



# AEGIS EUROPE ON WTO REFORM

## **THE BUSINESS CASE**

March 2019

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## About AEGIS Europe

AEGIS Europe is an industry alliance that brings together over 25 European manufacturing associations committed to free and fair international trade ensured by an effective international level-playing field.

Our members account for more than €500 billion in annual turnover, as well as for millions of jobs across the EU.

AEGIS Members include the following European industry sector associations:

- Association of European ferro-alloy producers (EUROALLIAGES)
- Association of European Wheel Manufacturers (EUWA)
- European Aluminium
- European Association of Technical Fabrics Producers (TECH-FAB Europe)
- European Bicycle Manufacturers Association (EBMA)
- European Ceramic Industry Association (Cerame-Unie)
- European Container Glass Federation (FEVE)
- European Domestic Glass (EDG)
- European Federation of Rope, Twine & Netting Industries (EUROCORD)
- European Federation of Steel Wire Rope Industries (EWRIS)
- European Glass Fibre Producers Association (GLASS FIBRE EUROPE)
- European Industrial Fasteners Institute (EIFI)
- European Man-made Fibres Association (CIRFS)
- European Non-ferrous Metals Association (Eurometaux)
- European Rail Industry (UNIFE) – *Associated Member*
- European Steel Association (EUROFER)
- European Steel Tube Association (ESTA)
- Fertilizers Europe
- European Shipbuilding and Maritime Equipment Manufacturers (SEAEUROPE)
- Sustainable Solar Energy Initiative (EU PRO SUN)



## AEGIS Europe Objectives

AEGIS Europe is an alliance of European industrial sectors promoting manufacturing, investment, employment, growth and innovation in an environment of fair competition and a level playing field in the EU and abroad.

The alliance was created in 2016 to address the critical question of whether the EU should accept that China was a Market Economy for purpose of anti-dumping policy.

Confirming the alliance's objective, AEGIS Europe sectors increasingly experience the critical need to expand their focus beyond EU trade defence policy and measures dealing with the effects of international economic and trade distortions, towards the root causes of distorted and unfair competition.

Well-designed and enforceable international rules that reflect today's realities are critical for this purpose. The WTO is the regulatory institution capable of effectively framing and enforcing an international level playing field for manufacturing industry. AEGIS Europe considers that a rules-based multilateral trade regime benefits all economies. However, the modernization of the WTO is necessary to address competing economic and political systems.<sup>1</sup>

AEGIS Europe supports the EU ambition to modernize and make the WTO more effective by introducing more transparency, new rules and disciplines and enforcement mechanisms.

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<sup>1</sup> The recent *Franco-German Manifesto for a European industrial policy fit for the 21<sup>st</sup> Century* recognizes that “there is no regulatory global level playing field....This puts European companies at a massive disadvantage. When some countries heavily subsidize their own companies, how can companies operating mainly in Europe compete fairly?...More generally, we must constantly monitor and adapt as necessary our trade policy to defend our strategic autonomy: this includes the essential and urgent modernization of the WTO rulebook to improve transparency and more effectively fight against trade distorting practices including excessive subsidies to industry...”

## AEGIS Europe Sectors Are Integrated In The European Manufacturing Value Chain




AEGIS Europe sectors operate right across Europe’s manufacturing value chain, from raw materials and energy through to manufactured goods.

Table 1 – AEGIS Europe Sectors in the manufacturing value chain

| AEGIS EUROPE SECTORS                       |  |
|--|--|
| <b>1. Raw Materials &amp; Energy</b>       |  |
| Organic materials                          | coton, timber...   |
| Inorganic materials:                       |  |
| - Non-ferro and ferro metals               | Al, Cu, Fe, Ni, Pb, Si, Zn...  |
| - Stone, minerals                          |  |
| Secondary                                  | scrap, slags   |
| Energy sources (renewable)                 | oil, gas, coal, electricity (solar, wind, water, steam)                                |
| <b>2. Intermediate industrial products</b> | (destined for use in further manufacturing; including multiple transformational steps) |
| Agricultural                               | intermediate wood products   |
| Ceramics                                   | ceramics   |
| Chemical                                   | fertilizers, petrochemicals, plastics, glass, glass fibres...                          |
| Non-ferrous and ferrous, Ferro-alloys      | aluminium, silicon, steel  |
| Textile                                    | fibres   |
| ...  |  |
| <b>3. Manufactured goods for</b>           |  |
| Agriculture/mining                         | yellow goods   |
| Consumers (private, public, business)      | ceramics, chemical products, furniture, textile...                                     |
| Construction/building/infrastruccion       | engineering, building materials and components, furniture...                           |
| Digitalization                             | glass fibres   |
| Renewable energy                           | solar panels, wind towers, engineering   |
| Transport/mobility                         | cars/trucks, ships and sea equipment, trains and rail equipment                        |

The industrial sectors represented through membership of AEGIS have significant economic importance. Eight sectors within the alliance’s 20 members provide 1.9 million direct jobs in Europe, with a turnover of 420 billion euro in 2017. These value chains produce more than 316 million tonnes of goods, from commodities, through to semi-fabricated products and final goods. In general, one can state that each direct job has a multiplier of 2 to 3 indirect jobs.

The collective turnover of all AEGIS sectors surpasses 500 billion euro.

|  | 2007              | 2017              |      |
|--|-------------------|-------------------|------|
|  production   | 400 million tonne | 316 million tonne | -21% |
|  turnover     | 490 billion euro  | 420 billion euro  | -14% |
|  direct jobs | 2140 thousand     | 1868 thousand     | -19% |
| capacity utilisation   | 90%               | 80%               | -11% |

based on aggregated data for aluminium, bikes, ceramics, paper, steel steeltubes, rail equipment, shipbuilding& maritime equipment

## Value Chains Within AEGIS Europe Sectors

The industrial sectors in AEGIS’s membership operate integrated production and value chains with a level of complexity specific to each sector:

- **Intermediate industrial production** – Raw materials and energy represent more than 50% of the cost of production on average, such as for aluminum, coated fine paper, certain ceramics, fertilizers, glass, textile and glass fibres and steel.

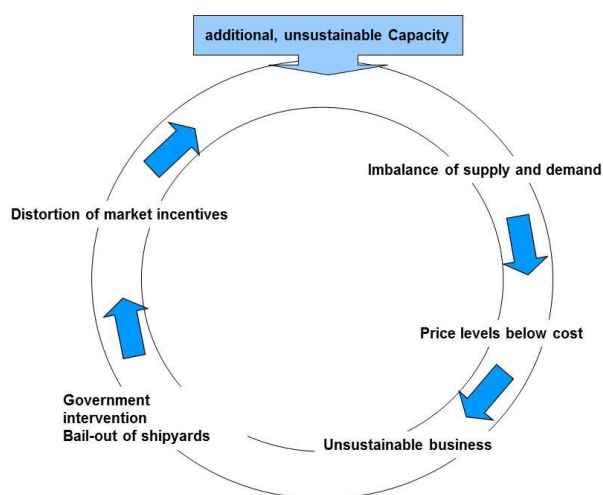
The competitiveness of these intermediate industries is therefore largely driven by the availability and supply of raw materials, energy and other inputs, particularly in cases where the EU depends on imports.

Emerging economies typically concentrate investment and industrial policies on their intermediate industries, aiming to export at any costs and in some cases to build geopolitical power. In these situations, EU producers get squeezed between the decreasing or unpredictable availability of inputs on fair terms and the increasing presence of unfair competition in the EU and third markets.

- **Manufactured goods** – Development and production includes complex supply and assembly operations that integrate materials, parts, equipment and services (design, engineering). EU manufacturers rely on healthy EU intermediate industries, as global supply is becoming increasingly distorted by government interference.

Many of Europe’s intermediate and manufacturing industries currently face massive global excess capacity, driven by third country industrial policies which actively plan, subsidize and protect sectors. This excess capacity encourages dumping, which drives down prices in cyclical markets, often below cost of production. (Annex 1 – Business cases on global excess production capacity)

Figure 1 – The Vicious Circle of Unsustainable Capacity



## Strategic Objectives and Challenges facing AEGIS Sectors

AEGIS Europe pursues multiple **strategic objectives** ranging from industrial and technological development to cost competitiveness and market and trade development, in particular:

- Developing a strong manufacturing and know-how base and supply chain, as well as jobs, in Europe,
- Preserving global high-tech leadership in product segments
- Maintaining and developing integrated production in Europe
- Restoring healthier and more balanced global markets by effectively tackling factors distorting trade and competition
- Enabling sustained growth of EU exports in a fair, rules-based environment
- Developing and investing in new technologies contributing to the achievement of the EU's long-term climate goals, while remaining internationally competitive

**Challenges** vary from threats to an industry's very existence to major market, supply and cost distortions:

**Existential challenges** facing AEGIS Europe members include:

- Global excess capacity and market distortions caused by subsidies and other types of government support (e.g. non-market based capacity build-up, obstacles to capacity exit, non-market driven restructuring)
- Actively implemented sectoral industrial policies in third countries, which regulate and intervene in the conduct and structure of the domestic industry to promote strategically important and high-tech industries
- Lack of effective rules and safeguards to ensure a global level playing field in sectors for which the traditional trade defence instruments do not work; for these sectors such as shipbuilding and infrastructure, there is very little protection against aggressive government-backed foreign State-Owned Enterprises distorting the EU and third country markets.
- For energy-intensive industries, EU climate change policy unilaterally increases production costs threatening carbon leakage.



**Other major challenges** include:

- Restrictions in access to international raw materials markets; export restrictions on critical raw materials
- Third market import restrictions and discriminations
- Import penetration from regions with artificially lowered costs of production; dual energy price policies
- Losing international market share in high tech/niche segments

## **Distorting Government Policies and Measures**

All these challenges are to a large extent driven by government policies and measures deployed in third countries with whom AEGIS Europe sectors compete at home and abroad, as well as unilateral EU policies impacting the internal competitiveness of these sectors.

It is useful to differentiate between **all encompassing (sectoral) industrial policies** and **specific market-distorting measures**:

### **All-encompassing sectoral industrial policy**

Rather than evolving towards a market economy, the Chinese economic model is marked by substantial state control competing with liberal market economies like the EU<sup>2</sup>.

Through the state, the Chinese Communist Party is the central market actor that directs industry and company decisions (with a dominant role for State-Owned Enterprises). China heavily interferes in the operation of its market, on an across-the board basis, artificially reducing the cost of factors of production, raw materials and energy. This is creating massive overcapacities and causing severe trade disruptions.

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<sup>22</sup> BDI Policy Paper China, *Partner and Systemic Competitor – How Do We deal with China’s State-Controlled Economy?* January 2019. Jonathan Holslag, *The Silk Road Trap*, Polity Press, 2019

Other issues include:

- Politically mandated large large-scale mergers, which create Chinese national champions.
- State development of future key industries and technologies through massive subsidization, forced technology transfer and joint-ventures, take-over of foreign high-tech companies (Made in China 2025).
- Numerous inward investment bans and caps, plus Chinese discrimination. against foreign companies in public procurement.
- Through “Belt and Road”, active support and finance from China’s government to Chinese companies going out to third markets where EU companies are increasingly facing unfair Chinese competition.

The individual policy and support measures China deploys are also replicated by other third countries. But the sheer size of the distortions and the pervasiveness of government interference is unique to China<sup>3</sup>.

## **A sector-by-sector illustration of distorting policies and measures**

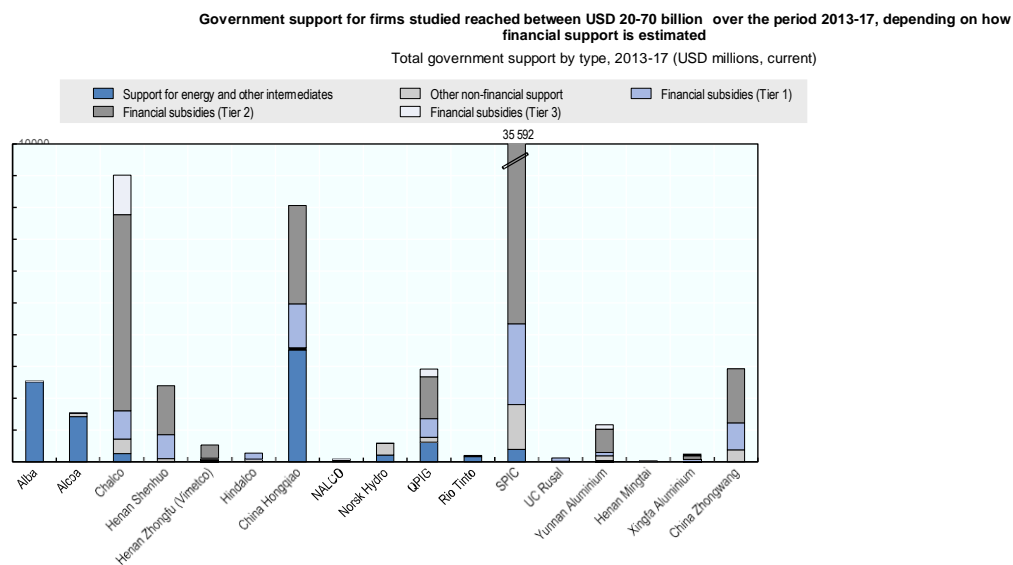
### ***Subsidies***

#### **Aluminium**

OECD (2019), “Measuring distortions in international markets: the aluminium value chain”, OECD Trade Policy Papers – evaluating governmental support for 17 of the world’s major aluminium firms.

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<sup>3</sup> For an excellent analysis of China’s distorting industry policies and measures, see Jorge Miranda, *How China Did Not Transform into a Market Economy* in J.J. Nedumpara and W. Zhou (eds.), *Non-market Economies in the Global Trading System*, 2018



- **Total government support for the 17 firms researched reached up to USD 70 billion over the 2013-17 period.** Although all 17 firms received some form of support, it is highly concentrated: the top 5 recipients receive 85% of all support, most of it at the smelting stage of the value chain.
- Chinese firms obtained all of their support from Chinese authorities, notably financial subsidies, which overwhelmingly benefitted Chinese producers. Together with **energy and input subsidies**, these measures accounted for the vast majority of all support in China. By contrast, most other firms in the study tend to be multinationals that obtained support in the different places in which they operate (e.g. Australia, Brazil, Canada, and countries of the Gulf Cooperation Council - GCC), predominantly in the form of non-financial support (e.g. energy subsidies) and in lesser amounts.
- **The vast majority of financial support was provided by China's state-owned banks to Chinese aluminium state-owned enterprises (SOEs);** however, two large private firms also benefitted from support from state-owned banks: China Hongqiao, the world's largest producer of primary aluminium, and China Zhongwang, China's largest producer of extrusion products.

- **China's incomplete VAT rebates on exports** of certain aluminium products have served to encourage production (and export) of semis and fabricated articles of aluminium. Access to cheap inputs has enabled Chinese producers of semis to expand production and compete in global markets at lower cost.
- While governments participate in the aluminium value chain via SOEs, state influence is at least as important as ownership, including because **SOEs are both recipients and providers of support – especially in China, where SOEs provide SOEs and private producers alike with below-market-cost inputs and loans.**

## Ceramics

The basis for state intervention and subsidization in the Chinese ceramics industry emanates from the **Construction Materials Industry Development Plan 2016-2020, which is based on the 13th FYP and complements the Made in China 2025 strategy.**

*Example of government support: Chaouzhou*

A certain number of ceramic producers have benefitted from support enshrined in the planning measures of the City of Chaozhou. One of the beneficiaries of numerous subsidies is allegedly a (listed) company active in that city. The company benefitted in the period of 2013-2017 from allocations of at least RMB 1 million (€129,000) from each of the following schemes:

- An allocation from the first batch of the 2015 Enterprise R&D Support Fund of the Guangdong Province.
- An allocation from the second batch of the 2015 Technology Renovation Fund.
- Rewards for completed technology renovation projects at industrial enterprises of Chaozhou City in 2015.
- Support for the development and commercialization of high performance optical fibre high-speed connector materials.
- Support for the commercialization of ceramic package substrate for application in new-type electronic components.

- Support for R&D on and the commercialization of porcelain cement for application in large capacity BME-MLCC.
- Support for technology commercialization in the field of ceramic package substrate for LED application.
- Support for the commercialization of aluminium nitride plates for application in electric and electronic components.
- Allocation from the 2013 and 2016 Central Government Fund for the Promotion of Foreign Trade for the Cultivation of Corporate Brands.
- Allocations from the Government-Bank-Enterprise-Cooperation Fund for supporting Strategic Emerging Industries and loan interest subsidies.
- Allocations from Industry development funds.

Research found that between 2011 and 2017, the 10 large Chinese kitchenware and tableware companies received total subsidies amounting to RMB 592m (EUR 76m)

|                                       |                        |
|---------------------------------------|------------------------|
| Chaozhou Three-Circle Group           | <b>RMB 171m</b> (€22m) |
| Dehua Hengyi Ceramic Art              | <b>RMB 7m</b> (€800k)  |
| Glarun Technology                     | <b>RMB 67M</b> (€8.6m) |
| Guanfu Holding                        | <b>RMB 182m</b> (€23m) |
| Guangdong Great Wall of Culture Group | <b>RMB 54m</b> (€7m)   |
| Guangdong Mingyu Technology           | <b>RMB 0.6m</b> (€80k) |
| Guangdong Sitong Group                | <b>RMB 48m</b> (€6m)   |
| Guangdong Songfa Ceramics             | <b>RMB 27m</b> (€3m)   |
| Haoye (Guangdong) Porcelain           | <b>RMB 2m</b> (€0.3m)  |
| Profit Cultural & Creative Group      | <b>RMB 34m</b> (€4m)   |

## Ferro-Alloys and Silicon

Chinese ferroalloy and silicon producers benefit from financial and non-monetary support from Chinese Government. Fiscal subsidies take various forms, e.g. direct cash grants, equity infusions and loan interest subsidies:

- Research identifies **more than 2.200 individual subsidy transfers to 34 major Chinese ferroalloy producers and 750 individual subsidy transfers to 8 major Chinese industrial silicon producers** between 2012 and 2017. These have boosted profits during the period under review by over RMB 11 billion for the ferroalloy industry and over RMB 2,6 million for the silicon industry.
- **Support for innovation capacity, R&D, industrialization of R&D outcomes, new product development, production technology development and upgrading, patent registration and special subsidies for certified High and New Technology Enterprises (HNTE):** over 2012 and 2017, 10 ferroalloy producers have received a grand total of RMB 1.034,6 million in profit and loss relevant subsidies. In the same period, 8 industrial silicon producers have received a grand total of RMB 247 million in profit and loss relevant subsidies.
- Support for **Environmental Protection and Resource Conservation:** As a raw material based and energy intensive industry, the ferroalloy and silicon sectors are strongly affected by the Government of China's green development initiatives. From 2012 to 2017, subsidies for environmental protection have amounted to at least RMB 1.1 billion.
- **Loans Interest Subsidies:** Ferroalloy producers have received loan interest subsidies RMB 258.8 million. Industrial silicon producers have received loan interest subsidies for the import of manufacturing equipment.
- **Reduction of land use cost:** the ferroalloy producers between 2012 and 2017 have received a total of RMB 98.7 million in subsidies related to land use. In the case of the Industrial silicon, between 2012 and 2017, producers have received a total of RMB 30.5 million in subsidies related to land use.
- Other support measures: **reduction of labour and social security cost,** electricity and heating subsidies, reduction of transportation costs.

## Shipbuilding and Maritime Equipment

### a) South Korea

For years **South Korean shipyards have been able to benefit from state-linked finance enabling them to build vessels at low prices and to compete for business, despite a lack of newbuilding demands or an over-capacity on the global market.**

In 2015 the three biggest Korean shipyards suffered a deficit of more than USD 7.2 bn. Government-owned banks and financial institutes have come forward with rescue measures, including financial schemes and other support policies. State-owned Korea Development Bank (KDB) and KEXIM (Export-Import Bank of Korea) lending to the shipbuilding and shipping industries amounted to KRW 58 Trillion as of March 2016 (IMF 2016).

In 2018, the Korean government implemented a plan to order 200 large cargo vessels in the next three years to help the ailing shipping and shipbuilding industry in the current difficult global market environment. South Korea's Financial Services Commission announced moreover that financial relief would be offered to (local) equipment suppliers of local shipbuilders to produce eco-friendly products. In November 2018, the government also unveiled a new package of financial measures potentially worth as much as \$1.5bn to support the country's ailing smaller yards, including by backing newbuilding orders of 140 liquefied natural gas-powered vessels by 2025.

### b) China

Examples of state support measures adopted in 2017 and reported in the press include:

- **(SOE) China Shipbuilding Industry Corporation Limited (CSIC Ltd) has issued shares worth RMB 3.9 billion (USD 566 million),** as reported in May 2017. The shares were acquired to 81% by CSIC, 12% by Dalian Shipbuilding Investment and 7% by Wuhan Wuchuan Shipbuilding Investment, the latter two being subsidiaries of CSIC. The operation was reportedly undertaken in an effort to improve the company's cash flow situation and increase its ability to construct military vessels (Lloyd's List, 2017).

- **CSIC Ltd. debt-to-equity swap and ensuing share issuance.** In August 2017, it was announced that two of the subsidiaries fully owned by CSIC Ltd., Dalian Shipbuilding Industry Co Ltd (DSIC) and Wuchang Shipbuilding Industry Group Co Ltd (WSIG), would benefit from a total of CNY 22 billion (approximately USD 3.3 billion) of debt-to-equity swap. This move comes after CSIC Ltd's debt-to-equity ratio reportedly reached 2.3 in March 2017 (Lloyd's List, 2017) and the shares of the Shanghai-listed company stopped trading in May 2017. Of the eight investing companies, China Cinda Asset Management Co Ltd and China Orient Asset Management Co Ltd, both controlled by the Chinese Ministry of Finance, swapped debt for equity for a total of CNY 7 billion. The other six companies, including State-owned enterprises, provided cash for equity, thus enabling the two shipbuilders DSIC and WSIG to service their debts (Lloyd's List, 2017; China Daily, 2017).
- **Government support for CSIC and CSSC.** China Shipbuilding Industry Corporation (CSIC) reported an amount of CNY 611 million government subsidies as non-operating income in its third quarter statement of 2017. In the year 2016, CSIC reported a total of CNY 1 526 582 463 as government subsidies under non-operating income (CSIC, 2017). China State Shipbuilding Corporation (CSSC) declared CNY 1925501.38 subsidies in the first nine months of 2017 and CNY 1 311 653 520 as government subsidies in its 2016 annual statement (CSSC, 2017).
- **CExim to take major role in financing CMA CGM's boxship orders.** In September 2017, the French shipping line CMA CGM was reported to have confirmed putting down orders for six 22 000 TEU boxships plus options for three more. The ships are estimated to cost USD 140 million or less each. The contracts have been secured by two CSSC-owned yards (Lloyd's List, 2017). The Export Import Bank of China (CExim) is said to take the lead in financing the deal, which is worth up to USD 1.2 billion. Thanks to its liquidity, CExim would be "able to offer loans at attractive prices", according to banking sources (Lloyd's List, 2017).



## Non-ferrous Metals

Examples of **Chinese subsidization**:

- For 65 researched Chinese companies, **subsidies identified accounted as non-operating income** amounting to more EUR 5.2 billion (from 2011 to 2016). These grants make up 44% of these companies' aggregate after tax properties. In addition, the companies received another EUR 2.1 billion in deferred income subsidies.
- **Debt-equity swaps**: additionally, the examined companies exhibit a very high debt ratio of up to 98%. Debts are regularly transformed through debt-equity swaps, where the State takes over the shares. This instrument is used to keep under-performing but strategically important companies alive.
- **Energy and export subsidies**: The 65 examined companies have received over 4,000 individual subsidy transactions since 2011. Energy subsidies stand out due to their sheer magnitude (EUR 300 million between 2011 and 2015). Combined export subsidies totaled EUR 16.9 million.

## Steel

**Analysis of State-induced Market-Distortions in the Chinese Hot Dip Metallic Coated Sheet (HDMC) segment:**

Chinese HDMC producers have benefitted from generous financial and non-monetary support from the Government of China. Fiscal subsidies take various forms, e.g. direct cash grants, equity infusions and loan interest subsidies.

Subsidies for Stock Exchange Listed Units of 12 Chinese steel holding companies<sup>4</sup> and their Impact on Financial Performance:

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<sup>4</sup> Ansteel Group, Baotou Iron & Steel Group, Benxi Iron & Steel Group, China BaoWu Iron & Steel Group, Hesteel Group, Jiangsu Shagang Group, Jiuquan Iron & Steel Group, Magang Group, Pangang Group, Shougang Group Corp, Shougang Jingtang United Iron & Steel Group, Wuhan Iron & Steel Group

| Year         | Subsidies             | Before tax profits     | After tax profits       | Subsidy Ratio Before Tax | Subsidy Ratio After Tax |
|--------------|-----------------------|------------------------|-------------------------|--------------------------|-------------------------|
| 2012         | 1,435,367,363         | -1,784,911,450         | -3,650,568,809          | 45%                      | 28%                     |
| 2013         | 4,841,468,648         | -6,221,093,221         | -12,243,135,382         | 44%                      | 28%                     |
| 2014         | 3,865,658,522         | -24,902,721,213        | -30,380,262,681         | 13%                      | 11%                     |
| 2015         | 7,455,741,324         | -71,432,112,095        | -83,071,133,127         | 9%                       | 8%                      |
| 2016         | 7,029,300,425         | 2,398,060,110          | -5,437,025,806          | 293%                     | 56%                     |
| 2017         | 2,242,506,548         | 30,371,440,700         | 21,642,409,429          | 7%                       | 10%                     |
| <b>Total</b> | <b>26,870,042,830</b> | <b>-71,571,337,169</b> | <b>-113,139,716,376</b> | <b>27%</b>               | <b>19%</b>              |

Source: Respective financial statements. See appendix 1 for details.

A careful review of over 1,240 individual transfers has revealed a total proven subsidy income of RMB 26.9 billion.

Companies have benefitted substantially from subsidy payments disbursed through a broad range of targeted programmes that facilitate the governmental micro-management of industry sectors as well as individual firms.

The aggregate results, displayed in the Table, illustrate the extent of subsidy receipts. All grants presented here belong into the category of non-operating income, i.e. income that affects enterprises' financial performance of the year in which the transfer was received.

### ***Export restrictions on critical raw materials***

#### **Non-ferrous Metals**

The EU non-ferrous metals industry is highly dependent on imported critical raw materials. EU access is further restricted by export restrictions, tariffs and taxes in place in important critical raw material producing countries like **China and Russia.**

Excessively high import reliance can become a security of supply issue, as economies are more vulnerable to e.g. export restrictions applied by producing countries. Import dependency reaches 100 % for several metals and, not surprisingly, most of the EU's critical raw materials. For the non-ferrous metals the import dependency is the following: antimony (100%), cobalt (32%), copper (82%); manganese (89%) molybdenum (100%), niobium (100%), platinum (98%), tantalum (100%), titanium (100%), vanadium (84%), zinc (61%).

The global production of critical raw materials continues to be highly concentrated in a few non-EU countries, many of which have low levels of governance, which brings with it a high risk of supply disruptions. China is the major supplier of critical raw materials, accounting for 70% of their global supply and 62% of their supply to the EU (e.g. rare earth elements, magnesium, antimony, natural graphite, etc.), Brazil (niobium), USA (beryllium and helium), Russia (palladium) and South Africa (iridium, platinum, rhodium and ruthenium) are also important producers of critical raw materials.

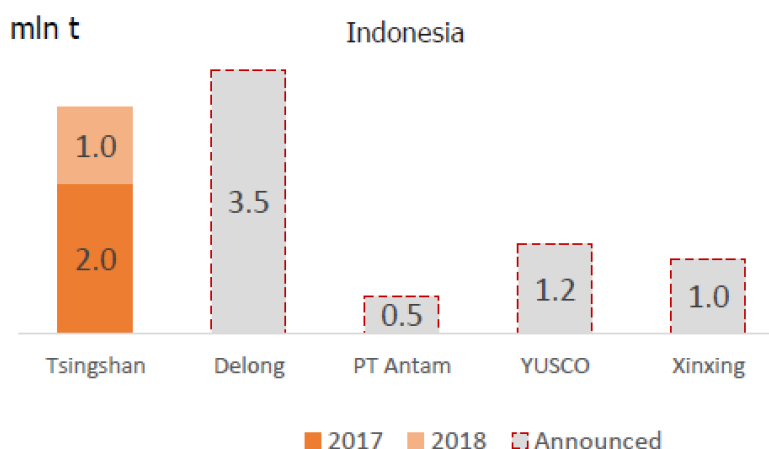
## Steel

Over the last few years, Indonesia has put in place a set of measures in order to create, develop and support its domestic industry of stainless steel products, with the goal of becoming a major exporter of the product, and ultimately the second largest worldwide producer.

To achieve its objective, Indonesia has been relying on a combination of fiscal encouragements and **quantitative restrictions on exports of the raw materials used in the production of stainless steel, most notably nickel, for which Indonesia is a major producer and holds significant nickel ore reserves.**

This support granted to the development of the domestic stainless steel industry allows local producers to benefit from an artificial and unfair cost advantage. The combination of these measures allows the **Indonesian stainless steel industry to benefit from a 25% cost advantage over its EU competitors.**

The combination of the export restraints and the various forms of fiscal incentives and assistance with regard to import duties on machinery and electricity costs have given an impulse to a massive capacity build-up in the entire stainless steel sector in Indonesia:



The support granted by the Indonesian government has resulted in Indonesia emerging as a net exporter of stainless steel. The evolution of exports over the past two years is a clear indication of the impact of the concerted public policies of Indonesia on the development of the domestic policy, a development oriented toward exports.

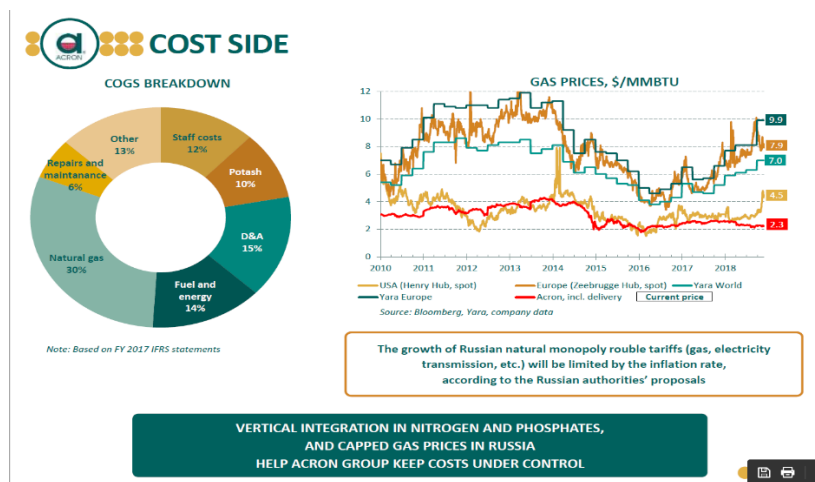
| Export from Indonesia (in MT) |               |               |                |                |                |                |
|-------------------------------|---------------|---------------|----------------|----------------|----------------|----------------|
| Metric tonnes                 | Q1 2017       | Q2 2017       | Q3 2017        | Q4 2017        | Q1 2018        | Q1 2018        |
| Cold rolled stainless steel   | 13 147        | 10 795        | 15 275         | 15 233         | 20 689         | 25 602         |
| Hot rolled stainless steel    | 369           | 2 299         | 58 619         | 262 903        | 339 314        | 231 182        |
| Stainless Billet              | 15            | 6             | 25             | 23             | 69 742         | 203 636        |
| Stainless Slabs               | 0             | 0             | 146 163        | 156 670        | 25 011         | 14 309         |
| <b>Total</b>                  | <b>13 531</b> | <b>13 100</b> | <b>220 082</b> | <b>434 829</b> | <b>454 756</b> | <b>474 729</b> |
| <b>Index</b>                  | <b>100</b>    | <b>97</b>     | <b>1 627</b>   | <b>3 214</b>   | <b>3 361</b>   | <b>3 508</b>   |

## Energy distortions

### Fertilizers

#### Russia Gas Market distortions arising from state interventions

While Russian domestic gas prices are state fixed, Russian export monopolistic gas prices are sold in the EU at premium prices often 3 to 5 times higher than the Russian domestic prices. This dual pricing system thus creates a double injury, first, Russian injurious dumping of finished products like fertilizers and, second, distorted high gas prices to overall EU manufacturing.



## ***Made in China 2025 – China Going Out strategy***

### **Shipbuilding and Maritime Equipment**

In “Made in China 2025”, China declared its ambition to take over Europe’s global leadership position in complex shipbuilding and in advanced maritime technologies by 2025 latest. Consistent with this objective, at the beginning of 2017 the Chinese Ministry of Industry and Information Technology (MIIT) updated the five-year Shipbuilding Action Plan (2016-2020) through several “safeguard measures” targeting the higher-value ship segment as well as increased domestic content for marine equipment. These include increasing financial support and encouraging and guiding financial institutes to implement differentiated credit policies for the shipbuilding industry.

To complement the Shipbuilding Action Plan (2016-2020), at the end of 2016 MIIT launched a five-year action plan specially dedicated at “Boosting Capabilities of Marine Equipment” whereby “Different financial support measures as import taxes, newbuilding credit, development finance and insurance shall be mobilized for the development of marine equipment”.

In this regard it is worth noting that through aggressive low pricing strategies in 2017-18 China has been already successful in winning several European ferry newbuilding orders (a niche segment in which European shipyards were until recently global leaders). Some publicly reported ship prices provided seem to indicate offer price well below cost of production.

### **Steel**

**The Serbian steel industry is dominated by one company, Železara Smederevo d.o.o. (“Železara Smederevo”)**, which is the only producer of Serbian hot rolled flat steel (HRF). Historically, it was a loss-making mill, heavily subsidised by the Serbian State.

In the period of 2003-2012, Železara Smederevo was owned by US Steel. It was then sold to the Serbian State for a symbolic price of \$1 due to losses, which had continued for a long time. In April 2013, “with significant support

from the State”, the Serbian government partially re-started production in the loss-making steel mill in Smederevo.

In the period of 2013-2016, the Serbian State made multiple attempts to find a strategic partner for the mill, while supporting the company with a significant amount of State aid estimated to be worth EUR 470 million.

On April 2016, **Serbia’s government signed a sale agreement with the sole bidder for the privatization of Železara Smederevo - Chinese state-owned Hesteel Group Co. Ltd (“Hesteel”), for the total of EUR 46 million.** The price accepted was half of the estimated market value of Železara Smederevo’s assets in amount of EUR 91.4 million.<sup>30</sup> The Serbian government assumed Železara’s liabilities from the past State aid estimated to be EUR 470 million during the purchase.

**The main reason for Hesteel to purchase Železara Smederevo appears to be to get a stronger foothold in the EU,** as Serbia could accede to the EU in the near future. **The purchase explicitly fits into the Chinese State’s One Belt One Road strategy,** which includes stimulation of foreign investments and building up of production capacity outside of China.

The Commission’s report on the distortions of Chinese economy of 20 December 2017 notes that a major focus of the initiative is on “supporting the Chinese industry in expanding abroad, in line with the policy of creating a set of internationally competitive national champions [...] with a focus on industries such as steel ...”. **The significance of the acquisition of Železara Smederevo is clear from the recent public statements by the Chinese president Xi Jinping that “Serbia was at the center of a \$900 billion “One Belt, One Road” infrastructure initiative”.**

## Trains and Rail Equipment

### Domestic market protection

The world rail market accessibility is estimated at 63 percent, and there is an increasing trend towards protectionism. In particular, the accessibility to China's rail market for European rail suppliers decreased from 63% (2009) to barely 18% (2017). Non-tariff barriers to access China's rail market range from increasingly strict Joint Venture requirements, forced transfers of technology, mandatory localisation requirements, lack of transparency in procurement procedures and the need to obtain licenses to bid.

### Subsidisation

Advanced rail equipment is one of the ten sectors identified in the 'Made in China 2025 strategy'. The Chinese rail industry is structured in State-owned enterprises covering the entire railway system:

- CRCC and CREC for the engineering and construction of rail infrastructure;
- CRRC for the design and manufacturing of rolling stock products (locomotives, wagons, metros, high-speed and very-high-speed trains, etc.);
- CRSC for signaling, with urban and mainline rail control solutions.

Extensive government support to the Chinese state-owned companies enables exceptionally high profitability including grants, preferential lending, financial guarantees, subsidies for exports, inputs/equipment/technology and R&D. As a result, **these companies have been aggressively and successfully expanding internationally, including in Europe** (e.g. Germany, Czech Republic, Bulgaria, Hungary). It is particularly telling that in the United States metro market, Chinese rolling stock manufacturer CRRC moved from absence to market dominance in 18 months, winning in succession the Boston, Chicago and Los Angeles tenders with prices significantly below the competition (the price gap ranges from 25 to 45%).



### **Export and tied financing**

China provides by far the largest amount of Export-Credit Arrangements and does not abide the OECD Rail Sector Understanding (RSU), while the EU and major powers (e.g. the US, Japan, South Korea) do.

In the railway sector, most of the contracts won by Chinese suppliers include significant state-supported investment programs and financial guarantees that enable them to foster further investment decisions on rail markets while mitigating risks. Financing packages are offered with the clear pre-condition that products and services should be sourced from Chinese suppliers, making it extremely difficult for European suppliers to participate.

