

Contribution

15 May 2018

Why EU safeguard measures for GOES imports are not warranted

T&D Europe, the European Association of the Electricity Transmission and Distribution Equipment and Services Industry, would like to present its contribution to the European Commission's safeguard investigation concerning imports of steel products (2018/C111/10). T&D Europe members are, *inter alia*, manufacturers of transformers for the EU and the global market, for which they use Grain-Oriented Electrical Steel (GOES).

Several T&D Europe member companies will also respond individually to Safeguard Questionnaire SFG009.

T&D Europe's analysis of the developments in the EU and global market for GOES has found no evidence of a recent, sudden, sharp and significant increase of imports of GOES that could cause serious injury to the producers of GOES in the EU. Consequently, EU safeguard measures to protect EU producers of GOES do not appear to be warranted.

Executive Summary

The production of transformers requires different grades of Grain-Oriented Electrical Steel (GOES), which is contained in the list of products concerned for this investigation.

Transformers are used to increase or decrease the alternating voltages in electric power applications. Transformers are vital for the operation of the electricity network. They are also used in a large range of industrial processes.

The turnover of the EU market for transformers is approximately EUR 3,7 billion, about 10% of which is made up of imports. EU transformer production, in turn, is worth approximately EUR 4,7 billion, making the EU a net exporter of transformers.

If the EU were to impose EU safeguard measures (e.g. import duties) on those grades of GOES categories that EU steel makers are not able to produce in the necessary quantities and with the necessary quality, it would increase production costs, weaken the competitiveness of EU transformer manufacturers and risk the loss of the EU's global technology leadership.

T&D Europe's analysis of the developments in the EU and global market for GOES has found no evidence of a recent, sudden, sharp and significant increase of imports of GOES that could cause serious injury to the producers of GOES in the EU. Consequently, EU safeguard measures to protect EU producers of GOES do not appear to be warranted. In fact, introducing safeguard measures will create even more serious problems for the EU transformer producers, who themselves face fierce global competition.

T&D Europe and its members call on the European Commission to refrain from the introduction of additional safeguard measures for GOES imports.

GOES and the EU transformer manufacturing industry

The EU is home to a world leading transformer industry, which is facing increasing competition from other parts of the world. The turnover of the EU market for transformers is approximately EUR 3,7 billion, about 10% of which is made up of imports. EU transformer production, in turn, is worth approximately EUR 4,7 billion, making the EU a net exporter of transformers.

Transformers are used to increase or decrease the alternating voltages in electric power applications. Transformers are vital for the operation of the electricity network. They are also used in a large range of industrial processes.

With the Clean Energy Package¹ the EU has embarked on an energy transition that will require significant investments in upgrading the current electricity infrastructure, including the replacement and modernisation of transformers. The Clean Energy for All also sets the ambition “to promote EU global leadership in clean energy and low-carbon technological solutions.”

The production of transformers requires different grades of Grain-Oriented Electrical Steel (GOES), which is contained in the list of products concerned for this investigation. The cost of GOES is among the main drivers for the price of the final transformer.

Following the announcement that the EU was starting a safeguard investigation, T&D Europe has analysed the developments for the market for GOES. The findings of this analysis can be summarised as follows:

¹ <https://ec.europa.eu/energy/en/topics/energy-strategy-and-energy-union/clean-energy-all-europeans>

1. How have the GOES import volumes developed during 2015-2017? Has there been a significant change?

On the basis of the publicly available information T&D Europe has not found any indication of a recent, sudden, sharp and significant increase of imports of GOES, which could cause (or threaten to cause) serious injury to the producers of GOES in the EU.

Between 2014-2016 the volume of GOES imports into the EU decreased with almost 10%. In the same period the value of the GOES imports increased with 32.6% from 2014 to 2015 and with 16.7% from 2015 to 2016. This indicates that the EU imported more high-value GOES products. Since then the import value has shown a downward trend.²

2. If imports have increased, what are the reasons?

The increase in imports of high-value GOES is the result of EU policy and legislation. The EU EcoDesign Directive sets minimum mandatory requirements for the energy efficiency of products, including transformers. For the implementation of Tier 1 of the EcoDesign Regulation in July 2015³ European transformer producers needed more high-permeability GOES to produce more efficient transformers that fulfilled the new standards. EU production of conventional, high-permeability (Hi-B) and domain-refined high-permeability (DR) GOES was insufficient. As a result, EU transformer producers have turned to imports. This situation is likely to continue as Tier 2 of the EcoDesign Regulation sets even higher transformer efficiency standards, which have to be met in 2021. The Commission's own findings in case AD608⁴ confirm the impact of the implementation of the EcoDesign requirements on the increased demand for high-permeability GOES and resulting increases in prices and imports.

3. What has been the impact of the Minimum Import Prices imposed in 2015 on the transformer production in Europe?

In October 2015 the European Commission decided to impose a definitive anti-dumping duty on imports of certain grain-oriented flat-rolled products of silicon-electrical steel originating in the People's Republic of China, Japan, the Republic of Korea, the Russian Federation and

² Eurostat data, via http://madb.europa.eu/madb/statistical_form.htm

³ COMMISSION REGULATION (EU) No 548/2014 of 21 May 2014 on implementing Directive 2009/125/EC of the European Parliament and of the Council with regard to small, medium and large power transformers <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0548&from=EN>

⁴ COMMISSION IMPLEMENTING REGULATION (EU) 2015/763, paragraph 132 http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:JOL_2015_120_R_0004&from=EN

the United States of America.⁵ In an increasingly competitive environment the introduction of Minimum Import Prices has had a negative impact on cost competitiveness and profitability of EU transformer manufacturers.

The introduction of minimum import prices on virtually all GOES imports, in combination with an increasing shortage of GOES in Europe - especially for Conventional Grain Oriented (CGO) and the highest Hi-B and DR grades - has had a big impact on the EU transformer producers' costs. Besides the EU EcoDesign Regulation, local regulations concerning transformers have put additional pressure on the EU transformer producers to obtain the necessary inputs at the lowest possible price, since price remains one of the main factors in the customers' evaluation criteria.

As the global transformer market is experiencing a situation of overcapacity, the EU transformer industry is increasingly under pressure to remain competitive on the world stage. The gradual loss in global market shares of the European transformer producers is a consequence of intense competition from countries with more advantageous cost structures, including lower labour and energy costs. The cost of GOES is among the main drivers for the price of the final transformer and any EU-specific GOES price increases will reduce the competitiveness of the EU transformer industry.

4. To what extent have the European producers developed their capacity to produce GOES (especially high grades) in the last 3 years?

The main European GOES producers have started investing in the past 3 years in the production of high grade GOES. The investment programmes have not yet been completed. For the moment, European GOES producers are not yet able to deliver GOES at neither the same high quality nor the necessary quantity as the leading suppliers outside the EU, who benefit from experience and skills obtained over the course of many years. Furthermore, Asian GOES suppliers are further developing their products and thus maintaining the technological lead compared to EU GOES producers.

5. How do the prices of EU producers and non-EU producers of GOES compare?

⁵ COMMISSION IMPLEMENTING REGULATION (EU)2015/1953:
http://trade.ec.europa.eu/doclib/docs/2015/october/tradoc_153920.def.en.L284-2015.pdf

Historically there is no substantial price difference between EU producers and non-EU producers of GOES. Prices of EU producers are on most grades slightly below those of imported GOES. This can be explained by the introduction of the Minimum Import Price (MIP) regulation in 2015 and lower logistics costs.

6. What would be the impact for the T&D sector in Europe if the EU decided to impose safeguard measures?

The introduction of EU safeguard measures in the form of duties imposed on GOES categories that EU steel producers cannot provide, or at least not in sufficient quantities, would increase production costs, weaken the competitiveness of EU transformer manufacturers and risk the loss of global technology leadership.

EU transformer manufacturers will pay a premium on top of world prices, while our competitors outside the EU will benefit from lower prices. This will allow non-EU transformer manufacturers to increase their sales of transformers both in the EU and in export markets.

Transformer sales contracts are often signed many months or even years before the final delivery date. In a competitive market EU producers would not be able to pass on those increased costs. To avoid selling the transformers at a loss, EU producers may need to relocate the production of transformers under such contracts to production facilities outside the EU.

We also expect that manufacturing locations in the EU will have difficulties to find sufficient supply of the premium Hi-B grades which are needed to meet customers' demand for higher performance in the form of no load loss and acoustic noise. In case of shortage EU manufacturers would be forced to find solutions from outside the EU. As a result we expect a cost and potentially also lead time disadvantage for EU transformer manufacturing. This could lead to the strengthening of the transformer manufacturing industry in countries immediately adjacent to the EU.

EU safeguard measures would also risk the loss of EU leadership in the development and production of more efficient and environmentally friendly transformers. The EU transformer industry, being the global leader in innovation and efficiency, will play an important role in the implementation of the Tier 2 of the EU Eco-Design Regulation, and thereby help develop and improve EU efficiency standards and reduce CO2 emissions. This requires the use of high grade, high quality GOES. If the access to such input products is restricted by safeguard measures, the EU transformer industry will be placed at a competitive disadvantage with non-EU transformer manufacturers, who would be able to increase their sales both in the EU and

in export markets. This would run counter to the EU ambition to be a global leader in clean energy technology development and production.

If steel producers in the EU are not exposed to competition due to EU MIPs and safeguard measures, they will be in a position to set prices at a much higher level than on the global market. Moreover, in the absence of competition EU steel makers will not feel the pressure to invest in the innovation of their products.

The EU transformer industry would welcome the presence of a healthy and competitive GOES industry in the EU. However, if the EU were to impose trade defence measures it would lead to the creation of a monopolistic GOES market without the necessary and healthy pressure of foreign competition. For EU producers of transformers, who are competing in a highly competitive global market, this would create serious problems directly affecting their competitiveness.

7. What is the conclusion of T&D Europe?

T&D Europe's analysis of the developments in the EU and global market for GOES has found no evidence of a recent, sudden, sharp and significant increase of imports of GOES that could cause serious injury to the producers of GOES in the EU. Consequently, EU safeguard measures to protect EU producers of GOES do not appear to be warranted. In fact, introducing safeguard measures will create serious problems for the EU transformer producers, who are competing in a highly competitive global market.

T&D Europe and its members call on the European Commission to refrain from the introduction of additional safeguard measures for GOES imports.

ABOUT T&D EUROPE

T&D Europe is the European Association of the Electricity Transmission & Distribution Equipment and Services Industry, which members are the European National Associations representing the interests of the electricity transmission and distribution equipment manufacturing and derived solutions. The companies represented by T&D Europe account for a production worth over € 25 billion EUR. Further information on T&D Europe can be found here: <http://www.tdeurope.eu>

CONTACTS

Diederik Peereboom
Secretary General, T&D Europe
diederik.peereboom@tdeurope.eu
+32 2 206 6888

Laure Dulière
Policy Adviser
laure.duliere@tdeurope.eu
+32 2 206 6863