

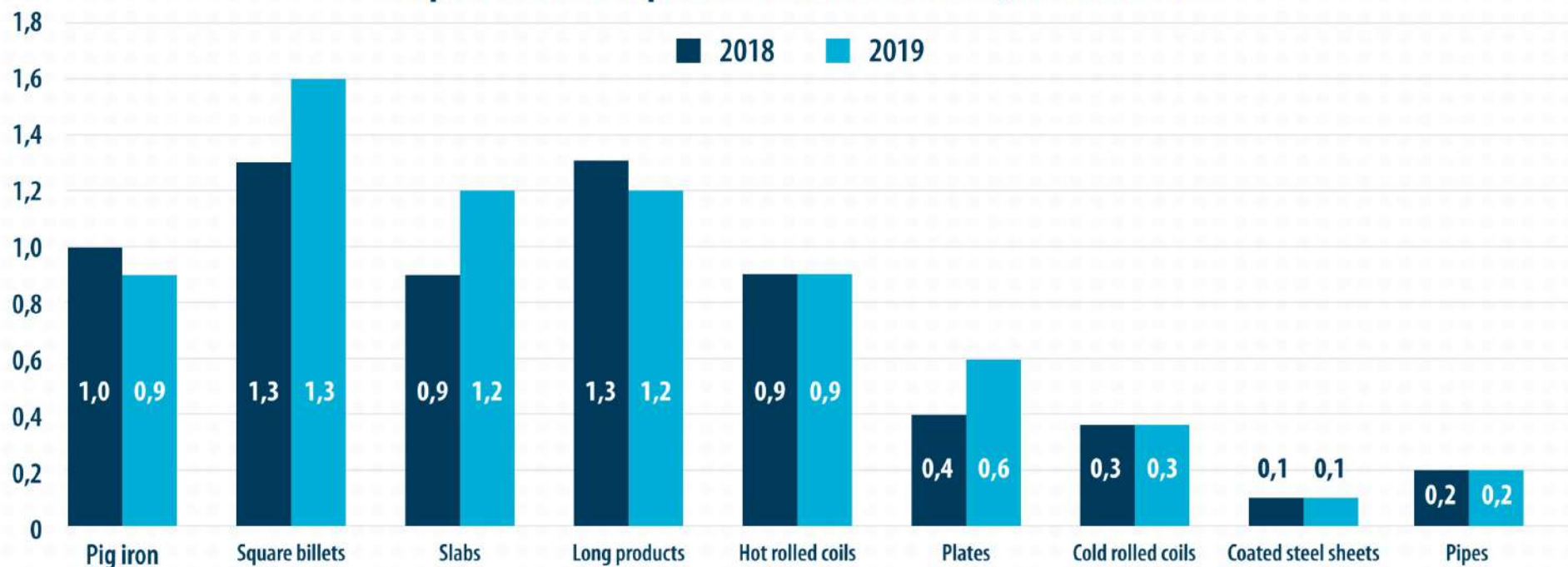
Export of mining & metal products under trade restrictions

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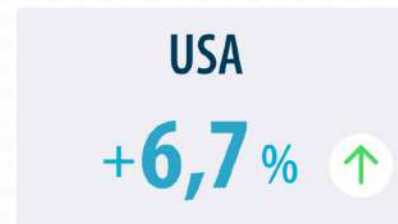
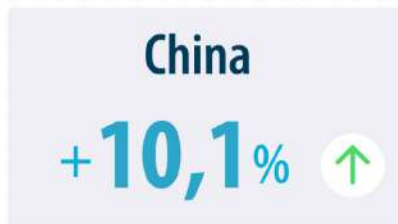
Export of mining & metal products

Export of metal products from Ukraine, million tons



Source: Metal Expert

Steel production trends by top 20 countries within 4 months of 2019:



Source: World Steel Association

Export of mining & metal products

The steel products market saw a decline in the 1st and 2nd quarters of 2019. Prices for finished products dropped by 10–15%. Notably, Ukrainian producers managed to increase exports of steel products by 7.5%.

Only Egypt, China, and the United States of the top 20 steelmaking countries show better dynamics than Ukraine. While China's exports grow because of powerful programs for stimulating the domestic market, and exports of the United States and Egypt because of protectionism, Ukraine's exports rise because of the successful competition in international markets.

Yet, this growth is mainly due to export of semi-finished products. This is the only way to increase export in the context of the tightened protectionism worldwide.

Reasons for protectionism in the steel sector:

- 1 Steelmaking is a strategic sector in many countries
- 2 A good tool when demand is weak
- 3 Protection in case of overcapacity
- 4 The 'domino effect' if needed

Trade restrictions on Ukraine

Trade restrictions on Ukraine:

- 1 Safeguard measures (duties, quotas) — 3



Egypt



EU



USA

- 2 Anti-dumping measures — 30 anti-dumping duties applied in 12 countries



Brazil



Egypt



Canada



EU



India



Indonesia



South Korea



Mexico



Pakistan



Russia



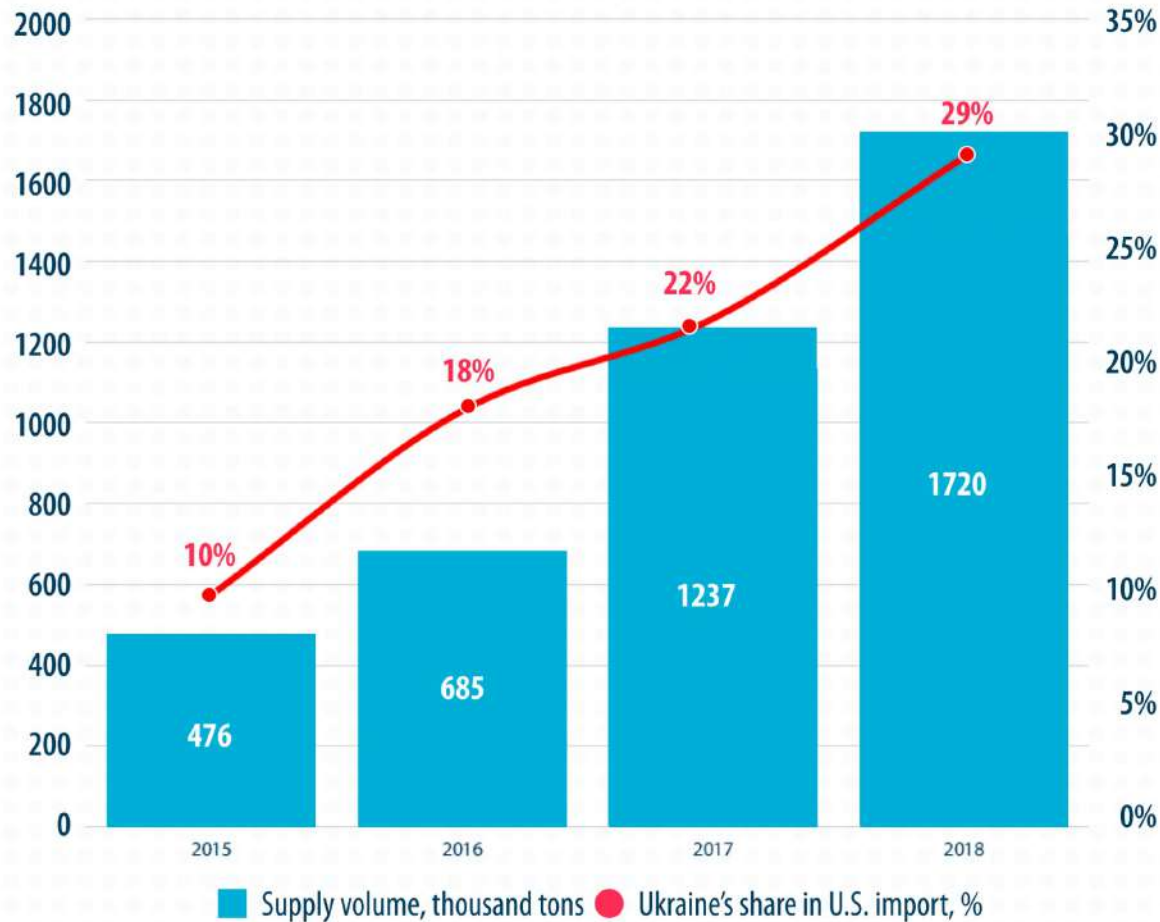
Thailand



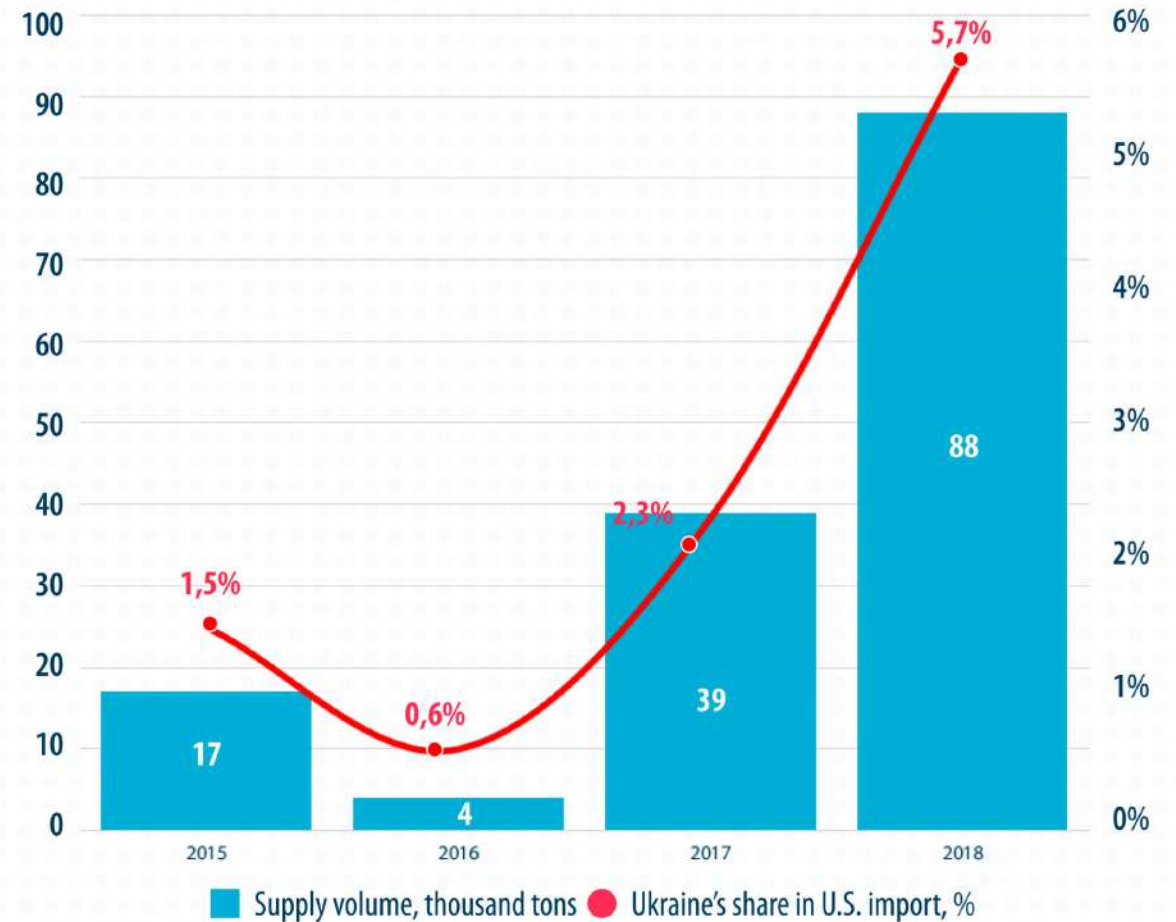
USA

The U.S.: import duties

Supply of pig iron from Ukraine to the U.S.



Supply of seamless pipes from Ukraine to the U.S.



The U.S.: import duties

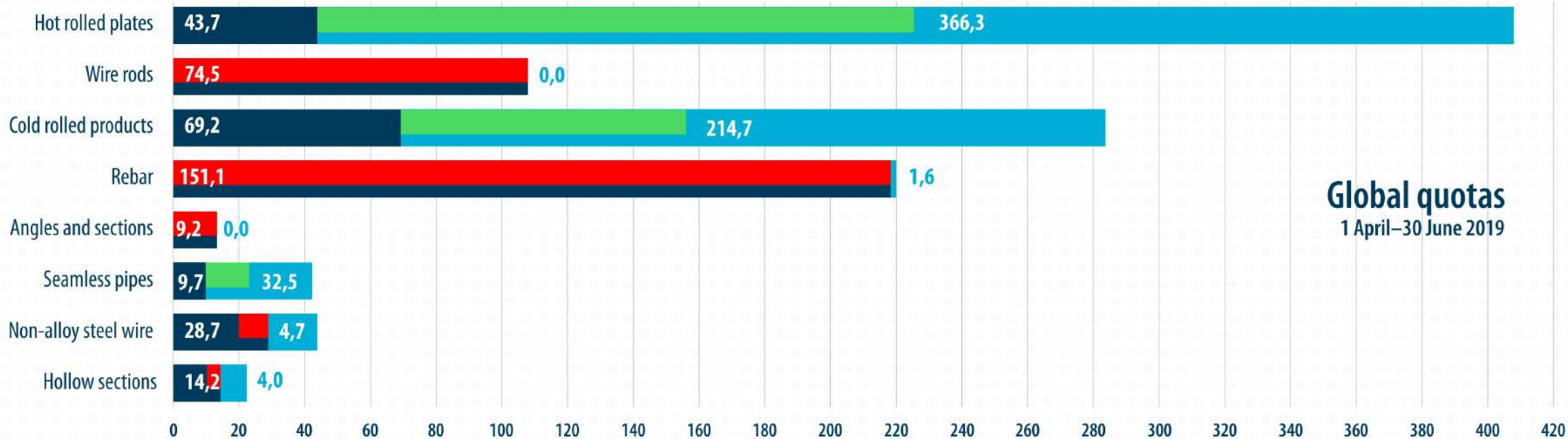
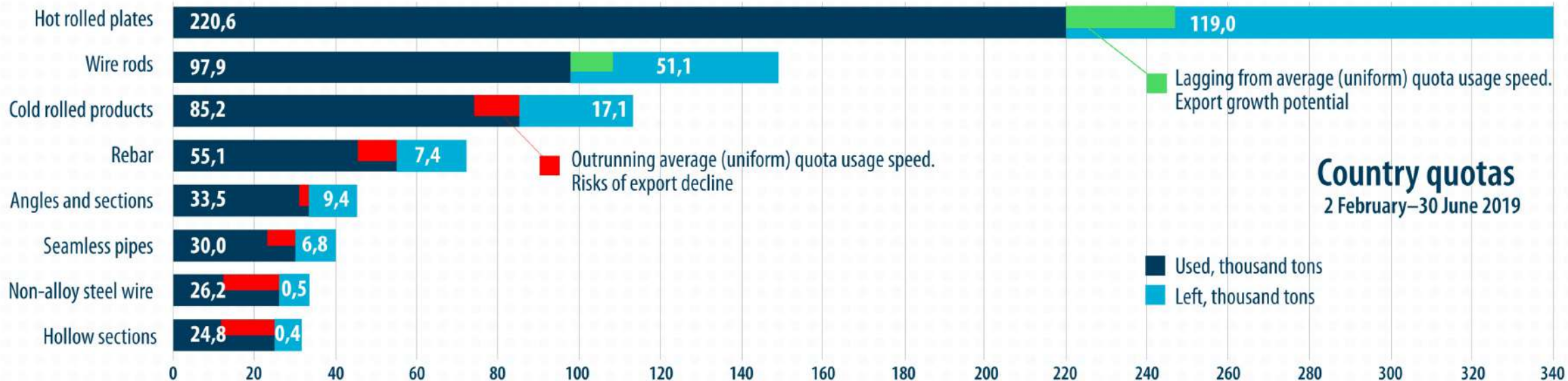
Due to the introduction of a 25% import duty on all steel products, prices in the U.S. market grew. This offered Ukrainian companies an opportunity to increase exports of pig iron to the U.S., to which the duty does not apply. At the same time, Ukrainian producers ousted Brazilian companies, traditionally represented in this market.

Growing prices and high activity in the U.S. oil & gas market made it possible for Ukraine to increase exports of products with high added value — pipes for the oil & gas industry.

It seems that Ukrainian companies managed to adapt to the U.S. trade restrictions and even got some benefits. Some other countries, however, got much more. Specifically, according to bilateral agreements, Australia, Argentina, Brazil, and South Korea have not been subjected to duties. The U.S. has recently opened its market for Canadian and Mexican products. These countries enjoy opportunities that others do not have.

Yet, the main implication of the U.S. actions is a wave of protectionism caused by this initiative in all directions without exception.

Ukraine's usage of quotas for import of steel products to the EU as of 20 May 2019



The EU: tariff quotas

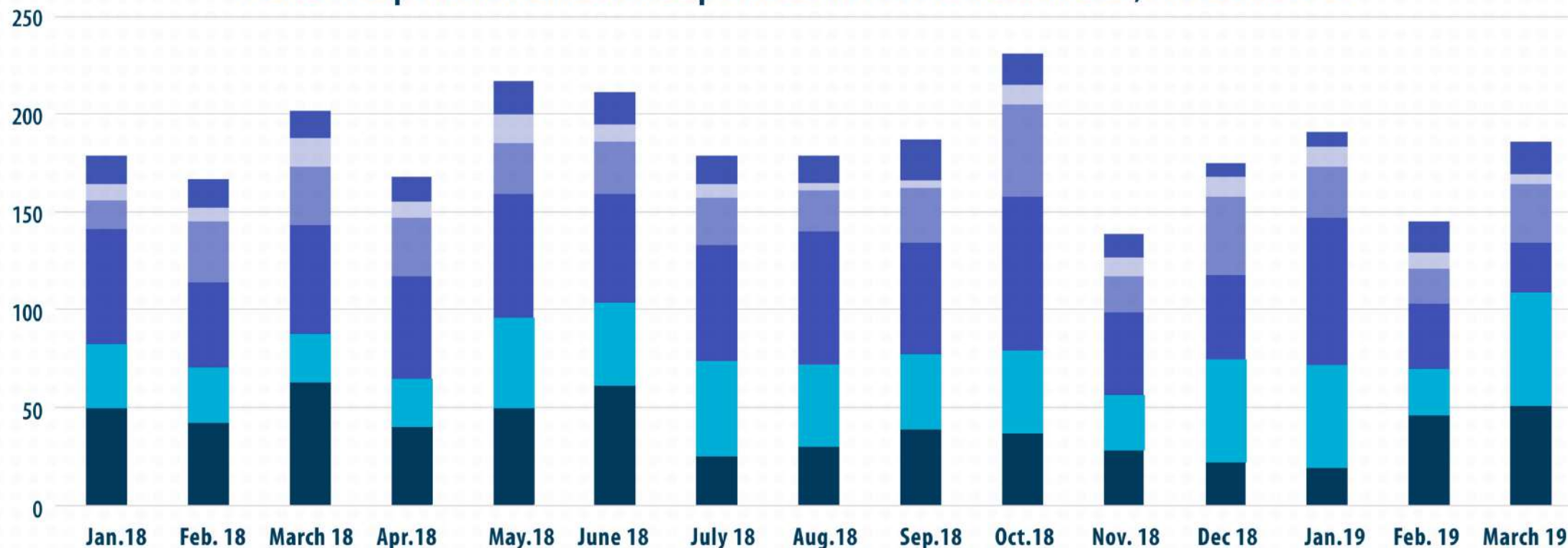
35% of Ukraine's products are exported to the EU. Since June 2018, the EU applied provisional measures, i.e. global tariff quotas (for all countries). In February, the ultimate quota system was presented — quotas were set separately for each large country-supplier, while all small suppliers were subjected to third-country quotas.

This system has both advantages and disadvantages. Its main advantage is market segmentation. No exporter could claim the market share, allocated to Ukraine by quotas. Its main disadvantage is difficulties with sales development. This is possible only subject to an annual increase in quotas by 5%. There are proposals to cancel this provision.

A key aspect is the volume of quotas. The volume of quotas is based on the average supply volume in 2015–2017. Over that period, some types of products were shipped to the EU in much larger amounts due to outputs of plants that remained in the non-government controlled territories.

This year, Ukrainian companies will be able to increase exports of plates and wire rods (the country quota is being taken up slowly), cold rolled products and seamless pipes (the country quota is being taken up faster, but there is a possibility of supplies according to the third-country quota). The volume of country quotas in the EU does not always restrict Ukraine's export opportunities.

Trends in export of finished rolled products from Ukraine to the EU, thousand tons



- Long products
- Hot rolled coils
- Plates
- Cold rolled coils
- Coated steel sheets
- Pipes

Exports Q1 2018

548 kt

Exports Q1 2019

522 kt

Source: Metal Expert

In the first 3 months of 2019, supplies of finished rolled products to the EU slightly decreased compared to the past year when no trade restrictions were imposed.

Safeguard and anti-dumping investigations

The most painful measures:

1

Duty on import of hot rolled products to the EU (2017)

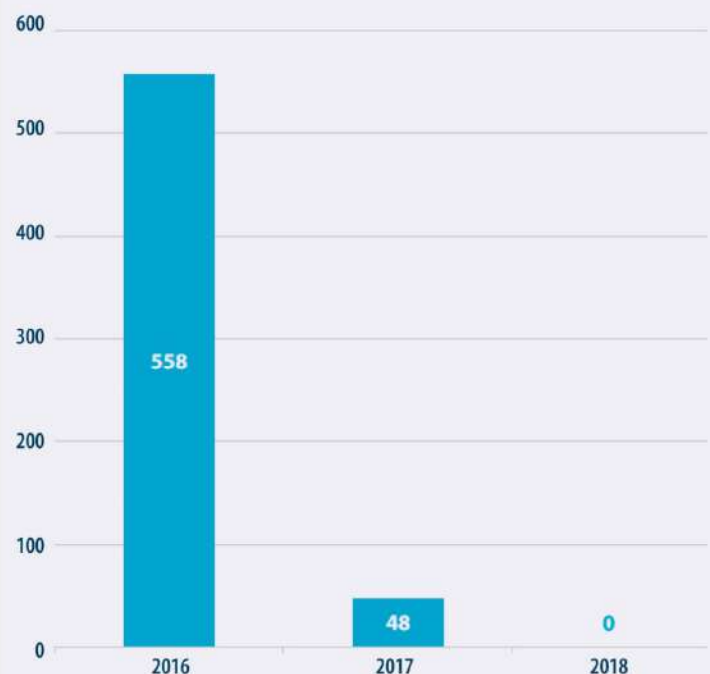
Trends in export of hot rolled products to the EU, thousand tons



2

Duty on import of rebar to Egypt (2017)

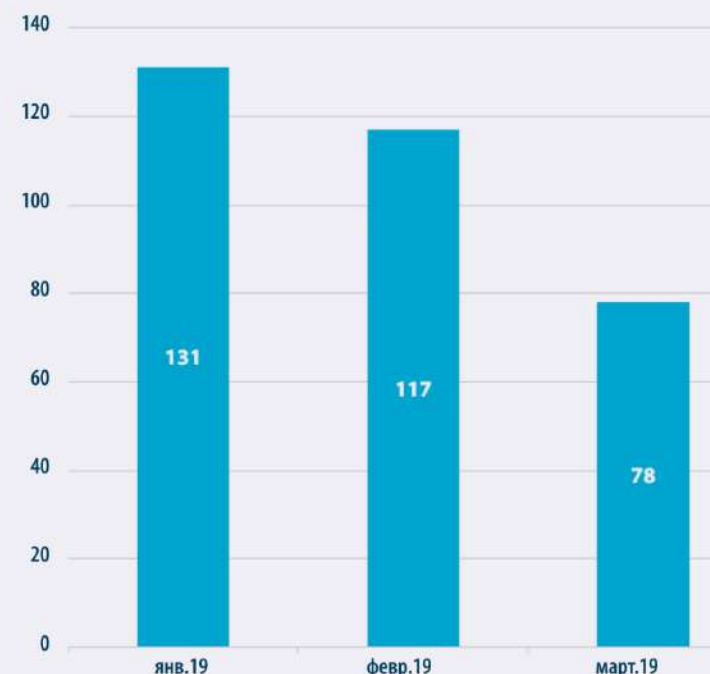
Trends in export of rebar to Egypt, thousand tons



3

Provisional safeguard duty on import of square billets to Egypt (2019)

Trends in export of square billets to Egypt, thousand tons



Planned steel production of Ukrainian companies, million tons



Expected export volume, in physical terms:

Expected export volume, in monetary terms:

Steel products



+ **10,0** % ↑

Iron ore



+ **3,0** % ↑

The same as in 2018



\$13,3 billion

Safeguard and anti-dumping investigations

Anti-dumping investigations hit Ukraine much stronger, because they are targeted solely at our country and give our competitors additional advantages. Anti-dumping investigations, launched by the WTO, are intended to be a tool for restoring fair competition, but in fact are used as a protectionism tool.

The most painful measures:

1. Duty on import of hot rolled products to the EU (2017)

Russia, Brazil, Serbia and Iran were under investigation. However, no investigation was lodged against Turkey, the largest exporter of hot rolled products to the EU at that time. As a result, a EUR 60.5 duty per ton of Ukrainian products was imposed. This seriously affected Ukraine's exports.

2. Duty on import of rebar to Egypt (2017)

Ukraine, Turkey and China were under investigation. No investigation was initiated against Russia. As a result, a 15%–27% duty was imposed on Ukrainian products. The country's exports significantly declined.

3. Provisional safeguard duties on imports of square billets to Egypt

In early April, Egypt introduced provisional safeguard duties on imports of square billets. Interestingly, this was the first measure against semi-finished products. In other words, restrictions are getting tougher. According to the media, Ukraine stopped exporting square billets to Egypt from the first half of April.

Implications of trade restrictions for Ukraine:

- 1 Companies increase export, but on account of raw materials and semi-finished products.**
- 2 Competition grows, thus putting pressure on prices and reducing the margin.**
- 3 A reduced margin means less opportunity to invest, in contrast to the countries that apply trade restrictions. This is a strategic battle, which we are losing.**
- 4 Investment in rolling production is being inhibited. It is impossible to invest in production of finished products if there is no domestic market, and export is restricted.**
- 5 The situation in the market is uncertain. There's a risk of losing the markets if restrictions are tightened. Trade wars will escalate when market conditions deteriorate.**