



REPEAL OF ANTIDUMPING MEASURES ON STEEL FASTENERS FROM P.R. CHINA

SUMMARY

The European Union has removed high levels of anti dumping tariffs from carbon steel fasteners imported from China.

These duties had been in effect since January 2009, making the affected fasteners completely uneconomic to source from China.

The short term implications for the fastener supply chain are limited because of production and transit lead-times from China.

Fastener importers will need to reassess quality and service levels from Chinese factories which have not been viable sources since 2009.

Longer term, China may present some cost savings on simpler fasteners but this potential is uncertain because of the risk of new anti dumping investigations being initiated by the EU.

The decline of Sterling's strength against the US Dollar, accelerated recently by Brexit concerns, has counteracted cost reductions in steel, which are less pronounced on wire rod, the primary fastener raw material.

British & Irish Association of Fastener Distributors

WHAT HAS HAPPENED?

On Saturday 27th February the European Commission published Regulation EU 2016/278 in the Official Journal of the European Union, "repealing the definitive anti-dumping duty imposed on imports of certain iron or steel fasteners originating in the People's Republic of China, as extended to imports of certain iron or steel fasteners consigned from Malaysia, whether declared as originating in Malaysia or not".

The Regulation outlines the rulings against the EU by the WTO Dispute Settlement Body and its Appellate Body, the latest and most critical of which was circulated on 18th January 2016.

The Regulation states: "In view of the findings (*of the WTO Dispute Settlement Body*) the Commission considers that in accordance with Article 1(1)(a) of the WTO enabling Regulation it is appropriate to repeal the anti-dumping duties imposed by Regulation (EC) No 91/2009, as amended by Implementing Regulation (EU) No 924/2012 and maintained by Implementing Regulation (EU) 2015/519."

It also states clearly: "The repeal of the anti-dumping duties ...shall take effect from the date of the entry into force of this Regulation ... and shall not serve as a basis for the reimbursement of the duties collected prior to that date."

The Regulation came into force the day after publication in the Official Journal, removing anti dumping duties of up to 74.1% on 28th February 2016.

A full copy of the Regulation may be downloaded from the Official Journal in any of the twenty-four official languages of the EU.

Products affected

The repealed anti dumping measures applied to a specific range of fasteners: essentially carbon steel screws, bolts, socket screws, and washers.

They did *not* cover stainless steel fasteners on which EU anti dumping measures on product from China and Taiwan are maintained; nor on nuts, threaded rod or non-threaded fasteners such as rivets or pins for which there are no current EU anti dumping measures on any source countries.

Why repeal?

Following the EU imposition of anti dumping duties in 2009, China initiated dispute proceedings with the WTO. Following an initial ruling by the Dispute Settlement Body and a subsequent ruling by an Appellate Body, the EU amended the anti dumping measures in 2012, reducing the maximum tariff level from 85% to 74.1%.

This made no material difference to China's ability to sell fasteners to EU importers, so a further complaint, claiming the EU had not properly complied with the WTO rulings, was lodged. A final ruling was published in January 2016, broadly supporting China's position and ruling the EU measures as non-compliant in certain critical areas.

The EU considered its options and concluded it had no alternative but to repeal the measures or face punitive retaliatory measures on EU product sold to China.

WHAT IS THE IMMEDIATE EFFECT ON THE FASTENER SUPPLY CHAIN?

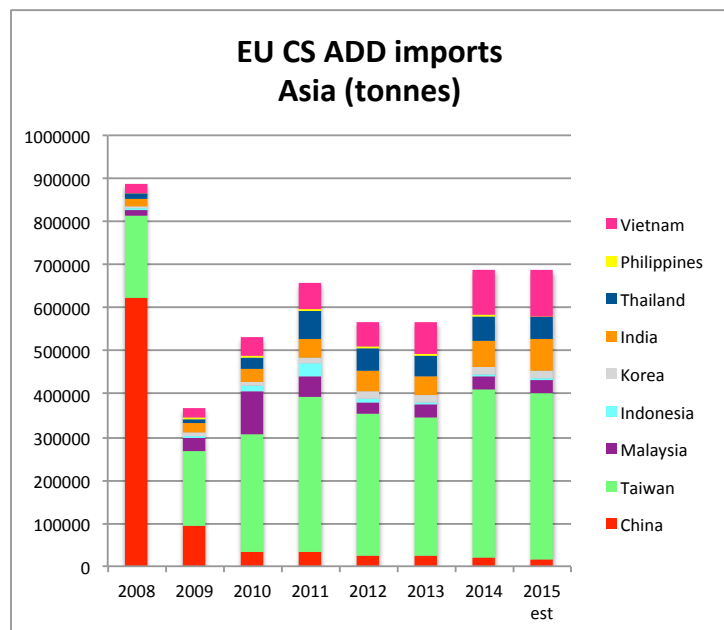
In the short term the implications are very limited simply because manufacturing and transit lead times from China add up to around five months so inventory will not be present in European warehouses until late summer at the earliest.

Existing contracts with factories in other Asian economies will also tend to inhibit the flow of product. Responsible importers will want to carefully evaluate not just current costs from Chinese factories but also to audit product quality and supplier reliability levels.

EU anti dumping measures on steel fasteners from China have been in force since February 2009. The duty levels, initially 85% reduced in 2012 to 74.1%, outweighed by several times the cost differential between China and any other global fastener source. As a result EU imports of bolts, screws and washers from China from 2009 to date were almost zero (see graph).

The measures meant that fastener importers and distributors were obliged to move their business to other Asian and European sources.

While importers will in many cases have maintained contact with previous suppliers they will not generally have visited or carried out systematic audits because, until recently, EU anti dumping measures were expected to continue in force for another four years.



LONGER TERM EFFECTS

China's production position

Production costs in China have risen significantly since February 2009. The cost of steel has, as has been widely headlined, fallen substantially but the world steel industry has been obliged to follow suit to retain market share so this factor has influenced production costs globally.

Cold heading wire rod, which is primarily used for fastener production, does not directly parallel cost trends for 'headline' hot or cold rolled coil steel because the supply and consumption market for it is far more fragmented. Individual supply volumes are smaller and more likely to be via wire processors that provide the required diameter and coating of wire to meet fastener manufacturers' requirements. While global costs for cold heading wire rod have definitely fallen in the last twelve months this has not been to anywhere near the extent of coil, and has generally been reflected in fastener cost trends during the period.

Other production costs, notably labour, have increased so the differential between fasteners from China and other world sources has unquestionably closed since 2009. The degree depends on the type of fastener involved. More complex shape and higher grade fasteners entail greater value added production compared with basic commodity fasteners (nails and low grade screws for example) in which the steel value represents a high proportion of the final factory gate price. This is because fastener production is largely an automated process for which cold heading machinery has developed over the last decade to provide higher speeds, greater accuracy and productivity, with fewer operatives required.

China's fastener manufacturing industry has, as its Government has made clear in recent media releases, been adversely affected by the effective blockade of EU business and also by the downturn in the domestic market, which has particularly affected core fastener markets. Factories have therefore reduced capacity and in some cases relocated to smaller premises, so careful due diligence will be required before responsible fastener importers can safely commit purchasing volumes to Chinese factories.

Potential for new anti dumping investigations

The second key reason that the flow of Chinese fastener product into Europe is likely to be constrained is because there is a high probability the European Commission will initiate new anti dumping (and possibly anti subsidy) investigations.

The repeal of the anti dumping measures has been abrupt and without consultation with major stakeholders including European fastener manufacturers. The trade body representing manufacturers has already made it clear it will urgently consider lodging new complaints with the European Commission.

At this stage it is unclear when this might happen and both whether or when the European Commission might initiate new investigations. This creates a serious climate of uncertainty for fastener distributors as well as manufacturers.

The European Commission is legally entitled to apply *provisional* anti dumping duties after sixty days and up to nine months from the date it initiates an investigation. It has fifteen months from the same initiation date to determine *definitive* duty levels.

It also has the option to require the '*registration*' of imports, instructing national customs authorities to record details of imports in order that it may back date definitive duties up to 90 days prior to the application of preliminary duties.

This means importers must carefully weigh the potential cost benefits of moving significant volumes to Chinese factories against the risks of new duties being applied at an unknown future date. The first warning importers have of duties being applied is normally one day before they become valid, and as discussed above there are circumstances in which duties may even be back dated.

While new duties are very unlikely to be at the punitive level of those repealed new anti dumping and anti subsidy measures could easily bring Chinese costs into line with other production markets or, even again, make its fasteners uneconomic to source.

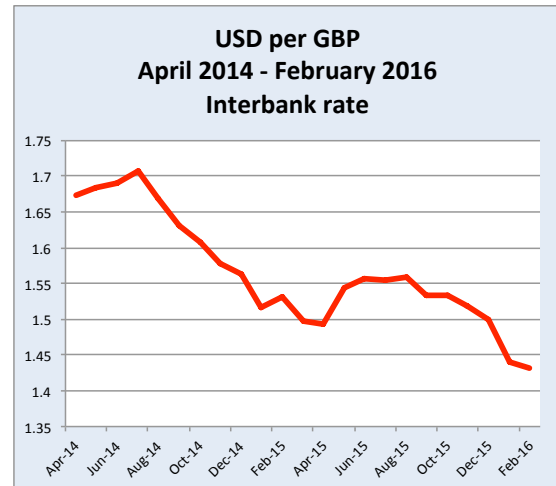
Sterling to US Dollar exchange

Fasteners are sourced from Asian factories almost entirely in US Dollars so the exchange rate with Sterling is a critical factor in costs.

Since May 2014 the value of sterling has fallen by more than 17% substantially offsetting the cost benefit of steel deflation.

In February alone, largely as a result of uncertainty over the 'Brexit' debate sterling has lost close to 5% against the US Dollar.

Analysts expect this negative trend to continue, at least, until the outcome of the EU referendum is known towards the end of June.



ABOUT BIAFD

The primary role of the British & Irish Association of Fastener Distributors is to maintain the flow of a consistently high level of information to its members about the global fastener industry and its markets.

It is also committed to supporting its members in the development and training of employees to higher technical and product standards.

BIAFD represents the interests of its members with UK and European governmental bodies and also at the British Standards Institute.

For more about BIAFD including contact information visit www.biafd.org