Steel sector: Struggling steel sector faces new challenge with Trump’s tariffs | Credendo

The new US administration brings more uncertainty to the steel sector

In 2018, President Trump implemented tariffs of 25% on steel and 10% on aluminium imports, subsequently negotiating exemptions for certain countries. When President Biden took office in 2021, he retained these tariffs but reached agreements with the European Union, the United Kingdom and Japan, allowing them to export specified quantities of steel and aluminium to the United States without incurring duties.

In this month of February 2025, Donald Trump announced that these agreements will be nullified and that a 25% tariff will be imposed on steel and aluminium imports. Officials later added that no exclusion will be granted for specific products and that the tariffs are expected to take effect on 12 March. The main steel exporters to the USA include Canada, Mexico and China, with other countries, such as South Korea, Brazil and Germany, also being impacted.

A potential threat for US manufacturers and consumers

US domestic steel producers have expressed satisfaction with the newly announced tariffs, as they will experience reduced competition. Following the announcement, share prices of major US steel producers increased significantly. However, this positive impact for producers is likely to be counterbalanced by higher prices for consumers and increased costs for industrial steel purchasers. With diminished competition, domestic producers may find less motivation to maintain low prices.

As a net importer of steel, the United States relies on imports for approximately 18% of its demand. Although new domestic capacity is being developed, the country will continue to depend on imports to fulfil its needs. The imposition of tariffs on intermediate goods, such as steel, rather than on final goods, is expected to increase input costs for US industries, including automotive manufacturing, food processing, construction (residential building and infrastructure), and potentially, defence contracting. In contrast, industries in countries like Canada, Mexico and Europe do not face these types of tariffs. Consequently, American manufacturers may find it challenging to compete both domestically and internationally due to higher production costs. These tariffs will likely impact small- and medium-sized companies by reducing their profit margins. Businesses may attempt to pass on these rising costs to consumers, leading to potential price increases. Overall, inflationary pressures are likely to intensify at a time when markets and consumers are becoming increasingly sensitive to inflation expectations.

The 2018 tariffs on steel and aluminium had sparked retaliatory measures from Canada, China, the EU and Mexico. These included duties on US agrifood exports, such as spirits, juices, butter, cheese and pork, and affected major manufacturers such as Boeing. Following the announcement of the recent tariffs, President Trump suggested that if farmers are adversely affected by retaliatory measures, they may receive assistance funded by tariff revenues.

A potential threat for the global steel industry

The European steel industry will be affected by the US steel tariffs, as the USA is the second largest destination for EU steel exports. According to the European Commission, the initial implementation of the US steel and aluminium tariffs could impact up to EUR 28 billion of the bloc's exports.

The new tariffs come at a challenging time for Korean steelmakers, who are dealing with weak demand and oversupply coming from China. These tariffs add another hurdle to their recovery, particularly since they have greater exposure to the US market compared to regional competitors. Additionally, Korean steel exports to countries like Mexico often end up in the USA, which means these indirect exports will also be impacted.

Canada has long served as a pivotal supplier of steel, particularly of flat-rolled products, to the United States, owing to its geographical proximity and robust trade relations. Canadian steel producers maintain a competitive edge due to their high-quality outputs and cost advantages. However, the imposition of new tariffs is poised to have a substantial impact on Canada's steel industry, given that nearly all of its steel exports are directed to the USA. As one of the largest steel exporters to the USA, Mexico will also see its steel industry significantly impacted by these tariffs. In response, both Canada and Mexico may need to explore alternative markets for their steel exports beyond the USA to mitigate the effects of these tariffs.

Australia might receive special consideration for exemption, as the USA has a surplus in steel trade. Australia's prime minister is discussing with Trump about the surplus and the supply of Australian steel to the US Defence and manufacturing industry. The overall impact of these tariffs on Australian steel exports will depend on the outcome of these negotiations.

In China, there are concerns that the new US administration tariffs on Chinese goods will impact the Chinese manufacturing sector, which has recently been a significant economic driver. The USA imposed a 10% tariff on Chinese exports to the USA, in addition to existing duties. Due to the ongoing real estate crisis in China, steel companies have shifted to producing high-end flat steel for manufacturing rather than long steel products for construction, resulting in overcapacity and increased exports. The continued property downturn in China could at best stabilise this year thanks to State support, and potential impacts from foreign policies on the Chinese manufacturing sector limit substantial steel price increases.

These tariffs would have a ripple effect worldwide, with countries likely to retaliate (e.g. China) and redirect their exports to other markets, leading to higher competition, lower steel price and trade tensions elsewhere. This challenging situation is likely to hinder steel producers' balance sheets. The unpredictability of the Trump administration and the ongoing trade war are expected to weigh on the global economy and, consequently, on steel demand.

Conclusion

Steel prices are expected to remain low in the near future, primarily due to the ongoing downturn in the Chinese property market. Additionally, the increase in trade barriers and policies instituted by the Trump administration add further uncertainty to the sector's global outlook. President Trump's tariffs could lead to a significant reshuffling of steel market supply chains and add pressure to a market that is already characterised by oversupply. Other countries may introduce trade barriers to protect their industries, resulting in further oversupply that would keep international prices low. If China's economic momentum continues to weaken, steel prices are likely to decline even further. Conversely, some recovery in China's property sector would stimulate demand and support an increase in steel prices. The future of the steel market will depend on these key factors.

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