



Indian Steel Industry: Problems And Challenges

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ABSTRACT

The New Economic Policy of 1991 and National Steel Policy 2005 are influenced the Indian Steel Industry in many ways. The system, there went radical changes. For steel makers, economic reforms opened up new channel for their inputs at competitive prices from other markets while unveiling new markets for their products. It also led to greater access to information on global operations and techniques in manufacturing. It seems that Indian Steel industry will grow at a robust rate with significant increase in both production and consumption. The demand for steel in the country has been projected at 200 million tonnes by 2020. To attain the above, Indian steel industry problems and challenges are to be addressed. In this view the researcher has made an attempt to reveal the problems and challenges before the Indian Steel Industry.

KEYWORDS

Globalization, National Steel Policy, Steel Production & Consumption, Transformation, Poor consumption of steel, Labor Productivity, Cost of Capital, Labor Cost, High Grade Iron Ore, Coking Coal, Railway Tariffs

INTRODUCTION

The challenges that confront Indian steel industry in the age of globalization are complex in nature. The secret of sustainable growth lies in how Indian steel industry faces the challenges and develops combative and anticipatory prowess. Problems and solutions may vary with organizations but there is more a commonality that initially meets the eye. There is need for policy support for the survival of the ailing steel industry; Government and the management of steel industry should simultaneously take care of its total transformation towards a better future. The development of steel industry cannot take place in isolation and for that there is a need for the creation of supportive infrastructure and also for the development of a sound and efficient raw material base.

The steel industry has been facing the following problems. They are Raw materials problems, Infrastructure needs to be developed, Impact of global recession on production, steel prices and employment, Low per capita consumption of steel.

Raw materials: A big challenge before the steel industry

It has been a matter of major policy debate whether the country should try to develop its resources like Iron ore and coal fully or instead import the same if supported by commercial merits. It is also a major policy issue whether the iron ore produced in the country, especially the high grade variety with higher ferrous content, should be retained for the use of the domestic iron and steel industry or used commercially to the extent possible by exploiting all possible export opportunities. Further, though the country has sufficient reserves of iron ore to meet the requirements of steel industry for short to medium term, the same is not true in the context of long-term requirements of the country.

Coal is one of the most important raw materials for the steel industry. Even the projections made by several expert bodies indicate a huge shortfall of both coking and non-coking coal. Although the country has very large reserve of coking coal, the quality is poor due to very high ash content. The ash content of delivered washed coal from Coal India falls in the range of 19-20 percent for SAIL plants compared to 9-10 percent in the case of imported coking coal. Coking coal factor has several implications on the Indian steel industry. Short supply has led to increased and near total continuous dependence on imports creating supply uncertainties unless long term or evergreen contracts are signed with the major coal companies in the world.

Power problems:

Cost of electricity in India is among the highest in the world and on top of that the supply and quality remain uncertain. This has slowed down the progress of steel making in the country. The future, however, looks brighter since several power generating projects are under active planning and implementation. While the problems relating to the availability and pricing of electricity are well known, the steel industry will have to take steps to reduce energy consumption and adopt those technologies that are less dependent on electrical energy till the ongoing reforms in that sector bring out results.

Power cost recorded 2.2 in South Africa, 3.8 in Canada, 4.0 in South Korea, 4.3 in USA, 4.7 in Mexico and observed 5.9 in India. Moreover, the power cost in India as compared with other nations is very much higher. It is observed that a country like South Africa is ahead in lower power cost. The country like South Korea is at the fore front and enjoying competitive advantage in steel industry. The power cost is a major constraint for Indian steel makers to play a dominant role in the future in global market.

Labor Costs

The other major source of competitive cost strength for the Indian steel makers is derived from low wage costs. This is typically a developing nation syndrome, but has further been helped by abundance of workers at the right age group. However, labour productivity has not been the same across the steel plants in the country. Lower productivity has robbed the steel plants of many of the advantages of low wage rates. If the wage rates continue to rise, especially in the public sector, without a proportionate rise in productivity, these companies will not only lose out internationally in terms of cost but also to those domestic companies who have managed their employment levels and productivity much better within the country itself.

Cost of Capital:

High capital costs have been a major hurdle in the growth plans of the Indian steel industry. Judicious capital investment and making the most of the capital assets to gain labour productivity, material and energy saving and quality improvement of products are by far the most important areas that the industry has to focus on. Capital investment after the completion of the project - on maintenance of assets, modernization of facilities and overall resource development - is equally important. The RINL Plan envisages expansion of the capacity to 16 MMTs by 2019. If there is no judicial capital investment by

the RINL, there is an adverse impact on labour productivity, energy savings and economies of size. If any delays take place the cost overruns. **Infrastructure**

The most important externality that affects the costs of production and sales is the availability of infrastructure. Poor physical infrastructure for transportation hits the steel makers both while carrying raw materials, machines etc. and in moving the finished goods for sale. The quality of infrastructure available to the steel industry even to undertake its day-to-day operations is grossly insufficient. It has resulted in high costs at every stage.

Indian Railways: Comparatively high tariffs

It is observed that the Indian railways are comparatively high tariff charges. The railways tariff (PPP US Cents/Ton K.M) in Sweden 2.0, In Japan 3.7, in France 5.5, in Canada 2.0, in China 2.6, and observed in India a highest of 7.9. Railway freight and railways sidings charges have increased every year, which in turn added to the cost of production of steel, for domestic as well as exports. Nearly 64 percent of iron ore and 88 percent of coal has to be moved to RINL by railways. About 42 percent of finished steel has to reach to the customers by rail. The RINL has been experiencing shortage of wagons for procuring raw materials. It is observed that the transport cost of iron ore and coking coal increased 226 percent and 265 percent respectively between 1998 and 2015. Transportation of finished steel also increased by 228 percent during the same period. These factors adversely affected.

Lower R&D Initiatives:

India is identified as one of the nations which spend low amounts on R&D initiatives. In India these expenses as a percentage of GDP are registered as 0.81 in 2007-08. G-8 nations like Germany, Japan and United States have been spending huge amounts on R&D activities. These nations incurred expenses on R&D amounting to 2.79, 2.85 and 2.66 per cent respectively in 2006-07. In countries like Brazil and South Korea R&D initiatives are moderate and recorded 1.38 and 1.63 as a percentage of GDP.

Steel prices are stridently turndown since 2008:

In the beginning of 2008 the prices of steel reached a record level, mainly pushed by the strong demand from China. In the recent past the steel prices declined by 25 percent to 35 percent due to weak demand and dramatic over supply. Steel prices have already reached their lowest potential but the environment is still very unstable. Slight changes might lead to further price reductions. As a result, the steel producers have globally reduced their production level drastically by 20 percent to 30 percent. For the forth coming year of 2016; however, the situation should be stable enough and allow prices to increase.

It registered a decline in steel prices during recession period in Brazil by 38 percent, in Russia by 39 percent, in China by 26 percent, in USA by 45 percent, in Europe by 42 percent, and in India by 36 percent. It is observed that there is a reduction in steel prices globally during recession period. Steel prices have declined drastically by 45 percent in the U.S and by 42 percent in Europe. The researcher has identified decline in BRIC nations at 38 percent, 39 percent, 36 percent and 26 percent respectively. It is acknowledged that the world average decline is by 35 percent.

India's poor consumption of steel:

In per capita consumption of steel, China surpasses the other nations of the world. In 2014 the per capita consumption of steel in China was 480 kgs. It is a 150 percent growth over the year 2005. Whereas India is the lowest per capital consumer of steel since 2005, as compared to the other nations of the world. In 2005 it was consuming 39 kgs and it pushed up to 58 kgs by 2014. In case of the world, it was 180 kgs in 2005 and enhanced to 234 kgs in 2014. South Korea is the global leader in the per capita consumption of steel. Austria, Japan, and Spain are the other countries in which the per capita consumption of steel is more than 500 kgs. India needs to grow in per capita consumption of steel in the near future.

In India, the advantage of cheap labor is offset by low labor productivity; e.g., at comparable capacities labor productivity of RINL and TISCO is 385 tonnes/man year and 450 tonnes/man year respectively, for POSCO, Korea and NIPPON, Japan the values are 1345 tonnes/man year and 980 tonnes/man year. Labour productivity in India on an average is 126 tonnes/man year. The usage of modern technology is more in advanced countries like South Korea and Japan. So they are able to produce more and such nations are getting advantage in higher Labour productivity.

Conclusion:

The Researcher has made a critical assessment of the problems and challenges of Indian Steel Industry and examined major policy issues and estimated potential demand for steel. Based on observations and findings the researcher wishes to make Indian steel industry globally competitive with sympathetic policy framework in Iron Ore, Coking Coal, Infrastructure, Railway Tariffs and Power. As a result MAKE IN INDIA will be possible.

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