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Our Ref **SAFE009R5**

Your Ref

Brussels, 17 January 2022

European Commission
Directorate General for Trade
Directorate G, Unit G5
Office: CHAR 06/66
***1049* Brussels**

TRADE-SAFE009-REVIEW@ec.europa.eu

Subject: SAFE009R5 – Review proceeding of the safeguard measure applicable to imports of certain steel products – Notice of Initiation - European Association of Non- Integrated Steel, Stainless Steel and Metal Importers, Distributors, Traders and Processors (hereinafter "EURANIMI").

Dear Case Team,

with the present letter, EURANIMI submit its observations based on the terms of paragraph 3.1 of the Notice of Initiation.

The present observations are submitted on time and within the deadline, pursuant to the extension of such deadline granted by your Services by email 2022 of 7 January 2022.

1. Introduction.

On 1 July 2011, the Commission Implementing Regulation (EU) 2021/1029 of 24 June 2021 (the "**Regulation**") came into force, amending Commission Implementing Regulation (EU) 2019/159 and prolonging the EU safeguard measure on imports of certain steel products.

The Regulation, more in detail, extended the mentioned measure for a further two years (extendable to three) and reiterated the level of the tariff quota liberalization rate (equal to 3% on an annual basis).

At the same time as the extension of these measures, the new Regulation introduced an articulated tripartite system of review clauses that allow - should the economic conditions allow or require it - to initiate a review both of the liberalization rate related to the tariff quota and of the temporal duration of the measures themselves.

EURANIMI, firstly, would like to bring to your attention some further considerations concerning the current conditions on the European steel market, highlighting the extraordinary shortage of raw material as an issue currently affecting importers of (stainless) steel and their customers in the downstream metal processing industry in Europe and the uncontrolled increase in prices.

In view of these factors, EURANIMI intends to underline the existence of valid economic elements and conditions – as requested by the Regulation's review system – to suspend the application of the safeguard measures and, in any case, to review the functioning mechanism at the basis of the regulation as well as the allocation of country quotas.

Given the above background, EURANIMI object to the short sight shown by the European institutions in prolonging a safeguard measure, which is designed to protect the top end of the steel value chain, to the detriment downstream market (processors and users) and which jeopardizes the recovery of European industries, vital after the pandemic shock of 2020-2021.

As it will be argued in more detail, in the light of the exceptional conditions that the European steel market is experiencing in which, moreover, duties and anti-subsidy measures are already raging, the imposition of safeguard measures no longer makes sense and is no longer able to protect the interests of the European Union.

Also as a preliminary remark, it should be noted that EURANIMI members import stainless steel products and do not deal in carbon steel and that the product category on which this analysis will focus and on which EURANIMI strongly requests concrete and relevant review action by the Commission concerns mainly category 9 - cold-rolled flat stainless steel -.

2. General overview on the exceptional market condition of European steel market.

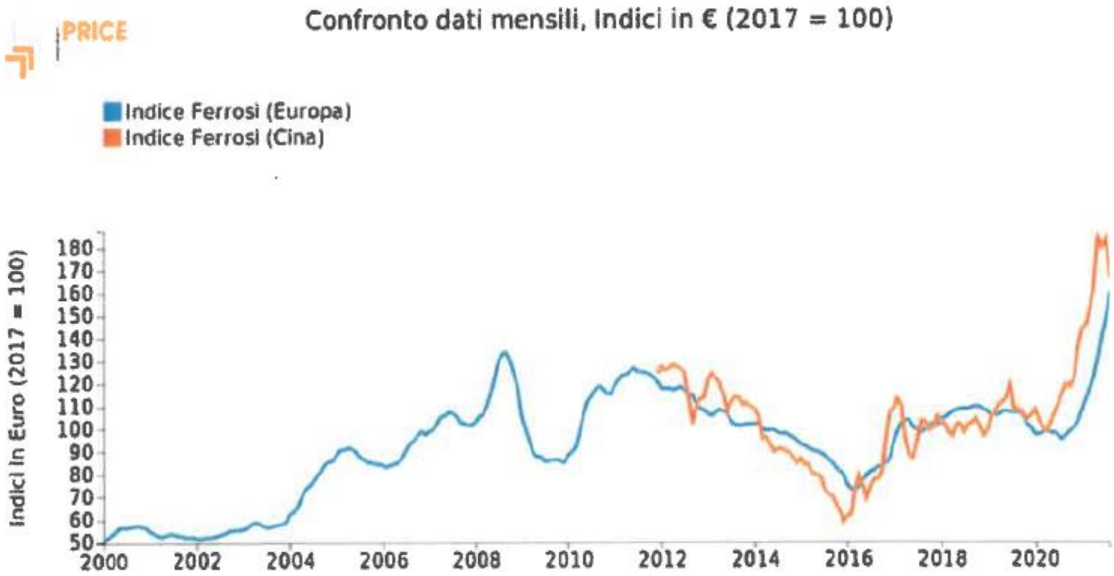
a. Shortage of raw materials and shortage of stainless-steel products.

EURANIMI aims to highlight the problems related to the general lack of raw materials and, in particular, to the shortage of SSCR, is 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, and aluminum – has been inducted, in the first instance, by the Covid Pandemic and by the subsequent recovery. And obviously, the above-described market condition is currently also affecting the steel – and stainless steel – industry.

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 semifinished 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.

This was also the case in the steel sector, which – during the general economic recovery – failed to be as sudden in the adjustment of production and on the European market there was a strong imbalance between demand and supply, which led to sustained price growth, as represented by the performance of the European Ferrous Index starting from August 2020.



The aforementioned lack of materials and its progressive deterioration are attributable, in particular, to the closure of the steel production plants and the mines from which the raw materials necessary for the production of steel are extracted. It is to be noted that one of the major EU producers, namely Marcegaglia, currently faces serious problems and had to block production because of a fire that hit such company **(Annex 1).** At the same time, Outokumpu on 4 November 2021 officially communicated that it has an "exceptionally long order book" **(Annex 2).**

The serious shortage situation in the steel market and the associated uninterrupted rise in prices for over a year is now out of control and this is also well shown by the attached press articles **(Annex 3)**, some of which are referred to here:

Fedsteel: *"Steel is always a hot commodity in the global market, but the demand for steel has increased by record amounts over the past two years, and shortages are causing market issues. Many buyers have expressed their concern about having enough steel for production needs in 2022. The current shortages are due to supply chain issues that have impacted steel inventory, increasing demand. As a result of the spread of COVID-19 over the past two years, mill outages and transportation blockages have also led to a steel shortage[1]".*

Metal Bulletin*: "European cold-rolled stainless-steel prices push higher on ongoing tightness. The ongoing lack of cold-rolled stainless steel in Europe has pushed prices in the domestic distribution market higher during the week to Friday December 17, sources told Fastmarkets".*

Also the other specialized press articles underlines that there is a huge shortage of material in the Inox sector due to the economic recovery and scarcity of material. However, always according to such source, this already negative situation is aggravated by the safeguards measures and additional duties on such goods

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 market competition.

In this context, the questions that arises for the Commission is therefore whether it still make sense to maintain the safe-guard mechanism 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. This, also considering that other and different measures (such as anti-dumping duties and anti-subsidy measures) are currently in force in the steel market.

[1] https://www.fedsteel.com/our-blog/2022-steel-outlook-growing-demand-higher-prices/.

b. High steel prices.

The general economic recovery that followed the Covid-19 pandemic 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.

Steel prices, including those of certain product categories within the product concerned, have increased sharply worldwide since the second half of 2020. The prices of raw materials for the production of steel, in particular iron ore and scrap iron, also experienced the same dramatic increase in the same period that steel prices began to rise.

This drastic increase in the price of steel (as well as in the raw materials necessary for its production) on the European Market must be considered closely linked to the strong increase in the demand for steel following the Covid-19 pandemic, which European producers have not been and are not all about satisfying.

To date, Europe is the highest priced market in the world for stainless steel products[2].

Consumption and domestic demand, however, continues to exceed supply.

The safeguard measures also had a direct effect on the increase in the price of steel and the raw materials needed for its production.

As seen in the previous section, the economic recovery following the Covid-19 pandemic led to an evident shortage of raw materials and products, also in the steel sector.

In fact, the consequence and the difficulty of supply has been an almost immediate exhaustion of the import quotas already in the third quarter of 2021 of the main non-EU stainless steel suppliers with a consequent further price increase, determined by the fact that EU production is not sufficient to meet demand.

[2] Source: MEPS International Ltd. - Comparison of Negotiated Domestic Transaction Prices (US$/metric ton) - December 2021 **(Annex 4)**.

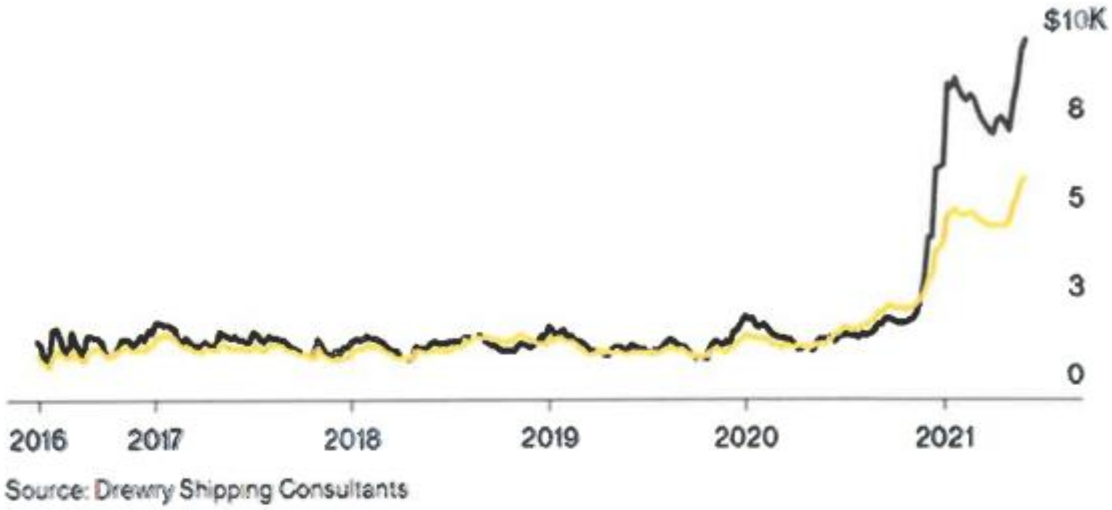
There is therefore no doubt that there is a direct link between the safeguard measure and the recent evolution of steel price levels and that there is evidence that the current high prices will be maintained in the long term, following market adjustments to a post-COVID-19 situation.

c. Supply delays and increase in energy cost.

The effects of these two factors (scarcity of raw materials and rising prices) have also led to difficulties in the supply chain, as well as obvious logistical difficulties.

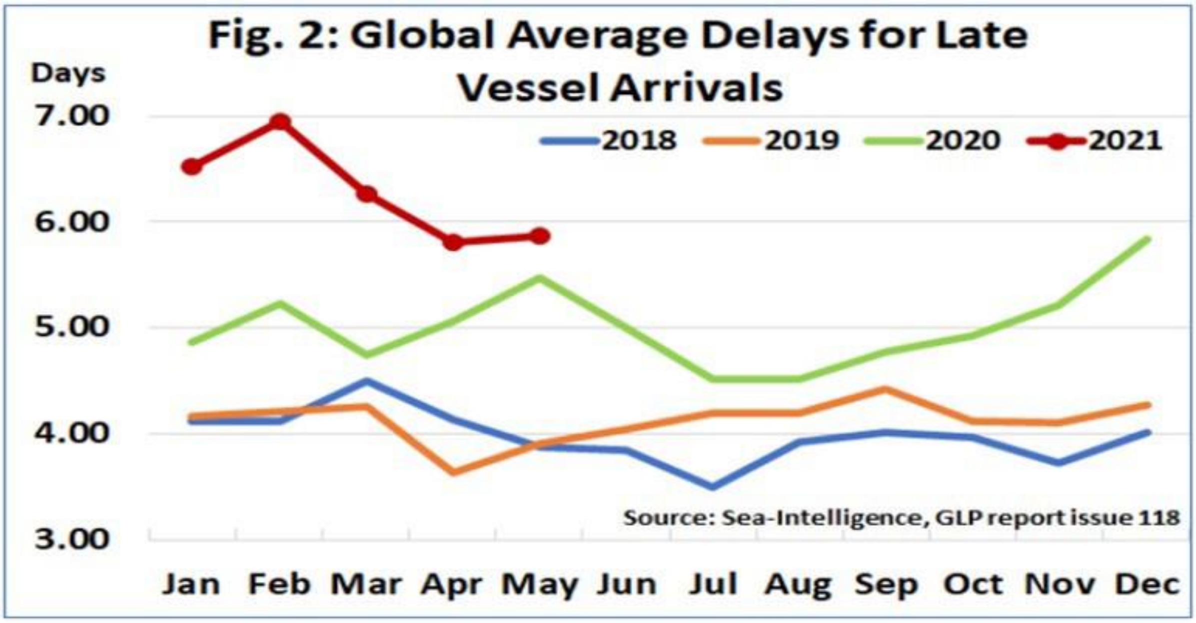
In this way, in almost all sectors of European industry - from plastics to wood, from steel to chemicals - producers and distributors find themselves daily faced with cancellations of already confirmed deliveries, temporary suspensions of production and the consequent impossibility of meeting the requirements and customer requests.

In addition, one shall also consider that the market balance is also put to the test by another factor. Indeed, to date, the shipping costs by vessel have increased exponentially: container price from Asia grew from 1000 USD / container up to 10.000 USD / container [3].

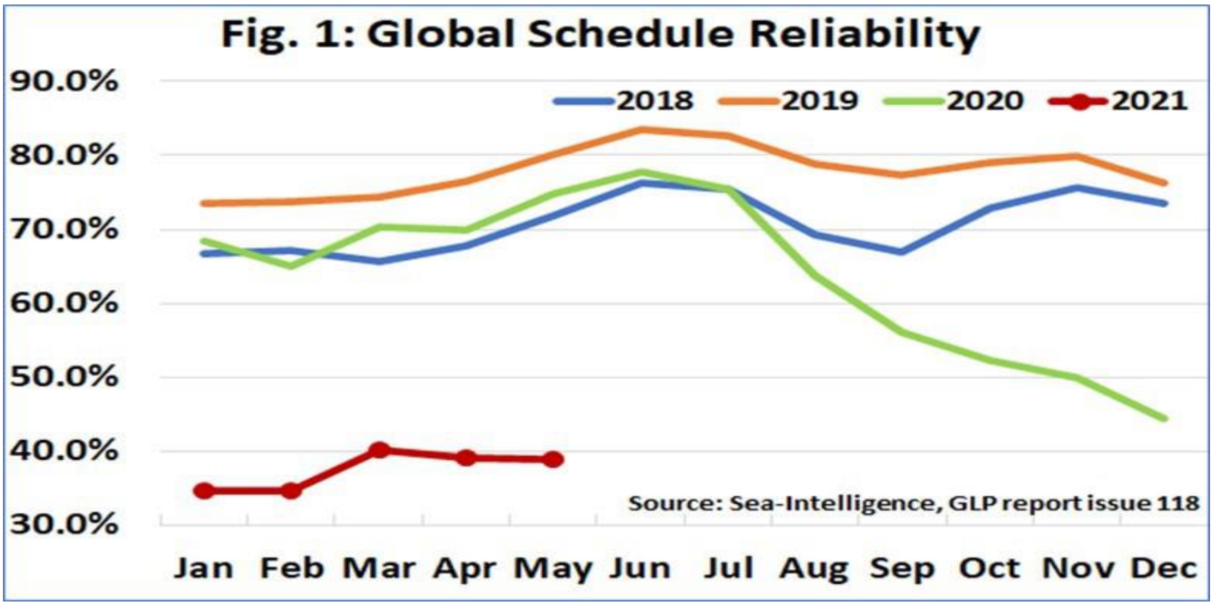


[3] https://theloadstar.com/intra-asia-rates-hit-new-highs-as-forwarders-get-cold-shoulder-from-carriers/

According to Sea-Intelligence's latest Global Liner Performance (GLP) report (**Annex 5)**, the average delay for vessel arrivals that were marked as late remains extremely high 7 days in 2021.



Whilst schedule reliability has fallen dramatically since the middle of 2020.



There is therefore no doubt that the aforementioned situation is causing significant problems in the steel supply.

EU domestic industry is not capable of fulfilling its orders and to provide an adequate quantity of products which the EU market desperately needs to foster recovery. At the same time the delivery times of EU industry have become longer and longer to the extent that the relevant products are now missing on the EU market. The safeguard Regulation unfortunately renders such situation of lack of products within reasonable delivery time even more acute in the EU.

As a result, is becoming increasingly difficult for European companies to predict market trends and put a strategy in the new market situation, thus becoming less and less competitive on a global scale.

Lastly, please also consider that the greatest shortage and high-price condition on raw materials of the decades is combinate not just with a new Pandemic (Omicron) phase and with consequent huge difficult supplies, but also with the biggest increase of energy cost in many years, we must say that the EU industry and the entire Community is facing the Perfect Storm: delivery times are getting longer and longer, and European industries are not always able to meet market requirements in terms of steel product types[4].

d. The various protectionist measures already imposed within the steel sector.

[4] The price increases are expected to result in sharp upward pressure on household energy bills and also present broader risks to economic activity, especially for sectors that are directly exposed to the price rises. Many governments have taken measures to alleviate electricity bills, especially for vulnerable consumers. In Europe, many businesses are likely to face the double impact of rising energy costs and a potential decline of consumer spending due to households' increased energy-related expenses. Rising power prices are already impacting operations of electricity-intensive industries. And several companies have temporarily curtailed ammonia and fertilizer production, citing deteriorating margins due to the sharp increase in gas prices. (https://www.iea.org/commentaries/what-is-behind-soaring-energy-prices-and-what-happens-next).
https://www.siderweb.com/articoli/news/712446-caro-energia-l-impatto-sull-acciaio
https://www.siderweb.com/articoli/news/712469-caro-energia-l-allarme-di-confindustria
https://www.siderweb.com/articoli/news/711727-caro-energia-appello-delle-industrie-all-europa

It should also be considered that there are also other and different protectionist measures in the steel market, such as anti-dumping duties and antisubsidy measures. Definitely it is not time to build unjustifiable walls, just to give more revenues to the rich big four EU producers, but to help the downstream industry of manufacturing to find materials and to calm down the price, open bridges to the free market.

3. The current safeguard quota system.

The safeguard quota system, as it stands, does not allow European users to obtain sufficient supplies from outside the European Union, even though European industry is unable to meet domestic demand.

The import quotas imposed by Europe on steel products are jeopardising the recovery of the steel distribution, processing and end-user sectors and are hampering the fulfilment of a generally lively demand.

This is in contrast to the very purpose of the safeguard measures, which are designed to maintain historical import flows with a modest annual increase. On the contrary, given the current market situation, and at a time of recovery when no material is available in Europe and producers are not supplying, restrictions on the amount will only further damage the market, exacerbating the already existing shortage situation and driving prices up further.

With almost a month to go until the end of Q1, import quotas for the period have already been reached or are close to being reached. This is affecting all categories of steel products: stainless steel and carbon steel, long and flat products, and their value chains.

Please see the following table concerning the product 9 (cold rolled stainless steel) **(Annexes 6-7)**:

	QUOTA 10-21/31-12-21 (Ton)		Quota 1-1-22/31-3-22 (Ton)		
	Initial amount	**Balance 31.12.21**	**Initial + transferred amount**	**Used at 4-1-22**	**Balance 4.1.22**
KOREA	57.809	18.069 ton	44.937+18.069	811	62.195
TAIWAN	42.598	Sold out 7.10.21	41.672	72.149 **Quota sold out on the first day**	-30.477
INDIA	42.849	22.137	27.852	706	27.146
USA	45.189	43.805	22.660+43.805	29	66.436
TURCHIA	19.275	Sold out 14.10.21	18.856	14.721	4.135
MALESIA	20.483	10.941	11.946	188	11.758
PAESI TERZI	52.853	Sold out 15.11.21	47.921	30.542	17.379

As you can easily see from the table above:

- Taiwan's quota has already been used up, in one day!

- Turkey's quota is close to being exhausted.

- the quota for third countries will be exhausted shortly

- USA quota is unused, and it will get lost at the end of the fourth quarter!

- Korea and India quotas are partially unused, and they will get lost at the end of fourth quarter!

There are very high stocks of steel stopped in the main national steel ports, which can only be cleared through the payment of the duty foreseen for each production category. This is a serious problem which is destined to have even more serious effects on the distance: the quantity of material already blocked in the ports is such that the residual limits can be exhausted in a few hours.

Another problem that importers are facing while performing the customs clearance process is that they do not know whether they will stay within the quota or will exceed it, having to pay extra 25% duty. There is no possibility to revoke the custom clearance once filed and this is not fair. This situation is therefore creating legal insecurity and unpredictability in the application of the mentioned Safeguard Regulation. Should such Regulation continue in force EURANIMI invites the European Commission to establish a proper customs law mechanism to address the above concern.

4. The immediate Union interest is to suspend the safeguard measure.

In the light of the above considerations, the continued imposition of the safeguards measure does nothing but further damage the European industry, making the supply of raw materials and semi-finished products more and more difficult, which, given the current EU industry very reduced production capacity, is in fact essential for the proper functioning of the market.

Today, entire supply chains that are the backbone of our national system are forced to choose not to fill orders, or to produce goods with prices that the downstream market could assimilate with extreme difficulty.

EURANIMI hereby formally ask to the Commission's services to suspend the safeguard measure or, in any case, given its relevance, for product 9 (stainless steel cold rolled), to:

- Cancel the "USA country quota", that it regularly unused (see Annex 7), and move its quantity to "third country quota"

- At the end of the third quarter move each unused country quota to “third country quota” of the fourth quarter
- To let each country to use freely the “third country” quota during the fourth quarter

EURANIMI also request to implement the possibility to revoke the custom clearance in case of quantities that exceed the quota available once filed.

Given the complexity of the above matters, EURANIMI reserves the right to produce further independent economic evidence to sustain its above views.

<u>EURANIMI hereby formally requests the European Commission’s services to be heard during a hearing</u> which of course in the current pandemic situation EURANIMI accepts could be done via videoconference.

Yours truly,

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