Imports: a major challenge to the Indian stainless steel industry

The primary challenge for the Indian stainless steel industry is the high level of imports, constituting ~20% of the domestic market in stainless steel flat products. This has created a serious bottleneck in the growth of domestic production, leading to low capacity utilization along with financial and job losses. The first step to solving any problem, however, comes in identifying the causes, and here the ISSDA has completed a thorough investigation.

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In 2017, India became the second largest stainless steel producer in the world, with high demand driving growth. Sectors like architecture, buildings, and construction (ABC), and automobiles, railways, and transport (ART) continue to push the stainless steel demand higher, and with the "Make in India" flagship program of Indian Prime Minister Narendra Modi's government, India is likely to become the next global export hub. However, it is worth pointing out that the stainless steel industry heavily relies on market mechanisms. Since most of the ASEAN (Association of Southeast Asian nations) countries, including China, are riddled with excess capacities, they often dump material by utilizing trade facilitation measures. This practice hurts the domestic stainless steel industry, which has global consequences.

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The primary challenge for the Indian stainless steel industry is the high level of imports which constitute ~20% share of the domestic market of stainless steel flat products. This has created a serious bottleneck in the growth of domestic production, leading to low capacity utilization along with financial and job losses. The rise in imports is clear when comparing Ministry of Commerce data between the fiscal years 2017-2018 and 2018-2019. In just one cycle, the number of imports rose from 4,52,704 MT to 4,84,547 MT.

Surge in imports and remedial actions

Over the last 10 years, ASEAN countries continued repetitive dumping of stainless steel material in India. In order to check this surplus and to create a level playing field for the domestic producers, the government of India took several steps to curtail the problem, including the imposition of Anti-Dumping Duty (ADD) and Countervailing Duty (CVD) on imports. Sadly, these interventions did not have the desired effect on the domestic industry as they were entirely circumvented. For example, in order to circumvent the 18.95% CVD on imports from China, products were re-routed through ASEAN countries by utilizing free trade agreements (FTAs), thereby evading the basic custom duties (BCD).

The table below lists various measures imposed by the Indian government.

What's more is that these imports have resulted in an immediate shutdown of small-scale units and are making operations for domestic producers non-viable. Given an unchecked dumping of stainless steel goods, domestic pipe & tube manufacturers are turning into mere traders. This is undermining the SMEs (small and medium enterprises) and is hurting domestic manufacturing significantly.

India's Free Trade Agreements (FTAs)

India has three key operational FTAs: India-ASEAN FTA, India-Korea CEPA, and India-Japan CEPA. However, these have merely contributed to increasing India's trade deficit. FTAs with major stainless steel producing countries have not worked to any advantage for the Indian industry; rather they have only favored other partner countries. A case in point is FTA with ASEAN countries, which is being used to route non-ASEAN origin material, violating the rules of origin. Development of stainless steel capacity in Indonesia by large Chinese stainless steel companies may not just displace India as the second largest stainless steel producing country by 2020 but could also enable easy access to the Indian market via the FTA, thereby jeopardizing the domestic stainless steel industry. This heavy investment by Chinese companies is due to the natural availability of nickel ore, a key raw material for manufacturing stainless steel, in Indonesia. It is estimated that the new capacities in Indonesia will contribute to almost 10% of the total world's production.

The data in the graph below clearly underlines the problem of re-routing finished stainless steel goods via Indonesia, where Chinese imports are decreasing and Indonesian imports are on the rise. This is done by misusing India-ASEAN FTA.

In addition to this, a CVD investigation conducted by the Indian government established the existence of subsidies in China. A total of 81 subsidies were examined in the final findings. Based on this, a CVD to the tune of 18.95% was imposed on the import of stainless steel flat products from China.

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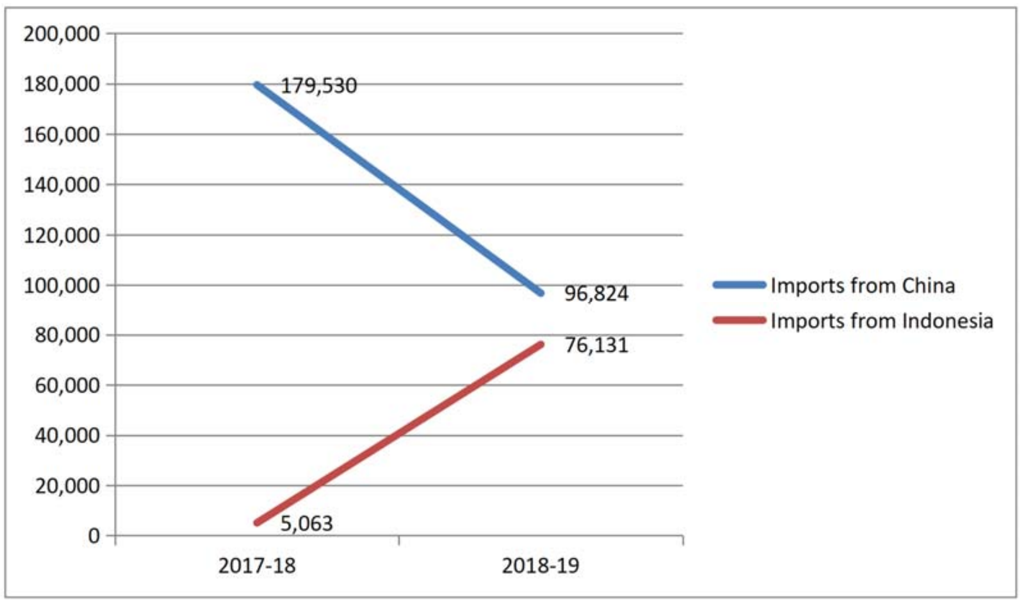
Notification #	Nature of Duty	Countries Covered
14/2010-Customs	Anti-Dumping Duty	China, EU, Korea, Taiwan, South Africa, Thailand & USA
46/2012-Customs (ADD)	Anti-Dumping Duty	EU, Korea & USA
61/2015-Customs (ADD)	Anti-Dumping Duty	China, EU, Korea, Taiwan, South Africa, Thailand & USA
52/2017-Customs (ADD)	Anti-Circumvention Duty	China, EU, Korea, Taiwan, South Africa, Thailand & USA
28/2015-Customs (ADD)	Anti-Dumping Duty	China, Korea & Malaysia
1/2017- Customs (CVD)	Countervailing Duty	China



All figures in MT.

Effect on the downstream industry

A significant portion of the downstream stainless steel industry consists of utensils, kitchenware, and pipes & tubes. Since the imposition of CVD on imports of stainless steel flat products from China, importers have shifted to downstream products. The surge in imports was most significant in stainless steel welded pipes and tubes.

Moreover, subsidized Chinese stainless steel is also being imported into Vietnam and is subsequently converted into pipes and tubes. These stainless steel pipes and tubes are then exported to India. The very purpose of imposition of a CVD is thus defeated.

> *"The imposition of 25% import duties on all steel products is bound to impede world trade.*

Imposition of trade remedial measures by other countries

The imposition of 25% import duties on all steel products by the US government under Section 232 has ushered in a new age of protectionism, bound to impede the growth of world trade. This measure is incompatible with the World Trade Organization (WTO) Agreement on Safeguards. This has resulted in other countries/blocs adopting reciprocal trade actions. Some of them are given below:

- ► The European Union imposed a provisional tariff rate quota on various steel and steel products as part of the safeguard investigations in July'18.
- ► Taiwan initiated anti-dumping investigations against imports of steel/stainless steel from China.
- ► Brazil slapped anti-dumping duties on imports of welded pipes and tubes from Malaysia, Thailand, and Vietnam.

These reciprocal actions are a result of the emerging fear from excessive dumping from China in other countries, as access to the US market is now blocked. This is likely to have some serious consequences for the Indian stainless steel industry:

- ► As both the European and the US markets are now effectively blocked out, there will be loss of markets, volumes, and profitability for Indian stainless steel manufacturers.
- ► There is a huge threat of dumping of stainless steel flat products from both, Indonesia and China, as both are riddled with excessive capacities. The existing ADDs and CVDs on China have proven to be inadequate in terms of effectively addressing the issue of dumping/subsidization.
- ► Major stainless steel producers like Taiwan, Japan, and Korea also have excess capacities and are major exporters to the US and European market. With these markets now blocked out, these countries will target the Indian market due to its alluring large size, coupled with healthy growth and easy market access. While currently there are no trade remedial measures in place against Japan, the existing ADDs on Korea and Taiwan are extremely low to be of any use. Furthermore, the zero duty benefits on stainless steel under the India-Korea and India-Japan FTAs will drive imports from these countries.
- ► Other countries like Malaysia, Thailand, Brazil, and Vietnam also have ADDs on imports of stainless steel flat products in place (especially against China). This implies that the dumped products from China will be blocked out from these markets, which will then automatically be redirected to India.

RCEP (Regional Comprehensive Economic Partnership),

Another imminent threat to the domestic stainless steel industry is the possible inclusion of stainless steel products in RCEP, which will result in a huge surge in imports from China. RCEP is in advanced stages of negotiations for agreement which includes ASEAN countries along with China, Korea, Japan, Australia, and New Zealand. ISSDA has notified the government of an imminent threat to domestic stainless steel industry if stainless steel is part of RCEP, and has appealed from its exclusion from the agreement.

ISSDA also voiced this major distress before the government ahead of the full budget presentation and sought an immediate custom duty relief on importing key raw materials that can help boost domestic stainless steel production. As a key recommendation in its submission, ISSDA has apprised the government of India that Ferro-Nickel and stainless steel scrap attract an import duty of 2.5% each and are unavailable in the country, thereby creating a need to be imported. This elevates the overall cost of stainless steel production in the country. ISSDA has worked out that any revenue loss due to relieving basic customs on these two commodities will be more than made up by a higher domestic production and its consequent multiplier effects on the economy.