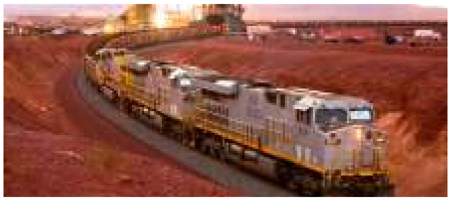
Iron ore transport costs may reduce if steel ministry has its way

The cost for transportation of iron ore by the railways may come down by up to 14% if the rail ministry pays heed to its steel counterpart's persistent demand. The freight reduction would be a welcome move for the steel and iron ore industry, but might cause a strain to the revenues of the railways, often called the lifeline of the nation.

Acting upon the repeated plea of the steel industry, the steel ministry has been urging the Suresh Prabhu-led ministry to change the freight class of iron ore and bracket it within the same class (145) as that of other raw material like coal, limestone, dolomite and manganese ore.

Iron ore is presently classified as freight class 165, same as that of steel. The steel industry argued that since iron ore is a raw material, it should be brought under freight class 145 and not put in the same



class as that of steel which is essentially a finished product.

"If this demand of steel ministry is accepted by the railways, the benefit that would accrue is to the tune of 13.8% less freight charge for transportation of iron ore by the railways," said a steel ministry source. The steel ministry had discussed the issue at least thrice since August last year at the Railway Board level, but nothing concrete has come out so far. In 2015-16, India's iron ore production stood at 135 MT. The difference in the cost of transportation between freight class 245 and freight class 265 hovers between R28 per tonne and R490 a tonne. Freight rates go up with an increase in kilometre. The gap also widens as the distance goes up.

If approved, this would be the second relief extended to the iron ore industry in the last seven months. In May, the railway ministry abolished the dual freight policy rates for iron ore. Earlier, it used to charge separately for transportation of iron ore meant for exports and domestic consumption.

Railways plays a major role in the country's transport market. In order to attract more customers to use railways for transportation, the ministry has initiated a major rationalisation of freight policies and also introduced computerised system to register demands for wagons and other steps to enhance efficiency and transparency in freight operations.

Restricted availability boosts EU steel prices

European strip mill product prices continued to strengthen, in January. The substantial upward pressure from raw material costs diminished. However, supply remained extremely tight and domestic mill delivery lead times stretched into the second quarter. Moreover, third country import volumes were very restricted, due to trade defence measures and high third country quotations.

Purchasing activity in the immediate run-up to Christmas was subdued but steelmakers report increased order intake, in early January. Underlying demand is firm. Producers are looking to implement further increases in the second half of the month, when trading resumes properly. They continue to be very strict on pricing policy.

Germany's manufacturing sector was buoyant at the end of 2016, with continuing growth. This year is forecast to be at a similar level, or even higher. Consequently, steel demand remains healthy. Strip mill products basis values continue to advance as a result of restricted supply and extended delivery lead times. Buyers believe that the steelmakers will continue to take advantage of the situation by claiming even higher prices in the short term. Service centre stocks are described as mid-range to low. Resale values are very high.

Buying activity remains moderate in the French market, except from the auto industry, which continues to boost demand, especially for coated coils. The absence of imports has caused availability problems, with domestic mill delivery lead times now stretching to April. In this context, EU producers intend to propose further price increases, which are likely to be accepted. Half-yearly contracts with the auto sector were settled at levels significantly above those of the previous six months. Spot market values, for the rest of industry, moved up a little in late December.

Italian strip mill product basis figures moved up, towards the end of last month, driven by tight supply. Antidumping legislation led to a considerable drop in import volumes, whilst delivery lead times from European steelmakers were extended. Transactions were slow at the start of 2017 as most companies did not return from the Christmas holidays until January 9.