



EUROFER

THE EUROPEAN STEEL ASSOCIATION

The European Steel and Metals Action Plan
Implementing the new trade measure replacing the safeguard
Downstream price impacts

The new steel trade measure – Downstream price impact assessment

EUROFER proposes a re-designed Tariff-Rate-Quota regime replacing the steel safeguard measure

- A TRQ consider the interests of all operators in the steel value chain avoiding a direct cost impact on steel-users and a risk of shortage
- Like steel producers, downstream steel-intensive processors and users are increasingly exposed to the destructive trade impact of global excess capacities shifting down the value chain. Timely and effective trade protection is also needed for these sectors to avoid a structural collapse in steel demand in a context of EU deindustrialisation.

Why a downstream price impact assessment

- For the new trade measure to support effectively viable steel capacity utilization, a new TRQ regime needs to be installed reducing the current imports by half. Even when a TRQ allows prices to continue to be set by demand and supply, such a significant import reduction can be expected to have some price impact.
- EUROFER contracted bkp Economic Advisers (München) to make such impact assessment including the question of the effective tariff level above quota. In addition to the general price impact assessment, referring to the multiple EU steel anti-dumping investigations, we include an assessment of the impact on certain steel-users' costs.

The new steel trade measure – Downstream price impact assessment

bkp Economic Advisors price impact assessment

- The proposed measures to reduce imports to 15% import market share (carbon flat, stainless flat and long)/5% (carbon long) lead to an **average steel price increase of 1.7%** (elastic supply/substitution under realistic assumptions including current low capacity utilization) **to 4.5%** (under conventional/historical assumptions)
- The **out-of-quota tariff** needed to effectively limit imports to quota levels is about **40% not considering the recent US steel import tariff increase up to 50%** (current safeguard tariff above quota is 25%)

Sector-specific downstream cost impact of the proposed new steel trade measure

- The impact of the trade measure is limited to less than 0.2% of the downstream product price for most of the selected products under the low elasticity assumption and less than 0.1% in the case of the more realistic high elasticity assumption (white goods, automotive, construction, clean tech).
- In addition, illustrative examples are presented based on calculations from various anti-dumping investigations initiated by the European Commission concerning different steel products.
- Clearly, for key downstream sectors, notably white goods, automotive, and construction—the share of steel input in the final product cost is minimal.

Downstream price impacts – Summary of Product-Specific Case Studies

	Cost increase			
	€/unit	Low elasticity % of unit cost	€/unit	High elasticity % of unit cost
White goods:				
Dishwasher	0.87	0.14%	0.33	0.05%
Washing machine	0.99	0.17%	0.37	0.06%
Automotive:				
ICE Car	56.91	0.16%	20.22	0.06%
Bus/truck tire	0.04	0.00%	0.01	0.00%
Battery electric vehicle (BEV)	64.60	0.14%	23.22	0.05%
Construction:				
Office building	3,866	0.19%	1,366	0.07%
Brick house	773	0.19%	273	0.07%
Factory building	18,330	0.18%	6,721	0.07%
20 Fenchurch St. "Walkie Talkie" bldg.	89,900	0.03%	31,000	0.01%
Crossrail	899,000	0.01%	310,000	0.00%
Cleantech:				
Offshore wind tower, 15MW	112,176	0.50%	41,040	0.18%
Onshore wind tower, 6MW	24,858	0.46%	9,064	0.17%

EUROFER - A Comprehensive Trade Measure for EU Steel

Economic Analysis

Calculation of out-of-quota tariff levels

Assessment of downstream price impacts

Background and method

- **Background:** Proposed measure tightens quotas to reflect viable import shares:
 - Carbon flat: 15%
 - Carbon long: 5%
 - Stainless flat & long: 15% each
- **Empirical approach:** a multi-region computable partial equilibrium (CPE) model that takes into account impact of trade deflection of US Section 232 tariffs (including on EU exports)
 - Alternative assumptions regarding elasticities:
 - Standard/historical elasticities of demand, supply and substitution as used in the EUROFER submission in 2018
 - Best guess (higher) elasticities for supply and substitution given the changed circumstances (e.g., EU excess capacity and supply response conditions)

Calculation of effective out-of-quota tariff

- Out-of-quota tariff needed to effectively limit imports to current quota levels:

40% (with realistic/high elasticity assumptions) not considering the recent 50% US steel import tariff up from 25%

Current rate: 25%

- But: Current quotas are too high, have led to decrease in EU producer market share and capacity utilization (including due to demand reduction)
→ Need to limit imports to 5%-15%, as proposed by EUROFER

Price Impacts for Downstream Sectors

Downstream price increases (on average) of import reduction to 5%-15% market share:

- Standard assumptions: 4.5%
- With elastic supply (realistic elasticity assumptions): **1.7%**

	Standard Supply/Substitution Response	Elastic Supply/Substitution Response
Carbon Flat	6.2%	2.3%
Carbon Long	2.0%	0.7%
Stainless Flat	1.5%	0.6%
Stainless Long	9.5%	3.6%
Total (weighted average)	4.5%	1.7%

- For stainless long (highest effect): buyer power (not modelled) expected to help contain price pressures

Downstream price impacts – Summary of Product-Specific Case Studies

	Cost increase			
	€/unit	Low elasticity % of unit cost	€/unit	High elasticity % of unit cost
White goods:				
Dishwasher	0.87	0.14%	0.33	0.05%
Washing machine	0.99	0.17%	0.37	0.06%
Automotive:				
ICE Car	56.91	0.16%	20.22	0.06%
Bus/truck tire	0.04	0.00%	0.01	0.00%
Battery electric vehicle (BEV)	64.60	0.14%	23.22	0.05%
Construction:				
Office building	3,866	0.19%	1,366	0.07%
Brick house	773	0.19%	273	0.07%
Factory building	18,330	0.18%	6,721	0.07%
20 Fenchurch St. "Walkie Talkie" bldg.	89,900	0.03%	31,000	0.01%
Crossrail	899,000	0.01%	310,000	0.00%
Cleantech:				
Offshore wind tower, 15MW	112,176	0.50%	41,040	0.18%
Onshore wind tower, 6MW	24,858	0.46%	9,064	0.17%

Proposed measure's effects on EU capacity utilization

- Objective to restore viable levels of EU steel production is only partially delivered
 - EU exports are also undermined by deflection of trade from the United States
- Capacity utilization increases with elastic response (lower with standard elasticities):
 - Carbon flat: from 71% → 79%
 - Carbon long: from 62% → 64%
 - Stainless flat: from 66% → 68%
 - Stainless long: from 46% → 52%
- Implication: Import-limiting measures will need to be complemented by demand stimulation via EU infrastructure and defense spending

Conclusions

The results provide strong support for EUROFER's contention that a fundamental reform of the current safeguard is required

- This should involve reduced quotas since most of the erosion of EU domestic market share has been due to within-quota imports
- Downstream price impacts are limited
- The results are sensitive primarily to the estimated elasticity of substitution – to the extent that the main product groups are highly substitutable across alternative suppliers, the EU supply response to the reduced quotas should be stronger and primarily through quantities produced rather than price increases

The modelling framework set up for the present exercise enables detailed analysis of alternative structured quotas.