Export Levies to Hamper Domestic Trade

- Steelworld Research Team

Faced with the government's proposed exports levy on steel products, the domestic steel pipe manufacturers have started re-negotiating prices with their overseas clients to accommodate cost difference in the shipment price. In the process, the industry fears that a number of orders may be canceled. Effectively, overseas importers are unlikely to bear the brunt of 10 per cent price rise as the revised price offered by Indian producers may become costlier than exports price from Japan and other competing countries. Indian player's pre duty levy has significant cost advantage while supplying to Middle East countries in comparison to European and Japanese players. After levying such additional duty competitive advantage is expected to get whipped out. Thus making Indian exports more expensive than European and Japanese players.

Levies

While replying to budget debate in the parliament the Finance Minister has announced that steel and its products is contributing 21% in current rise in inflation. To curb steel prices government has taken a policy stance to increase domestic supply of steels by reducing import duties on steel and discouraging exports of steel by imposing export duties. In this, steel tubes and pipes are also included. According to the notice of amendments government has proposed 20% duty on exports of steel and waiver of import duty on pig iron, Mild steel (including HR coils) and other steel products.

The second schedule to the Customs tariff act 1975 has been amended wide clause 72(ii) of the Finance Bill 2008 read with third schedule of the Bill. As per the notice of amendments dated 28th April 2008, export duties of 20% has been imposed on various products of steel or iron steel as described in serial No 27 to 41 being inserted in the second schedule of the customs tariff act. As per the speech of the finance minister while replying to debate in the Lok Sabha 29th April and para 29 of the speech, the imposition of export duty will be effective from the date off the enactment of the bill i.e. date on which bill receives approval from the president.

However, the above amendments have been carried out wide Clause 72(ii) read with third schedule of the bill clause 72 (ii) has already been given immediate effect by virtue of the declaration under the Provisional Collection of Taxes Act, 1931 (Please refer the bill). Consequently, the amendments made as aforesaid proposing the levy of export duty on various products of iron ore/ steel made vide clause 72(ii) read with third schedule of the bill will also come into effect immediately i.e. 28 April. This is notwithstanding the announcement made finance minister in his speech as no such provision has been made vide the notice of amendment to give effect to the proposals from the date of enactment of the bill.

Current Provision

Currently, any imports are been entitled for levy of 5 per cent duty, but with proposed amendments such import duty is proposed to be reduced to "nil". This makes domestic market more price competitive as cost between domestic prices and imports are expected to narrow down. This scenario would make domestic players to reduce their prices thus hampering their realizations as well. India currently exports about one million tonnes of steel pipes and tubes out of two million tonnes produced. "We have started informing our overseas customers about the possible levy of export duty. If considered, well and good otherwise, shipment to overseas markets would become unviable with the current duty," said an official with Man Industries, the largest steel pipes exporters and an export oriented unit (EOU).

The official claimed that Man would not be affected at all as exports levy is not applicable for EOUs. Man exports about 95 per cent of its output to abroad while the bearing would be very little on the remaining 5 per cent sales in the domestic market, he added. Most importantly, orders under execution would be affected badly if duty is notified in the Gazette. Meanwhile, pipe manufacturers PSL Ltd has started informing overseas customers about the possible levy and its impact on the price quoted for exports. PSL sells 90 per cent of its produce into the domestic market.

Duty Revision Possible

Some of the steel producers engaged in the manufacturing of value added steel products have represented that export duty on Cold Rolled, galvanized and coated sheets as well as pipes and tubes, the input material of which is procured through import of hot rolled coils under the Advance Licensing Scheme, should be exempted from the purview of the proposed export duty. This matter has been taken up with Department of Revenue for consideration.

Talks are on that the government may reduce rate or scrap it fully. But, if levied with the current proposed rate, steel pipes meant for exports are expected to be diverted towards domestic market. Surprisingly, the supply deficit domestic pipes market would turn into surplus. Industry sources are apprehensive about a glut of supply in the domestic market coupled with the import duty cut by the government would affect the prices badly with the selling price in the local market may decline by 15 per cent. Confirming the initiated talks with overseas suppliers, Ashok Punj, MD of PSL Ltd said, "We are going slowly with the price quotation to the existing customers because of uncertainty over levies." Oil and gas suppliers, however, are cheering the proposal as they are likely to be benefit most.

Exports to the Middle East

US$ / Tonne	Prior to Levying Additional Duty			Post Duty Levy : Possible Scenario		
	Indian Manufacturer	European Manufacturer	Japanese Manufacturer	Indian Manufacturer	European Manufacturer	Japanese Manufacturer
Cost of Plate	1000	1100	900	1000	1100	900
Cost of Value Addition	100	150	175	100	150	175
Total Cost of Pipe	1100	1250	1075	1100	1250	1075
Freight	110	175	275	110	175	275
Total Cost	1210	1425	1350	1210	1425	1350
Additional Duty of 20%	==	==	==	242	==	==
Total Cost after Additional Duty	==	==	==	1452	==	==
Cost Advantage (%)	==	18	12	==	-2	-7

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Domestic Scenario : Prices Becomes Competitive

US$ / Tonne	Prior to Levying Additional Duty			Post Duty Levy : Possible Scenario		
	Indian Manufacturer	European Manufacturer	Japanese Manufacturer	Indian Manufacturer	European Manufacturer	Japanese Manufacturer
Cost of Plate	1000	1100	900	1000	1100	900
Cost of Value Addition	100	150	175	100	150	175
Total Cost of Pipe	1100	1250	1075	1100	1250	1075
Freight	20	200	150	20	200	150
Import Duties	0	75	70	==	==	==
Total Landed Cost	1120	1525	1295	1120	1450	1225
Cost Advantage (%)	==	36	16	==	29	9

Export Duty Unjustifiable

The government has recently declared export duty on various steel products to arrest the exorbitant hike in price and make it available more for the domestic market. The export duty levied on HR is 15 %, on CR 10% and galvanised products 5%. For the understanding of the common people we can broadly divide into two categories. The primary steel which is HR coils, billets, blooms, slabs etc. and the secondary steel like CR coils, galvanished sheets, pipes etc. (where the primary is used for further processing to make finished steel). India is a cheapest manufacturer of primary steel because of natural reasons, but still the prices here are more or equivalent to the international prices because the Indian manufacturers determine their prices not on basis of input cost but on the basis of FOB landing price of imported steel.

There is a acute shortage of 3 million tones of primary steel in the country. The gap between demand and supply is increasing with the fact that the production of HR rose only by 6% in last fiscal year where as the consumption rose by 20%. Inspite of the above fact, the manufacturers exported 1.5 million tones of HR and 4,00,000 tones of billets intensifying the shortage further and jacking-up the prices in the local market.

After much deliberation from many trade associations, Steel Ministry and MRTP Commission now the government has taken some steps to curb or discourage export of steels and make it available more for domestic market through fiscal measures. Import duty of 5% on import of steel is now waived off. Export duty on various steel products has been levied as mentioned above.

Government Hopeful

Following a meeting with the industry representatives on May 7, the government assured them to roll back export duty if the industry cut steel prices. Although, the industry cut steel prices by upto Rs 4000 per tonne, the government is yet to react to the industry move.

Meanwhile, companies like Welspun Gujarat who largely depend upon exports against import license have little to worry about as the proposed duty is not applicable on export oriented units (EOUs). The company, however, cheers the government assurance.

Conclusion

The export duty on HR is understandable as there is huge shortage in the domestic market. It is in the line of many other countries like China. But the export duty on CR and galvanised sheets is not tenable as there is overcapacity in India. There are over 70 cold rolling mills and 1000 mills for the long products in finished steel segment in India. There is more than 6 million tones of installed capacity for galvanised and colour coated sheets in the country against the actual consumption of only 2.5 million in the domestic market. The export duties on finished steel will make these products uncompetitive in global market and may force the large number of small and medium manufacturing units in the verge of closure. This may also result in huge retrenchment of workers and halt in expansion plans. Besides, the government will also loose indirect revenues and valuable foreign currency.