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Anti-dumping complaints on certain steel products – the impact on user groups

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EXECUTIVE SUMMARY

This report discusses an anti-dumping complaint concerning hot-dipped metallic coated (HDMC) iron or steel from China, which was submitted in October 2007 by the European Confederation of Iron and Steel Industries (Eurofer). More specifically, the analysis draws on available literature, statistical data and the results of a survey to evaluate the impact anti-dumping duties would have on users of HDMC (also referred to as galvanised steel). As such, it focuses on the Community interest aspect of the anti-dumping complaint and not on the dumping, material injury or causation elements.

The main results of the analysis are:

- **Imports from China have surged since 2004, but EU producers maintain a sizeable market share in the EU's galvanised steel market.**
- **User groups are therefore more concerned about access to sources outside the EU than there not being enough local EU supply.**
- **The value share of galvanised steel in terms of total production costs is considerably higher for some users than a few percentages, as argued by Eurofer.**
- **As a result, anti-dumping measures on galvanised steel would have a negative cost impact on some users (depending on the level of duty).**
- **Users that would be negatively affected by anti-dumping measures would likely experience a loss in competitiveness against their rivals.**

The results contradict most, if not all, of the arguments presented in the complaint, finding much of the reasoning to be variously irrelevant, implausible and incorrect. Thus, the results challenge Eurofer's overall conclusion that anti-dumping duties would have no adverse impact on end users of HDMC. On the contrary, imposing anti-dumping measures could cause some value-adding activities in the EU to suffer.

1. Introduction

Background

On 29 October 2007, the European Confederation of Iron and Steel Industries[1] (Eurofer) submitted two anti-dumping complaints to the European Commission concerning hot-dipped metallic coated (HDMC) iron or steel from China and stainless steel cold rolled (SSCR) flat products from China, South Korea and Taiwan. The main reason for the complaints is the large volume of imports from China that, according to Eurofer, has been dumped on the EU market, which has led to European steel producers experiencing a fall in their market share in the EU market in recent years.

This double-submission was not an isolated event, but rather the beginning of a new trend that is likely to see several anti-dumping complaints filed by the European steel industry against imports from China. As acknowledged by Eurofer in its press release concerning the submission: "Eurofer is examining the situation of other steel products in view of filing additional anti-dumping complaints against imports from PR China soon."[2] Indeed, a third complaint concerning imports of wire rod from China and Turkey was submitted by Eurofer on 4 March 2008.

Seeing that these submissions may herald a period of several more anti-dumping complaints from European steel producers, there is good reason to examine some of the issues at stake. The National Board of Trade (the Board) has therefore undertaken the present analysis, which focuses on the interest of user groups in the case of anti-dumping measures on steel.

Scope, limitations and methodology

Scope

There are three basic questions underlying this report:

- To what extent would Swedish users of steel be affected by any eventual anti-dumping duties?
- What measures would these users take in case of anti-dumping duties being imposed?
- How would user groups in other EU member states be affected by any eventual anti-dumping duties?

[1] Eurofer represents the European steel industry, with EU steel companies and national steel associations making up its membership.
[2] Eurofer, 2007.

To answer these questions, this report explores the consequences anti-dumping measures on HDMC from China might have on EU user groups of that product. The focus is on Swedish users, but, as indicated by the third question, an evaluation is also made of what effects eventual anti-dumping duties might have on users in the EU as a whole.

The precise focus on HDMC has been chosen for two reasons. For one thing, having a very specific focus allows for a more detailed analysis. For another, Sweden has a high domestic production capacity of SSCR – the other product affected by Eurofer's submission. Imports of HDMC are therefore relatively more important than those of SSCR for Swedish users.[3] Hence, it makes more sense to focus on the former product.[4]

The user perspective has been chosen because of the problems associated with determining the Community interest; in particular, the general low user participation in anti-dumping investigations (see below, p. 5). Furthermore, the Community interest is one of the aspects of a dumping investigation where the Board is able to be of most assistance to the Commission. The Commission has greater insight into the arguments of Eurofer's complaints and is therefore at a better position to assess whether there is dumping, if there has been any material injury to the Community interest and what relation, if any, exists between the alleged dumping and material injury. The Board can add value to this investigation by highlighting some aspects of the Community interest.

Limitations

A narrow focus naturally carries certain drawbacks. Above all, there is always some difficulty in drawing general conclusions from an examination of specifics. In this report there are two such problems. First, there are some of the generalisations made on the EU-level that are inferred from effects of eventual anti-dumping duties on Swedish users. Second, the survey that has been conducted as part of this report only covers seven Swedish users. It is therefore not comprehensive in terms of number of respondents and it should, consequently, be seen as illustrative. Nevertheless, careful analysis can mitigate the concerns arising from these drawbacks and, as is argued in the report, there is good justification for the generalisations made.

[3] Swedish Association for Material Sourcing (SAMS).

[4] This could lead one to the inference that Swedish users would not object to trade remedies on SSCR. Such a conclusion would, however, be false, as Swedish users would still be expected to welcome the competition brought from non-EU exporters of stainless steel.

One additional limitation should be mentioned. As is clear from the title, the report's point of departure is the user perspective and not the Community interest as a whole. The impact of the anti-dumping measures on end-consumers is therefore not assessed.[5]

Methodology

The report is primarily based on a survey among Swedish steel users and on a quantitative analysis of steel trade data. The survey among the steel users has been particularly valuable due to their detailed knowledge of the steel market and their usually low response in the Commission's anti-dumping investigations.

Outline

The rest of the report is organised as follows. The next section presents some basic facts on anti-dumping and the Community interest, Eurofer's assessment of how the user industry would be affected by anti-dumping measures, and the Swedish and EU steel market and trade. This is followed by a presentation of the results from the survey among the Swedish steel users. These results are analysed in the subsequent section in view of Eurofer's complaint and the three questions posed above. A conclusion sums up the main arguments.

2. Setting the stage

Anti-dumping measures and the Community interest

To start with the legal background, Art. 7.1 of the Council Regulation (EC) No. 384/96 on protection against dumped imports ("the Basic Regulation") lists several conditions for the imposition of provisional measures, including:

- It is determined that there has been dumping.
- It is determined that the dumping has caused material injury to the Community industry.
- It is determined to be in the Community interest to impose anti-dumping measures.[6]

[5] An interesting report that analyses this aspect is the Danish Enterprise and Construction Authority's study (2008) on European trade with HDMC. In the report, the authors use a model to estimate the income effects that would result if an anti-dumping duty of 20% was levied on HDMC imports from China. The model shows that there would be an annual deadweight loss in the EU of some €113.2m.

[6] Art. 7.1 in its entirety reads: "Provisional duties may be imposed if proceedings have been initiated in accordance with Article 5, if a notice has been given to that effect and

Art. 21 of the basic regulation specifies what is meant by "Community interest" and how interested parties can "make themselves known and provide information to the Commission".[7] The article makes clear that an anti-dumping measure should only be imposed when "all the various interests taken as a whole" have been considered, "including the interests of the domestic industry and users and consumers".[8]

A compulsory requirement to take into account the Community interest in anti-dumping investigations was introduced unilaterally in 1996. Although the initiative to assess the EU's interest as a whole should be lauded – the US, for instance, does not have a similar public interest test[9] – the lack of response from users, importers and consumers has been a problem, as shown in an external review of EU's trade defence instruments (TDIs).[10] Indeed, the low user participation in anti-dumping investigations might partly explain why the Board, in a previous review of twenty EU anti-dumping cases, found that the Community interest had been examined in a routine manner, with "a set of standard arguments used in close to all cases".[11]

Eurofer's complaint

The complaint

On 29 October 2007, Eurofer submitted its anti-dumping complaint concerning HDMC of iron or steel from China (hereinafter also referred to as galvanised steel). It argued that "[t]he Community HDMC industry is experiencing present material injury, and is threatened with further imminent and foreseeable material injury, due to low-priced dumped HDMC imports from China".[12] More specifically, Eurofer's investigation concerned the following 11 combined nomenclature (CN) codes: 72104100, 72104900, 72106100, 72106900, 72123000, 72125061, 72162200, 72259200, 72259900, 72269930 and 72269970.

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interested parties have been given adequate opportunities to submit information and make comments in accordance with Article 5 (10), if a provisional affirmative determination has been made of dumping and consequent injury to the Community industry, and if the Community interest calls for intervention to prevent such injury. The provisional duties shall be imposed no earlier than 60 days from the initiation of the proceedings but not later than nine months from the initiation of the proceedings."

[7] Art. 21.2.

[8] Art. 21.1.

[9] Stevenson, 2006, p. 5.

[10] Mayer, Brown, Rowe & Maw LLP, 2005, pp. 28-29.

[11] 2005, p. 1.

[12] Para. 2.

Assessment of the Community interest

In its submission Eurofer states explicitly that "[a]nti-dumping measures on HDMC from China are in the Community interest".[13] It reaches this conclusion based on several arguments:

- It is in the interest of users that a local Community HDMC industry supplies steel.
- Anti-dumping measures would not prevent fairly traded imports from China to continue to enter the EU.
- There is sufficient capacity both within the EU and in third countries other than China to supply the EU market.
- The EU market does not need such a fast increase of imports from China, since the rise of the imports exceeds market growth.
- It is likely that anti-dumping measures would not have a cost impact on users of HDMC.
- Refraining from imposing anti-dumping measures would threaten Community HDMC industry jobs, while imposing measures would have little or no effect on employment among user groups.[14]

Eurofer comments that galvanised steel from China is primarily used for construction among EU user groups; less so by automotive-related manufacturers that look for qualified suppliers that work with just-in-time warehousing under yearly contracts. Chinese galvanised steel is also used for the manufacture of home appliances. In the case of both construction and home appliances, Eurofer argues that HDMC only represents a few percentages[15] of the total costs involved. Anti-dumping measures would therefore, according to this view, have no significant impact on users' costs and, consequently, not have any negative effects on demand.[16]

In addition, it is argued that the limited impact of anti-dumping duties on users' costs would ensure that the measures would have limited, if any, effect on employment in the construction and home appliance sectors. In contrast, Eurofer estimates that 4,000-5,000 jobs in the Community HDMC industry might be at risk until 2010.[17]

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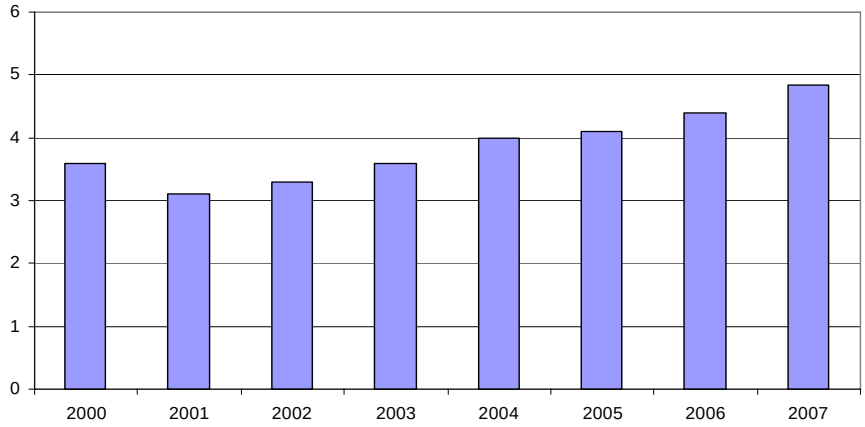
[13] Para. 227.
[14] Paras. 227-236.
[15] "About one to two percent in the case of a wide range of buildings (industrial, commercial, houses) (…) [and] only a very small percentage of the cost of a home appliance." Para 232.
[16] Paras. 232, 234-235.
[17] Paras. 233-235.

The Swedish steel and HDMC market

Total steel

What, then, do the relevant markets look like? Beginning with the steel market as a whole, figure 1 shows the apparent steel use in Sweden for 2000-2007.[18] During this period, steel demand grew by a total 34.7%, although – as is clear from the figure – the market experienced a dip in apparent steel use in 2001.

Figure 1: Apparent steel use in Sweden, 2000-2007 (mmt)



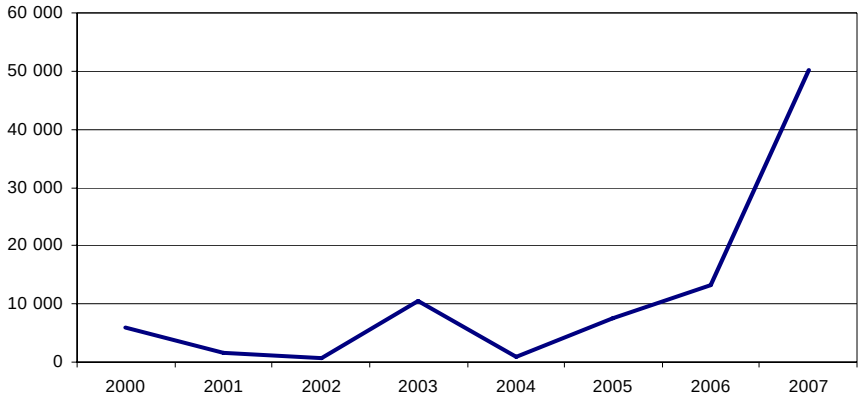
Sources: International Iron and Steel Institute (IISI) and Jernkontoret

Figure 2 shows the growth of imports of steel from China for the period 2000-2007.[19] It is all too apparent that imports surged in 2007, when they reached a total of 50,093 metric tons (mt). This was more than eight times greater than Swedish imports from China in 2000.

[18] "Apparent steel use reflects the deliveries of steel to the marketplace from the steel producers as well as from importers. This differs from real steel use, which takes into account steel delivered to or drawn from inventories." International Iron and Steel Institute (IISI), 2008.

[19] It is important to note that statistics regarding trade with non-EU countries present a perennial headache. A major problem is that the country of origin might get obscured when third-party countries become involved in the trade flow. For instance, a Chinese export that enters the Netherlands before eventually finding its way to Sweden is recorded in the Swedish statistics as an import from the Netherlands. The problem is particularly pronounced with regard to China due to Hong Kong's role as a third-party country. As a result, imports from non-EU countries to Sweden are understated. Even if the statistics presented here by no means can be regarded as conveying a true picture, they are still useful enough to serve as an indication of the reality.

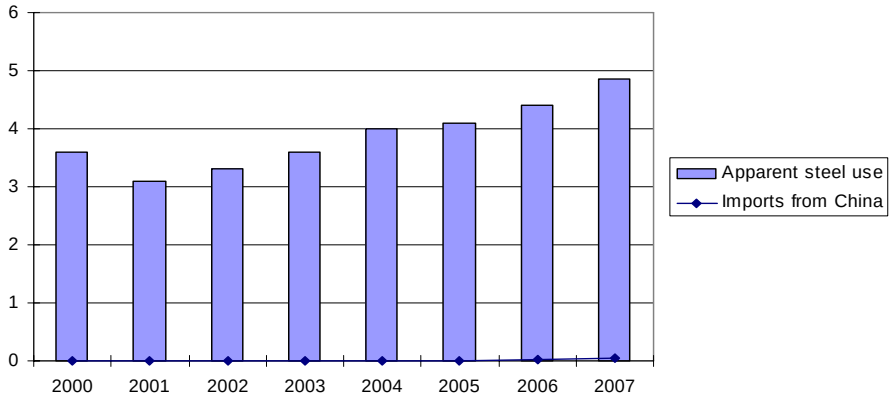
Figure 2: Swedish imports of steel from China, 2000-2007 (mt)



Source: Eurostat

Impressive as the growth in imports from China is, there is a crucial difference between what is depicted in figures 1 and 2, viz. the unit. Figure 1 is denominated in million metric tons (mmt), whereas figure 2 is presented in mt. This means that even though imports from China to Sweden have increased considerably, especially in 2007, they remain at tiny levels when compared with total steel demand. In fact, even in 2007 – when steel from China surged – did the share of imports from China with regard to Sweden's apparent steel use amount to about 1%.[20] Figure 3 merges the data of figures 1 and 2 in order to illustrate the proportions.

Figure 3: Apparent steel use and imports from China, 2000-2007 (mmt)



Sources: Eurostat, IISI and Jernkontoret

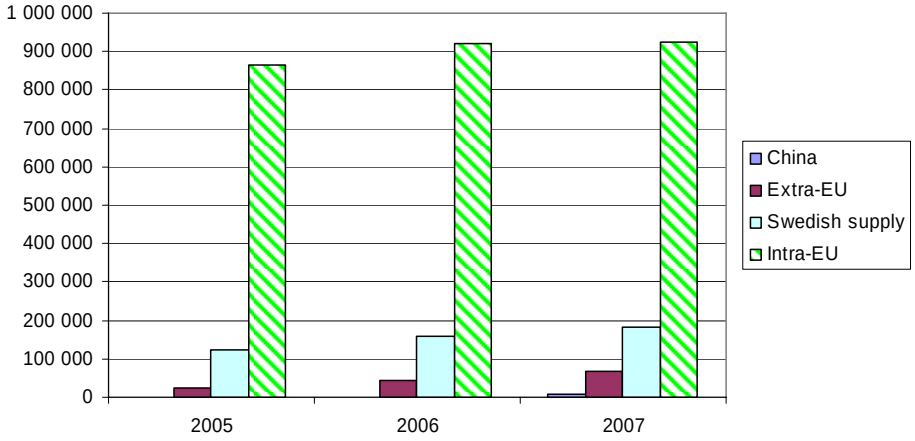
[20] The data used might not be completely equivalent, with the apparent steel use taken from IISI and Jernkontoret and the import data taken from Eurostat. That is a trivial detail in this context, however, since the overall conclusion would be the same even with perfectly equivalent data.

HDMC

The complaints do not, however, relate to steel in general, but to HDMC and SSCR. Thus, even if imports from China are still minimal with regard to total steel, it might be the case that imports of galvanised steel from China is significant.

Figure 4 provides a comparison of the size of four sources of supply for Swedish users of galvanised steel: imports from China, non-EU countries and EU members as well as Swedish local supply[21]. The period concerned is 2005-2007, as there are no recorded imports of galvanised steel from China before then. As with total steel, it turns out that China has a market share of about 1%.

Figure 4: Swedish imports of HDMC from China, extra-EU and intra-EU as well as Swedish local supply, 2005-2007 (mt)



Note: Swedish local supply for 2007 is estimated based on the average annual growth rate for 2004-2006.

Source: Eurostat & Statistics Sweden (SCB)

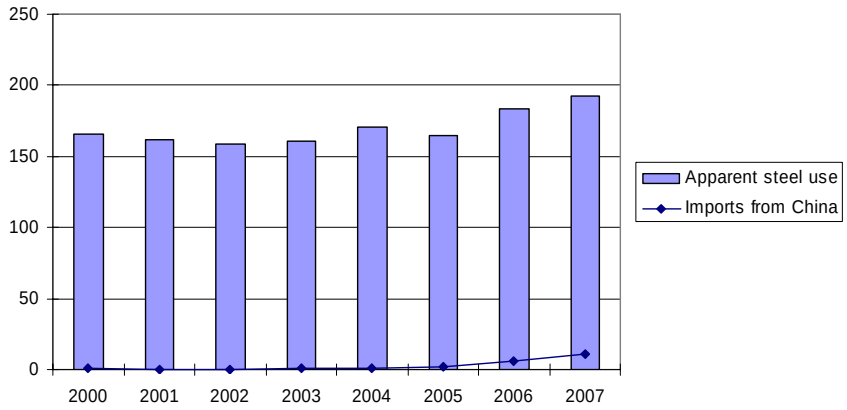
[21] Local supply has been calculated by subtracting Swedish exports from Swedish production.

The EU steel and HDMC market

Total steel

Turning our attention to the EU market, figure 5 illustrates the growth of apparent steel use in EU-27 as well as the increase in imports from China. As with Sweden, there has been a tremendous jump in imports of steel from China to the EU in recent years. In terms of volume, they increased by a staggering 17 times from 2000 to 2007. More interesting, however, is the size of the imports against total steel demand, which reached 5.6% of total steel demand in the EU in 2007. Thus, it was noticeably greater than the share of imports from China in terms of Sweden's apparent steel use.

Figure 5: EU-27 apparent steel use and import from China, 2000-2007 (mmt)



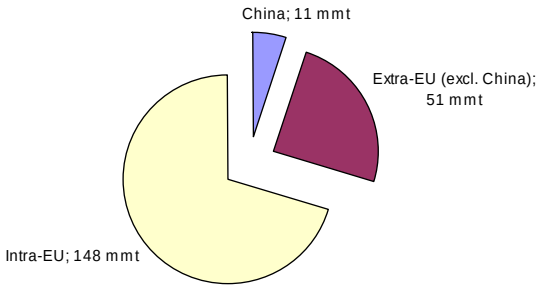
Sources: Eurostat and IISI

Note: Apparent steel use for 2000-2006 does not include steel demand in Bulgaria.

It is important, though, not to exaggerate China's increasing share in the EU market, as European producers continue to hold a substantial market share. The proportions of intra-EU trade and imports from non-EU countries and China in 2007 are presented in figure 6.[22]

[22] Similar to note 19 above, the pie chart presented in figure 6 needs to be viewed more as an indication than as a reflection of reality. The problem here, however, is not so much direct imports from non-EU countries (since the importing party is EU-27 and not any individual EU member). Instead, the problem is intra-EU trade because there is no way of knowing to what extent that trade includes non-EU produced goods. This means that intra-EU trade – taken, as here, to refer to EU produced steel – might overstate EU production figures. Again, it is the indication of proportions that is the important point.

Figure 6: EU imports from China and non-EU countries as well as intra-EU trade, 2007 (mmt)



Source: Eurostat

HDMC

Let us end this section with the most relevant market for this study: the galvanised steel market in the EU.

Unfortunately, there is no available data on apparent use of galvanised steel in EU-27. There are ways to get a sense of the magnitudes involved, though, with two approaches being employed in this section.

The first method is to compare EU production with imports from China. The problem, however, is that EU production is denominated in a different classification – Prodcom (Production Communautaire) – than trade statistics.[23] To get around this we have chosen to focus on three Prodcom codes that encompass 15 CN codes in total, seven of which are CN codes included in the anti-dumping complaint. These seven CN codes – two in particular – account for almost all imports from China of the 15 CN codes in question.

Comparisons of EU production and imports from China are depicted in figures 7 and 8.[24, 25]

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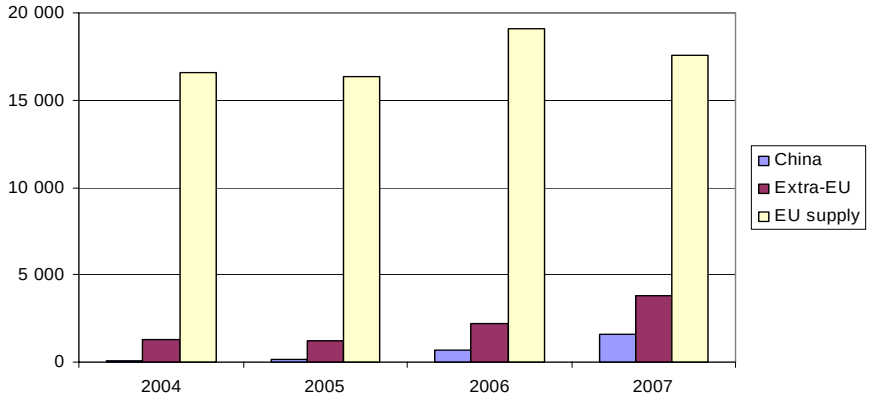
[23] A Prodcom code might include several CN codes, and vice versa. For instance, Prodcom 2710.7220 includes CN codes 72102000, 72104100, 72104900, 72106100, 72106900, 72109080 and 72259200. Conversely, CN code 72123000 is included in Prodcom codes 2732.2014 and 2732.2022.

[24] With thanks to Birgitta Strömberg at Statistics Sweden for the EU production figures.

[25] Figure 7 relates to Prodcom code 2710.7220, while figure 8 concerns Prodcom codes 2732.2014 and 2732.2022. The reason for aggregating the two latter codes in one figure is to ensure that apples are compared with apples and oranges with oranges. Because CN code 72123000 is included in both Prodcom code 2732.2014 and Prodcom code 2732.2022, it is not possible to know which of the Prodcom codes to use in the comparison. One therefore needs to aggregate the two Prodcom codes (and the corresponding CN codes – 8 in total) to get comparable figures.

The reason for dividing the three Prodcom codes into two groups and depict them in figures 7 and 8 – instead of simply adding them all and putting them into one figure – is

Figure 7: Imports from China and extra-EU as well as EU local supply of Prodcom 2710.7220*, 2004-2007 (mt, '000)

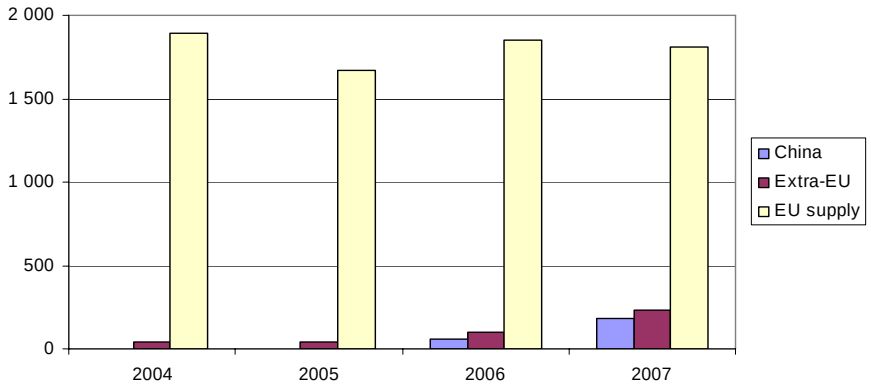


* CN codes 72102000, 72104100, 72104900, 72106100, 72106900, 72109080 and 72259200.

Note: EU local supply (production minus extra-EU exports) for 2007 has been estimated based on the average production in 2004-2006.

Source: Eurostat

Figure 8: Imports from China and extra-EU as well as EU local supply of Prodcom 2732.2014* & 2732.2022, 2004-2007 (mt, '000)**



* CN codes 72121090, 72123000, 72125020 and 72125090.

** CN codes 72121090, 72123000, 72125020, 72125030, 72125040, 72125061, 72125069 and 72125090.

Note: EU local supply (production minus extra-EU exports) for 2007 has been estimated based on the average production in 2004-2006.

Source: Eurostat

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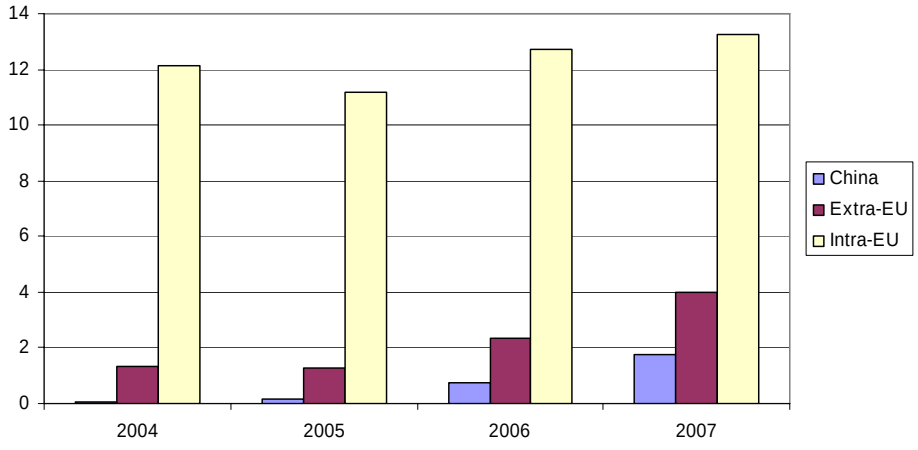
to provide a more detailed and informative picture. The level of imports in figure 7 is ten times larger than that in figure 8. Aggregating all three codes would therefore provide a new graph akin to figure 7. Dividing the codes into two groups instead, ensures that the market shares for Prodcom codes 2732.2014 and 2732.2022 are more correctly presented.

Imports from China have, as expected, surged in the past few years and their share of the EU market has grown with it.[26] With regard to Prodcom code 2710.7220 (figure 7), the share of imports from China increased from 0.3% in 2004 to an estimated 7.3% in 2007. The growth is even more impressive for Prodcom codes 2732.2014 and 2732.2022 (figure 8), where the Chinese share rose from 0.0% in 2004 to an estimated 9.1% in 2007. It is clear that China has established a presence in the EU galvanised steel market in recent years. Imports from China to the EU are therefore certainly not as negligible as they are to Sweden.

Notwithstanding the impressive growth rates of imports from China for the three Prodcom codes and their increased presence in the EU market, their share in the market remains at less than 10%. Considering that this calculation includes seven out of the eleven CN codes investigated in the anti-dumping complaint and that these seven codes include the top four HDMC products from China in both absolute and relative terms (see table 1 below), it seems fair to draw the conclusion that the share of Chinese galvanised steel in the EU market is probably around 10% compared with a local EU share of, perhaps, 80%.

The second approach to get a sense of the size and market shares in the EU galvanised steel market is to let imports from non-EU countries and intra-EU trade serve as proxies.[27] This data is presented in figure 9.

Figure 9: EU imports of HDMC from China and non-EU countries as well as intra-EU trade, 2004-2007 (mmt)



Source: Eurostat

[26] The EU market has been calculated as follows: EU production minus EU exports to extra-EU plus extra-EU imports to EU.
[27] See note 22 for an explanation of the problems with using intra-EU trade as a proxy.

As in the previous exercise, it is clear that imports from China have grown impressively and that they have taken an ever larger slice of the EU market. It is equally clear that Chinese galvanised steel has a probable market share of some 10% (intra-EU plus extra-EU).

Both these methods – notwithstanding their flaws – thus point to the same conclusion: imports from China have experienced a remarkable growth in the past few years, but EU producers retain a significant share in the market.

To finish off, it is interesting to examine in detail each of the eleven CN codes listed by Eurofer in its complaint. Table 1 thus shows EU imports of each CN code from China in mt as well as the share of those imports to overall EU imports (intra-EU plus extra-EU).

A few aspects deserve to be highlighted. To begin with, one sees that China has not had any substantial share in any of the categories, with the highest proportion being 13.7%. Second, in 2007 there were only three categories that had a share above ten percent (72104100, 72104900 and 72123000). The shares of the other eight categories were all four percent or lower. Third, one category (72269930) has never experienced any import from China, with two other categories recording negligible imports from China at 0.0% and 0.1%, respectively (72259200 and 72269970).

Table 1: EU imports of HDMC products from China, 2004-2007 (mt and percent of total EU imports)

Product | Period	2004	2005	2006	2007
72104100	34 (0.0%)	92 (0.1%)	1,417 (1.3%)	15,869 (13.7%)
72104900	52,336 (0.5%)	172,206 (1.8%)	669,705 (5.7%)	1,524,799 (11.6%)
72106100	33 (0.0%)	2,730 (0.6%)	15,513 (2.9%)	23,125 (3.9%)
72106900	75 (0.0%)	1,562 (0.6%)	2,961 (1.0%)	634 (0.2%)
72123000	376 (0.0%)	1,012 (0.1%)	59,862 (5.5%)	183,649 (13.7%)
72125061	0 (0.0%)	0 (0.0%)	178 (2.3%)	45 (0.5%)
72162200	7 (0.0%)	0 (0.0%)	74 (0.1%)	370 (0.6%)
72259200	0 (0.0%)	0 (0.0%)	158 (0.0%)	119 (0.0%)
72259900	24 (0.0%)	76 (0.0%)	373 (0.1%)	7,633 (2.2%)
72269930	0 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)
72269970	0 (0.0%)	0 (0.0%)	0 (0.0%)	40 (0.1%)
Total	52,885 (0.4%)	177,678 (1.4%)	750,241 (5.0%)	1,756,285 (10.2%)

Note: Shares of total EU imports (intra-EU plus extra-EU) are given in parentheses.

Source: Eurostat

3. Survey

The Board carried out a survey among Swedish users of HDMC in order to assess the effects eventual anti-dumping duties would have on their business. The companies surveyed primarily represent the three industries that would be affected by eventual anti-dumping duties on galvanised steel, i.e. companies related to the automotive, construction and home appliances sectors. The Board has also been in contact with and received input from the Swedish Association for Material Sourcing (SAMS), which is the trade association for material sourcing for the engineering industry in Sweden.

In all, ten companies were approached to assess what impact anti-dumping duties on galvanised steel of 10%, 25% and 40%, respectively, would have on their business. They were asked to fill out a questionnaire and a spreadsheet for cost price calculation. Four of these companies filled out and returned the survey (or, at least, parts of it[28]), whereas three companies provided some information in conference calls or other phone conversations. Between them, these seven companies cover the three industries mentioned above.[29]

As for the other respondents, one company said that it did not have sufficient information to respond to the questions, another cited it could not participate due to a lack of time and a third preferred not to answer.

The survey is limited in both scale and scope. It is neither an extensive review of users of galvanised steel imports from China, nor does it consist of in-depth case studies. Rather, the survey is meant to serve as an illustrative indication of the effects anti-dumping duties on HDMC imports from China could have on users.

The survey (questionnaire and spreadsheet) can be found in appendices 1 and 2.

[28] Two companies returned both the questionnaire and the spreadsheet. One company replied to the spreadsheet and provided additional information over the phone. The fourth company returned the questionnaire only.

[29] Two companies in the automotive sector, three in construction and one in the home appliances sector. The seventh company operates in the heavy industrial segment. The three companies that did not reply are in the automotive (1) and construction sectors (2).

Results

The companies that participated in the survey or provided information in other ways agreed on the whole on the effects eventual anti-dumping measures would have on their business. They argued that it would be user groups that would have to bear the brunt of the resulting cost increases. Some companies considered that the competition from China has had an important function in its price-reducing impact on galvanised steel; an effect that would disappear if anti-dumping duties were to be levied. According to several companies, anti-dumping duties would badly affect their competitiveness, with two mentioning that they could be forced to relocate to Asia.

The bullet points summarise the main results from the survey.

- Low prices constitute the competitive advantage of Asian exporters, but the price differences have decreased

  In line with the overall statistical picture, the companies primarily source their galvanised steel from the EU, with only a small amount coming from China and other Asian countries. One company said that although imports from China had comprised some 25% of its use of galvanised steel in 2007, it is currently (i.e. Q2 in 2008) impossible to find any steel from China on the market. Two users reported that 15% of their HDMC came from Asia. A fourth company replied that it sources its steel exclusively from the EU at the moment.

  Low prices are, as expected, the main reason for companies to source their material from Asia, with good flexibility and logistics being key factors behind their purchases from EU producers. On the other hand, as suggested by one company, it also seems important not to exaggerate the price differences between domestic EU HDMC and Chinese HDMC. Prices of galvanised steel from China are among the lowest in the world,[30] but they have increased over the past year or so.[31]

  Thus, some observers point to a present reduction in the price gaps of HDMC between China and the EU, with one company replying that it probably will not, for this reason, purchase any galvanised steel from Asian countries in 2009. Another user commented that the price differences are not that large, although it also said that its purchases of HDMC from Asia will probably increase slightly over the next three years.

[30] Council of the European Union, 2008, appendix 5, and Eurofer, 2007d

[31] See, for instance, Lin, January 2008 and SteelGuru, 27/06/2008. For information on China's export tax policy, see Kotak Securities – Private Client Research, 04/02/2008; Li, 21/12/2007; and Shanker, 03/01/2008.

- Concerns about the disappearance of the probable downward pressure on prices provided by imports from China

Three companies as well as SAMS consider that Chinese producers' entry into the galvanised steel market has had an important price-reducing impact on other, mainly Asian, HDMC producers. That is, it is not only that prices of galvanised steel from China are low that is significant. It is also important that the imports from China have led to a downward pressure on prices of galvanised steel.

These companies therefore raised concerns that the downward pressure on prices caused by Chinese producers would cease if anti-dumping duties were to be imposed on galvanised steel from China.

It should, however, be noted that not all companies consider that Chinese galvanised steel has had a significant downward pressure on prices, with one company commenting that it has not noticed any effect at all and another stating that HDMC imports from China have had a price-reducing impact, albeit to a small extent.

- Anti-dumping duties would probably raise the prices of users' products, but users would be primarily afflicted

According to the survey results, end-consumers would likely experience price rises, but it would be the users of galvanised steel that would bear the brunt of the higher costs and, as a result, suffer a cut in their margins and profits. Two of the users estimated that the prices of their products would stay the same or increase by up to 5%, no matter the level of the anti-dumping duty. Another company commented that its operating margin of 3-4% would be reduced by one percentage point if an anti-dumping duty of as little as 5% were to be imposed.

The same argument has also been put forward by SAMS, which has said that the tough competition facing its members means that the companies would only be able to pass on a small part of the cost increases to their customers.

- The value share of HDMC in users' products is high, with a considerable impact on their costs as a result

Of the surveyed companies, there were three that provided figures on the share of galvanised steel (in terms of value) in their production costs. One replied that the share is about one-quarter of total costs, while the other two put the share as high as some three-quarters.[32]

[32] The former one is in the construction sector; the latter two in the construction and automotive industries.

Given the high value share of galvanised steel for these companies, it is clear that an increased cost of HDMC from China would have an impact on their overall production costs. An anti-dumping duty of 10% would lead to an increase of production costs of 3-10%, depending on the cost share of galvanised steel in terms of total production. A 40% anti-dumping duty would raise the production costs by 9%-37%.

- Anti-dumping duties could result in users losing competitiveness

Whereas all users would be affected by the higher costs that would result from anti-dumping duties being levied, the effects would differ. For instance, one company said that it would not need to take any other measures than to switch suppliers and raise prices.

Some other companies in the survey argued that they would be more gravely affected. One company replied that its finished products face stiff competition from Chinese producers and that it would not be competitive any longer if anti-dumping duties of 10% or more were imposed. Indeed, it had experienced a loss of customers recently or had noted indications that it might lose customers should prices rise further.

Another user also commented that it would lose competitiveness if anti-dumping duties were to be levied. Not only would it face higher costs on galvanised steel; its competitors in China would enjoy lower costs due to the over-supply of steel that would result from the Chinese steel producers losing the EU market. According to this line of reasoning, anti-dumping measures on HDMC would indirectly benefit the competitors of EU user groups.

Two companies – incl. the latter one – said that they might have to relocate its production to Asia if the cost of low-quality galvanised steel in the EU rose. As a matter of fact, one of them had already started to move some of its production.

4. Assessment of the Community interest from a user perspective

Having gone through the survey results, it is time to revisit Eurofer's anti-dumping complaint regarding HDMC and, more specifically, its assessment of the Community interest (see above, pp. 5-6).

- It is in the interest of users that a local Community HDMC industry supplies steel.

None of the companies surveyed commented explicitly on their interest in a local Community HDMC industry. However, the survey results do point to the interest of users in having alternatives in addition to the local industry, thus ensuring healthy competition.

The issue, in other words, is not users' interest in a local Community galvanised steel industry; rather, it is their concern for an open market. Users might certainly have an interest in a viable local industry, as reflected by today's high shares of sourcing from EU producers and their need for superior flexibility and logistics.[33] However, as was shown in section 2, EU producers continue to hold a sizeable market share in the EU's HDMC market and users are therefore more concerned about non-EU producers providing some competition in the market than EU producers losing some of their market shares.

Conclusion: partly incorrect

- Anti-dumping measures would not prevent fairly traded imports from China to continue to enter the EU.

The argument that fairly traded imports from China would still be able to enter the EU seems perfectly reasonable at first glance. It simply says that dumped import would be prevented from entering the EU market, while fairly traded ones would continue to be welcomed.

[33] High quality is another important competitive advantage for EU producers, but the anti-dumping complaint – and, hence, this study – focuses on standard grades.

One potential problem with this line of reasoning, though, is that it does not take into account how improbable it is that individual Chinese producers would be evaluated on a case-by-case basis. As a matter of fact, it is a difficult exercise to assess businesses at the individual level and the Commission rarely sets company-specific anti-dumping duties. This is not to say that EU imports of HDMC from China would cease, which would depend on the rate of the anti-dumping duty. The point, however, is that the argument that fairly traded imports from China could still enter the EU freely makes theoretical sense, whereas in practice such a scenario is likely to be applicable to only a few Chinese producers at best – notwithstanding other companies also trading fairly.

Conclusion: not necessarily correct

- There is sufficient capacity both within the EU and in third countries other than China to supply the EU market.

This assertion is difficult to evaluate. On the one hand, Eurofer argues that there is no shortage of galvanised steel in the EU market, whereas, on the other, users and trade associations representing user industries make the opposite argument.[34] To be sure, prices in the EU are among the highest in the world[35] and the high prices indicate that the EU steel market is undersupplied. News reports, however, argue that the increasingly higher prices on EU steel are not demand driven, with EU producers pointing to rises in costs of production, including raw material cost escalations.[36]

However, assessing whether a market is under- or over-supplied might actually be missing the point: viz. it is not the sufficiency of the capacity that matters, but the *efficiency* of utilising the capacity. The question of whether there is sufficient capacity in the EU and third countries (excl. China) to supply the EU market therefore needs to be complemented and the question to ask should be: "Does the EU and third countries (excl. China) have sufficient capacity to supply the EU market *in an efficient (i.e. competitive) manner*?" The fact that European producers maintain a sizeable market share in the EU market, in part due to logistical advantages and the higher quality of their products, is evidence that they are able to utilise their capacity efficiently to a large extent. However, the competitiveness of the Chinese steel producers suggests that this is not necessarily the case when it comes to standard grades.[37]

[34] For instance, ACEA, SAMS and some of the surveyed companies.
[35] Council of the European Union, 2008, appendix 5; Eurofer, 2007d; and SAMS, 2008.
[36] MEPS, 27/03/2008 and MEPS, 21/05/2008.
[37] It could be argued, as Eurofer does, that the competitiveness of Chinese steel producers is primarily based on "state ownership of the steel industry and the related subsidies" (Eurofer, 2007a, paras. 31-36; see also Price et al., 2007). That argument falls

A word about substitutes to galvanised steel in this context. According to SAMS, there is currently no commercial alternative to HDMC. A return to the previous use of painted steel would cause products to rust faster and shorten their life-spans, whereas the price is too high for the certain types of plastic that could meet the requirements for durability. The Association of European Automobile Manufacturers (ACEA) also rules out wide-scale substitution as an option due to the "special requirements for automotive components, the high price of aluminium and the limited recycling potential of plastic".[38]

Conclusion: partly incorrect

- The EU market does not need such a fast increase of imports from China, since the rise of the imports exceeds market growth.

It is true that HDMC imports from China have grown by over 100%, as pointed out by Eurofer,[39] but there are at least two reasons why the inference that the EU therefore does not need such a fast increase of imports is flawed. First, it is crucial to distinguish between relative and absolute figures, as becomes clear when taking a look at table 2. For sure, imports of galvanised steel from China (and from non-EU countries, for that matter) have surged tremendously in the past few years, increasing by an astounding factor of 33 between 2004 and 2007 (although, clearly, the low starting level of the imports from China contribute to the exceptionally high percentages). By comparison, EU consumption of the same product rose by an estimated 28% during the same period. Turning to absolute figures, however, one sees that whereas imports from China grew by some 1.7 mmt in 2004-2007, EU consumption increased by an estimated 3.8 mmt. In other words, the EU market experienced a greater absolute growth than did EU imports from China.

Table 2: Relative and absolute growth of EU imports of HDMC from China and estimated EU HDMC market, 2004-2007

	Relative growth	Absolute growth
China	3,221%	1,703,400 mt
EU market (estimated)	28%	3,788,795 mt

Note: The estimated EU market has been approximated by summing up extra-EU imports and intra-EU trade (i.e. the second approach described in the sub-section on the EU HDMC market).

Source: Eurostat

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outside the scope of this report (since we are here concerned with the Community interest aspect of the complaint, and not the dumping, injury or causation problems), but anti-dumping is in any event the wrong TDI to be used if subsidies constitute the main problem. In such a case, countervailing duties should be used instead.

[38] 2008, p. 2.

[39] Para. 231.

Second, the argument is irrelevant from an economic point of view. Since when should there be a needs assessment with regard to the development of a market economy? That markets change is self-evident and there is no better indicator of how they should change than the markets themselves. Surely the EU market is perfectly able to regulate by itself what level of imports is needed.

As a final note, it should be mentioned that the results from the survey and the statements made by ACEA and European Engineering Industries Association (Orgalime) point to anything but a concern over the increase in imports from China.[40] On the contrary – as discussed under the first bullet point – they are primarily interested in having an open market that offers some alternatives, incl. Chinese, to the local EU supply.

Conclusion: incorrect and irrelevant

- It is likely that anti-dumping measures would not have a cost impact on users of HDMC.

According to Eurofer, galvanised steel does not amount to more than a few percentages in the cost of a construction project or a home appliance.[41] The survey results challenge this conclusion and show that galvanised steel constitutes a high share of total production costs in some companies that operate in one of the main three sectors affected – automotive, construction and home appliances. ACEA puts the share of flat-rolled steel in value terms at "up to 5% of the cost of an average vehicle".[42]

Thus, the simple answer to the question on what impact anti-dumping measures would have on costs seems to be: it varies. For some users galvanised steel does not account for more than a few percentages of the total cost, whereas the share is substantially higher for other users. It follows that the cost impact would probably be negligible for some, but significant for others – depending, of course, on the level of the anti-dumping duty imposed. There is nothing surprising about such an assertion, but the point to emphasise, though, is that it is important not to exaggerate either case. To state that anti-dumping duties would or would not have a cost impact on users is therefore equally wrong; or, if you will, equally correct. Both cases exist.

[40] ACEA, 2008 and Orgalime, 2007.
[41] See note 15.
[42] 2008, p. 2.

On a separate note, the suggestion that users in the automotive sector would not be particularly affected by anti-dumping duties – as indicated by the submission's arguments that Chinese imports "tend not to be suitable for the EU automotive sector"[43] – does not appear to hold up to scrutiny. For one thing, two of the companies that replied in the survey are in the automotive industry. For another, the fact that ACEA has expressed concerns regarding Eurofer's submissions makes it clear that the automotive industry is worried about the impact of anti-dumping measures against imports from China.

Conclusion: incorrect

- Refraining from imposing anti-dumping measures would threaten Community HDMC industry jobs, while imposing measures would have little or no effect on employment among user groups.

As has been argued by the Board elsewhere, anti-dumping measures should be assessed in the light of the Lisbon agenda and European competitiveness.[44] The argument "that the desire to protect EU manufacturing from foreign dumping must be subordinated to the wider aim of protecting value adding activities in Europe" also applies to this particular case.

Eurofer says that the galvanised steel imported from China "tend[s] to be in standard grades" and not higher quality products with more "demanding performance characteristics".[45] This raises the question if the EU really should be overly concerned about its ability to compete in the market for standard grade galvanised steel. Is it not more desirable to strengthen competitiveness in the higher quality product segment? Indeed, in a discussion about steel products in general, the Swedish Steel Producers' Association (Jernkontoret) has said that Swedish steel producers usually focus on higher value added steel products and that they are not therefore particularly affected by lower priced imports from China. In a similar vein, the ideal development in the constant structural transformation taking place is arguably one that sees the EU steel industry climb the value chain instead of it focusing on market shares for lower quality products.

[43] Para 27.
[44] Kommerskollegium, 2007.
[45] Para 27.

> The competitiveness perspective is equally applicable to users. As illustrated in the survey, some companies could be significantly affected by higher costs on galvanised steel due to the product's considerable share in total production costs and the difficulty in passing on most of the cost burden to the companies' customers. The rising costs would probably have a negative impact on their competitiveness and they could find it harder to compete against rivals in what are already tough markets. As discussed above, the situation for users would differ – with some being more affected than others – but, if anything, the survey indicates how badly some value adding activities in Europe could be affected.
>
> Now, Eurofer estimates that 4,000-5,000 jobs in the Community HDMC industry might be at risk until 2010 if anti-dumping measures are not imposed.[46] There is no prima facie reason to doubt that. Considering, though, that Europe's mechanical, electrical, electronic, metalworking and metal articles industries together employ some 7.2 million people[47] – compared with some 370,000 people employed in the European steel industry – and that the competitiveness of some companies is related to the cost of galvanised steel, it is implausible that levying anti-dumping duties would have little or no negative effect on several user groups.[48]
>
> **Conclusion: implausible**

The evaluation of Eurofer's argument is summed up in appendix 3.

[46] Para 233.

[47] Orgalime, 2007. The engineering industries constitute the biggest user group of steel in Europe – some two-thirds of EU steel usage.

[48] Naturally, neither the 7.2 million people employed in the engineering industries (as represented by Orgalime), nor the 370,000 people employed in the steel industry (as represented by Eurofer) all work with galvanised steel and it is impossible to know beforehand how many companies and employees would be affected by this or that measure (in addition, there is the problem of causation). The point, though, is that there are a number of users that do use HDMC and that they would likely be negatively affected if anti-dumping duties were to be levied.

From Sweden to the Community

The survey related only to Sweden-based companies and it is therefore a relevant question to ask to what extent their experiences and responses reflect the situation for the EU as a whole. The simple answer is: a great deal.

First, the statistics section showed that imports of Chinese galvanised steel are comparatively small in Sweden and the EU, albeit somewhat larger – in relative terms – in the latter. This suggests that several users throughout the EU might share a similar composition of products sourced from EU producers and Chinese producers. The higher average share of imports from China in the EU market moreover suggests that there are comparatively more users in other EU members that would be affected by eventual anti-dumping duties.

Second, several concerns regarding the anti-dumping complaints have been raised by pan-European associations, including ACEA, the European Committee of Domestic Equipment Manufacturers (CECED) and Orgalime. Several of their arguments confirm the results of the survey, including the need for alternative sources of supply, the difficulty to pass on higher costs to customers, and the loss of competitiveness and possible need to relocate in case of anti-dumping measures.

Third, between them, the Swedish companies represent the automotive, construction and home appliances sectors. Hardly industries that are particular to Sweden. In addition, one of the companies surveyed has operations in other EU members and its responses related to the impact of anti-dumping duties in those countries as well as in Sweden.

5. Conclusion

There is no need to beat about the bush. Steel producers welcome higher prices for their products, while users of steel are concerned about rising costs of their direct materials. Nothing strange about that and the two sides' opposing views regarding the influx of Chinese steel into the EU market are expected. Information from the user industry and other stakeholders that make up the Community interest is not, however, always readily available; in contrast to the complainant party, which, almost by definition, provides comprehensive information. That is one of the main reasons that the Board has chosen to focus on the user perspective in this report.

What, then, are the responses to the three basic questions that have framed the analysis: what effects anti-dumping duties would have on Swedish users, how the Swedish users would react and what effects anti-dumping duties would have on European users?

With regard to the first question, it seems clear that anti-dumping measures on galvanised steel would have a negative cost impact on some users and, more importantly, that the impact for these companies would not be negligible (depending, of course, on the level of the anti-dumping duty). A crucial point here is the share of galvanised steel in total production costs, which clearly would vary from firm to firm. The impact would thus differ among users of galvanised steel, with some more affected than others. The most serious effect for the companies that would be affected by anti-dumping duties would be a loss of competitiveness, as it is likely that they would find it harder to compete against their rivals, who would have access to cheaper HDMC.

As the effects on Swedish users would vary, so would their reactions. Some companies would not need to take any other measures than to switch suppliers and raise prices – although there are indications that the users would have to bear most of the cost burden. Those firms that would experience weakening competitiveness could take further measures and even relocate production elsewhere.

As for the final question, it seems legitimate to apply the main results from the survey among Sweden-based companies to the EU-level. Statistics, replies by the surveyed companies, and statements and reactions by pan-European trade associations, all point to the conclusion that there are several user groups throughout the EU that could experience a loss in competitiveness.

In sum, therefore, the results presented in this report contradict to a large extent the arguments presented by Eurofer that relate to the effects of anti-dumping duties on end users. More specifically, the reasoning that anti-dumping measures would have minimal adverse impact on end users does not hold up to scrutiny. On the contrary, there is a risk that imposing anti-dumping duties could cause some value-adding activities in the EU to suffer.

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Abbreviations

ACEA Association of European Automobile Manufacturers
CECED European Committee of Domestic Equipment Manufacturers
CN Combined Nomenclature
Eurofer European Confederation of Iron and Steel Industries
HDMC Hot-dipped Metallic Coated (Iron or Steel)
IISI International Iron and Steel Institute
MT Metric Ton
MMT Million Metric Ton
Prodcom Production Communautaire
SAMS Swedish Association for Material Sourcing
SCB Statistics Sweden (Statistiska centralbyrån)
SSCR Stainless Steel Cold Rolled (Flat Products)
TDI Trade Defence Instrument

Appendix 1: Questionnaire

Company information

1. Name of the company

2. Sector

3. Number of employees (in Sweden and in total)

4. Turnover (in Sweden and in total)

The company's usage of steel (steel = flat and long products as well as tubes)

Usage of steel

5. How much steel does the company use?

6. What types of steel does the company use?

Importation of steel

7. Describe what type of steel is bought from China, Asia (excl. China) and Europe, respectively.

8. To what extent (in percent) was steel from **China** used in the company's production in 2005-2007?

9. To what extent (in percent) was steel from **Asia** (excl. China) used in the company's production in 2005-2007?

10. To what extent (in percent) was steel from **the EU** used in the company's production in 2005-2007?

The company's usage of galvanised steel (i.e. hot-dipped metallic coated iron or steel)

Usage of galvanised steel

11. How much galvanised steel does the company use?

12. For what products is the galvanised steel used?

13. How much competition is there to your company's products in other EU countries? In what countries? Do you know if your competitors use Chinese steel?

Importation of galvanised steel

14. From which countries does the company import galvanised steel and how much from each country?

15. Why does the company import from these particular countries?

16. How does the company assess that its supply (incl. import) of galvanised steel will develop over the next three years?

Prices and price sensitivity

17. Is the company of the opinion that galvanised steel from China has had a downward pressure on prices? If yes, to what extent?

18. In your opinion, how much less (in percent) galvanised steel would the company buy if the price increased by 10 %, 25 % and 40 %, respectively?

19. In your opinion, how much less (in percent) would the company sell of the products containing galvanised steel, if the price on that steel increased by 10 %, 25 % and 40 %, respectively?

The company's assessment of the effects of AD duties

20. Has the company been subjected to anti-dumping measures on steel previously? If yes, what were the effects?

21. Desribe the effects that the company considers that anti-dumping duties on galvanised steel of 10 %, 25 % and 40 %, respectively, would have. Examples of possible effects include the impact on the company's imports of galvanised steel, the consequences on the demand and price of the company's products that are affected, and the impact on the company's market share and competitiveness. Please quantify these effects to the greatest extent possible.

The company's assessment of how it would act in case of AD duties

22. Has the company been subjected to anti-dumping measures on steel previously? If yes, what measures did the company take?

23. Desribe what measures the company might take in case of the imposition of anti-dumping duties on galvanised steel of 10 %, 25 % and 40 %, respectively. Examples of possible measures include switching suppliers (and what such a switch would entail in terms of costs, quality, reliability etc.), changes in the stockpile, reducing or moving personnel, outsourcing or discontinuing production, switching material/quality of steel, increased production of other goods, and measures on other cost items. Please quantify these effects to the greatest extent possible.

Other comments

24. Please add any other comments you might have on the importation of steel and potential anti-dumping measures relevant to our analysis.

Appendix 2: spreadsheet for cost price calculation

Please fill out the yellow squares only! **Please note that you are requested to fill out three sheets**	
Anti-dumping duty (AD duty)	**10/25/40%**
Product	
Unit (e.g. weight)	

Cost price calculation

Cost

	Before AD duty	After AD duty	Change (SEK)	Change (%)	Before AD duty in % of selling price	After AD duty in % of selling price	Before AD duty in % of cost price (full cost)	After AD duty in % of cost price (full cost)
Direct cost/unit (SEK):								
Galvanised steel								
Other cost of production (other direct materials (excl. galvanised steel), direct salary, other costs)								
Direct selling cost								
Indirect cost/unit (SEK):								
Storage overhead								
Manufacturing overhead								
Other overhead cost								
Total cost/unit (SEK):								
Cost of production								
Cost price (full cost)								
Total cost (cost/unit*volume) (SEK):								
Total cost of production								
Total cost price (full cost)								

Revenue

	Before AD duty	After AD duty	Change (SEK)	Change (%)
Selling price/unit (SEK)				
Selling volume (units)				
Total sales revenue (price/unit*volume) (SEK)				

Result

	Before AD duty	After AD duty	Change (SEK)	Change (%)
Product result/unit (SEK)				
Total product result (SEK)				

The company's operating profit/loss

The company's operating profit/loss

	Before AD duty	After AD duty	Change (SEK)	Change (%)
The company's total cost (SEK)				
The company's total revenue (SEK)				
The company's total operating profit/loss (SEK)				

Appendix 3: Evaluation of Eurofer's arguments on the implications of anti-dumping measures on users

Argument	In favour	Against	Conclusion
It is in the interest of users that a local Community HDMC industry supplies steel	It is likely that users have an interest in a viable local industry, as reflected by today's high shares of sourcing from EU producers and the users' need for superior flexibility and logistics.	Considering EU producers' dominant position in the HDMC market, users' prime concern is having non-EU alternatives in addition to the local supply. In other words, the argument takes focus away from users' interest in an open, competitive market.	Partly incorrect (due to a wrong focus)
Anti-dumping measures would not prevent fairly traded imports from China to continue to enter the EU	Prima facie, it makes sense that dumped import would be prevented from entering the EU market, while fairly traded ones would continue to be welcomed.	In practice, it is difficult to ensure that individual Chinese producers are evaluated on a case-by-case basis. Thus, it is likely that fairly traded imports would not be able to continue to enter the EU.	Not necessarily correct
There is sufficient capacity both within the EU and in third countries other than China to supply the EU market	It seems reasonable that the world excluding China has the capacity to produce and supply HDMC.	The argument disregards how *efficiently* EU and third country producers (excl. China) can supply HDMC. The competitiveness of Chinese steel producers suggests that they are more efficient.	Partly incorrect (due to a wrong focus)

The EU market does not need such a fast increase of imports from China, since the rise of the imports exceeds market growth	Imports from China grew by more than 3,000% in 2004-2007, whereas the EU market grew by 28%.	The EU market grew faster in absolute terms than imports from China (3.8 mmt and 1.7 mmt, respectively). The market itself can regulate the level of imports needed.	Incorrect and irrelevant
It is likely that anti-dumping measures would not have a cost impact on users of HDMC	Some users would probably not be particularly affected by anti-dumping measures.	Some users would probably be significantly affected by anti-dumping measures.	Incorrect (as a generalisation)
Refraining from imposing anti-dumping measures would threaten Community HDMC industry jobs, while imposing measures would have little or no effect on employment among user groups	There is no reason to doubt that EU producers are affected by the rise in imports from China.	Anti-dumping measures could negatively impact users' competitiveness towards non-EU rivals and therefore hurt some value-adding activities in the EU. The sheer number of employed people in Europe's mechanical, electrical, electronic, metalworking and metal articles industries (7.2 million compared with 370,000 employed in the EU steel industry) suggest that several users would be negatively affected.	Implausible