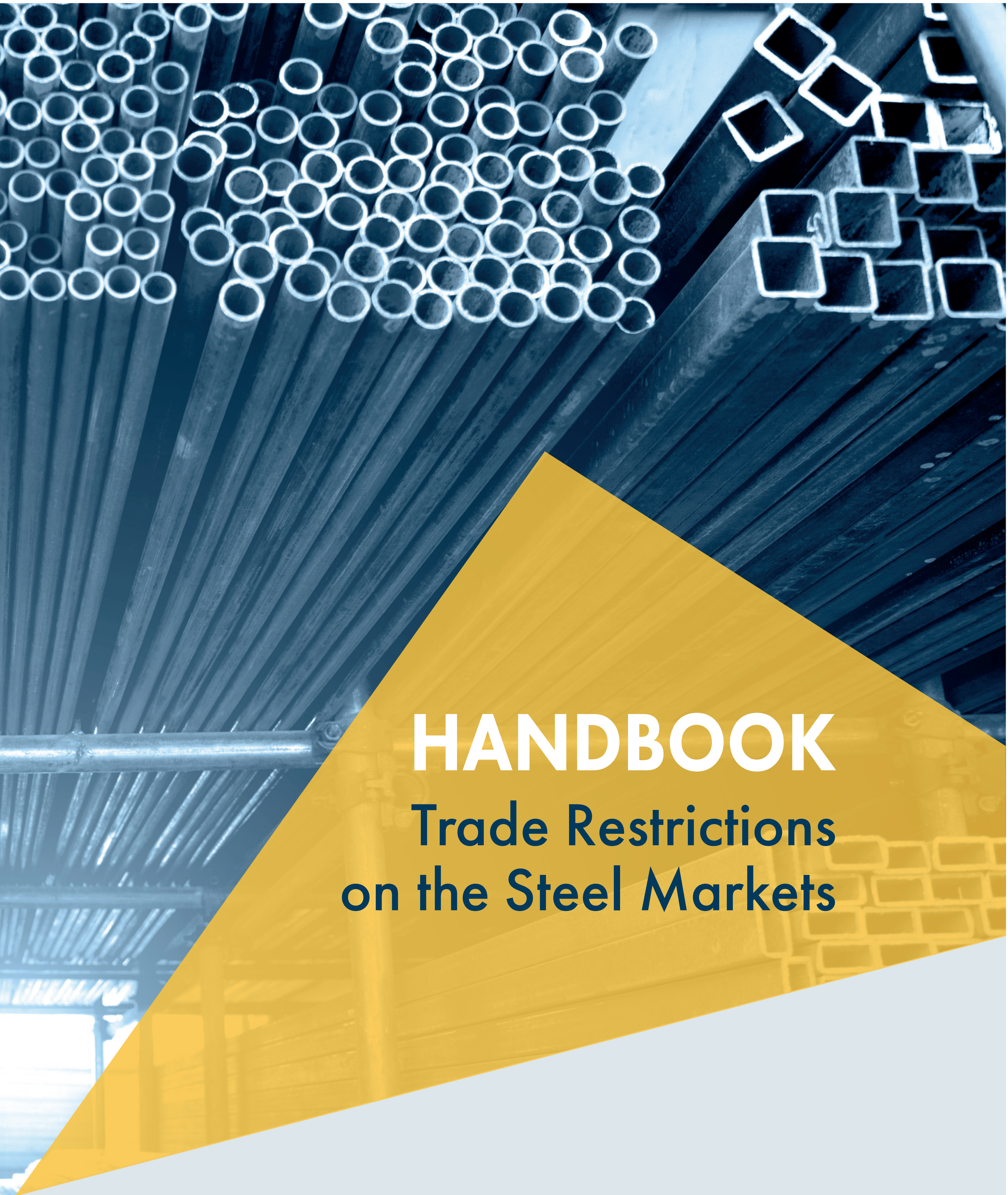


HANDBOOK

Trade Restrictions on the Steel Markets

December 2021

GMK CENTER

Table of contents

Stanislav Zinchenko,
GMK Center Director

Trade barriers cost Ukraine a 3.5 million tons loss of production and sales of steel products

Dear colleagues!

We are pleased to present a unique study, a Handbook: Trade Restrictions on the Steel Markets. It`s the first systematic study dedicated to the regionalization of global trade in steel products.

We believe it is important to show the reasons why the regionalization of trade has become a global trend, the statistics giving an idea of the extent of the problem, the prevailing specific aspects of the policies of different countries to the trade barriers and the changes taking place in Ukraine under the influence of this trend.

Steelmaking is indeed affected by protectionist measures much more than any other industry, since it has a high social significance and is well developed around the world. Every time the market sentiments deteriorate, we observe an increased pressure on foreign markets and resistance to exports. Interestingly, developed countries are especially proactive in these matters. Those include, for instance, the USA or the EU, which provide a good example of how the market institutions should be built.

In 2021, the favorable market situation contributed to fewer newly imposed trade restrictions. However, even despite supply shortages in some regions, no expected easing of barriers to imports took place. In other words, the market situation influences the imposition of new measures but not their easing. This is because the factors influencing the development of protectionist sentiments are of a long-term nature. And, naturally, when the situation in the market deteriorates, trade restrictions will surge again.

An important characteristic of the recent years has been the development of trade barriers influenced by the emission reduction targets. For example, CBAM or scrap export restrictions.

The regionalization of trade has a considerable impact on Ukraine. Sales of the domestic steel producers are 80% dependent on exports, and the steel industry accounts for up to 12% of Ukraine's GDP. Therefore, Ukraine has suffered significantly greater losses from this trend as compared to other countries.

The trade barriers introduced against Ukraine cost the losses of up to 3.5 million tons in steel products sales and production. This is akin to the loss of a large steel plant, e.g. Azovstal or Zaporizhstal, which employ over 10 thousand people. It also means minus $3 billion in export revenues and up to minus 2% of GDP.

The global trend cannot be counteracted. We can only adapt. We believe that understanding the recent trends and peculiarities of the trade regionalization trend will help us do this more efficiently.

Recent trends in trade restrictions

State interventions and protectionist sentiments continue to increasingly weight on the global economy. In 2020, as much as 4,569 interventions were recorded as compared with 2,000–3,000 annually over the past 10 years.

The steel industry ranks the global first by the number of state interventions. In 2009–2021, as much as 1,817 protectionist measures were imposed in the industry. They were aimed at restricting imports and supporting the local steel producers.

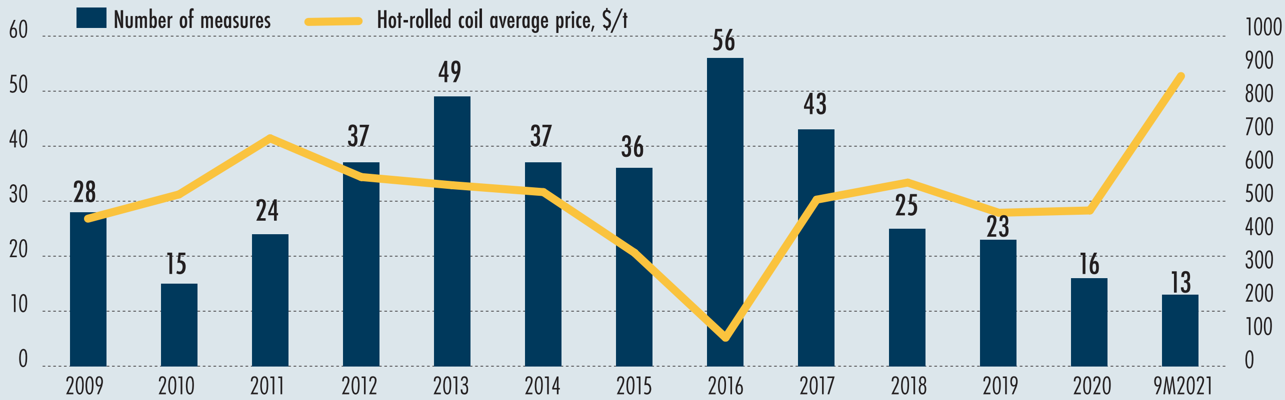
Import restriction is only one of the instruments of the protectionism policy. Only one in three state interventions in the economy is aimed at restricting imports, i.e. 402 measures in total. Other measures are intended to support local producers. They include, inter alia, the localization in public procurement, grants, soft loans and tax incentives, which together account for two thirds of the government measures or 1,415 in total in 2009–2021. Introduction of various supportive measures for steel producers peaked in 2019–2020, when a third of all measures imposed over the past 12 years was introduced. China (54% of all measures imposed) and the USA (36%) take the lead in this trend.

Why is the steel industry the most vulnerable to trade restrictions?

- Relatively homogeneous products
- Steel is produced all around the world
- High social significance of the industry

The dynamics of the introduction of trade restrictions clearly correlates with the market sentiments. When prices are low, governments build trade barriers. A peak was recorded in 2016, when prices reached the local bottoms.

Global dynamics of steel products import restrictions



Source: WTO, globaltradealert.org, Kallanish Commodities, GMK Center estimations

*The number of measures includes the imposition of final restrictive measures, disregarding the number of affected countries

Due to the favorable market situation, only 13 new measures were introduced (save for ongoing investigations) in 9M 2021. For example, high prices in 2021 have contributed to the GCC abandoning the introduction of safeguard measures despite the findings obtained in the framework of safeguard investigation about the damage inflicted by imports on the local steel producers. The share of the steel industry in the economies of the GCC is not that big. Therefore, the policy of economies in the region builds more on the interests of steel consumers (oil & gas and construction industries) than those of steel producers.

However, the favorable market environment was not followed by the expected easing of measures introduced earlier. For instance, the system of safeguard tariff rate quotas in the EU has been extended for another three years, despite the lack of supply in some segments. The only exception is the early lifting of safeguard duties on imports of rebar and square billet in Egypt due to the high energy prices this fall. In other words, the decision to lift was rather due to a chance. However, the system of tariff rate quotas — the new protective measures meant to replace the old ones — is already being discussed.

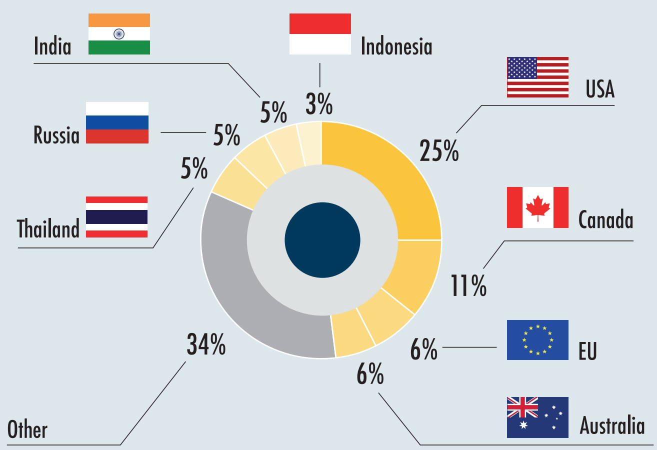
Therefore, the market cyclicality affects the number of measures introduced, but not their easing. It should also be noted that the policy restricting the steel products imports is a long-term. Therefore, should the situation in the steel products markets deteriorate, the trade barriers are likely to grow.

It is of interest that in 2021 some countries sought to solve the supply deficit by restricting exports rather than by stimulating imports. For example, Russia imposed export duties on the steel products instead of easing import restrictions.

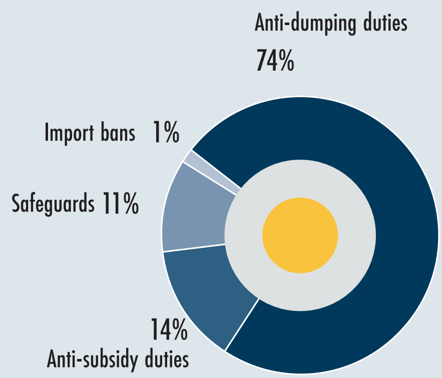
Imports are most frequently restricted by the anti-dumping duties, which account for 74% of all introduced measures. Anti-dumping measures are popular for several reasons:

- their duration is not limited and can be extended in contrast to the safeguard measures, for which a period is established by the WTO regulation;
- anti-dumping investigations require no specific conditions as opposed to the safeguard measures;
- anti-dumping investigations are easier to justify, they are meant to restore fair trading conditions;
- dumping is easier to prove than, for example, subsidies;
- anti-dumping investigations are often used as the instrument for pressure, since only 66% of investigations conducted in the last 10 years resulted in the introduction of anti-dumping measures.

Countries most actively imposing import restrictions of steel products



Most popular instruments used to restrict imports of steel products



Source: globaltradealert.org

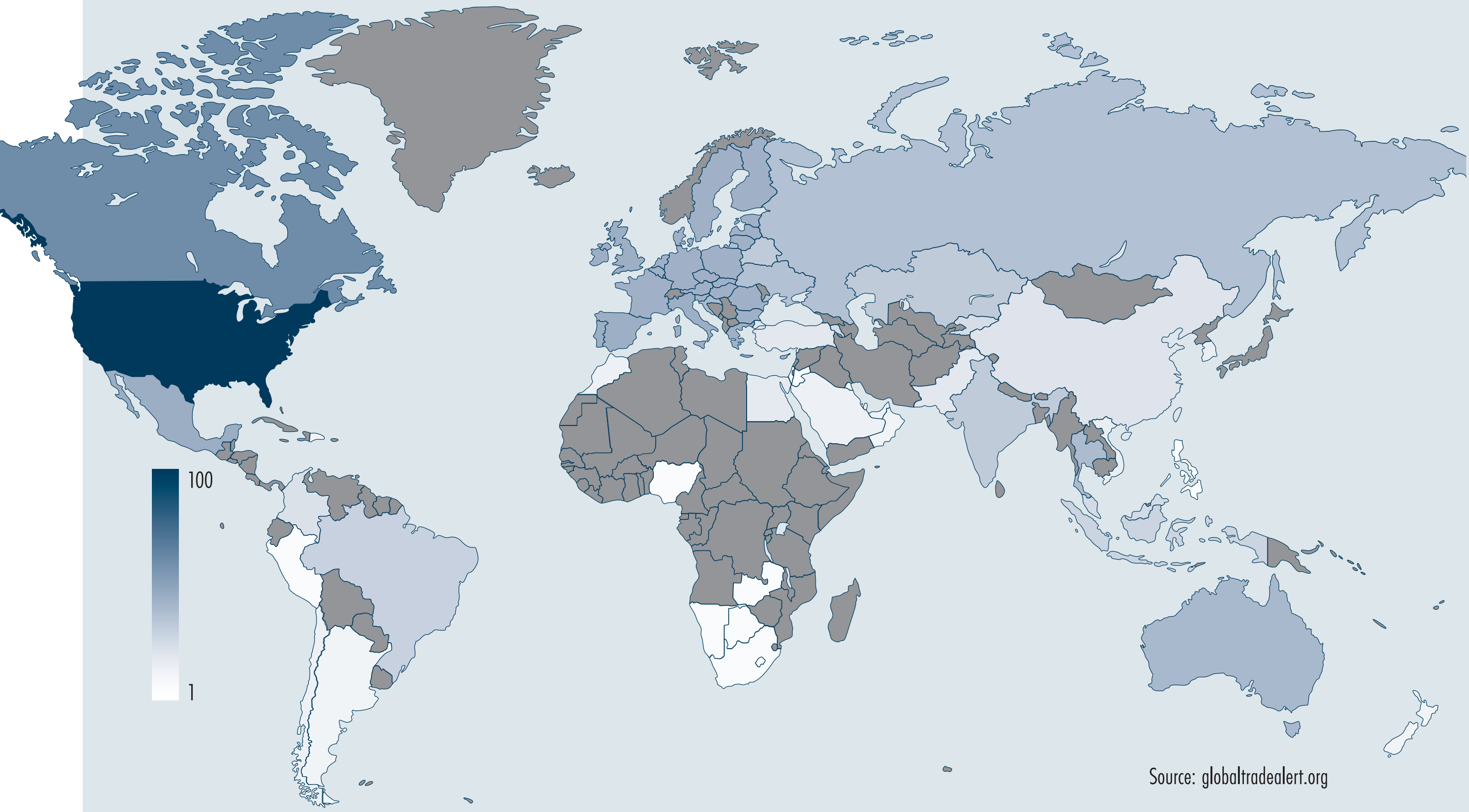
Introduction of anti-dumping measures peaked in 2016–2017. Consequently, 2021–2022 will see the peak of administrative reviews of measures introduced for a period of 5 years. Given the long-term nature of the trade policy, lifting or easing of the anti-dumping measures following such review is unlikely. For example, the anti-dumping measures introduced back in 1984 are still in place in the USA.

The USA traditionally ranks first in the world by the number of measures imposed to protect the local market from imports. One in four measures in place is a measure introduced by the USA. Canada is also actively restricting imports, since, largely due to the bilateral agreements with the United States, the trade policies of those two are quite close.

The European Union is among the top active economies in terms of import restrictions, ranking third after the USA and Canada. This year, the EU has become a trendsetter with its import restrictions based on the environmental concerns. The so-called carbon border adjustment mechanism (CBAM) aims to equalize payments of European companies for carbon emissions with those paid by producers of imported products. The decision to introduce this instrument paved the way for a similar dialogue in the USA and the EAEU. In other words, the introduction of new environmental trade barriers has become a trend this year.

Somewhere in between the environmental goals and export restrictions, a new trend has emerged, namely the ferrous scrap export restrictions. Scrap is an important raw material reducing the greenhouse gas emissions in the steel industry. In 2020–2021, 8 measures have been introduced globally that affect scrap exports. Also, a number of measures have been imposed to boost scrap imports. For instance, China and India lifted their restrictions on scrap imports.

Map of restrictions on imports of steel products in 2009–2021, number of measures



Trade restrictions based on climate related goals

Some countries use trade restrictions to stimulate achieving their climate goals. The best known example of such restrictions is the CBAM (carbon border adjustment mechanism) announced in the EU countries.

The EU considers the CBAM to be a special fiscal instrument that will ensure that producers of imported products pay the same price for CO_2 emissions as the European producers do. The CBAM will be fully implemented in 2026.

The adoption of the CBAM in the EU entails certain risks for Ukraine, in particular:
- loss of a share of export volumes of long products, since 86% of the EU capacity in this segment is represented by EAF mills;
- possible distortion of competition;
- CBAM "wave" in other markets;
- deterioration of decarbonization opportunities due to a decrease in investment resources.

Starting 2026, the potential increase in costs of Ukrainian steel producers associated with CBAM will amount to **$280 million**.

The European Commission proposal for CBAM:

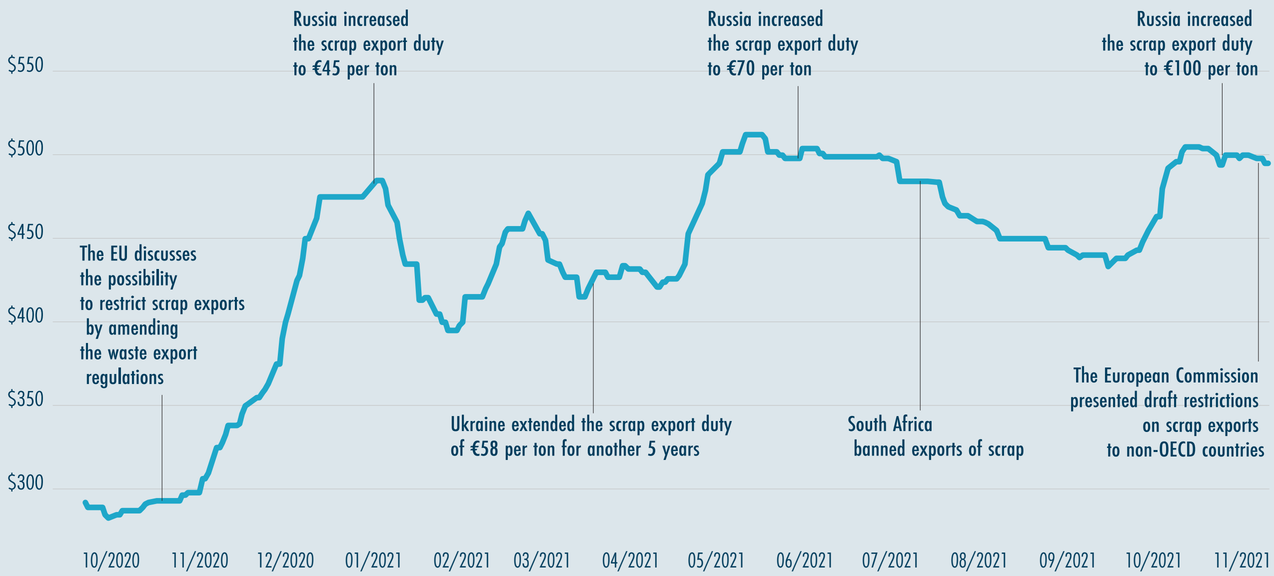
- **2023–2025: submission of information; from 2026: purchase of CBAM certificates**
- **The price of CBAM certificates set up on the level of EU ETS price for CO_2, the purchase volume is not limited**
- **Only Scope 1 emissions are covered**
- **Benchmark for emissions: verified emissions volume of the exporter, or the country average, or the average of the 10% worst performing EU installations**
- **The share of free allocations for imported products is at the level of the EU average**
- **The emissions fees paid in the country of origin are taken into consideration**

The CBAM authors discussed that the emissions fees reduce the competitiveness of European producers not only in comparison with producers of imported products, but also as exporters. Local producers asked to introduce some kind of export support mechanism within CBAM, for example in the form of subsidies. In other words, CBAM may eventually take the form of protectionism and distort the competition.

The EU CBAM can also become a drive that will trigger a wave of similar measures all around the world. For example, unofficially, CBAMs are also being developed for further introduction in the USA and Russia.

Another restriction related to achieving climate related goals concerns scrap exports. Scrap is becoming a strategic raw material, since its use helps reduce CO_2 emissions.

Scrap price dynamics (CFR Turkey) and chronology of scrap export restrictions



The most significant potential impact on the global scrap market is associated with the EU initiative to restrict exports of waste, including scrap. According to the new draft regulation waste exports to non-OECD countries will only be possible upon request from the importing country. This potentially threats to interrupt supplies of 5 million tons of scrap to India, Pakistan, Indonesia, Egypt and other non-OECD countries.

In addition, the EU plans to monitor the dynamics of waste (scrap) exports to OECD countries. In the event of a significant increase in volumes, the European Commission reserves the right to suspend exports.

European companies exporting scarp will have to carry out independent audits for their exports outside the EU. In fact, this is an additional technical barrier that can affect the entire volume of exports from the EU.

Against this background, Russia increased its export duty for scrap to €100 per ton. Ukraine followed the example and increased its export duty to €180 per ton. The scrap trade regionalization will continue to gain strength in the future.

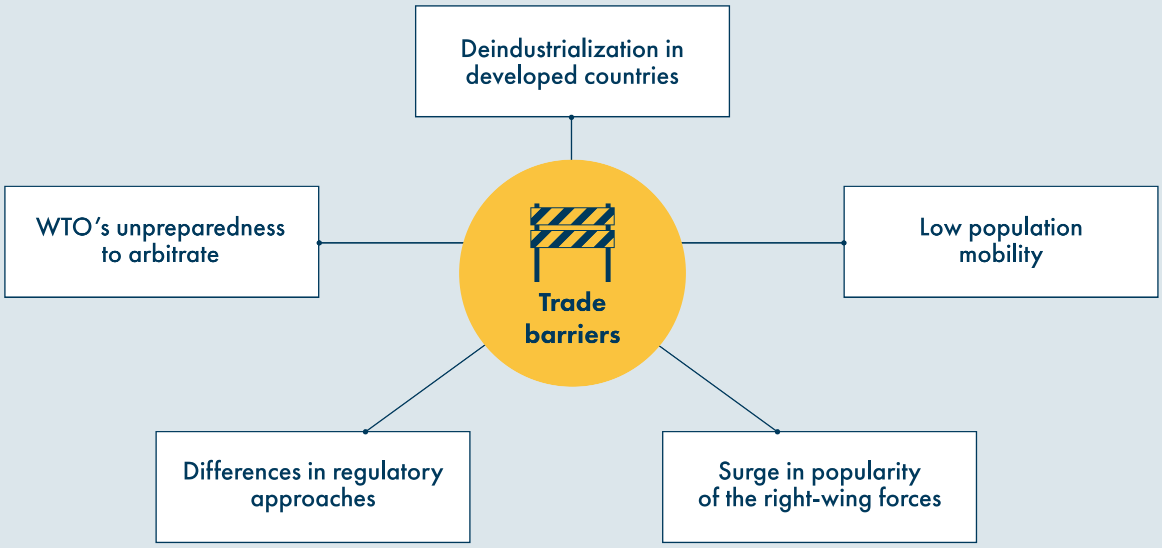
Factors adding to the development of trade restrictions globally

The process of trade globalization went in parallel with the global economic growth but had a number of negative consequences that led to the opposite process — deglobalization of trade in goods. Deglobalization of trade involves building barriers to reduce imports and has now become a global trend.

The international economic integration has contributed to the inclusion of imported goods (instead of local ones) in production chains. In other words, the international integration led to disintegration within countries. Developing countries benefited from economic growth, industrialization, and increase in personal incomes. Yet, quite opposite situation was observed in developed countries: deindustrialization and decrease in personal incomes. Those resulted in greater income inequality and contributed to the growing public discontent.

The population turned out to be unprepared for the consequences of deindustrialization. We observe low population mobility and unpreparedness to retrain those employees who lost jobs as a result of transition to the service economy or use of new technologies.

Reasons for the rise in protectionism



It is impossible to separate the influence of globalization processes on deindustrialization from the influence of technological progress thereon. Although it was globalization where the right-wing political parties found a source for promoting their ideas, e.g. those related to protection of national interests, restriction of international cooperation, tightening of migration policy, etc. These ideas became quite popular in the society and contributed to increasing support for the right-wing parties. This trend has been embodied in the corresponding economic policy.

As a result of globalization, trade convergence has taken place between countries with completely different economic models, e.g. those that have been using market mechanisms and those that have not. Trade convergence has not contributed to the convergence in regulatory approaches. This sparked mutual accusations of unfair competition.

The World Trade Organization was supposed to guarantee compliance with the rules. However, the WTO proved to be unable to perform its main functions, i.e. to resolve the major trade conflicts and ensure that the rules of the game are duly respected. As a result, "the rule of law" has been replaced by "the rule of force". Countries with large local markets are dictating their terms to their trading partners, and the latter have no other choice but to accept them.

The factors described above are of a long-term nature. That is why no easing of trade restrictions takes place when the market is up. The cyclical nature of the industry does not affect the economic policy, since it is shaped by a number of long-term factors.

Trade restriction cases

United States of America

220 ACTIVE IMPORT RESTRICTIONS ON STEEL PRODUCTS[1]

The USA is considered to be the world's leader in protectionism. The government pursues a systematic policy to protect the domestic market.

In March 2018, the USA imposed a safeguard duty of 25% (under Section 232) on steel imports. There is a possibility to avoid import duties under Section 232 by concluding bilateral trade agreements. As of November 2021, 76% of the USA steel imports are free from Section 232.

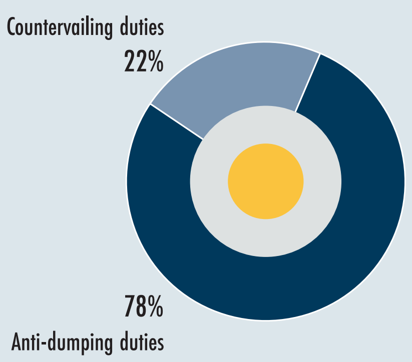
In particular, back in 2018, Brazil was granted duty-free quotas for 70% of the average exports of finished rolled products in 2015–2017 and for 100% of semi-finished products. A similar quota was granted for Argentina at the level of 135% of exports of steel products, and of 70% for the Republic of Korea.

In 2019, Canada and Mexico secured exemption from Section 232 by entering into a joint trade agreement replacing duties with an import monitoring procedure.

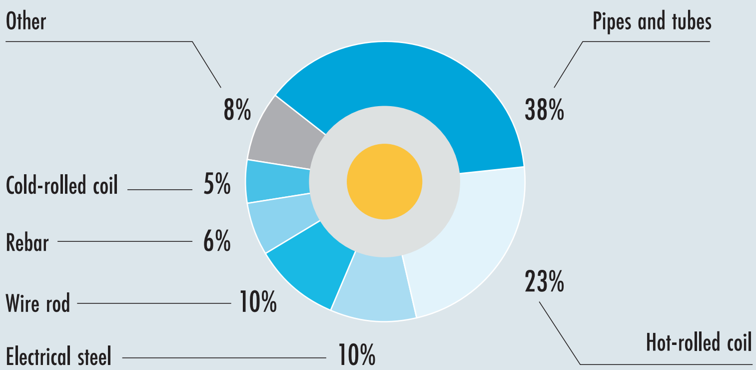
In October 2021, an agreement was signed with the EU to replace duties with tariff quotas at the level of average imports in 2015–2017. In exchange, the EU will not introduce a second package of measures against the US products amounting to €3.6 billion per year. This agreement also covers initiatives in the field of aircraft construction, combating excess capacity in the steel industry, and promoting decarbonization.

In November 2021, following the conclusion of agreement with the EU, Japan and the United Kingdom initiated negotiations to abolish the Section 232 tariffs. Active negotiations on bilateral agreements for Section 232 exclusion may indicate the long-term nature of this restriction, despite various rumors that Section 232 will no longer apply.

Import restrictions by instruments



Import restrictions by products

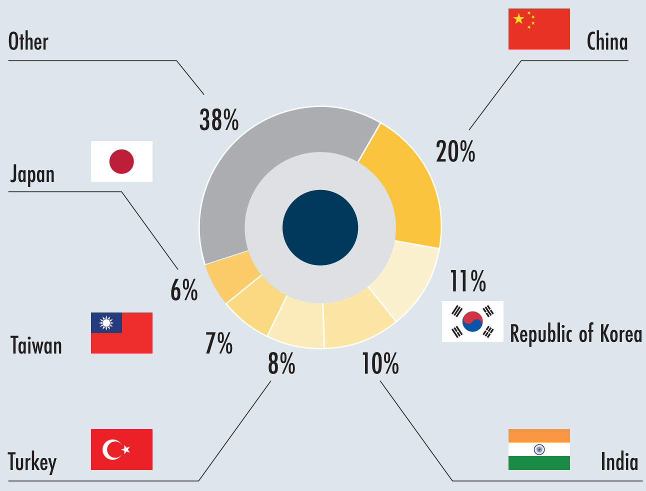


Sources: WTO, GMK Center estimations

The USA import restrictions cover all product categories. They are mainly focused on the pipes and tubes market, which is attractive to importers because of the development of the oil and gas sector in the country (38% of measures). Another 30% of measures are imposed on flat products. Most of the duties were traditionally introduced against Chinese producers, which were more price-competitive than local steelmaking companies. The minimum price agreements are instruments used in the USA to ease anti-dumping measures.

[1] Hereinafter the anti-dumping measures, presented in the WTO statistics, are estimated by their number having due regard to the number of affected countries

Import restrictions by affected countries



Sources: WTO, GMK Center estimations

7 anti-dumping duties against Ukraine, including:

- **1** – imports of ferroalloys (in place since 1994);
- **2** – imports of hot-rolled flat products (in place since 1997 and 2001);
- **1** – imports of rebar (in place since 2001);
- **2** – imports of pipes and tubes (in place since 2014 and 2021);
- **1** – imports of wire rod (in place since 2018);
- **1** – imports of rod (in place since 2021);

1 safeguard measure (Section 232)

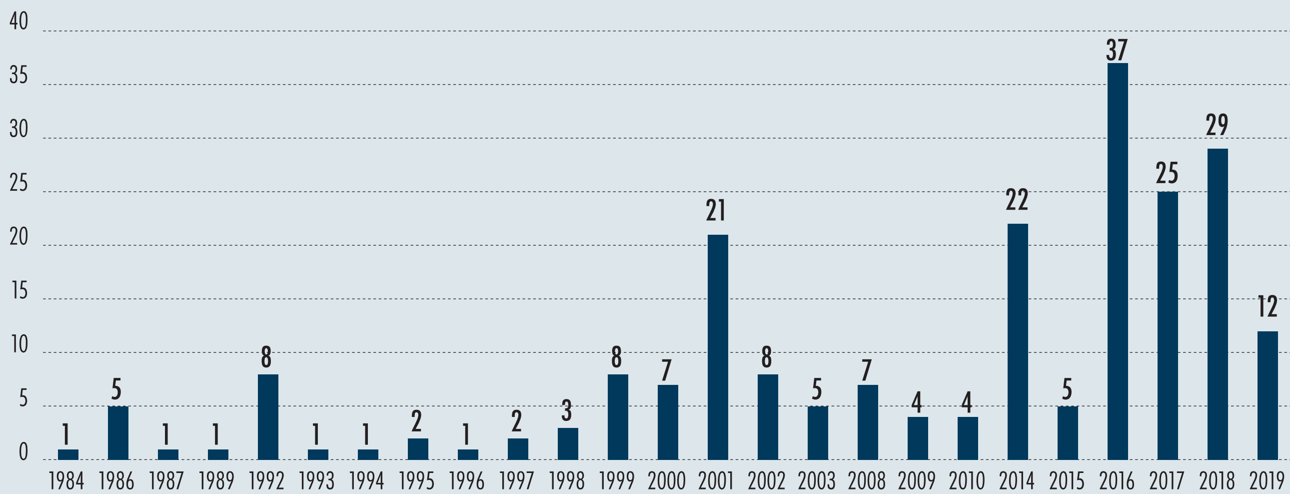
semi-finished products, rolled products, pipes and tubes (in place since 2018).

In 2000–2005, a so-called "Byrd Amendment" was in force in the USA. It allowed companies which reported a possible dumping to receive a certain part of the amount of duties paid as a result of the measures introduced. This can partly explain the increase in the number of measures introduced in this period.

The rise in protectionism took place in 2016–2018. It was then that 41% of the current duties were introduced, which was in line with the global trend that might have been caused by the activity of the USA.

One in six measures in the USA was introduced before 2000. The duty introduced in 1984 on imports of pipes and tubes from Taiwan still applies. This suggests a possible political motive behind such measures.

Number of imposed restrictions* by years



Sources: WTO, GMK Center estimations

* In place as of 30 June 2021

European Union

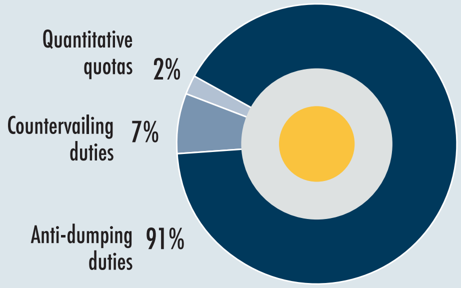
53 ACTIVE IMPORT RESTRICTIONS ON STEEL PRODUCTS

The European Union seeks to act within the framework of the current WTO rules and regulations and, therefore, introduces standard restrictions envisaged by the procedures in force.

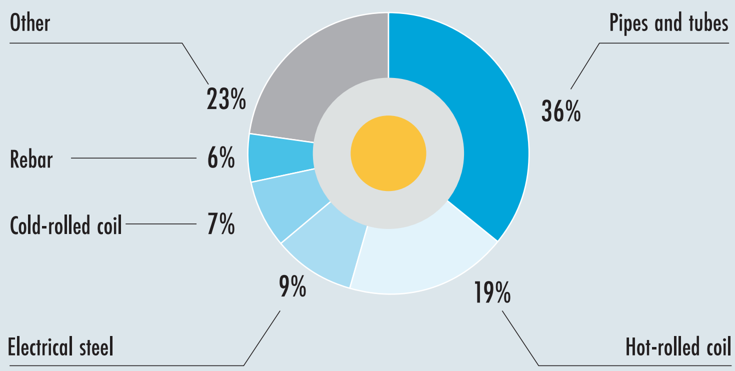
The EU uses softer trade restrictions as compared to those of the USA. This can be seen in the example of import quotas introduced in July 2018 in response to the imposition of a safeguard duty on steel in the USA. Import quotas allow duty-free imports of steel products in volumes equal to the average annual imports in order to prevent shortages of metal products and excessive price hikes, while the USA duty has affected all imports, save for the rare exceptions.

Initially, the import quota system was introduced for the period from July 2018 till July 2021 in accordance with the WTO regulations for safeguard purposes. In 2021, the European Commission extended the period of quota application for another 3 years (until July 2024), which came as a complete surprise to the market participants. This enables trading partners to retaliate in order to recover damages from the imposed trade restrictions. India has already taken this path by notifying the WTO of the imposition of import duty on the EU products. Other countries, such as Turkey and Russia, may also resort to similar measures.

Import restrictions by instruments



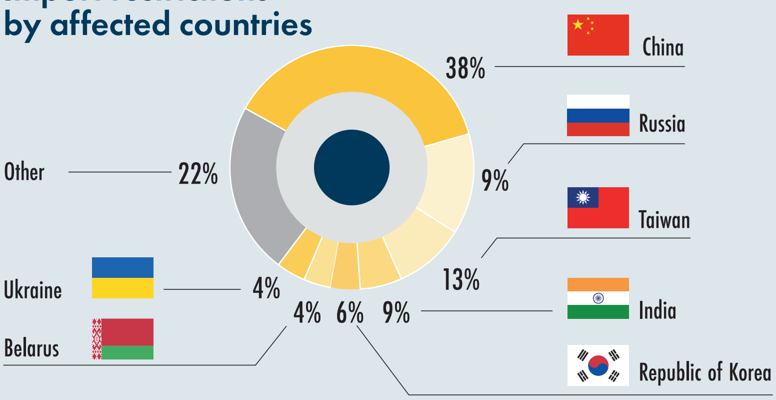
Import restrictions by products



Sources: WTO, GMK Center estimations

The European Union predominantly applies anti-dumping duties (91% of measures). Over 70% of measures are aimed at protecting the domestic market of pipes, tubes and flat products. As for Ukrainian producers, the duties are imposed in the same segments. The greatest danger to the local steel producers is posed by the Russian and Chinese plants that are subject to most of the introduced restrictions.

Import restrictions by affected countries



Sources: WTO, GMK Center estimations

2 anti-dumping duties against Ukraine, including:

- **1** – imports of seamless pipes (in place since 2006;
- **1** – imports of hot-rolled coil (in place since 2017).

1 safeguard measure

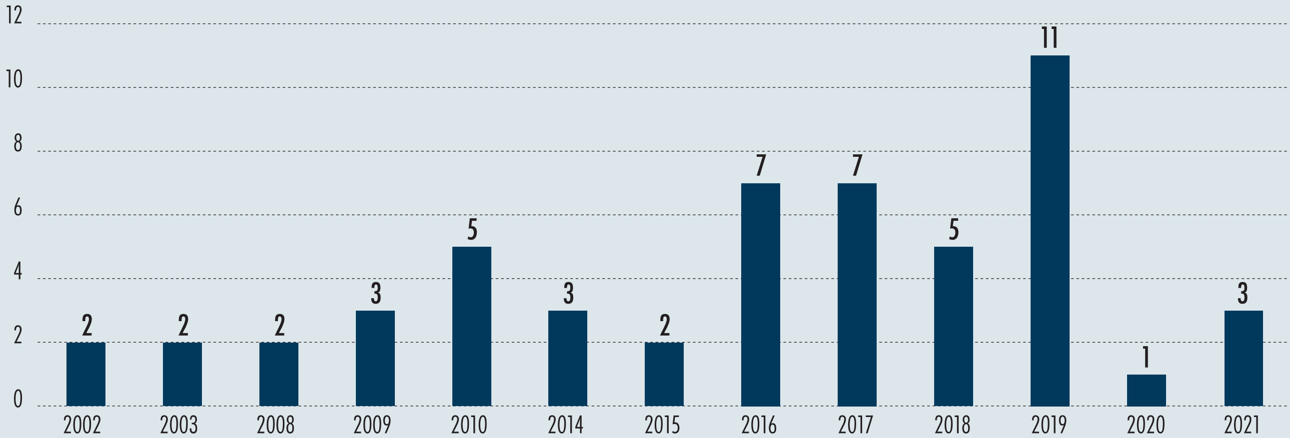
rolled products, pipes and tubes (in place since 2018).

Due to the regular review of anti-dumping measures, most of them are lifted in the EU. Therefore, currently, there are no effective duties introduced before 2002, and most of them were imposed in 2017.

In 2026, the European Commission is planning a full-scale launch of the CBAM (Carbon Border Adjustment Mechanism). This mechanism envisages collection of payments from importers of steel products, depending on the volume of CO2 emissions during their production. Officially, the main goal is a global combat against climate change.

In the proposed format, the CBAM will not restrict the volume or affect the competitiveness of imports, which reveals the contradictory nature of this instrument. This mechanism has been lobbied for by European steelmakers to restrict more competitively priced imports. The CBAM's focus on achieving global goals is challenged by experts, since the collected payments are planned to be used within the EU only.

Number of imposed restrictions* by years



Sources: WTO, GMK Center estimations

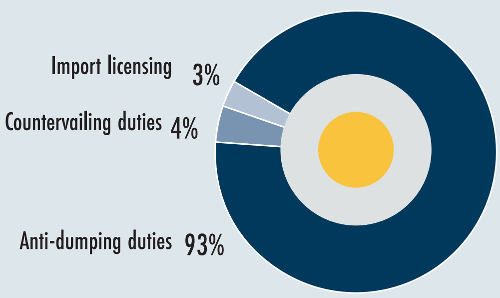
* In place as of 30 June 2021

India

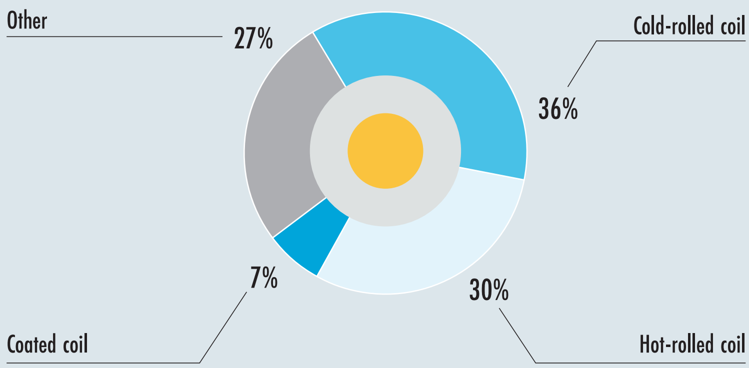
30 ACTIVE IMPORT RESTRICTIONS ON STEEL PRODUCTS

The government policy of India is aimed at developing the local steel industry and increasing steel consumption in the country. The government has set a goal to increase steel production from 122 million tons in 2016 to 300 million tons in 2030. To increase steel consumption, India is planning to develop steel consuming industries (automotive, aircraft construction, construction, electrical engineering, renewable energy) by implementing special government programs. Therefore, the state policy is aimed at ensuring maximum satisfaction of demand by domestic producers in order to stimulate the economy.

Import restrictions by instruments



Import restrictions by products

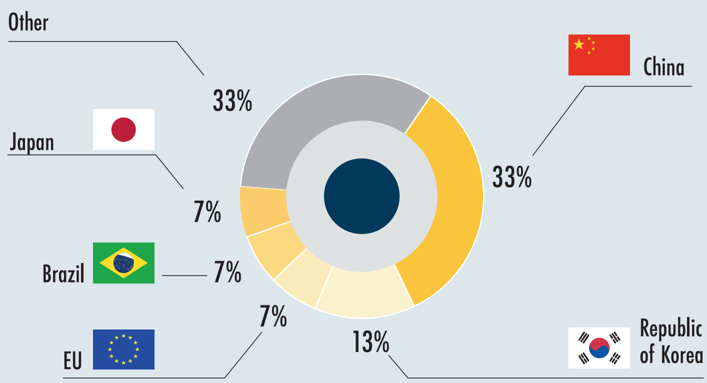


Sources: WTO, GMK Center estimations

The major instrument used to protect the domestic market is anti-dumping duties (93% of measures). At the same time, 73% of measures are aimed at restricting imports of flat rolled products (the duty imposed on Ukraine also falls within this category). One third of the restrictions are introduced against China, India's closest neighbor and global leader in steel production.

A special feature of Indian protectionism is the use of licensing procedures. To protect its domestic market, India banned imports of steel products not certified under the national standards.

Import restrictions by affected countries



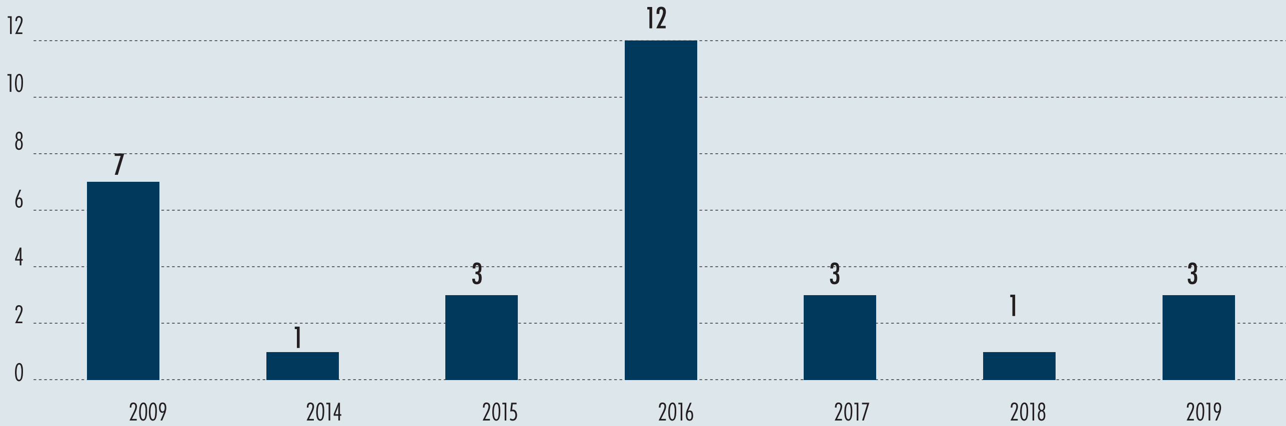
Sources: WTO, GMK Center estimations

1 anti-dumping duty against Ukraine:

imports of cold-rolled coil (in place since 2016).

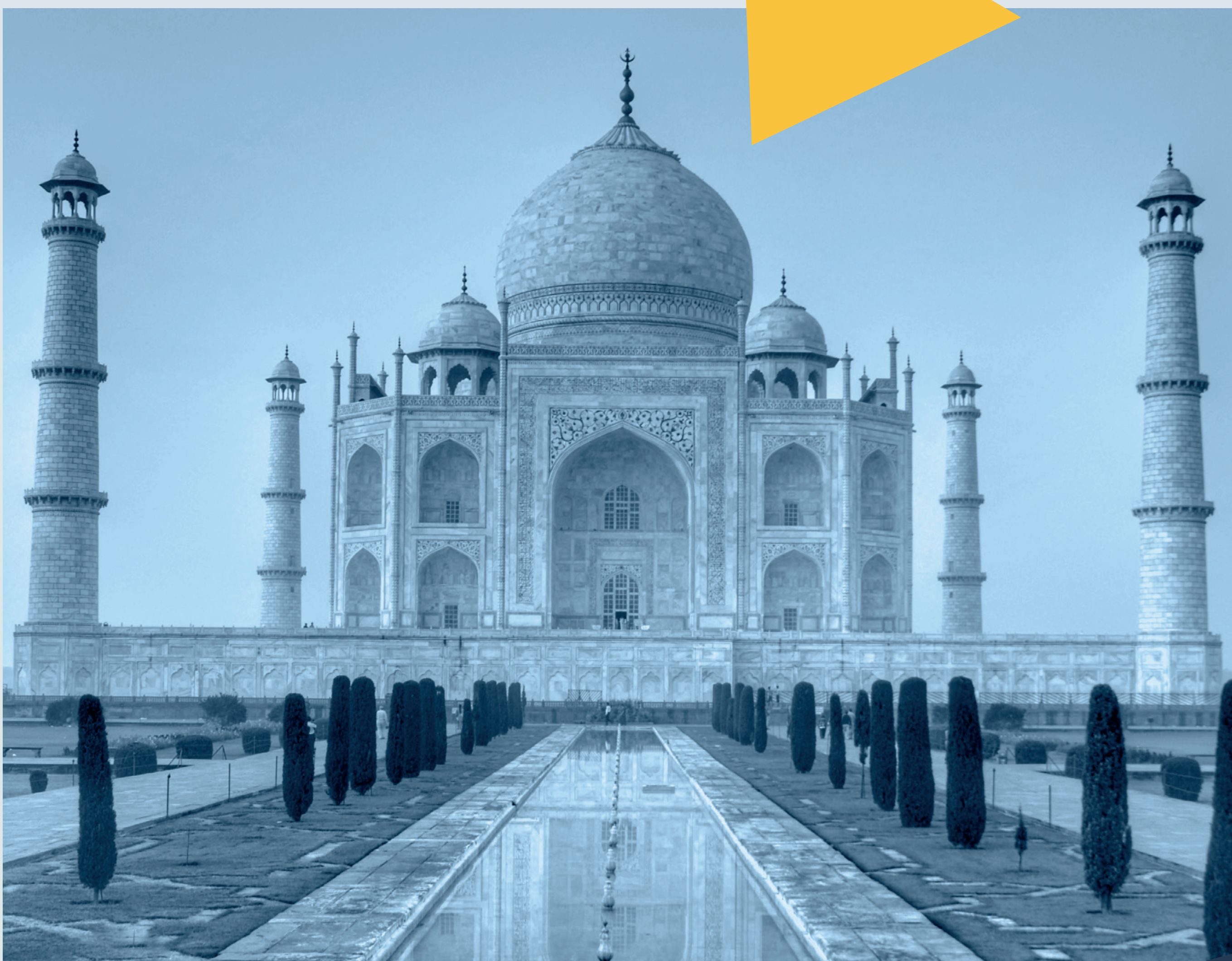
About 40% of the current restrictions were introduced in 2016. In response to the European system of tariff quotas for steel imports, India plans to impose duties on imports of European products. To provide domestic producers with raw materials, India introduced a 30% duty on exports of iron ore (save for iron ore pellets) and a 20% duty on exports of ferrous scrap.

Number of imposed restrictions* by years



Sources: WTO, GMK Center estimations

* In place as of 30 June 2021



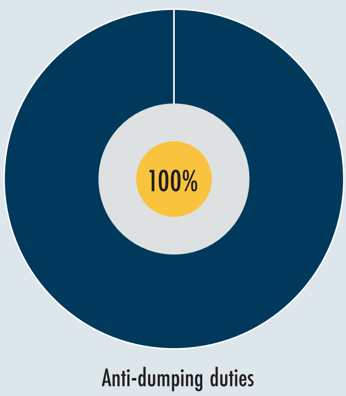
Turkey

15 ACTIVE IMPORT RESTRICTIONS ON STEEL PRODUCTS

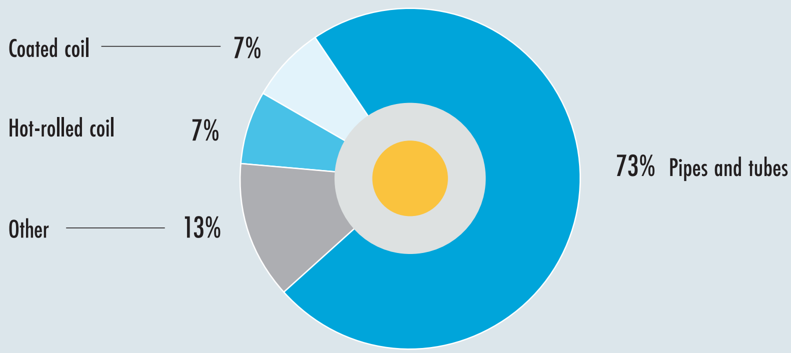
Turkey views its local steel industry as a foundation for the production of high value-added products. At the government level, the steel industry development is supported by various instruments: preference of local products in public procurements, provision of grants and export credit guarantees, development of infrastructure for exports.

Protectionism measures in Turkey are used on a case-by-case basis and are limited to anti-dumping duties. Duties are predominantly imposed on imports of pipes, tubes and flats.

Import restrictions by instruments



Import restrictions by products

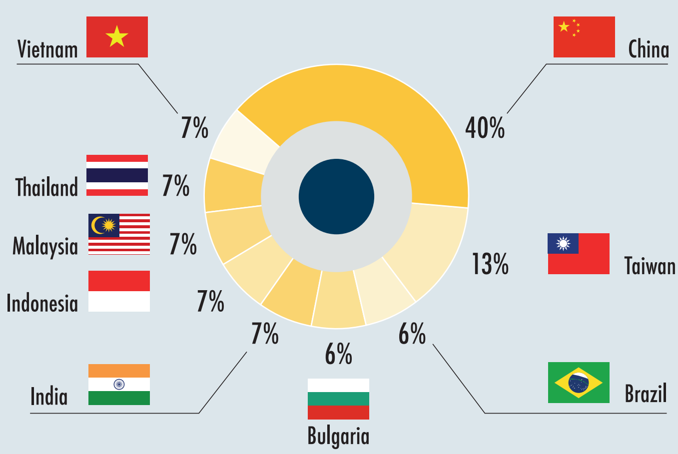


Sources: WTO, GMK Center estimations

Most of the anti-dumping duties have been imposed on imports from China and Taiwan.

A feature of Turkey's trade policy is the high level of import duties agreed upon when the country joined the WTO in the relevant agreement. In particular, duties on semi-finished steel products – 22.5%, hot-rolled coil – 10-15%, coated coil – 15.0%, bars and rod – 30.0%, shaped products – 17.0%. However, there are a number of exceptions.

Import restrictions by affected countries



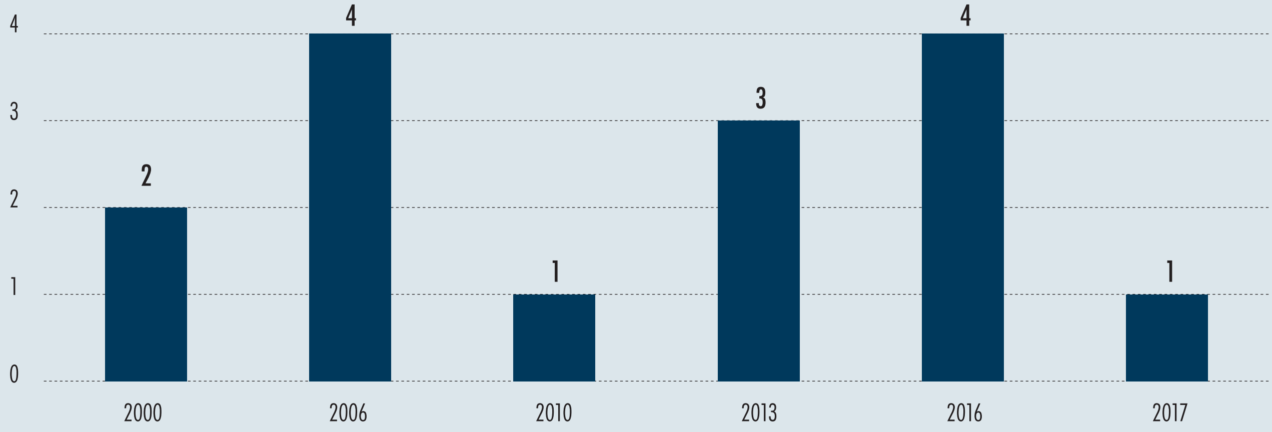
Sources: WTO, GMK Center estimations

For example, these rates do not apply to countries with which Turkey has concluded free trade agreements. Also, in Turkey, since 1996, the so-called Inward Processing Regime has been operating. It allows local producers to import duty-free raw materials and semi-finished products that are used to produce export goods. Ukrainian steelmakers supply their products to Turkey within the framework of this regime, avoiding import duties. Therefore, Ukrainian plants are major suppliers of semi-finished products and hot-rolled coil to Turkey.

0 restrictions on imports from Ukraine

Currently, there are no active import restrictions in Turkey introduced before 2000. Turkey remains quite flexible in the protectionism-related matters. In particular, in October 2018, Turkey introduced temporary quotas for imports of rolled products, pipes and tubes (for 200 days). Those quotas were not extended. In 2020, in response to the EU anti-dumping investigation against imports of hot-rolled coil, Turkey stroke back by launching an anti-dumping investigation against imports of hot-rolled coil from the EU. As of October 2021, no final measures have been introduced against the EU. Turkey has initiated a WTO dispute against Section 232 in the USA and tariff quotas in the EU.

Number of imposed restrictions* by years



Sources: WTO, GMK Center estimations

* In place as of 30 June 2021

Eurasian Economic Union

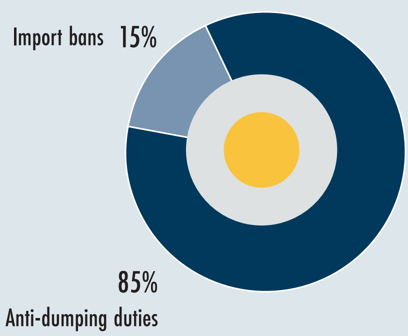
13 ACTIVE IMPORT RESTRICTIONS ON STEEL PRODUCTS

The Eurasian Economic Union (EAEU) consists of five member states: Russia, Belarus, Kazakhstan, Armenia and Kyrgyzstan. Russia exerts a decisive influence on the EAEU activities. In particular, in trade matters connected to steel market, since the Russian steel industry accounts for 92% of the volume of steel production in the EAEU countries..

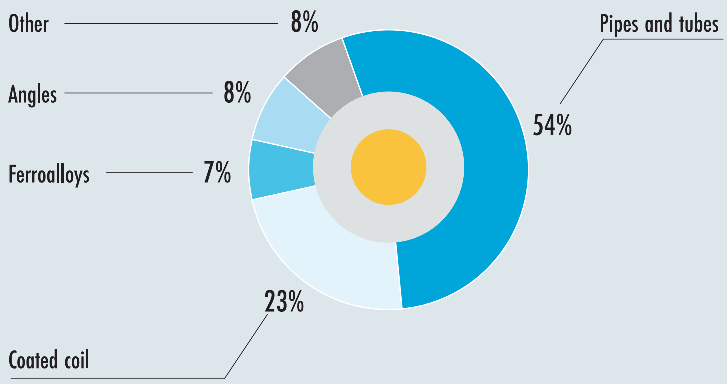
Russian steelmakers are among the most competitive steel producers in the world. Therefore, trade restrictions are rarely used and sometimes are politically motivated. In these cases, local authorities act decisively, using rough measures such as an explicit import ban.

To protect the domestic market, Russia and the EAEU impose anti-dumping duties on a wide range of products. The largest number of such duties was imposed on imports of pipes and tubes (over 50% of measures). Pipes and tubes are high value-added products and — in the context of oil and gas industry development — this market is interesting for both domestic producers and importers.

Import restrictions by instruments



Import restrictions by products



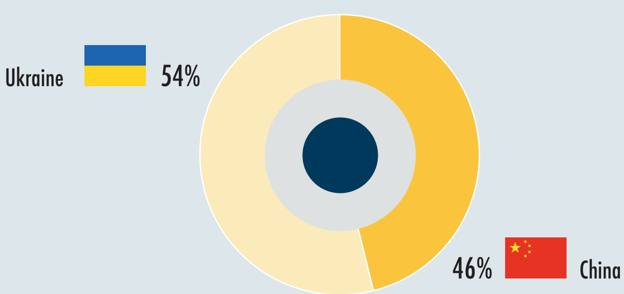
Sources: WTO, GMK Center estimations

The EAEU introduced restrictions against producers from two countries only: Ukraine and China. Trade restrictions against Ukraine are used for political pressure purposes. The duties imposed on China are caused by fears of unfair competition: until recently, Chinese producers enjoyed government support and could keep prices low.

In 2019, the EAEU introduced safeguard tariff quotas for imports of hot-rolled flat products. Eventually, the quotas were not fully used and it was decided to lift the safeguards.

In August 2021, seeking to counteract the rise in prices in the domestic market, Russia imposed duties on exports of steel products, including semi-finished products.

Import restrictions by affected countries



Sources: WTO, GMK Center estimations

5 **anti-dumping duties against Ukraine, including:**

- **2** – imports of pipes and tubes (in place since 2006 and 2016);
- **1** – imports of ferroalloys (in place since 2016);
- **1** – imports of angles (in place since 2017),
- **1** – imports of HDGC (in place since 2019).

2 **bans on imports from Ukraine, including:**

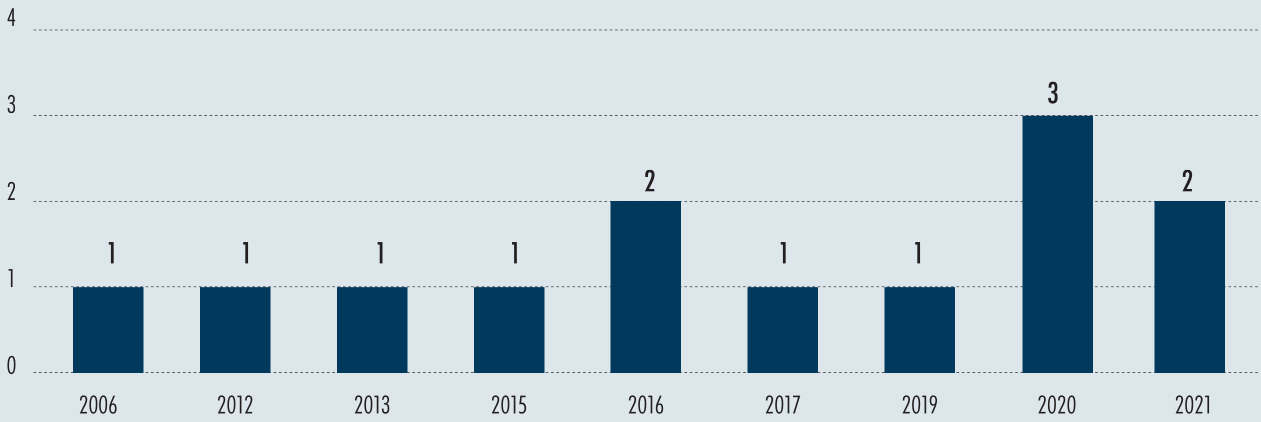
- **1** – imports of pipes and tubes (in place since 2019);
- **1** – imports of railway wheels (in place since 2021).

In addition to 5 anti-dumping duties, there are explicit bans on imports of steel pipes and railway wheels from Ukraine, which were introduced after the anti-dumping duties on these type of products had expired.

Also, in 2019, Russia introduced a licensing procedure for exports of coal and coke to Ukraine, which was quite painful for Ukraine given its heavy dependence on coal imports from Russia.

Most of the current import restrictions have been introduced in the EAEU over the past 8 years. In other words, trade barriers are introduced on a case-by-case basis and for a limited period of time. In 2021, for example, the anti-dumping duty on imports of rebar and bars from Ukraine has expired. At the government level, Russia's steel industry is mainly supported through subsidies, soft loans and infrastructure development programs.

Number of imposed restrictions* by years



Sources: WTO, GMK Center estimations

*In place as of 30 June 2021

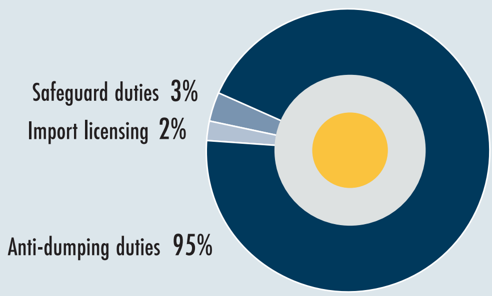
ASEAN countries

91 ACTIVE IMPORT RESTRICTIONS ON STEEL PRODUCT

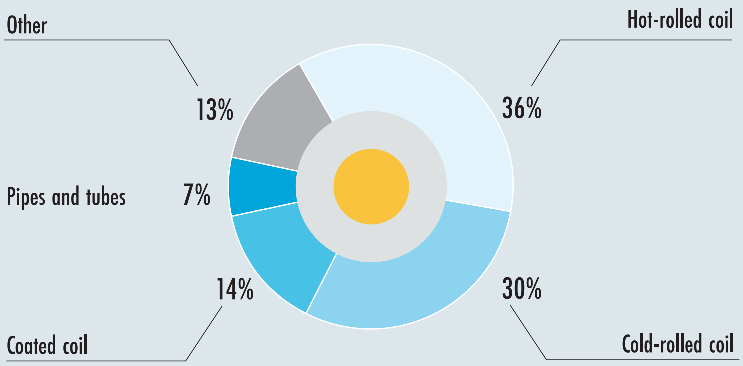
ASEAN is a region with a developing steel industry, where new factories are being built and steel production is constantly growing. An important role here is given to the investments from China, which is pursuing a policy of steel production restriction domestically.

ASEAN member countries are Brunei, Vietnam, Indonesia, Cambodia, Laos, Malaysia, Myanmar, Singapore, Thailand and Philippines. However, only those countries where the steel industry is most developed — i.e. Vietnam, Indonesia, Malaysia and Thailand — resort to import restrictions. It`s a possibility to use the products of local steel producers in the implementation of state housing construction and infrastructure development programs.

Import restrictions by instruments



Import restrictions by products



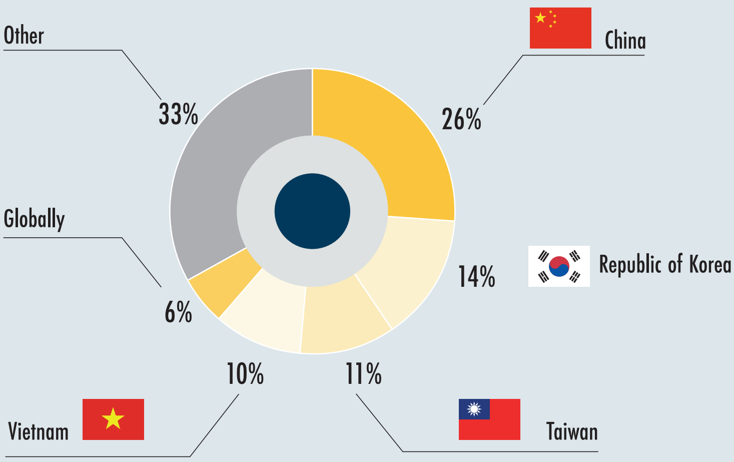
Sources: WTO, GMK Center estimations

The major instrument used to protect the domestic market is anti-dumping duties. The pipes, tubes and flats market enjoy the greatest protection (87% of measures). This fact draws attention. In 2019, consumption of flat rolled products in the ASEAN countries amounted to 42 million tons, while imports totaled 39 million tons. The volume of flats production within ASEAN was 13 million tons and was mainly intended for foreign markets. Therefore, governments are protecting their domestic markets of flat rolled products to ensure supplies to the local plants within the region. Duties introduced against Ukraine also affect flats.

Most of the import restrictions in the ASEAN countries have been introduced against Asian countries. It is a common practice for one ASEAN country to impose duties on another member country. In particular:

- anti-dumping duties on rolled products, pipes and tubes from Vietnam are in place in Indonesia, Malaysia and Thailand;
- anti-dumping duties on rolled products from Indonesia are in place in Vietnam and Thailand;
- anti-dumping duties on rolled products from Malaysia are in place in Vietnam, Indonesia and Thailand;
- anti-dumping duties on rolled products from Thailand are in place in Indonesia and Malaysia.

Import restrictions by affected countries



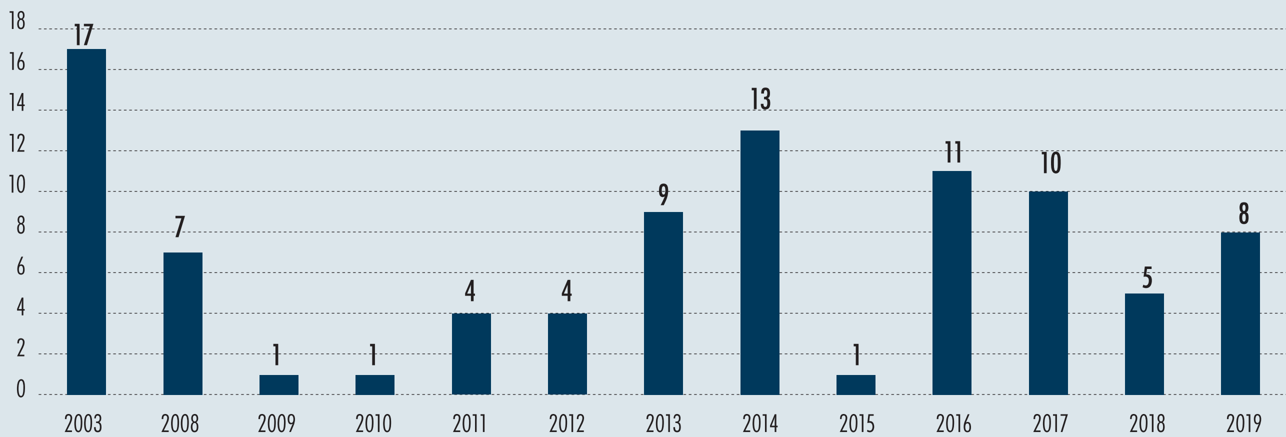
Sources: WTO, GMK Center estimations

2 anti-dumping duties against Ukraine, including:

- **1** – imports of hot-rolled coil in Indonesia (in place since 2012);
- **1** – imports of hot-rolled coil in Thailand (in place since 2003).

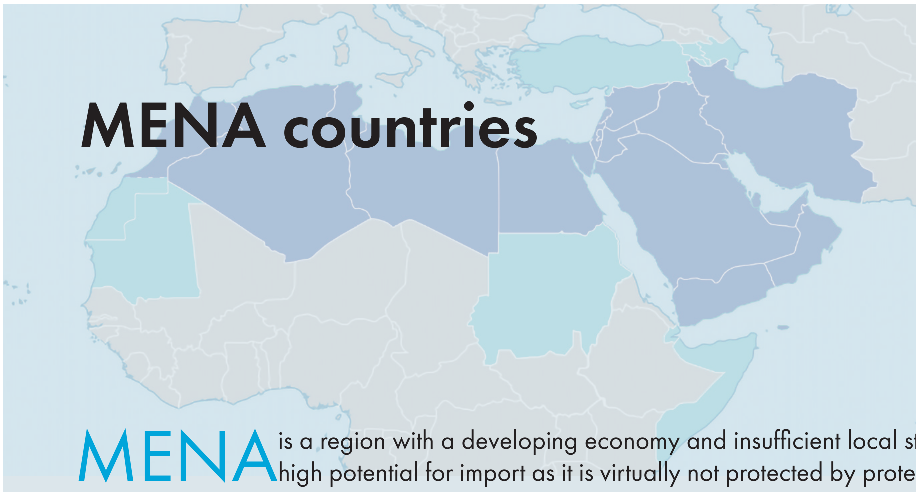
The majority of the restrictions currently in place were introduced in 2003. For the last time restrictions were introduced in 2019. The ASEAN countries are quite active when it comes to protecting their domestic market, which has a great potential for growth. By all appearances, the protectionist sentiments in the region will persist, since there is a number of major projects for the construction of new steel production facilities launched in the region.

Number of imposed restrictions* by years



Sources: WTO, GMK Center estimations

*In place as of 30 June 2021



MENA countries

9 ACTIVE IMPORT RESTRICTIONS ON STEEL PRODUCTS

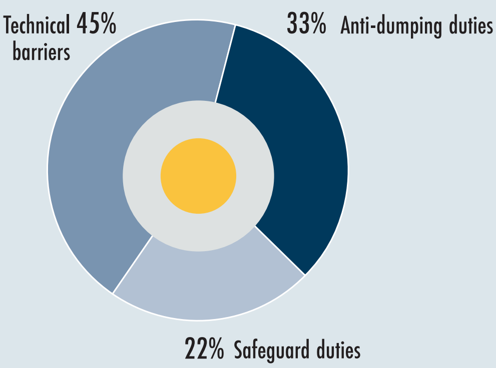
MENA is a region with a developing economy and insufficient local steel production capacities. This region has a high potential for import as it is virtually not protected by protectionist barriers as compared to others.

There is no exact list of MENA countries. According to the World Bank classification, the region includes Algeria, Bahrain, Djibouti, Egypt, the West Bank of the Jordan River, Israel, Jordan, Iran, Iraq, Qatar, Kuwait, Lebanon, Libya, Malta, Morocco, the UAE, Oman, Saudi Arabia, Sector Gaza, Syria, Tunisia and Yemen.

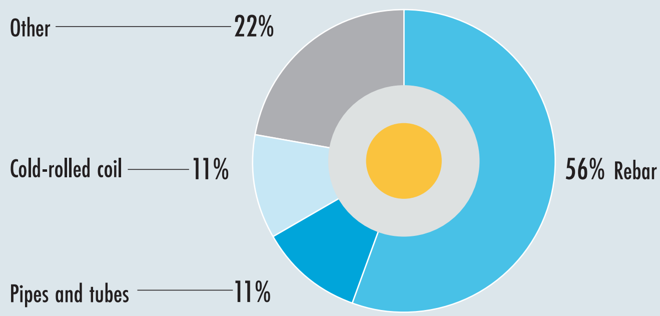
Egypt, Israel and Morocco are quite protectionistically active. In October 2019, an investigation was initiated against imports of steel products in the GCC. However, the investigation ended with no safeguards introduced, despite the fact that the damage was acknowledged. This was caused by favorable market conditions and supply shortages in some segments. Moreover, in the MENA economies, steel consuming industries (oil & gas and construction) play a greater role than the steel industry.

An extremely painful measure for a number of countries was the introduction in 2019 of safeguard duties on imports of rebar and square billets to Egypt. Import restrictions are very rarely imposed on semi-finished products. These safeguards are introduced for three years and their challenging in court has taken six months. However, they were early lifted in November 2021 because of a shortage of electricity in the country where steelmaking companies could not meet the market demand. Now the introduction of tariff quotas as a new format of safeguards is being discussed.

Import restrictions by instruments



Import restrictions by products



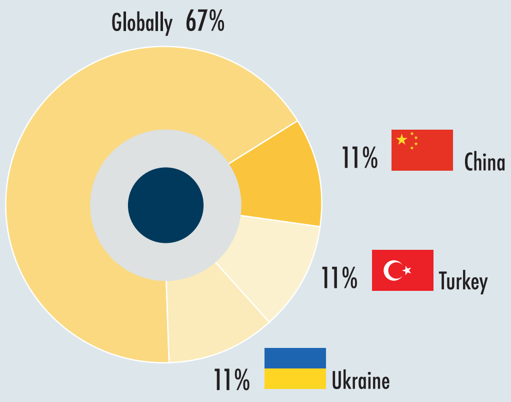
Sources: WTO, GMK Center estimations

About 45% of the measures introduced are technical barriers. Those barriers do not significantly increase the importers' costs and usually involve adherence to certain licensing procedures. The remaining measures (55%) are associated with duties.

A special feature of this region is the safeguards' focus on rebar imports (56% of measures introduced). This is because the steel production capacities in the region are focused, to a greater extent, on long products. Long products, pipes and tubes comprise a major portion of steel consumption in the MENA countries.

67% of measures target all countries. Those are technical barriers and safeguard duties in Morocco on imports of cold-rolled coil, rebar and wire rod. There is one anti-dumping duty in place against Ukraine.

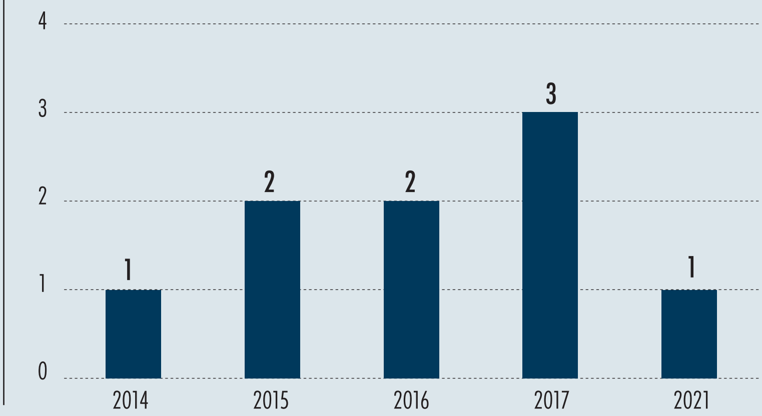
Import restrictions by affected countries



Sources: WTO, GMK Center estimations

1 anti-dumping duty against Ukraine:
imports of rebar to Egypt (in place since 2017)

Number of imposed restrictions* by years



*In place as of 30 June 2021

Egypt is most actively using trade barriers in the MENA region. In addition to the anti-dumping and safeguard duties imposed earlier, Egypt has also introduced a declaration system for steel cargo arriving at ports, which is a technical barrier hampering operations of trading companies.

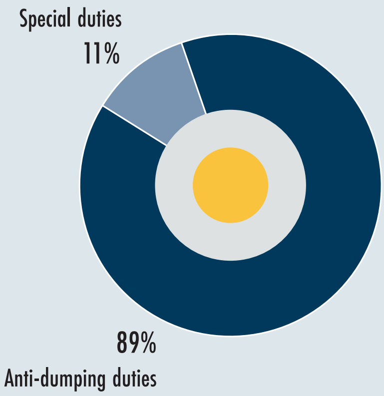
Recently, the MENA countries have also embarked on the protectionism path: there are no active restrictions in the region introduced before 2014. MENA remains the last region that is relatively open for imports.

Ukraine

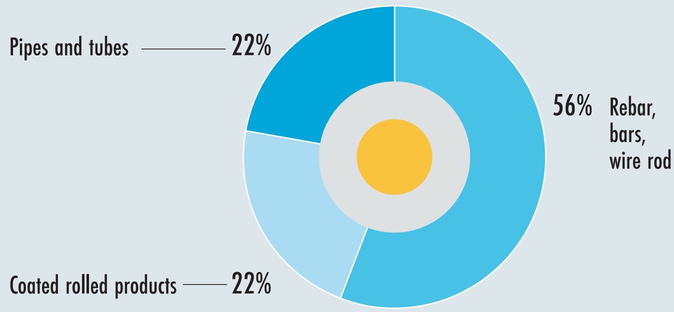
9 ACTIVE IMPORT RESTRICTIONS ON STEEL PRODUCTS

The steel industry of Ukraine is export-oriented. With the production of 18–20 million tons of commercial steel products per year, the domestic market consumption is about 5 million tons. Therefore, even relatively small volumes of imports can be detrimental for the domestic market.

Import restrictions by instruments



Import restrictions by products

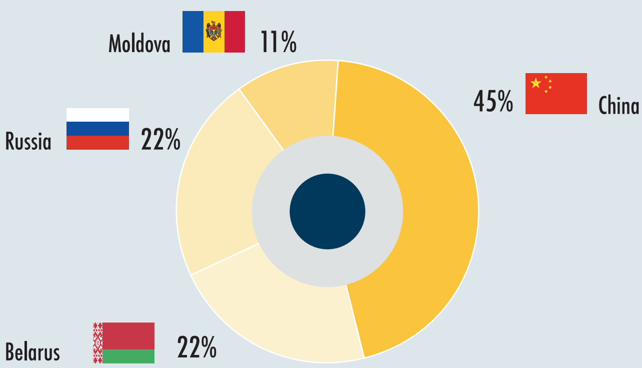


Sources: WTO, Ministry of Economy of Ukraine, GMK Center estimations

Ukraine has taken a liberal approach to imports of steel products. This is evidenced by the zero duties within the anti-dumping investigation against imports of bars from Belarus. Likewise, following the investigation against imports of seamless pipes from China, some producers were granted a zero anti-dumping duty. Lengthy investigation procedure and the lack of interim measures are also worth mentioning. Ukraine was yet reluctant to introduce any countermeasures.

Over 50% of measures are introduced to restrict imports of long products (rebar, wire rod, bars). Most of the duties were imposed on the Russian and Chinese producers benefiting from the state support instruments and understated prices for raw materials and energy resources.

Import restrictions by affected countries



Sources: WTO, Ministry of Economy of Ukraine, GMK Center estimations

4 pending anti-dumping investigations and reviews:

1 – imports of bars from Belarus (pending since September 2021);

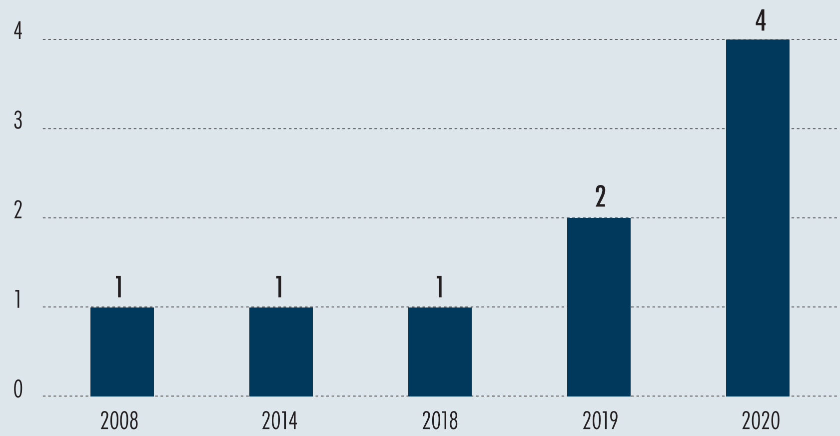
1 – imports of polymeric coated coil from China (pending since December 2020);

1 – imports of wire from China (pending since April 2021);

1 – imports of seamless pipes from China (pending since September 2021).

Influenced by the global trend of increasing trade restrictions, Ukraine changed its policy, albeit with a significant delay. Before 2019, only three anti-dumping measures were in place in Ukraine: against wire from China, against seamless stainless steel pipes, and a countermeasure against bars from Russia. However, 6 new measures have been introduced over the past 2 years. And there are three more pending investigations, all against Chinese products: coated rolled products, cold-formed seamless pipes and rod. Also, an administrative review of the anti-dumping measures against bars from Belarus was initiated. These changes in import restrictions are caused by the increased activity of local companies in this field, i.e. by more active initiation of new measures, since the market has been actually poorly protected before.

Number of imposed restrictions* by years



*In place as of 30 June 2021

Sources: WTO, Ministry of Economy of Ukraine, GMK Center estimations

Impact of trade restrictions on production volumes

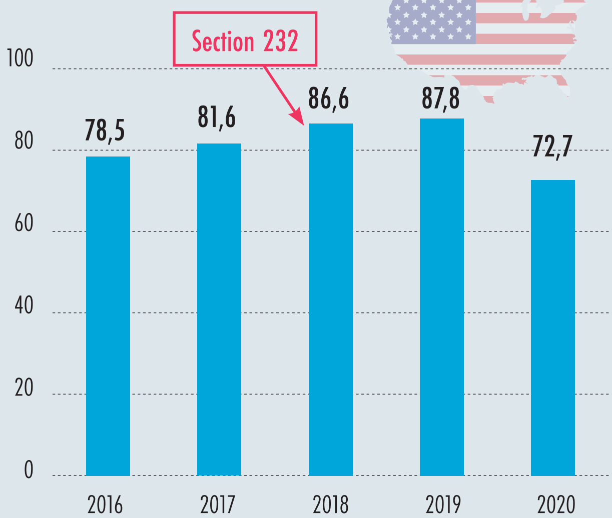
Import restrictions are primarily aimed at boosting the domestic production and supplies to the domestic market. The introduction of broad import restrictions against several product groups, for example, safeguard measures in the USA or Egypt, did lead to an increase in the domestic steel production.

However, the output figures do not always increase. Import restrictions often come with an increase in prices in the domestic market. Thus, the introduction of Section 232 duties led to an increase in prices of all imported products by 25%, and resulted in a 20% difference in prices in the USA and in other markets. Similarly, a 25% duty on imports of rebar in Egypt resulted in a 10% difference in prices as compared to other countries in the region. Increase in prices partially offsets the effect of duties, thus restoring opportunities to sustain imports.

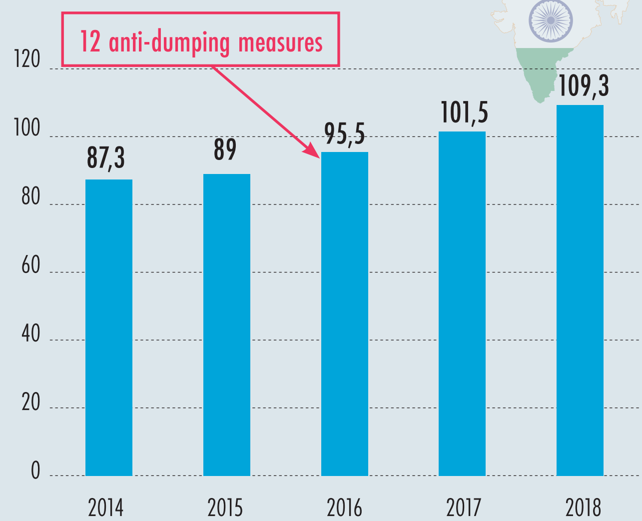
However, import volumes are also affected by the amount of duties. The USA, for instance, usually calculate the anti-dumping duties in hundreds of percent.

It should be noted that it is quite difficult to determine the effect of certain measures on the output volumes, since they are also affected by other factors. For example, most of the measures are usually introduced in the periods of crisis, following which the market recovery can actually contribute to the increase in production volumes more than the introduction of any trade restrictions.

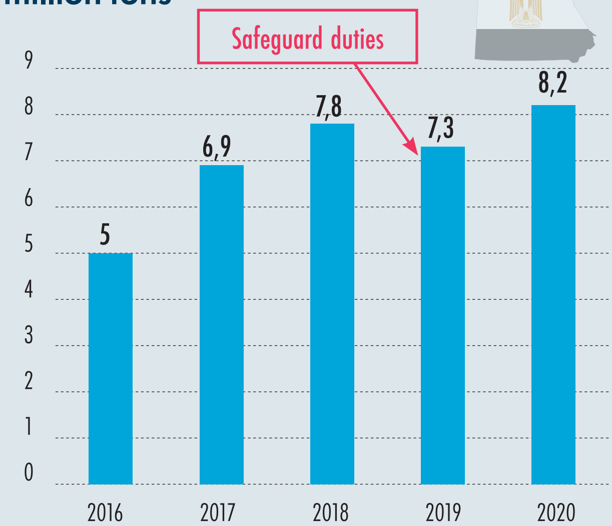
Volume of steel production in the USA, million tons



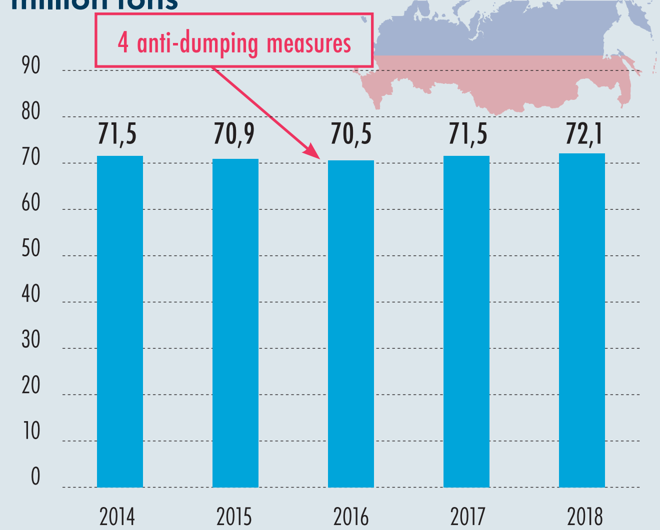
Volume of steel production in India, million tons



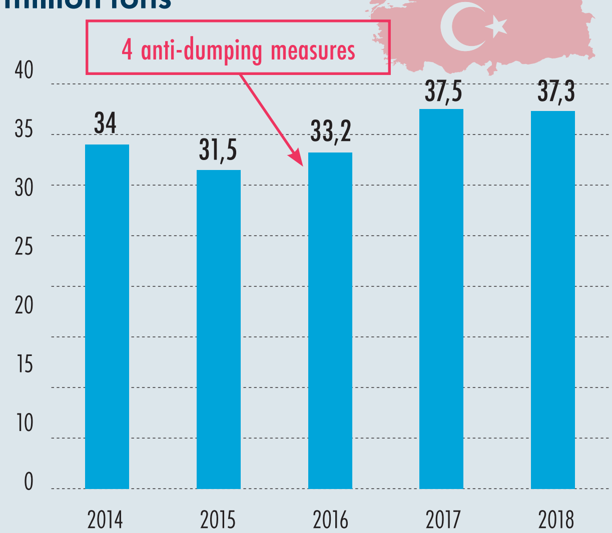
Volume of steel production in Egypt, million tons



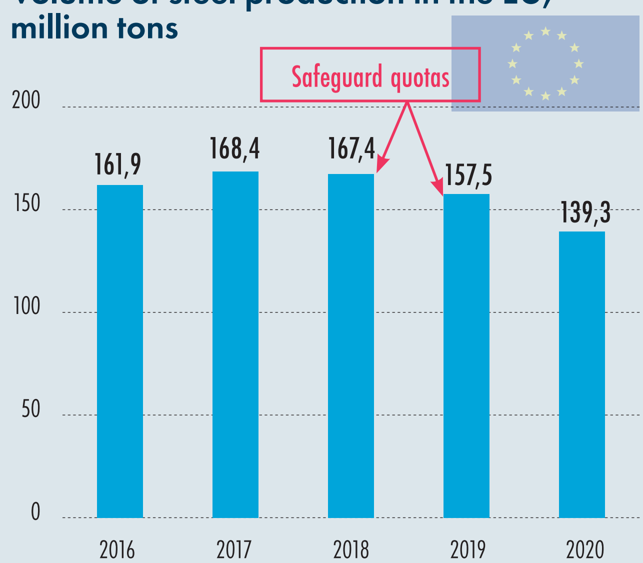
Volume of steel production in Russia, million tons



Volume of steel production in Turkey, million tons



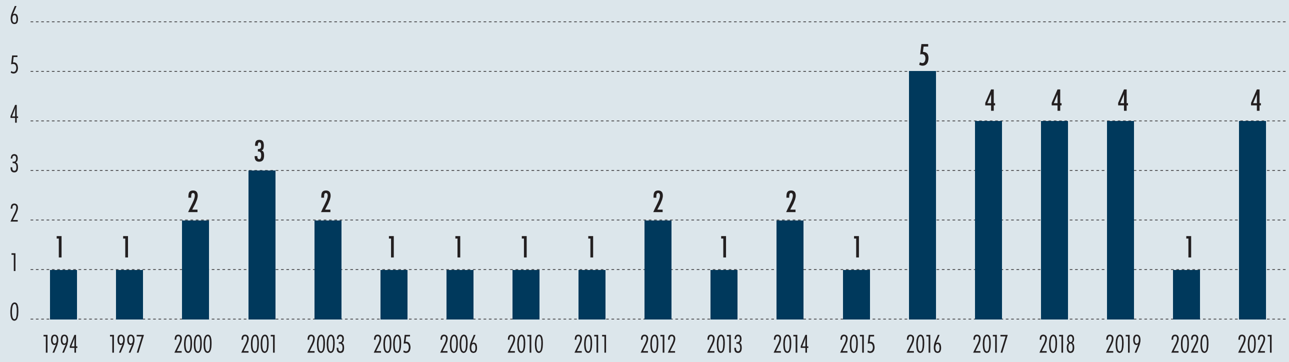
Volume of steel production in the EU, million tons



Trade barriers against Ukraine

There are 40 active import restrictions introduced in 15 countries against steel products from Ukraine, 33 of which are anti-dumping measures. Despite the relative decrease in the number of new trade restrictions in the world in 2021, 4 new measures have been introduced against Ukraine, which may cause a loss of 100 thousand tons per year in exports.

Dynamics of import restrictions against steel products from Ukraine



Source: Ministry of Economy of Ukraine

* In place as of October 2021

Also, in August 2021, an anti-dumping investigation againts imports of OCTG from Ukraine was completed in the USA. According to the results of the investigation, the dumping margin was 30.19%. That is, despite the favorable market situation, 2021 may become one of the most problematic in terms of import restrictions. There is much tension around relations with the USA.

Trade barriers introduced against steel products from Ukraine in 2021:

- Anti-dumping duty on imports of steel pipes into the USA
- Anti-dumping duty on imports of rod into the USA
- Safeguard tariff quotas in the United Kingdom
- Ban on imports of railway wheels into Russia

An anti-dumping duty on imports of prestressed concrete steel rod into the USA was imposed at a rate of 19.3%. Ukraine was placed under investigation along with six other countries. In 2019, revenues from exports of this product from Ukraine to the USA totaled about $1 million.

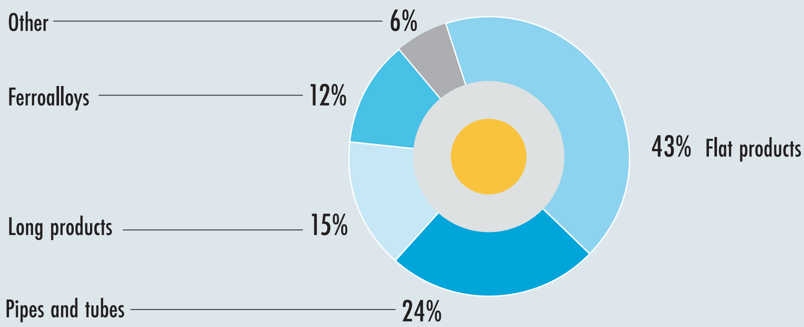
An anti-dumping investigation against imports of seamless line pipes into the USA was conducted against four countries. Duty imposed on Ukraine's exports amounted to 23.75%. This measure is quite painful, since the line pipes export has accounted for the largest share of steel products exports from Ukraine to the USA. Export volumes averaged 38 thousand tons per year in 2017–2019, and approximately 10 thousand tons in 8M 2021.

The introduction of safeguard tariff quotas in the UK has resulted from Brexit, which requires Britain to copy all safeguards in force in the EU during the transition period. As a result, Ukraine has been granted specific tariff quotas for three product groups: cold-rolled flat products, hot-rolled plates and rebar. Imports of other products are possible under the quotas granted to third countries. When an import quota is exceeded, a duty of 25% applies. Quotas are allocated on a quarterly basis. Quota volumes are calculated based on the historical volumes of imports into the UK. Ukraine was granted small quotas amount. For example, about 8 thousand tons per quarter for plate and 11 thousand tons per quarter for rebar. This causes difficulties in the logistics of such small volumes. The introduction of safeguards by the UK did not significantly affect the volumes of Ukraine's exports in 2021.

Russia's ban on imports of railway wheels from Ukraine had negative impact on Ukrainian steel production. Russia was the largest market for this product. The estimated volume of loss in exports amounted to 80 thousand tons per year.

It should be noted that anti-dumping duties of 9.3–10.1% imposed by the EAEU countries on rebar and bars from Ukraine have expired in 2021. The expiration of safeguard duties imposed by Egypt may have a positive effect on the volumes of exports. In 2019, this measure caused a significant damage such as loss of 700 thousand tons in exports.

Ukrainian steel products affected by import restricitions



Administrative review of anti-dumping measures in 2021

40 measures in 15 countries:

- **33** anti-dumping
- **5** safeguard*
- **2** import bans

* Including Section 232 in the USA

Introduction of anti-dumping measures peaked in 2016–2019. Consequently, we will witness the peak of administrative reviews in 2021–2024. As of October 2021, 9 measures are pending administrative review, i.e. almost one third of all anti-dumping measures in force. In theory, it is quite possible to make significant progress towards easing or lifting the trade barriers against Ukraine over the next two years. However, it should be noted that 13 out of 33 anti-dumping measures have been in place for more than 10 years, i.e. they have survived two reviews.

Administrative review of anti-dumping measures in 2021

USA	Plates
	OCTG
EAEU	Seamless pipes
	Ferrosilicon manganese
Mexico	Rebar
	Plates
Canada	Hot-rolled coil
India	Cold-rolled coil
Pakistan	Cold-rolled coil

The list of measures pending review this year consists of restrictions only slightly affecting the supply volumes. Of greater interest are the processes taking place in the United States, where agreements fixing minimum prices for both products have been previously concluded. India's restriction of imports of cold-rolled products is of importance for many years to come. At current prices, the duty calculation formula "USD 576 - landed value" does not restrict supplies. Supplies to the EAEU are hardly promising. Canada and Mexico are not traditional markets for Ukraine. Previously, the damage from the introduction of these measures was not significant. More significant reviews are expected in 2022.

Evaluation of damages from the trade barriers against Ukraine

Various trade barriers imposed at different time periods have caused a decrease in the volumes of Ukraine's steel exports, amounting to 3.3–3.5 million tons or about $3 billion in export revenues. The damage for Ukrainian economy from the introduced trade barriers in foreign markets is estimated at 1.8–2.0% of GDP.

The most harmful measures were introduced in 2017–2019. Those include anti-dumping duties on hot-rolled coil exported to the EU and rebar exported to Egypt, which will expire in 2022. There is a chance for their lifting or easing. Significant damage was inflicted by the safeguard duties on billets imposed by Egypt. The upside is that this measure has already expired. Russia's anti-dumping duties on bars, the annual damage from which is estimated at 150 thousand tons in export volumes and $100 million in revenues, have also expired.

Damages from the trade barriers** introduced against steel products from Ukraine

No.	Country	Type of measures	Product	Export losses, thousand tons	Export losses, $ million*	Year of introduction
1	EU	AD	Hot-rolled coil	700	650	2017
2	Egypt	SG	Square billets	720	450	2019
3	Egypt	AD	Rebar	550	370	2017
4	USA	AD	Hot-rolled plates	320	310	1997
5	USA	AD	Hot-rolled coil	170	150	2001
6	Russia	EM	Railway wheels	75	120	2021
7	USA	AD	Rebar	140	100	2001
8	India	AD	Cold-rolled coil	100	100	2016
9	EU	AD	Seamless pipes	70	90	2006
10	USA	AD	OCTG	50	65	2014

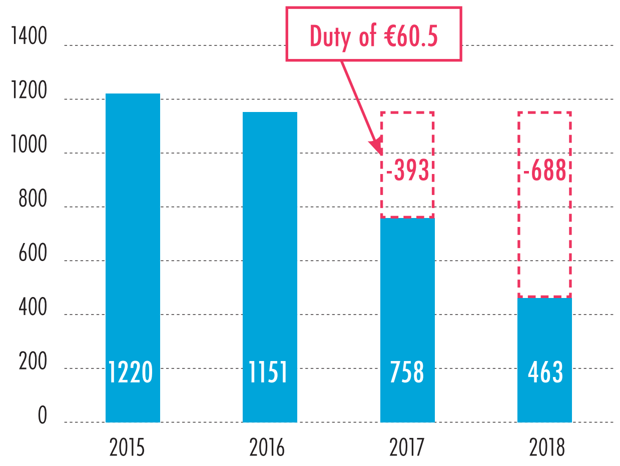
AD means anti-dumping duties SG means safeguard duties EM means import ban, embargo

Source: UN Comtrade, GMK Center estimations

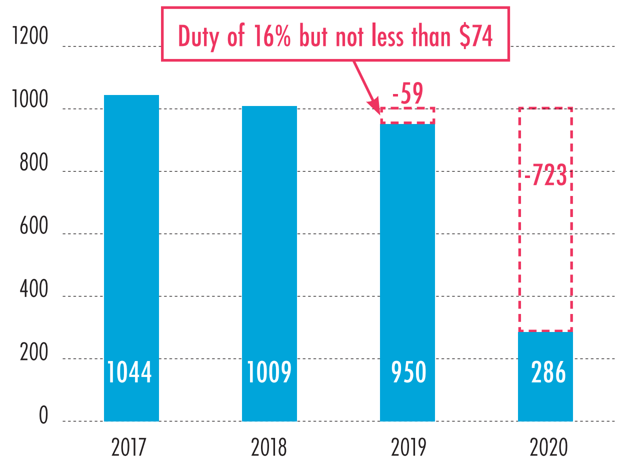
* Calculated based on the average prices in 2021.
** In place as of October 2021.

The damage was estimated on the basis of the loss of the volumes of exports of a certain type of product in a certain market, disregarding the amounts of the actually paid duties, possible changes in the sales markets, increase in transport costs to re-orient exports to other markets. The losses in export volumes were estimated based on the analysis of the dynamics of exports of a certain type of product to specific markets before and after the introduction of import restrictions against Ukraine.

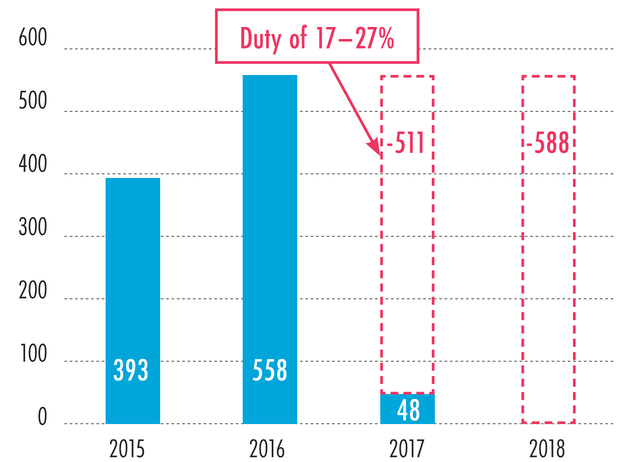
1 Exports of hot-rolled coil to the EU, thousand tons



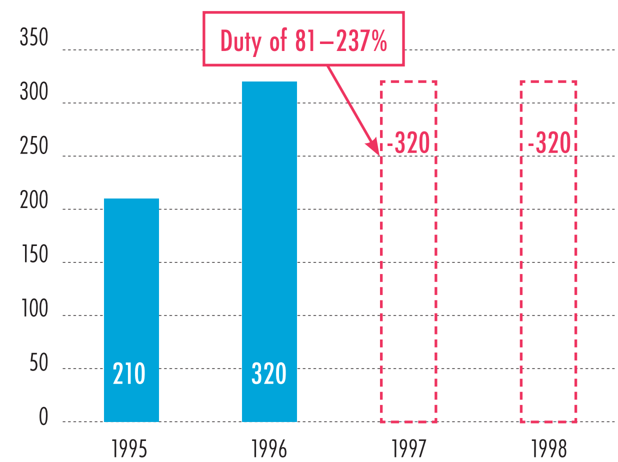
2 Exports of billets to Egypt, thousand tons



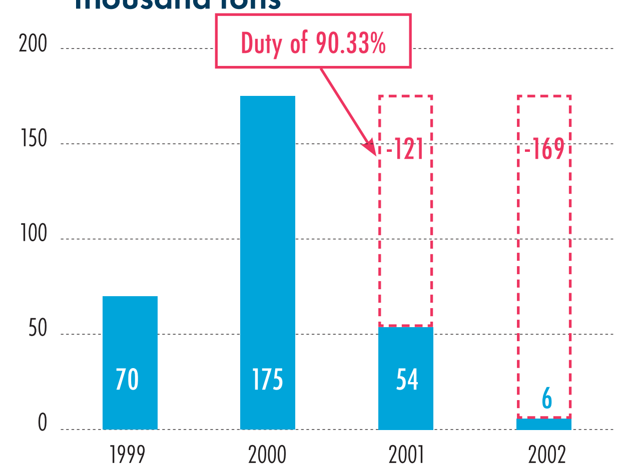
3 Exports of rebar to Egypt, thousand tons



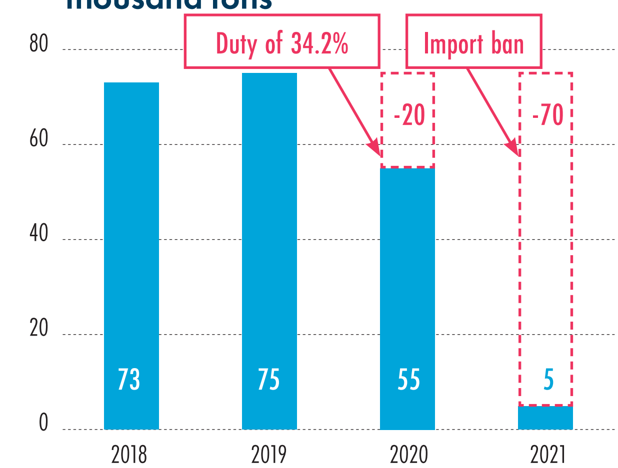
4 Exports of hot-rolled coil and sheet to the USA, thousand tons



5 Exports of hot-rolled coil to the USA, thousand tons

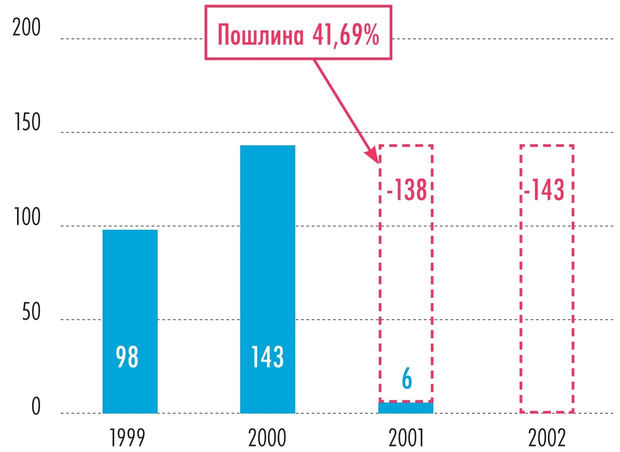


6 Exports of railway wheels to Russia, thousand tons



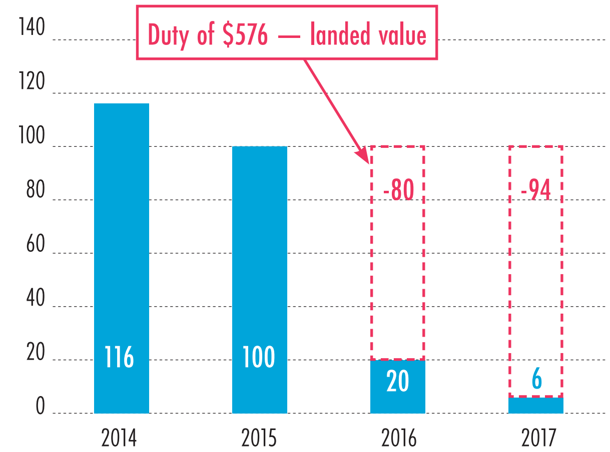
7

Exports of rebar to the USA, thousand tons



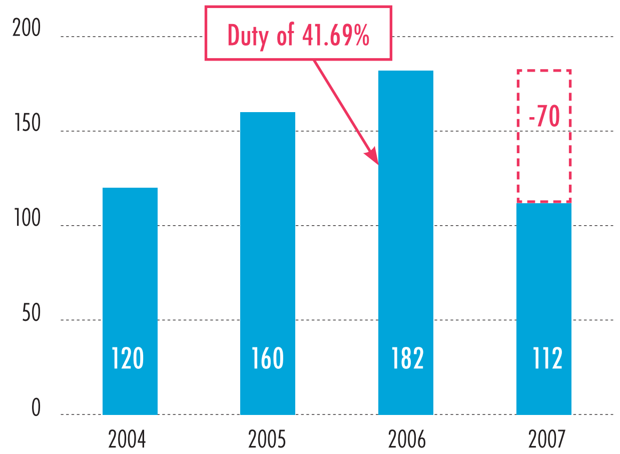
8

Exports of cold-rolled coil to India, thousand tons



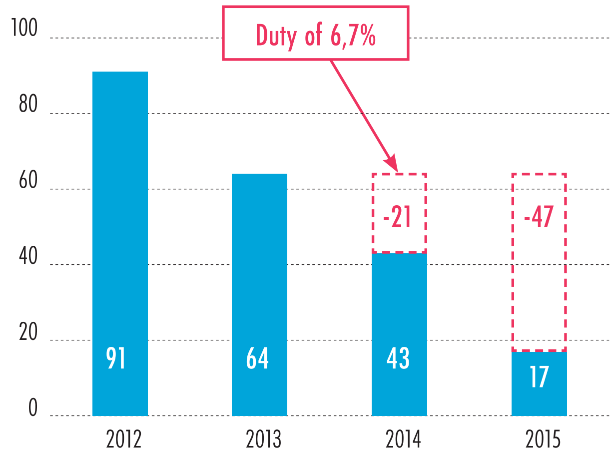
9

Exports of seamless pipes to the EU, thousand tons



10

Exports of OCTG to the USA, thousand tons



Protectionism and climate are Scylla and Charybdis of the modern international trade system

Nazar Bobytskyi, Director of the European Office of the Ukrainian Business and Trade Association (UBTA)

The international trade system is inexorably following a pessimistic trend of fragmentation along regional and geopolitical lines. And 2021 became a strong proof of that.

Unilateral trade restrictions are increasing again, the record number of which is introduced by the United States, China and the EU countries — the three largest markets and drivers of international trade. This unprecedented activity continues amid the WTO dispute settlement system paralysis caused by the Washington's refusal to reappoint arbitrators to the WTO Appellate Body. Consequently, the only remaining civilized ways to resolve trade disputes are arbitration mechanisms within the framework of bilateral or regional free trade agreements or direct political negotiations, in which trade preferences become a weapon and hostage to political goals, and all generally accepted rules and norms are only a smoke screen. In the worst-case scenario, countries resort to tariff wars, embargoes and sanctions as an alternative, which results in trade collapses, lost markets and decrease in export revenues. A striking recent months' example is the preliminary agreement between the USA and the EU suspending (lifting) Trump's import tariffs on steel and aluminum. Brussels has been forced to agree to tariff quotas on steel imports, which clearly contradict the WTO rules, in exchange for a "friendship" with Washington against the Chinese steel industry.

However, these steel skies only mask the approaching unprecedented hurricane of global climate change in the history of global trade. The international discussion about decarbonization of industry or agriculture has quickly transformed into the open debates about protecting own 'greener' producers from foreign and, therefore, a priori less "green" competitors. The future European carbon border adjustment mechanism (CBAM) is a good case example. The European Union has single-handedly put on the mantle of the judge to destine the climate commitments of other countries, and the CBAM will be both the scales and the sword, which resembles the ancient allegory.

What course should Ukraine choose in these stormy waters? The prospects of the domestic market as an alternative are bleak, given both the low consumer incomes and weak value-added industries, which have been forced to survive for decades in the chaotic and unstable tax system, the corrupt legal and public procurement systems. Ukrainian exporters demand support in the form of successive reforms of those particular areas of the state policy in the first place. Transparency, stability and quality of the fiscal machine and customs, as well as the introduction of simple and efficient mechanisms for export crediting and insurance will allow developing an export strategy for more than a year ahead.

The second important step is a real — not fake — economic diplomacy. Since climate is turning into a smart excuse to fight competitors, the involvement of such global platforms as the UN Framework Convention on Climate Change and the thorough analysis of our own climate commitments should also be listed among our priorities, just as the development of a network of free trade agreements and the modernization of the existing ones.

Ukraine should be well aware of its limited abilities under the pressure exercised by more economically powerful trading partners. The way out involves proactivity, initiative, asymmetric approach and use of non-economic arguments. This approach requires coherence, competence in trade policy and law and, most importantly, a willingness to listen to exporters and cooperate with them on the global platforms in unison.

ANNEXES

List of trade barriers against Ukraine

Enacting country	Type of measures	Products	Duty	Start date	End date
USA	AD	Ferrosilicon manganese	163%	**07.1994**	11.2023
USA	AD	Rebar	41.69%	**09.2001**	11.2023
USA	AD	Wire rod	35–44%	**03.2018**	03.2023
USA	AD	Hot-rolled coil	90.33%	**11.2001**	08.2024
USA	AD	Hot-rolled plate	81.4–237.9%	**10.1997**	12.2020
USA	AD	OCTG	7.47%	**07.2014**	08.2025
USA	AD	Seamless pipes	23.75%	**08.2021**	08.2026
USA	AD	Rod	19.3%	**06.2021**	06.2026
EU	AD	Seamless pipes	8.1–25.7%	**06.2006**	10.2023
EU	AD	Hot-rolled coil	€60.5 per ton	**10.2017**	10.2022
EAEU	AD	Seamless pipes	18.9–37.8%	**10.2011**	06.2021
EAEU	AD	Seamless stainless steel pipes	4.32–18.96%	**02.2016**	10.2021
EAEU	AD	Ferrosilicon manganese	26.35%	**10.2016**	10.2021
EAEU	AD	Forged steel rolls	26%	**02.2012**	02.2022
EAEU	AD	Angles	37.89%	**06.2017**	07.2022
EAEU	AD	Galvanized rolled products	23.9%	**01.2020**	01.2025
Mexico	AD	Ferrosilicon manganese	16.59%	**09.2003**	09.2023
Mexico	AD	Rebar	41%	**09.2000**	09.2020
Mexico	AD	Hot-rolled coil	25%	**03.2000**	03.2025
Mexico	AD	Hot-rolled plate	60.1%	**09.2005**	03.2025
Mexico	AD	Seamless pipes	$170 per ton	**04.2018**	04.2023
Canada	AD	Hot-rolled coil	77%	**08.2001**	08.2021
Canada	AD	Hot-rolled plate	15–21%	**02.2010**	11.2025
Canada	AD	OCTG	37.4%	**04.2015**	12.2025
Brazil	AD	Hot-rolled plate	$52.02 per ton	**10.2013**	10.2024
Brazil	AD	Seamless pipes	$145–708 per ton	**11.2014**	09.2025
Thailand	AD	Hot-rolled plate	30.45–67.69%	**05.2003**	05.2026
India	AD	Cold-rolled coil	$576 – landed value	**08.2016**	08.2021
Indonesia	AD	Hot-rolled coil	12.33%	**10.2012**	08.2024
Pakistan	AD	Cold-rolled coil	18.92%	**01.2016**	01.2022
Taiwan	AD	Hot-rolled coil	49.29%	**08.2016**	08.2021
Republic of Korea	AD	Ferrosilicon manganese	19.06%	**06.2017**	11.2022
Egypt	AD	Rebar	17.2–27%	**12.2017**	06.2022
EU	SG	14 product categories, 12 country-specific quotas and 2 global quotas	25%	**06.2018**	06.2024
United Kingdom	SG	3 product groups	25%	**07.2021**	06.2024
Morocco	SG	Hot-rolled sheet	23–25%	**10.2019**	10.2022
USA	SG	Semi-finished products, rolled products, pipes and tubes	25%	**03.2018**	no expiration date
Russia	EM	Railway wheels	import ban	**02.2021**	no expiration date
Russia	EM	Steel pipes and tubes	import ban	**04.2019**	no expiration date

List of trade barriers introduced on the Ukrainian market

Country	Type of measures	Products	Duty	Start date	End date
Russia	AD	Rebar and wire rod	15.21%	**02.2018**	02.2023
Russia	AD	Galvanized rolled products	47.57%	**07.2019**	07.2024
China	AD	Wire	123.0%	**08.2008**	05.2025
China	AD	Seamless stainless steel pipes	41.07%	**12.2014**	12.2025
China	AD	Hot Deep Galvanized coil	22.78%	**07.2019**	07.2024
China	AD	Hot-worked seamless pipes	0–51.52%	**06.2020**	06.2025
Belarus	AD	Bars	0.0%	**01.2020**	01.2025
Moldova	AD	Bars	13.80%	**01.2020**	01.2025
Belarus	SG	Bars	16.08%	**11.2020**	-

AD means anti-dumping duties SG means safeguard duties or tariff-rate quotas EM means import ban, embargo

Source: Ministry of Economy of Ukraine

* In place as of October 2021

Contact Information

GMK Center LLC

ID number: 42306047
Business address: 42-44 Shovkovychna Street, Kyiv, 01024, Ukraine
Tel.: +38 044 333 76 18

Director . . . . Stanislav Zinchenko

+38 044 333 76 18
s.zinchenko@gmk.center

GMK Center Chief Analyst . . . . Andrii Tarasenko

+38 044 333 76 18
a.tarasenko@gmk.center

GMK Center Analyst . . . . Ph. D. Andrii Glushchenko

+38 044 333 76 18
a.glushchenko@gmk.center

GMK CENTER

Kyiv 2021