

Ferro Alloy Conservation For Long Term Use

- Steelworld Research Team

Ferro alloys are used meagerly in steel production which, according to experts, consists of less than one per cent of the raw materials used for steelmaking. Despite being very low constituent, the sector forms an inseparable part of the entire steel industry. In metallurgical term, steel can not be produced without using ferro alloys. With a total installed capacity of 3.25 million tonnes of bulk and noble ferro alloys, the Indian ferro alloy industry is part of the core sector engaged in supplying crucial intermediates to steel industry. The sector entails a capital investment of over Rs 5,000 crore and operating currently less than 50 per cent of its total capacity. This industry exports ferro alloys worth Rs 1,000 crore and employs more than 2 lakh people both directly and indirectly.

The industry has been urging the government in all its Budget memoranda and various representations, to give a level playing field by supplying all inputs at international comparable tariff, especially power which is a major input for producing ferro alloys, in line with Reforms Policy introduced in 1991-92. The government has still not made available power at international comparable tariff, and on the other hand the customs duty has been reduced every year, and the duty has been reduced to 5 per cent in the Budget 2007-08 from 7.5 per cent in the last Budget. While comparing power tariff in the countries like South Africa, India falls way behind with electricity is available to industrial units at Rs 4-5 per unit as compared to Re 1 per unit in the African hub. India being the power deficit country, electricity availability at Re 1 per unit to industries looks impossible.

But, the government has offered lower customs duty to players to this sector. This reduction in import duty feared in opening the flood-gates of imports of ferro alloys resulting into manifold increase in imports. Ferro Alloy imports were Rs 263 crore when the duty was reduced from 25 per cent to 20 per cent in 2003-04, and within three years in 2006-07, the imports are expected to have crossed over Rs 700 crore by March 2007, when the customs duty was 7.5 per cent. Thus, imports have increased by over 166 per cent in the last three years.

Ferro Alloys Industry in a Nutshell

	Capacity (million tons)	Production	Capacity utilization (%)
Manganese alloys	1.96	1.080	55.10
Ferro silicon	0.20	0.092	46.00
Chrome alloys	1.06	0.801	75.56
Noble alloys	0.03	0.028	93.33
Total	3.25	2.001	61.57

Affect of Global Economic Slowdown

Meanwhile, the industry has suffered badly with the ongoing global economic meltdown. Ferro alloys industry is purely dependent upon the performance of steel industry which is reeling under oversupply. The global steel majors have cut production because of low infrastructure demand. The ongoing construction projects have slowed down while the new ones are put on hold. Therefore, global steel majors announced an average 30-35 per cent production fall with unviable units have already been closed down. Since, the economic slowdown is likely to continue for the period longer than expected, the fate of ferro alloy producers is

unlikely to change anytime soon.

The industry is currently facing huge 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.

"Higher duty is levied in case of price escalation in the global market. Since chrome ore price has 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.

Benefits to One

There is now only one major producer of chrome ore in the country namely Orissa Mining Corporation Ltd. (OMC), the state-owned company and the entire ferro chrome industry has to depend on their requirement of chrome ore only from OMC. According to industry sources, the production from OMC may be unable to feed the domestic requirement given the fact that the domestic stainless steel producers' capacity expansion is on card. Thus, OMC has been accused to dictate monopolistic terms and prices throughout.

The domestic stainless steel importers, including utensil manufacturers, have snubbed the ferro alloy industry's demand for levying import duty on the alloy with the view that the proposal would benefit single company. Without naming OMC an official with Process Plant & Machinery Association of India said, "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 written a letter to steel secretary the ministry not to persuade the finance ministry for the imposition of up to 20 per cent import duty on the alloy as demanded by domestic producers.

Meanwhile, Indian Stainless Steel Development Association, the body representing the country's stainless steel producers, had said that they had approached the steel and the finance ministries for levying up to 20 per cent import duty on the alloy to check cheaper shipments from China, Korea and Taiwan amid slackening demand and volatility in raw material prices.

Constant Reserves

As per Indian Bureau of Mines (IBM), total resources of chrome ore as on April 1, 2005 are estimated at 213 million tonnes. Against which, the proved and probable reserves are estimated only at 66 million tonnes and the balance 147 million tonnes are yet to be identified. Against identified reserves, the proved category is 31 million tonnes and probable category is 35 million tonnes. Under the proved category, chromite ore for ferro chrome



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industry is hardly 17 million tonnes. Of the balance 13 million tonnes, 9 million tonnes are beneficiated chrome ore and 4.5 million tonnes are unclassified. Chrome ore is used to make high carbon ferro chrome, which is essential and a non-substitutable raw material input for making of stainless steel. Chromite ore in India is less than 1 per cent of the world known resources, as against 71 per cent in South Africa, 19 per cent in Zimbabwe and 7 per cent in Kazakhstan.

If exports continue, the reserves of proved category for ferro chrome industry may deplete in just 10 years. In case exports are stopped, the present known reserves can meet the requirement of domestic industry for about 30 years. Availability of chrome ore is uncertain, and lumpy chromite ore is estimated to be 10 per cent of the reserves.

India produces about 4 million tonnes of chrome ore of which about one million tonnes 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 tonnes, 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 added.

Effect on Exports

Demand of chrome ore for ferro chrome industry is expected to be around 2.7 million tonnes by 2011-12 from the current one million tonne. But, the demand may decline if stainless steel producers cut their production because of poor offtake from end users.

Chrome Ore Balance Sheet

Year	Import		Export	
	Tonnes	Value (Rs 'crore)	Tonnes	Value (Rs crore)
2004-05	2521	34.13	11,16,644	798.57
2005-06	5100	62.26	692,673	631.22
2006-07	4800	68.00	12,03,059	793.69
2007-08	8747	80.90	9,06,576	1223.10

Conclusion

Ferro chrome industry is resort to import of high priced chrome ore, when the country is continuing exports of chrome ore, instead of meeting the requirements of the domestic industry. Since, the ore is strategic material; it needs to be conserved for long-term use of the domestic industry, to cater to the domestic stainless steel industry, which is growing more than 10 per cent per annum.

Meanwhile, high grade chrome ore (which is measured by the Cr/Fe ratio in the ore), is being exported mainly to China, leaving the Indian producers with poorer grades of ore. China, which is primarily a producer of charge chrome (a low grade variety of ferro - chrome), is using Indian chrome ore to only to enrich low grade ores from Russia, South Africa, Oman and other sources. Thus, there is no logic in exporting our high grade ores, IFAPA believes.