LEADING EXECUTIVE ASSOCIATION FOR
POWER TRANSMISSION MOTION CONTROL

EU STEEL SHORTAGE THAT PRESISTS IN 2021

In the summer of 2020, there was a lull in the steel mills – due to the pandemic, demand had collapsed. Since then, industrial production in Europe has been picking up again and the steel demand is growing, but steel manufacturers are still not keeping up with production. So, we are in a situation of clear lack of inventories, at a time when demand began to rise.

According to the European Steel Review, price increases for all steel products were observed between November 2020 and March 2021, for example, the price of the basic product in construction "steel reinforcement bars" increased by about 110% in Italy, with over 70% in France and Germany and about 64% in Spain. And this trend has a cascade effect on the whole Logistics chain.

Some factors contributed to the exponential increase in prices across the planet and to the scarcity of steel, such as the acceleration of Chinese demand combined with the deceleration of its exports, the contraction of supply, and the difficulties – aggravated by the blockade of the Suez Canal a few months ago – encountered by global logistics due to the pandemic.

INVENTORIES ARE LOW, BUT THE DEMAND IS HIGH

Industry experts explain the price jumps, among other things, with the lockdown. In the beginning, industries came to a standstill overnight, such as large parts of the automotive industry. However, production has not been completely shut down, because a premature shutdown of a blast furnace causes millions in damage. Instead, the company has throttled the plants as much as possible and prepared for the ramp-up after the shutdown.

But this ramp-up came faster and more sustainably than could have been foreseen. 2020 was marked by a sharp drop in demand and prices due to the acute phase of COVID-19 but was followed by rapid growth in the second half of 2021.

According to a report by The European Steel Association (EUROFER), the apparent steel consumption experienced a rapid fall in the second quarter of 2020 (-23.8%), followed by another one, albeit milder, in the third quarter (-9.8%). The loosening of lockdown measures allowed industrial activity to restart, with a considerable rebound in output compared to the record lows seen in the preceding quarter, which continued – at an even faster rate – over the fourth quarter of 2020 and up to the first quarter of 2021, driven by faster-than-expected recovery in output in some sectors (domestic appliances and automotive in particular).

Therefore, the apparent steel consumption increased (+3.6%) in the fourth quarter of 2020 - that was the first quarterly growth since the fourth quarter of 2019 -, and so it did in the first quarter of 2021 (+0.9%).

The whole year 2020 was considerably impacted by the pandemic and saw apparent steel consumption in the EU plummet (-10.6%, lower than 11.1% in our previous outlook) for the second consecutive year after the drop of -5.3% in 2019. It is set to rebound (+11.2%) in 2021, and to grow more moderately (+3.7%) in 2022 when it is expected to return above 2017 levels thanks to continued improvement in demand from steel-using sectors.

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Also, **the demand from China has risen sharply**. In addition, the order structure was different from usual times – this ensures an extraordinarily high level of complexity in integrated production processes and can lead to delays in the supply chain. On the other hand, **China has reduced its steel exports, which is why imports into the EU are declining**. The Asian country has raised demand, specifically by 9.1%, in 2020. There has been a very strong stimulus policy, while in the rest of the world there has been a considerable decline (it fell by 9.5%), more logical considering the situation of the pandemic.

When the pandemic began in China, the steel-consuming sectors stopped, as happened in Europe. However, steel manufacturers continued to produce at a level similar to the previous situation. The question then arose as to "what was going to happen to so much steel?", since inventory levels in China would be brutal. It was thought that when they had to give out so much steel, the market would collapse. But that did not happen; on the contrary, all those inventories and Chinese production have found perfect accommodation in its market. So now China is reducing its exports because the government wants the steel production to stay within its borders.

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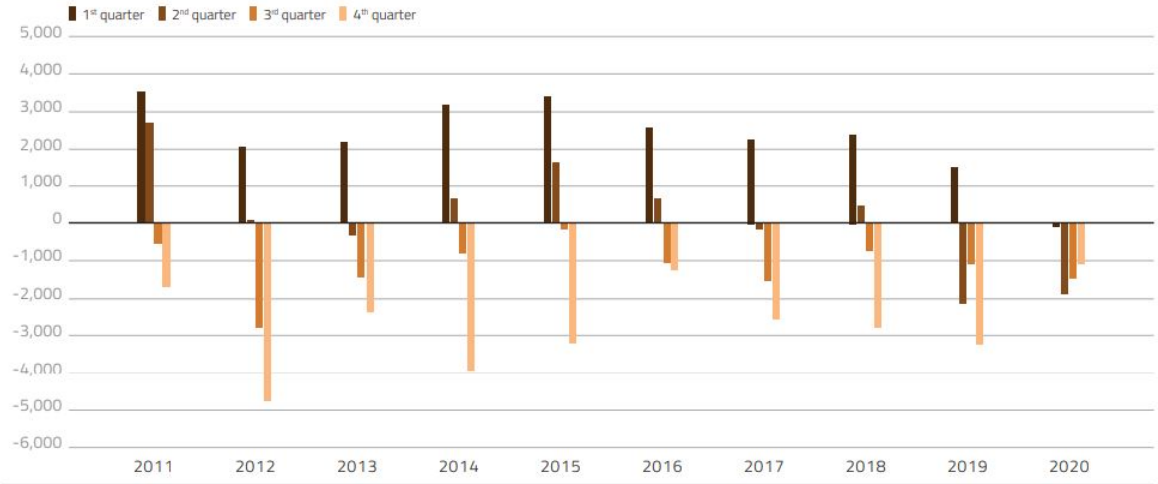
Also, we come from a situation of low inventories because 2019 has already been a bad year across the EU for steel production - although there was real consumption that was still sustained, purchases were reduced. After that, in 2020 the production was reduced even further, due to the pandemic. So we are in a situation of increased demand with very low inventories.



Stock changes between 2011 and 2020. Data source: EUROFER

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On top of that would be **the loose monetary policy of the central banks**: this would drive up commodity prices. The fact that the Euribor is negative and that interest rates for business credit are below 2% are clear indicators that an expansionary monetary policy is being carried out. In addition, the financial markets - the stock markets - are at very high levels and commodities appear as another source of investment and the search for the profitability of investors.

EU'S RESPONSE TO THE STEEL CRISIS

If steel is missing, this is likely to have a drastic impact on many companies. Therefore, the EU decided to prolong for three additional years the safeguard measure on imports of certain steel products, which takes the form of Tariff-Rate-Quotas ('TRQs') reflecting traditional trade flows from third countries, above which a 25% duty is levied on imports. The prolongation applies from 1 July 2021. The decision to extend the safeguard measure follows an investigation requested by 12 EU Member States on whether the conditions to prolong are fulfilled.

"In accordance with the requirements under EU and WTO rules, the European Commission found in its investigation that the safeguard measure continues to be necessary to prevent or remedy serious injury to the EU steel industry, and that the EU industry is adjusting to a market situation in the EU with higher levels of imports. The Commission will closely monitor the prolongation and will review it to ensure that it remains limited to the strict minimum, is adapted to the evolution of the market, and is in line with the overall interest of the EU. This will allow the Commission to change the functioning of the safeguard measure as necessary. In line with

WTO rules, the duty-free import quotas of steel will also be increased by 3% annually", according to the official announcement.

Also, there was an important development in terms of the EU-US trade. In May, the European Commission Executive Vice-President Valdis Dombrovskis, the United States Trade Representative Katherine Tai and the U.S. Secretary of Commerce Gina M. Raimondo announced the start of discussions to address global steel and aluminum excess capacity. They acknowledged the need for effective solutions that preserve the critical industries, and agreed to chart a path that ends the WTO disputes following the U.S. application of tariffs on imports from the EU under section 232.

They acknowledged the impact on their industries stemming from global excess capacity driven largely by third parties. The distortions that result from this excess capacity pose a serious threat to the market-oriented EU and U.S. steel and aluminum industries and the workers in those industries. They agreed that, as the United States and EU Member States are allies and partners, sharing similar national security interests as democratic, market economies, they can partner to promote high standards, address shared concerns, and hold countries like China that support trade-distorting policies to account.

They agreed to enter into discussions on the mutual resolution of concerns in this area that addresses steel and aluminum excess capacity and the deployment of effective solutions, including appropriate trade measures, to preserve our critical industries. To ensure the most constructive environment for these joint efforts, they agreed to avoid changes on these issues that negatively affect bilateral trade. They committed to engaging in these discussions expeditiously to find solutions before the end of the year that will demonstrate how the U.S. and EU can address excess capacity, ensure the long-term viability of our steel and aluminum industries, and strengthen the alliance.

On top of weakening producer margins (partly driven by extremely high input costs), authorities have made moves to throttle steel exports by removing tax rebates, and sources believe that external demand will likely ease as production in other countries climbs back to pre-pandemic levels.

For a more detailed forecast for the steel industry we recommend checking this forecast report.

Sources and further reading

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