

# Export fetters by China, Russia to be a boon for Indian steelmakers

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Indian steel companies are hoping to grab a bigger share of the soaring global markets as a series of export regulations come into play.

China has removed export tax rebates for 23 steel products, mostly on downstream and value-added products. In addition, the export tax on pig iron and ferrochrome (key raw materials for steel production) is set to rise from 15 to 20 per cent and 20 to 40 per cent, respectively.

The move is aimed at diverting exports for domestic use as China moves to curtail steel production to be carbon neutral by 2050. Prior to China, Russia had announced temporary fetters on exports to cool soaring prices in the domestic market.

For Indian steel mills, it's an opportunity to increase its share in the export market. Exports largely helped tide over weak domestic demand in the past few months due to the second wave of Covid-19.

Data from CRISIL Research and JPC show that in the first quarter of the current financial year, India exported 3.5 million tonnes (mt) of finished steel, an increase of 9 per cent year-on-year (YoY) and 42 per cent quarter-on-quarter (QoQ) as domestic demand fell from 28 mt in Q4FY21 to 26 mt in Q1FY22. Exports from India will continue to be strong in Q2 and will moderate in the second half once the domestic market recovers, said Jayant Acharya, director (commercial & marketing), JSW Steel.

Isha Chaudhary, director of CRISIL Research, expects Indian steelmakers to take advantage of strong global



## TAX TWEAKS

- China removes export tax rebates for 23 steel products in cold rolled and galvanised products effective August 1
- Earlier, China revoked tax rebates on 146 steel products
- Export tax to rise from 15% to 20% for pig iron and 20% to 40% for ferrochrome
- Russia announces temporary export duty on steel, copper, aluminium, and other non-ferrous metals exported outside the Eurasian Economic Union

realisations and tightness in the export market and continue to export steel in the current financial year.

More so, a flat steel capacity addition of 6 mt this financial year will further drive exports as incremental supply is expected to be higher than demand, Chaudhary said.

### Bigger pie

China is the biggest steel supplier to the world and any space vacated by it could be an opportunity for net exporters of steel, including India.

"The removal of rebate on the export of value-added steel announced by China will open up more opportunities for exports from India. India will get additional access to markets, especially in South East Asia and Latin America," said Acharya.

"If Vietnam and other South-East Asian countries participate more in the downstream segment, then Indian companies can sell hot-rolled coil in these markets. For downstream, West Asia and Europe could be potential markets for India," said Ranjan Dhar, chief marketing officer, ArcelorMittal Nippon Steel India (AM/NS India), on the move by China. It's not just China that is looking to curb exports. Russia has announced an export duty on steel, copper, aluminium, and other non-ferrous metals exported outside the Eurasian Economic Union (EAEU) to curb prices in its domestic market, which is expected to add to the global steel trade deficit.

Russia is the second-largest exporter of steel with 31.5 mt of steel exported in 2020, according to data from CRISIL Research.

### Price impact

Export of value-added steel in 2019 from China was about 16-17 mt. The removal of the rebate will lead to an upward adjustment in prices of these value-added products globally, pointed out Acharya. Strong global demand is expected to provide support to domestic prices as well.

Chaudhary of CRISIL Research expects India to export 11-13 mt of finished steel in FY22 (as compared to 10.8 mt in FY21) driven by high export realisations and flat steel capacity surplus.

This will help limit any free fall in domestic steel prices and lead to a rise of flat steel prices in India by 45-47 per cent YoY in FY22, according to Chaudhary.

Q1FY22 saw prices of hot-rolled coil — a benchmark for flat steel — rise 23 per cent QoQ.

Prices are headed for an upward revision in the domestic market after a correction last month on the back of an improvement in demand. Prices will readjust on now improving economic activity and higher global prices, said Acharya.

"We will increase prices on the basis of demand recovery. It must be noted that India continues to be one of the lowest-priced steel markets. Also, exports are inversely proportional to domestic demand," said Dhar.

Currently, Indian domestic hot-rolled coil prices are about \$900 a tonne, said Acharya.

"That's lower by \$500 a tonne compared with prices of \$1,400 in Europe and \$1,150 a tonne with prices of \$2,050 a tonne in the US. Prices in Japan, Korea, and Turkey are also higher," he said.