

Why are scrap importers angry with DRI producers?

In recycling, major metal-producing countries have found a sure way to reduce their carbon footprints. Besides improving sustainability of metal production, scrap recycling is a good way to reduce costs. Steel, the production of which is the highest among all metals, and non-ferrous metals such as aluminium and copper lend themselves to infinite recycling without quality degeneration. Steelmakers using electric arc furnaces (EAFs) and induction furnaces (IFs) are major users of scrap, owing to their structures and processes. The ones with basic oxygen furnaces (BOFs) are also using scrap to control the heat carbon in iron and injection of oxygen generate. In the BOF route, a substantial volume of scrap is generated in the process of melting, casting and rolling.

But this isn't enough; BOFs have to buy scrap from the market. As the generation of steelmelting scrap is limited in India, we remain a large importer of the material. According to the Bureau of International Recycling (BIR), last year, India was the third-largest importer of steel scrap, after Turkey and South Korea. Turkey raised scrap imports 4.5 per cent to 22.4 million tonnes (mt), producing 35.884 mt of crude steel. This is a testimony to the usefulness of the feedstock for steelmaking. According to BIR, steel scrap used to make steel stood at 570 mt last year; world crude steel output stood at 1.55 billion tonnes.

How much steel scrap does India generate annually? There is no precise estimate. Generation, collection and sorting of scrap remain largely unorganised, in the absence of a legal framework such as end-of-life regulation for vehicles, potentially a major source of scrap. In an interview with Steel Insights, Zain Nathani, vice-president of Metal Recycling Association (MRA), said domestic steel generation estimates varied from 7 mt to 10 mt.

Things should become more orderly once the government comes out with a rule that vehicles, after their useful life is over, would be consigned to the scrap yard. The grounds for preparation of a policy framework and the legalities of operation of the ferrous scrap industry would be laid down, as a position paper is prepared by an expert body--- a joint initiative of the steel ministry, the joint plant committee and MRA. "We will have a pretty good idea of the domestic market in the next six months," Nathani said, referring to the commissioning of the report.

In India, the feedstock mix for EAFs is 60 per cent direct reduced iron (DRI) and 40 per cent scrap. Usually, IFs use 80 per cent DRI, 15 per cent scrap and five per cent pig iron. These units in the secondary steel sector, however, have the flexibility to go on changing their raw materials mix, depending on the supply and prices. According to the steel ministry's report for 2012-13, during April to December 2012, the percentage share in the country's crude steel production was 43 per cent for BOFs, 24 per cent for EAFs and 33 per cent for IFs. Our steel industry structure underlines the importance of melting scrap as feedstock. It is, therefore, not surprising that All India Induction Furnaces Association (AIIFA), as well as those engaged in scrap imports, are crying foul over the recent "totally unexpected" imposition of 2.5 per cent import duty on melting steel scrap and stainless steel scrap.

Globally, steel is seeing bad times and the levy has come at a point when selling prices of steel hardly allow recovery of production costs. AIIFA President K K Garg says like a "tsunami, the levy has hit secondary steelmakers. There is no way we can absorb the extra cost resulting from the levy. This must be borne by buyers of our products". Besides the import duty, a major fall in the value of the rupee against dollar has put strain on users of scrap. Considering the steel market, secondary producers wouldn't find it easy to load it on steel prices.

Consider the downgrading of the outlook of major steel producers for the July-December period from stable to negative by India Ratings & Research. The agency sees steel demand "muted" in the second half, before improving next year. A 12 per cent drop in Tata Steel sales to 2.06 mt in the first quarter of 2013/14 over last year's final quarter reflects the country's steel demand situation. Our scrap imports, including stainless steel for recycling, stood at 9mt last year. The 2.5 per cent levy, seen as a desperate attempt by the government to garner funds to control fiscal deficit, coupled with a steep fall in the rupee, is likely to result in a fall of about 30 per cent in scrap imports this year. Scrap importers say DRI producers, hit by low capacity use, have lobbied hard with the finance ministry for the scrap import tax. Since 2003, India has been the largest producer of DRI. As DRI and scrap are competing products, the blame-game isn't unexpected.

ANALYST'S VIEW

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GRIM SITUATION

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