BACK PROPOSED EU TARIFFS TO SAVE UK STEEL INDUSTRY

The UK steel industry, along with the rest of Europe's steel industry, is under profound threat from the dumping of surplus, subsidised Chinese steel on the world market. The European Commission is proposing new tariffs on Chinese steel that would help preserve thousands of high-value jobs. The UK Government has previously been a sceptic on the need for new tariffs but the proposals now on the table are key to delivering better prospects for a sustainable UK steel industry.

"The efficiency and effectiveness of our action can be significantly enhanced, accelerated and further improved if Member States support the Commission's efforts…………It is now high time to back-up rhetoric with action and adopt swiftly the modernisation package."

European Commission communication on the steel industry, 16 March 2016

The steel crisis

The UK steel industry is in a life-and-death struggle. More than 5,000 job losses have been announced since last autumn. The huge Redcar works has already closed.

The root cause of the present crisis is the depressed price of steel – down by nearly half since early 2011 – which in turn is the result of the glut of surplus, subsidised Chinese steel dumped on the world market. The Chinese economy has slowed and loss-making Chinese steel producers – often state-owned – have turned to exports at artificially low prices.

The surplus of Chinese steel is vast – 350m tonnes a year according to OECD figures, almost double the entire EU annual production. It has the potential to wipe out most if not all UK steel producers.

Industrial Communities **Alliance**

The industry's 'five asks'

In October last year, the UK steel employers and trade unions tabled 'five asks' to save the industry:

- Help with high energy costs
- Avoid gold-plating regulations
- Support local content in major projects
- Fairer business rates
- Back EU-level anti-dumping action

On the first three of these there has been some movement but not yet on the fourth – business rates – where the 2016 Budget failed to deliver the changes requested.

On the key issue of anti-dumping, which is vital to the immediate survival of the industry, there continue to be "significant gaps" according to Tata Steel, the UK's biggest producer, between what the industry needs and what the Government has so far delivered.

The Commission's proposals

On 16 March the European Commission issued a paper to Member States and the European Parliament setting out its thoughts on how a robust steel industry can be sustained across Europe. The Commission argues for modernisation of the EU's 'Trade Defence Instruments'.

The key proposal is for the EU to move away from what is known as the '*Lesser Duty Rule'*. This defines the tariff that can be applied to goods from other countries – such as steel from China – that are being sold into the European market at subsidised prices. Under this rule, the tariff is set not by the amount of subsidy but by a calculation of the so-called 'injury margin' to EU producers.

The Lesser Duty Rule has resulted in some profound anomalies:

- The European Commission found that Chinese 'high fatigue performance rebar' – a type of steel – was being dumped on the European market by up to 66% but the duty imposed was a mere 9%

- In another case involving cold-rolled steel, it is understood that the Commission found dumping of Chinese steel at up to 55% but the duty was capped at 16%

World Trade Organisation rules don't oblige the EU to apply the Lesser Duty Rule and other countries don't bother. In the United States, the duties on Chinese imports would have been set at the full 66% and 55%.

The Lesser Duty Rule doesn't provide adequate protection for EU steel, and that is why the Commission want to stop applying it.

The impact on steel prices

Critics of the proposed removal of the Lesser Duty Rule argue that it would lead to higher steel prices.

In the short-run, the effect would be to raise steel prices in Europe above their present, artificially low level. This would allow EU producers – including steelmakers in Britain – to recover their costs and survive.

But in the long-run steel prices would be no higher. This is because the present absurdly low price is set by exports by loss-making Chinese producers that are being kept afloat by the Chinese Government and its agencies. Beijing won't persist with this subsidy indefinitely – it is too expensive – but the risk is that in the meantime most EU steel producers will go out of business.

Without the proposed EU tariffs, the likelihood is that five years from now steel will be no more expensive but that most of the EU and UK markets will be supplied from China.

'Market Economy Status'

Beyond the proposal to remove the Lesser Duty Rule there is a second issue looming. This is the possibility, later this year, of granting 'Market Economy Status' to China under World Trade Organisation rules.

This would have the effect of further limiting tariffs on Chinese steel and making anti-dumping action more difficult. If Market Economy Status were granted, tariffs would only be allowed on the difference between domestic prices and export prices. With domestic steel prices in China so heavily subsidised, this would be nonsense. It would also mean taking on trust the figures on dumping provided by China – a highly dubious case of marking your own homework.

China doesn't yet function as a market economy, as most commentators have noted. Market Economy Status should not yet be granted.

How would China respond?

It is entirely reasonable for the EU, and the UK in particular, to be wary of the reaction from China, one of our largest trading partners and international investors.

But look at the issue from a Chinese perspective. China knows that it is subsidising steel exports around the world. China also knows that it has a problem of chronic over-capacity in its steel industry that will have to be addressed – EU action would only hasten action that the Chinese Government intends to take anyway. And from a narrowly UK point of view, it is worth remembering that action on tariffs would be taken by the EU as a whole. The UK would not be out on a limb.

What the UK Government needs to do

The Commission's first proposal to move away from the Lesser Duty Rule was tabled in 2013. At that time the proposal was supported by all the EU's big steel-producing countries – France, Germany, Italy, Poland and Spain.

The exception was the UK, which argued against higher tariffs and won the support of a number of smaller EU countries that have no steel industry of their own. The proposal stalled.

But in 2013 it was not clear that the future of the entire UK steel industry was at stake. Circumstances have moved on, and the crisis has deepened. Last autumn, the UK Government itself played the key role in calling for an EU summit on the future of the steel industry and the proposals that have now been tabled by the Commission are to a significant extent the response to the concerns the UK has raised.

The UK, alongside the other main steel producing countries in Europe, now needs to throw its weight behind the proposals from the European Commission.

Tariffs on Chinese steel, dumped on the European market, offer the best prospect for the survival of a UK steel industry.

Industrial Communities Alliance

The Industrial Communities Alliance is the all-party association representing some 60 local authorities in the industrial areas of England, Scotland and Wales.

The aim of the Alliance is to promote the economic, social and environmental renewal of the areas covered by its member authorities.

The steel industry remains a key employer in several Alliance member authorities and its extensive supply chain extends across much of industrial Britain.

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