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INDIA

REGIONAL PERSPECTIVES ON NATIONAL, REGIONAL AND GLOBAL DEVELOPEMENTS: INDIA'S PERSPECTIVE

Joint India/OECD/IISI Workshop, New Delhi (India), 16-17 May 2006

Presentation by Dr. Veena Jha, Coordinator, UNCTAD India Programme.

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United Nations Conference on Trade and Development

Regional Perspectives on National, Regional and Global Developments: India's Perspective

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Indian Steel Industry: Profile

	2004-05 *mT (Actual)*	***% Growth of 2004-05 over 2003-04***	2005-06 (mT *Prov)*	***% Growth of 2005-06 over 2004-05***
Production	40.055	**8.38**	42.636	**6.4**
Export	4.381	**-9.38**	4.350	**-0.7**
Import	2.109	**36.94**	3.765	**78.5**
Availability	34.564	**10.78**	38.351	**11.0**
Consumption	34.389	**10.33**	38.151	**10.9**

Per capita steel consumption is around 30 Kg

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Indian Steel Industry: Projections for 2020

Production, Imports, Exports and Consumption of Steel

(in million tonnes)

	Production	Imports	Exports	Consumption
2019-20	110	6	26	90
2004-05	38	2	4	36
CAGR	7.3%	7.1%	13.3 %	6.9 %

Source: National Steel Policy

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Indian Steel Industry Projections: Understated?

- Projection for steel production and consumption based on past trends
- Projected consumption probably understated by more than 35%
- 8% GDP growth coupled with changing demographic profile are likely to drive steel consumption to about 125 mT by 2020.

➢ Assumption : Elasticity of steel consumption with respect to GDP is ~ 1, although some studies estimate a value of 1.28 if GDP related to the infrastructure is used.

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Projected GDP till 2020

Year	BRIC				G - 6					
	Brazil	China	**India**	Russia	France	Germany	Italy	Japan	UK	US
2000	762	1078	**469**	391	1311	1875	1078	4176	1437	9825
2005	468	1724	**604**	534	1489	2011	1236	4427	1688	11697
2010	668	2998	**929**	847	1622	2212	1337	4601	1876	13271
2015	952	4754	**1411**	1232	1767	2386	1447	4858	2089	14786
2020	1333	7070	**2104**	1741	1930	2524	1553	5221	2285	16415

Projected GDP in 2003 Billion USD

Source: Goldman Sachs Dreaming with BRICS: the Path to 2050

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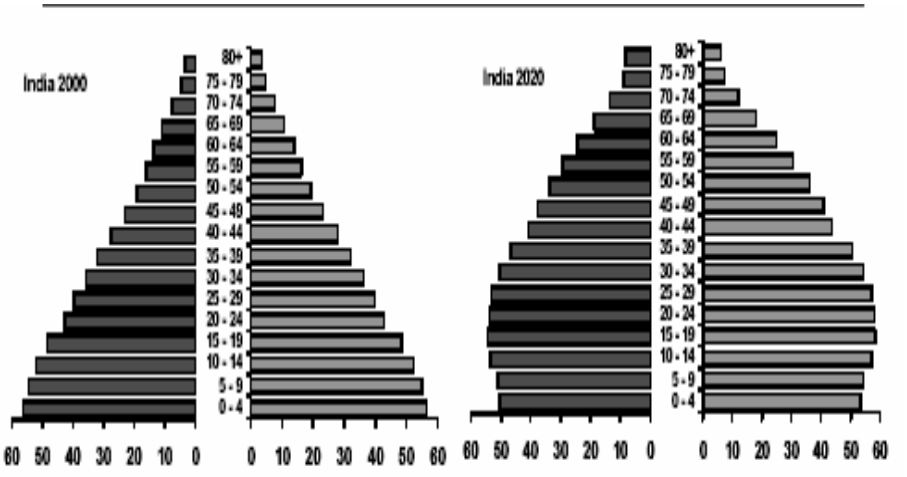
India: Changing demographic profile



Source: India: Stealth Miracle Economy by PK Basu

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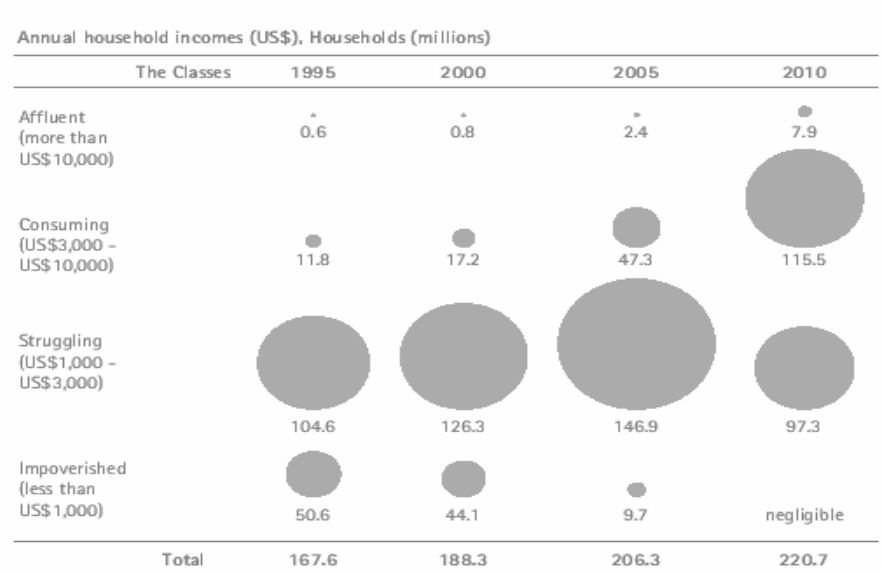
India: Changing Consumer Dynamics



Source: Economist Intelligence Unit, Accenture analysis

Changing Demographic Profile: What does it imply for India's steel situation

- Young population and a declining dependency ratio
- By 2010 there would be nearly 125 million consuming and affluent households.
- Urban disposable incomes would shoot up.
- Likely to fuel significant demand in automobiles and housing sector → surge in steel demand.

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Auto Sector: Present situation and Projections

- Only 7 cars per 1,000 people
- Penetration is still very low, so the potential consumption ahead is high
- A greater willingness among consumers to see the car as part of their ordinary lives.
- Goldman Sachs has predicted that India will have the largest number of cars by 2050

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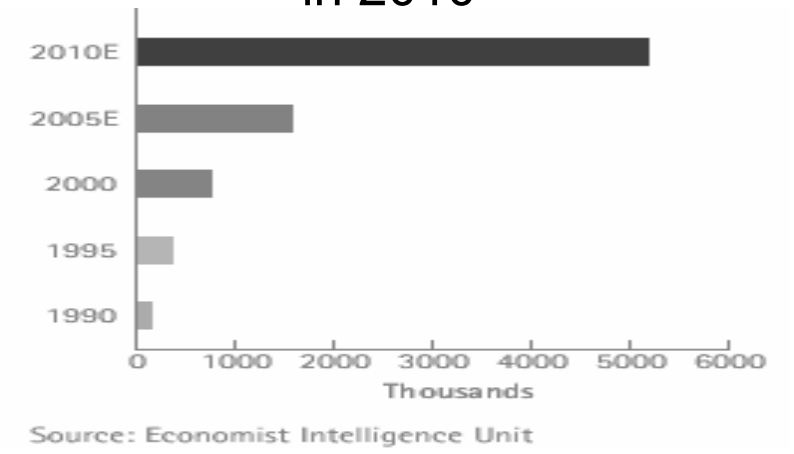
Auto Sector: What might it look like in 2010



25% annual growth till 2010 -> 15 -20 mT of steel may be required by the auto sector

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Housing Sector

- Fast growing middle class, with disposable income would make significant demands on the housing sector.
- About 75 million additional dwelling units may be required by 2010 and 125 million by 2020
- Would significantly raise steel consumption

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Infrastructure: Kick starting the process

- To upgrade rural infrastructure, the Government of India has conceived a time-bound flagship programme for the country under Bharat Nirman.
- A commitment of over Rs. 1,74,000 crores (approx. $ 38 billion) has been made to Bharat Nirman.
- Targets of Bharat Nirman envisage 1,46,185 kms. of road length to be constructed by 2009.

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Infrastructure: Kick starting the process

- It is also proposed to upgrade 1,94,132 kms. of the existing Associated Through Routes. A sum of approximately Rs. 48,000 crore (approx. $ 10 billion) is proposed to be invested to achieve this.
- Using current elasticity estimates, an increase of 10-12% per annum is expected in the consumption of steel by the infrastructure sector.
- Overall demand for steel in the construction sector would be 65-85 mT by 2020.

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- Changing demographic profile, steady GDP growth and investment in infrastructure likely to shoot demand for steel up to about 125 mT by 2020. Growth in demand may be sustained.

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India's growing steel demand- How would it be met

- Cost differential required to switch from domestic supply to imports is about 35%
- Cost of steel production in developing countries much lower than in developed countries
- India would find it cost competitive to meet its domestic demand increases through creation of domestic capacity rather than through imports – unless prices of imported steel are distorted.

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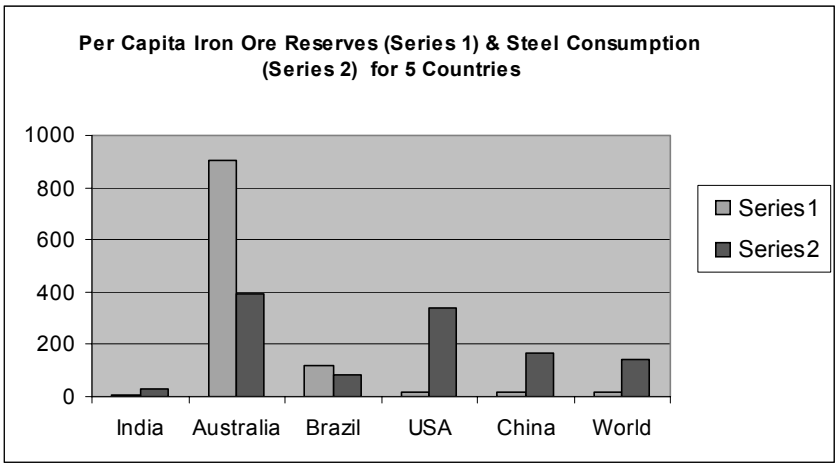
India's growing steel demand- Raw Material Constraints (Iron ore)



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Raw Material Constraints (Iron ore)

- India's per capita iron ore reserve is 10 tonnes as against 120 tonnes for Brazil and 900 tones for Australia
- Iron ore exports doubled during 2000 – 04: mainly high grade hametite
- At this level of exports, India's entire known reserves of high grade iron ore would be exhausted in less than 20 years

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Raw Material Constraints (Chrome ore)

- India has less than 1% of the known reserves of chrome ore in the world.
- However, its share in global exports is 35%
- Unless additional reserves are discovered in India, the existing reserves will not last beyond 20 years – would adversely affect alloy and stainless steel capacity

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Raw Material Constraints (coking coal)

- Currently steel industry imports around 19mT of coking coal and procures 7.5 mT from indigenous sources annually.
- By 2020 about 70 mT coking coal would be required, 85% of which would be imported.
- India has faced acute temporary shortage of coking coal in the past

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Ensuring availability of raw material for steel industry: Trade Policy as a Tool ?

- Industry wants government to reduce/ prohibit exports of high grade iron ore and chrome.
- On the other hand, industry wants other countries to allow unrestricted exports of coking coal
- Government would need to resolve the trade policy conflict – whether trade policy instruments should be allowed to restrict exports of natural resources

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Ensuring availability of coking coal

- India actively engaged with Australia on trade cooperation.
- India could leverage FTA negotiations with Australia for obtaining assured supply of coking coal over next 15-20 years.

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Global Developments: Using WTO Subsidies Negotiations to address capacity issues

- According to the US, certain subsidies have forestalled industry restructuring
- Creation and maintenance (C&M) subsidies – steel sector specified
- These subsidies have created inefficient excess capacity, leading to market distortions and source of chronic trade friction
- US suggests stricter disciplines on these subsidies

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Disciplines on C&M subsidies: Implications for India

- No clear definition of C&M subsidies
- 'Capacity' issues not covered under ASCM
- Overall, prohibition on C&M subsidies could hamper govt. efforts aimed at attracting investments in backward regions
- Given the 35% additional costs associated with imported steel, low per capita steel consumption and likely surge in consumption, there should be no prohibition on C&M subsidies for developing countries like India .

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Conclusion

- Given the likely surge in demand for steel in India, outcome of WTO negotiations should not result in additional restrictions being imposed on the ability of the government to support creation of new steel capacity and maintenance of existing capacity.
- If distortions in steel reduced/ eliminated, production would get aligned with cost. This would improve availability of raw materials for cost competitive steel production.

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