

New trade barriers in the steel market: Limited impact on Ukraine

Following the introduction of an additional 25% customs duty on selected steel imports by the USA in 2018, the EU and other markets responded by imposing their own safeguard measures. Especially the measures of the USA and EU matter for Ukraine: While the EU is Ukraine's primary destination market for steel products with a share of 38% of steel exports, the USA are the third most important market, with a share of 8%. Steel remains a key export good of Ukraine, accounting for 23% of total goods exports in 2018.

The US measures, a 25% additional customs duty on imports in selected product lines, will lead to a reduction of only USD 78 m in Ukrainian steel exports to the USA in 2019. The EU's measures will lead to a reduction of Ukrainian exports by USD 227 m, despite customs duties applying only after Tariff Rate Quotas are exhausted. The larger impact of EU measures is due to the EU being a more important destination for Ukraine. The total reduction in Ukrainian steel exports in 2019 due to these measures will be below 3% of total steel exports. Hence, the overall effect of the new trade barriers on Ukraine, though clearly negative, will remain limited.

New protective measures on steel markets

After the issue of protecting American workers from steel imports figured substantially in the presidential campaign of Donald Trump, the USA started a round of protective measures in the steel market in 2018. After the USA introduced an additional customs duty of 25% on all steel imports in a range of product lines from most of its trade partners in March 2018, several other countries and markets imposed own safeguard measures or began safeguard investigations.

The EU introduced provisional safeguard measures, allowed under WTO regulations, in July 2018 and replaced these with final safeguard measures in February 2019. Other than the US measures, the EU measures involve product- and country specific (the latter only since the final measures) Tariff Rate Quotas (TRQs). Additional customs duties are levied only once a TRQ is exhausted.

Canada and Turkey also introduced provisional measures in 2018. Whereas Canada followed up with final measures in May 2019, Turkey let its measures expire in May. Egypt imposed definitive safeguard measures in October 2019 and the Eurasian Economic Union will apply measures starting in December. In several other countries, investigations are ongoing.

Steel remains a key sector of Ukraine's economy

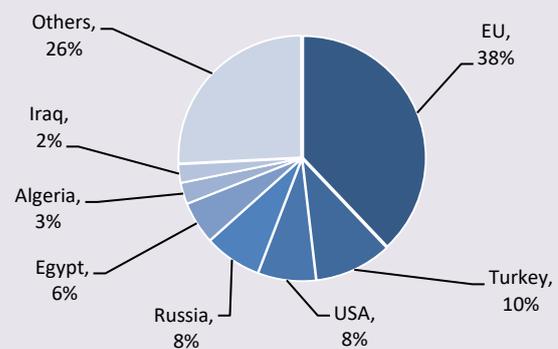
Steel remains a key sector of the Ukrainian economy. Despite steel production having been negatively affected by the Donbas conflict in recent years, it made up 25% of Ukraine's total manufacturing output in 2018. Ukrainian steel exports grew by 16% in value in 2018, compared to 2017. However, this increase was solely due to an increased steel price on the world market. In volume terms, Ukrainian steel exports remained constant between 2017 and 2018.

More than half of Ukraine's steel output is exported. Steel exports summed up to USD 11 bn in 2018, 23% of total goods exports. Globally, Ukraine was the 11th largest steel exporter, supplying 2% of global steel exports in 2018. Hence, Ukraine is not a major player on the world market for steel, where China exported USD 112 bn worth of steel exports in 2018 and the EU's steel exports to non-EU countries summed up to USD 76 bn.

Importance of nearby destination markets

The geographical distribution of Ukraine's steel exports clearly indicates that distance is an important determinant for destination markets of steel.

Destinations of Ukrainian steel exports, 2018



Source: Ukrstat, own calculations

The nearby markets of the EU and Turkey were the largest destination markets for Ukrainian steel in 2018 with 38% and 10% of exports destined to them, respectively. The more distant US market accounted for 8% of Ukraine's steel export in 2018. Overall, transport costs likely play a key role in determining the composition of destination markets, leading to a focus on nearby destinations.

Focus on semi-finished products limits impact

We quantified the impact of the US and EU measures on Ukraine's steel exports to these markets. We did not quantify the impact of the provisional measures of

Turkey as these measures expired in 2019. The Canadian measures did not concern product lines under which Ukraine exported to Canada. The impact of measures by Egypt and the EAEU on Ukraine have not yet been analysed.

Both the EU and US measures only partially affect Ukraine's steel exports to these markets. Measures are imposed only on specific product lines. In the US market, 24% of Ukraine's USD 842 m worth of exports were in product lines subject to the 25% additional duties in 2018. In the EU market, 39% of the total worth of USD 4.2 bn of Ukraine's 2018 steel exports were in product lines to which (final) TRQs applied. However, only 3% of exports were above the TRQs and subject to additional customs duties. By design, the EU measures are hence much softer on Ukraine's exports.

The relatively low exposure of Ukrainian steel exports to the protective measures is related to their product structure. Semi-processed products (i.e. intermediate products that are being used as inputs for further processing) make up 97% of Ukraine's steel exports. At the same time, these products are on average less affected by protective measures.

Effect of protective measures on Ukraine's exports

Using a simulation model and observed effects of measures in 2018, we calculated the effect of the US and EU measures for 2019. The total effect of the US measures will be a reduction of steel exports in 2019 by USD 78 m compared to 2018, a reduction by 9%. The effect of the EU's measures on Ukraine's exports in 2019 will be a reduction by USD 227 m, a reduction by 5% compared to 2018.

Estimated impact of additional tariffs in 2019

	USA	EU
Value of UA steel exports, 2018, USD m	842	4,195
Share of UA exports subject to import restrictions, 2018	24%	39%
Share of UA exports subject to additional tariffs, 2018	24%	3%
Estimated export losses for 2019, USD m	78	227

Source: WTO, EU, own calculations

Although the measures imposed by the USA are much harsher, hitting all exports in selected product lines with the additional customs duty of 25% rather than only exports above the TRQ as in the EU, the aggregate effect of the EU's measures on Ukraine's exports is larger. This is however solely due to the larger share of the EU market in Ukraine's steel exports.

Overall effect remains limited

The combined effects of the EU and US protective measures on steel are clearly negative for Ukraine, leading to an estimated loss of USD 305 m of export value in 2019. This amounts to 2.7% of 2018 steel exports, which is not insignificant and may slightly increase due to measures by Egypt and the EAEU, which will however only have full impact in the coming years. However, overall, the importance of the present measures remains limited. Annual fluctuations in the world market price for steel, often causing double-digit percentage changes in the value of steel exports, remain a more important driver of year-to-year changes in the level of Ukraine's steel exports.

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