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WORLD

U.S. Tariffs Spark Flood of Steel Exports to Europe

Trump duties aimed initially at China upend global steel trade, creating winners and losers

By *Alistair MacDonald*

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U.S. tariffs have scrambled the global steel trade, with countries that can no longer sell into the U.S. sending their products into Europe at a record rate.

The upended order has created winners, ranging from metals exporters Turkey, Russia and Vietnam, to losers, particularly European steel producers.

The pace of European steel imports is exceeding the rush of Chinese metal that swamped the continent in 2015 and caused a crisis in the sector until EU measures and mill closures in China slowed the influx. The new wave is lowering steel prices in the European Union and triggering a global race to sell more of it into the EU before the bloc's quotas are reached.

"A reasonably balanced global market was disrupted by one action—U.S. tariffs—and trade flows are scrambling to adjust," said Roeland Baan, CEO of Finland's Outokumpu Oyj, one of the world's largest stainless steel makers. "For two or three years (the European steel industry) was getting back to acceptable returns and we are now at risk of being worse off than even before."

The scenario represents the latest global knock-on effect of an escalating trade fight between the U.S. and China. The EU, a vital U.S. military and trade ally, is vulnerable to cheaper imports because of rising domestic demand, higher expenses and, producers say, lower trade barriers. Even as a flood of steel pours into the EU, President Trump has also threatened tariffs on European-made cars.

Russian exports to the EU were up by around 40% in the year through September, compared with the same period in 2017. Vietnam exports to the EU rose 144% in the period. Turkey has exported 61% more steel into the EU in that period, becoming the region's biggest foreign supplier. The Turkish currency is down 28% against the dollar this year, making the country's exports cheaper.

Original Steel Services Ltd, a U.K. steel manufacturing company, had in recent years supplied one customer with 3,000 to 4,000 tons a year of a steel product. This year, that customer bought less than 400 tons as Turkish suppliers moved in with cheaper goods.

"The Turks are our biggest problem, their currency has fallen through the floor and they have reasonably good quality mills," said Peter Davies, Original Steel Services's co-owner.

To be sure, some foreign steel is still entering the U.S. and EU quotas should eventually limit imports.

And at least some of the deflected steel is ending up in Asia, analysts say. But Asian producers have a bigger worry: whether a slowdown in China's economy will weaken domestic demand, pushing more of its steel abroad.

Mr. Trump announced a 25% tariffs on steel imports into the U.S. on March 1. In late May, the U.S. confirmed that this would include steel from the EU, Mexico and Canada, among its biggest suppliers.

In the year through October, the U.S. has imported over 13% less steel than the same period last year, while European imports have risen over 10%, a record high, according to the European Steel Association, or Eurofer.



Finland's Outokumpu Oyj, one of the world's largest stainless steel companies, expects earnings to be significantly lower in 2018 mainly due to a flood of steel imports into Europe. PHOTO: JOEL KARPPANEN/EPA-EFE/REX/SHUTT/EPA/SHUTTERSTOCK

That is roiling steel prices. A key European benchmark, Ex-Works Ruhr Hot-Rolled Coil, has fallen by 11.5% since Feb. 14, just before Mr. Trump said he was considering tariffs. The price of U.S. steel, according to the Midwest Domestic Hot-Rolled Coil benchmark, has risen by 4.2% since then, and is up by over 21% since the start of this year, when buyers began to anticipate tariffs.

In response, the European Commission set temporary limits in July on how much some categories of steel products could enter Europe before a 25% tariff kicks in. The EU will decide by early 2019 whether to maintain the quotas—which haven't been reached yet—or introduce new measures.

“At the provisional stage, the Commission opted for the simplest way to manage the quota, but it will carefully analyze the situation,” an EU official said.

Some European steel makers say the current quotas aren't adequately protecting them. Even as European demand rose, domestic production fell 0.4% in the first 10 months of 2018, Citigroup calculates. In that same period, U.S. production rose by over 5% and global output, excluding China, increased by 4.7%.

Critics of the quota system point out that the quotas don't include steel that was in transit when the EU's measures kicked in July, meaning around 15% of imports since don't count towards the quotas, according to Eurofer.

Moreover, some developing countries, including Indonesia, are given waivers from the quotas.

Quotas also apply to products rather than countries. That has triggered a rush to get steel into Europe before quotas are reached. Some are already over three quarters full, months before they are reset in February.

Outokumpu Oyj, the Finnish steelmaker, returned to profit in 2016 and 2017 after two years of losses following the last crisis. But Mr. Baan, the CEO, said 2018 earnings will be significantly lower mainly due to a flood of imports.

Severstal, the Russian steelmaker, hasn't sold any steel into the U.S. this year due to the tariffs while its exports into the EU more than doubled. Dmitry Goroshkov, Severstal's marketing-director, said that the company regained lost sales in Europe following two previous rounds of European duties on steel from Russia and other countries.

“We see that there are different players in Europe, some finding replacement (clients) in Europe after being kept out of the U.S., some are just growing” their business, Mr. Goroshkov said.

—*Emre Peker and Yeliz Candemir contributed to this article.*

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