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Should India walk the Chinese path in growing steel capacity?

ANALYST'S VIEW

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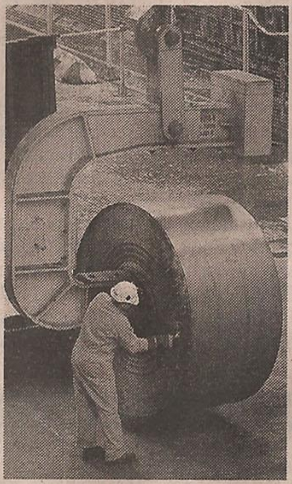
Two countries invariably to figure prominently in any steel conference are China for all its achievements, leaving the world in a state of surprise and India as the next major capacity growth centre despite hiccups in land acquisition and sanction of iron ore mines linkages. The practice was much in evidence at the recent 'global steel' conference. From Steel Authority of India Limited Chairman Chandra Sekhar Verma to coking coal and coke producer Arun Jagatramka had their presentations peppered with references to China. Not to say that foreign experts remain in awe of Chinese achievements in steel even while its demand and new capacity creation have become much muted in the post-2008-09 global economic meltdown. Jagatramka summed up the sentiment of all participants saying, "China is obviously down but certainly not out. Its dominance will continue to be felt in the global steel market and also in pricing of steelmaking raw materials."

He obviously said this in the context of the Chinese economy growing at its slowest pace in 13 years in 2012 and steel use by some industries there was quite uninspiring causing fall in prices. Nevertheless, China with production of 716.5 million tonnes (mt) raised its share of world steel output to 46.3 per cent from 45.4 per cent in 2011. How will China fare in 2013 in terms of steel output and consumption? Projection on the higher side by Credit Suisse is, Chinese production growth of six per cent. Most other agencies are, however, pegging it at four per cent. As the Chinese economy has started revving up after its soft landing, the country's steel use is likely to grow 3.3 per cent this year following a 2.4 per cent gain in 2012. Not one to underestimate the achievements of Chinese steel industry, principally responsible for Asia having a whopping 65.4 per cent share of 2012 world production, Verma draws attention to some pitfalls of 'overcapacity'. The presence of one too many units with unviable operations in the prevailing competitive environment and worrying levels of steel-centric pollution are results of China creating capacity at a breakneck speed over the past decade and a half. Verma avers China remains on the job of new capacity building, but it is also ridding itself of small and polluting blast furnaces. Simultaneous capacity creation and elimination will see China owning an over one billion tonne industry by 2020, he says.

Energy is becoming increasingly expensive and steelmaking is both highly energy and water intensive. In this context, many continue to wonder if Beijing was wise in encouraging building of a giant steel industry when it could have met its requirements by imports to a large extent. This would have spared China a significant amount of energy imports, including coking coal. Steel imports, it is also argued, would have reduced Chinese carbon footprint. But chairman of commodities and mining research of London-based Macquarie, Jim Lennon, is not one to agree that China would have done itself a service by becoming steel import dependent. "On the contrary, had China been an importer, the size of its requirements would have made world steel prices so much more expensive. That would have amounted to China importing inflation and curbing its growth rate." At no stage China was ready to risk its mission to have a strong infrastructure, including massive urbanisation and also becoming a production hub for the world on steel imports. Now, expect some major structural changes in the steel industry during China's 12th plan period. Beijing is giving a renewed push to capacity consolidation through mergers and acquisitions with three clear objectives. A consolidated industry, to the extent of the top ten groups owning 60 per cent capacity by 2015, will have the advantage of economies of scale. It will also then be able to exercise production discipline, needed badly in a surplus situation. China has, for long, nursed a grievance that its steel industry, despite its size, has little say in fixing of prices of iron ore. Metals researcher Wood Mackenzie says China will account for 70 per cent of global ore trade in the medium term, up from 60 per cent in 2012. Unarguably, capacity consolidation will allow China to negotiate import prices from a position of strength. According to Verma, as China is no longer inclined to volume growth at the bottom of the steel value chain, its industry leaders in alliances with foreign groups are making high-value special products, employing technologies not locally available. Verma has made it a SAIL mission to explore the possibility of using technologies like Corex, Finex and ITmk3 which allow making of steel without using metallurgical coal for which we are becoming increasingly import-dependent. Incidentally, China is also keen to induct all these technologies as it builds new capacity. Should India become the mirror image of China in its pursuit of steel capacity growth? Verma's unequivocal answer is, "while India does not need to emulate the volume achieved by China, steel production here must accelerate to meet robust demand growth" to primarily result from infrastructure building and urbanisation. Whatever the challenges in building new mills, we, like China, should stay self-reliant in steel to avoid imports at a premium to our production costs.



STEEL STATS

Month-wise crude steel production during 2012

China India ('000 tonnes)

Month	Production	* chg
Jun	60,213	-1.67
	6,375	-3.31
Jul	61,693	2.46
	6,359	-0.25
Aug	58,703	-4.85
	6,476	1.84
Sept	57,946	-1.29
	6,299	-2.73
Oct	59,096	1.98
	6,604	4.84
Nov	57,471	-2.75
	6,400#	-3.09
Dec	57,656	0.32
	6,600#	3.13

Note: Per cent change over previous month; * 62 countries; # estimated

Source: The World Steel Association