



**“Now, it is the turn of India with its high GDP growth rate of 8-9% per annum and a younger work force to show the similar (growth) trends...”**

**Dr. S. K. Gupta, with his enormous experience while serving prominent positions like Vice Chairman of Jindal Vijayanagar Steel Limited, MD of Mishra Dhatu Nigam Limited, Rourkela Steel Plant and SAIL, Chairman and Managing Director of MECON and Managing Director of), is today a very well known personality and is an expert analyst of the current global steel scenario. He has also served as the Chairman for the Government of India task force on Steel Growth plan till 2010, which makes him an elite personality while knowing any outcome on the steel arena. Sharing his 47 years of experience in a dialogue on the current trends of the steel industry with D. A. Chandekar.**

**Excerpts :**

**How do you see the short term as well as long term prospects of Asian steel industry in general and Indian steel industry in particular?**

Also,

**In that context, what can happen to Chinese steel industry after 2008 Olympic Games and what effect it will have on global steel industry?**

: Asian Steel Industry covers more than 50% of the global steel, led by China with the lion's share. A large share of real high performing steel industry in terms of productivity, yield and quality are also in Asia, namely, in Japan, South Korea and Taiwan. And there is India, which is rapidly waking up in reference to growth and basic competitiveness. The fastest growing steel industry in the world lately appears to be in Russia. Year on year growth rate is around 25% and around 25 % of Russian steel is produced in their Asian region.

Chinese steel industry covers more than 35% of global steel. However, in real cost competitiveness more than 60% of the industry falls short, operating on marginal cost with insignificant EBIDTA, due to high iron ore input cost, low scale of operation and backlog on environment compliance. This sector is surviving

and has been growing on Government support with large national 'planned economy' rationale. This cannot be extended for too long by Chinese Government inspite of very high about more than \$ 1 trillion, balance of payment back-up. After 2008 Olympics at appropriate timing early to the date, this part of the steel sector is going to be phased out possibly in controlled manner.

However, total steel production will not come down. Rather will grow, by switching over to larger corresponding share of 'secondary steel'. Incidentally very soon China will have about 2 billion ton of steel inventory on their soil, equivalent to the same in USA, which will provide corresponding recycle steel scrap. Besides, China has added more than 150,000 MW of power capacity in last one year or so, a large component being hydel. This smooth transition with correspondingly improved cost competitiveness of steel production in China will have however corresponding positive fall out in the raw materials market and also on bulk ocean freight,— iron ore, coking coal and coke price coming to saner levels.

Besides phasing out lower scale and polluting integrated steel capacity working on marginal cost, and parallel change over to more cost competitive process route, China is planning to invest at the rate of about \$ 30 billion per year on four large new coastal steel plants. After 2010 too, it is expected that China will have

substantial exportable surplus to the tune of about 60 million ton per year with improved cost competitiveness.

No serious upheaval or otherwise is expected in Japan, South Korea and Taiwan front. They will maintain more or less their market shares in the near future, thrust being on high end steel in quality and shape. In Asian part of Russia about 25% growth rate is expected to be sustained for few years due to smaller base, while having all the raw materials, technology, quality manpower and reasonable logistics in their Eastern Sea Board. Khazakstan is also having highly cost competitive steel capacity which is globally linked and is expected to grow at a rapid pace.

#### **Indian steel demand for 2020 has been revised to 180 mtpa. Your comments...**

: Now, it is the turn of India with its high GDP growth rate and with a younger work force to show similar trends. Indian economy has been surging upwards for the last 5 years with a GDP growth rate of 8-9% per annum. The 11<sup>th</sup> five year plan has targeted a growth rate of more than 10% in the GDP. The steel consumption has also been growing at the rate of 8-12% in the last 5 years keeping pace with the GDP growth rate.

The steel consumption is expected to grow at a rate of 16% CAGR in 2007-2012, as per Credit Suisse. This projection is in the back drop of about USD 1 trillion worth domestic construction sector/infrastructure projects in the execution stage with a 60% year on year growth rate and improving competitiveness of the leading steel companies in India which is on the highest bracket of more than 30% EBIDTA.

Essentially, healthy rates of savings, investment and capital formation, rise in direct foreign investments, high growth in steel intensive sectors like construction (12-14% growth rate per annum), auto (14-19% growth per annum), rail transport, oil and natural gas distribution net work, and power sector, etc., huge potential demand for goods, with young population, pool of young technical manpower and expertise in service sector besides rapidly blossoming Indian entrepreneurship are the engines driving the steel industry. With gathering momentum of Indian economy, the global focus is relocating towards India.

National steel policy has initially projected a very defensive target of 110 Mt/Yr. crude steel productions by 2020, which is now revised to 180 Mt/year. However, 200 Mt/Year crude steel production by 2020 looks to be more realistic with a per capita consumption of about 160 kg.

#### **Exports of iron ore have triggered a countrywide debate...**

: The basic premise in this controversial issue may be remembered. If one is involved in or beneficiary of Indian mining sector, he is prone to support 'free for all' in export. Margin is Rs. 2000/- to Rs. 3000/- per ton minus Rs. 200 to Rs.300 per ton, unprecedented in any genuine business, for last three/four years.

Incidentally, this margin is funding politics and wasteful

practices besides partly in value additions while destroying social and physical environment in the both fortunate and unfortunate four States. Support to complete free play of market forces could be an economic utopia.

On the other hand if one is involved in Steel business or beneficiary thereof, he would welcome restrictions or even ban on Iron Ore exports and support captive Iron Ore to Steel Companies. The logic is influenced by more than 10% reduction in cost of production of Steel and corresponding enhancement of margin in Steel Business. There is a third and largest stakeholder, the nation, interest of which is supposed to be looked after by Governments - Central and State, presently under significant influence and control of the said two competing lobbies. Indecision has been the result.

Next Issue, if and when it suits us, we become strong proponents of total free market economy fostered by the developed countries. Each one of these countries became so by exploiting their low cost, domestic Iron Ore and / or coal or from their respective colonies or from their backwater,— Australia in reference to Japan and graduated to be developed economy; now they want everybody to follow free market economy in Steel,— it suits them now. Does it suit us now? Who have to be concerned?

Governments-State and Central, are under strong competing influence of the two lobbies. So, indecision is the result. There cannot be any dispute that scale of operation of mining should be more than 3 MTPA, so that logistics, infrastructure and environment is better protected / developed, besides gaining on economy of scale.

Iron Ore mining sector in India - be private or public or captive is dismally inefficient. Around 20% of Fe mined form part of national steel inventory in reference to SAIL, others are also in the same league. This can be upto 60%. Major global mining companies, may be with different JV routes, to come and compete. This may be supported, in spite of conflicting interests of competing interest groups.

Export ban is possibly not our option. But the export restriction in calibrated manner from time to time as being done in China is obviously necessary. The best tool is advalorem export duty, a significant percentage of value, and the same is reinvested by the Governments in focussed development and repair of environment, logistics and infrastructure in the affected States in particular.

A reasonable (30 to 40%) captivity of iron ore mines to large integrated Steel Plants, mining being undertaken in large scale and professionally, will foster such large capital investment and rapid contribution to steel inventory in India, in building infrastructure, housing, transportation, shipping and so on. Purpose of Iron Ore is Steel only. Rapid enhancement of steel inventory in India is the goal.

WTO threat? China is also a member as we are. Coal export of

all kinds is banned in China. Iron Ore export regulation in India cannot be questioned by any logic. Of course, arm twisting in short term will be there by interested / affected lobbies.

In India +62% Fe Iron Ore should be considered as part of our future steel inventory awaiting conversion at competing cost, to be available to build the nation in near future. Restrictions / regulations of this material (+62%Fe) should be more. While more Steel plants in those States having Iron Ore resources can be fostered but inter-state movement of Iron Ore may have some additional levy, which be primarily available to the State having the Iron Ore.

Lamenting on closure of large number of small mining establishments and concern of loss of jobs of lakhs of contract labourers without any security should be compensated by creating large scale mining conglomerates.

India is the global leader in Coal based and also gas based DRI. Quality lumps availability and cost are becoming forbidding. Competitive production of Pellets based on beneficiated fines will ensure effective sustenance and growth of this industry with multiple positive fall outs. Concrete incentives for such investments enhancing national resources should be

forthcoming. Trade balancing with China by exporting around 100 Mt ton a year of Iron Ore goes against the interests of the nation, the principal stakeholder. This is unfair to India. Governments should perform their functions.

*(Dr. S. K. Gupta is a Metallurgical Engineer with Ph.D. (Tech.) & D.Sc. (Tech.) from Moscow, a leader in the fields of R&D, engineering & management of steel plants, and large engineering companies in the public and private sector and was also associated with Ministry of Defence*

*He was a Professor and Head of the Department for metallurgical engineering at the Indian Institute of Technology, Bombay and a member of the Board of Industrial Development Bank of India and various other national institutions.*

*He was conferred upon as a "Metallurgist of the Year" award instituted by the Government of India in 1980 and received the National Metallurgist award in 1998.*

*He has to his name more than 75 research publications in leading journals in metallurgy and management).*



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