

Opportunity for Taiwanese Fastener Industry

Amid Anti-dumping War Between Europe & China

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Foreword

Two phenomena occur concurrently in the global trade. One is that countries try actively to sign free trade agreements, loosen economic regulations, and attain favorable trade benefits for domestic industries to other countries, while the other is that countries build up trade barriers or launch negotiations to leverage their advantages and impose anti-dumping and anti-subsidy taxes on price-competitive countries, in order to protect domestic industries or gain bargaining chips against foreign competitors. Taiwan often has a hard time negotiating for advantages in FTA. Furthermore, as a primary OEM service provider, Taiwan is likely to be involved in trade barriers like anti-dumping and anti-subsidy measures. Obviously, Taiwan's leverage in technique and prices among economic powers, as well as its ambiguous relationship with China, make it more likely to incur anti-dumping measures from the U.S. and the EU. The following article will discuss the opportunity for Taiwanese fasteners amid the anti-dumping war between Europe and China.

Fastener Trade of EU

2/3 of the fastener trade volume in the EU come from Asia, and 1/5 of the total fastener imports are from Asia. These fasteners are primarily demanded by the automotive, aerospace, and construction industries. **Table 1** illustrates the values, growth rates, and market shares of fasteners the EU imported from 6 Asian countries. In terms of import values, China among other Asian countries takes the highest proportion (7.2%) in fastener imports of the EU. **Figure 1** illustrates proportions of fasteners imported from non-EU countries. Asian stainless steel fasteners account for 35% and steel fasteners from the same continent account for 25%.

Table 1. Fastener Imports of the EU

Year	Fastener Imports of the EU (in USD 100 Million)		Growth Rate	% of Total Shares
	2012	2013	2013	2013
World	57,425	58,255	1.4%	
Asia	10,788	10,728	-0.6%	18.4%
Taiwan	324	322	-0.6%	0.6%
India	518	534	3.1%	0.9%
Malaysia	272	276	1.5%	0.5%
Thailand	251	263	4.8%	0.5%
Philippines	75	76	1.3%	0.1%
China	4,143	4,173	0.7%	7.2%

Source: ITC/ Compiled by MIRDC, MII, Dec. 2014



Overview of European AD Measures Against Chinese Fasteners

In 2009 the EU imposed the anti-dumping tax up to 85% on certain Chinese carbon steel fasteners (within HS codes 73181290, 73181491, 73181499, 73181559, 73181569, 73181581, 73181589, 73181590, 73182100, and 73182200). In 2007 fastener imports of the EU from China once reached as high as 630 thousand tons at an average import price of USD 1.3 per ton. China then filed an appeal to WTO, and in July 2011 WTO concluded that the EU violated the international trade rules. Later in October 2012 the EU lowered the tax rates from the original 77.5-85% to 54.1-74.1% for most Chinese fastener companies involved in the case. The above is an overview of the anti-dumping case between Europe and China. The case has to be illustrated according to the game rules and the follow-up including counteractions of the EU and subsequent impacts on Taiwan. This is what Taiwanese fastener companies should keep an eye on and will be the focus of the following paragraphs.

WTO Sets the Rules, the EU Follows Strictly

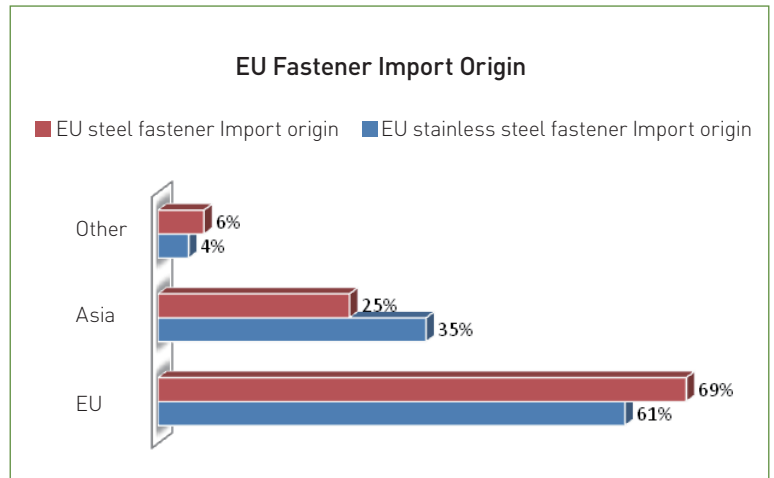
World Trade Organization (WTO) governs bi-lateral and multi-lateral trade agreements and regulations, not just for removing tariff and non-tariff barriers among its member states, but also for fostering liberal global trade and internationally removing unfair and unreasonable trade measures. The aim is to create an environment where the market is fully functional and ensure international trade proceeds under the same starting point and fair conditions. Anti-dumping, in WTO's terms, is an unfair approach in business competition, and therefore, must be eliminated.

According to Article 2.1 of Agreement on Anti-dumping of WTO, "a product is considered to be dumped, if the export price of the product exported from one country to another is less than the comparable price for the like product when destined for consumption in the exporting country, in the ordinary course of trade." The implication behind this is: (1) anti-dumping is an uneconomical allocation of production resources; (2) involved companies unreasonably subsidize exported products with domestic profit; (3) The export price of the company does not correspond to the average production cost; (4) a predatory behavior pertaining to the marginal cost. WTO considers anti-dumping uneconomical as well as the cause of unfair competition among companies worldwide, thereby resulting in suspicious or material injury to industries of importing countries. If the dumping causes or incurs suspicion over material injury to domestic similar products of the importing country, the importing country can impose anti-dumping taxes on products that cause injury. Tax rate is determined by the

difference between normal value and export value (in which case the normal value is higher than the export value), namely the dumping margin. Thus, the determined normal value and its relative amount against the export value have a significant effect on the anti-dumping tax rate.

The EU conducts more stringent anti-dumping investigations on products of companies from non-market economies. The approach to determining normal values and resulted values directly determines whether any dumping behavior exists. If the EU concludes that such a behavior exists, dumping margin is usually reflected on anti-dumping tax rate imposed on the investigated company. Therefore, companies should stay cautious. According to Article 2 of the Agreement on Anti-dumping of the EU, the normal value of a company involved in the anti-dumping investigation should base upon the price paid or payable by independent buyers in the exporting country. However, when exporters of the exporting country do not produce or sell the like products, the normal value can be determined by prices of other sellers or makers. When there is no sale of the like products in the ordinary course of trade in the domestic markets of exporting countries, or when sales do not permit proper comparison because of particular market situations or low volumes of sales in domestic markets of exporting countries, dumping margins should be determined by comparison with comparable prices of the like products when exported to appropriate third countries, provided that the price is representative, or with the cost of production in the country of origin plus a reasonable

Figure 1. Fastener Import Origins of the EU (by Product Category)



Source: EuroStat 2012/ Compiled by MIRDC, MII, Dec. 2014

amount for administrative, selling and general costs and for profits (namely the constructed value).

The regulation stated above originates from Article 2.2 of the anti-dumping agreement of WTO, but its investigative target is only restricted to companies from countries with market economies. As for countries from non-market economies, the governmental interference to economic activities causes malfunction of the market, and the production investment and product price are not determined by market demand and supply. Thus, when the product is involved in a foreign anti-dumping investigation, its price cannot be regarded as "normal value", and has



to be constructed on the basis of market mechanism (including situations without monopoly and oligopoly).

According to Article 2.7 of anti-dumping regulations of the EU, the normal value of a product from a non-market economy under the anti-dumping investigation of the EU is determined by the following criteria: (1) the domestic price of the like product in the third country with market economy; (2) the constructed value of the like product in the third country with market economy; (3) the export price of the like product exported to countries incl. the EU in the third country with market economy; (4) any reasonable value (including the price paid and price payable to the like product in the markets including the EU) added with reasonable profit margin (if necessary) when the above-mentioned methods are not viable. These four methods adopted by the EU to calculate normal value in a non-market economy are based on regulations stated in Article 2.7 of the anti-dumping agreement of WTO.

Here I will describe procedures of anti-dumping investigations of the EU. When one lodges a complaint, the European Commission (EC) has to initiate investigation

within 45 days, otherwise the case will be dismissed. Documents for the complaint have to be translated into 23 European languages, and companies involved have to submit questionnaire within 37 days. During the next 4 to 5 months of investigation period, investigators will analyze the questionnaire and conduct onsite verification. One of the involved companies will be chosen as the first sample for analysis which takes around 2 weeks. In the first 9 months of the investigation, the EC can impose a provisional anti-dumping tax on investigated companies. In the first 15 months of the investigation, the EC has to determine whether to impose the final anti-dumping tax or close the case.

On a further look into authorities in charge of investigation procedures, the procedures are managed by the EC, Trade Department, and European Parliament. The EC is responsible for imposing anti-dumping taxes, Trade Department assigns investigators and proposes final solutions, and European Parliament makes the final determination based on solutions provided by Trade Department. The determination will become an official bill the day after the announcement. Another notable independent authority is European Anti-Fraud Office (OLAF) that deals with circumventive behaviors. OLAF is responsible for protecting financial profit of the EU. It has the right to conduct independent investigations on global companies. It does not involve with legal enforcement and only offers suggestions for the Customs to enforce.

Four conditions are required for implementing the anti-dumping tax: (1) the involved exporter is proved to have dumped products to the country concerned; (2) material injury to industries of the EU is confirmed; (3) causality between the injury and anti-dumping behavior is confirmed; (4) implementation of the anti-dumping tax and the anti-subsidy tax does not violate the common interest of the EU. Additionally, the anti-dumping duty tax lasts for 5 year unless an expiry review is applied.

EU Imposes Measures Against Circumvention of Asian Countries

Although the measures imposed by the EU are strict, if the accused country files an appeal to WTO, things may be different. WTO not only sets rules but also removes unfair and unreasonable international trade barriers. As a result, China filed an appeal and changed the situation by gaining lower tax rates. In October 2012 the EU accepted the advice of WTO and lowered the anti-dumping taxes on Chinese carbon steel fasteners from the original 77.5-85% to 54.1-74.1%.

Circumvention means the behavior to evade anti-dumping taxes or anti-subsidy taxes for products from non-EU countries. In this behavior, makers modify HS codes of products or claim that products come from countries not affected by the antidumping taxes, and transship products via free ports. For instance, recently a Chinese fastener product failed to enter the EU via Malaysia and Thailand because it could not acquire the proof of no transshipping. In another case, the Philippines was proved to have been transshipping for China, and therefore, it was penalized for circumvention.

Opportunity For Taiwanese Fastener Industry After Anti-dumping War Between Europe & China

Taiwan is an important partner to the EU. Taiwan, Philippines, and China are currently the only three countries that have been accused and imposed with antidumping taxes on stainless steel fasteners. Sheh Kai Precision Company made the appeal and successfully excluded its bi-metal fasteners from the anti-dumping tax by proving that bi-metal fasteners are different from stainless steel fasteners in terms of product characteristics. On the other hand, Malaysia, Thailand, India, and South Korea were once investigated on their stainless steel fasteners. As for steel fasteners, only Malaysia and China have been imposed with anti-dumping taxes.

Regarding market performance, Taiwan is not a real beneficiary of transferred orders resulted from the anti-dumping war between Europe and China. The outstanding performance of Taiwanese fastener industry mostly resulted from its reputation, good quality, and stable material supply. Most importantly, the warming global manufacturing industry has helped Taiwan receive orders from several global companies, which results in full capacity.

In order to prevent the anti-circumvention investigation of the EU, since July 21st 2014 Taiwanese government has begun to strictly examine the certificates of origins for fasteners exported to the EU in anticipation of eliminating suspicion on transshipment of Taiwanese fasteners. Additionally, Taiwan Industrial Fasteners

Institute (TIFI) also calls for awareness of the industry in its publications. In the short term, there should not be too much impact on Taiwanese fastener companies, even if the EU imposes antidumping taxes on certain Chinese products. This is because European buyers do not see Taiwanese fasteners and Chinese fasteners as the same products. Taiwan is an important source of fasteners, especially automotive fasteners. As the car market is booming, Taiwanese fastener suppliers' position is unlikely to be replaced. Taiwanese companies should cherish its fastener market share in the global market. If some near-sighted companies transship and get involved in the trade war with surrounding countries, it will bring unfair damage to other innocent companies. Everyone should take extreme caution.

Reference

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