

STEEL FLOODED

How global overcapacity is destroying European industries

Steel is a fundamental pillar of a healthy economy, essential for infrastructure, construction, and industrial development. Industrialisation typically starts with the establishment of a domestic steel industry.

However, some formerly developing countries struggle to scale down their steel production once they reach a mature industrial stage. Meanwhile, other countries continue to expand their steel industries, often guided by government strategies aimed at boosting exports. This dynamic has led to production capacities far exceeding global demand.

Technical definition

Steel excess capacity refers to the surplus of steelmaking capacity compared to actual steel demand.

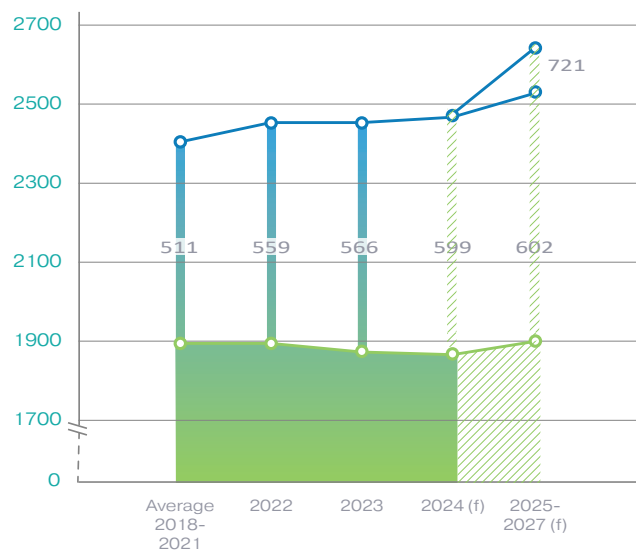
As of 2024, global steel overcapacity exceeded 602 million tonnes- more than 4 times the EU's total annual steel consumption – and is projected to rise to 721 million tonnes by 2027. Despite the growing mismatch, capacity reductions are frequently delayed or avoided due to government intervention, resulting in entrenched structural overcapacity and significant market distortions.

GLOBAL DEMAND VS GLOBAL CAPACITY

in million tonnes

LEGEND

- Global steel capacity
- Global steel demand
- Global steel overcapacity
- Global steel overcapacity forecast

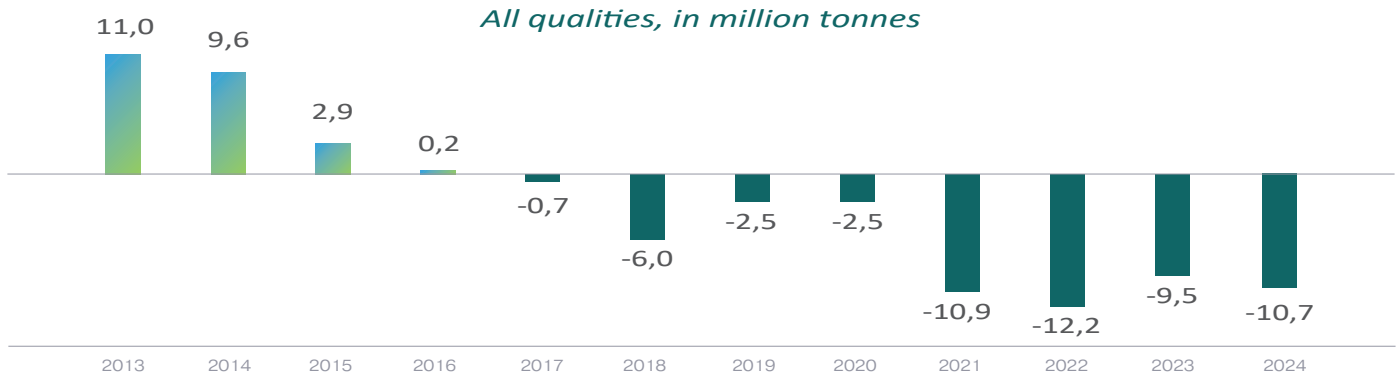


Source: EUROFER, data from OECD (November 2024) and World Steel demand forecast.

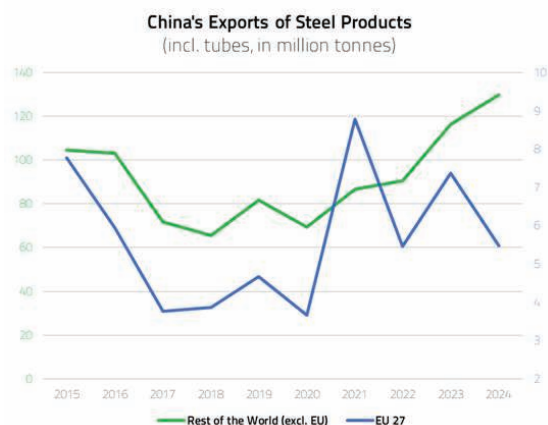
As a consequence, EU steel trade deficit has massively widened since 2021. A positive trade balance in finished steel products of 11 million tonne in 2013 has turned into a deficit of 10.7 million tonnes in 2024.

EU27 TRADE BALANCE - FINISHED STEEL PRODUCTS

All qualities, in million tonnes



BEYOND CHINA: GLOBAL OVERCAPACITY AND ITS SPILLOVER GOES GLOBAL



Rewind ten years, and the EU steel industry had one clear concern: China.

In 2014/2015, Chinese steel demand abruptly stagnated, triggering an export surge of more than 100 million tonnes, around 10% of which targeted the EU. As a new wave began in 2023, with China once again ramping up steel exports to the EU and the rest of the world – reaching 130 million tonnes in 2024-, we find a more complex global landscape. Meanwhile, multiple regions have expanded their own capacities. Squeezed by Chinese exports these markets are

also desperately trying to export more, with the EU market as the first target. This is unfolding against a backdrop of weak steel demand in Europe. In traditional trade patterns, a decrease of demand was followed by a decrease of import shares. In the new trade reality, imports continue to rise despite the decrease in demand. Protectionist measures in third countries – e.g. US, Canada, India, South Africa, Turkey, Vietnam- are also proliferating. As a result, the spill-over effects of global excess capacities have reached extreme levels, threatening any steel industry without robust import management. We are now facing a global overcapacity crisis – no longer confined to China, now spreading across Southeast Asia, the Middle East, and North Africa.

New dynamics of global excess capacity and the spillover effect on the EU

China's direct impact on the EU steel market:

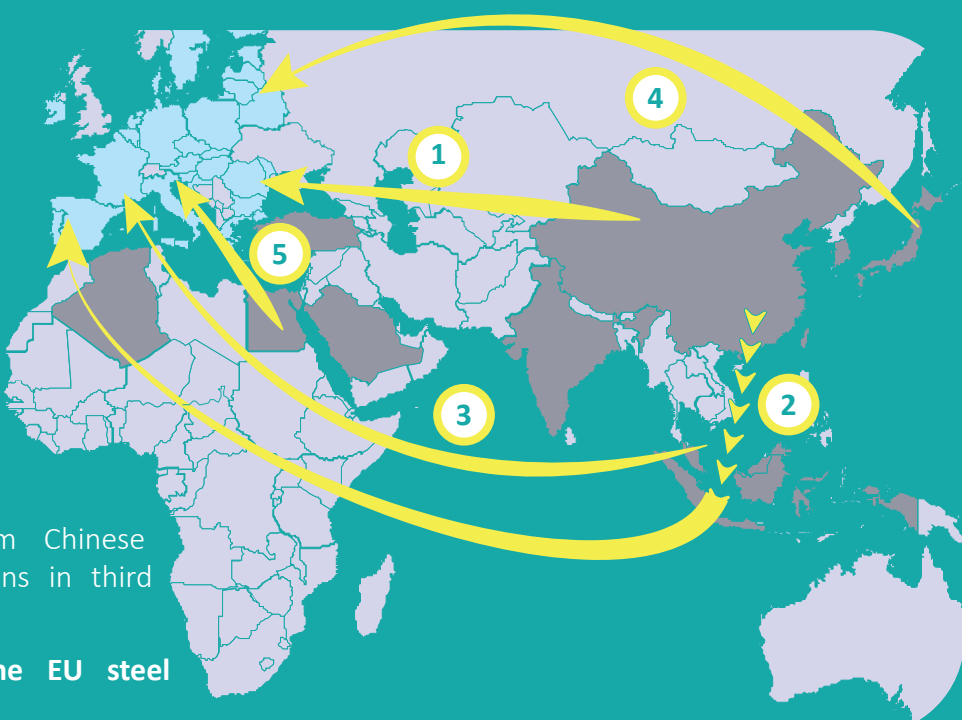
- 1 Chinese exports to the EU

China's indirect impact through third countries:

- 2 Exports to the EU incorporating foreign-subsidised substrates (ex. Chinese via Vietnam and Indonesian via Taiwan)
- 3 Exports to the EU from Chinese (excess) capacity expansions in third countries

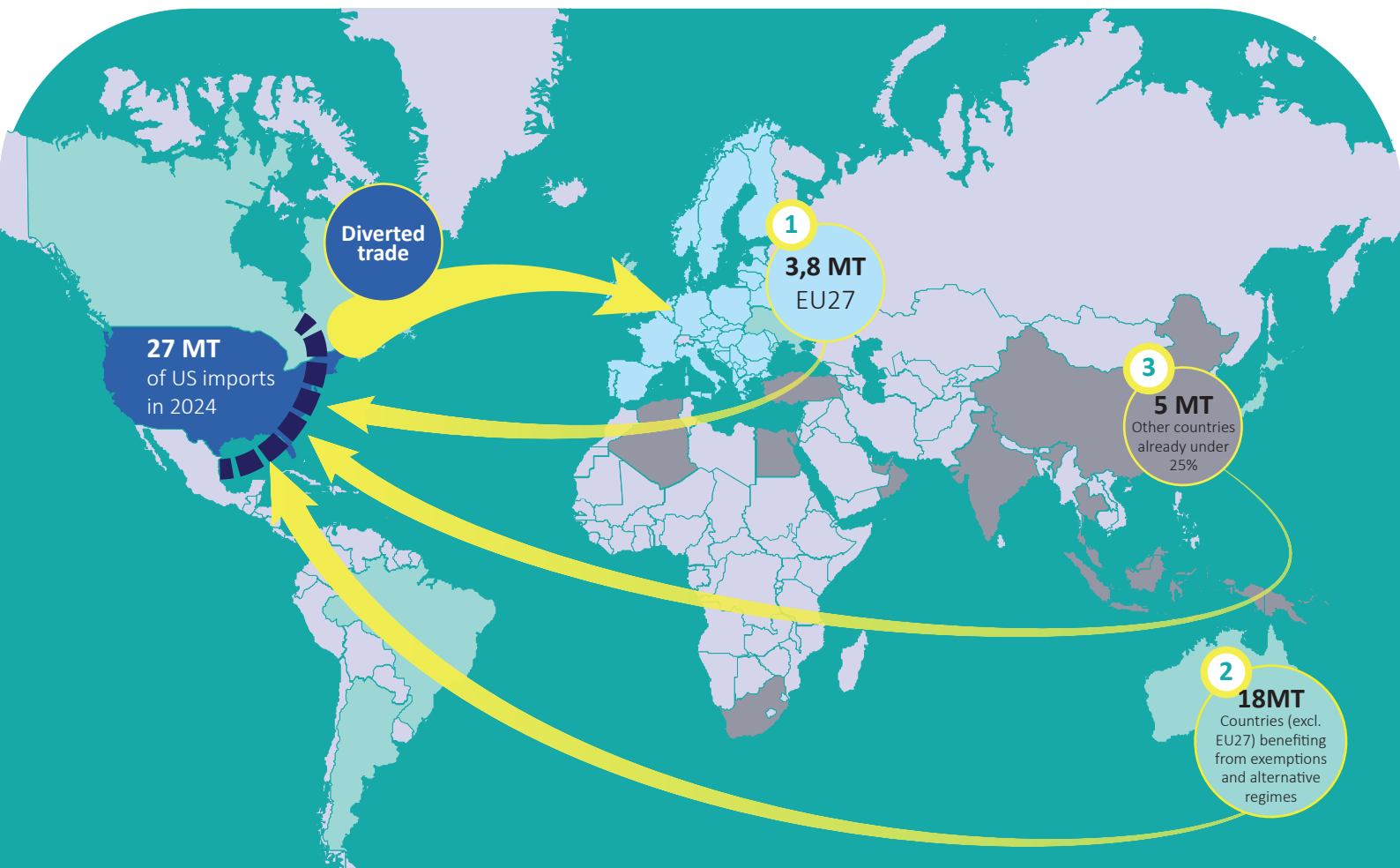
Other countries' impact on the EU steel market:

- 4 Exports to the EU from third countries that compensate for loss in traditional export markets.
- 5 Exports to the EU from (excess) capacity build-up in third countries without Chinese involvement



THE US-EU STEEL TRADE DISPUTE: ADDING FUEL TO THE FIRE

In 2018, the US introduced a 25% tariff on steel imports under Section 232 to counter global overcapacity, citing national security concerns. The tariffs diverted global steel supplies to Europe. For every 3 tonnes blocked by the US, 2 tonnes were deviated to the EU market. To protect European producers and workers, the EU introduced a Tariff Rate Quota (TRQ) system based on 2015-2017 import levels. Under the Biden administration the US granted exemptions and implemented its own TRQ system for the EU, securing about 3.8 million tonnes of EU exports annually (down from 4.6 tonnes before 2018). In February 2025, the US announces an end to TRQ and exemptions, reinstating full 25% tariffs on all EU steel exports as of 12 March 2025. In June 2025 the US increased the tariffs to 50%. This puts at risk an additional 3.8 million tonnes of EU steel exports, on top of the 1 million tonnes already lost since 2018. The 50% blanket tariffs would now apply also to the 18 million tonnes of steel exported to the US posing an even greater deflection risk for the EU market.



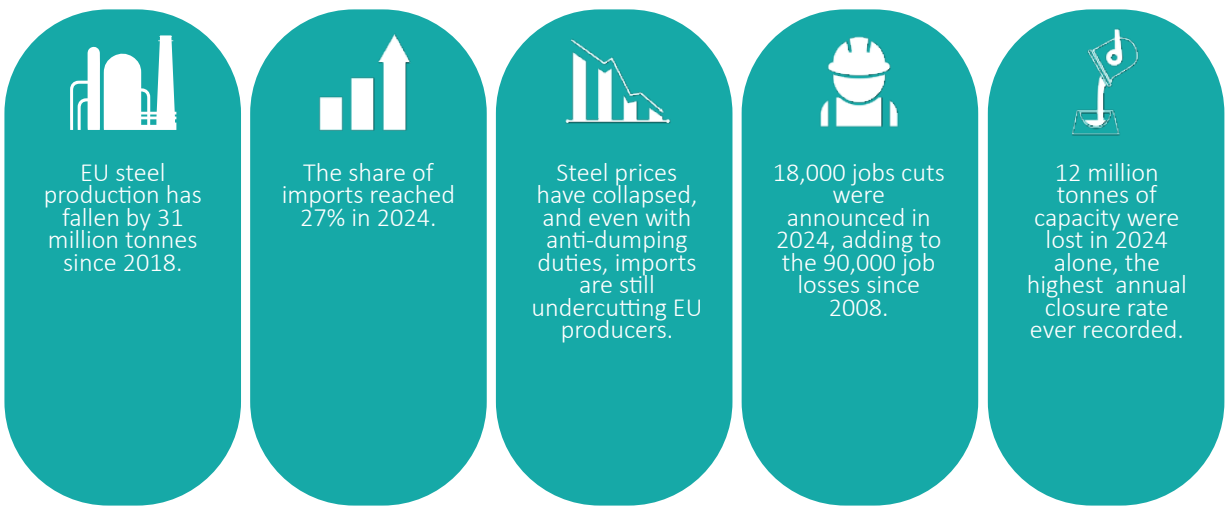
To make matters worse, renewed blanket U.S. steel tariffs (50%) are amplifying the trade pressure by causing even more deflection to the EU market.

THE EU STEEL INDUSTRY DECLINE IS NOT INEVITABLE

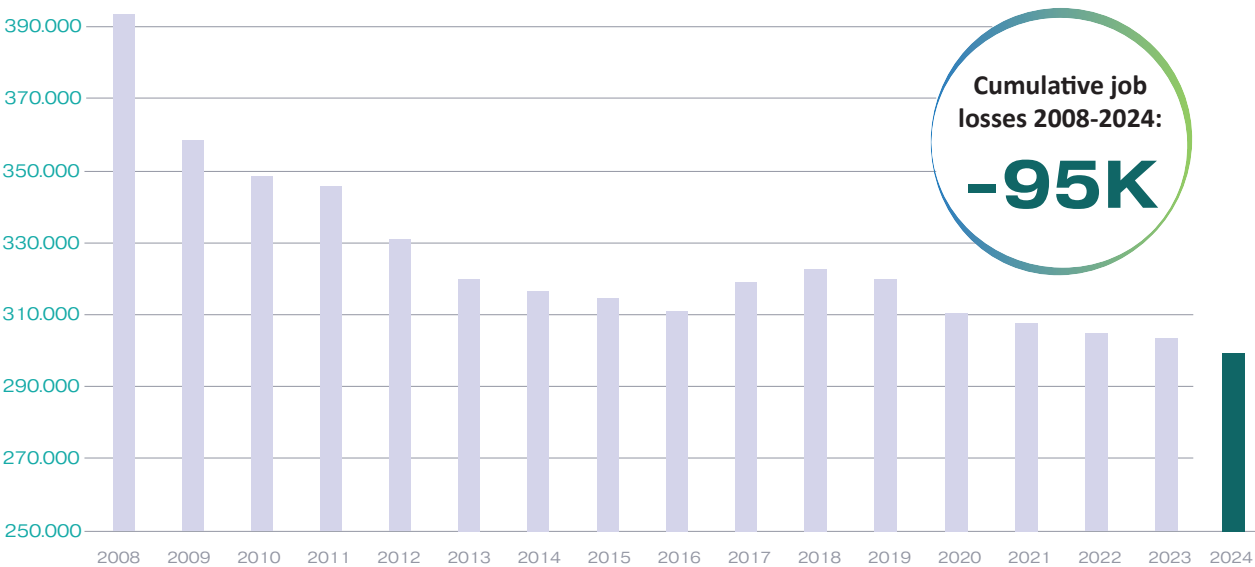
The U.S. trade protection (Section 232) is part of a broader strategy aimed at expanding capacity and revitalising its steel industry, coupled with measures on demand stimulation (Buy US steel) and subsidisation of low carbon technologies (Inflation Reduction Act).

According to the OECD, an additional 9 million tonnes of crude steel capacity are currently under construction in the US and are foreseen to be operational by 2027.

THE ECONOMIC FALLOUT OF GLOBAL EXCESS CAPACITY



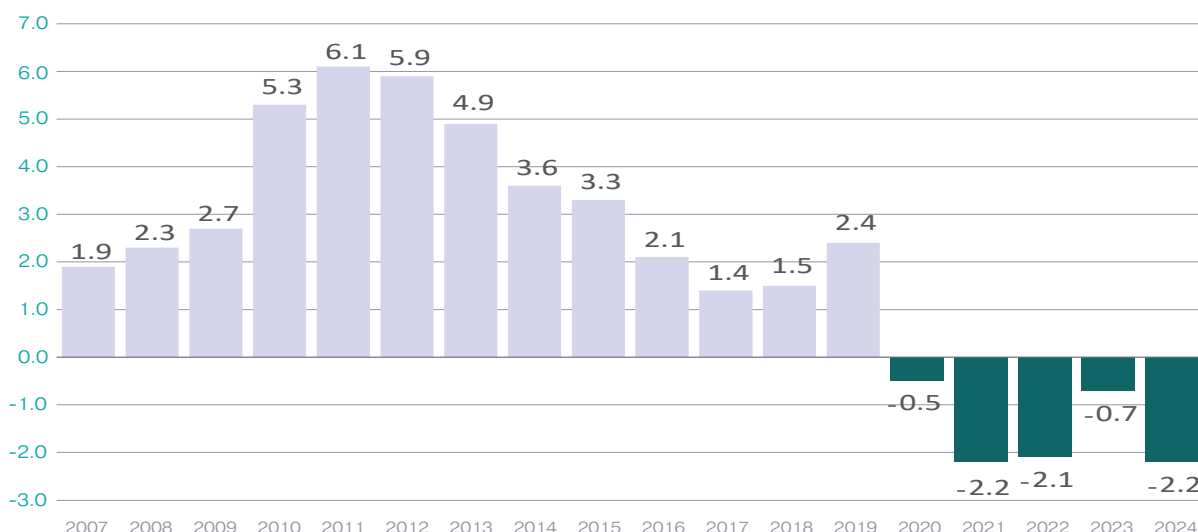
EMPLOYMENT IN THE EU STEEL INDUSTRY SECTOR



GLOBAL OVERCAPACITY WILL NOT REMAIN CONFINED TO STEEL PRODUCTION, IT IS NOW SPREADING ACROSS THE ENTIRE STEEL VALUE CHAIN, INCLUDING STEEL PROCESSORS AND MANUFACTURERS OF WIND TOWERS AND AUTOMOTIVE

Steel intensive products are experiencing the same shift in trade balance from net exports to net imports as the basic steel products. Since 2020, the EU has become a net importer of steel-intensive products, losing export market share in countries such as the UK and Canada. Increasing net imports from China, India, Turkey, Vietnam, and Ukraine.

EU27 TRADE BALANCE IRON AND STEEL ARTICLES (CH 73) *in million tonnes*



EU27 STEEL PRODUCTION DROPPED TO ITS LOWEST LEVEL EVER IN 2023



THE URGENT NEED FOR ACTION

The Steel and Metals Action Plan launched by the European Commission in March 2025 recognises the gravity of the situation. In 2023 EU steel production reached its lowest historical level, becoming a source of concerns for EU's economic resilience.

WHAT ARE THE EXISTING TRADE DEFENCE MEASURES—AND WHY AREN'T THEY ENOUGH?

Anti-dumping (AD) and anti-subsidy (AS) tools remain vital for addressing certain unfair trade practices, but they are not meant to deal with the broader fallout of global excess capacity:

- **Too narrow and too slow to tackle overcapacity:** AD and AS measures target specific products from specific countries. They do not address global overcapacity or widespread market distortions. Each case requires lengthy investigations, taking between 18 and 24 months before applying the duty after the injury occurs and thus making the response reactive rather than preventative.
- **The "Whack-a-Mole" Problem:** In 2015, the EU successfully imposed duties on dumped Chinese steel products. But the problem has since expanded. Excess steel now enters from multiple countries, often using cost-distorted inputs—such as cheap Chinese, Russian or Indonesian materials. When duties are imposed on one country, exporters simply reroute the same product through others.

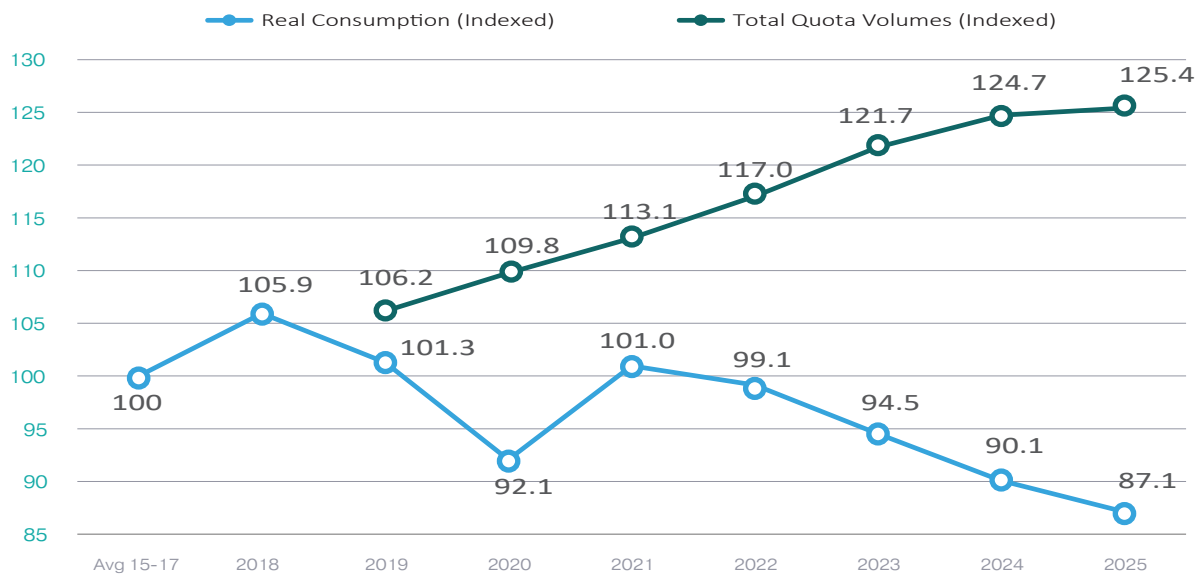
WHY THE CURRENT SAFEGUARD REGIME FALLS SHORT

Originally introduced as a temporary response to trade deflection from U.S. Section 232 measures, the EU steel safeguard is no longer fit for purpose. Despite multiple reviews, it remains poorly equipped to address global overcapacity—and even less capable of meeting the goals of the Steel and Metals Action Plan to protect and strengthen EU industrial capacity.

- **Temporary measure, persistent problem:** The safeguard is set to expire on June 2026. However, global excess steel capacity is persistent and worsening.
- **Loopholes undermine enforcement:** developing countries evade the system, deliberately reducing exports one year to secure unrestricted access the following one.
- **Mismatch with market reality:** while demand in the EU has declined, quotas have continued to expand. This misalignment between quota levels and steel demand has eroded the system's effectiveness and threatens the viability of EU steel production.

EU REAL CONSUMPTION VS QUOTA LEVEL

(Index: avg 2015-2017 = 100)



DESIGNING A HIGHLY EFFECTIVE NEW TRADE MEASURE TO ADDRESS GLOBAL EXCESS CAPACITY

The European Steel and Metals Action Plan commits to install a new trade measure to replace the current safeguard regime and to provide a highly effective level of protection against negative trade-related effects caused by global overcapacities. Crucially, it links trade action to the stated objective of “promoting and protecting European industrial capacity”. This provides the key for designing a “highly effective” comprehensive trade measure considering demand, import shares allowing a viable capacity utilization and profitability, which is also needed for a successful decarbonisation.

Key aspects to consider when designing the new measure:

Persistent and worsening global overcapacity

- ✓ The persistent and worsening global overcapacity requires a measure that is structured to provide a long-term response, allowing flexibility to adjust to evolving global capacity trends, EU decarbonisation goals, market conditions and sustainable capacity utilization.

Market Stability and Supply Openness

- ✓ A Tariff-rate quota (TRQ) structure could help strike a balance between market stability and supply openness as it:
- ✓ Avoids direct costs on steel-users- as compared to a blanket tariff (U.S. Section 232 steel import tariff of 50%)- and risk of shortages associated with quantitative restrictions in the form of absolute quotas.
- ✓ Preserves supply-demand dynamics, addressing concerns from steel-using industries about input availability and cost.

Spillover of overcapacity

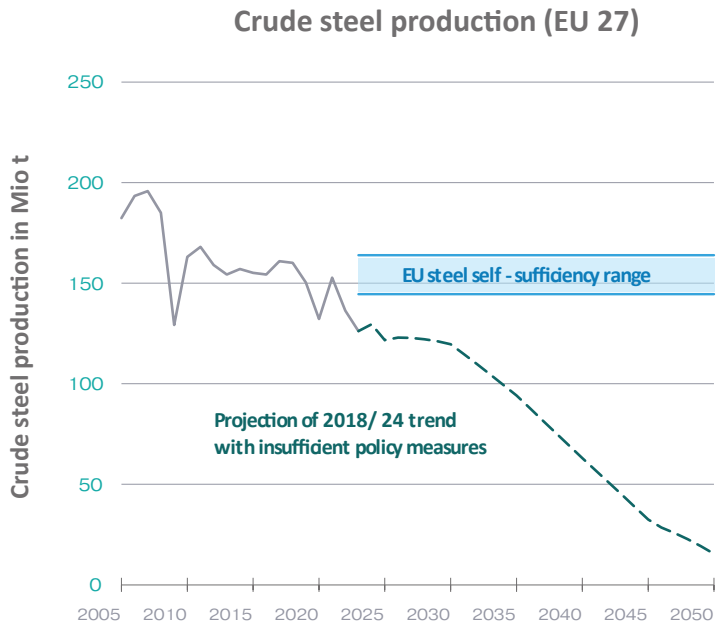
- ✓ If not applied to all basic steel products and derivatives, and to all countries- regardless of development status or market orientation – the measure would be circumvented and ineffective.

EU DE-INDUSTRIALISATION IS NO LONGER A THREAT—IT'S HAPPENING

Without strong political action to defend industrial interests, EU steel production is set to continue its sharp decline—and risks collapsing entirely.

From 160 million tonnes in 2018 to just 130 million tonnes in 2024, EU output could fall as low as **50 million tonnes by 2040**, covering less than **30% of the EU's needs**—and potentially dropping to **just 10 million tonnes by 2050**.

This trend is not inevitable. What's needed now is political leadership to implement a new comprehensive trade action, as well as an effective CBAM, together with measures to lower energy costs and retain steel scrap.



ABOUT THE EUROPEAN STEEL INDUSTRY

The European steel industry is a world leader in innovation and environmental sustainability. It has a turnover of around €215 billion and directly employs 298,000 highly-skilled people, producing on average 146 million tonnes of steel per year. More than 500 steel production sites across 22 EU Member States provide direct and indirect employment to millions more European citizens. Closely integrated with Europe's manufacturing and construction industries, steel is the backbone for development, growth and employment in Europe.

Steel is the most versatile industrial material in the world. The thousands of different grades and types of steel developed by the industry make the modern world possible. Steel is 100% recyclable and therefore is a fundamental part of the circular economy. As a basic engineering material, steel is also an essential factor in the development and deployment of innovative, CO₂-mitigating technologies, improving resource efficiency and fostering sustainable development in Europe.

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VAT: BE0675653894. The RLE or RPM is Brussels.