Steel Demand **Begins to Sprout**

The global pandemic has caused an unprecedented collapse in steel demand, but there are signs a recovery is underway. And with the proper national policies, it could flourish, says AISI interim president and chief executive Kevin Dempsey.

Kevin Dempsey is a leading advocate for the steel industry in Washington, D.C. For the past decade, he's guided policy initiatives as the American Iron and Steel Institute's (AISI) senior vice president for public policy and general counsel. And prior to that, he litigated numerous international trade cases on behalf of U.S. steel producers before the U.S. International Trade Commission. He had been watching AISI's search for a new president and chief executive unfold when the board, facing an unparalleled economic and public health crisis, decided to suspend the search and turn the reins over to a trusted hand. Dempsey has been leading the organization since June, and he recently spoke with *Iron & Steel Technology* about some of the challenges facing steel producers.

How would you characterize the moment the U.S. steel industry finds itself in?
The U.S. industry is suffering from a very sharp drop in steel demand, which necessitated a very substantial drop in steel production. When you look at our capacity utilization data, we were in the low-80% range at the end of February and beginning of March. That rate dropped by 30 percentage points by the beginning of May — we were down to just over 51%.

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Since then, we've seen some early signs of recovery. In (the first week of August), capacity utilization has crept back up to 59%. It's still terrible, but we're off the very bottom that we saw in early May. So there are some signs of recovery, but we still have a long way to go, and that's why we're very focused on measures that can be taken by the federal government to help stimulate steel demand, such as passage of infrastructure legislation.

What are the prospects for a recovery?
We're very mindful that these types of demand shocks, ones caused by external factors, create an opportunity for unfair traders to take advantage. And that's why we have to be ever vigilant and fight against any new surges that could cause new damage to the U.S. steel industry. I think we have a good plan in place that will help us avoid another surge in imports.

If we keep the Section 232 tariffs, continue to vigorously enforce our other trade laws and adopt measures to help the economy, I think there's a good chance the industry will return to a strong position as the U.S. economy rebounds.

One legislative action that would support a rebound is an infrastructure plan, something the steel industry has been anticipating for quite some time. Given the current state of the U.S. economy, are the odds at all improved for adoption of a plan?
I do think there's a chance. Nothing is guaranteed, and there is a lot of hard work that has to be done, but I'm hopeful. The House passed an infrastructure

bill just before the Fourth of July, and that's a significant step.

Separately, the Senate committee that's responsible for the basic infrastructure policy has reported out a major surface transportation bill and two water infrastructure bills. They're ready to be considered on the floor on the Senate. We don't yet know when they might be considered, but we're going to urge that they move that forward as quickly as they can.

Those bills are very bipartisan, so I have some hope they can get through the Senate. I'm still hopeful we can get that done this year.

One other infrastructure piece we're working on is federal assistance to the states for lost gas tax revenue that was the result of the COVID-19 shutdown. One estimate shows that state departments of transportation (DOTs) have a US$50 billion shortfall. We are urging members of Congress to include in the next COVID-19 relief package federal money for state DOTs to keep current infrastructure projects from grinding to a halt. That's something we hope could get done more quickly and it would be a good shot in the arm.

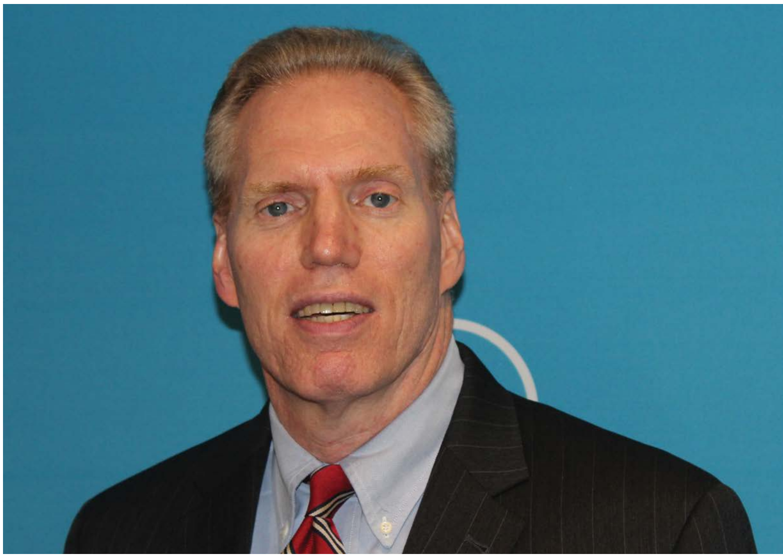
You recently participated in a virtual focus session organized by the Global Forum on Steel Excess Capacity. What did you hear from your peers abroad?

The discussion in the industry stakeholder session was very much focused on the impact of COVID-19 on steel industries around the world and how that impact is amplified by global excess capacity. There was a remarkable degree of consensus among industry leaders from around the world — from Asia, from Europe, from Latin America, from North America — that the COVID-19 pandemic has significantly impacted steel production.

That's been true everywhere with the exception of China. Whereas the rest of the world has seen 15–17% declines in steel production during the first five months of the year, China increased its steel production during that time.

And that's on top of the fact that China set a new, all-time record for steel production in 2019. China has continued to grow steel production despite all of the signals from markets around the world that demand is down and producers need to throttle back. It's a further indication that China very much remains a non-market economy in steel, and it's leading to further imbalances between demand and supply.

We also heard about how Chinese companies are increasingly exporting new capacity to other parts of Asia. That new investment is going to further exacerbate the global overcapacity problem. The overcapacity problem is clearer than ever, and there is a remarkable degree of consensus among steel producers from most regions of the world that we need to address it.



Speaking of production, China's steel inventories grew to record levels over the spring, prompting fears of a tidal wave of exported steel. Has that situation eased?

We have not yet seen a big surge from China. But I think many people remain concerned about the true inventory situation. It is opaque, and it's hard to know for sure what the situation is but there remains a great deal of concern, which I think emphasizes the need for continued Section 232 tariffs in the U.S.

Some in the U.S. have previously expressed doubts about the potential effectiveness of the Global Forum. Have those doubts been amplified by China's decision to withdraw from participation?

Obviously, the industry was disappointed that China chose to step back because it's at the center of the overcapacity problem — overcapacity is a problem for them, too, so they should want to participate. Nevertheless, the U.S. continues to support the work of the Global Forum, and certainly so does the industry. We're going to do everything we can to support the work of the Global Forum. At the very least, we can educate other governments on the overcapacity problem and build the consensus for the need for fundamental policy change.

In the U.S., one major policy change has been the adoption of the U.S.-Mexico-Canada Agreement (USMCA). Is the industry seeing any benefit yet?

With the USMCA having been entered into force, there is a lot more policy certainty now. We now know what the rules of the road are. We think they're an improvement over the old NAFTA for steel on rules of origin. They work in a way that will help our automotive customers, as well as our customers in other steel-using sectors, build strong supply chains throughout North America and will allow them to be competitive and will allow us to continue to grow the market for steel. ✦