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Argus White Paper:

Explaining the European steel safeguard

The European Union will implement its definitive steel safeguard in early-February designed to prevent redirection of imports. Longs imports will take the biggest hit from the new quota, while flats, and particularly hot-rolled coil, could be largely unaffected. While cold-rolled coil and hot-dip galvanised imports from established sources could slip, there is scope for growth in supply 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. The content, contained below, will be updated as the story continues to unfold.

EU steel quota will be quarterly and national

The European Commission's definitive safeguard on imported steel will apply quarterly and country-by-country for all products except hot-rolled coil, according to sources.
All products will have a quarterly allocation rather than annual as is the case under the preliminary tariff-rate quota. It is unclear how this quota will be calculated but it is likely to be based on the average quarterly volume imported per country over 2015-17, rather than dividing a yearly quota into four.

"We all agree quarterly quotas are a bit more restrictive than annual because their implementation and working with a quarterly quota is more difficult, it is more of a burden," a Brussels-based market participant said. Logistically a quarterly quota, broken down by country, is more difficult to administer.

As the safeguard concerns fairly traded imports, the commission has to walk a thin line responding to diversion caused by the US Section 232 — which steel association Eurofer estimates at a rate of 61pc — rather than adding additional restrictions on fairly traded steel that would be detrimental to end-users.

When a quarterly quota is under-utilised, the volume is rolled over into the next quarter.

There is still a lack of clarity over whether HRC will have a quarterly or annual allocation. But in a win for buyers, the HRC quota will still be based on the 2015-17 import average and be global, as with the preliminary measures currently in place. The current quota for hot-rolled sheet and strip is only 50pc utilised, with 2.31 mn t remaining out of the initial 4.26mn t, commission data show.

Quarterly and country-by-country elements could actually have the unintended consequence of acting as a catalyst for imports, as buyers look to get in ahead of their competition for material from countries with limited availability. There is some upside to national quotas, as they allow historical suppliers to have their own volume without competing with one another, bring security of supply and predictability.

Of course, the flip-side is that for products such as rebar, China will get a much larger allocation than it can actually fill, as duties have been imposed during the investigation period for the current case — China shipped 458,046t into the EU 28 in 2015, compared with 1,655t last year. Products such as hot dip galvanised will be in a similar position because China was a big supplier until duties were imposed last year.

Eurofer lobbied for national quotas on "major exporters" to the EU to ensure "no one country unduly captures market share at the expense of other suppliers". It has recommended quarterly quotas to prevent "speculative stockpiling and disruption from front-loaded imports".

It cites the precipitous increase in shipments from Turkey

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in particular. Turkey represented a whopping 44.19pc of the wide-strip import market in August, at 276,497t, Eurofer data show. This fell in September but remained comparatively high at 36.39pc.

Eurofer also questions the divergence between the amount of steel imported and what is clearing customs. It said the shipping clause — meaning on-the-water material was excluded from the preliminary measure — has been detrimental to domestic mills.

Real imports were 39pc more than actually recorded under the quota to the end of October, with 9.2mn t imported and only 6.2mn t included in the quota. This may partly be down to the ability of importers to hold material at ports for up to 90 days without clearing customs, or deliver into a bonded warehouse.

"The safeguard measure has not worked, it has not supported the price," one stockholder said, whose customers are pushing for reductions despite the lower-cost material he has booked not arriving until February next year.

Steel safeguard to avoid restrictive import drop

The European Commission's definitive steel safeguard will provide an adjustment mechanism ensuring country-by-country measures for products already subject to anti-dumping duties do not lead to a restrictive drop in imports.
On products such as cold-rolled coil, hot-dip galvanised coil and rebar, where existing duties would prevent some countries fulfilling quotas, there will be an instrument to ensure security of supply. It is not yet clear what form this might take, but countries with restrictive duties already in place could gain access to average global quotas. Alternatively, the quota would somehow have to be redistributed among other countries.

"In the interest of users, there has to be a certain security of supply to the European market, giving importers and users access to the total volume they used to import duty free, even if it is from different destinations," one source close to the commission said.

The commission yesterday extended its definitive nine-month investigation, which was initially due to lapse on 26 December. This is because of the complexity of the case and the amount of submissions and views it has received, but also as it does not want to fall foul of the World Trade Organisation (WTO) — those exporters receiving a country-by-country quota could complain to the WTO about the measures in certain instances.

For Turkey, which has seen its volumes surge this year because of the whack-a-mole effect of duties on the likes of China, a quota based on its 2015-17 volume may also be deemed unfair.

But domestic mills are acutely aware of the increase in Turkish shipments into the EU, and regularly say they have notified the commission. The quotas will still be based on 2015-17 averages, although the commission is monitoring the volume trends of this year.

The delayed definitive investigation had no impact on the structure of the hot-rolled coil quota. This will remain global and in line with the preliminary safeguard, although there is some debate as to whether it may be quarterly or annual. The commission's declaration that its investigation will be completed by 1 February should see a seamless transition from the expiration of the provisional measures to the imposition of the definitive safeguard.

Proposed EU steel quotas *t*

Products	Allocation by country	Volume from 02.02.2019 *to* 30.06.2019	Volume from 01.07.2019 *to* 30.06.2020	Volume from 01.07.2020 *to* 30.06.2021
HRC	All third countries	3,359,532.08	8,641,212.54	9,073,273.16
CRC	India	234,714.39	603,720.07	633,906.07
	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 coils	Korea	190.115,04	489.003,95	513.454,15
	India	141.294,30	363.429,79	381.601,28
	Other Countries	840.112,17	2.160.892,54	2.268.937,17
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 and 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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EC steel safeguard based on 2015-17 imports plus 5pc

The European Commission's definitive steel safeguard will be based on 2015-17 imports plus 5pc, according to a document obtained by *Argus*.
The commission plans to have the definitive measures in force from 2 February 2019, with the first period running until 30 June 2019, the second period from 1 July 2019 to 30 June 2020, and the third period from 1 July 2020 until 30 June 2021.

As previously reported, hot-rolled coil (HRC) will still have a global tariff-rate quota with no country-by-country element, as almost 60pc of imports are already covered by existing duties.

Countries with "a significant supplying interest" will get country-by-country quotas, while all other suppliers will get a "residual quota" based on "the average of the remaining imports over the last three years".

This residual tariff-rate quota will be divided quarterly to ensure imports are evenly distributed over the year. Unused quotas can be transferred to the next period.

Where a country exhausts its specific tariff-rate quota, it should have access to the residual tariff-rate quota. But this would only be applied during the last quarter of the period, "to strike a balance between the interests of the countries endowed with a country-specific tariff-rate quota and the countries drawing on the global tariff-rate quota".

EU carmakers bemoan steel safeguard

The European Commission's decision to propose 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”, and EU steelmakers are reaping the benefits of long-term high prices and excellent capacity utilisation, the ACEA said.

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

The association said there has been a “relatively minor drop” in exports to the US, so there is “little reason” to assume diversion of shipments to the EU because of Section 232 tariffs.

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

Hot-rolled coil (HRC) will remain a global quota under the definitive safeguard, but cold-rolled coil and hot-dip galvanised coil — both of which are used by carmakers — 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 quite 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.

Against this backdrop, some carmakers are reducing their contractual supply with domestic European mills. Carmakers in northern Europe procure around 90pc of their steel supply from domestic producers, while southern European carmakers rely on a much larger proportion of imported supply.

The commission's decision, should it remain unchanged, could create an equilibrium of discontent among the buy and sell sides of the steel market.

Some European flats mills are also disappointed with the safeguard, as they wanted greater restriction of HRC imports. Over the first 10 months of last year, EU HRC imports amounted to 6.78mn t, up by 15pc from 5.86mn t over the same period of 2017.

News of the proposed definitive quotas began to circulate in the market just after Christmas, when *Argus* obtained a leaked copy of the commission's notification to the WTO.

Turkish EU rebar quota to be filled rapidly

Market participants expect the proposed EU definitive safeguard Turkish rebar quota to be exhausted in a matter of days upon its introduction in early February, they said today after the European Commission (EC) made its plan public.

One Turkish mill has a total of 65,000t of rebar either to be shipped to Europe, en-route or waiting at port, which the producer had earmarked to clear customs once the new quotas come into effect. Another steelmaker was heard to have sold around 70,000t for February arrival.

Some 18,000-30,000t have arrived or are due to arrive in Romania in January and is expected to be cleared by customs in February, according to a market participant. Another continental European source said they expect the 117,231t allocated to Turkey for the period between 2 February and 1 July to be gone within a day.

The question remains when the residual global quota of 217,775t will be made available in the February-July period to exporters with allocated volumes. The EC declined to

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comment.

But some market participants anticipate a situation similar to what happened in the US post-Section 232 tariffs being implemented, with EU domestic rebar prices set to increase, while buyers continue importing and pay the duty.

The *Argus* daily fob Turkey rebar assessment was at $447.50/ton 5 January, down from $482.30/t a month earlier. More mills were confirmed to be offering at $450-455/t fob on 5 January, although market participants agreed $445/t fob would be possible for larger tonnages for some mills.

A trading firm sold 4,500t of Turkish rebar to Germany in early January at the equivalent of $450/t fob Turkey on an actual weight basis. And a second trading firm sold Turkish rebar to Lebanon at $448/t fob Turkey on an actual weight basis on 3 January.

Turkish wire rod offers heard were $480-490/t fob on 5 January.

Turkey pre-painted coil exports to EU could fall

Turkish exports of pre-painted coil to the EU might fall by almost half should the European Commission's proposed steel import quotas come into force with no changes.
The commission plans to have the definitive steel safeguard measures in force from 2 February, with the first period running from then until 30 June.

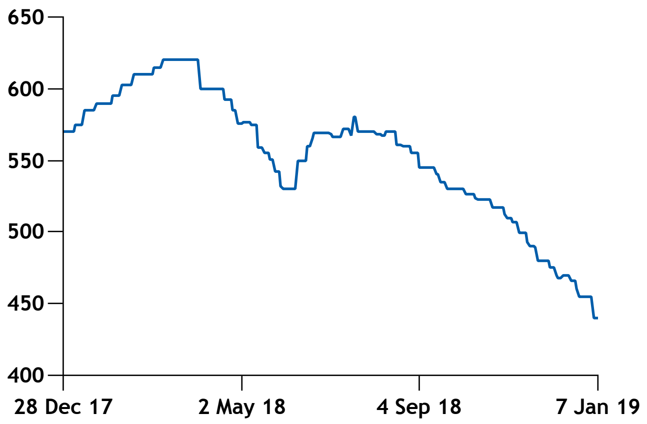
In a draft proposal submitted to the World Trade Organisation (WTO) last month, the import allocation for pre-painted (organic coated) steel products was set at 324,653t for the first period, with India and South Korea given the highest country allocations at 108,000t and 103,000t, respectively.

Turkey has been allocated a 21,834t quota for the first period from 2 February-30 June, or around 146.54 t/d. Any Turkish pre-painted exports beyond the allocated quota would be subject to 25pc import duty. The quota could change from the levels specified as the notification is not definitive.
And neither the WTO nor commission have confirmed the document as legitimate, although several senior industry figures have confirmed seeing it. The findings of the safeguard investigation should be published on the WTO website tomorrow.

Turkey exported 91,756t of pre-painted steel products to the EU in January-November 2018, according to customs data, equal to 274.72 t/d. This was almost 30pc higher than 2017, when Turkey exported 77,503t of pre-painted products to the EU, or 212.34 t/d.

Should the proposed allocations come into force without alterations, Turkish pre-painted shipments to the EU will

Steel HRC fob Black Sea $/t



have to drop by almost 47pc in the 2 February-30 June period compared with the first 11 months of 2018.

South Korea gains concessions on EU steel safeguards

South Korea's government has failed in a lobbying effort to get the country's steelmakers exempted from EU safeguard tariffs, but Seoul has won some concessions that will allow for outsized increases in exports to Europe.

While the EU's 25pc safeguard duties on imports of key steel products kick in generally when a country's shipments exceed 105pc of their average export levels recorded from 2015-2017, South Korean producers will be allowed larger gains starting in July.

From 1 July 2019 through 30 June 2020, the tariff trigger for Posco and other South Korean steelmakers will rise to 110pc, according to Seoul's ministry of trade, industry and energy (Motie). From 1 July 2020 through 30 June 2021, South Korean exports to EU states will be allowed to reach 116pc of 2015-2017 averages without incurring safeguard duties.

The EU began employing provisional safeguard measures on steel products last July to prevent a surge in imports following the imposition of steel tariffs by the US earlier in the year. These measures are scheduled to be replaced by the newly definitive safeguard system for 26 steel products on 2 February, and the new duties are scheduled to run through 16 July 2021.

The quotas pose a major threat to exporters in countries such as Turkey, which had large increases in exports to the EU last year and may be curtailed heavily by quotas based on 2015-2017 averages.

At stake for South Korea's steel industry, which sent a delegation to Brussels last September to argue against the safeguards, is growth potential in its fourth-largest export market. South Korean steel exports to EU states totalled

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$2.9bn in 2017. The EU also has been a growth market for South Korea, with shipments doubling to 3.3mn t in 2017 from 1.55mn t in 2013. Volumes were little changed last year amid the provisional safeguards.

Motie said the definitive EU safeguards will apply to 11 steel products exported from South Korea. The ministry did not say whether other products will be exempted from the quotas or detail which products will be affected.

Now that the European Commission has notified the World Trade Organization (WTO) of its planned definitive measures, Motie said it is consulting with South Korean steelmakers and will formulate a plan to "actively exercise" the country's rights and guarantees under WTO rules.

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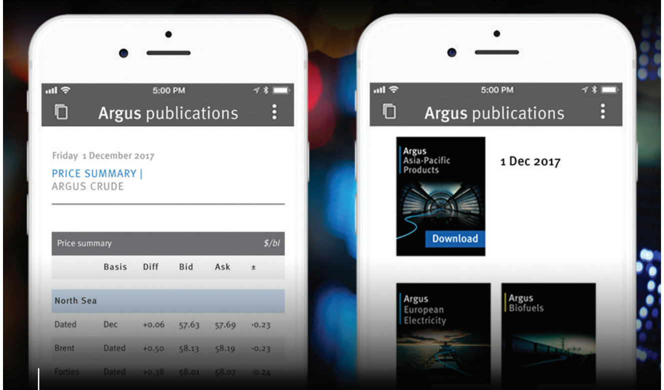

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