



Public decision making is never easy

The central government's recent decision to hike the import duty of steel scrap by 2.5% proves once again that public decision making is never easy.

Steel scrap (melting and stainless steel) is used in Electric Arc Furnace (EAF) and Induction Furnace (IF) for steel making. Secondary producers and stainless steel makers need large portion of scrap for their production. Currently, due to shortage of iron ore supply following ban on iron ore mining in Karnataka, the industry sees a sizable production deficit, which will be met up by imported scrap. Until recently, customs duty on imported scrap was zero. This has resulted in a surge of scrap import in the country from 4.5 MT last year to 9 MT this year (more than 100% rise).

While 'Zero customs duty' on scrap is good for both electric furnace producers and stainless steel makers, the same proves harmful for Sponge Iron industry. Unlike elsewhere in the world, in India electric furnace steelmaking is traditionally based on sponge iron than scrap, due to non-availability of sufficient domestic scrap.

Sponge iron draws an import duty of 5%. The year before last there was very little import. Last year, there was an import of 48,000 T of gas based DRI. This year the figure went alarmingly high to 700,000 T. The major import is from the Middle East including Iran, where gas price is US\$ 2-3 /MMBTU compared with India for US\$ 18-20 /MMBTU.

The sponge iron sector, dependent on iron ore, is facing severe raw material constraint. The sector reported negative growth rate of 15% (-30% for gas based makers, and -9% for coal based ones). Most sponge iron makers are utilizing 50% of their capacity.

Due to cheaper import of scrap, the sponge iron industry is heavily hit. Hence, while 'Zero Import Duty' is beneficial for electric furnace steelmakers, proves detrimental to sponge iron producers. Finally, earlier this month (May 2013) the government imposed 2.5% import duty of various types of scrap – melting, stainless steel, and also aluminium, citing the reason that it was of public interest.