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CAMPA AVVOCATI

Boulevard St Michel 28
B-1040 Brussels
Belgium

Email daviderovetta@graystoncompany.com

massimo.campa@campaavvocati.it

Mobile + 32 493 18 78 52

Telephone + 32 2 737 1368

Fax + 32 2 791 9271

Our Ref R722 / Shortage of SSCR

Your Ref

Brussels, 21 July 2021

Via e-mail

trade-r722-sscr-dumping-china@ec.europa.eu

trade-r722-sscr-dumping-taiwan@ec.europa.eu

trade-r722-sscr-injury@ec.europa.eu

European Commission

DG TRADE

Directorate G - Trade Defence

Investigations IV. Relations with third countries on Trade Defence matters

B-1049 Brussels

Belgium

Version open for inspection by interested parties

Subject: Case R722 - Expiry review of the anti-dumping measures applicable to imports of stainless steel cold-rolled flat products originating in the People's Republic of China and Taiwan (2020/C 280/06)[1] – EURANIMI - Comments concerning the general situation of raw materials' shortage on the European market and, in particular, the lack of SSCR.

Dear Case Team,

Following the hearing held on July 14, 2021, we would like to bring to your attention some further considerations in order to analyze the shortage of raw material as an issue currently affecting importers of (stainless) steel and their customers in the downstream metal processing industry in Europe.

1. **Introduction - General overview on the shortage of raw materials.**

[1] *OJ C 280, 25.8.2020, p. 6–17*

EURANIMI aims to highlight the problems related to the general lack of raw materials and, in particular, to the shortage of SSCR currently affecting the entire European Union.

To date, the European market of SSCR is characterized by the insufficient production capacity of the Union industry, by the consequent prolongation of lead times as well as by the growing risk of delays in supplies by European producers of SSCR.

This imbalance between supply and demand – nowadays affecting almost every European raw materials processing industry, such as wood, copper, steel, and aluminum – has been inducted, in the first instance, by the Covid Pandemic and by the subsequent recovery.

Indeed, the general economic recovery that followed the Covid-19 epidemic not only led to a general increase in demand for essential raw materials and semi-finished products - with the raw material needs of each country (steel and stainless steel in particular) - but it has also led to an unsustainable increase in the prices of raw materials - increasing the gap between supply and demand - as well as to a progressive shortage of raw materials, which inevitably conditioned the activity of raw material transformers.

In this way, in almost all sectors of European industry - from plastics to wood, from steel to chemicals - producers and distributors find themselves daily faced with cancellations of already confirmed deliveries, temporary suspensions of

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production and the consequent impossibility of meeting the requirements end customer requests.

In addition, also consider that the market balance is also put to the test by another factor. Indeed, to date, the shipping costs by vassal have increased exponentially: container price from Asia grew from 1000 USD / container up to 10.000 USD / container.

Source: Drewry Shipping Consultants

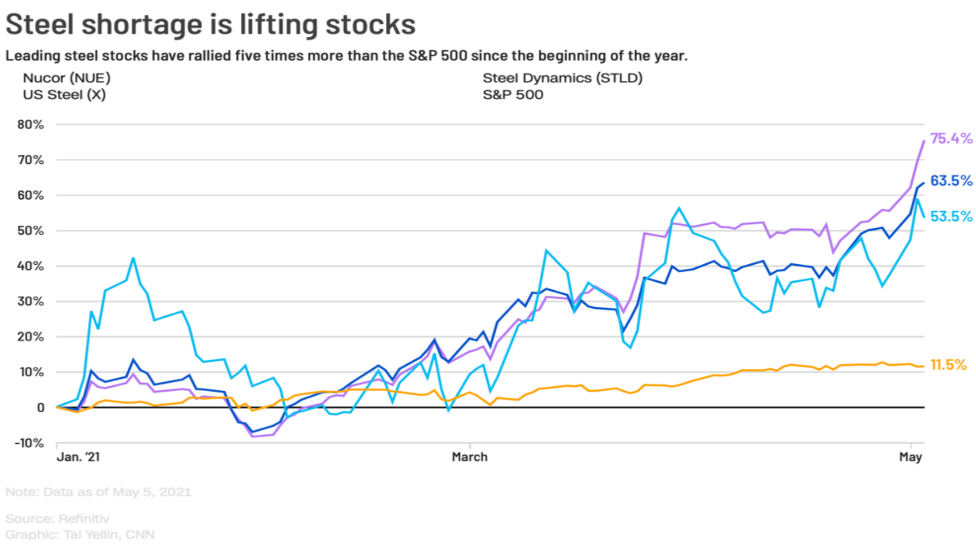
This situation, clearly, is still causing serious difficulties for international trade, thus slowing down the "resilience" plan of the EU Commission and the EU countries.

Given the above background, users, and distributors of SSCR are now facing a contradictory market situation, which is heavily affecting the EU industry. Indeed, despite the shortage of raw materials, the European Commission is now raising market entry barriers, which continue to hamper the genuine competition, both in form of anti-dumping duties on SSCR from China and Taiwan, as well as safeguards measures.

In this context, the questions that arises for the Commission is therefore whether it still make sense to impose anti-dumping duties on the product at issue which are scarce in the EU market and which are needed in general by various sectors of EU downstream industry

2. In particular: the shortage of SSCR products.

The above described market condition is now affecting also the steel – and stainless steel – industry. There are several major reasons why this shortage has happened and why it has worsened with time, mainly connected with the Covid -19 pandemic; in particular, we would like to recall that the steel production facilities and mines were shut down in response to COVID-19 from mid- to late-2020, which means fewer raw resources available.



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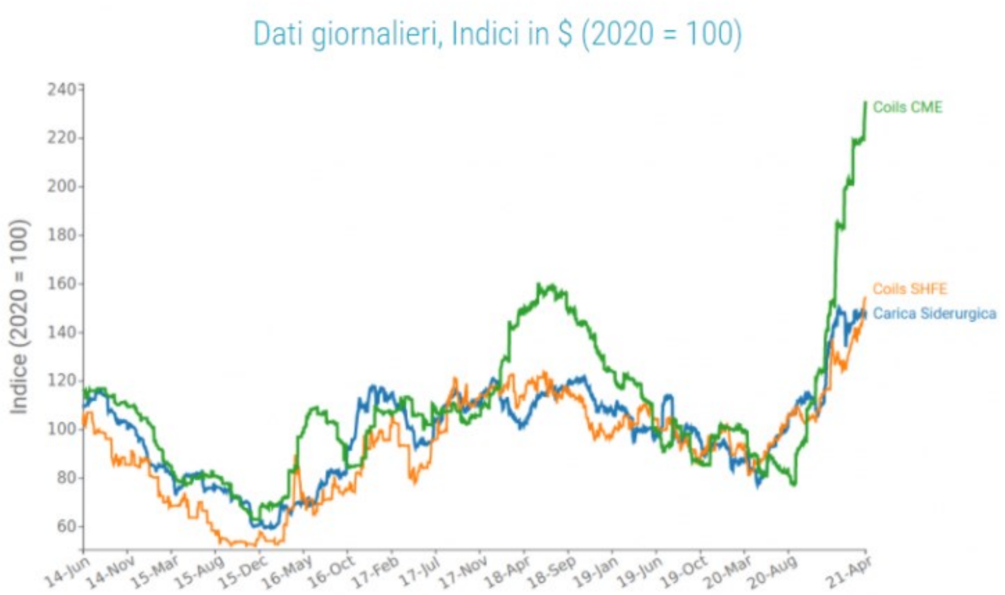
The previous graph, taken from *Pricepedia*, reveals the dramatic aspect of the steel crisis, the metal par excellence without which everything stops. The green curve shows the vertical dynamics of hot rolled coils listed on the Shanghai Futures Exchange (SHFE) and the Chicago Mercantile Exchange (CME), expressed in dollars per ton and transformed into an index. The period is 2014-2021 (April)[2].



Since the start of this year, the Platts daily North European HRC assessment has increased by a staggering Eur195/mt, to Eur830/mt ex-works Ruhr March 25,

[2] https://www.guidafinestra.it/acciaio-inarrestabile-corsa/

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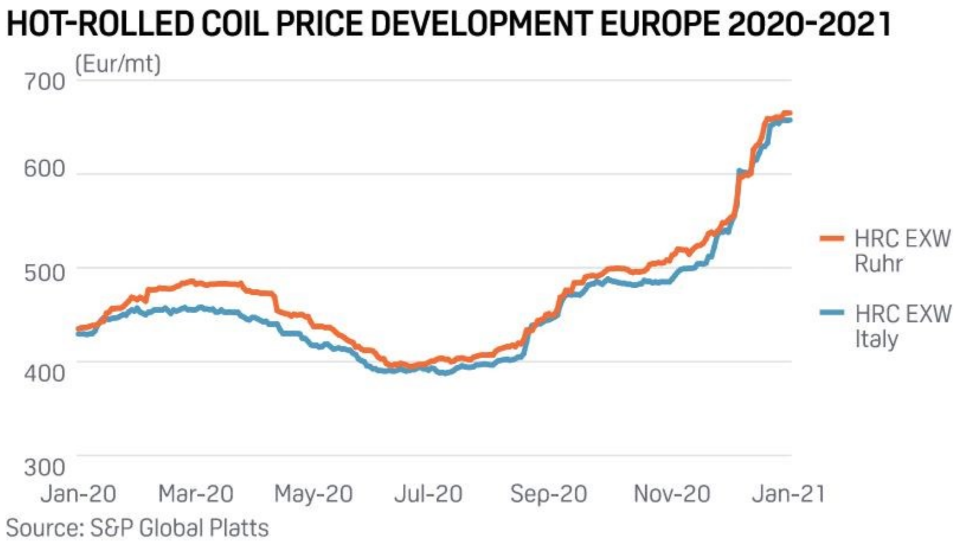
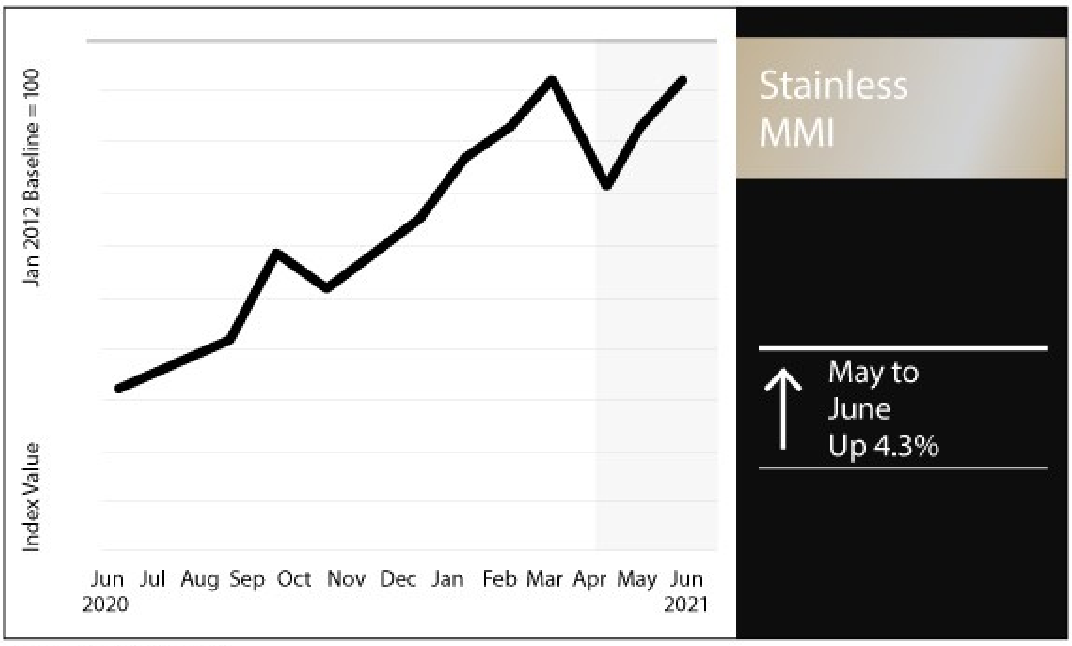
and in Southern Europe, prices climbed by Eur168/mt, to Eur825/mt ex-works Italy[3].



3 https://www.spglobal.com/platts/en/market-insights/latest-news/metals/032521-feature-northern-european-hrc-prices-reach-record-high-platts-data

Please also consider that limited availability continues to propel European stainless steel prices on an upward trajectory. The Stainless Monthly Metals Index (MMI) increased by 4.3% for this month's reading, as stainless steel demand is likely to continue to grow in the years ahead:



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The MEPS published European average transaction value, for 304 cold-rolled coil, increased by approximately €140 per ton, in May. Rises of a similar magnitude are anticipated in June. Prices are expected to remain elevated while consumption continues to outstrip supply.

In this context, the European stainless steel producers are almost fully booked until the end of the year and they are now offering allocation for delivery during first quarter '22 with limited quantity.

Some EU producers have already declared that they will not have any SSCR allocation to offer for first quarter of next year and buyers are struggling to secure next year's supply of material.

It is clear that European suppliers are not to be able to satisfy demand and imports are necessary as we are facing the worst stainless steel shortage of decades.

It is important to note also that EU producers, thanks to wealthy demand, trade barriers such as duties and safeguard measures and sky-rocketing international shipping costs, are speculating, increasing prices much more than the raw material increase.

For instance, the scrap price for 304 grade, that is the main raw material for EU producers, has increased from 1000€/T to 1500 €/T since October 2020 while the SSCR price for the same grade went from 1800 €/T to 3500 €/T: <u>the raw material increased +500 €/T and the finished product +1700€/T</u>.

It is evident that the renewal of AD duties will be an assist to Eu producers to enjoy the speculation, causing the downstream industry to suffer for unreasonably high SSCR prices.

3. **The absurdity of Duties in a resilience time, also because the absence of injury.**

In this serious shortage situation, and without a real injury matter (as well a dumped price), the imposition of duties over steel cold-rolled flat products from China and Taiwan sounds out <u>of tune</u>.

WTO 2021 Theme *"Trade beyond Covid 19 – building resilience"* give us the dimension of the new challenge we are facing: let the global industry to lead a new beginning.

What do we need for this? Raw materials.

What are we observing? The most serious shortage of raw materials since the last world war (1945) and a tremendous speculation.

This condition could further worsen considering a new (possible) scenario. in fact, the European Union decided to temporarily suspend some measures at the heart of a steel tariff dispute with the United States. In this way, USA will remain blocked to every other part of the World – except internal USA and Europe. Due the fact that stainless prices in USA were much higher than other part of the world it is already seen a lot of interested from USA to buy Europe and pay more than EU market price. This way, the European production capacity, already non-sufficient to satisfy the need of European consumers, may be absorbed by the need of USA producers, thus worsening the gap between supply and demand.

What is it the worst choice in such a catastrophic situation? Not to give a relief valve by import, imposing duties.

4. **The "real" interest of (all) European Union (that is not the one of the EU stainless steel cartel) is not the renewal of AD duties.**

According to all of this, the real interest of the European Union Industry is to overcome the shortage and the speculation, having the opportunity to import from countries, such as China and Taiwan, which are not causing any injury.

In any case, the real interest in this moment is much more to protect the entire EU industry system, much more than some EU stainless steel producers, that in the last years are not suffering at all, especially taking advantage in the pandemic situation.

Please consider that the 72,9% of the EU market is governed by the EU producers, that are now benefit from duties, shortage, delay and increasing of price, multiplying exponentially their margins in a cartel condition, on the detriment of the entire industrial EU system. In addition, the absence of damage is also demonstrated by analysis of the balance sheets of various European producers, which show margins and profits[4].

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[4] For example, the following:

- **OUTOKOMPU** has declared an adj EBITDA of 177 million euro in first quarter 2021 (with a total EBITDA 2020 of 251 million euro), with deliveries increased by 16%.
- **APERAM**, for the same time, has declared an adjusted EBITDA of 175 million euro in Quarter 1 2021, in comparison with a 109 million EBITDA in Quarter 4 2020.
- **ACERINOX** reported a Q1 2021 result of €161ml EBITDA, the highest since Q1 2017.

In addition, the need to impose duties cannot be justified by import levels or by an excess of capacity production in China and Taiwan which to be stopped by anti-dumping measures.

Indeed, looking at the Eurostat data, import volumes from China and Taiwan are insignificant. In particular, the volumes of **Chinese imports** remained below *a de minimis* level during the entire period considered within this investigation, representing only an **EU market share of 0,4%**. More importantly, prices of Chinese imports were during the entire period considered higher than prices of the Union Industry and did not undercut the prices of the Union industry. On the other side, **imports from Taiwan remained stable and even decreasing during the IP. In particular,** imports volume amounted to 159.110 tones which corresponded to a **EU market share of 5,0 %**. Such EU market share has been stable over the years ranging from 5.3% in year 2017, to 5,7 % in 2018 and decreased to 5,2% in 2019. As far as imports, volumes are at issue it is to be noted that the lower amount of such imports was to be found in year 2019 with 178.758 tones.

Moreover, the change in Chinese export policy is clear: China is targeting to contain the steel production in 2021 not higher than 2020[5] and to reduce the steel export in order to keep more goods for domestic demand[6].

[5] https://www.argusmedia.com/en/news/2234033-china-to-cut-2021-steel-exports-under-green-shift-sifw

[6] https://eurometal.net/china-cancels-export-rebates-for-most-steel-products/

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No doubts: no reasons for duties, just the necessity to give a real chance to EU industry opening the market.

5. Conclusion.

From the data relating to profitability, cash flow, investments and return on investments is quite clear that, unlike what the Commission claims, there is no injury suffered by the Union SSCR Production Industry caused by the importation of the products concerned from China and Taiwan.

At the same time it is clear that the all Union Industry is facing the worst shortage raw materials crisis from the Second World War, with exponential increase of price and delivery time/cost, so that a unjustified dumping procedure (to protect rich EU producers) is definitely illogical, anachronistic, opposite to the EU and WTO principles and without any strategic view.

An antidumping procedure could not become the battlefield of political foreign position of West World against East World, or even more the tutor of *spoiled* rich EU producers, for their best revenues of all time.

Your truly,

Davide ROVETTA (*) Massimo CAMPA (**) Prof. Laura Carola BERETTA (***)

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CAMPA
AVVOCATI

(*) Avvocato – Barreau de Brescia
Membre (Liste E) de l'Ordre français des
avocats au Barreau de Bruxelles
(**) Avvocato – Barreau de Milan
(***) International Trade Advisor, Ph.D - Professor
at SDA Bocconi School of Management of Milan