ICRA

STEEL INDUSTRY

EU’s new trade guardrails: A potential spoiler for Indian steel exporters

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Highlights – Industry trends

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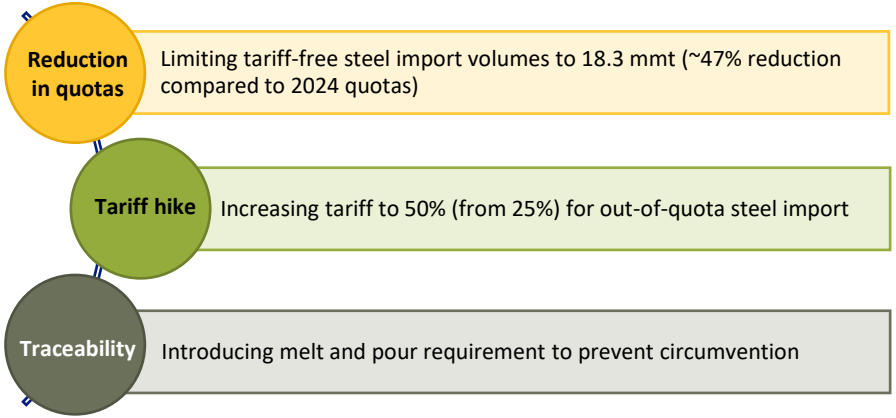
The proposal by the European Commission poses material risks to India's steel exports amid a weak external environment. In the absence of a trade arrangement, the proposed EU measures, coupled with the impending implementation of CBAM, could pose a dual challenge for Indian steel exporters, making exports to the EU increasingly tougher going forward.

- On October 7, 2025, the European Commission proposed capping tariff-free steel imports at 18.3 million tonnes (mmt) annually, a 47% reduction from 2024 levels, while also doubling the out-of-quota duty to 50%. The proposal is intended to replace the existing safeguard mechanism expiring in June 2026, underscoring the EU's increasing protectionist approach aimed at supporting domestic producers.
- Despite the prevailing safeguards, EU steel imports have remained elevated at 25-30 mmt annually (~18-20% of annual demand) over the past decade. The tighter import regime is aimed at improving industry capacity utilisation (current 60-65%) and enhancing the financial flexibility of EU mills to invest towards decarbonisation objectives.
- Nearly 75% of EU steel imports originate from Turkey, South Korea, India, Vietnam, Taiwan, China, Ukraine and Japan. Suppliers from such countries could face shipment curbs under the new regime, with no country-specific exemptions proposed as yet.
- In ICRA's assessment, these latest trade measures pose significant downside risks to India's steel exports, with the EU accounting for 32-45% of India's annual steel exports (~2-4 mmt). The proposed restrictions, coupled with the Carbon Border Adjustment Mechanism (CBAM) effective January 2026, could pose a dual challenge for Indian exporters, constraining both volume growth and export profitability in the near term.
- Additionally, ~12 mmt of Asian steel exports (excluding India) presently directed to the EU could be diverted to alternative growth markets, including India. As these countries already account for 70-75% of India's steel imports, the influx may intensify import competition and weigh on domestic steel prices.
- Heightened import pressures, despite safeguard duties in India, coupled with low export volumes, are likely to adversely impact margins of domestic producers. However, large integrated players with high domestic consumption and comfortable balance sheets remain relatively better positioned at present.

Decoding European Union guardrails on steel sector

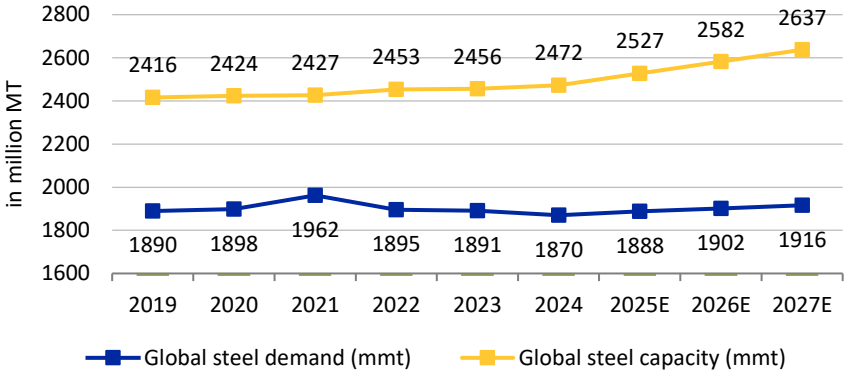
Europe's steel safeguard proposal intends to address global overcapacity and rising trade barriers

Exhibit: Key elements of the EU commission proposal



Source: EU commission document; ICRA Research

Exhibit: Trend in global steel capacity and demand

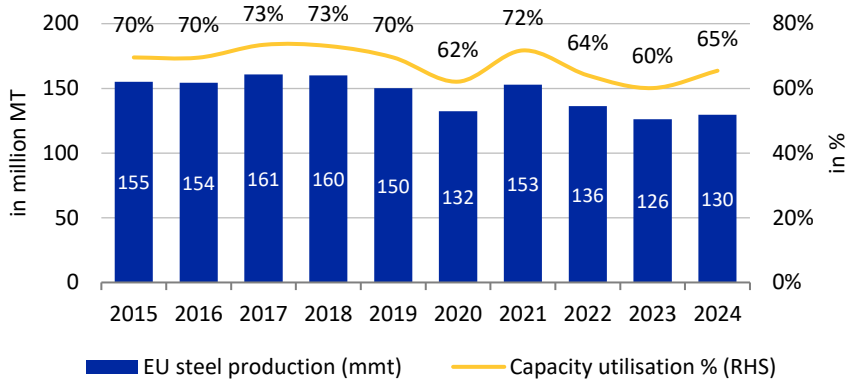


Source: OECD, ICRA Research

- Recently, the EC has proposed replacing the existing steel safeguard measures with a new tariff rate quota (TRQ) system, aimed at curbing import inflows and addressing global overcapacity. The draft proposal entails a ~47% reduction in duty-free import quotas to 18.3 mmt and a hike in out-of-quota tariff to 50% from 25%.
- The move reflects the EU's increasing protectionist stance to shield domestic producers from low-priced imports amid weak global steel demand and persistently global oversupply, especially from China.
- Once approved by the European Parliament and Council, the new framework will take effect in June 2026, replacing the current safeguard mechanism.

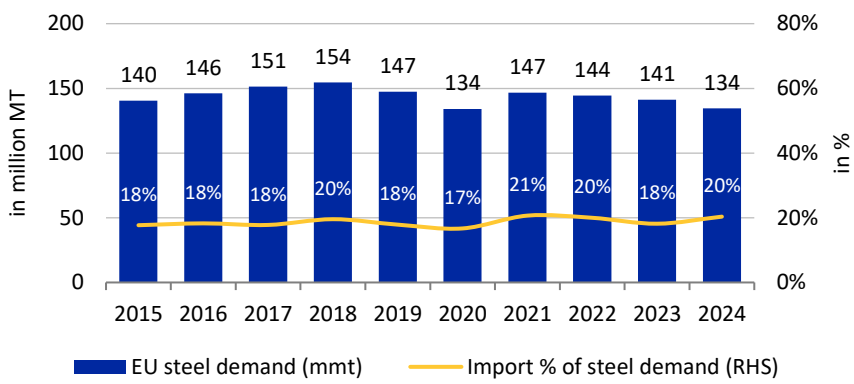
EU's proposed safeguard reforms are aimed at improving domestic steel capacity utilisation and curbing import pressure

Exhibit: Trend in EU steel production



Source: Eurofer, ICRA Research

Exhibit: Trend in EU steel demand and import %

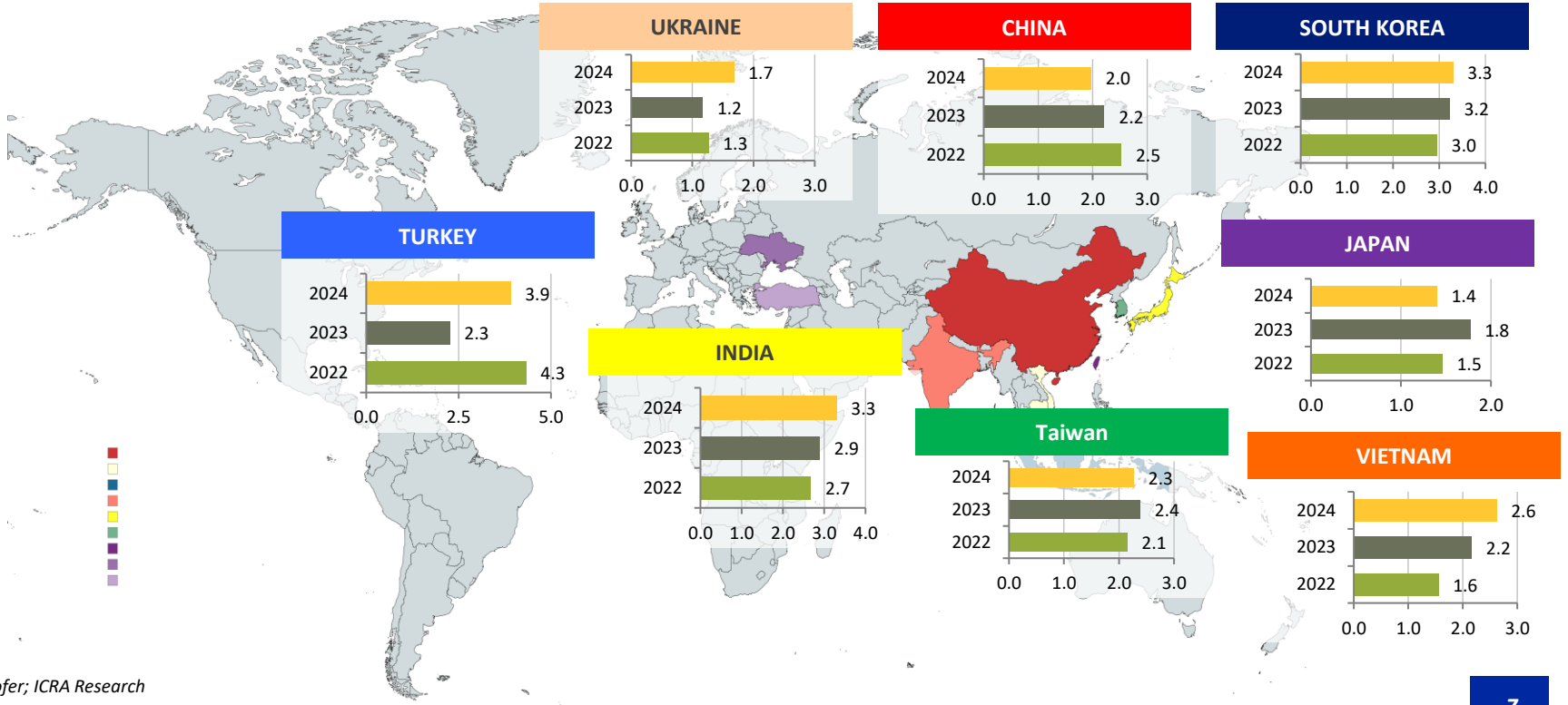


Source: Eurofer, ICRA Research

- The EU steel sector continues to face headwinds from subdued demand and sustained import competition, which have kept capacity utilisation low at around 60-65% over the past three years.
- Despite the existing safeguard framework, import volumes remained elevated at 25-30 mmt annually over the last decade. Consequently, the proposed reduction in import quotas and a higher out-of-quota tariff will help in improving the domestic capacity utilisation and enabling domestic producers' ability to invest towards EU's decarbonisation objectives.

About 75% of EU steel imports sourced from Turkey, South Korea, India, Vietnam, Taiwan, China, Ukraine and Japan would be impacted by the proposal

Exhibit: Country-wise finished + semis steel imports by the US (Figures in million tonne)

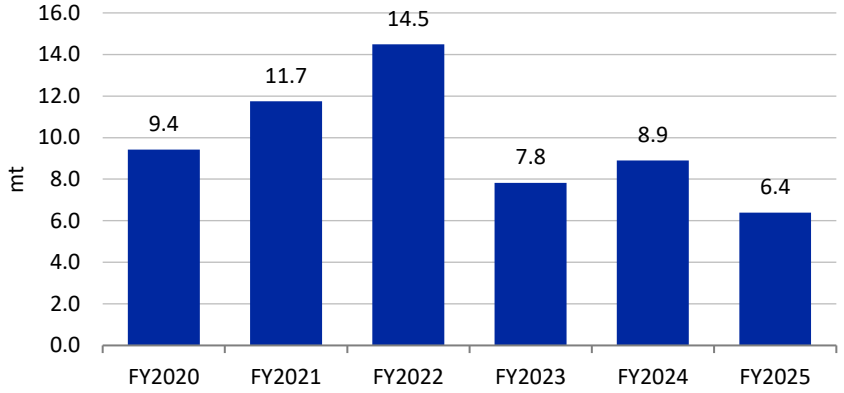


Source: Eurofer; ICRA Research

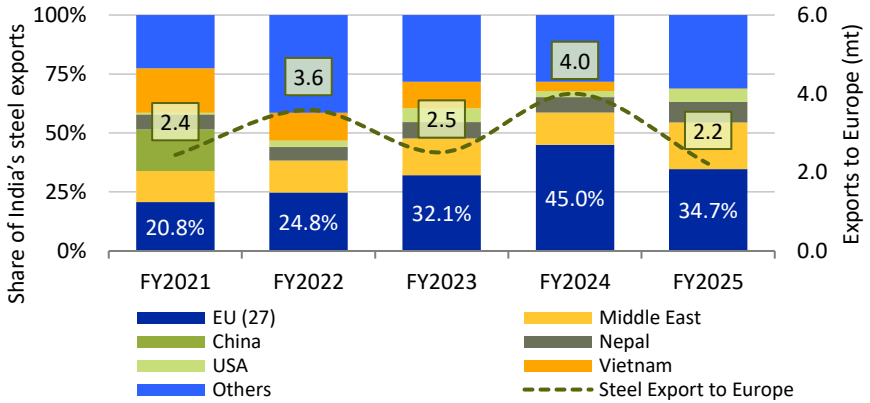
Impact analysis on domestic steel entities

EU safeguard proposal poses significant risk to India's steel export (~32-45% of total export volume) amid weak external environment

Exhibit: Trend in annual steel exports (finished + tubes)/pipes from India as covered in the regulation



Country-wise share of India's steel exports

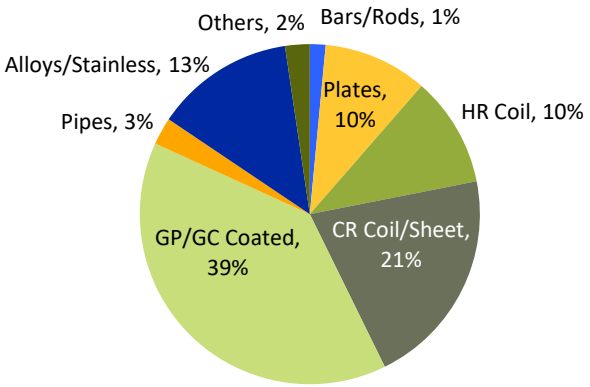


Source: JPC, Ministry of commerce and Industry; ICRA Research

- India's steel exports contracted sharply by ~35.1% on a YoY basis in FY2025, reflecting subdued global demand and rising competitive pressure from Chinese mills in key export destinations such as Europe, West Asia, and Southeast Asia. The EU's proposed safeguard measures are likely to further weigh on India's export prospects, amid a challenging external environment.
- EU accounts for nearly 32-45% of India's annual steel exports (~2-4 million tonnes), making it a critical market for the Indian exporters. Unless a trade arrangement is reached, the proposed EU measures, coupled with the impending implementation of the CBAM from January 2026, could pose a dual challenge for Indian steel exporters, potentially constraining volume growth and export profitability in the near term.

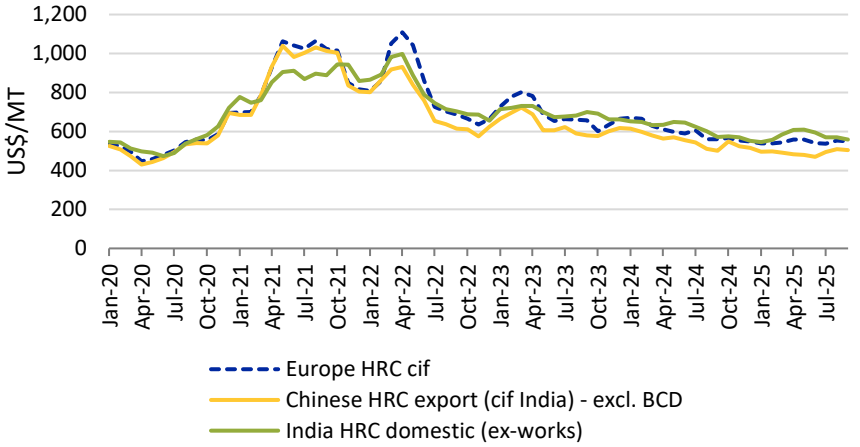
Indian steel exports to EU are high value-added; any disruption could weigh on profitability of domestic steel entities

Exhibit: Product-wise breakup of EU's steel export from India (FY2025)



Source: JPC, ICRA Research

Exhibit: Trend in hot rolled coil (HRC) prices in key geographies/ countries

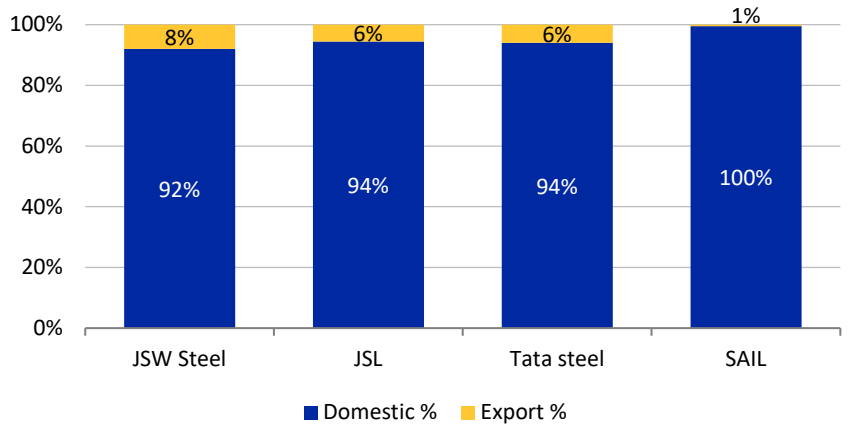


Source: Bigmint, ICRA Research

- With European steel prices generally trading at a premium to Asian prices, Europe has historically remained an important export destination for Indian steel mills with top buyers being Belgium, Italy and Spain within Europe.
- India's exports to the EU predominantly comprise value-added products such as cold-rolled coils/sheet, GP/GC coated sheet, plates, alloy/stainless steel, in contrast to the commoditised HRC coil/sheets segment. These higher-value exports fetch superior realisations. Consequently, any significant disruption in steel exports to the EU could adversely impact the margins of domestic primary steel producers.

Higher share of value-added exports and Asian trade diversion pose margin pressure risks to Indian steel producers

Exhibit: Export share % of top primary steel producers in India



Source: Annual report of respective steel entities, ICRA Research

Exhibit: Domestic HRC price vs. landed cost of Chinese/ Japanese/South Korea HRC export offers

Particulars	Unit	China (Oct'25)	South Korea (Oct'25)	Japan (Oct'25)
HRC export offers (FOB, as in second week of October 2025)	$/MT	470	480	470
Ocean freight + Customs Duty + SGD	$/MT	125	97	97
Landed cost of imports	$/MT	595	577	567
Foreign exchange rate	Rs/US$	88.7	88.7	88.7
Landed Cost of Imports (as in second week of Dec 2025 assuming no change in INR:USD rate)	Rs./MT	52,798	51,162	50,314
Domestic HRC Price (as in second week of October 2025)	Rs./MT	49,000	49,000	49,000
Domestic discount/ (premium)	Rs./MT	3,798	2,162	1,314
Domestic discount/ (premium)	$/MT	43	24	15

Source: Bigmint, ICRA Research

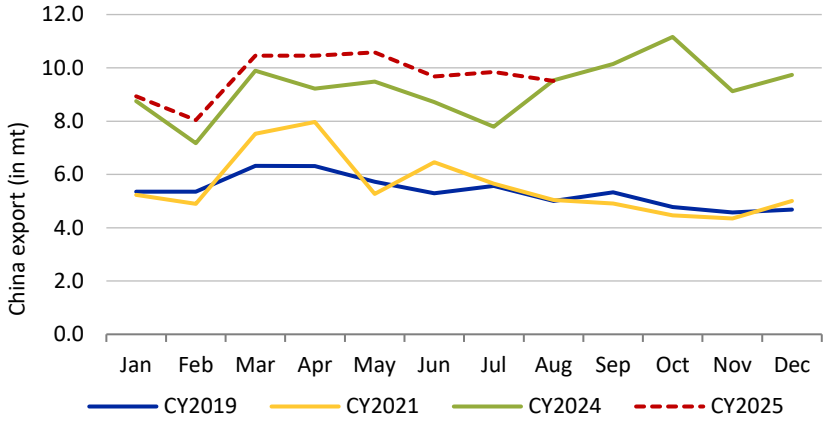
- Exports account for ~6-8% of revenues for major primary steel producers in India. Although the overall export share remains limited, the higher realisation from value-added products means any disruption could weigh on overall profitability.
- Deliveries of ~12 mmt to the EU from Asian suppliers like Japan, Korea, Vietnam and China could be partly diverted to high-growth markets like India. Already, these countries rank among the top four steel exporters to India, accounting for ~70-75% of India's overall steel imports. This can exert pressure on domestic steel prices, pulling down the industry's earnings further in FY2027. In FY2026, while domestic HRC trades at a relatively higher discount to Chinese offers, Indian offers continue to trade at a discount of ~$15-20 to Japanese and Korean imports, resulting in muted growth in domestic steel prices.

Trade flows from Asian counterparts

EU export dependence is significantly low for China

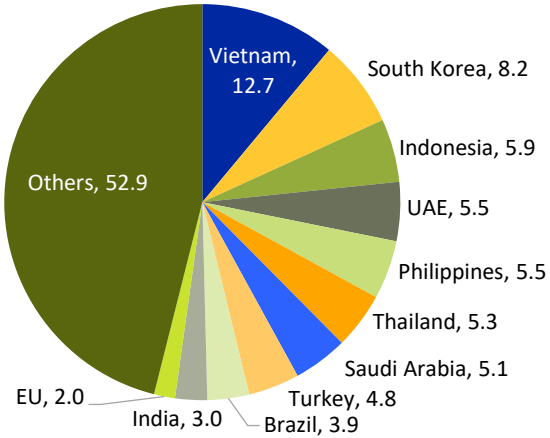
Direct impact on Chinese trade flows is expected to be limited, with low exports to EU

Exhibit: Trend in Chinese monthly steel exports



Source: JPC, ICRA Research

Exhibit: Country-wise steel export from China (in 2024) in million MT



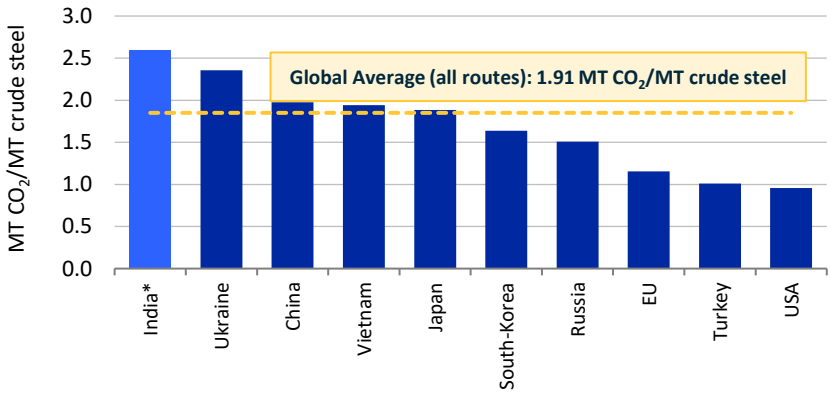
Source: GACC, ICRA Research

- China remains the world's largest steel exporter, accounting for 114.8 million tonnes in 2024. Owing to persistently subdued domestic demand, Chinese steel exports have increased significantly in the last 2-3 years. Chinese steel exports rose ~9.2% YoY in H1CY25 despite a ~2.5% drop in production, underscoring persistent demand weakness.
- However, the major export destinations for China remain the Asian and West Asian markets, such as Vietnam, South Korea, Indonesia, the UAE, Thailand, the Philippines and India. There is limited direct export to the EU, insulating Chinese steel trade flows from direct EU market dependencies and minimising potential trade risk.

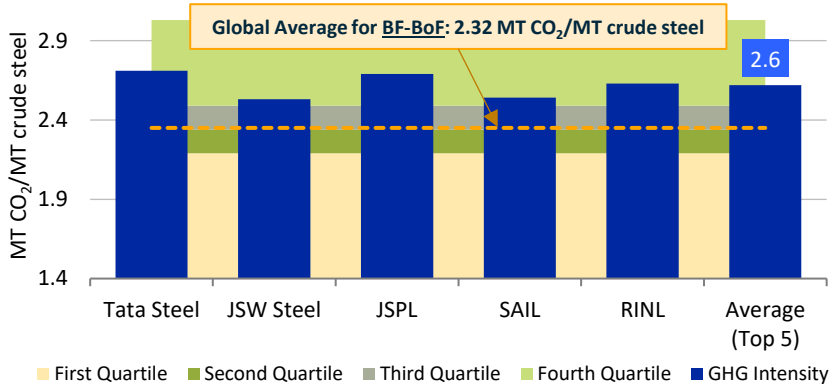
CBAM implementation could pose a dual challenge for steel exporters

Besides safeguard mechanism, CBAM implementation could potentially lead to loss of market share in EU

GHG emission intensity (scope 1 + scope 2) of key steel supplying countries



GHG emission intensity of large domestic BF-BoF based steel producers

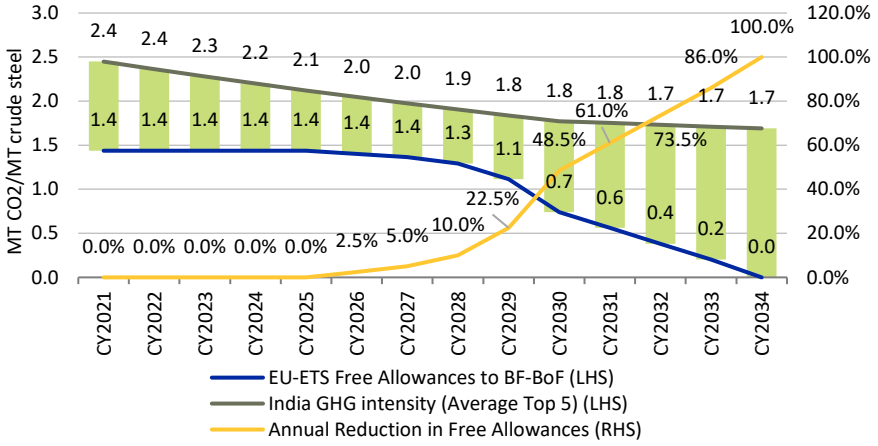


*Source: World Steel Association, Report titled, Steel Climate Impact: An International Benchmarking of Energy and CO_2 Intensities, ICRA Research; *India data includes the average of top 5 primary producers*

- To create a level playing field and avoid carbon leakage through imports, the EU signed the CBAM in 2023, which is likely to be implemented from January 1, 2026, wherein EU importers will have to buy CBAM certificates corresponding to the embedded emissions above the EU Emission Trading System (EU-ETS) benchmark levels.
- The top five domestic primary steel producers have an average emission intensity of ~2.6 MT CO_2/MT crude steel, which is 12% higher than the global average from the BF-BoF route (~2.32 MT CO_2/MT crude steel)).
- Therefore, unless Indian mills can materially bring down their carbon footprint during the transition period, it could potentially lead to lower profits and a loss of market share in Europe.

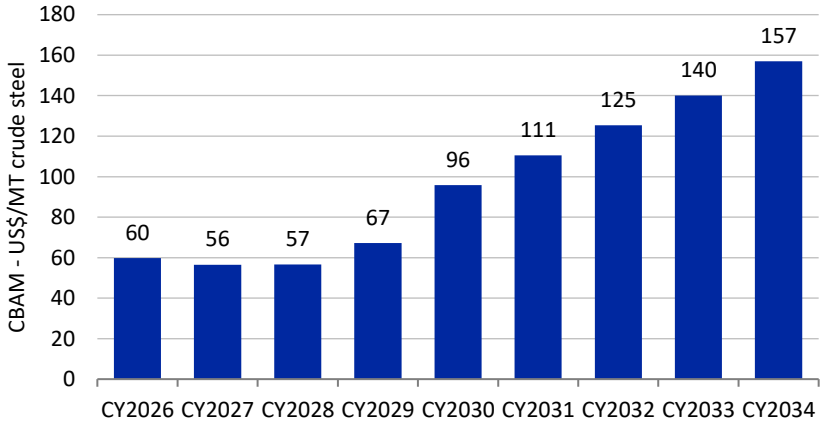
CBAM estimated to pull down profits by $60-160/MT* for Indian steel exports to Europe for CY2026-CY2034

Trend in EU-ETS free allowance for an EU steel mill vs. average GHG emission intensity (scope 1) of leading Indian players for the BF-BoF production route



Source: European Commission, Company announcements, ICRA Research; trajectory of reduction in GHG intensity for Indian mills estimated based on company guidance

Estimated CBAM for Indian steel exports to the EU



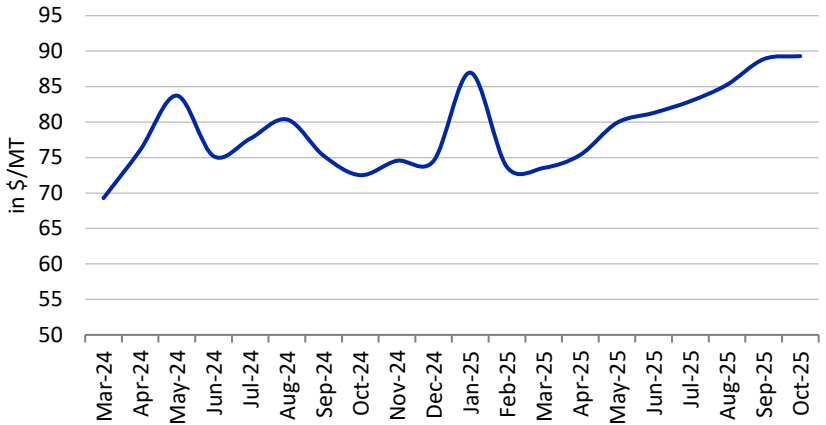
Source: ICRA Research; price of carbon assumed constant at Euro 80/MT (US$ 92/MT)

- After the transition period ends on December 31, 2025, the phasing-out of free allocations under the EU-ETS will happen in parallel with the phasing-in of CBAM over the subsequent eight years (CY2026-CY2034).
- ICRA's analysis suggests that after relatively modest levels of CBAM incidence between CY2026 and CY2029 ($60-70/MT), as the pace of phase-out of free allowances picks up thereafter, the incidence of CBAM is expected to increase significantly between CY2030 and CY2034 ($100-160/MT). Consequently, safeguard measures and CBAM implementation pose margin and export competitiveness risks for Indian steel makers.

**Indicates estimated impact on mill profits solely attributable to CBAM compliance, everything else remaining the same*

Spot carbon prices in the EU-ETS has significantly increased in the last one fiscal

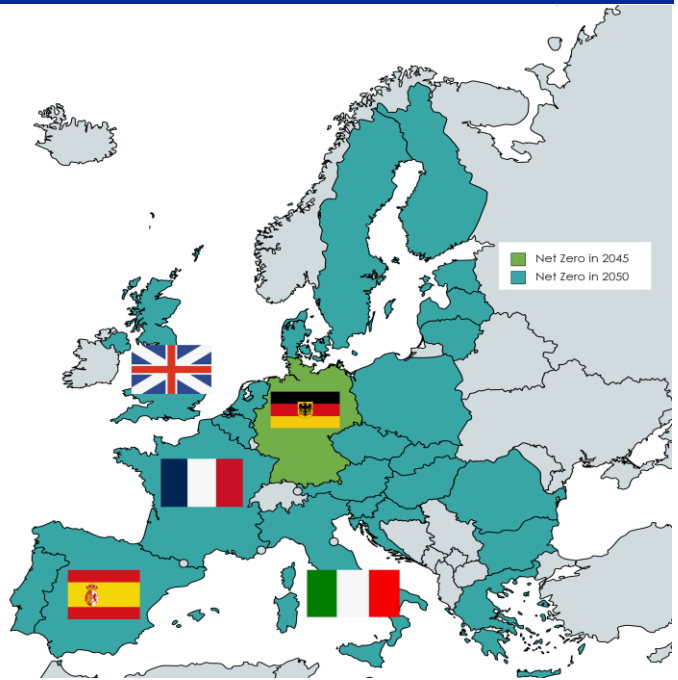
Exhibit: Spot CO2 emissions EU allowance price/Europe ($/MT)



Source: Refinitiv; ICRA Research

- After the COP26 summit held in October-November 2021, many countries announced net zero transition timelines. The 27-member EU fixed 2050 as the net zero transition date. Within the EU, Germany stood out, as it fixed a stricter deadline of 2045 for it.
- Given these net zero commitments by European countries, carbon price in the EU-ETS has significantly increased in the recent years.

Exhibit: European countries that have announced net zero targets



Source: ICRA Research

Conclusion

Conclusion

01

- The move underscores the EU's rising protectionist stance aimed at shielding domestic producers from low-priced imports amid subdued global steel demand. This could aid recovery in capacity utilisation from low levels of ~65% and bolster investments aligned with the EU's decarbonisation agenda.

02

- Nearly 75% of EU steel imports originate from Turkey, South Korea, India, Vietnam, Taiwan, China, Ukraine and Japan- all of which are likely to be affected by the proposed measures, with no exemptions currently specified.

03

- The proposal poses a material risk to India's steel export (~32-45% of total export volume) amid a weak external environment. In the absence of a trade arrangement, the proposed EU measures, coupled with the impending implementation of CBAM, could pose a dual challenge for Indian steel exporters, pressuring volume growth and export profitability in the near term.

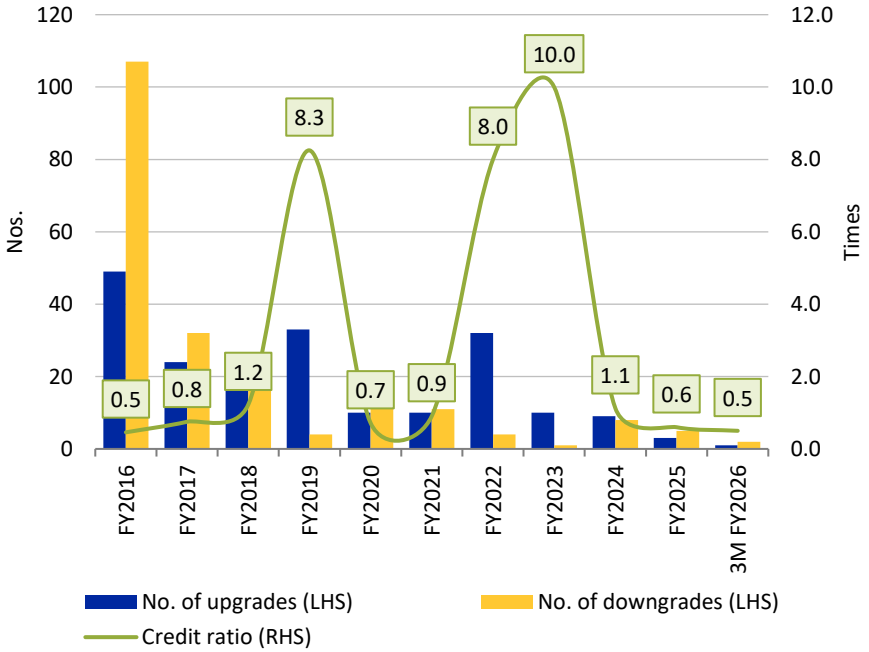
04

- Around ~12 mmt of Asian shipments to the EU could be redirected to alternative high-growth markets, including India. Given that these suppliers already account for ~70-75% of India's overall steel import, this diversion could intensify import competition and weigh on domestic pricing and margins through FY2027.

Performance of ICRA's rated portfolio in the steel sector

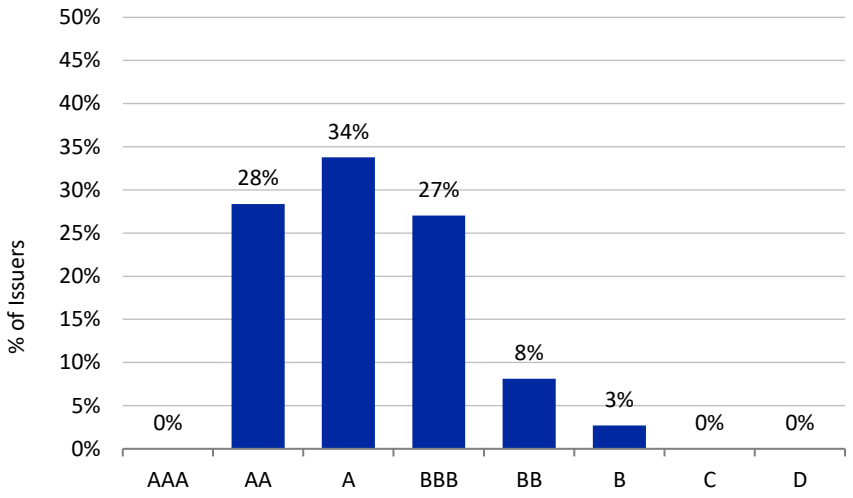
Industry credit ratio[1] moderated to 0.5 times in 3M FY2026, as many issuers missed revenue projections in FY2025

Exhibit: Trend in count of upgrades and downgrades (ICRA-rated universe of ferrous metal companies)



Source: ICRA Research

Exhibit: Portfolio rating distribution – percentage of issuers (ICRA-rated universe of ferrous metal companies)



Source: ICRA Research

Note: 1) Credit Ratio = Number of Upgrades / Number of Downgrades

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Thank You!