



New trade barriers on the global steel market: Impact on Ukraine's steel exports

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Executive summary

- UA steel industry: 2nd largest industrial sector, 23% of goods exports
- Protective measure introduced in 2018/2019 by some key destination markets, notably the USA and EU
- USA: Additional customs duty of 25% on all exports in selected tariff lines
- EU: Tariff rate quotas (TRQs), 25% additional duty on exports above TRQ
- **Estimated losses**
 - 2018: USD 143 m, 1.3% of total UA steel exports
 - 2019: USD 305 m, 2.7% of total UA steel exports
 - USD 227 m loss of exports to EU
 - USD 78 m loss of exports to USA
- Despite “softer” TRQ measures, EU measures have larger impact as EU is the more important trade partner for UA
- 2018 overall still a good year for steel industry due to world market prices
- Compound risk from effect of measures and a reduction in prices in 2019

Structure

1. Introduction
2. Ukraine's steel production
3. Steel exports of Ukraine
4. The global steel market
5. Protective measures in the steel market in 2018 and 2019
6. Impact assessment
7. Conclusions

Annex

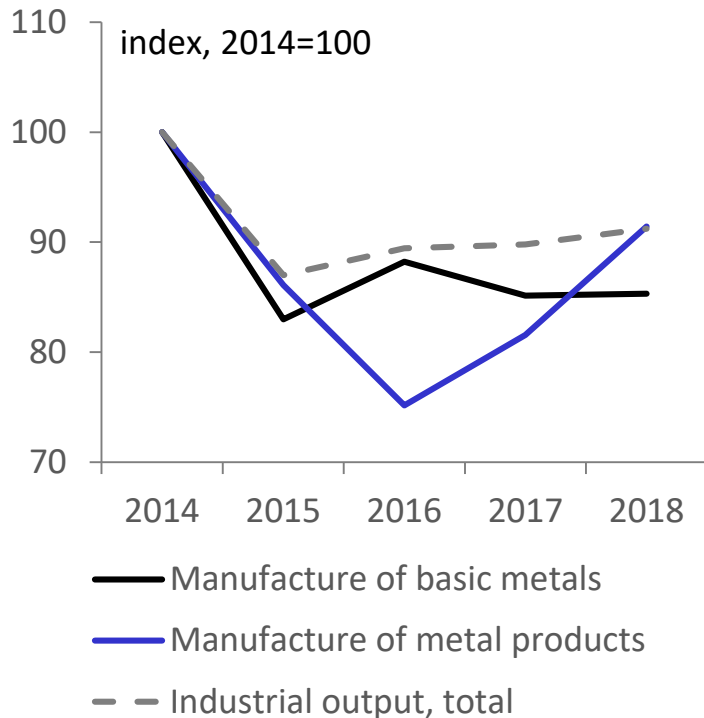
1. Introduction

- Steel makes up around a quarter of Ukraine's total goods exports
- In March 2018, the USA imposed an additional 25% import duty on selected steel products claiming a threat to national security
- This led to the safeguard measures on steel imports by other large importers, like the EU, Turkey and Canada
- Other markets (e.g. EAEU, Egypt, Morocco) are investigating the issue
- Protective measures introduced in top-3 export destinations for Ukrainian steel (EU, Turkey and USA)

Aim of the study: Estimation of the impact of new trade barriers in global steel market on Ukraine's exports

2. Ukraine's steel production

Manufacture of metals and products thereof in Ukraine, 2014-2018



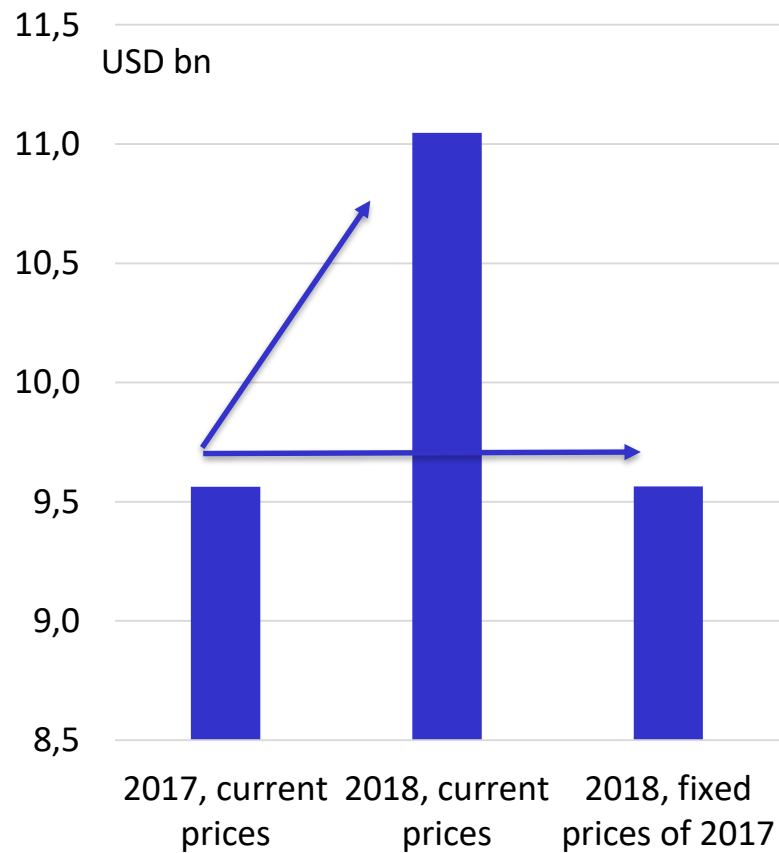
Source: Ukrstat, authors' estimates

Ukraine's metallurgy

- Output: USD 17 bn in 2017
 - 2nd largest industrial sector of Ukraine behind food processing
 - 25% of manufacturing output at basic prices
 - Manufacture of basic metals: 22%
 - Manufacture of metal products: 3%
 - 20% of manufacturing GVA
 - Basic metals: 16%
 - Metal products: 4%
 - **Real growth rates, 2018/2017:**
 - Manufacture of basic metals: +0.2%
 - Manufacture of metal products: +1.8%
- **Very moderate real growth of total sector as base metals make up largest share**

3. Ukraine's exports of steel

Ukraine's exports of steel and products thereof (HS 72-73), 2017-2018



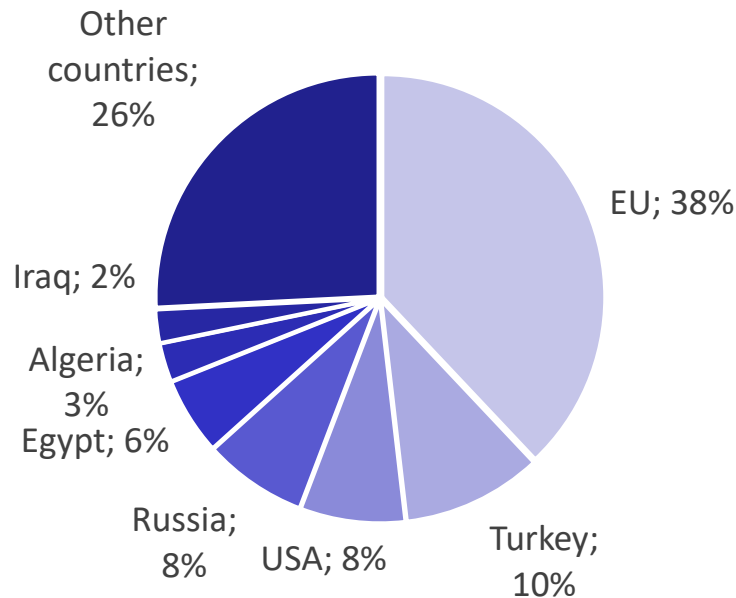
Source: WITS, Ukrstat, authors' estimates

- **Ukraine's steel exports, 2018:**
 - Value: USD 11.0 bn
 - Share in total exports: 23%
 - Share in sector output (2017): 56%
- **Steel is a key export of Ukraine**
- **Growth rates, 2018/2017:**
 - Current prices: +16%
 - Fixed 2017 prices: +0.02%
 - Note: FOB prices do not include customs tariffs
- **Despite favourable market situation and only partial capacity utilisation, no real growth of steel exports 2018**

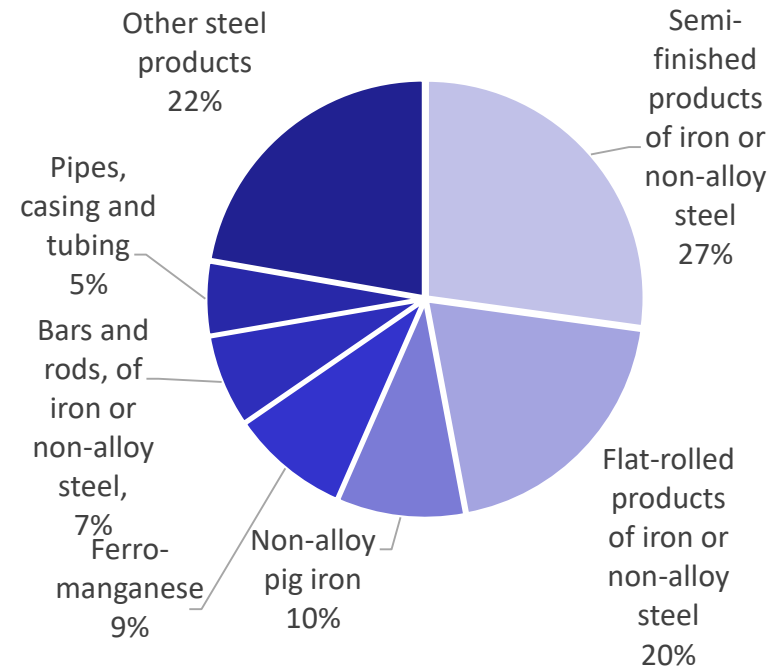
Geography and structure of Ukraine's steel exports

Ukraine's steel exports, 2018

Destination markets



Product structure



Source: Ukrstat, authors' estimates. Note: Values for "exports of steel and products thereof", HS 72-73

- 97% of steel exports are semi-processed products
- **Ukraine supplies inputs to industrial production and construction abroad**

4. Global exports of steel and steel products

Steel exports by market, 2018



Source: WITS, authors' estimates; extra-EU exports only

Global steel market

- Volume in 2018: USD 508 bn (excl. intra-EU exports)
- Growth 2018/2017: +10%
- Growth 2017/2016: +16%
- Slowdown of global trade in 2018

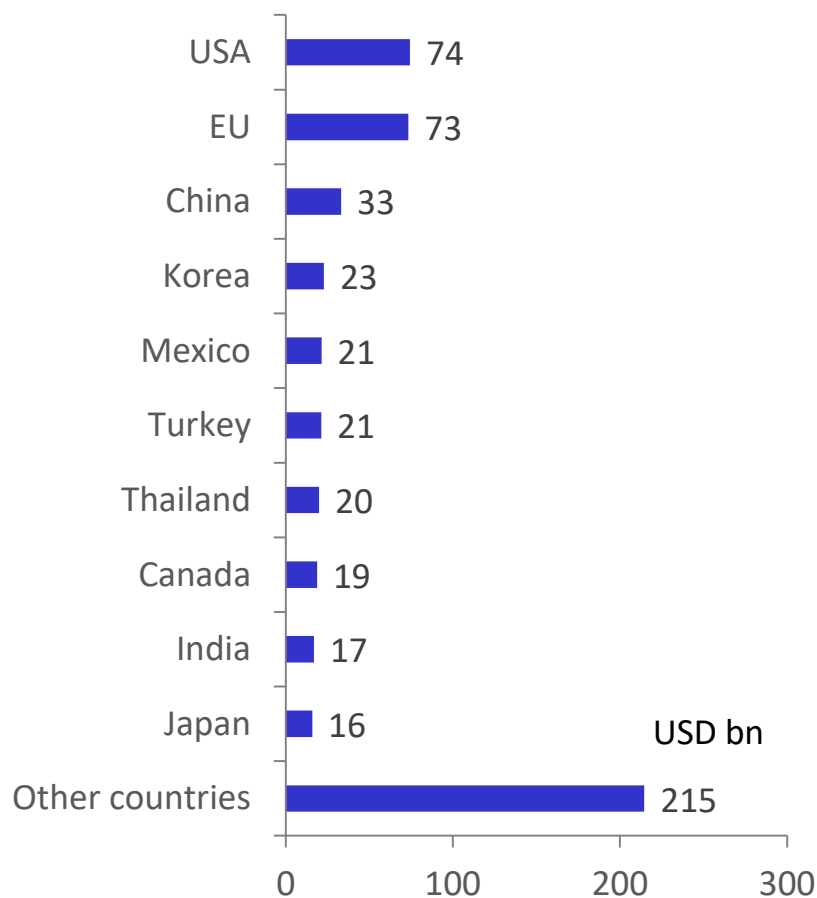
Ukraine's role on the steel market

- Ukraine: 2% share of global exports
- **11th largest** global steel exporter
- Main exporters: China (22%), EU* (15%), Japan (8%), Korea (7%), USA (7%)

* extra-EU exports only

Global imports of steel and steel products

Steel imports by country, 2018



Source: WITS, authors' estimates; EU: imports from non-EU only

Growth of global steel import volumes

- Growth rates in 2018 (2017):
 - USA: +9% (+21%)
 - EU: +15% (+21%)
 - China: +5% (+19%)

➤ **Slowdown of steel imports in 2018**

Major trade partners of Ukraine:

- EU: 14% of world imports, but 38% of UA exports
- Turkey: 4% of world imports, but 10% of UA exports
- USA: 14% of world imports, but 8% of UA exports

➤ **UA exports mainly to nearby markets**

5. Protective measures in the steel market in 2018-2019

	USA	EU (provisional)	EU (final)	Turkey (provisional)*	Canada (provisional)	Canada (final)	TOTAL
Measures	25% additional import duty	TRQs with 25% additional import duty outside TRQ	TRQs with 25% additional import duty outside TRQ	TRQs with 25% additional import duty outside TRQ	TRQs with 25% additional import duty outside TRQ	TRQs with 25% additional import duty outside TRQ	
Period	Mar18 – now	Jul18 - Feb19	Feb19 – Jun21	Oct18 – May19	Oct18 – May19	May19- Oct21	
UA steel exports to country, 2018, USD m	842	4,195	4,195	1,126	24	24	11,047
Applicability to UA	Yes	Yes	Yes	Yes	No	No	
% UA exports to partner subject to safeguards, 2018	24%	35%	39%	32%	0%	0%	20%
% UA exports to partner subject to extra customs duty, 2018	24%	Not identifiable	3%***	Not identifiable	0%	0%	

Source: WTO, EU; * Turkey concluded safeguard investigation with no final safeguard measures imposed; ** TRQ: tariff rate quota; *** based on estimates provided on slide 16, calculation of the Ukrainian exports subject to extra duty applicable under provisional measures not possible

Relevance of the protective measures for Ukraine

Protective measures in place in two large destination markets for UA steel:

- **USA:** Additional import duty of 25% on selected imports since March 2018
- **EU provisional measures** (July 2018 until Feb 2019): *Aggregate* (for all trade partners together) tariff rate quotas (TRQs), 25% extra duty above TRQ
- **EU final measures** since Feb 2019: Mostly individual TRQs per trade partner
- Turkey did not apply final measures, UA excluded in Canada final measures
- Measures only on selected tariff lines (HS codes), not on all steel exports

Exposure of UA exports to (final) measures:

- USD 1.8 bn of 2018 exports (16% of steel, 4% of total exports) to destinations and in tariff lines with final measures in 2019
- Not all of these exports will be subject to additional duty:
 - USA: Extra duty on all imports in affected product lines
 - EU: Only exports above TRQ subject to extra duty

➤ **Significant share of UA exports potentially at risk in 2019**

6. Impact assessment: Methodology

- Impact of measures on UA exports to respective markets for 2018 and 2019
- No calculation of “compensation” of exports to other markets

2018

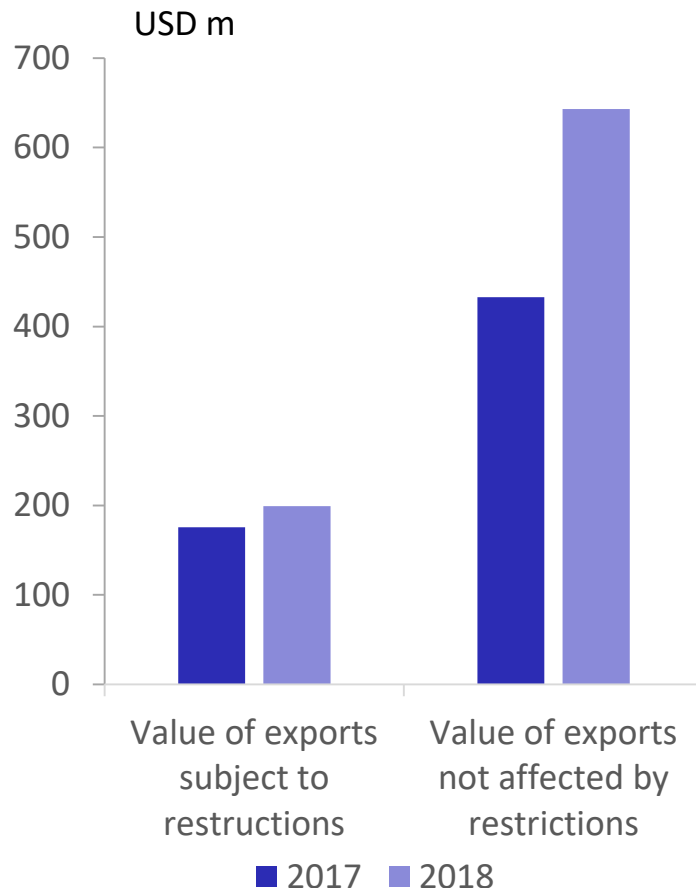
- Focus: US and EU measures in place since mid-2018
- Turkey excluded: No final measures in 2019
- Impact assessment: [2018 export loss] = [Difference in volumes of exports to a partner in 2018 and 2017] x [Export price at 2018 level]
- Baseline assumption: 0% real growth of affected exports without measures in 2018

2019

- Impact of EU final measures: Estimated using “global simulation model” (GSIM) by Francois & Hall (2003) on exports above TRQs (‘value at risk’)
- See Annex for details
- US measures: 2018 effect extrapolated for whole year
- Estimates are done for 2018 prices

Impact of US measures in 2018 and 2019

UA steel exports to USA, 2017-2018



Source: Ukrstat, authors' estimates

Development of exports in 2018

- USD 199 m of UA steel exports subject to additional duties :
 - +13% yoy growth in value (2018/2017)
 - 21% *decline* in volume
- USD 643 m of UA steel exports not subject to additional duties:
 - +49% growth in value
 - +36% growth in volume

Impact of measures in 2018

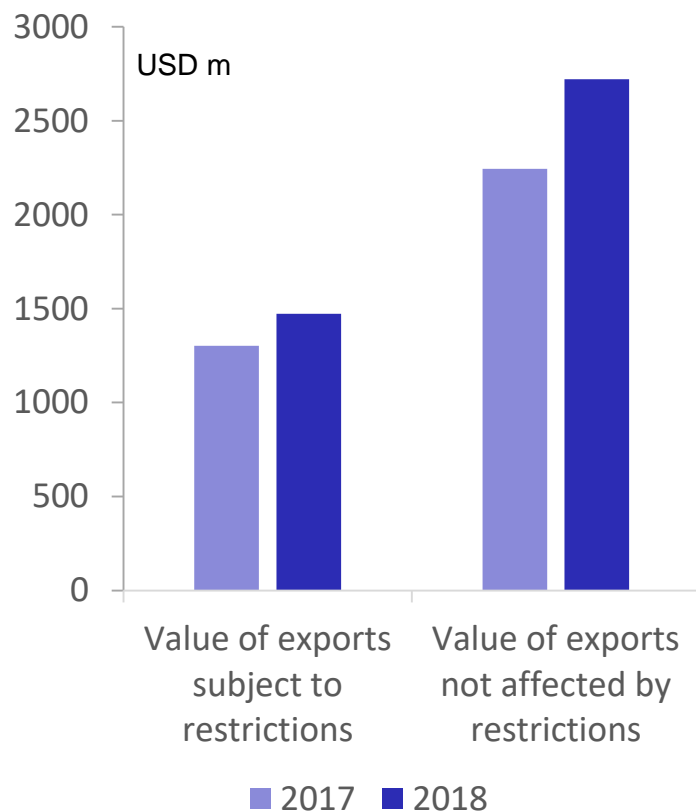
- 2018 export loss due to extra duties: USD 52 m (6% of steel exports to USA)
- **Growth of steel exports to USA despite measures on 24% of exports**

Impact of measures in 2019

- Annualized export loss due to extra duties: USD 78 m (9%)

Impact of EU provisional measures on 2018 exports to EU

Ukraine's exports of steel products to the EU, 2017-2018, USD m



Source: Ukrstat, authors' estimates

Development of exports in 2018

- USD 1,473 m of UA steel exports subject to provisional safeguard measures
 - +13 % yoy growth in value (2018/2017)
 - 6% *decline* in volume
- USD 2,721 m of UA steel exports not affected by provisional safeguard measures
 - +21% growth in value
 - +9% growth in volume

Impact of measures in 2018

- 2018 export loss due to extra duties : USD 91 m (2% of steel exports to the EU)
- Annualized export loss: USD 219 m (5%)

➤ **Nominal growth of exports to EU both for products with or without TRQs**

Impact of EU final measures in 2019: TRQs for Ukraine

Groups	Description	UA volume of exports, 2018, tonnes	EU final TRQs for UA, annualized for 2019	TRQ for UA / UA volume of exports
1	Non alloy and other alloy hot rolled sheets and strips	140,399	No individual TRQ	Total TRQ > EU imports
2	Non alloy and other alloy cold rolled sheets	351,509	254,390	0.72
7	Non alloy and other alloy quattro plates	824,287	844,465	1.02
13	Rebars	163,202	155,466	0.95
14	Stainless bars and light sections	16,092	14,254	0.89
16	Non alloy and other alloy wire rod	242,233	370,447	1.53
17	Angles, shapes and sections of iron and non alloy steel	104,342	106,690	1.02
19	Railway material	171	1,634	9.5
20	Gas pipes	29,655	No individual TRQ	Total TRQ < EU imports
21	Hollow sections	90,260	62,751	0.70
22	Steamless stainless tubes and pipes	14,564	12,990	0.89
24	Othet steamless tubes	119,099	91,438	0.77
27	Non alloy and other alloy cold finished bars	41,731	39,700	0.95
28	Non alloy wire	67,200	66,515	0.99

- For many groups, TRQs will likely be binding: Volume smaller than 2018 UA export volume to EU, exposing UA exports to extra duties

Additional impact of EU final measures on 2019 exports to EU

Group	Description	UA export to EU, USD m, 2018	Value at risk, USD m, 2018	Estimated losses, USD m	% change
1	Non alloy and other alloy hot rolled sheets and strips	268	0	0	0%
2	Non alloy and other alloy cold rolled sheets	211	61	-61	-29%
7	Non alloy and other alloy quattro plates	426	0	0	0%
13	Rebars	70	4	-4	-5%
14	Stainless bars and light sections	47	6	-6	-12%
16	Non alloy and other alloy wire rod	139	0	0	0%
17	Angles, shapes and sections of iron and non alloy steel	60	0	0	0%
19	Railway material	1	0	0	0%
20	Gas pipes	24	9	-7	-31%
21	Hollow sections	58	18	-16	-27%
22	Steamless stainless tubes and pipes	117	13	-13	-11%
24	Othet steamless tubes	109	26	-26	-24%
27	Non alloy and other alloy cold finished bars	64	4	-4	-6%
28	Non alloy wire	52	1	-1	-1%
	Total affected products	1,646	139	-136	-8%

- **Additional export loss 2019: USD 136 m** (3.2% of steel exports to the EU, 8% of exports to EU under TRQs)
- **Estimated total export loss 2019: USD 91 m + USD 136 m = USD 227 m** (5.4% of 2018 steel exports to EU)

6. Conclusions

Effect of present measures

- In 2018, Ukraine's observed losses are estimated at USD 143 m or 1.3% of total exports of steel and products thereof
- In 2019, total export losses are estimated at USD 305 m (at 2018 prices) or 2.7% of total exports of steel and products thereof, including:
 - USA: USD 78 m per annum
 - EU: USD 227 m per annum
- Existing measures have a limited impact on Ukraine's steel exports
- EU measures have more effect despite TRQs due to magnitude of EU exports
- 2018 overall was a good year for UA steel exports

Outlook

- Several more partners, including Egypt, Morocco and the Eurasian Economic Unions are running safeguard investigations on various steel products
- A slowdown in global demand and a consequent price decline constitute more important risks for the sector



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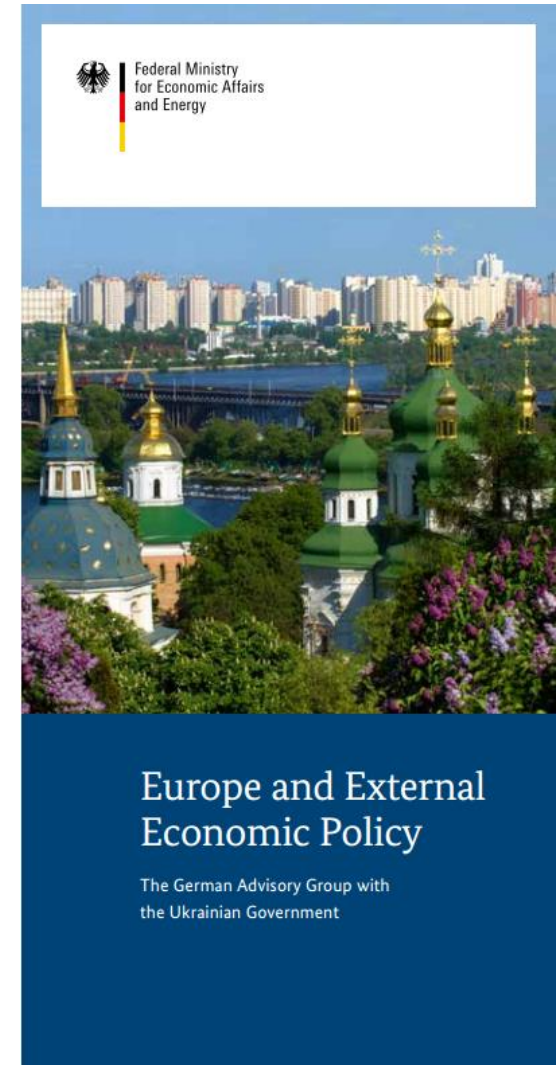
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Annex: Approach to ex-ante impact assessment of the EU final safeguard measures

Step 1: Compute annualized TRQ using final TRQ set for Feb-Jun19 and Jul19-Jun20

If there is an individual TRQ for UKR (groups 2, 7, 13, 14, 16, 17, 19, 21, 22, 24, 27, 28)

Step 2: Compare TRQ for UKR with EU imports from UKR in 2018

- If individual TRQ > EU imports from UKR → TRQ does not restrict imports → no explicit losses compared to 2018
- If individual TRQ < EU imports from UKR → identify 'value at risk', i.e. export value not shielded by TRQ → Step 3

If there is NO individual TRQ for UKR (groups 1, 20)

Step 2: Compare aggregate TRQ with EU imports in 2018

- If aggregate TRQ > EU imports → TRQ does not restrict imports → no explicit losses compared to 2018
- If aggregate TRQ < EU imports → identify 'value at risk', i.e. export value not shielded by TRQ assuming unchanged shares → Step 3

Step 3: Model impact of additional duty for 'value at risk' using the global simulation model (GSIM) by Francois & Hall (2003), <https://ideas.repec.org/p/lnz/wpaper/20090803.html>

Step 4: Calculate aggregate impact