Steel Consumption to Rise in Short Term

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Dr. A. S. Firoz, currently serving as Chief Economist at the Economic Research Unit of the Ministry of Steel, studied Economics in India's prestigious Jawaharlal Nehru University, New Delhi, to acquire is his Masters (MA), M.Phil. and Doctorate (Ph.D.) degrees. He worked on the problems of disequilibrium states of the market specifically involving consumer behavior in shortage economies of the erstwhile USSR, Hungary and Poland. He also worked on the concepts of soft budget constraints in investment decisions in both centrally planned and market economies.

He then moved on to study industrial development and growth and focused on metal and natural resource industries, including energy related products. He has been working for over 20 years on steel, aluminium, coal (coking and thermal) , metallurgical coke, petroleum coke, iron ore, etc. in both the Indian and global context.

He has a large number of publications in academic journals apart from over four hundred and fifty articles in various other journals, web based research publications, newspapers, etc.. He has addressed over one hundred and fifty international and national seminars and conferences in India and across over twenty five other countries.

Firoz is globally recognized as an expert in steel and energy. While on sabbatical from the current position, he worked on several important research projects involving coal, iron ore, steel and oil with several industry behemoths. In addition, he was deeply involved in major research works with organizations such as Indian Council for Research on International Economic Relations (ICRIER), National Council for Applied Economic Research (NCAER), Federation of Indian Mineral Industries (FIMI), Hatch (UK), etc..

Firoz advises the government on various policy and strategic matters related to the iron and steel and coal and other related sectors.

He is also a passionate photographer and has held several exhibitions of his fine art photographs in the top galleries in the country.

Speaking to Sushma Upadhyay from the editorial team of Steelworld, Dr. A. S. Firoz expressed his views about the current situation in Global as well as Indian steel industry.

Excerpts.

How in your opinion is the current situation in Global as well as Indian Steel Industry?

It is interesting to see that despite extensive overcapacity worldwide competition in the market, steel prices have increased significantly over the last year and a half. I do not believe that demand and supply conditions in the global market

have been relevant so much in this turnaround. Much of the steel price movements have always been speculative, shaped by sentiments or are the outcomes of manipulations by the steel industry itself from countries with large capacities and volumes to export. If there was no reason really for HR coils prices to collapse to about $260 per tonne in January 2016, there is no reason either to see them at US$ 600 per tonne now. While the increasing number of trade actions may have forced the Chinese mills or many others to remain careful about pricing, the irony of the situation is that the Chinese mills are making almost the same amount of money exporting far lower quantities. The steel producers globally has found some comforts and nobody really knows who has brought this for them.

As far as India is concerned, the main concern is the state of the local demand, which has been sluggish beyond expectation. The slowdown in private investment and financial stress in the housing sector have been responsible for slow growth in steel demand within the country. The government coming in with massive support to the domestic industry from foreign competition has helped the industry to maintain a reasonable price line. The strong global market has also produced opportunities for Indian plants to tap the world market. Exports have risen. But, with high global prices imports will also rise as the current prices are higher than the anti-dumping floor prices wherever applicable. The industry will see their finances improve this fiscal. They will be helped further if domestic demand moves up to support them to raise production and improve the capacity utilization of their plants and raw materials prices, especially coking coal remain stable.

If Industry needs to expand, it requires huge capital from financial institutions which is not available easily. What can be the way forward?

The steel industry has to make profit. The government has done its bit to provide all the support to keep its top line strong. The higher international prices have also helped. The industry has to ensure its costs are lower and thereby profits maximized. A financially strong producer will get all the support of the financial institutions and the capital market. The problem is that there are steel makers whose debt are unbearable and the banks are not prepared to go all the way. The industry will perhaps attempt certain degree of restructuring in ownership pattern with mergers and acquisitions. But, industry wide restructuring is unlikely. The government owned PSUs will have to focus on efficiency improvement to cut costs to raise more funds.

What is your take on short term and long term future of Indian Steel Industry?

I see steel consumption growth rate to rise in the short term. The government has announced huge expenditure on infrastructure and industrial development with its flagship Make in India programme. Since many such projects have not come to the point when steel will come to use, the steel makers will perhaps have to wait a little longer, but, not much. However, there is still uncertainty over private investments and until and unless the private sector comes back to invest in creating assets, steel demand will remain muted. At this moment, steel consumption growth pattern has not been uniform over all product categories. I would see growth to remain stable for flat products.

However, taking a long term view on the steel industry has become increasingly complex due to rapidly changing major variables such as technology, economics in steel use, changes in industrial structures, etc..Some of the basic indicators of long term growth in steel demand such as per capita steel consumption, steel consumption in GDP are still way lower in India in global comparison. This indicates spaces for potential growth at a broader macro economic level. However, steel industry in India will face the challenges of substitution threats from alternate materials, miniaturization, automation and introduction of low steel intensive lifestyle, consumer and other new technology products. Further, use of thinner and lighter but stronger steel will actually reduce steel consumption by weight. We have noted decreasing steel intensity in GDP. At the moment, whether in India or the world, the long term future visibility about steel consumption trend is low and hazy.

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What is your comment on 300 mtpa capacity creation target set by the ministry of Steel?

This is based on a projected finished steel consumption demand of about 225 million tonnes domestically and about 20 million tonnes of net exports by 2030-31. It assumes that given the competitive advantage of steel production in India, the country will be well placed to produce almost all the steel that it requires and also serve the global market to the extent possible. These forecasts are reasonable and if the Indian economy turns to a sustained high growth period, say, for about 10 years, these projections will fall short and will have to be revised upward.