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## US Election: Outcome Highlights For Mining And Metals

23 Sep 2020

United States

Mining

### Key View

- Fitch Solutions' Country Risk team believes Joe Biden is most likely to win the US presidency, with a 70% probability, in the upcoming November election. In this article, we at Fitch Solutions explore the potential implications of the election on the US' mining and metals sector, with a focus on a Biden presidency.
- Regarding environmental policies, a Biden presidency will likely accelerate the decline of coal production in the US as his policy platform moves the country towards other sources of power generation.
- Mining projects which have sparked elevated concerns over environmental degradation will likely face permitting delays at the federal level and thus lead to slower development.
- Regarding trade policies, domestic steel and aluminium producers will likely face higher international competition and come under pressure should Biden be elected as he will likely usher in less protectionist policies on trade allies as it relates to Section 232, opening the door for more imports.
- Regarding metals demand, we note an upside risk to demand in the US should a massive renewable infrastructure bill be passed under Biden and a Democratic-controlled Congress.
- Under a second Trump term, we expect to see policy continuity, with the domestic steel and aluminium sectors finding some respite, and continued deregulation unable to thwart the structural decline in thermal coal production.

**In this article, we at Fitch Solutions explore the potential implications of the upcoming November US election on the US' mining and metals sector.** Our Country Risk (CR) team's core scenario envisions Democratic nominee Joe Biden as most likely to win the [presidency with a 70% probability](#). There are a few key aspects of the mining and metals sector that could be impacted by the outcome of the election. Namely these are US trade policies regarding section 232 tariffs, steel and aluminium production, coal mining output and mining project development in the US. We expect a majority of these impacts to stem from the executive branch rather than through legislative action. While our CR team believes it is possible Biden will win and Democrats take a majority in the Senate (35% probability), even with united control of government there will be sizeable hurdles in securing sufficient support to pass significant legislation in this regard.

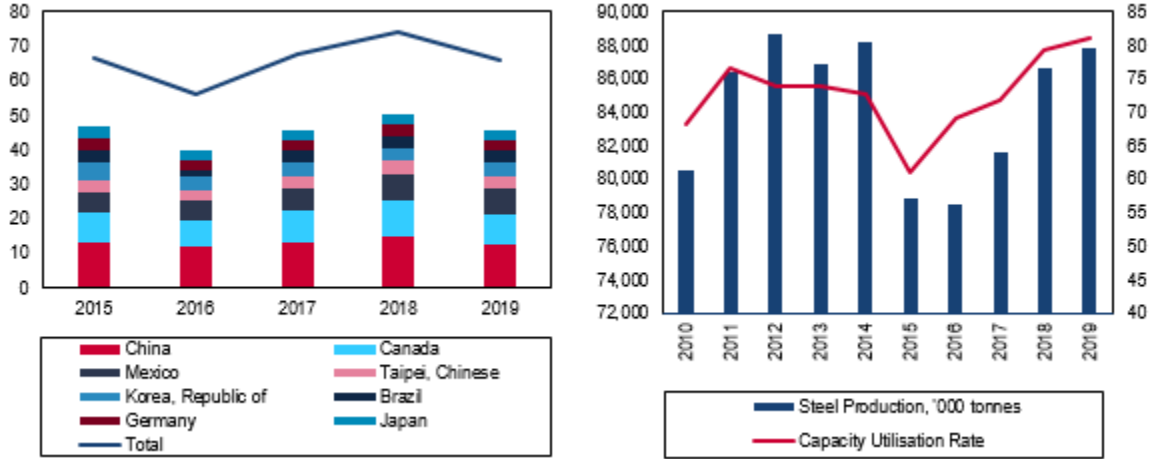
### Trade Policy On Aluminium And Steel

**Under a Biden presidency, we do not expect to see Section 232 tariffs used as a tool for trade policy, especially among allies.** Section 232 tariffs/quotas notably impact steel and aluminium trade within the US, as well as steel and aluminium production domestically and in key trade partners such as Canada, Brazil, Argentina and Mexico. President Donald Trump has utilised additional tariffs and quotas under Section 232 since 2018 to protect domestic industries which were seeing declining output prior to their installation. These measures were effective in spurring US demand for domestic production as imports were limited or made less competitive due to higher costs, leading to the output of

crude steel and aluminium in the US rising by 7.6% and 48.4%, respectively, from 2017 to 2019. **Given that Biden has expressed a desire to improve trade relations with allies, we do see scope for the reversal of Section 232 tariffs implemented by Trump on key allies.** Should Biden reverse these measures once in office, it would open up an opportunity for domestic heavy industries to increase imports of foreign steel and aluminium at the expense of domestic products, leading again to the idling of domestic steel and aluminium capacity. **That being said, we note that the rotation in steel purchases from domestic to foreign-produced sources by domestic consumers would likely be somewhat measured as Biden's platform also calls for all steel, iron and manufactured products used in transportation projects to be melted, mined and manufactured in the US.**

In addition, we would expect less volatility in the use of Section 232 trade measures should Biden become president. This stands in contrast to Trump, who has been willing to ramp up, draw down then ramp up measures over the past two years. For example, the administration placed a 10% tariff on aluminium imported from Canada in 2018, removed the tariff in 2019 in order to help pass a free trade agreement, then recently re-implemented tariffs on certain aluminium imports from Canada in August 2020.

**Tariffs Allowed For Greater Output, Policy Shift Would Likely Reverse That**  
 LHC: US - Iron & Steel Imports, USDbn; RHC: US - Steel Production (LHS) & Capacity Utilisation (RHS)



Note: Iron and Steel Imports are the combined value for product codes 72 and 73. Source: Trademap, Bloomberg, World Steel, Fitch Solutions

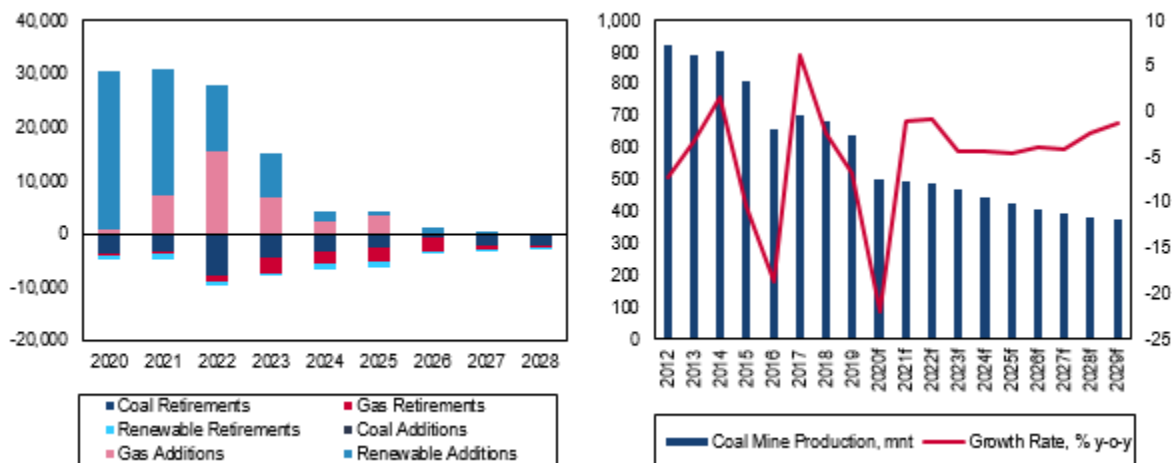
**Environmental Policy, Power Use And Coal Mining**

**Looking at the domestic coal mine industry, we would expect a Biden presidency to accelerate a downward trend in thermal coal output.** Structurally, the US' thermal coal industry has been on the decline over the past decade as the country transitions its power generation sources from coal-fired plants to natural gas and renewables. The retirement of coal-fired power plants has left fewer and fewer options to which domestic producers could sell thermal coal. Additionally, export opportunities remain bleak due to US coal being less competitive compared with closer producers in countries such as Australia for Asian buyers. Under Biden, our Power team expects an acceleration in renewables development and an effort to reverse the loosening of emission restrictions made by the Trump administration. Both would support the acceleration of coal-fired power plant retirements and thus undermine domestic coal demand and therefore production in the US. Over the past four years, Trump has pledged to revive the coal industry with efforts mainly focused on loosening restrictions on coal-fired power plants to improve profitability and allow for stable demand of thermal coal. However, these measures have fallen short of preventing coal-fired power plant retirements as market dynamics still kept other power generation options more attractive. Ultimately, the retirements have led to the coal sector continuing to see output decline and coal mining companies file for bankruptcy over Trump's first term.

Biden's platform outlines plans for greater certainty regarding promised benefits to coal miners as the country transitions away from coal. In particular, he highlights increasing coal companies' payments to the Black Lung benefits programme and securing the pensions of coal workers. Whether this can be done through an executive order remains unclear, but should it need congressional legislation to be made a requirement, we would expect it to only be possible under a Democratic-controlled Senate. Overall, it does present further downside risks to the contraction in coal output should the increase in compliance costs become too burdensome for financially strained miners to continue operating.

### Coal Industry To Continue On Structural Decline Regardless

LHC: US - Planned Power Capacity Changes, MW; RHC: US - Coal Mine Production (LHS) & Growth (RHS)



f = Fitch Solutions forecast. Source: Energy Information Administration, Fitch Solutions

### Environmental Policy And Mining Project Development

**Looking at mining projects outside of coal, we note downside risks to our production growth forecasts in the long run.** Given the Obama administration's previous stance, in which Biden served as vice president, and Biden's current policy platform which calls for protecting America's natural treasures, we see scope for project development to slow as the Biden administration would **more heavily scrutinise granting environmental permits on federal lands**. For example, under the Obama administration, Chilean-miner **Antofagasta** saw the renewal of two of its leases blocked in 2016 on the back of environmental concerns potentially disrupting the local economy. The project is near the Boundary Waters Canoe Area, a tourism site which gathers roughly 250,000 people each year. The block effectively created uncertainty around the development of the Twin Metals project in Minnesota, a multi-billion-dollar copper-nickel project, until the Trump administration reversed the decision in 2019, when the firm was able to receive a 10-year lease renewal. Long permitting times in the US have remained a drawback to project development previously, and further delays could undermine long-term growth should they make projects less attractive or, at worst, unable to progress.

### Potential Legislation And Impact On The Sector

**There are a few legislative policies which could impact the metals and mining sector should Biden win the presidency and Democrats take control of the Senate. However, we note that, even in this scenario, securing planned funding levels and stricter climate policies through legislation will be challenging and unlikely overall.** Should Democrats win a majority in the Senate, it would only be by a slim margin, giving more moderate members of the caucus significant influence over presented policies. Additionally, without the elimination of the filibuster, policies that lack a two-thirds majority could be held up by opposition senators. This essentially means that several Republican senators would also need to agree with any major clean energy funding, climate-related emissions or clean energy target. Given these hurdles, we expect that policy implementation will be primarily through the executive branch rather than through legislative action, at least through the next two years until congressional elections.

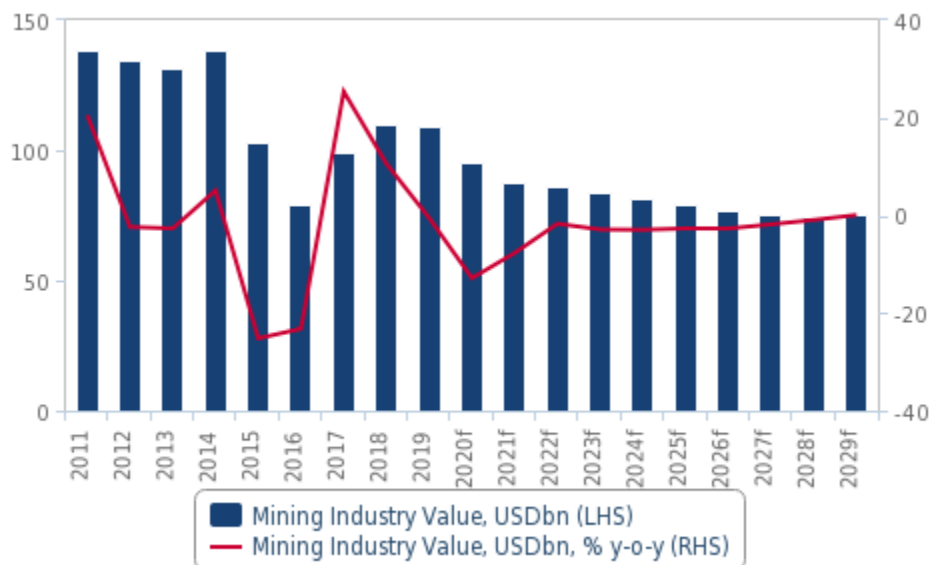
That said, we see **upside potential to our metals consumption forecasts should a renewables infrastructure bill be passed**. Biden's platform includes a USD2trn investment in this area over his first four years. While we see a plan of this scale as ambitious and unlikely to be passed, a less ambitious version may have a greater chance of coming to fruition. Should this happen, we would expect to see greater domestic demand for key infrastructure/power-related metals such as steel and copper.

We also note the **potential for higher taxes and stricter disclosure requirements based on a more stringent environmental policy**. Biden's platform also mentions some items of interest that could impact costs for miners and disclosure requirements for public companies.

- On the costs side, he mentioned modifying royalties to account for climate costs but was not specific on how much or if it would only pertain to oil & gas operations. This change would likely require legislation to adjust the federal mining law in the US, which we expect would only be possible if the administration is able to cross the hurdles stated earlier. Overall, the policy does not look to be at the top of his current agenda and thus unlikely to be passed in the short term.
- Beyond the mining sector specifically, Biden has also expressed a desire to raise the corporate tax rate from 21% to 28%, as well as raising the minimum tax on foreign profits from 10.5% to 21%.
- On the latter, his platform mentions increasing requirements for public firms to disclose climate risks and the greenhouse gas emissions in their operations and supply chains. While this would increase the burden on firms to gather and report on this area, large mining companies already release sustainability reports in some form, which may make this initiative moot for miners depending on how strict the disclosure requirements are.

### Mining Industry Contribution To Remain Downbeat As Coal Sector Shrinks

US - Mining Industry Value & Growth Rate



f = Fitch Solutions forecast. Source: BEA, Fitch Solutions

### Policy Continuity Under A Second Trump Term

**Should incumbent President Trump win re-election (30% probability), we expect the US' mining and metals policy to remain consistent with his previous four years in office.** This would entail the continued use of tariffs as a tool to protect the domestic steel and aluminium sectors, and efforts to protect the coal industry through the deregulation of coal-fired power plants in the power sector. Domestic steel and aluminium producers would continue to find some respite from market dynamics with government intervention limiting or decreasing the competitiveness of imports.

In terms of coal mine production, we do not expect that four more years under Trump would be able to revert the structural decline that we forecast for the sector. Under his 2017-2020 tenure, the president's administration did implement a number of deregulations on coal-fired power plants aimed at slowing their closures and making new investment more attractive. However, these deregulations have proven too weak to stymie this structural trend as alternative power generation sources have more attractive financial outlooks over the long run. Currently, there is no coal-fired power capacity planned to come online in the US, according to the Energy Information Administration, while 14GW of capacity is planned to come offline through to 2028.

#### US Select Mining & Metal Forecasts (2019-2029)

Indicator	2019e	2020f	2021f	2022f	2023f	2024f	2025f	2026f	2027f	2028f	2029f
Crude steel production, '000 tonnes	88,339.14	75,088.27	75,463.71	75,841.03	75,916.87	75,992.79	75,992.79	75,897.91	75,803.03	75,727.22	75,727.22
Crude steel production, tonnes, % y-o-y	2.0	-15.0	0.5	0.5	0.1	0.1	0.0	-0.1	-0.1	-0.1	0.0
Aluminium production, '000 tonnes	1,100.00	1,144.00	1,178.32	1,213.67	1,250.08	1,287.58	1,326.21	1,366.00	1,406.98	1,449.18	1,492.66
Aluminium production, tonnes, % y-o-y	23.5	4.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Coal Mine Production, mn tonnes	638.22	497.81	492.64	488.08	466.57	445.74	425.57	408.78	391.44	382.41	377.51
Coal Mine Production Volumes, % y-o-y	-6.80	-22.00	-1.04	-0.93	-4.41	-4.46	-4.53	-3.94	-4.24	-2.31	-1.28
Copper Mine Production, '000 tonnes	1,300.00	1,261.00	1,273.61	1,260.87	1,273.48	1,298.95	1,331.43	1,371.37	1,419.37	1,476.14	1,542.57
Copper Mine Production Volumes, % y-o-y	6.56	-3.00	1.00	-1.00	1.00	2.00	2.50	3.00	3.50	4.00	4.50

**e/f = Fitch Solutions estimate/forecast. Source: USGS, Fitch Solutions**

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