Stainless Steel Industry Needs Long Term Policy Support

- Steelworld Research Team

India's stainless steel industry is passing through rough time today due to government's severe actions on manufacturers and users alike. Users industry in fact is facing huge crisis with fear of closure of manufacturing units due to the proposed quality norms imposed by the government in August. While the user industry fights 'tooth and nail' for the draft proposal not to get approved as the law in the country, manufacturing units like Jindal Stainless and Steel Authority of India are the biggest beneficiaries as they would be the biggest beneficiaries of the proposed law. The domestic utensil and other users of stainless steel will stop import and turn to them for raw materials, the entire trade would get monopolised at the hands of just two stainless steel manufacturers.

User industry, however, claims that the stainless steel manufacturers do not produce the quality of raw material as specified in the draft proposal. Hence, the quality of the Bureau of Indian Standard (BIS) should not be approval at all. User industries like utensils do not require quality specifications at all.

The Industry

The stainless steel mills have steadily invested \$5 billion since its peak days of 2006-07 to create an overall installed capacity of around 5 million tonnes. Against that, the production is estimated at 2.6 - 2.7 million tonnes in 2014-15. Jindal Stainless has invested around Rs 12,000 crore in its 1-million-tonne greenfield project in Odisha, which is currently operating at 30% of its operating capacity. Its Hisar facility is currently operating at 60-70% capacity. Similarly, the Salem steel plant by the Steel Authority of India Ltd (SAIL) has invested heavily on capacity additions.

With crude stainless steel production at 3 million tonne, India ranks as the third largest producer and second largest consumer of stainless steel. The market for 2013-14 was at 2.5 million tonne of which flat products accounted for approx 2 million tonne. With a low per capita consumption of 2.1 kg (as against the world average of ~5 kgs) there lies a huge potential for future growth but slowdown in sectors such as infrastructure, railways, seaports, airports, highways, and bridges etc. have been major obstacles. Free trade agreement is another area where the government should look bilaterally. Currently, India is at receiving ends with import from Free Trade Agreement (FTA) countries rising significantly without any jump in exports.

In the light of the Comprehensive Economic Cooperation Agreement (CECA) between Government of India and the Government of Malaysia with a view to promote trade and boost economic development, some companies are twisting the rules and indulging in the malpractice of abusing the rules of origin of the partnership agreement. The India ASEAN FTA was signed in 2009 and became operational from 2010. Stainless steel products have been included in the phased elimination of tariff. Following the agreed reduction of tariffs, India has reduced tariff under the agreement to zero. However, the following issues related to tariff and non tariff have arisen during the past few years since the FTA became operational. This resulted into massive jump in import of stainless steel from China, Malaysia and Thailand. Indian Stainless Steel Development Association (ISSDA), the flagship body representing the domestic stainless steel manufacturers has urged the government to review ASEAN FTA.

Raw Material Security

The problem of raw material security being faced by the domestic stainless steel industry. Today, India is the fourth largest consumer and producer of stainless

STAINLESS STEEL IMPORT SCENE (TONNES)			
Particulars	2012-13	2013-14	2014-15
Total Imports	317442	324460	459164
Import from China	90744	111765	231602
Import from Malaysia	96	56	27528

steel in the world. This growth has been possible as the domestic industry, both in the private and public sector, has pumped in close to Rs 35,000 crores for modernization and expansion of existing facilities. It is noteworthy that the major requirement of raw materials required by this industry is met through imports. This forces the domestic producers to remain primarily dependent on imports because of following reasons: Scarcity of Mild steel scrap and stainless steel scrap within the country and ferro nickel, pure nickel and ferro moly are not available domestically.

Competitors like China, which is the largest producer of stainless steel in the world, have highly liberalized duty regime for raw materials. The existing rates of duty on these key raw materials in India put domestic producers at a considerable disadvantage as compared to Chinese manufacturers. On account of lower duty rates, other countries like China have a distinct advantage over Indian producers. The domestic stainless steel industry is already in the midst of severe financial crisis on account of glut of imports. Most of the stainless steel manufacturers have been hit hard because of import surge and are operating at around 55% of the total capacity.

Therefore, the government can aid the Indian domestic stainless steel industry by providing a level playing field vis-à-vis other international players. The disparity in the duty structure on raw materials lies at the heart of the competitive disadvantage being faced by Indian manufacturers which has in turn contributed to the import glut. The managed float of Chinese currency vis-à-vis other convertible currencies helps their domestic industry to secure raw materials imports. Compared to this, Indian currency is highly volatile and this hurts the Indian manufacturers. Raw material constitutes nearly 70 % of the manufacturing cost of stainless steel and 60-65 % raw materials are imported. Since, the volatility of the rupee is high, Indian manufacturers also have to incur high hedging cost. The combined effect of volatile exchange rate of Indian currency and disparity in duty structures of raw material impacts the bottom-line of domestic stainless steel manufacturers immensely. Under such circumstances Indian manufacturers end up losing because of the competitive disadvantages which makes extremely difficult to conduct business and simultaneously remain competitive. In order to improve the cost competitiveness and to promote long term growth of the domestic stainless steel industry, the government should repeal the existing basic customs duty on stainless steel scrap, mild steel scrap, ferro nickel, pure nickel and ferromoly.

Tariff Issues

India has through a process of phased reduction, reduced tariffs on all stainless steel flat products to "nil" w.e.f. Jan 2014. Therefore, today all stainless steel flat products can be imported into India at zero duty from any of the ASEAN country provided they satisfy the mandatory 35% value addition rule. Though India has opened its market in keeping with the spirit of a free trade agreement, India has not achieved a reciprocal tariff reduction in all ASEAN countries for stainless steel flat products. Among the ASEAN countries, Thailand, Malaysia and Vietnam have most favoured nation (MFN) tariffs which are considerably higher. These ASEAN producers are not integrated stainless steel producers. They have huge Cold Rolling capacity in the ASEAN region; however, the raw materials (Hot rolled stainless steel flat products) have to be necessarily imported from some other country. India is also one of the suppliers of Hot Rolled stainless steel products to the ASEAN countries. The following scenario reveals itself under the preferential tariff under the India's ASEAN tariff reduction schedule.

Among ASEAN countries, Thailand has maintained their Cold Rolled stainless steel products under Exclusion list, EL (no tariff reduction) and all other cold rolled products in the sensitive list SL, (duties would be lowered to only 5% which is also their current MFN). In case of Vietnam, the situation is slightly more adverse. Some products are under sensitive List or under highly sensitive for all cold rolled products which means that tariff would not be lowered beyond 5%. The hot rolled products have a MFN of 10% in Vietnam.

The market access to these countries is definitely restricted due to these highly artificial levels of tariffs being maintained in these countries even for products like hot rolled stainless steel products for which they do not have any domestic capacity and is completely import depended.

Further, on account of being late entrants into the ASEAN regional grouping as well as being LDCs, countries like Cambodia, Laos & Myanmar have been given a longer duration to reduce tariffs to zero. Therefore, import duties in these countries would become zero by Jan 2021. However, Vietnam has a longer concession period and would reduce tariffs only by 2024. Cambodia, Laos & Myanmar have agreed to NT-1 on all Stainless steel products where as Vietnam have protected all Stainless steel lines by keeping them in EL, SL, HSL-B & HSL-C ensuring that even in 2024, the average duties on Stainless steel products would not be less than 5%.

Thus, a declining trend for hot rolled products from India is a scenario which has been created due to the tariff and non tariff barriers. Also as can be expected these figures indicate a negligible or negative growth for Cold Rolled products in which Vietnam is highly competitive and has one of the largest cold rolled mills in South East Asia and very few competitors in the region. However, Vietnam does not have any domestic Hot Rolling capacity in stainless steel and Vietnam is completely depended on imports for their Hot Rolled coils from Korea and other countries and therefore through a lowering of duties of Hot Rolled products tariff lines under the India ASEAN FTA, there is bound to be an improved market access of these exports from India. Despite the lack of any Hot Rolling capacity the tariffs for these items are kept artificially high in Vietnam. Vietnam follows an export oriented trade policy especially for steel which have been a great advantage for large manufacturers. Therefore, it is strongly recommended that the hot rolled stainless steel products be shifted in the Vietnam schedule under the India ASEAN FTA so that tariffs are reduced in a reasonable time and not stretched until 2024. This would ensure that Indian producers get a reciprocal treatment with reference to the stainless steel products in these markets keeping the philosophy of free and fair trade.

Non Tariff Issues

On Dec 31, 2013 Vietnam announced the Steel regulatory order by which market access to Vietnam was completely blocked for Indian stainless steel producers. According to this regulation, all imported and domestically manufactured stainless steel must comply with Japanese Industrial Standards (JIS) and this became effective on June1, 2014. (Vietnam does not have its own National standards). As per the regulation, there are two routes for testing & conformity assessment possible - the "inspection at source" route and the "batch testing" process. On 31st May 2014, the Inspection at Source was withdrawn without any explanation and a new procedure was to be put in place and notified later. In Dec 2014, the inspection at source was reopened again. During this period, apart from a few select mills in China, Taiwan and Korea, other country mills have not been able to apply for the inspection at source scheme or to be certified by the Vietnamese Authorities. It was presumed that things would become normal but since then, exports have been resumed and all other importers to Vietnam now comply as per the Batch Testing process wherein all physical exports would have to be drawn, tested and certified before being cleared by the customs. Though Vietnam has notified six centres for inspection, these agencies are not able to handle the high load of imports which have created huge delay in clearances. This would lead to increased cost for the importer who has to pay demurrage and detention cost along with the warehouse rents till the testing and certification is completed and material cleared by the customs making the final product less cost competitive.

In Dec 2014, Vietnam further created a hurdle by notifying that any trader or stockist (who does merely trading business) want to import stainless steel must register with the Government and declare their yearly demand (Quantity) based on sales contracts or delegation contracts with local manufacturers (end-user). Such haphazardly implemented regulatory orders create huge hurdles for normal trade between the two countries.

Needs Satisfaction

In order to qualify for preferential duty rates as per the India ASEAN FTA, Origin criteria of CTSH +35% Value Addition has to be satisfied. In order to substantiate this, all physical imports must be accompanied by a certificate of origin issued by the originating country declaring the above. However, it has been noticed that preferential tariff were availed without proper certificates or mis-declaration of Value Addition norms. For Eg, Malaysia has no hot rolling facilities for stainless steel. The input in this case, hot rolled coils required for cold rolling is imported from countries outside the ASEAN region like China, South Africa or any other country. Within the ASEAN country it would not be possible to deliver a 35% Value addition in order to qualify for preferential duty by a simple transformation from Hot Rolled to Cold rolled products. However, it has been increasingly found that some companies mainly from Malaysia are furnishing preferential certificates of origin to convince Indian customs authorities that the material has originated in Malaysia. To be more specific this case related to Malaysia's Bahru Stainless, a subsidiary of Acerinox of Spain, which imports hot rolled coils from group companies like Columbus of South Africa and its parent Acerinox, in Spain and China. Malaysia authorities issued a preferential certificate of origin certifying 35% value addition even though the company is only undertaking limited cold rolling operations under which a 35% VA cannot be achieved. This is blatant misuse of the provisions related to rules of origin. This has been taken up with the concerned authorities and copies of the same are attached. India imports stainless steel flat products from other ASEAN countries as well but the above highlighted issue has reoccurred in case of imports from Malaysia and it is requested that the same be taken up on priority. As has been pointed out, the existing Rules of Origin of value addition of 35% is not a fool proof system of declaring the value addition of origin of country. Therefore, it is suggested that Product Specific Rule (PSR) as defined under the India Korea CEPA or the India Japan CECA be adopted and followed in case of the India ASEAN FTA. Therefore, a review of the Rules of Origin under the India ASEAN Trade in goods agreement must be undertaken at the earliest.

Quality Norms

The standards proposed under the draft quality control order do not cover 200 series stainless Cr- Mn steel stainless steel (having less than 1% Ni content) and the overwhelming

bulk of cookware and utensils manufactured in this country are made from this Cr- Mn stainless steel. The manufacturers of utensils or kitchenware will not get affected in any way as the onus of compliance with the Quality Control Order lies on the manufacturer of stainless steel Flat Product (Coil, Sheets, strips etc) manufacturers and not the utensil manufacturer.

BIS already has certain standard for utensils and cookware. However, these standards are not mandatory and therefore utensils manufacturers will not get affected in any way whatsoever as they are free to procure any grade (including grades containing less than 1 % Ni) which are outside purview of these standards. It is also noteworthy that since there is no BIS standard for stainless steel grade containing less than 1% Ni, the question of applicability of this order to such grades does not arise.

ISSDA would like to state that proposed quality control order is a WTO compliant move which does not in any way restrict the access of domestic consumers to raw material, whether from domestic or imported sources. This Quality Control Order is non discriminatory as it will be applicable to domestic and overseas suppliers. Rather than seeking to curb imports, this Quality Control Order ensures that customers of Stainless Steel in India are fully assured of quality product in form of BIS marking on raw material whether from domestic sources or overseas sources. The domestic stainless steel industry is already complying with various international product standards like ASTM, JIS EN etc. as well as various process standards in the form of various certifications like ISO. Therefore, compliance with this order would certainly not present a challenge for domestic stainless steel industry and nor would it lead to an increase in the price of stainless steel.

Ultimately, all consumers of stainless steel will stand to benefit as they would get the benefit of BIS marked stainless steel at competitive prices. There are a number of other countries like Vietnam, Thailand who already have mandatory Quality Control on Steel/Stainless Steel. ISSDA reiterates that Quality Control order on stainless steel is in the best of public interest and such norms should be introduced at the earliest.

Import and Duties

India's stainless steel imports surged 49 per cent to 5.5 lakh tonnes (LT) in the financial year 2014-15. India, world's third largest steel producer, had imported 3.7 LT of stainless steel in 2013-14. In value terms, imports of the metal rose by 23 per cent to Rs 5,918.9 crore in 2014-15, as against Rs 4,801.9 crore in 2013-14.

Domestic steel manufacturers and other stakeholders have been representing against the surge in imports of steel. To ensure only quality steel is imported, the government has notified Steel and Steel Product (Quality Control) Order dated March 12, 2012 and subsequent order on December 4, 2014. Besides, the government has imposed anti-dumping duty on hot rolled flat stainless steel imports from China, Malaysia and South Korea as well as raised the basic customs duty on various categories of steel by 2.5 per cent.

In September, the finance ministry imposed 20 per cent provisional safeguard duty on hot-rolled flat products of non-alloy and other alloy steel in coils having width of 600 mm or more, based on the preliminary findings and recommendations of the Director General of Safeguards (DGS). The levy will give some protection for the producers of the items, but will hurt the user industries whose input costs will go up. The provisional safeguard duty will be effective for 200 days during which the DGS will conduct further investigations and submit final recommendations on whether to continue the levy or not.

The notification levying the duty excludes hot-rolled flat products of steel with nominal width less than 600 mm, API grade steel, silicon electrical steel, hot-rolled flat products of steel of spring steel quality, hot-rolled flat products of steel, which are electrolytically plated or coated with zinc, hot-rolled flat products of steel otherwise plated or coated with zinc and hot-rolled flat products of stainless steel. The duty will be imposed on imports from all countries.

The speed and manner of this safeguard action is quite unusual and remarkable. The domestic industry represented on August 27, 2015 and within 11 days, the DGS initiated investigations.

Within two days thereafter, the DGS gave recommendations and the duty was imposed within the next five days. The interested parties were not heard. The applicants, Steel Authority of India Limited, Essar Steel India Limited and JSW Steel Limited had not reported lower production or drop in manpower employed or lower capacity utilisation. Their profits had gone up by 35 per cent in 2014-15.