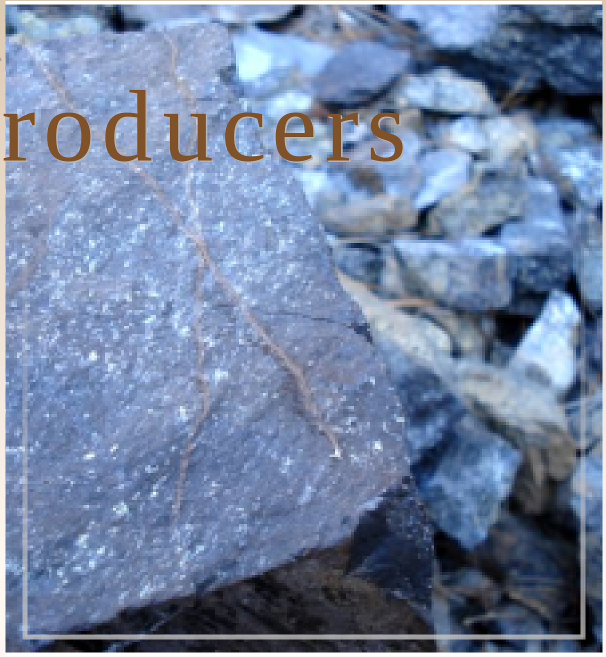
Ferro Alloys and Stainless Steel Producers on Crossroads

- Steelworld Research Team



The tussle between the importers of raw material and the finished products continues to be a tough exercise for the government. If the government imposes the 20 per cent import duty on raw materials, as demanded by the domestic ferro alloys producers, then the stainless steel producers would be unhappy. But, in case the government restrains then the ferro alloys producers would not like it.

Whatever the case might be, the dramatic fall in prices have forced ferro alloys producers to change their stand against imports. Today, import prices construing cost, insurance and freight (cif) of ferro chrome – the valued raw material for steelmaking – are calculated at higher than the prices of domestic origin products. Hence, the nodal agency representing ferro alloys producers – the Indian Ferro Alloys Producers Association (IFAPA) – has changed its stand and proposes delay in levying duty as demanded.

Prices of essentially imported raw materials such as nickel and ferrous melting scrap have come down to USD 11,000 a ton and USD 300 per ton from their peek, earlier in the year. Nickel was priced at USD 25,735 a ton in April and ferrous melting scrap at about USD 650 per ton in June, 2008. The time cycle for the delivery of imported raw materials is 8-10 weeks, input prices of late have further gone down in that time span, propelling buyers to cancel their orders based on higher priced input.

IFAPA's Export Demand

Reeling under abundantly oversupply and abrupt fall in demand, India's chrome users have demanded to levy Rs 6000 per ton export duty with immediate effect in order to ease the domestic supplies further. Recently, the steel ministry had given a patient hearing to the representatives of industry association Indian Ferro Alloys Producers Association (IFAPA). The ministry assured the industry executives that it would address industry concerns in positive manner. But, it is highly unlikely that the government would levy any duty as prices of chrome ore has halved within a year.

“As the chrome ore prices have fallen less than a dollar today from over two dollar around same time last year, it is highly unlikely that the government would levy any duty. The issue of high prices is also not prevailing as of now. Global economic recession has hampered the entire industry sentiment badly and therefore, the domestic availability has automatically eased,” said T S Sundareshan, Secretary General of IFAPA.

India produces about 4 million tons of chrome ore of which about one million tons exported in the form of ore and concentrates to China, Iran, Oman and other Middle East countries while domestic stainless steel makers consume about one million tons, thereby, the industry running into huge supply surpluses.

Indian stainless steel, the major user of chrome ore, industry has been currently cutting down production because of slackening demand from industrial as well utensil sector. Apparently, the repercussion has also been felt on chrome ore and ferro chrome sector which has been cutting down the output regularly. Hence, there is no indication that the sentiment would recover before the second quarter of the next year, Sundareshan feels.

Stainless Steel Importers Oppose Duty

India's stainless steel importers, including utensil manufacturers, have urged Finance Ministry P Chidambaram not to impose import duty on the alloy, saying it would lead to a monopoly of low-quality domestic products in the market. The importers' demand comes soon after Steel Minister Ram Vilas Paswan seeking urgent consideration of the Finance Ministry on levying 10 per cent import duty on all categories of steel products to ward off the threat of cheaper imports. Import duty on stainless steel, which had remained untouched till date, will benefit a single monopoly industry. The Association, which is an umbrella organisation of stainless steel importers and utensil producers, has shot off a letter to Chidambaram, requesting him not to heed the Steel Ministry's proposal for imposing import tariff on all categories of steel. Giving the rationale behind it, experts said that the domestic stainless steel industry has a poor range of products with a monopoly of "one producer", and so the small-scale firms need to import value-added alloy to compete globally. Differentiating between high-end and low-end products, they said, local players are catering to low-end needs whereas high-end products essentially require imported goods for which protection is required. Moreover, the import of stainless steel flat products takes place in those grades and sizes, which the domestic industry does not manufacture.

The government waived import duties on steel merely to bring down inflation and a reversal to a high duty will be counter-productive. But, any increase in import duty may add to inflation. Contrary to the importers' point of view, the Indian Stainless Steel Development Association (ISSDA), the body representing stainless steel producers, has approached the government for levying up to 20 per cent import duty on the alloy to check shipments from China, Korea and Taiwan amid slackening demand due to global financial recession.

The cuts in the duty would cost the exchequer less than Rs 350 crore of revenue loss, while it would help industry earn more revenue and give it the necessary boost to invest Rs 15,000 crore to double stainless steel production by 2010. The ISSDA has also said that if the duty cuts are implemented then it would bring down stainless steel prices by Rs 5,000 to Rs 7,000 per ton. Currently the 304 grade stainless steel made for industrial use is priced at around Rs 1,70,000 per ton while kitchen grade steel is around Rs 1,00,000 per ton. According to estimates, imports have grown by 50 per cent from 10,000 tons in 2006 to 15,000 tons in 2007.

Banking on Sectoral Growth

The Indian stainless steel industry is looking ahead to a 10 per cent growth this year, with the Railways keen on the increased use of the material for its rolling stock. The Railways is expected to need over 70,000 tons of stainless steel this fiscal for building coaches and wagons, where per ton cost of high grade material could be in the range of Rs 95,000. The total industry production should cross 1.8 million tons this year and 5-8 per cent of this should go towards serving the demand of the railways, said N C Mathur, Director, Jindal Stainless, and President of Indian Stainless Steel Development Association. The industry production last year was close to 1.6 million tons. The Railways plans to make about 10,000-15,000 wagons, besides 5,000 wagons that are slotted for refurbishment – where the flooring would remain and the shell replaced with stainless steel. Each wagon would need about seven tons of stainless steel. In addition, 9,000 new wagons of various sizes are expected to roll out this year. The Integral Coach Factory, Chennai, is already making 1,500 coaches for the Mumbai Rail Vikas Corporation.

Projects Development from Stainless Steel

The Railways are also setting up factories to manufacture stainless steel coaches at Rai Bareilly and Palghat. The Rai Bareilly facility is expected to begin production in 2010 and make 1,200 units in the first year. The Palghat unit, where production is expected to start in 2012, will make 600 coaches in the first year. Existing rail coach making units are Kapurthala, Punjab, and Chennai.

This apart, stainless steel is increasing being used for roofing of all metro stations. Most cities have opted to go in for stainless steel bus shelters as well. For this, bus transport corporations have chosen the BOT (build-operate-and-transfer) route to establish

the passenger amenity. Mumbai has 1,500 such shelters with Delhi and Chennai following the trend with about 300 each.

Architects too have found increasing use for stainless steel in decorative and other facilities, while the hospitality segment prefer it for reasons of hygiene and low maintenance. Stainless steel prices were down compared to 2007, where the top-end of the current price band of Rs 80,000 to Rs 1.80 lakh a ton was at Rs 2.6 lakh. Global nickel prices plummeted from $48,000 a ton in April 2007 to $18,500 a ton in the second quarter of the current fiscal.

The industry is also pitching for stainless steel made LPG cylinders after obtaining the Bureau of Indian Standards certification. However, kitchen utensils continue to be the prime driver of the industry demand, with 75 per cent of the total production servicing the demand.

Decline in Imports

Due to the economic slowdown and resultant slump in demand worldwide, India's exports of stainless steel have fallen almost 20 per cent of the produce in past few months whereas its imports have surged by over 300 per cent. There is huge upsurge in stainless steel flat products' import. The total import has increased by about 300 per cent to 1,85,000 tons by the end of last fiscal. The imports have again increased in recent months. Besides, depreciating rupee, which has gone down as much as by 20 per cent since the begining of this financial year, has also made the raw material imports expensive. European and Asian markets are protected against volatility in the input prices as stainless steel producers have a basic price and separately apply alloy surcharge (in proportion with the frequent changes in the raw material costs). The trend in Asia is based on spot prices. Many companies have put on hold their major investment plans that may result in lower capacity addition in the country, thereby increasing India's dependence on imports. Among others, country's largest stainless steel maker JSL Ltd has deferred its Rs 2,500-crore expansion plans. According to industry experts, “The stainless steel industry is suffering. This will become apparent by the end of next quarter. We will take an overall stock of the situation by December-end and may take some other steps to cut cost”. At present, the focus of the industry will be at liquidating about 60,000 tons of stock piled up by focusing in new areas within the country.

EU Refrains from Duty Levy

The European Union refrained from imposing preliminary tariffs on stainless steel from China, Taiwan and South Korea, delaying a possible trade clash for as long as six more months. The European Commission waived the right to introduce provisional EU duties on cold-rolled flat products, used in everything from cars and tanks to boilers and kitchen equipment, while studying whether “definitive” five-year levies should be applied no later than May 1. The trade protection would shield EU producers such as ThyssenKrupp AG from overseas competition. The commission, the EU's regulatory arm, faced a deadline today to announce any provisional duties for six months on imports from China worth about 2.1 billion euros ($2.7 billion) last year. This is part of a probe opened in February into whether Chinese exporters including Baoshan Iron & Steel Co. sell stainless steel in the 27-nation EU below cost, a practice known as dumping. In mid-September, the commission took a similar stance in a dumping probe involving EU imports from China of galvanized steel used in construction.

Steel threatens to become the next friction point in EU- China relations. EU leaders allege that China's currency is undervalued and complain that the trade deficit with the Asian country rose 22 percent last year to almost 160 billion euros. The Eurofer steel industry group representing European producers is demanding trade protection. In addition to Germany's ThyssenKrupp, EU manufacturers of stainless steel cold-rolled flat products include Luxembourg-based ArcelorMittal, Finland's Outokumpu Oyj and Spain's Acerinox SA. Chinese, Taiwanese and Korean competitors had a combined 9.8 percent of the EU market for the product last year. That compares to their joint market share of 6.6 percent in 2006 and 1.8 percent in 2005. The EU probe into Chinese stainless steel as well as the one into galvanized steel is among four EU dumping investigations initiated over the past 11 months into steel from China. In mid-February, the commission opened a probe covering Chinese steel wires. And on May 8, it began an investigation into wire rod from China, Turkey and Moldova. Three of the cases stem from dumping complaints by Eurofer. The steel-wire case results from a complaint by a European producers' group called Eurostress Information Service. Under EU practices, the commission has nine months from the start of a dumping investigation to decide on provisional measures for half a year and EU governments - acting on a commission proposal - have 15 months to choose whether to apply definitive levies for five years.