

Banning iron ore exports

An issue needs urgent attention



Since the beginning of this century, demand growth has accelerated, driven by consumption in China and India.

Iron ore exports from India have been a point of serious discussion not only within the industry but outside also. On one hand experts believe that exports of iron ore will create a lot of problems as the major raw material for steelmaking would not be abundantly available for domestic steel producers. On the other hand the govt. has been making all efforts to boost exports and it has been facilitating steel producers for exports. How dual policy will work simultaneously for iron ore is a million dollar question. The govt. may be hesitant in taking stern action because of a fear that it may affect the export

earing. Tata Steel has always objected the export of iron ore and the largest private sector steel producer has often warned the industry with the repercussion of it.

A comparison

Allowing exports of iron ore is 'absolutely against national interests', B. Muthuraman, Managing Director, Tata Steel, said. It was 'a dangerous trend' to allow exports of iron ore (even) in exchange for investment in steel capacity in India. The countries that allowed exports of iron ore were only those that did not have potential for domestic consumption of steel. Ukraine, which has the world's largest iron ore deposits of 70 billion tonnes, needs about 7 million tonnes of iron ore annually for its domestic steel industry — enough to last for a thousand years. Australia's iron ore deposits of 62 billion tonnes are enough to last for the next 500 years. In contrast, India has about 18 billion tonnes of iron ore resources. The country's consumption is rising and is expected to match China's 300 mt, from 30 mt now. When that happens, the country's reserves will be exhausted in 55 years.

No country in the world allowed foreign companies to own iron ore mines. Indeed, no country allowed FDI in the steel sector. International steel and mining companies were rushing into India only because they could not acquire mines anywhere else in the world. These companies were making it a pre-condition that they be allowed to export iron ore to their plants abroad. 'This is a dangerous trend,' Muthuraman quipped.

An awakening call

India awakened from its Kumbhakarna's slumber because of alarming increase in exports in the recent years. Till recently, India was exporting only 10MT of iron ore of all qualities but now the annual exports mounted to more than 55MT and are now set to reach 100MT, if the current trend continues. Besides, all these years exports were mostly of fines, which otherwise go waste (unless they are pelletised in sintering plants). Tata Steel had always been cautioning the Government against iron ore exports but the response had invariably been that the exports were of small quantities, so there was no cause for concern.

Justifying chrome ore exports from Tatas

Justifying Tata's chrome ore exports from their Sukinda mines in Orissa, Muthuraman said that there were two reasons. First, because of high power costs in India the cost of converting chrome ore into value-added products (stainless steel) was

much more than the freight cost of shipping the ore to some other country and producing there. It therefore made sense to do the value addition where it was cheaper. Second, the consumption of stainless steel in India is low and, therefore, the chrome ore deposits — although far smaller than iron ore — would last much longer. He drew a parallel with the aluminium sector, where, according to him, it did not make sense to produce the metal from alumina because of the power-intensity of the process. His reasoning was that export was a logical thing in the case of those minerals whose conversion costs were far higher in India than, say, in South Africa, and the domestic consumption of finished



products was not of significant quantities. However, till such time that the distinction could be made, Tata Steel was telling the Government to stop exports of minerals such as chrome ore.

Looking back

The history of the global steel

industry could be divided into three phases. In the period between 1900 and 1945 — a period marked by two world wars and the Great Depression — steel demand grew 3.4 per cent, but rose to 6.7 per cent in 1945-1975, thanks to post-war reconstruction efforts of the US and Europe. However, demand growth fell to 1.1 per cent in the next quarter century as the infrastructure building got over in those regions and consumption stabilized. Since the beginning of this century, demand growth has accelerated driven by consumption in China and India. 'The future of steel will be more like the 1945-1975 period than the 1975-2000 period. But there are two major

differences. One, the demand would be driven by countries far more populous than the US and Europe and two, the demand growth would be on a larger base of 1 billion tonnes. Thus the growth in the next 25 years would be more sustainable than in the 1945-1975 period. This year, up to July, the industry grew by 7 per cent. If

one looks globally, a number of changes have taken place. The steel industry, which was state-owned, was now increasingly getting privatised. This would result in efficiencies improving and costs coming down. The privatisation would be accompanied by more consolidation in the global steel industry. While suppliers to the steel industry as well its consumers were consolidated, the steel industry was fragmented, a situation that would now change. The consolidation would also result in prices being stable. Long-term steel prices would be higher than the last 25 years, those that will benefit are the companies that have captive raw material resources.



Left parties oppose iron ore, mineral exports

After firing the first salvo against Korean steel major Posco, the Left parties – an alliance partner of the union government – are now advocating to stop all iron ore exports from India. But the government seems to be in no mood for the same. In turn,

the Union Commerce Ministry has announced that 14 fresh licences would be issued for iron ore exports. Left wants value-addition of the minerals in India. For that to happen, there should be enough manufacturing plants within the country. At present, iron ore is the most sought after mineral in the global market. Its demand has jumped many times because of the massive steel requirement in China.

DGFT Issues new licenses

Over the next few days, the Directorate General of Foreign Trade (DGFT) would issue licences for export of high-grade iron ore with ferrous

content of 64 per cent and above. The quantity of exports that would be permitted would be “somewhere around the same vicinity as those allowed last year”. The government may, from an overall perspective, look at framing a long-term policy for iron ore exports as announced by the Commerce Minister some months ago. Under the existing policy, iron ore

with ferrous content of less than 64 per cent can be exported without any licence. However, exports of ore with ferrous content of 64 per cent and above are permitted only through licence or through MMTC.

2005-06 estimates

Even as the Union government is reviewing the policy to fix the quantum of iron ore exports, it is estimated that exports are likely to be a little over 60 million tonnes in 2005-06, which would mean a fall of 25-30 per cent from the level of exports in 2004-05, it is learnt. In 2004-05, iron ore exports had totalled 78 million tonnes. The main reason for the anticipated fall in exports is that the spot prices of the commodity have declined by around 30 per cent during the April-July period.

Conclusion

India has been exporting good quality of iron ore to a number of countries that in turn have been converting this raw material into steel and selling thereupon in domestic as well international markets. The restriction on iron ore exports has been a matter of discussion for quite some time now and respective ministries have already taken the matter seriously. But the decision is yet to be taken. If the government is favouring domestic steel producers by banning iron ore exports, the domestic steel industry would heave a sigh of relief.

