Briefing Note on the Actions needed in context of COVID-19 crisis
27 April 2020

The COVID-19 crisis has resulted in certain production limitations, sharp demand changes and other economic distortions, all of which have made EU manufacturers even more vulnerable to unfairly traded imports and import surges. In this context, the massive manufacturing overcapacities in some third countries have even increased, to the extent demand has decreased. For these reasons, the EU must take immediate steps to prevent unfairly traded imports and import surges from injuring EU producers who are, and will remain, vulnerable for some time.

Practical examples of this increased threat of injury to selected AEGIS Europe members are set out in an annex to this Note.

New EU funds to support vulnerable EU sectors and, for example, the screening of inward investment, are needed, but they are not sufficient.

What is needed is a more assertive and much faster implementation of the existing trade monitoring and trade defence tools.

The Commission must:

- collect and make available to EU manufacturing sectors **real-time data** on all imports, whether under special customs regimes or not, to allow a quicker identification of import surges and stockpiling;

- open and conclude investigations expeditiously, based on a reasonable interpretation of the *prima facie* standards for complaints and a recognition of the particular vulnerability of, and threat of injury to, Union manufacturers;

- systematically register imports from initiation of investigations, address imports into free zones and for inward processing, and reject calls for blanket suspensions of existing measures.

The EU must be particularly assertive to ensure the effectiveness of existing EU TDI measures, and be sufficiently quick to initiate anti-circumvention, anti-absorption and other actions needed to counter avoidance and fraud.

AEGIS Europe and its members appreciate the willingness of EU decision makers to act decisively to ensure the wellbeing of EU manufacturing. We will work closely with the Commission services to implement the actions needed in individual cases.

ANNEX: INDUSTRY STORIES

ESTA: example of Steel Tubes and Pipes (STP)

- China has not reduced production capacities and production has continued;
- There is a history of dumping of STP from China;
- Hubei steel, the largest exporter to the EU (70% of total) is not subject to AD duties;
- The Safeguard quota on STP will be increased in July 2020 allowing for more imports;
- In any event the Safeguard measures will all end in June 2021;
- The EU STP industry has lost as much of 25% of sales and is in partial lockdown
- This decrease in market size is not expected to change quickly;
- Dumped exports from China will hit EU producers hard and retard the re-opening of EU production and the maintenance of market share. World market of Seamless tube is assessed at 43 million tonnes, Chinese production capacities are amounting to 43 million tonnes. EU market is around 2.5 million tonnes, EU production capacities around 6 million tonnes. There are 30 million tonnes overcapacity total around the world including 15 million tonnes overcapacities in China.
- This imminent and significant injury is perfectly predictable today;
- EU must be ready to act to prevent this predicable injury from happening.

EuroAlliages: the example of silicon

- Silicon is on the list of critical raw materials in the EU. It is used primarily by two industries:
  - The Chemical industries for the production of silicones (main chemical application);
  - The Aluminium industries for the production of aluminium alloys (primary and secondary smelters) intended for the production of castings alloys for different industries and in particular automotive.

  More recently, silicon, in its purest form, is the raw material needed in solar cells. Silicon therefore is a key component of the solar panel value chain.

- The worldwide consumption of Silicon in 2018 was 2.9 million tonnes. By contrast, Chinese capacities were already 4 million tonnes in 2014 and increased further to approximately 7 million tonnes in 2019. New capacities in Xinjiang province alone cover over 2 million tonnes, almost 4 times EU demand of approximately 0.5 million tonnes.

- There is no evidence that China has decreased silicon output in Q1 2020.

- The production of silicon is energy-intensive and almost 100% of power generation in Xinjiang is coal-based, giving silicon from that province a very large carbon footprint.

- China has a history of dumping silicon into the EU. Chinese silicon is subject to 16.8% AD duty, and Chinese producers have many times attempted to circumvent that duty, which is up for renewal in 2021.

- In 2019, 80% of Chinese silicon imports entered the EU through the inward processing regime, effectively avoiding the AD duty.

2019	Tons	%
Both	55.561	100%
Inward	**44.503**	**80%**
Normal	11.058	20%

- The EU needs to address the abuse of the inward processing procedure and be ready to act quickly to maintain EU silicon manufacturing capacity in the face of unfair government backed stock build ups and uneconomic production capacity.

Tech-Fab Europe: the example of glass fiber fabrics

- Glass fibre fabrics (GFF) are lightweight reinforcement materials and an essential part of the EU lightweight materials value chain. GFF are used in a fast-growing range of applications, including wind blades, structural construction parts, pipes, boat, car and train parts, infrastructure and aerospace components and many more. GFF are key for the development of new green technologies and solutions to address climate change with new and more environment-friendly products.

- The EU imposed anti-dumping measures on imports of GFF from China and Egypt on 1 April 2020 and anti-subsidy measures are expected in June 2020.

- The main exporting producers in both China and Egypt are massive Chinese State-owned conglomerates with enormous overcapacities. GFF capacities in China increased from approximately 812,000 MT in 2015 to approximately 925,000 MT in 2018, while domestic Chinese demand decreased to 450,000 MT. In comparison, total EU GFF demand in 2018 amounted to approximately 170,000 MT. Egypt has no substantial local demand and its only GFF producer is the largest Chinese State-owned conglomerate making GFF, located in an economic zone owned, controlled and subsidized by the Chinese government.

- During the AD investigation, the Chinese State-owned conglomerates increased exports to the EU by almost 50% to stockpile in anticipation of measures, and the two largest Chinese State-owned exporting producers have already announced new facilities in Turkey and Morocco to circumvent the EU's anti-dumping and anti-subsidy measures.

- To maintain the effectiveness of the new measures, the Commission must be able to respond quickly to these circumvention activities. The situation is critical, considering the material injury already caused, and the continued ability of Chinese State-owned producers to further increase exports quickly, as with the 2019 stockpiling.

GlassFibreEurope: the example of glass fibre reinforcements

- Glass fibre reinforcements (GFR) are at the beginning of the lightweight reinforcement materials value chain. They are used to make GFF or combined with resins to be moulded into custom-made composite parts. GFR are used in many structural parts in the automotive, construction, shipbuilding and other industries.

- Combined AD and AS measures on GFR from China have been in place since 2014 (AD measures since 2011), and the AS measures are currently under review.

- China has significant GFR production overcapacities. The Chinese GFR capacities in 2018/19 were in the range of 3.6 to 4.1 million MT. At the same time, domestic GFR demand in China was in the range of only 2.0 to 2.5 million MT. Total EU demand for GFR in 2018/2019 amounted to approximately 1.0 million MT.

- Provisional countervailing duties were imposed on imports of GFR from Egypt on 5 March 2020. As with GFF, the only Egyptian GFR producer is a subsidized Chinese State-owned construction conglomerate. Despite substantial GFR overcapacities in China, that group made a €600 million greenfield investment in order to circumvent EU AD/AS measures, in an economic zone in Egypt owned, controlled and subsidized by the Chinese Government.

- Imports of GFR from Egypt and Bahrain remain a pressing issue as production overcapacities remain, and the countervailing duties are only imposed on imports from Egypt and are not sufficient to offset injury.

EBMA: the example of bicycles and e-bikes

EBMA represents the over 900 Manufacturing SMEs and 110.000 highly skilled Workers in 23 out of 27 EU Member States. Our Industry is one of the largest employers of the EU Green Industries, promotes circular economy, while production in the EU is the most ecological and sustainable worldwide. The EU Bicycle, Pedal-Assist E-bike and Bike Components Industry is one of the main pillars for EU's decarbonization and greening goals. Our Industry invested over 1 Billion Euro in 2018 in Innovation & Modern Industry 4.0 Technology as well as pollution-free industrial equipment.

- In 2018, the total EU Consumption was 20 million bicycles and e-bikes. Heavy subsidization from the PRC national and regional governments have created major overcapacities in the sector. For example, Chinese manufacturer Fushida alone has the capacity to produce enough bicycles and e-bikes to cover all EU demand.

- At the same time, Chinese bike producers have set up fraudulent schemes in third countries to avoid paying the anti-dumping duties on e-bikes. This has happened already in the past concerning Chinese bicycles circumvented via Indonesia, Malaysia, Sri Lanka, Tunisia, Cambodia, Pakistan and the Philippines.

- The EU bicycle and e-bike industry mainly consists of SMEs, which are the first to suffer from this unprecedented crisis. Further, bikes are a consumer product and, thus, the realisation of the loss of profits is immediate.

- At the same time, bike sales in 2020 are expected to grow. In view of the COVID-19 required safety measures, cycling is the safest mode of commuting, when it comes to social distancing.

- This means that the combined effect of the decreased EU production and the expected increased imports from China and circumvention via third countries will lead to massive bankruptcies and layoffs all over the EU.

- The EU Authorities must prevent the major injury expected to be borne by the EU green and sustainable bike SMEs.

Steel

- The outbreak of the COVID-19 virus in March has created an unprecedented economic crisis severely hitting the European steel industry: overall EU steel demand has collapsed by more than 50% (demand from automotive went down by 70-80%), European steel producers are cutting production drastically (by up to 40%) - more cuts are imminent as new orders are down by 70-75% and manufacturing capacities are being idled at a large scale (currently around 30%). This crisis has a dramatic impact on jobs: 42% of the steel workforce is already subject to temporary lay-offs and reduced working. Given the uncertainty, even if some industrial sectors like automotive may be considering restarting activity, steel demand is very unlikely to pick up sufficiently to provide the necessary relief to the sector.

- At the same time, given the global nature of the crisis, the risk of deflection of exports towards the EU market – the reason why the safeguard action was taken in light of the global excess capacity in general and the U.S. Section 232 import tariff in particular - has only increased.

- Steel industries in other countries do not suffer the same impact as in the EU. In the peak of the virus crisis, China continued steel production (+3% January – February

2020 year-on-year) building up stocks that will have to be released causing another massive price decrease and deflection of export volumes to the EU. Russian mills continue producing in the first months of 2020 despite the closure of downstream markets. Also, reportedly Indian steel mills are resuming their operations during the lockdown.

- At the same time foreign steel-producing countries are taking protectionist measures to support their industries including China (increase VAT export rebate), Russia (government instruction to scrap collectors to maintain activity to ensure continuation of domestic steel production) and Turkey (increase of steel import tariffs).

Aluminium

European Aluminium represents the entire aluminium value chain with more than 600 plants covering 80% of all smelting, semi-fabrication and recycling activities in wider Europe.

- Aluminium sits at the start of long value chains that are essentials for European citizens: transport (36%), building and construction (30%) and packaging (17%). In particular, the aluminium industry is essential in producing and supplying semi-finished products such as profiles for field hospitals, respiratory machines, and other medical instruments and equipment, as well as can sheet and foil sheet for the packaging of food, drinks, pet food, pharmaceutical and medical products. These products are essential in the current crisis.

- China has been building up excess capacity both in primary and semi-fabricated aluminium products for years and this trend shows no sign of abating. A severe consequence of this excess capacity combined with lower growth of China's internal demand has been the flood of semi-fabricated and final aluminium product exports to the rest of the world, often at unjustifiably low prices, indicating Chinese producers may be engaged in illegal 'dumping'.

- This situation is creating a significant threat for the European aluminium industry. The volumes available make Chinese industry capable of entirely replacing the European aluminium industry. The threat is heightened by the current COVID-19 crisis.

- China has also begun supplying and even acquiring domestic EU production capacity likely to be backed by state subsidies due to the magnitude of state interference in their aluminium industry and the choice of aluminium as a strategic material. While FDI is welcomed in the EU for good reason, it can pose a threat if its intent is to facilitate the entry of improperly traded goods into the EU. The lack of reciprocal access for European companies on the Chinese market is also of concern.

Ceramics

- The European ceramic industry covers a wide range of products including abrasives, bricks & roof tiles, clay pipes, wall & floor tiles, refractories, sanitaryware, table- & ornamental ware, technical ceramics, expanded clay and flowerpots. The industry generates over 200,000 direct jobs and a production value of €31 billion in the EU.

- Half of the total direct jobs in the EU are currently covered by anti-dumping duties. These duties, mainly used by SMEs, are the EU's only effective tool to prevent unfair competition. In the ceramic wall and floor tiles sector China registered an overcapacity of 6bn sq.m. i.e. 6x EU consumption (2016). Similarly, in the ceramic tableware and kitchenware sector, Chinese production reached 2mln tons overcapacity, i.e. 7x EU consumption (2016).

- Both tiles and tableware products imported from China are covered by EU anti-dumping measures, although circumvention attempts and transhipments behaviour have been observed in third countries including Bangladesh, the Philippines, Malaysia, and others.

- In December 2019, the EU imposed anti-circumvention measures on imports of AD tableware from China. 30 exporting Chinese producers engaged in circumvention practices amounts to 63.227 tons in 2018 (around 10% of the total Union market).

- Both sectors already being challenged by unfair trade practices have seen additional market unpredictability due to the lack of clarity of EU-UK Brexit negotiations (threat of additional circumvention).

- However, due to unprecedented sanitary and economic crisis resulting from COVID-19 outbreak in the EU, both ceramic sectors could be exposed to predatory dumping and surge of imports from countries outside of the less impacted by the coronavirus.

- Regarding the ceramic refractory industry, hereinafter "refractories", they play a critical role in the daily operations of almost every sector of manufacturing. These ceramic materials are essential for all heat-intensive production processes such as metals making, the production of cement, petrochemical processes, glass and ceramics would not exist. Without refractories there would be no cars, no planes, no trains, no gas or electricity.

- In the context of COVID-19, our customers in the steel (50%!), aluminium, copper, glass, chemicals, energy, and more are directly responsible for supplying the primary materials used to produce desperately needed items such as hospital beds, respirators, face masks, and other medical devices. Their production processes cannot occur without refractories, even in the short term.

Aluminium Road Wheels and Steel Wheels

- The producers of both Aluminium Road Wheels (ARW) and Steel Wheels (SW) supply the EU automobile industry. It is already clear now that the impact of the coronavirus on the automobile industry is unprecedented. Covid-19 is now the worst crisis ever to impact the automotive sector. This reflects immediately on the producers of ARW's and SW's, which employ 25.000 people in the EU.

- EU producers of ARW's have to compete with Chinese imports which benefit from cheap subsidised aluminium in China where there is massive overcapacity of aluminium production. Since aluminium represents more than 50% of the cost of an ARW the Chinese exporters can sell their wheels in the EU at very cheap prices. Even the anti-dumping duty of 22.6% does not seem to stop them from exporting.

- The effect of the coronavirus on the ARW production in the EU is unprecedented and has already led to the worst crisis ever to impact the sector.

- For the production of SW's EUWA, the Association of European Wheel Manufacturers, expects a similar scenario as for ARW's, even though the anti-dumping duty on steel wheels is higher. The Chinese producers of steel wheels benefit from Chinese domestic steel prices which are also heavily subsidised and for which there is also massive over capacity.

- EUWA expects its sales volumes in the EU to be at least 25% lower than before Covid-19 appeared. The association expects that it will take until 2023 before reaching again the 2019 sales levels. This would mean that the real sales volumes for 2020 would be a loss of 25 million wheels!

- EUWA calls on the EU and demand a strong and coordinate action to aid its producers who all face a severe financial hit.

Paper and board

- The European paper and board industry provides a wide range of renewable and recyclable wood-based fibre solutions for EU citizens: from packaging to textiles, hygiene and tissue products, printing and graphic papers as well as speciality papers, but also bio-chemicals for food and pharmaceuticals, bio-composites and bioenergy. At the forefront of the decarbonisation and industrial transformation of our economy, the paper and board industry embraces digitalisation and directly employs more than 180,000 people. It contributes €20 billion added value to the European economy and €5.5 billion in investments annually.

- Europe is a global leader in this sector. More than 20% of its production is exported. Around 7% of domestic consumption originates from imports. Since 2004, the EU markets have been fully open to imports, while on the other hand about one third of EU exports face tariff barriers, mostly in emerging countries.

- Graphic paper - newsprint and printing & writing paper - demand is in structural decline. Its demand has fallen by 40% since its peak in 2007 in Europe. The same trend can be observed in the rest of the world. Newsprint is mainly used for daily or weekly newspapers and printing and writing papers intended mainly for publishing, advertising, catalogues, offices, direct mail and correspondence.

- Over the last 15 years, more than 20 anti-dumping investigations have been launched by foreign countries against European exports of graphic papers. We can expect this trend to continue and the number of investigations to further increase. A strong mobilisation from the EU Commission is required to secure a fair access to third countries.

- The COVID-19 crisis is accelerating the decline of graphic paper, like the 2008-2009 financial crisis did. Over the last years, the European graphic paper industry has been restructuring its operations through massive closures of its mills or converting them, when possible, to other paper and board grades, mainly packaging and speciality paper. We believe that competing sources for this declining product, mainly in emerging countries, will not reduce at the same speed their capacities, or even decide to maintain them with subsidies, which could lead to growing flows of exports towards the EU at dumped prices. A growing number of restrictive markets access measures in third countries will also divert increasing volumes to EU. It is crucial for the paper industry to rely on the EU Commission support to defend its markets against unfair competition.

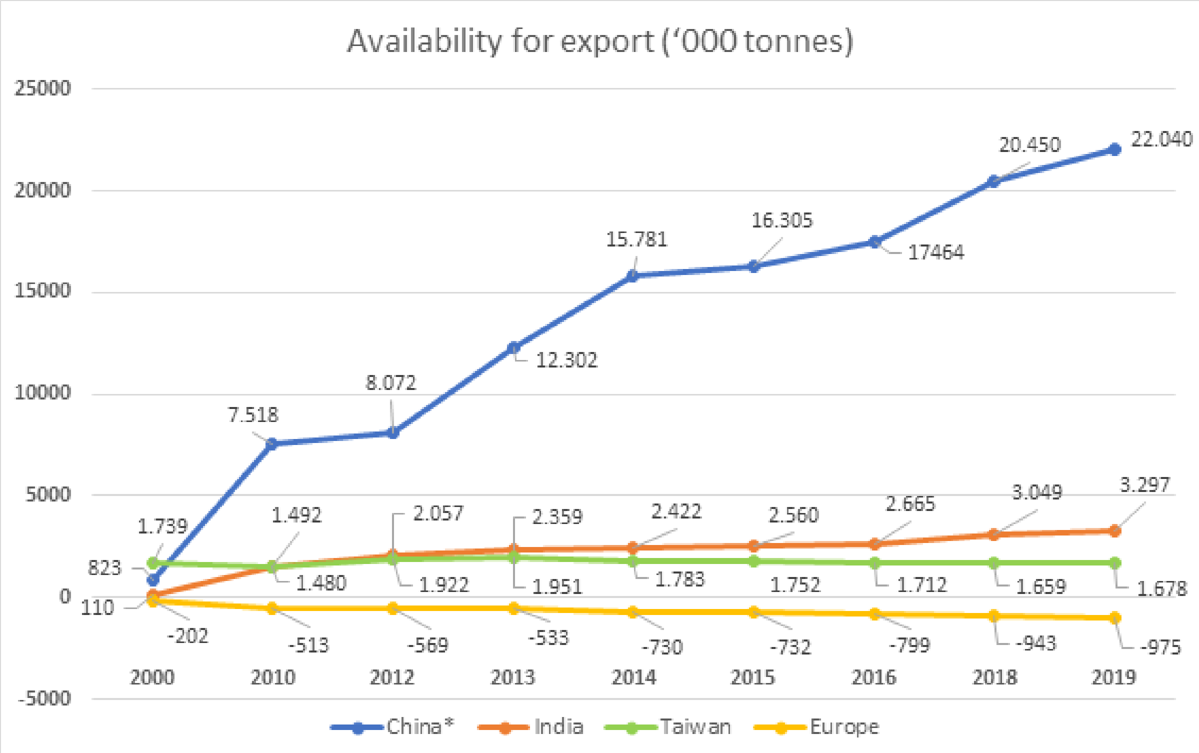
- Although these developments can be expected mainly for graphic paper, it cannot be excluded it could happen for some other paper and board grades like packaging.

Man-Made Fibres

- About 87% of the world’s production of man-made fibres is now located in Asia (excluding the Middle East) - most of which (64% of the global total) is in China.

- Man-made Fibres (MMF) and textile markets are **global** and **very competitive**. Over time, European producers have therefore specialized, moving from commodity-type to speciality-type products. Today, the European MMF industry is one of the most efficient in the world. However, it remains exposed to **distorted import competition**, mainly from Asia in general and from China in particular where huge **overcapacities** continue to be built up for a number of MMF, mainly through subsidies and other government-oriented measures. Asian countries export these overcapacities which leads the EU market to be saturated with low-priced and very often dumped imports. This consequent and widespread dumping in Europe results in loss of market shares and ultimately the disappearance of companies and jobs.

Production capacities versus demand in third Asian countries – example: polyester (main dominant fibre produced worldwide)



Source: PCI Fibres – World Synthetic Fibres Supply/Demand Report 2010 & Wood Mackenzie - Fibres Global Supply Demand Report 2018

- These figures clearly indicate that since these countries are still building up new production capacities, there will always continue to be a **huge excess capacity to export to the EU**.