

ANTI-DUMPING INVESTIGATION ON GOES (AD 608)

T&D Europe presentation on the reasons to withdraw
provisional duties imposed on 13 May 2015

Hearing at the European Commission DG TRADE
3rd July 2015



The European Association of the Electricity Transmission
and Distribution Equipment and Services Industry

INTRODUCTION

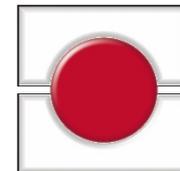
- T&D EUROPE is the European association of the electricity transmission and distribution equipment and services industry aims to promote the common interests of our industry industry towards and in cooperation with the EU institutions
- Via its 11 national associations, it represents companies accounting for a production worth over €25 billion, and employing over 200,000 people in Europe.
- T&D Europe members provide the full range of grid technologies, including advanced, smart systems suitable for interaction with renewable energies and ICT (Information & Communication Technologies)
- T&D Europe is deeply concerned about the effects of the excessively high provisional measures, and possible final measures, on the European transformer industry, which is already under considerable pressure from global competition.

ABOUT T&D EUROPE : THE MEMBERS

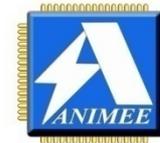
Members are all relevant European national associations



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THE INVESTIGATION - AD608



- A complaint by four European steel producers through EUROFER
- Investigation initiated by the European Commission on 14 August 2014
- Dumping allegations concerns all types of GOES from the US, Korea, Japan, Russia and China
- Very high (21.6 to 35.9%) provisional measures imposed on 13 May 2015, and definitive measures may be imposed in November 2015

GOES, THE STEEL INDUSTRY AND THE TRANSFORMER INDUSTRY

- Grain-oriented electrical steel (GOES) accounts for 0.16% of world steel production
- But GOES is almost exclusively used for transformer production, and is a significant input in transformers - can be up to **50%** of the cost of a transformer
- The EU transformer industry employs more than **30,000 people** in the EU in hundreds of large, medium-size and small undertakings, spread all over Europe, not including sub-contractors and other industries benefitting from the EU transformer industry
- Transformers are a fundamental building block of the EU electricity grid and their manufacturers a major actor of the EU Energy Union Strategy; the EU transformers industry is world leader

MAIN ARGUMENTS IN FAVOUR OF WITHDRAWING PROVISIONAL MEASURES

- These measures fundamentally contradict the Commission Vision for a European Industrial Renaissance
 - They harm a sector which, by providing solutions to global societal challenges such as energy scarcity and climate change, is contributing to the “20% GDP target”
 - More particularly, they directly jeopardise the industry’s adaptation to the new Eco-design Regulation on transformers
- They have an adverse impact on the competitiveness of the EU transformer industry vis-à-vis non-EU competitors
- **They put at risk 30,000** qualified jobs and an entire industry sector which is technologically and commercially world leader. One should recall the fact that the USA almost completely lost their transformer design and production capacity in the past, and encounter huge difficulties to re-build it: likewise, a possible loss of competence in the EU would most likely be irreversible.
- The overwhelming majority of Member States have voted against them or abstained at the Committee meeting on 30th April

PROVISIONAL MEASURES' IMPACT ON THE AIMS OF THE EU'S ECO DESIGN REGULATION AND RELATED STANDARDS.

- The EU transformer industry is particularly dependent on imports of high grade category of GOES that leads to
 - lower energy losses,
 - less noise,
 - more compact transformers and
 - a lower environmental impact, e.g., by achieving the same performance while using less natural resources
- The demand for transformers incorporating high grade GOES is increasing due to a growing awareness of life-cycle energy losses of transformers, as well as EU measures to decrease energy costs and improve the environmental performance of transformers, especially the EU's EcoDesign Regulation

PROVISIONAL MEASURES' ADVERSE IMPACT ON THE COMPETITIVENESS OF THE EU TRANSFORMER INDUSTRY VIS-À-VIS NON-EU COMPETITORS

- The transformer market is **highly competitive** and the suppliers have generally **low margins**. The general decrease in global demand following the financial crisis has significantly weakened and threatened the survival of many EU transformer manufacturers
- EU producers face **strong competition** from third country industry, which in many cases benefits from comparative advantages. For example, producers in developing countries like China and India enjoy lower labour costs, which affects not only their direct employee costs, but also the prices in the entire supply chain.

PROVISIONAL MEASURES' ADVERSE IMPACT ON THE COMPETITIVENESS OF THE EU TRANSFORMER INDUSTRY VIS-À-VIS NON-EU COMPETITORS

- A cost increase caused by import duties on GOES would lead to significant, and potentially **irreversible**, market share losses for the EU transformer industry, an industry ten times the size of the EU GOES industry.
- The cost increase would also trigger **re-location** of transformer production to countries outside the EU, which would lead to a significant loss of employment and revenues in the EU and would negatively affect the EU GOES industry through the reduction of demand in the EU. The introduction of antidumping measures is leading to an increase of **up to 15%** of the production costs of transformer.
- It has the effect of **transferring added value and jobs outside the EU**.

ADDITIONAL ARGUMENTS IN FAVOUR OF WITHDRAWING PROVISIONAL MEASURES

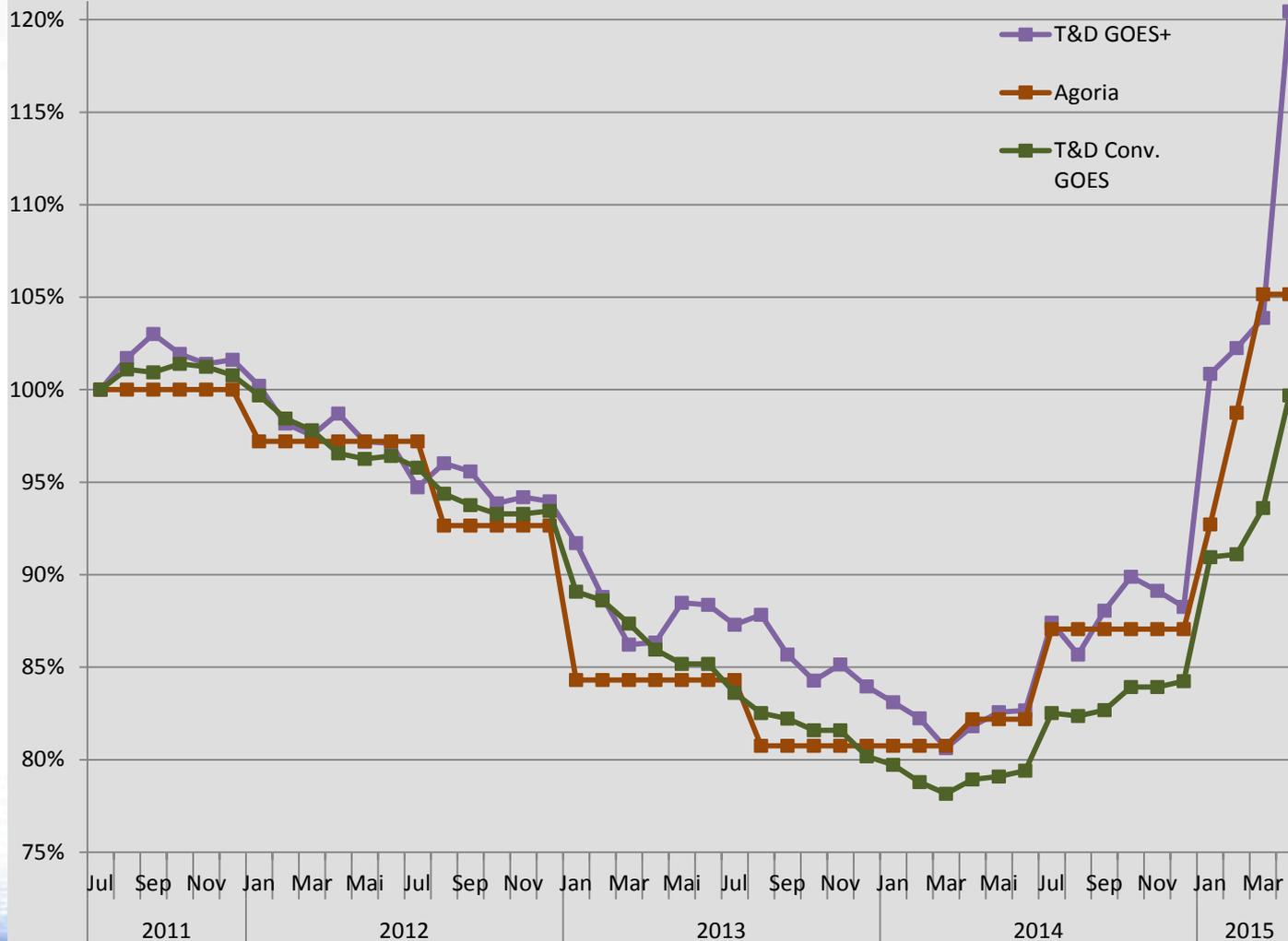
- Post Investigation Period (IP) price increase
- Increasing shortage of the most high-performing grades of GOES

POST-IP PRICE INCREASE

- Global increase in the prices of GOES since March 2014, and this trend shows no signs of reversing (see next slide)
 - The rise is especially marked on high grade GOES, but also affects conventional grades.
- The price increase compounds the negative impact of the duties for the transformer industry, while eliminating the GOES producers' need for the duties.
- The price increase is a stable global trend, not limited to the EU, and unrelated to the anti-dumping investigation.

After the investigation period, the EU prices have increased dramatically at accelerated speed

EU Relative Price Development indexed to July 2011 (Value 07/2011=100)



Summary

- Publicly available indices have shot up in early 2015 to values last seen in 2010
- All indices show extreme price increases since the low-point in March 2014 and the latest value reported value in October 2014
 - T&D GOES+: +49,4%
 - T&D Conv. GOES: +27,5%
 - Agoria: +30,2%
- Price increase for “HiB”-index T&D GOES+ highest, but also conventional-grade indices T&D Conv. GOES and Agoria appreciate massively
- The price increase is expected to further accelerate in HY2 2015, following the onset of Ecodesign

POST-IP PRICE INCREASE

- On the high grades, the average EU prices are now **much higher** than the levels where the EU GOES producers were profitable, and well above the normal price levels that applied before the peak years of 2007-2011, while over the same period the prices of energy and iron ore, the main cost drivers for the production of GOES, have collapsed.
- See T&D Europe GOES price statistics on <http://www.tdeurope.eu/data/COTREL-JUL09-PUBLIC.pdf> and <http://www.tdeurope.eu/data/TDE-INDICES-MAY15.pdf>.

INCREASING SHORTAGE OF HIGH GRADE GOES IN THE EU AND GLOBALLY

- As underlined by Eurofer, the EU transformer industry would likely be negatively affected should EU GOES producers exit the market. However, the electrical steel producers have structurally been confronted to periods of ups and downs are now back in positive territories for the foreseeable future.
- On the other hand, EU transformer production cannot survive without imports. There are categories and grades of GOES that the EU mills cannot produce, or cannot supply in sufficient volumes for the EU transformers industry, and the problem is getting worse as the global demand for high grade GOES increases.
- Just as the EU transformer producers are dependent on a healthy EU GOES industry, the EU GOES industry is also dependent on a healthy EU transformer production.

INCREASING SHORTAGE OF HIGH GRADE GOES IN THE EU AND GLOBALLY

- In the implementing regulation on provisional measures, the Commission preliminarily concludes that there will be no shortage of GOES within the EU (total size of EU production almost corresponds to total EU demand).
- This does not take into account the fact that the transformer industry's demand for GOES happens on a grade by grade basis, where there is seldom scope for using a significantly lower grade than envisaged, without substantial additional costs. For many transformer designs such downgrading would be impossible and against
 - The EU industry's competitiveness on the global transformer market
 - The requirements of the Eco-Design Regulation on Transformers (N) 548/2014.
- It should also be mentioned that there is a global increase in demand for high grade GOES, caused by infrastructure projects and energy efficiency regulations in several countries (including India and China)

INCREASING SHORTAGE OF HIGH GRADE GOES IN THE EU AND GLOBALLY

- Moreover, it does not take the global demand, for example from China which has waived its own antidumping duties, either.
 - According to the data of Eurofer, in 2014, the EU GOES mills exported ca. 115.000t to countries outside of the EU
 - Even if total GOES supply and total demand are assumed to be at the same level in the EU and assuming that all available output meets the demand (both assumptions must be very heavily challenged) then this very significant supply gap of 115.000t (>30% of total demand) remains
 - It is only reduced, if EU mills suddenly decide on a complete halt to their exports to non-EU countries. However, since the IP period, AD regulations were lifted both in the US and in China.
 - Assuming that the EU mills will be striving to optimise their profits, an increase in GOES exports to non-EU countries is, if anything, likely to significantly increase in 2015/16 - thus, further aggravating the supply shortfall

INCREASING SHORTAGE OF HIGH GRADE GOES IN THE EU AND GLOBALLY

- Alternatively, the conclusion is based on the assertion that low grade capacity can easily be switched to high-grade capacity. However, the process to develop technologically competitive grades normally takes several years. If any measures are to be imposed, they have to be imposed in such a way that the EU transformer industry's GOES needs can be met, taking into account the Eco Design Regulation and related standards and the EU transformer industry's technological performance.

INDUSTRY-WIDE TRENDS AND STATEMENTS CONCERNING INCREASING SHORTAGE OF HIGH GRADE GOES, BASED ON THE COMMISSION QUESTIONNAIRES OF FEBRUARY AND MARCH 2015

The replies to the Commission's questions have highlighted the following points:

- “The transformer industry was generally quite late in adapting its production to the new EcoDesign standards. Indeed, the real impact of the new standards on the demand for high grade can only be seen from the end of the IP.
- From the end of the IP, there is a clear trend of increasing demand for high grade GOES, and according to several company forecasts, this trend will be significantly intensified due to the high number of non-EcoDesign compliant transformers in the EU, as well as similar energy efficiency rules being introduced or tightened in non-European transformer markets.
- Although EcoDesign-compliant transformers can be produced with different grades, all transformer producers agree that such transformers would often be very difficult - or impossible - to sell and transport due to the significantly increased size, weight and noise levels caused by the use of CGO in the core. The higher level of energy efficiency required by the Eco-design regulation can in most cases only be achieved by using the highest grades of GOES, especially when considering customer requirements on size and weight, as well as noise regulations. Thus, the sales of CGO-based transformers in the EU are expected to continuously decrease.”

INDUSTRY-WIDE TRENDS AND STATEMENTS CONCERNING INCREASING SHORTAGE OF HIGH GRADE GOES, BASED ON THE COMMISSION QUESTIONNAIRES OF FEBRUARY AND MARCH 2015

- An increased demand in the higher grades of GOES, both in the EU and globally, has already been noticed in the statistics. Based on the forecasts of the EU transformer industry, the trend will increasingly be a switch from CGO to higher grades
- However, according to the estimates made by the transformer industry, the European mills **are not in a position to meet the growing demand for high grade GOES**. Moreover, the highest GOES grades produced by European mills are of an uneven quality. The shortage of higher grades have already caused a significant price increase, which is evident from the statistics. Many companies fear that this trend will continue. If this trend is not taken into account by the Commission, transformer producers will be forced to relocate (parts of) their production outside the EU in order to remain competitive

T&D EUROPE REQUESTS

In T&D Europe's view, no antidumping measures should be imposed against GOES.

CONCLUSION

ANTI-DUMPING DUTIES ON GOES ARE AGAINST THE INTERESTS OF THE EU AND:

- Raise the input costs for the entire EU transformer industry and limit its access to high grade GOES, thereby reducing its competitiveness in relation to non-EU producers
- Risk lay-offs and outsourcing of thousands of qualified European jobs in order to protect an industry that does not need any protection
- Jeopardize the introduction of the EU Eco-Design Regulation for more environmentally friendly transformers