India to be net steel importer in 2005

- Steelworld Research Team

With just over 30 Kgs of per capita steel consumption, against the world average of 145 kgs, India sits behind all developed and most of developing countries. Despite having tremendous potential for its growth in existing mechanism, growing population also widens propensity enormously.

While co-relating steel consumption with population the truth comes out that India is a country of divided family system. Today, every house needs to be concretized where steel needs to be consumed. Use of steel in construction has, thus, not only become a compulsion but a sign of prosperity which symbolizes the higher income in comparison with the same-like people. Hence, steel consumption in India is a necessity for all as good structure, today, is the demand of the hour which is just not possible without ample of steel utilization.

India has already been recognized as a global power in the recent past and now is set to emerge as a member of developed nations' family. The government, bureaucrats, banks and common man have already started working in that direction and all are united for working hand in hand in order to achieve this goal by 2020. No country has developed fully or partly which has not seen huge infrastructure growth massively. Therefore, India will also have to develop world class infrastructure within short span of time.

The Tenth Plan (2002-2007) has already allotted sufficient amount to be invested on infrastructure but looking at the proposed long term benefit on such investment, the government and the Planning Commission have decided to revise the investment amount mid-way. With the new planned mechanism, the government has already allotted substantial amount on it for which the absolute financiers are being worked out and set to be finalized shortly.

India as an importer of steel in 2005

India's rapidly expanding economy will drive up demand for steel and turn the country into an importer of the commodity by March 2005. India, Asia's third largest economy, is likely to consume about eight to 10 per cent more steel in the fiscal year ending March 2005, riding a boom in automobile and housing sector. India's economy is forecast to grow by more than eight per cent in the current year to March, after expanding by 4.0 per cent -a year earlier. Consensus estimates for growth in the 2004/ 2005 fiscal year are expected only after the monsoon forecast which is due in April-May. ISA represents more than 20 million tons of steel production of India which is supported by its members including state-run Steel Authority of India, Rashtriya Ispat Nigam Limited, Essar Steel Ltd, Jindal Vijaynagar Steel Ltd and Ispat Industries Ltd. Surprisingly, Tata Steel recently withdrew its membership of its net.

If steel demand keeps on increasing, as it has been for the past year, may be by the end March 2005, there will be a shortage of supply, an analyst said. That would mark a turnaround from the current situation in which India is exporting steel. During April-December, India exported 5 million tonne of finished steel, up 29 per cent from a year earlier. That was about 26 per cent of the total saleable steel produced in India during the period. Many Indian steel producers have announced plans to increase capacity to meet an expected rise in demand.

Assuming the huge demand of steel in the year 2005 and further years ahead, almost all integrated producers have expanded their production capacity largely dominated by Tata Steel which is planning their annual capacity to reach 15 million tonne mark by 2010 from four million tonne in 2004.

On the top

India, with the production of about 34 million tonnes (MT) of crude steel annually is the 9th largest producer of steel in the world. The aggregate crude

steel capacity of working units at present is nearly 44 MT per annum which is shared by the Integrated Steel Plants and Electric Furnace Units. Besides, there are a large number of steel processing units, merchant pig iron plants (cap: 3.66 MT) and sponge iron plants (cap: 6.3MT). India continues to be the second largest producer of sponge iron in the world.

	2003	2004 e	2005 p	Ammt	%
EU-25	158.8	164.1	167.9	3.8	2.3
Other Europe	23.6	25.1	26.8	1.7	6.8
CIS	44.2	45.4	47.8	2.4	5.3
NAFTA	133.5	145.8	150.2	4.34	3.0
Central & South America	28.2	32.4	34.2	1.8	5.6
Africa/Middle East	42.4	44.9	46.6	1.7	3.8
Japan	73.4	76.8	76.9	0.1	0.1
South Korea	45.4	47.4	48.4	1.0	2.1
India	30.3	32.3	34.5	2.2	6.8
China	232.4	263.0	280-290	17-27	6.5-10.3
Other Asia	70.4	72.8	74.5	1.7	2.3
World	882.6	950.1	987.8-997.8	37.7-47.7	3.9-5.0
World excluding China	650.2	687.1	707.8	20.7	3.0

The economic reforms in the country and the consequent delicensing, de-reservation and de-regulation of the iron and steel sector in the early 90s, brought about a sea change in the industry. It resulted in a massive increase in production, trade and investments particularly, in green-field steel plants by the private sector, between the years 1993 -1996. Gradually, the general slowdown in the economy, rising input costs and global slums stood in the way of this progress. But the positive trends in production and consumption data of 1999 usher in hopes of revival for the industry. With signs of recovery in the manufacturing sector, and the renewed emphasis of the Government on housing and infrastructure sectors, it is expected that there will be a resurgence in demand and consumption of steel in the years to come.

Global steel outlook

China continues to lead global steel growth with both production and consumption rising. However, the tightening measures implemented by the government are aimed at moderating this growth. The Japanese economy is moving into a growth path. Steel demand grew in Japan by 4.5% in 2004. Demand is also strong in the USA. European steel markets are also showing signs of improvement. IISI expects steel consumption (per capita) in Latin America to increase by 6.4% in 2005, thus recovering to the peak achieved in the 1980s. The growth in this region has been led by Argentina and Brazil.

The current buoyant market conditions in steel are expected to continue throughout 2005 and into 2006, according to industry and government officials. The steel market was exceptionally buoyant in 2004 when global steel consumption jumped by 8.8% over the 2003 level to reach some 935 million tonnes of finished products. In the OECD area, steel demand increased by 7.5% or 22 million tonnes more than in the previous year. The strongest increase in apparent steel consumption was recorded in North America (+15%) while for the rest of the OECD apparent consumption increased by some 3.4%. In the N.I.S. area steel consumption increased by 13.5%, while in China the increase was close to 11% representing some 25 million tonnes more than in 2003.

Crude steel production also showed remarkable growth and at world level passed the 1 billion- tonne mark for the first time in history, an increase of 84 million tonnes compared to 2003. In China, production increased by a further 22.5% and reached 270 million tonnes.

World trade in steel increased in volume terms by 4.4% and reached a new record level at 263 million tonnes in 2004; it represented 28% of world steel consumption. However, major changes took place in trade flows. OECD net steel exports dropped by more than 60%. The other major change reported was the strong decline in steel imports by China (-24%) while at the same time Chinese steel exports doubled to over 17 million tonnes.

Prices for steel products increased sharply and rapidly in 2004 helping the industry to return to strong profitability, despite related increases in raw material and transportation costs.

The outlook for 2005 remains good as world steel demand should continue to grow by some 5%, driven by the continuing strong growth in demand in China where steel consumption is expected to increase by another 10.7%. Growth in consumption should continue in the

N.I.S. (newly independent states of the former Soviet Union) as well as in many non-OECD market economies, while the OECD area will record more mixed results between Member countries even if for the area as a whole a 2% growth may be expected.

Crude steel production should also grow in 2005 and in 2006 when China, with an expected 340 million tonnes, will represent 30% of world production.

Trade in steel is expected to start declining as from 2005 as a result of important additions of new capacity, particularly in China, India and other Asian economies.

Global crude steelmaking capacity is expected to increase from 1184 million tonnes per year in 2004 (when the average capacity utilisation rate was above 88%) to over 1305 million tonnes per year in 2006.

Despite the present positive short term market outlook, three areas of concern were mentioned. These concerned (i) significant new steel capacity expansion, (ii) conditions in raw material markets, and (iii) potentially large shifts in steel trade flows. It was noted that a further crisis in steel could well arise in several years time, should capacity expansion exceed market needs by a significant amount. It was also noted, however, that the potential for further market growth in China, India, Latin America and the NIS was great if such growth materialised, it could - barring economic shocks - be sufficient to avoid such a crisis.

Raw materials and transportation

The sharp price increases and, in some instances, shortages that occurred in three key raw materials (iron ore, coking coal and coke) were seen as easing. In the case of iron ore and coking coal and coke investment in new capacity were taking place, with prices expected to settle at levels that would nonetheless be higher than those prevailing several years ago. In the case of scrap, prices were also expected to ease, but at structurally higher levels, leading to renewed interest in ore-based complements, such as sponge iron. The situation in transportation was also expected to ease, as seaborne capacity was increasing.

Industry consolidation was expected to continue to take place, as the enhanced financial strength of companies was providing the means to explore mergers and acquisition more actively. Consolidation was considered as an important development that should help the industry to weather cyclical downturns more effectively. Although considerable consolidation has already taken place, the industry remains highly fragmented at the global level, with the ten largest producers accounting for only about 30% of total world steel production. There was concern expressed, however, that smaller producers, competitive as they might be, might not be able to remain as stand-alone operations.

Task Force Projections

A national Task Force, constituted in 1991-92 evolved a 20-year action plan for the growth of iron and steel industry and projected a 9 per cent cumulative growth of steel in India till 2001-02, followed by 7.5 percent average cumulative growth rate till 2011-12. Quantitatively, the Task Force predicted that India could be producing around 31 MT of finished steel by 2001-02, 42 MT by 2006-07 and 57 MT by 2011-12.

In 1996, the Working Group on Iron and Steel set up by the Planning Commission for the Ninth Five Year Plan, assuming a GDP growth rate of 6 per cent and 6.5 per cent for IXth and Xth Plan, respectively, had projected the domestic demand of finished steel to be 32.6 MT by 2001-02 and 48.8 MT by 2006-07. The Working Group also projected an export potential of 6 MT and 9 MT respectively in the terminal years of both plans.

Changing Scenario

The Post-liberalization period has witnessed modernisation and expansion of some of the existing Integrated Steel Plants and large investment sanctioned by the financial institutions for setting up of new/ green-field steel plants. Most of these plants are in the private sector. The plants are under various stages of implementation and are likely to be fully operational during the next few years. These plants would bring about a shift in the overall capacity and availability of steel in the country and a sea change in the technology profile of the steel industry. This would enable production of steel of international quality. State-of-the art plants with greater manufacturing flexibility, higher process control and automation, and low manpower costs would result in lower operational costs, making the Indian steel industry amongst the lowest cost steel producers in the world and capable of competing globally.

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