PRESS RELEASE
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Domestic steel industry faces fresh challenges and eyes opportunities as well following the likely redirection of global trade flows after US tariffs: ICRA

- ***Around 6-7% of global steel trade flows from major exporting countries like Canada, Brazil, the EU, Mexico, South Korea, and Japan will be directly impacted***
- ***India has limited direct export presence to USA as of now; however, positive and negative spillover effects offer near-term possibilities for the domestic steel industry***

On February 11, 2025, the United States of America (USA) withdrew all country-specific duty exemptions on steel imports given under Section 232 of the Trade and Expansion Act of 1962, with effect from March 12, 2025. This removes all preferential market access given in the form of tariff waivers or tariff exemption volume quotas to countries like Canada, Brazil, the European Union (EU), Mexico, South Korea, Japan, Argentina, Australia, and Ukraine. Such exemptions had enabled these select countries to garner around 75-80% of the US steel import basket in recent years. However, a month from now, all steel imports by the US will be treated on an equal footing, as the 25% tariff levied on steel (under Section 232) becomes uniformly applicable to all countries.

Commenting on the industry trends, **Girishkumar Kadam, Senior Vice-President & Group Head, Corporate Sector Ratings, ICRA** said*: "The US typically imports 28-30 million tonnes of steel annually, of which 77-82% is in the form of **finished** steel items, and the balance in the form of **semis**. The latest tariff measure will be impacting around 6-7% of global steel trade flows, as over the coming months, they adjust to the shifting market dynamics. With around a quarter of USA's finished steel demand being met through imports, which implies a large domestic deficit, the process of import substitution can only happen gradually over several years, in our view. USA will, therefore, continue to import steel in the foreseeable future, and in the near term, these restrictive measures are likely to have a material upward pressure on its domestic steel prices."*

In ICRA's assessment, these latest trade measures cut both ways for the domestic steel industry. First, deliveries of ~4 mtpa to the US from Asian suppliers like Japan and South Korea, which till now had preferential market access, could be partly bounced-off to high-growth markets like India. Already, these two countries rank among the top three steel exporters to India, accounting for ~40-55% of India's overall finished and semis steel imports. Given the duty-free access on account of the free trade agreements (FTA) with India, import pressures from South Korea and Japan could increase in FY2026 as they search for alternate markets for their hitherto American cargoes. This can exert pressure on domestic steel prices, pulling down the industry's earnings further in FY2026. Unlike South Korea and Japan, China has a limited presence in the US, as its steel exports are already exposed to the 25% tariff. Therefore, redirection of trade flows from China remains less of a threat after the latest tariff announcement.

Commenting on the industry trends, **Kadam** added*: "While higher imports from Japan and South Korea remain a key downside risk, we believe that there are possible upsides as well for the domestic industry. The ending of the USA's preferential market access regime and bringing in a level playing field can potentially lead to displacement of high-cost suppliers like Canada, Brazil, EU, and Mexico, with low-cost suppliers, especially from Asia. As per our estimates, around 19 mtpa of steel cargoes enter USA from these high-cost countries. This opens the possibility for Indian mills to nibble at a part of this large opportunity and increase their export footprint in USA, which, as of now, accounted for a miniscule 2-3% of India's overall steel export basket."*

ICRA anticipates the most brutal impact of the latest announcement to be felt in the steel markets of the NAFTA countries of Canada/Mexico, and the South America nation of Brazil. For Canada, ~55-60%, and for Mexico, ~25-30% of the country's annual steel production was being exported to the US. Similarly, for Brazil, ~10-15% of the country's annual steel production was being exported to USA. Given their freight cost disadvantage for access to alternate large markets in Asia/Europe, and cost inferiority over Asian suppliers, the steel industry in these three countries appears poised to enter a sustained period of deep downturn unless the Governments can engineer a middle ground on trade relations with the US in the coming months.

Media Contacts:

Naznin Prodhani	**Ashwani Singh**
Head Group Media & Corporate Communications	Deputy Manager - Media & Communications
ICRA Ltd	ICRA Ltd
Tel: + (91 124) 4545300,	Tel: +91- 9560842447
Email: naznin.prodhani@icraindia.com	Email: ashwani.singh@icraindia.com

Fortuna PR

Rajmoni Borah / Shobha Roy

Mob: 88009 00548/ 94325 85365

Email - rajmoni@fortunapr.com/ shobha@fortunapr.com

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