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UK Steel Briefing:
Implications of a No Deal Brexit for Steel Companies

Assumptions of a 'no deal' scenario:

1. For the purposes of this briefing UK Steel has assumed a 'no deal' scenario in which there is no extension of article 50 deadline and no formal agreements have been made. As such:
    - The UK leaves the EU and all related agreements and bodies at 11pm on 29th of March 2019
    - No transition period
    - No preferential tariffs are in place
    - Goods must meet each other's (possibly soon to be diverging) regulatory standards
    - UK obtains complete control over its trade policy, including FTAs and trade remedies

Trade Remedies:

Current Measures:

1. The steel sector has more measures in place than any other sector in the EU, accounting for 31 of the 92 currently in place; 15 of these are relevant to UK producers. This high volume of measures is driven by a range of factors including: overcapacity in the global sector, continued widespread state support for steel producers in many countries, the high level of international trade in the sector (30-40% of all steel produced crosses borders), and the fact that all developed nations have had no customs tariffs on steel products since 1994. These factors combine to mean steel sectors in developed countries are particaurly at risk from the import of underpriced and subsidised products and therefore rely, more than any other sector, on a robust and reactive regime to provide a level playing field in trade.

2. Any gap in the coverage of necessary measures would very quickly be taken advantage of by foreign exporters and would undermine the UK steel sector at a critical time in its recovery. Assurances must be provided as soon as possible that a 'no deal Brexit' will have absolutely no impact on the UK's readiness to introduce all necessary measures, and that this could be done by the 29th of March 2019. This has been done in principle, however the legal basis for this is unclear, creating uncertainty.

New measures

3. While the steel sector is confident in the ability of DIT to have the UK's regime, including a staffed and trained Trade Remedies Authority (TRA), fully operational by December 2020, there would be major concerns about the possibility of doing this by 29th March of next year, just seven months away. As things stand the TRA currently has no staff at all and once they are in place they will still require considerable time for training and to acquire the specialist knowledge necessary to perform in their roles. It is unrealistic to assume that the TRA will be ready to conduct full scale investigations by next March. While there is little that can be done to speed up the recruitment process at this stage, DIT should take every effort to keep industry informed on progress and timelines.

4. More crucially, there are no arrangements for the TRA to conduct investigations in parallel to the EU in the next few months. It is therefore essential that a commitment be made to automatically transition any measures introduced between now and the 29th of March, either provisional or definitive. Finally, should we leave the EU with no deal in March of next year, the UK Government should drop its proposal to review all transitioned measures, and simply maintain them in line with the EU. In a no deal scenario, the priority for the new TRA has to be getting up to speed rapidly and conducting new investigations as

required, not carrying out a multitude of unnecessary reviews, which in themselves could be open to WTO challenge.

Safeguards:

5. The EU Commission, with the support of the UK Government, has introduced safeguard measures on a wide range of steel products in response to US Section 232 steel tariffs. It is more than likely that by the end of the year we will see definitive measures introduced on many of those products if not all. The question of how such measures would be transitioned over to the UK post-Brexit has already been raised with DIT, but with the prospect of no deal looming this question becomes all the more urgent.

6. There are two major considerations: firstly, in no deal scenario the UK could become subject to EU safeguards. The impact of this would vary depending on the final form of the definitive safeguard; at the very least it would impact on any steel companies that wished to expand exports to the EU and in a worst case scenario it would see UK companies competing with the rest of the world to fill the EU's annual steel quota. The UK Government should start engagement now with EU authorities to ensure an exemption is provided to the UK to avoid this.

7. The second consideration is how the UK transitions the safeguard measure into the UK post Brexit. There is currently no formal position from the UK Government on whether this would happen and thinking has only just begun on how it could happen practically: is it legally and politically possible to enable the EU measures continue to cover the UK even after we leave the EU? If we were to introduce our own measures, on what basis would the investigation be made? How long would we need to let measures lapse before we could introduce new measures under WTO rules? The steel sector, like the UK Government, has not settled on a formal position yet but it is of paramount importance that consultation starts with industry now and a decision is made as soon as possible.

Tariffs:

8. There is little to no risk that the EU or UK would impose tariffs on steel products in the event of no deal. Since 1994, developed countries, though the WTO, have agreed to eliminate all customs tariffs on steel products and it is inconceivable that this will change as a result of Brexit.

9. However, a no deal Brexit does throw up major concerns for the use of steel by other manufacturers. For example, we could see a 10% tariff on cars between the UK and the EU, possibly reducing demand for UK cars on the continent and thus demand for automotive steel in the UK. These are naturally considerations the steel sector has already been grappling with, but the prospect of no deal and a cliff edge in seven months makes them far more difficult to mitigate and adapt to.

Rules of Origin

10. Rules of origin within the EU's various FTAs could also act to reduce demand for UK steel within the EU. For example, CETA states that cars must contain 50% by value of EU products to be exported to Canada tariff free. A no deal Brexit will see UK steel no-longer considered of EU origin for the purposes of this calculation, at the same time the UK may lose tariff free access to Canadian markets. We could therefore very quickly see a reduction of demand for UK produced automotives steels both in the UK and the EU from next March.

11. Moreover, whilst some are pushing for membership of the Pan European Mediterranean Convention (PEMC) to partially deal with the issue, in reality this would make little difference for steel. PEMC has no impact on trade deals with countries not party to the convention (for example Canada, South Korea)

and without major changes to FTAs such as CETA, there could be no 'diagonal cumulation' in which UK steel would be considered of EU origin for the purposes of exporting final goods from the EU to Canada tariff free.

12. Moreover, PEMC is now fairly out of date. For example in relation to flat rolled products, slab imported into the UK re-rolled into flat products would not be considered of UK origin for the purposes of cumulation. The priority at this stage would be to reach an early agreement with the EU to support calls for rules of origin arrangements in key EU FTAs to be adapted to include product of UK origin with the proviso that we would do the same for EU products within our own FTAs.

Customs:

13. The UK steel sector exported 2.3 million tonnes of steel to the EU last year, around 30% of its total production. With such huge volumes of steel moving across the border, (over 900 hundred trucks plus several trains each week) any delay and additional checks could have a major impact on the sector. Estimates on the cost of this could be in the region of an additional 5% on total costs for each tonne that crosses the channel.

14. Adapting to a no deal scenario will have a significant impact on steel companies competiveness and ability to service their customers – the UK is limited in its ability to minimise costs and disruption on the other side of the channel but the UK can start to act now to streamline and simplify its approach to customs from all 'third countries', including the EU27 post Brexit. This would at least help to minimise some of the expected additional costs for steel companies.

Research and Development:

15. The UK steel industry currently benefits from EU wide collaboration on vital R&D projects via the Research Fund for Coal and Steel. This RFCS, administered by the EU, is funded by the interest payments (€40 million) on a significant lump sum (€1.6 billion) historically paid into by European Steel companies, including the British Steel Corporation, into the European Coal and Steel Community. There is therefore a legitimate claim for the UK to continue to access these funds and collaborate after Brexit, and this is the sector's stated preference, but an agreement would need to be reached to provide for this.

16. In the event of a no deal, the EU has already clarified that UK participants would cease to receive funds and may also need to withdraw from programmes. This creates significant uncertainty both for those already taking part in projects but also those now preparing to bid for new funding. It is essential that HMT clarifies as soon as possible that its commitment to fund programmes underway at the time of our departure, would extend to the RFCS. This needs to be done as a matter of urgency.

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