers in northern Europe procure around 90pc of their steel from producers in the region, while southern European carmakers use a much larger proportion of imported supply.

Some European flats mills are also disappointed with the safeguard, as they wanted greater restriction of HRC imports. In January-October 2018, EU HRC imports amounted to 6.78mn t, up by 15pc from 5.86mn t over the same period of 2017.

Turkey HRC exports to EU continue to surge

Turkish HRC exports to the EU kept rising strongly in November, as traders peppered the market — particularly Spain and Italy — with competitive material.

The country's HRC sales to the EU increased by 56pc to 2.66mn t in January-November 2018, from 1.71mn t a year earlier. Sales in November alone grew by 134pc on the year to 253,400t. Material landing in November was likely booked around September.

The EU's total HRC imports rose by a fifth to 7.44mn t in January-November, from 6.22mn t in the same period of 2017. As a result, European flats mills are dissatisfied with the commission's definitive steel safeguard. Tariff-free imports in February-June are due to amount to 3.36mn t, largely in line with the 3.32mn t imported over the same period in 2017 but up from 3.3mn t in February-June 2018.

The lack of a country-by-country quota for HRC means large sellers such as Turkey can still export large volumes to the EU. And European mills view the fact that unused quarterly volumes can be rolled forward as problematic.

"It is up to the safeguard to try and prevent surges and undue increases in imports," European steel association Eurofer says. "It remains to be seen how this will actually play out."

On products other than HRC, the fact that countries that exhaust their specific quota can compete for the "other countries" quota in the calendar second quarter has raised eyebrows. Investment bank Jefferies says Turkey getting access to the global quotas for flats is a "key crack" in the policy.

Northern European mills believe that countries will race to fulfil their own quotas over the first three quarters of the quota period, so that they can access the residual quota in the fourth quarter. This could lead to stronger competition to sell into the EU during that period and increase seasonal volatility.

Turkish HDG exports to the EU also surged in November, to 63,480t from 13,120t a year earlier. In January-November it moved 417,000t of HDG into the EU, up by 69pc from 247,400t in the same period of 2017. China remains the largest HDG supplier to Europe, accounting for 28pc of the 4.54mn t shipped in January-November, at 1.27mn t. But anti-dumping measures have cut shipments from 2.08mn t in the first 11 months of 2017.

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