Government vying for export levy

- Steelworld Research Team

Pressure is mounting on the government to levy exports duty on steel shipment in line with China in order to curb surging inflation. Steel is a sector which is to an extent responsible for higher inflation and so the government, experts believe, might take some control measures as a disincentive for the soaring prices of steel. In addition to the export levy on steel, there is a proposal for a regulator for the steel sector. If price regulation comes in, then the steel industry's growth might be affected. Iron ore players are globally increasing prices so the Indian steel players have also raised prices in the past couple of months.

Proposal - For the first time

For the first time, the government is toying with a proposal to impose export duties on steel in a bid to discourage exports and manage supply-side constraints. Steel - a major input for most industries from auto to construction and equipment - has seen a huge escalation in prices over the last few months, triggering inflationary pressures. The government's attempts to reign in domestic prices by coercing steel makers to reduce prices have failed to yield results. In a knee-jerk reaction to continuous increase in domestic steel prices, the government is considering a proposal to levy 10% export duty on all grades of finished steel. The move is aimed at improving the supply situation of steel in the market, which has also resulted in price rise alongwith a globally firm steel market. Steel prices have moved up over 30% in the first three months of 2008, with price of benchmark hot-rolled coil hovering over Rs 33,000 per tonne against Rs 24,000 a tonne in December 2007. While the steel ministry was successful in getting an agreement from steel makers to cut steel prices by Rs 500-1,000 per tonne last month, prices bounced back in March with a sharp 10% increase.

Export duty on ore

The Union Budget's proposal to impose an export duty of Rs 300 per tonne on export of iron ores and concentrates has cheered the steel industry, while iron ore exporters are crying foul. Iron ore exporters say that the Rs 300-per-tonne export duty would no more make ore exports profitable both in the spot and the long-term contract markets, which may lead to many mines being closed. Says B Muthuraman, Managing Director of Tata Steel: "Introduction of export duty on iron ore and chrome ore is a very welcome move and is directed towards conserving the scarce resources for the long-term benefit of the country. Restricting export volumes could also have been considered."

Echoing similar sentiments, S.K. Roongta, SAIL Chairman, said: "Levy of export duty on iron ore and concentrates is timely. It will be appropriate if revenue so generated is utilised for developing infrastructure in and around mineral bearing areas." Iron ore exports in the current fiscal are expected to touch 95 million tonnes out of the total production of about 160 million tonnes. India is estimated to have a reserve of 25,249 million tonnes, including magnetite grade of ore — this, however, does not include the 1,000 million tonnes of haematite iron ore recently discovered in Kabirdham district of Chhattisgarh. Industry analysts say that these reserves would last 100 years at 110 million tonne steel production level. R.K. Sharma, Secretary General of the Federation of Indian Mineral Industries, feels that the steel industry has no case in demanding a curb on iron ore exports, especially as most of the steel makers have captive mines. "Clamour for ban on exports despite captive mines is a pre-meditated move by the steel industry. For this would lead to a depression in domestic ore prices, as iron ore producers will be forced to sell the ore in the domestic market that will be controlled by the steel makers. Steel companies will now not touch their captive mines," he said. He further pointed out that 84 per cent of the iron ore exported from India are fines, which have no market in India.

Last fiscal, the Indian steel industry, including secondary producers, consumed 52 million tonnes of ore, as against 48.1 million tonnes in 2004-05. Even after supplying this much ore to the industry and exporting about 90 million tonnes last fiscal, India still had a surplus of 12.6 million tonnes. "To say therefore that exports have been at the cost of domestic industry is far from truth," Sharma pointed out. A slowdown in iron ore exports in the wake of the export duty may also affect ports like Chennai, Haldia, Paradip and Visakhapatnam, which were developed as iron ore ports. Also, Railways move more than 45 million tonnes of iron ore for exports, earning revenue of over Rs 3,000 crore.

Inflation on 3-year peak

Inflation is no stranger to the Indian economy. In fact, till the early nineties Indians were used to double-digit inflation and its attendant consequences, but, since the mid-nineties controlling inflation has become a priority for policy framers. The natural fallout of this has been that we, as a nation, have become virtually intolerant to inflation. While inflation till the early nineties was primarily caused by domestic factors (supply usually was unable to meet demand, resulting in the classical definition of inflation of too much money chasing too few goods), today the situation has changed significantly.

Inflation today is caused more by global rather than by domestic factors. Naturally, as the Indian economy undergoes structural changes, the causes of domestic inflation too have undergone tectonic changes. Needless to emphasise, causes of today's inflation are complicated. However, it is indeed intriguing that the policy response even to this day unfortunately has been fixated on the traditional anti-inflation instruments of the pre-liberalisation era.

Inflation galloped to 7 per cent for the week ended March 22, on higher prices of food, vegetables, minerals and manufactured items, even as measures to tame prices are expected to take effect only in 2-3 weeks. Inflation growth in the previous week was 6.68 per cent and was 6.54 per cent in the corresponding week a year-ago. Recently, the government decided to abolish import duty on crude form of edible oils, cut rate on refined edible oils and ban non-basmati rice exports among other measures to ease the pressure off prices.

However, Manila-based Asian Development Bank expects these measures to influence prices only by the month end. The high rate of inflation could also prompt RBI to take monetary measures, like hike in interest rate or tighten money supply through hike in CRR. During the week, prices of fruits and vegetable, pulses, cereals, eggs, meat and fish went up, while condiments and spices were cheaper. The mineral category-index shot up by 38.2 per cent driven by 46 per cent rise in prices of iron ore.

In the manufactured items category, sunflower oil, vanaspati, butter, mustard oil, sugar and groundnut oil became expensive, while prices of ghee, coconut oil mellowed down by 1 per cent each. At the same time, prices of steel ingots, alloy steel castings were higher. However, car chassis moved down by one per cent.

Cost pressure

There is cost pressure because globally the input prices are also rising and this is putting pressure on Indian steel companies pricing and also affecting their margins. “Steel companies such as JSW might get impacted if the export levy happens,” said an analyst with a brokerage firm. There has been a change in the market perception for metal stocks which otherwise enjoy good valuations. There had been a lot of FII and mutual funds, which had large exposures to metal stocks, and they have been selling for the past few days. Foreign institutional investors held 20.55 per cent equity stake in Tata Steel as on 31 December 2007; for JSW Steel the figure is 29.03 per cent.

China hikes steel export tax by 5-15%

China's new trade policy, effective from January 1, hiking export taxes between five and 15 per cent, including steel, is likely to push prices up in developed countries. The policy guidelines have also banned 589 tolling business (importing raw materials and exporting finished products duty-free) in commodities. Vishal Chandak, senior analyst, Emkay Share and Stock Brokers Ltd, said it would make Chinese products less competitive in the global market and increase steel prices in the developed economies. The increase in the export tax is likely to benefit domestic players as pricing for steel and other raw materials is done on the landed import price parity basis, he said, adding that in case the exports did not decline, China was likely to increase the tariffs further.

China has taken many measures to reduce export of steel and other products to manage its burgeoning trade surplus with the US. It started with a 10 per cent export tax on semi- finished steel products such as billets and slabs in November 2006. With exports showing no signs of slowing down, China reduced export duty rebate on various products, increasing export taxes and non-monetary measures such as licensing of steel exports between April 2007 and June 2007. This saw an immediate rise in exports to beat the deadline for implementing the measures. However, with the measures coming into effect the exports started declining. The new tariff of export taxes, include an increase of five per cent on large steel sections from 10 per cent to 15 per cent as also on bar, rebar and wire rod from 10 per cent to 15 per cent. The tax on medium heavy wide steel band and HR thin band is up to 10 per cent from five. The tax on HR narrow band, narrow CR band plated sheet/band, colour coated sheet/strip and welded pipe and common cold-bent sections have been hiked to 15 per cent from five per cent. The levy on ingot and other alloy steel billet/slab has been raised to 25 per cent from 15 per cent.

Scrapping import duty

Commerce and industry minister Kamal Nath recently said his ministry would recommend scrapping of import duty on steel, whose rising prices have contributed to a surge in inflation rate. “We are going to recommend scrapping of import duty on steel... government is looking at a proposal to ban non-basmati rice export,” he told reporters here, while terming rise in inflation as a matter of concern. Seeking to improve the supply situation in the domestic market, the commerce and industry ministry on Thursday night withdrew export incentives given to at least 40 items, including steel. The withdrawal includes the tax refund scheme - Duty Entitlement Pass Book (DEPB).

Cooling off steel prices

The government has asked cold-rolled (CR) steel makers to voluntarily reduce prices as it is adding to inflationary pressures. However, domestic CR steel producers say the price hike is inevitable given the sharp rise in hot rolled (HR) steel prices. They have, in fact, proposed to the government to ban HR steel exports. CR steel, consumed by sectors such as construction, automobile and other consumer products, is value-added steel using HR steel as a raw material. As a result of increase in iron ore prices, steel prices have already shot up by 25-30% over the last three months, increasing HR steel prices to around Rs 34,000/tonne. Hot rolled steel accounts for 70-80% of the cost of producing CR steel. In a meeting with representatives of secondary steel producers’ associations and makers of sponge iron, pig iron and CR steel, steel secretary Raghav Sharan Pandey said prices of CR steel should be brought down voluntarily. The government’s contention is that CR steel firms are boosting their profit margins by raising price. However, CR steel producers have asked the government to deal with supply-side issues first. They said besides keeping a check on mounting raw material prices, the government should take measures to fill the domestic demand-supply gap of HR steel. As HR steel prices have increased significantly due to high iron ore prices, secondary steel makers say they are under huge cost pressure. Some CR steel makers are awaiting the next move of HR or basic steel producers. However, basic steel producers are also under immense cost pressure as iron ore prices have gone up globally. They are expecting further hike in raw material prices.

The country’s top steel producers, including Tata Steel, SAIL and Jindal Steel, decided to roll back the prices of long steel products, including construction-grade TMT bars by Rs 2,000 per tonne. The price cuts would be implemented immediately. JSW Steel Ltd has reduced prices of galvanised corrugated sheets by Rs 500-1,000 a tonne, a top official said. "The cut is not across all the products, only for low cost housing and roofing products “ MVS. Seshagiri Rao, director of finance, told the media.

Alternative measures

The measures may include lower customs duties on imported steel and an additional export duty on steel products to make exports unattractive. The government may also lower excise on steel to around 8 per cent from the present 14 per cent. It may also roll back a recent increase in rail freight rates for iron ore, which is reported to have added to 3 to 4 per cent to costs. The government is also looking at establishing a regulatory mechanism for steel products. India, the world's eighth largest producer of steel, makes around 56 million tonnes of steel annually and imports 6 million tonnes. “Name a move to rein in prices of steel, and it is on the government's table. However, no decision has been taken so far. If steel makers do not bring down prices within the next 30 days, the government will move in with its own measures,” said a senior government official.

Officials added that iron ore producers and steel manufacturers are making handsome profits and should help cool inflation. The attempt to contain steel prices follows successive increases since January on the back of steep surges in raw material prices. Steel producers increased prices in January this year by Rs 600 to Rs 900 per tonne, and again by an average Rs 2,500 per tonne in February. However, the industry conceded to a partial rollback under pressure from the steel ministry. The steepest increase in the calendar year came this month, when prices of flat products, which are used in the consumer durables, were increased Rs 2,500-3,500 per tonne and long products, used in construction, by Rs 1,500 to 5,500 per tonne.

The steel industry has proposed a slew of measures that will bring down prices by 12-15 per cent with immediate effect. Sajjan Jindal, vice chairman and managing director, JSW Steel said the industry has suggested three measures that the government could take for bringing about a price reduction. An excise duty cut from 14 per cent to six per cent could bring down the steel prices by eight per cent, a 25 per cent export duty on iron ore would impact the prices by five per cent and the withdrawal of import duty on input materials such as coke, limestone, ferro alloys, aluminium and copper would drag the prices by two per cent. Jindal said the industry had decided to hold the priceline for now and would take a call once the government decides on the required measures.

The industry has informed the government that it will not increase the prices now. But a hike in the prices of raw material prices, especially by NMDC, will compel it to pass on to consumers. NMDC has long-term contracts with most of the major steel producers without captive mines. However, a Federation of Indian Mineral Industries (FIMI) delegation met the commerce secretary and gave an assurance that exports would not be at the cost of the domestic industry. They further agreed to interact with others in the value chain, including sponge iron, pig iron and steel industries, in a week's time to find ways of reducing the prices. Steel industry sources said the raw material costs have increased by Rs 12,000 a tonne in the past year.

Period between August 2007 and March 2008

Raw materials	Price rise (%)
Mild steel scrap	47
Pig iron	46
Cast iron scrap	47
Coke	42
Ferro manganese	83
Other ferro alloys	30
Iron ore	61
Steel	45