US steel tariffs could weigh heavy on pipelines

Pipeline operators are still assessing the impact of the US' new steel tariffs, and raising concerns over cost, especially for projects that have not yet been sanctioned, writes Sam Wright

US

WHAT:
The US steel tariff remains unwelcome for the midstream sector.

WHY:
US pipeline operators rely on both cheap steel from overseas and specialist products that are not manufactured domestically.

WHAT NEXT:
The sector could turn to more US-made steel as it tries to keep up with rising oil and gas production.

US President Donald Trump's decision to impose a 25% tariff on steel imports became contentious as soon as it was announced on March 1. For the country's booming midstream sector, the prospect of higher costs is far from welcome as it scrambles to keep up with rising production.

Although it remains the fourth largest producer worldwide, the US saw its steel output contract to 86.5 million tonnes in 2016 from 112 million tonnes in 2000. Many steelmakers – in line with Trump – have accused China of dumping steel on other markets, thereby suffocating the US industry.

The US relies on imports for around a third of its steel consumption and its domestic manufacturing industry has been in decline over the past few decades. For Trump and, in particular his "America First" policy, this is not an acceptable situation.

Urgent need

While Trump's tariffs have already resulted in US Steel restarting operations at its Granite City Works mill – with more likely to follow – steel manufacturing's gain could be the energy industry's loss. The boom in shale oil and gas output is not currently being matched by new domestic refining and pipeline capacity, which is already leading to bottlenecks in distribution.

"The demand for pipeline is huge," an Austin-based Culhane Meadows senior partner, Alicia Goodrow, told *NewsBase Intelligence (NBI)*. "We are busy in Texas building LNG ports all around the South Texas coast. Those ports have to be fed, so everybody's putting pipes in everywhere."

Yet the tariffs risk driving up construction costs to unsustainable levels. Currently, the US energy industry is reliant on cheap, imported steel to meet the demand for infrastructure. "If you want the high-end product, it's manufactured locally. If you want the mass-produced product, it's manufactured in China," said Goodrow.

It is being predicted that pipeline construction costs could rise up to 5% as a result of the tariffs. Given the extent of the infrastructure needed, this would be a sizable burden.

Additionally, the tariffs may affect the ability to import specialist steel products that are not produced domestically. For example, Plains All American Pipeline's CEO, Greg Armstrong, told Reuters last month that his company relied on pipe, valves and other products that are not manufactured in the US: "I don't think it's appropriate to put a tariff on something you can't buy in the United States," he said.

According to the Center for Liquefied Natural Gas (CLNG), the tariffs could also endanger the construction of LNG export facilities, which

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also use imported specialist steel components. "The administration had taken meaningful steps to improve the current permit review process for natural gas infrastructure" said the CLNG's executive director, Charlie Riedl. "It would be unfortunate if their steel tariffs created new and different barriers to projects."

Hitting the right target

Similar tariffs were imposed in March 2002 by former US President George Bush, with disappointing results. His government's 30% steel tariff was scheduled to remain in place for five years, but was lifted in December 2003 after it was found to have adversely affected GDP and cost the US around 200,000 jobs.

However, Bush exempted notably different countries from the tariff compared to Trump. Canada, Mexico, Jordan, Israel and a number of developing countries were excluded in 2002, meaning that the tariff applied to some of the foremost exporters of steel to the US, such as Brazil, South Korea and Germany. Meanwhile, on March 22, Trump's government announced that Canada, Mexico, the EU, South Korea, Brazil and Argentina would all be exempt, at least temporarily. The result is that four of the top five countries from which US imports steel products are unaffected.

China is only the tenth largest exporter of steel to the US, representing 2.9% of imports. Its inclusion in the tariffs, alongside fifth largest exporter Russia, makes this appear more of a political choice by Trump than a manufacturing one. Beijing has responded aggressively too, rolling out new tariffs on meat, fruit, wine and other products from the US in retaliation.

It is worth noting that some of the largest pipeline projects in the US do not require Chinese or Russian steel, including the 470,000 bpd Dakota Access pipeline. If the proposed Keystone XL pipeline expansion goes ahead, it will also not require Chinese or Russian steel. TransCanada has said that 90% of the steel used on Keystone XL is being produced in North America – either in the US by foreign-owned companies or in Canada. The remaining 10% would come from India.

Feeding the monster

It is early days in terms of understanding what the full impact of the steel tariffs will be, and whether countries temporarily granted exemptions by Trump will be affected in the future. Pipelines under construction are not threatened by the tariffs, as most of their steel has already been procured. After 2020, though, further infrastructure projects could be left scrambling.

However, Goodrow is confident that the tariffs will result in more domestic steel being used by the US oil and gas industry. "There's this monster demand for pipes and it must be fed," she said. "It's slow, it's going to take time. The government are having to change laws and they don't know how to expropriate property. Eventually, you'll have a legal system that's sophisticated enough to facilitate these kinds of infrastructure projects."

This view was echoed by the International Energy Agency's (IEA) executive director, Fatih Birol, who acknowledged in an interview with CNBC that costs could well cause some issues. However, "production growth is so strong and the related financial benefits are so lucrative [US oil] will find a way to go to the export markets", he added. But the tariffs make the path to the export markets a potentially more difficult one.❖

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