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STEEL INDUSTRY - TRUMPED AGAIN

Domestic steel industry faces fresh challenges while eyeing opportunities, following the likely redirection of global trade flows after US tariffs

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OVERVIEW

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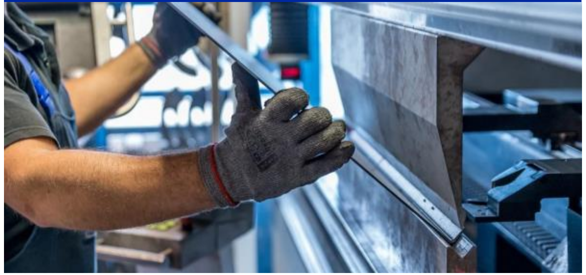
Given the duty-free access on account of the free trade agreements (FTAs) with India, import pressures from South Korea and Japan could increase in FY2026 as they search for alternative markets for their hitherto American cargoes. Unlike South Korea and Japan, China has a limited presence in the US, 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.

- On February 11, 2025, the US withdrew all country-specific duty exemptions on steel imports under Section 232 of the Trade and Expansion Act of 1962, with effect from March 12, 2025. Such exemptions had enabled select countries like Canada, Brazil, the EU, Mexico, South Korea, Japan, Argentina, Australia, and Ukraine to garner 75-80% of the US steel import basket in recent years.
- 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 impact around 6-7% of global steel trade flows, as they adjust to the shifting market dynamics over the coming months.
- 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, while these restrictive measures are likely to have a material upward pressure on its domestic steel prices in the near term.
- 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, who so far had preferential market access, could be partly bounced-off to high-growth markets like India. This can exert pressure on domestic steel prices, pulling down the industry's earnings further in FY2026.
- 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 US's preferential market access regime and bringing in a level playing field can potentially lead to displacement of high-cost suppliers like Canada, Brazil, the EU, and Mexico, with low-cost suppliers, especially from Asia.
- As per ICRA's estimates, around 19 mtpa of steel cargoes enter USA from these high-cost countries. This opens the possibility for Indian mills to participate in a portion of this large opportunity and raise their export footprint in USA, which has so far accounted for a mild 2-3% of India's overall steel export basket.

What's Inside?

1 Trade wars - Goodbye Ricardo's Principle of Comparative Advantage



2 Counting the Cost – Surge in Asian Steel Imports

3 Opportunity in Adversity – The Contrarian Bet

4 Conclusion

Analytical Contact Details

Name	Designation	Email	Contact Number
Girishkumar Kadam	Senior Vice-President	girishkumar@icraindia.com	022 – 6114 3408
Vikram V	Vice-President	vikram.v@icraindia.com	040 – 6939 6410
Ritabrata Ghosh	Vice-President	ritabrata.ghosh@icraindia.com	033 – 7150 1107
Deepayan Ghosh	Senior Analyst	deepayan.ghosh@icraindia.com	033 – 7150 1220

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Neha Agarwal	Head – Research Sales	neha.agarwal@icraindia.com	022-61693338
Rohit Gupta	Head Business Development – Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development – Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vinita Baid	Head Business Development – Corporate Sector - West & East	vinita.baid@icraindia.com	033-71501131
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head – Group Corporate Communications & Media Relations	communications@icraindia.com	0124-4545860

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Thank You!