

Trade & Tariff Update

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Steel and Aluminum Intensity—The Trade Implications

I hope you all had a happy Thanksgiving. I took two weeks off for family gatherings and other frolics—a lot has happened in the interim.

The still-ongoing climate summit in Dubai has brought to mind the many controversies engulfing the world right now. The climate debate is only one of many, but it features debates about trade, nationalism, the global order, and other topics.

Any time there is a serious issue with international implications the debate rapidly advances (or retreats) to a discussion about what actions to take in response. The climate debate is an example. While there are climate skeptics, their views are not confronted. Instead, they are branded as “climate deniers” (to use one of the more polite epithets). But to me, the issue is in four parts, not one: (1) is the earth warming (probably yes); (2) is human activity the most important cause (more debatable, but a fair debate); (3) can humanity devise a range of solutions to mitigate the harm to the climate from global warming; and (4) does the world have the resolve and the institutions to accomplish that mitigation?

COP 28 (the Dubai conference) illustrates for me that the answer to issue 4 is clearly in the negative. If that is true, and if the problem is so urgent that, as the United Nations International Panel on Climate Change has said, current global activity could lead to an increase in global average temperature of 3 degrees Celsius (5.4 degrees Fahrenheit) by the end of the century. That degree of warming would change the world a lot, including, among other things, raising sea levels by more than a foot, submerging coastlines, and even obliterating some small island nations.

Maybe the UN is right about all this, but there is room for debate about the extent of the problem and the urgency of it, at least in my view. All the angst about a climate catastrophe has brought the world no closer to doing something about it. The world's leading nations are clearly more concerned about other matters.

Each country has its own agenda for addressing climate change. Those policy responses, here and elsewhere, reflect the interests of each government and other interests, including the private sector. Authoritarian governments are able to dictate policy responses because they do not answer to the people. But addressing climate change does not rise to the top of authoritarian governments' "to do" lists.

Where you stand depends on where you sit.

The important (but by no means all-important) issue of steel and aluminum production provides a useful example. In the US, the response fits the interests of its politicians and private interests. In response to the Biden administration's request the International Trade Commission is studying the "carbon intensity" of steel and aluminum production. A report on the steel and aluminum industries is due in January 2025, after the next presidential election. The ITC held a hearing on December 7 on the issue. The timeline hardly reflects a sense of great urgency and crisis.

Nor does the inability of the US and EU to agree, after two years of talking, on a common response to the global challenges carbon emissions from steel and aluminum production around the world.

The American steel industry, which consists of two major segments (blast furnace production (BOF) and “minimills” that produce steel in electric furnaces (EAF), is mostly united, but some gaps in policy have appeared. The US has embraced EAF production to a greater extent than any other major steel producing nation. As a result, the US claims to be at the forefront of producing “clean steel.” This is because EAF production emits less carbon than BOF production.

BOF production uses mostly “virgin” iron ore, which comes out of the ground as “iron oxide,” or iron bonded with oxygen. To make steel, the BOF process separates the iron from the oxygen by heating that compound together with carbon. The oxygen moves from the iron atoms to the carbon atoms and—VOILA!—the result is pure iron and carbon dioxide. CO₂ has been disposed of by spewing large amounts of CO₂ into the atmosphere.

EAF production is significantly less carbon-intensive than BOF. Recent estimates peg BOF production at about five times the carbon intensity of EAF production. This is the most important reason the US can claim the “clean steel” title. The rest of the world still mostly uses blast furnaces.

The steel industry has two principal trade associations that speak to the issue of reducing carbon emissions—the Steel Manufacturers Association (SMA) generally representing EAF producers and the American Iron and Steel Institute (AISI) representing BOF producers. Both are effective; and they have developed many policy proposals jointly and they frequently get what they want. Given the decline of the importance of steel in

the US economy, these associations have been punching well above their current economic weight.

US steel producers are committed to restricting international trade in steel that is not as clean as the US industry. They propose that the US hit such steel with tariffs based on a benchmark that, domestically, only EAF mills meet. They want the EU and others to restrict trade in the same way. The EU, however, has chosen a different approach. But the US tariff would reduce competition from “dirty” foreign steel no matter how it is made.

Clearly EAF steel production is cleaner. Trade policy should logically encourage imports of EAF steel.

In US government procurement, for example, the agency charged with overseeing construction of nonmilitary government buildings and infrastructure (GSA) would be expected to set carbon emission standards that encourage cleaner EAF production in government construction projects. That has not happened. GSA proposed “clean steel” regulations setting a more lenient emissions standard for BOF-produced steel than for EAF steel, based on the production capabilities of the two sectors (and also based, clearly, on political considerations). This obviously would provide a bigger piece of the government-funded construction pie to dirtier steel from BOF furnaces.

SMA, on behalf of EAF producers, advocates a single standard for carbon emissions, which would benefit EAF mills and set BOF mills back. If action on climate change were the most important consideration, that would be a logical policy position.

But the “double standard” published by GSA has more to do with domestic politics than cleaning the air. According to a recent survey by Recycling Today (an industry publication), there are only BOF steel mills in five states (Michigan, Indiana, Ohio, Illinois, and Pennsylvania).

By contrast, the US has 83 EAF mills in 28 states. One of the two BOF mills in Illinois (US Steel Granite City) was closed last month “indefinitely,” at the cost of 1000 jobs. The closure of Granite City reduces the number of active BOF plants to nine.

Politically speaking, closing a steel mill is a bitter pill. On average, BOF mills employ more people EAF mills and have been mainstays of the local economy. Politicians will do almost anything to keep BOF mills up and running.

Reducing carbon emissions is a worthy goal. A viable global solution is elusive at best; but government wants to appear capable of handling it because the many voters believe that it is an existential threat.

The EAF and BOF segments of the US industry are not in lockstep, and things may get more divisive, especially if there are international agreements on carbon emissions. The trade impacts of such global agreements could further open the US market to cleaner steel from other countries.

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