

September 10, 2020

STEEL UNDER PRESSURE

COVID-19 Threatens a Critical Industry and American Workers



The COVID-19 pandemic is having a devastating impact on the United States, having cost more than 190,000 lives at time of publication and millions of lost jobs. The crisis demands a coordinated public health response and significant emergency fiscal stimulus. But as we overcome the public health emergency, we also must take steps now to lay the groundwork for economic recovery. An effective recovery plan will need to include investments in our infrastructure, address supply chain vulnerabilities, and encourage domestic manufacturing growth.

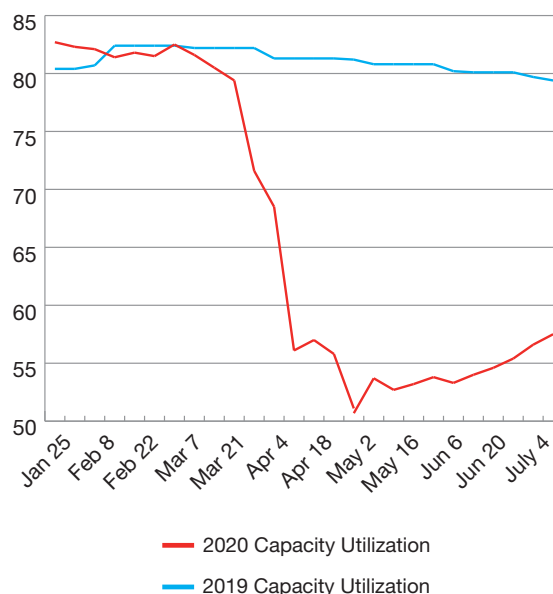
Steel is a foundational industry for American manufacturing and its health is essential to U.S. national security and millions of workers.

But thousands of steelworkers have received layoff notices as mills idle production in response to the worldwide downturn. The auto, construction and energy sectors account for over 80% of domestic steel use and all three are struggling.¹ Already facing the downturn of the auto industry's cycle, estimates have significantly worsened and the sector is now expecting its largest drop in sales since the Great Recession.² In recent weeks, prices for certain steel products have declined steeply in response to the slowdown.³

The slowdown is made worse by a weak international steel market awash in overproduction. While American steelmakers have made deep and painful production cuts, output in China continues to grow. During the first half of 2020, as the global pandemic surged, the global steel industry outside China cut production by 14.3 percent compared to 2019. But while the rest of the world was dramatically reducing production, China's output actually increased by 1.4 percent.⁴ Although record high inventories seen earlier this year in China have declined in recent months, the China Iron and Steel Association has conceded that "high inventory could become the norm for this year."⁵

China's overcapacity is likely to persist long after the COVID-19 economic fallout abates. Despite years of promises to cut capacity, China has a long history of excess production in industries like steel that has wreaked havoc on global markets. The gaps in production between the U.S. and China is yawning. Since 2014,

Steel Industry Capacity Utilization 2020 vs. 2019 (%)



China's state-led steelmakers have annually made more excess steel, that is steel their domestic market cannot consume, than what all U.S. steelmakers produce in total. And with demand dropping – and China's steelmakers slow, unwilling, or unable to respond to market signals – excess supply is likely to jump.

- 1 Tita, B. (2020, April 19). Steelmakers' Worst Slump in a Decade Seen Getting Worse. *Wall Street Journal*. Retrieved May 23, 2020, from <https://www.wsj.com/articles/steelmakers-suffer-worst-slump-in-a-decade-11587297601>
- 2 Wayland, Michael. (2020, April 21). Led by US, global auto sales expected to plummet 22% in 2020 due to coronavirus. CNBC. Retrieved May 23, 2020, from <https://www.cnbc.com/2020/04/21/global-auto-sales-expected-to-plummet-22percent-in-2020-due-to-coronavirus.html>
- 3 Tita, B. (2020, April 19).
- 4 World Steel Association. Compiled from Monthly Crude Steel Production Year-on-year figures. Retrieved August 10 from <https://www.world-steel.org/media-centre/press-releases/2020.html>
- 5 Zhang, Min, Nguen, Mai. (2020, April 24). China steel inventories extend fall fuelled by construction demand, nonferrous stocks ease. Reuters. Retrieved May 26 <https://www.reuters.com/article/us-china-metals-inventories/china-steel-inventories-extend-fall-fuelled-by-construction-demand-nonferrous-stocks-ease-idUSKCN22615V>

The Great Recession Led to a Lost Decade for the U.S. Steel Industry

The initial impact of the Great Recession was devastating to manufacturing, as over 2 million workers lost their jobs. In the steel industry, production dropped over 40% between 2007 and 2009 and nearly 32,000 steelworkers were laid off.

But as the rest of the economy began to recover, steel struggled under the weight of surging global overcapacity, driven largely by Chinese state-owned steelmakers. Between 2000 and 2014, China accounted for 75% of all global steel capacity additions, as its production surged 662%.⁶

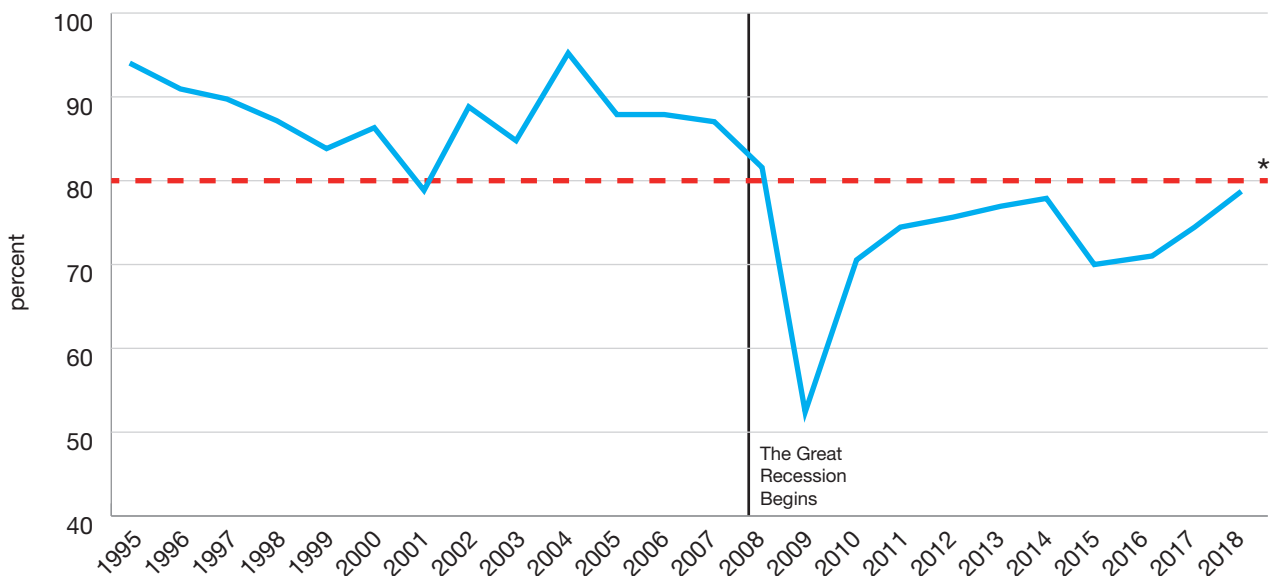
As overcapacity ballooned, steel dumping into the United States market surged. Between 2011 and early 2014, the average unit value of imported steel declined 23.1% (\$259 per ton). But even as prices dropped,

imports continued to climb, a clear signal that the U.S. market was being used as a dumping ground for other nations' excess steel inventory.⁷

Overcapacity, Imports Led to Years of Unsustainably Low Capacity Utilization

Market-based steelmakers rely on economic conditions that justify high capacity utilization: this provides them with the resources necessary to continue to invest in research and development, mill maintenance and modernization, and the development and support of a skilled workforce. But due to the glut in global steel overcapacity, U.S. steelmakers suffered from unsustainably low capacity utilization rates for the decade following the Great Recession. Eleven years on, the domestic steel industry has still not returned to pre-recession production levels, despite the U.S. economy growing by nearly 50% since 2007.

U.S. Raw Steelmaking Capacity Utilization



Source: AISI

* The Department of Commerce set a target capacity utilization rate of 80% to ensure a viable domestic industry in their Section 232 investigation into steel imports. This is not necessarily a universally accepted target among industry, and may in fact need to be set higher. But even using this more modest benchmark, it is clear that capacity utilization was unable to recover after the Great Recession.

6 Brun, Lukas. (September 2016). *Overcapacity in Steel: China's Role in a Global Problem*. Duke Center on Globalization, Governance & Competitiveness. Retrieved May, 22, from https://aamweb.s3.amazonaws.com/uploads/resources/OvercapacityReport2016_R3.pdf

7 Stewart, Terence P. et al. (May 13, 2014). *Surging Steel Imports Put Up To Half A Million U.S. Jobs at Risk*. Economic Policy Institute. Retrieved May, 22, from <https://www.epi.org/publication/surging-steel-imports/>

China's State-Owned Steel Industry Continues to Drive Global Overcapacity

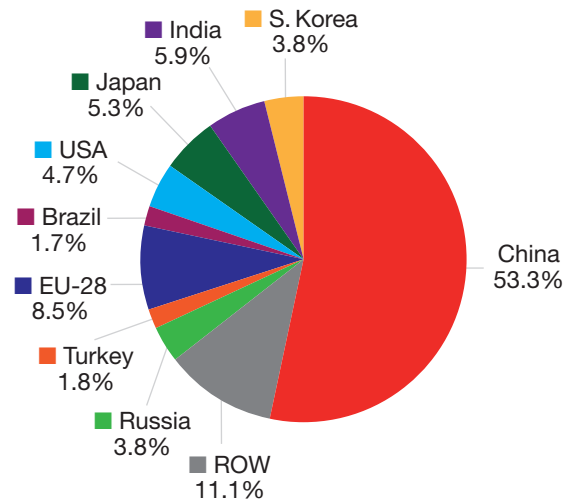
While the U.S. share of global steel production dropped from 12% to less than 5% between 2000 and 2019, China's share, driven by subsidies and other state support, has skyrocketed, from 15% to over 53%.⁸ For instance, between 2000 and mid-2007, the Chinese steel industry received over \$27 billion in subsidies to expand production.⁹

China's oversized role in global production spells trouble for the global steel industry in a time of depressed demand. While steelmakers in the U.S. and other market-driven economies idle production and lay off workers when markets dry up, China's state-owned steelmakers operate under a different set of rules and benefit from massive government support.

Despite operating globally competitive mills that are among the least carbon-intensive in the world, steelmakers in the United States simply cannot compete with this kind of state support, particularly during such a deep, sustained downturn like the COVID-19 crisis.

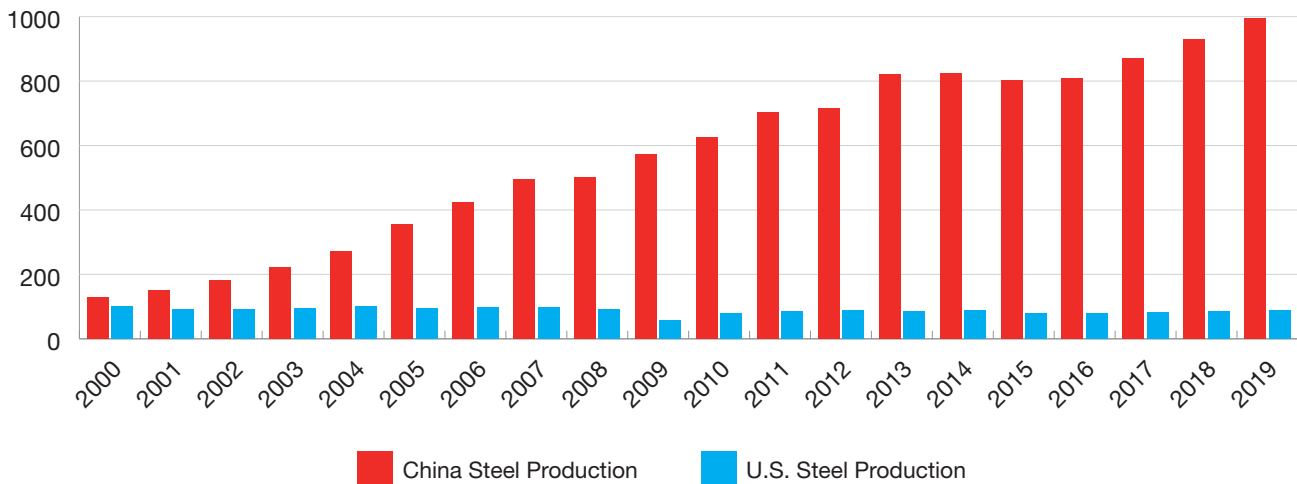
Even with dozens of trade enforcement orders in place against dumped and subsidized Chinese steel imports,

Share of Steel Production, By Country



this overproduction and overcapacity will continue to harm U.S. steelmakers and workers. It can depress prices and still finds its way to the U.S. market by different means of duty evasion, such as transshipment through other countries or modifications to products simply to avoid existing tariffs.

Raw Steel Production



⁸ World Steel Association. (2020, January 27). Global crude steel output increases by 3.4% in 2019. Retrieved May, 16, from <https://www.worldsteel.org/media-centre/press-releases/2020/Global-crude-steel-output-increases-by-3.4--in-2019.html>

⁹ Haley, Usha, Haley, George. (2008, June). Subsidies and the China Price. Harvard Business Review. Retrieved May 20 from <https://hbr.org/2008/06/subsidies-and-the-china-price>

COVID-19 Crisis Downturn Has Potential to be More Damaging

Conditions as the COVID-19 crisis unfolds are even worse than before the Great Recession. Overcapacity, which averaged slightly over 450 MMT in the five years leading up to the recession, climbed to 570 MMT in 2008 and spiked to nearly 800 MMT in 2009. As late as 2016, years into recovery, overcapacity remained above 740 MMT.

Despite a reduction from historic peaks, overcapacity in recent years remains unsustainably high. In 2019, there was 514 MMT tons of unneeded steel capacity. This sets the table for not only damage during the COVID fallout, but also years of potential price distortions and trade cheating as state-owned steelmakers fail to curtail production to align with market demands.

The U.S. Steel Sector is Critical to Our National Security

Steel is used in everything from ships and tanks to bridges, rail systems, and energy infrastructure.

COVID-19 makes clear the need to ensure the U.S. has the resources and capacity to respond to crises – whether health, natural disaster, or man-made. When the nation’s security is at stake, domestic manufacturers can respond immediately, but in key areas that capacity is disappearing. For example, after years of surging imports, there is now only one U.S. firm making the high-quality electrical steel necessary for maintaining and expanding our energy grid.¹⁰

America Cannot Afford to Lose the Steel Industry

The American iron and steel industry directly employs over 140,000 workers and supports hundreds of thousands of other jobs. The industry underpins 146,000 jobs in related activities in iron ore and coal mining and processing, scrap recycling, mill services, processing, distribution, and other steel product manufacturing. These 380,000+ jobs pay \$34 billion in wages and benefits. The industry supports an additional 716,000 supplier jobs across virtually all sectors of the U.S. economy. With the induced impacts of the industry included, the steel sector supports nearly

2 million jobs, paying over \$130 billion in wages and benefits and contributing over \$520 billion to America’s economic output.¹¹

Action is Needed to Support U.S. Manufacturers

- **Maintain trade enforcements actions, particularly the Section 232 on steel imports.** The Section 232 has provided relief to U.S. companies and workers and strengthened our national security. But China, Russia and others continue to produce far more steel than the world needs. Even during this downturn, China continues excessive levels of production, creating rising inventories that could devastate our market. Any reduction in tariffs invites more plant closures, layoffs, and deterioration of key manufacturing capabilities.
- **Make bold investments in American-made infrastructure.** Infrastructure investments have proven to be one of the most effective forms of stimulus. We should meet the current economic challenge by making long overdue investments in roads, bridges, transit, broadband and our energy grid to improve our nation’s resiliency to emergencies and global competitiveness. And we should do this with Strong Buy America requirements to incentivize investments in U.S. factories that put America’s manufacturing workers back on the job.
- **Create strong incentives for American-made autos.** The auto sector, a key driver of manufacturing, is facing a drastic drop in demand. Incentives should be created to boost purchases of American-made cars and trucks, encourage domestic production of new technologies, and build out American-made charging infrastructure for electric vehicles to stimulate growth and position us as a leader in manufacturing next generation clean vehicles.
- **Shore up critical supply chain vulnerabilities.** The COVID-19 crisis has laid bare the vulnerabilities in our medical supply chains. Efforts should be undertaken to better understand and remedy these gaps. But we must also identify and address weaknesses in other key supply chains, including our energy grid and other critical infrastructure as well as the defense industrial base, to ensure the United States can respond effectively to all future crises. ■

10 Congressional Steel Caucus Hearing. *America Rebounding: Steel in 2017 and Beyond*. 115th Congress. (2017) (Testimony of Roger Newport, Chief Executive Officer, AK Steel Corporation). Retrieved from www.steel.org.

11 American Iron and Steel Institute. (May 23, 2018). The Economic Impact of the American Iron and Steel Industry. Retrieved May, 26, from <https://www.steel.org/-/media/doc/steel/policy/reports/economicimpact/econ-impact-study---executive-summary.ashx?la=en&hash=6664B79579112B72876878108D5D0F683E835248>