Competitiveness and Competition Issues in the Context of the Steel Industry in India

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PREFACE

The enactment of competition law in the country and the institution of the Competition Commission of India (CCI) have exhibited the seriousness of the government to deal with cases of market imperfections which result either from abuse of dominance or specific government policy. This has also opened up the need for different sector or industry specific studies to identify the need for the intervention in the market as and when required and also to correct policy distortions which lie at the root of such imperfection in the market providing differential benefits to industry segments, individuals or interest groups.

Absence of sufficient competition in the market leads to inefficiency in resource allocation and utilisation. It also goes against consumer interest. Therefore, globally, there have been significant public attention to competition issues and the relevant government policies.

While market imperfections do not have a one to one correspondence with the efficient performance of an industry or an individual agent in the economy, these are related in many different ways as lack of competition in the market can hugely impact competitive positioning of an industry or any player within that in the national, regional or global comparison.

The steel industry in India is at a critical juncture from the point view of its future growth and the slowdown witnessed in the past few months. The question whether the industry has the potential to grow on its own competitive strength in a free market unaided by policy support of the government and accessing financial and raw materials resources at market prices needs to be addressed first in order to ensure that the growth path of the industry remains optimal and investment resources do not get unduly drawn towards it. This is certainly not to mean that there should not be investments in steel. It is an important industry for the economy with significant prospects. But, a proper assessment is needed for a correct policy framework so that the resource flow into the industry is optimally determined.

This study has a limited scope. It examines on a wider perspective the competition issues related to the steel industry today and their relevance to the competitive efficiency of the industry. We believe that an exhaustive study is needed on the issues related to both competition in the market and the competitiveness of the Indian steel industry raised in this short study.

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1.0 Objective

1.1 This paper examines the structure of the steel industry in India to identify the structurally inherent and also the market determined positioning of various steel firms specifically to see their market power, vis-à-vis both their final consumers as also those within the steel industry. The issues emerging out of the **size and market shares**, specifically taking into consideration the investment aspects are also being taken up subsequently.

1.2 The other issue of significant importance in the context of competition policy is the command over natural resources which come to some at non-market and expectedly at relatively low prices of the related assets to provide a significant cost advantage over the rest in the market. These are derivatives of a government policy to support growth of a particular industry based on specific natural resources without at the same time considering the market value of the assets transferred for exploitation. It is the mineral assets (mines) such as those related to coal, iron ore, manganese ores, etc. which come into the context of the steel industry in India (as also globally).

1.3 Finally, this paper analyses briefly the factors determining competitive position of the Indian steel industry and the role the government is playing through policy interventions in shaping that up. The paper also raises the issues emanating from market imperfections and assesses their relevance in creating the competitive strength of the industry. It is necessary to mention that this issue needs a very detailed examination and is beyond the scope of this study.

2.0 Competitiveness: the conceptual framework

2.1 Competitiveness is an efficiency related concept. The efficiency could be related to internal subjects such as operation and management. The same can also be derived from external conditions such as resource availability, infrastructure, higher levels of skill available locally, climatic conditions, wage rates, proactive policy based support of the government, etc..

2.2 The concept of competitiveness has no relevance in the absolute sense. It is a relative concept and is used only in comparison. It is also difficult to find a definite basis or a clear well accepted analytical framework for such a comparison. Apart from the larger issues pertaining to broader local or the global economy, the specific conditions of the industry are to be carefully studied for any study that is related to an industry in a country or the players within the industry. Intra industry comparison may be both on domestic and global basis. The point to be noted here is that the analytical tools used for such comparisons are always to be rigorously defined as the industry operates in widely varying economic and commercial environments.

2.3 It is not uncommon to be faced with the question whether the Indian steel industry is globally cost competitive or not. There has been a large volume of significant research on the subject. The results of most of these studies have been mired into contrasting positions. What is of importance from our point of view is not a revisit to the issues once again from the scratch, but, to understand the dynamics of the externalities or the external conditions including active government interventions and its role which has affected the conditions of competitiveness of the Indian steel industry.

3.0 Competition Issues : the Conceptual Framework

3.1 Competition issues on the other hand are related to the structure of the market, policy environment in which it exists and are seen in the context of dominance of a player or a group of players in the market and more specifically in the '***abuse*** of dominance'. Although the national governments adopt specific competition policy and laws to fight abuse of dominance, prevent market failures and to raise economic efficiency to fairer play of the market forces, competition issues emerge also from the power of dominance and its abuse, arising out of discriminatory government policies that may have benefited a particular identity, an individual agent in the economy or a group, more than others, despite the fact that all of them were placed in similar economic environment. While the concept of competition has a reference to the text book definition of a perfectly competitive market, the competition issues in the context of a government policy are not seen entirely in the deviation of a context from the theoretical framework of such a well defined perfectly competitive market. Competition laws and policies framed by different countries in the world are fundamentally to ensure "fair" practices by large individual agents or groups in the economy or in a specific industry. With this, the government accepts without raising any ethical or ideological fuss large entities with significant market share and their ability to control or rule the market but ***not*** any practice (by them) which may pose entry barriers, lead to price manipulation, significantly reduce consumer choice, cut their individual or collective bargaining strength and gain control over resources in such a way as to remain more competitive than the rest in the industry.

3.2 Are competition issues relevant in the context of the Indian steel industry? Although looks simple, this itself is a difficult question to answer, in the very first place, given the complexity of the nature of the industry and its structure in a general analytical framework. Steel is a globally traded manufactured product with no major trade barriers across national boundaries to be seen currently. There is also no inherent resource related constraints which may significantly affect production of the same or its capacity creation to respond to demand increases in the global market. Even the government policy restrictions have been negligible worldwide and even if there are any the same are to respond to specific conditions in the market and have always been temporary. Therefore, the industry in general and at a global level is unlikely to throw up substantive competition issues in any national policy framework. Further, there is no natural monopoly characteristics in steel. Steel can be produced using a range of technologies in plants of widely varying size. Therefore, one may not expect complex competition issues as those witnessed in industries like telecom, electricity, natural gas, oil, etc.

3.3 This, however, does not mean that there are no relevant or serious competition problems in the steel industry in the larger framework. There may still be issues which may be unique and of substantial significance in the context of government policy. The growing consolidation in the steel industry worldwide through mergers and acquisitions have already thrown up several significant concerns. The growing oligopolistic nature of the market, made possible by active support of the global capital market and institutional funding, has made the intra-industry competition tilt in favour of the big. There are concerns about competition issues in the industry from the point of consumer interests too. Such issues are more relevant in the specific situations or in the smaller national context. But, larger incidence of such problems of market imperfections can in aggregate cause perceptible disturbance in the market.

3.4 Examination and identification of competition issues also depend on the understanding one has on competition itself. More specifically, it depends on the competition policy followed in a country and the laws enforced there. Further, implication of a given competition problem may be significant in one country and negligible in another. The basic character of the steel industry is almost the same worldwide. Therefore, one can expect the competition issues in this country to have extensive similarities with those elsewhere. It will make sense, therefore, to look at the industry also from a **global perspective and try to place the Indian context in it.** In many ways, what is being witnessed today globally may be the trends for tomorrow in this country.

3.5 In the context of measuring the level of distortion in price that may have resulted from an imperfect market structure, one has to have a benchmark and following market theory the best option will be to take the perfectly competitive price level. It may be an altogether different matter that such a price reference may not at all be found in the real market. The issue of pricing and the market structures are relevant to competition issues also in the context of entry barriers, self created, historically developed or naturally found, effects of which are again reflected in price distortion.

3.6 There is another important issue attached to abuse of dominance. The larger firms with the advantages they derive from the system due purely from their domination through ownership become unduly more competitive in the capital market and thereby create for themselves favourable conditions for growth at the expense of smaller firms (could be even more efficient) leading to further concentration of market power and help themselves with higher than the industry average growth rates. Although such conditions may not so much affect the consumer interest directly, they certainly work against another segment of the industry or other players in the market.

4.0 Trade and Policy Issues

4.1 Trade and other government policies have significant bearing on the competition and efficiency issues. The matters of subsidies, non-tariff barriers to trade, discriminatory customs duty (on exports and imports) etc. may bring in significant distortions in the domestic market and in the process alter the competitive positioning of individual players in the market. The specific role of the state in creating market distortion and thereby the competitive conditions in the market is a well known issue in this country. However, the trade related issues have drawn far greater attention in the context of international trade.

4.2 The large incidence of trade actions by one nation against the steel industry in another and the concern of the steel producing nations over subsidies and excess capacities discussed widely over the last ten years are pointers to the role the national governments play in the life of he steel industry. Needless to mention, all this is happening at a time when the steel industry globally is getting privatized, tariff barriers across nations are falling and the World Trade Organisation (WTO) is in place to have a well defined set of multilateral trading rules to minimize the government's day to day discretionary involvement in the matters of global trade.

4.3 While many would tend to argue that the scope of government intervention in the steel business is coming down over a time, looking at the developments globally as also in India more specifically, it is hard to say so. While there is no absolute measure to quantify the truth either way, the fact remains that state continues to play a significant role in the life of the

steel industry everywhere. The role can at times be to regulate the industry through administrative diktats while policy backed supports or regulations are fairly common too.

4.4 Over the years, post-reforms, the condition of the market as well as the shape of the industry have changed along with the changes in the policy environment. While strict regulation is not the key word anymore when it comes to the state's involvement in the development of this industry, question arises what is that role the state can play in the life of the steel industry in these new and emerging conditions of business.

4.5 There are two different views on the subject. One, steel is considered a manufactured commodity, widely and globally traded with no bar in technology transfer from one country to another. Even the major raw materials to the steel industry, iron ore, coal and scrap are widely and freely traded across the globe. The industry's investments are also getting globalised with no opportunity for any to monopolise the market to take any steel deficient nation or any critical user industry for ransom. Therefore, the industry can prosper on its own driven by the market forces and the private sector's entrepreneurship. The state has no major role to play in it and preferably stay away from it and the process be determined by 'market forces'.

4.6 The other view obviously emphasizes on the criticality of this industry as a universal intermediate, a mother product for manufacturing and construction. This view also points to the high capital intensity of the industry, the bulky nature of its investment and its inability to quickly adjust production to match demand wherever there is a downturn in the industry. There is also the concern over the wild fluctuations the in the global market that spreads across national boundaries which the local steel makers most often fail to absorb especially on a downturn. That is why, the government is seen as a protector from external competition.

4.7 In the Indian context especially, the government plays a strong role in the matters concerning raw materials supplies to the steel industry or in the allocation of mines.

4.8 The two contrasting viewpoints do not have much clear meeting ground and therefore the question of the role of the state in the development of the industry or in the market place becomes complex. Naturally, these are to be understood in a larger context carefully weighing the pros and cons on both sides.

4.9 In the context of natural resources, where market does not seem to be very well organised to the competitive levels and there are no strong conditions that favour the process of price discovery, the government policy actions have had a substantive impact on the competitive conditions for the steel industry.

5.0 The Period of Regulation and Control

5.1 Steel was a regulated industry and the past policy was to allocate scarce investment and infrastructure resources for optimum and planned development of the industry and to make available this scarce industrial intermediate to the users at reasonable prices. The basic purpose of the past policy was to manage a scarcity driven market for fair and equitable distribution of this across the consumers and consumer industries. The sector's growth was also determined by the government's macro policy of developing the economy with a strong public sector at the commanding height of the economy. As a natural consequence, the private sector was kept out of the major areas of steel industry. Also, keeping in line with the

overall government policy of ensuring planned economic development, investment in the rest of the sector was governed by an elaborate licensing system. In order to ensure that scarcity does not affect the consumers through unfair prices and deliveries, the government maintained a strict pricing and distribution regulation. The level of control extended to even production planning of the main steel makers, Steel Authority of India Ltd.(SAIL), Tata Steel Ltd. (Erstwhile Tata Iron and Steel Company)and Rashtriya Ispat Nigam Ltd (RINL), through the involvement of Joint Plant Committee (JPC), a quasi government body of the main steel producers and Railways as a major consumer of steel and headed by the Iron and Steel Controller\Development Commissioner for Iron and Steel.

5.2 From 1991, various measures towards economic reform started changing the contours of regulation in this important industry. In a series of reforms in 1991, the government removed the steel industry from the list of industries reserved for the public sector. The sector was opened up further by the removal of the erstwhile licensing system - Industries (DR) Act, 1951 altogether. Except for certain locational and environmental matters, new capacity development effort in the country do not any longer require any clearance of the government.

5.3 In January 1992, the most important of the lot, the regulations on pricing and distribution of steel were lifted. Along with it were abolished the levy towards Engineering Goods Export Promotion Fund (EGEPF). The levy towards Steel Development Fund (SDF) was also subsequently done away with retrospective effect. The government, however, decided to continue with priority allocation of steel to defence, small scale industries, atomic energy and the north eastern states of the country. The Freight Equalisation Scheme that was created to ensure delivery of iron & steel at the same rail freight to a customer located anywhere in the country was substituted by a system of freight ceiling to begin with before the scheme was completely withdrawn. The last remains of the Iron and Steel Controls were removed in 2007 when steel was removed from the list of essential commodities. The government then in steps opened up the sector for foreign direct investment and now permits 100 per cent equity holding in any steel company by foreign companies.

5.4 The pre-reform steel market in India was under control in all relevant areas. Competition was limited in this shortage infested market where there was no real scope for the individual players to play by the market and grow. This would have naturally prevented fuller achievement of allocative efficiency of the investible resources. The prices set by the government were more on political consideration and not strictly on the basis of costs of production or market demand and supply balance.[1] Although one could expect such a system of controlled prices to be favourable to the consumers, in the absence of an elaborate and an efficient distribution mechanism, the trading intermediaries, the objectives of equity to the consumers were not necessarily met. There were scores of complaints filling the files in the office of the Development Commissioner for Iron and Steel or the Ministry of Steel. Very few of them could be addressed.

5.5 Once the industry was taken out of the shackles of control, private sector involvement in the business of steel production and marketing grew at rapid pace. New investments started pouring into the industry through strong initiatives of the private entrepreneurs. Needless to mention, they were adequately supported by the country's financial institutions and banks which also found unprecedented autonomy in their own businesses. The private capital market was tapped to mobilise investment resources for a series of mega steel projects. The

[1] Although on paper, the steel prices were to be based on an elaborate model developed by the Bureau of Industrial Costs and Prices, in practice, the same was rarely followed.

public sector also did not lag behind. For example, corporatisation and other necessary changes put Steel Authority of India (SAIL) in the market to compete with their private counterparts. Simultaneously, other reforms in the economy, for example, in the form of removal of the licensing system for imports and exports and reduction in import tariffs and making the country's currency fully convertible on trade account brought in a sea change in the overall environment of business. In effect, the steel industry, freed from the erstwhile regulations was brought to face global competition.

6.0 Structure of the steel industry and competitive conditions

6.1 Steel is a heterogeneous industry with widely differentiated products, varying technology and economics of production. The steel industry in India in particular exhibits larger degree of heterogeneity and differentiation than in other countries. The structure of the industry is complex and with an equally complex interplay of forces of dependency and integration, the competition scenario has turned extremely interesting, more so with the dynamic changes in the structure over time.

6.2 The mother product in the steel industry is termed as crude steel. It is in the form of semi finished shapes such as blooms, slabs, billets and ingots, from which various shapes such as coils, bars, sections, plates etc.. are rolled which are termed as finished products. Considering the differences in final product mix across producers, it may be worthwhile to take a look at the production trend in respect of crude steel in India by major producers and industry segments. (**Table-1**)

Table-1
Production of Crude Steel By Major Producers/Segments

Thousand tonnes

	2002-03	**2003-04**	**2004-05**	**2005-06**	**2006-07**
SAIL	11628	12385	12460	13470	13506
R I N L	3256	3403	3452	3494	3497
Tata Steel	4098	4224	4103	4730	5174
JSW Steel	1460	1608	1875	2268	2643
Other Oxygen Route	190	445	510	576	724
Essar Steel	1695	1837	2360	2510	3006
Ispat Industries	1305	1663	2002	2190	2761
Jindal Steel & Power Ltd	206	273	379	564	803
Lioyds Steel	239	338	454	515	537
Jindal Stainless	413	484	535	542	585
Other Electric Arc Furnace	1203	1590	2114	2108	2191
Induction Furnace	9014	10477	13193	13493	15390
GRAND TOTAL	**34707**	**38727**	**43437**	**46460**	**50817**

Source: Annual Statistics, Joint Plant Committee, Published for internal use.

Table-2
Share of Major Producers/Segments in Total Country's Production of Crude Steel
Percent of total

	2002-03	2003-04	2004-05	2005-06	2006-07
SAIL	33.50	31.98	28.69	28.99	26.58
R I N L	9.38	8.79	7.95	7.52	6.88
Tata Steel	11.81	10.91	9.45	10.18	10.18
JSW Steel	4.21	4.15	4.32	4.88	5.20
Other Oxygen Route	0.55	1.15	1.17	1.24	1.42
Essar Steel	4.88	4.74	5.43	5.40	5.92
Ispat Industries	3.76	4.29	4.61	4.71	5.43
Jindal Steel & Power Ltd	0.59	0.70	0.87	1.21	1.58
Lioyds Steel	0.69	0.87	1.05	1.11	1.06
Jindal Stainless	1.19	1.25	1.23	1.17	1.15
Other Electric Arc Furnace	3.47	4.11	4.87	4.54	4.31
Induction Furnace	25.97	27.05	30.37	29.04	30.29
GRAND TOTAL	100.00	100.00	100.00	100.00	100.00

Source: Estimated from Table-1

6.3 It is significant to note that over the last five years, the respective shares of Steel Authority of India Ltd.(SAIL) and Rashtriya Ispat Nigam Ltd. (RINL) in total country's production of crude steel have dropped. (**Table- 2**) During the same period, JSW Steel (JSW), Essar Steel , Ispat Industries Ltd. and Jindal Power and Steel Ltd. (JSPL) have recorded rise in the same. [2]

6.4 As against this, the share of Tata Steel remained more or less stagnant while of smaller and mid size players, outside of the Indian Steel Alliance (ISA), increased sharply from 31.87 per cent in 2002-03 to 38.23 per cent in 2006-07. [3]In fact, there are various studies on the Indian steel industry which say that the production estimates and growth in this segment of the industry have been largely under-estimated. [4] This means the actual share of the ISA members in crude steel production would be much lower. [5]

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[2] It is important to note at this stage itself that the names of the private steel companies mentioned above were in the forefront of the Indian Steel Alliance (ISA) which may have been closed recently as learnt from newspaper reports. This organisation, with their members, was charged to be involved in price fixing in certain quarters. [2] The ISA members till recently held a collective share of 51.59 per cent in total crude steel production. While this is a significant number, one has also to take note of he fact that the number had stood at a higher level of 56.32 per cent in 2002-03.

[3] Tata Steel was a founder member of Indian Steel Alliance. However, they withdrew from it, as per unconfirmed reports, fearing accusation of cartelization.

[4] A.S.Firoz, Indian Steel : Critical Details, Evolving Structure and Strategic Options, Steel Business Briefings, London, UK, May 2007.

[5] There are questions on the correctness of the statistics disseminated by the government pertaining to crude steel capacity of the individual producers or industry segments. However, considering the difficulties in convincing any authority on the authenticity of the privately collected and disseminated information, the statistical information provided by the government agencies have been relied upon, which may look completely out of place at times, something that lies in our knowledge too. However, while drawing conclusions, we have kept this in mind and are keeping sufficient safeguards against drawing erroneous conclusions exclusively based on official statistics.

6.5 The official statistics do not show any increase in crude steel capacity for SAIL and RINL for all these years under consideration despite the fact that both have recorded some production increases. The producers are merely sticking to their nameplate capacities despite effective increases in the same with continuous investment in upgrading technology and process as also for debottlenecking.[6] This underestimation is, however, not a critical issue in the context of competition issues and is being brought in merely because it makes a small difference to trends in share in capacity for each producer or industry segment. However, this is an important point to reckon with in the context of efficiency and competitiveness.

6.6 In terms of capacity growth, the ISA member companies saw, in fact, their share in total crude steel capacity remaining more or less in tact with a marginal decline from 50.4 per cent in 2002-03 to 49.12 per cent in 2006-07. [7] Interestingly, it was the highly fragmented induction furnaces which registered significant capacity growth and also a share increase. (**Tables-3-5**)

Table-3
Crude Steel Capacity

Producer/Segment	2002-03	2003-04	2004-05	2005-06	2006-07
SAIL	12696	12696	12859	12859	12839
RINL	2910	2910	2910	2910	2910
Tata Steel	3500	3500	4000	5000	5000
ESSAR+Ispat+JSW	4770	5770	6560	7160	9750
Other EAF and Mid Size	4011	4484	4566	4542	6844
Induction Furnaces	12520	14550	17100	18700	19500
Total Crude Steel Capacity	40407	43910	47995	51171	56843

Source: Annual Statistics, Joint Plant Committee, Published for internal use.

Table-4
Share of Companies/Segments in Country's Crude Steel Capacity (%)

Producer /Segment	2002-03	2003-04	2004-05	2005-06	2006-07
SAIL	31.4	28.9	26.8	25.1	22.6
RINL	7.2	6.6	6.1	5.7	5.1
Tata Steel	8.7	8.0	8.3	9.8	8.8
ESSAR+Ispat+JSW	11.8	13.1	13.7	14.0	17.2
Other EAF and Mid Size	9.9	10.2	9.5	8.9	12.0
Induction Furnaces	31.0	33.1	35.6	36.5	34.3
Total Crude Steel Capacity	100.0	100.0	100.0	100.0	100.0

Source: Estimated from Table-3 above

[6] It is also a deliberate move to keep the capacity records on a lower side so that the plants can claim extra-ordinary performance!

[7] JSPL crude steel capacity in included in " Other EAF and Midsize". The company recorded no steel capacity in 2002-03 but had shown to have 2.4 million tonnes of the same in 2006-07.

Table-5
Annual Rate of Growth in Production of Crude Steel
(Per cent over the previous year)

Producer/ Segment	2003-04	2004-05	2005-06	2006-07	2002-2007
SAIL	6.5	-15.5	28.8	0.3	16.2
R I N L	4.5	1.4	1.2	0.1	7.4
Tata Steel	3.1	-2.9	15.3	9.4	26.3
JSW Steel	10.1	16.6	21.0	16.5	81.0
Other Oxygen Route	134.2	14.6	12.9	25.7	281.1
Essar Steel	8.4	28.5	6.4	19.8	77.3
Ispat Industries	27.4	20.4	9.4	26.1	111.6
Jindal Steel & Power Ltd	32.5	38.8	48.8	42.4	289.8
Lioyds Steel	41.4	34.3	13.4	4.3	124.7
Jindal Stainless	17.2	10.5	1.3	7.9	41.6
Other Electric Arc Furnace	32.2	33.0	-0.3	3.9	82.1
Induction Furnace	16.2	25.9	2.3	14.1	70.7
GRAND TOTAL	**11.6**	12.2	7.0	9.4	46.4

Source: Estimated from Table-3 above

6.7 With the above observation, one cannot conclude that there has been a gradual shift to an oligopoly market when it comes to crude steel. On the contrary, one sees a higher degree of competition emerging from new large or small players. But, it will not be correct to ignore the prominent players who may have taken the lead to guide price sentiments with the scores of smaller players to follow them. In such situations, as we will be discussing, the market dominance may be held not so much by the power of the prevailing market share but by the leadership position of a few large entities.

7.0 Competition Structure of the Steel Industry

7.1 The nature of competition in the steel market seems far more complex especially when examined for each product separately. Steel products vary by size, shape, chemistry and physical characteristics and the same have to satisfy a large number of physical and chemical properties if destined to industrial or critical construction applications at the higher end of vertical product chain. A steel plant has limitations in producing widely dispersed grades and shapes on account of diseconomies of scale and technical constraints. Due to these specific characteristics of the steel products and the consumer profile, competition for each gets confined to only smaller number of players. It makes, therefore, very little sense to talk about the industry as a whole to understand the nature of competition in the market. Hence specific products are being discussed to identify competition issues rather than taking a generic view of the industry.

Flat Products

7.2 Flat products are rolled mostly from semi-finished forms called slabs. There are two streams of flat products originating either from a plate mill (Plates) or a hot strip mill/ steckel mill (HR coils). Usually, plates are used directly. The HR coils (HRCs) are used directly too, but, most of them are further rolled and processed to produce items such as cold rolled sheets/coils, coated sheets and coils, pipes, etc..

7.3 HR coils are the most important intermediate products for various reasons.

One, because the production of this involves most of the investments required to create a full integrated operation and that this integrated operation can be broken at several stages, most importantly, at the HR coils stage, there can be room for smaller individual operations for specific products in the downstream. This provides opportunities for individual and specialised downstream investments. **Two**, it can be produced in bulk and, therefore, economies of scale can be maintained well at higher levels of capacity. **Three**, HR coils are strategically important for the producer because they have the choice of producing the downstream products making necessary investments themselves or stop at that, fully or partially, to remain a player in HR coils as also to provide space to the independent downstream operators.

7.4 To have an understanding of the change over time, let us make a reference to the situation in 2003-04. It is evident from the statistics available from the Joint Plant Committee (JPC) that out of about 13 million tonnes of HRCs produced in 2003-04, the five major producers, SAIL, Tata Steel , Essar, Ispat and JSW together had a share of about 92.4 per cent in total production in the country. [8] (**Table-6**) A part of this production was used captively for downsream operations and the rest were either sold domestically or exported, ignoring stock change. In the case of domestic merchant sales of HR coils, 89.5 per cent of the total in the country (excluding from imports) was accounted for by these producers.

7.5 In 2005-06, the share of the five big companies rose to 93.3 per cent. (**Table-7**) This is not so significant. The story is no different for domestic sales as one observes that 89.6 per cent of the domestic merchant sales (other than from imports) were from these producers only.

Table-6
Production and Domestic Sales of HR Coils/sheets/plates (thousand tonnes) 2003-04

Producer /Segment	Domestic Sales	Production	Dom. Sales as %age of Production
SAIL	2548.0	4648.0	54.8
Tata Steel	1306.0	2846.0	45.9
JSW Steel	1300.0	1300.0	100.0
Essar Steel	1700.0	1700.0	100.0
Ispat Industries	1500.0	1500.0	100.0
Other Secondary	985.0	985.0	100.0
Total	9339.0	12979.0	72.0

Source: Estimated from Joint Plant Committee and specific company information.

[8] Annual Statistics, Joint Plant Committee, Kolkata, 2003-04.

Table-7
Production and Domestic Sales of HR Coils/sheets/plates (thousand tonnes) 2005-06

Producer/Segment	Domestic Sales	Production	Dom. Sales as %age of Production
SAIL	2945.2	4830.4	61.0
Tata Steel	1352.0	3030.0	44.6
JSW Steel	1189.3	2148.0	55.4
Essar Steel	1761.5	2580.0	68.3
Ispat Industries	1810.2	2143.0	84.5
Other Secondary	1052.0	1052.0	100.0
Total	10110.2	15783.4	64.1

Source: Estimated from Joint Plant Committee and specific company information.

7.6 Notwithstanding some statistical difficulties we encountered in developing a set of numbers which correspond to the figures stated above, we note that the five main steel HR coils producers continued to maintain massive control over the HR coils market even in 2006-07. If one goes by the production of HR coils and sheets, out of a total production of 13.693 million tonnes (excluding the captive consumption in case of SAIL and Tata Steel), only 1.549 million tonnes were produced by companies other than the big five. If one considers only wide HR coils (above 900mm width), almost the entire production (approximately 98 per cent) in the country came from them only. Even in this case, the bulk of the production came from purchased slabs and including for the production of stainless steel.

7.7 Thus, there has been a small increase in the share of the main producers in the total production of wide HR coils. This increase may not be statistically very significant. But, the fact that the absolute levels remained fairly high shows that the market did not exhibit the character of supporting competitive conditions.

7.8 While with the entry of few more producers in the narrow segment of the market, the competition seems to be increasing, no such changes have been visible in the wider segment. The dynamics of the wider HR coils have also changed alarmingly as all the erstwhile merchant producers of HR coils have added downstream cold rolling capacities. This has, in fact, substantially reduced the supply of merchant HR coils in the local market. This, in fact, is better observed by the preliminary data available on the HR coils market in India for 2007-08, when only about 4.78 per cent of the total production of HR coils (not considering the captive consumption of SAIL and Tata Steel) were accounted for by smaller units other than the five majors.

7.9 Despite the statistical shortcomings to make a point very strongly and convincingly, there will hardly be fingers raised if one concludes that the HR coils market, and especially in the larger width, is controlled by the five major producers. This itself may not a very significant observation in the context of competition policy when seen in comparison to experiences in the EU, Japan or Korea.

7.10 It may be noted that the above mentioned dominance in the HR coils market has not resulted from any consolidation through mergers and acquisitions which in fact has happened in the EU or Japan. In India, it has happened due to **lack of new entry**. This, in turn, could

be due to various reasons. While absence of opportunities can be a factor, the existence of naturally structured or artificial entry barriers can be another. Both are relevant in the Indian context.

7.11 The question now is whether there exists abuse of dominance. That is if the position of dominance has been misused through cartelisation or agreements (formal or informal) by the HR coils manufacturers to the detriment of the competitive character of the market and thereby to the disadvantage to the consumers.

7.12 In the classical concepts, abuse of dominance is different from cartelisation. But, in an oligopoly market, abuse of dominance emanates from cartelisation only and the same needs to be seen in the collective action of the dominant players rather than those of the individual identities.

8.0 Abuse of Dominance and Market Power

8.1 Steel prices have no formal controls or regulations and they are to be driven by the market. However, there seems to be market imperfections and possible cartelisation which has provided the producers of HR Coils greater degree of market power vis-à-vis the buyers. The consumers of HR coils, mainly the mills producing CR or GP/GC sheets or pipes have pointed to oligopoly pricing behaviour of these firms. Their main contentions, as stated by them, [9] are the following:

1. The HR coils producers have deliberately cut supplies to the domestic market by exporting out significantly high quantities of the product despite the fact that the entire quantity could be absorbed in the local market at the price they are exporting or even at higher prices. It is argued that there was a time when the domestic HR Coils industry was faced with excess capacity resulting from a burst of capacity addition and concurrent slowdown in domestic steel demand. This was the time when the exports were necessary. However, the market for merchant HR coils has changed significantly since then to become supply constrained. Shortages were visible with potential buyers chasing sellers. But, even then, HR coils are being exported in large quantities at lower than the potential/actual domestic market prices to create artificial shortages in order to strengthen their own pricing power and maintain thereby an "uncompetitive and inflated " price level in the domestic market. This allegation has, in fact, been raised often by consumers of other steel products as well. (See Appendix for representations)
2. According to the user industries, the HR coils producers set prices in unison in contravention of the norms of a competitive market. The price increases have had no reference to any specific change in the market, either in the demand or supply side of it. They have also found the price increases as arbitrary having no relationship with their costs or any change in them. Many have even accused the steel makers of contract violation as prices were revised unilaterally without any advance notice.[10] However, in the absence of competitive alternatives, the user industries are left with no other options but to accept the terms and conditions and prices dictated by the HR coils producers.
3. HR Coils producers who also make downstream products like CR Coils and GP/GC sheets etc. resort to discriminating pricing practices maintaining low differential

[9] Not necessarily our view point.
[10] Representation of the cold rolled steel manufacturers association, 24th July 2008.

between HRCs and CR Coils (or other downstream products). If the price differential between these products is lower than the costs of conversion of HR Coils into downstream products for a merchant mill, the entire economics of merchant production falls apart.[11] This is a common and tactical pricing policy followed normally by integrated mills globally in strongly competitive conditions to pre-empt competition in their downstream products market and also excessive capacity build up on merchant basis. Statistical evidence can be seen in the price trends in these products globally as also in India. This, however, does not hold against merchant production for niche products and in market segments where they can extract higher revenue.

8.2 We do not, however, share the concerns of the user industries entirely. In a globally integrated market, there cannot be any force to restrict international trade. Therefore, the HR coils manufacturers are not at fault just because they have chosen to export a part of their production even when that same could be sold in the domestic market. *The question of relevance here is whether their decision to do so was to create conditions to extract more from the domestic customers.*[12]

8.3 *However*, In the recent past, the HRC manufacturers managed to convince the government to keep the import duty rates high and also extract export incentives/ subsidies in the form of DEPB. The industry constantly lobbied for higher degree of protection citing increases in imports which itself were necessitated by exports of the same products by them at a time when domestic demand was strong and growing and the buyers were ready to pay far more than what the industry would have earned from exports.

8.4 *It is interesting to note, in the context of the points raised by the HR Coils user industries, between 2003-04 and 2005-06, although the actual production of HR coils/sheets and plates (Hot strip mill or steckel mill products) increased by 21.6 per cent in the course of two years domestic sales increased by 8.25 per cent only. The share of domestic sales in total production of these products dropped from 72 per cent in 2003-04 to 64.1 per cent in 2005-06. It is difficult to establish if supplies were maintained deliberately in the domestic market to maintain higher home prices as the same can be the outcome of discrete business decisions and not necessarily connected to a design. But, whatever might have caused the relative supply shrinkage in the domestic market, the fact remains that the resultant market conditions supported the HR coils industry enlarging their pricing power vis-a vis the consumer industries.*

8.5 In 2007-08, while the merchant apparent consumption of HR coils (not considering the captive use) increased by 12.6 per cent over the previous year, the domestic production for sale dropped by 0.65 per cent. At the same time exports of HR coils remained fairly high at 1.39 million tonnes, although dropped 7.8 per cent from the previous year as a result of government interventions and discouragement through policy measures.

8.6 The steel prices are expected to be driven by the conditions of the market. However, since only five producers seem to have overwhelming market share, in terms of capacity,

[11] This issue has been raised several times across the world involving even very reputed steel makers.

[12] Interestingly, while the steel makers defend their export policy, they are arguing exactly the same way their own customers are doing when it comes to the issue of export of iron ore or chrome ore.

production and sales, the question arises if they are acting as a cartel or are engaged in formal or informal agreements.

8.7 There is no document to establish that there is formal or 'written down' agreements on prices among the major players. There are only accusations by concerned parties which cannot be taken on a face value. *However, their pricing behaviour clearly exhibits a pattern reflected in the timing of the pricing decisions and the quantum of price changes each undertakes. This common behaviour is, prominently observed in the case of the three companies – Essar Steel, JSW Steel and Ispat Industries Ltd..* Although earlier, it was true for Tata Steel and SAIL as well, in the recent times, the decisions of SAIL have been under government control and those of Tata Steel are based on their increased attention to contracts sales in place of spot transactions.

8.8 Cartelisation allegations have emanated even from the highest levels in the government, seen in the statements of the Finance Minister or even the Prime Minister. It is possible that the term 'cartelisation' was used in a more general sense and not with sufficient analytical rigour. But, at this level of decision making, such allegations would not have been made if the concerned were not convinced of the observed industry behaviour closely corresponding to cartelisation. Even at the time Tata Steel got out of ISA, there was a statement somewhere saying that they were doing so because they did not want themselves to be seen as a part of a 'cartel'. The very fact that the ISA has been shut down, following strong accusation of cartelisation, is itself an indication that such a body could be an easy proof of cartelisation. More importantly, the government itself looks at the industry as a unified body who can be asked to take a uniform price or accept changes in the same proportion irrespective of the differences in their individual economics. If ISA had existed only as a lobby, it would have been there by its own right, openly and strongly.

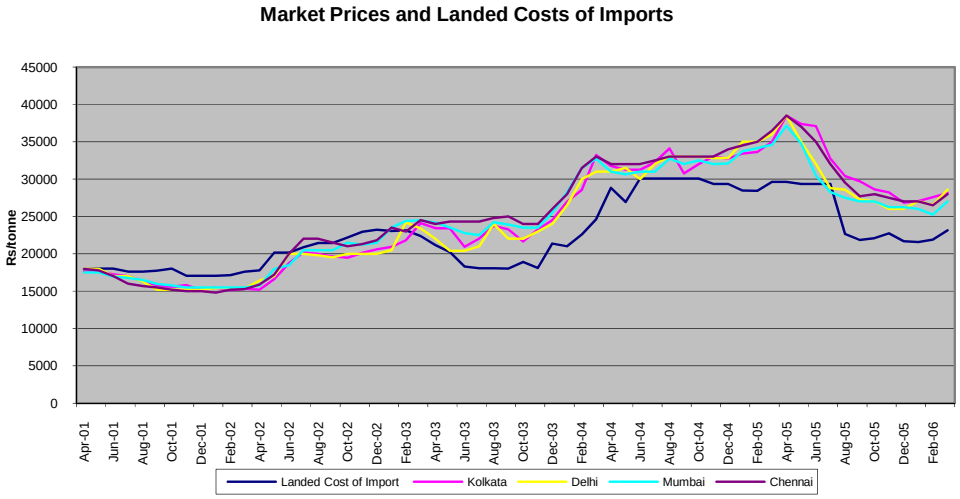
8.9 Establishing the point that the major HR Coils manufacturers have exhibited a pricing behaviour that may raise anti-trust issues has turned out to be difficult despite well known announcements made by them on prices in unison due to lack of comparable statistics in a reasonable time series. The government's official arm for price data collection, that is, Joint Plant Committee (JPC), collects and disseminates only retail market price data which can at best be an indication only as there is always a time lag in changes between the producer and the retail prices.[13] Also, the retail prices include all taxes and traders' margin. The latter can vary significantly based on the local conditions of the market. The retail prices also include imported products which may be driven by entirely different factors. The government, however, forced the steel producers to put up the steel prices either on their web sites or publish them on newspapers as and when changed. Although this was obeyed and one could with certain degree of difficulties see a price list, the same could not also be considered to be useful as the same had reference only to some basic grades, without the extras or discounts. The steel companies also followed different methods to display prices (such as "prices per piece", a completely unorthodox method) and also different reference products, making comparisons difficult. It was not only found to be difficult in most cases to locate the prices on the company's websites in certain cases even if they existed somewhere hidden, since the display happens to be for a short while, getting a time series from them became almost impossible. There is clearly no transparency in the dissemination of price data, ostensibly due to commercial sensitivities attached with them.

[13] Of late, JPC has also changed its methodology tin gathering information and reporting steel prices. Given that, a time series taken out of JPC data itself will have technical difficulties.

8.10 The proximity in announcing price changes to some extent can be attributed to their uniform response to external conditions in the market. While the steel industry calls it a mere "co- incidence', the user industry prefer to draw attention to a possible common behavioural pattern despite the fact that each producer has different cost economy, command over resources and geographical positioning and in a competitive environment their response would have varied, perhaps to the advantages of the consumers.

8.11 For example, there is open acceptance, even by the government, of the fact that till recently the HRC producers adjusted their prices to the landed costs of import or there is a desire for them to do so. Landed costs of import mean the fully duty paid cost of the imported material. They still wish to do that but for the government's informal arm twisting that the industry is forced to cut prices below such levels. This is precisely the reason why the government also has in most of the time and overwhelmingly resorted to import duty cut to bring prices down in the home market.

Chart-1



Source: Joint Plant Committee

8.12 *The practice of adjusting prices to the alternative border prices does not mean that the steel makers have been involved in unethical anti-competitive practices. However, if conditions are externally created in a manner to make this look logical and competitive, there are serious competition issues to be raised. Further, unless there is sufficient degree of collusion among the domestic players, one doubts, if this could be possible.*

8.13 In a competitive open market, one would expect a clear correlation and equivalence in domestic selling price, export price or import price of a product. Differences among them can be expected only in considering specific factors such as freight cost, taxes and duties and commercial relationships involving both the buyer and the seller. Can one see a clear relationship among these prices in the context of HR coils in the Indian market?[14]

[14] Although the import and export prices exhibit some common trend, the absolute values of import and export prices vary significantly. One of the reasons obviously for that is that imports and exports do not match in quality parameters or specifications. There can be different financial packages attached to these transactions. Further, import and export prices may not match also because their transactions dates would normally vary. Ideally, import prices would be expected to be higher than the export prices as the same would include ocean freight costs. Due to all these factors, the export (on fob basis) and import prices (on cif basis) vary significantly from one another and it is difficult to show if they are based on a common market conditions.

8.14 There is a visible correlation between domestic prices of steel and the landed costs of imports with correlation co-efficients measured at a little above 0.88 in each case when measured between landed costs of imports and market prices at Chennai as also at Mumbai on a monthly time series data covering a period of April 2001 – March 2006 for a representative item HR coils of 2 mm thickness. (Chart above). However, this relationship cannot be called to be very strong especially when the recent period data are concerned (April 2006- June 2008). But, this correlation itself is not an issue to be of reckoning in the context of the competition policy. It is only when the steel producers are seen to be working towards a strategic arrangement to create conditions to enable them to do so. One of the accusations against the steel industry, especially those who produce HR Coils, is that they export even at relatively lower prices to create an artificial shortage in the domestic market, so that they can adjust their prices to the landed costs of imports or higher.

8.15 The point that exports were undertaken at prices below those in the domestic market and more specifically that exports were undertaken at a net realisation lower than that could be had from the domestic sales of the same products needs careful examination of the domestic, import and export prices of steel products and more specifically HR coils. A detailed empirical examination of it could not be possible due to well known data constraints.[15] Only a short period study was undertaken to compare the net realisation from exports and from domestic sales results of which are being shown below **(Table-8).** Although one may not be able to draw strong conclusions from it, there are some hints of HR coils being exported at prices lower than domestic selling prices.

Table-8
Comparison of Export and Domestic Prices of HR Coils

Period	Domestic Ex-Plant (Reference Plant)	Average Export (fob) US$ per tonne	Average Export (fob) Rs./tonne	Average Export net realisation Rs./tonne	Low Export prices ($/tonne)	Low Export prices (Rs./tonne)	Low Export (Ex-Plant) Rs./tonne	Difference Between Domestic Ex-plant and net low export realisation (Rs./tonne)	Difference Between Domestic Ex-plant and net average export realisation (Rs./tonne)
Oct-07	29350	660	25740	25140	615	23985	23385	5965	4210
Nov-07	29350	662	25652.5	25052.5	610	23637.5	23037.5	6312.5	4297.5
Dec-07	29150	665	25602.5	25002.5	640	24640	23640	5510	4147.5
Jan-08	29750	648	24948	24348	620	23870	22870	6880	5402
Feb-08	32000	680	26622	26022	645	25251.75	24251.75	7748.25	5978
Mar-08	31350	775	30767.5	30167.5	684	27154.8	26154.8	5195.2	1182.5
Apr-08	39500	816	32517.6	31917.6	713	28413.05	27413.05	12086.95	7582.4

Source: Steel Trade Intelligence

8.16 The pricing behaviour apart, a basic but important question arises in this context : does this level of concentration give the HRC producers sufficient degree of pricing power?

8.17 One has to note the following issues.

One, imports being free, always provided an alternative to the domestic user industries. Imports are also undertaken by the user industries to take advantage of the export benefits

[15] Competition analysis in India has been hugely affected by lack of information. See Pradeep Mehta ,Etc. Appendix.

of their downstream products. However, import prices, even without import duties, provide an undue advantage to the domestic industry as the landed costs of imports include significant ocean freight. One has to also note that due to different locations of the steel plants, the advantages or disadvantages derived from either local transportation costs or ocean freight in the case of imports may be widely varying across the producers.

Two, most of the users of HRCs are medium size firms but together they make a big clout in the political and administrative system forcing the government to intervene frequently and decisively in their favour whenever the pricing scenario turns against them. In fact, public opinion seems to favour the smaller consumer when the steel prices rise more and given the public perception about criticality of steel in the nation's life, government remains sensitive to public outcry in a significant way. This is evident from the developments in the recent past. Only a few months ago the government literally forced the steel majors to maintain stability of steel prices at a relatively low level despite the fact that the global conditions of the market and the domestic demand and supply conditions could provide a huge room for them to raise prices.

Three, there was no record of strong government intervention to restrict prices in the secondary sector.

8.18 It may be noted that downstream CR and GP/GC production in the secondary sector accounted for a little 6.5 million tonnes of HRC consumption in 2006-07 out of which about a million tonnes were imported by the industry.[16] This scenario shows the magnitude of the business involving merchant HRC sales to downstream product manufacturing. While none of the parties involved can be expected to be idle price takers in the market, the competitive position can turn largely favourable to the HRC manufacturers if favourable alternatives like duty free imports are not made available to the buyers.

8.19 The intra – industry issues of this kind have drawn more attention in the recent times. [17]While the government has been sensitive to the ultimate consumers of steel in India by taking proactive action to arrest steel price rise, in the past, it had also taken highly protective measures in the interests of the steel makers. For example, the merchant mills producing CRC, GP/GC and even steel tubes were, in fact, hurt by what they describe as undue protection provided to the HRC manufacturers by high import duty, non-tariff import barriers like floor prices etc. While the government position on it was based on the need to prevent a financial catastrophe seen for the HRC producers in the face of a global crisis in the industry, especially considering the fact that these firms involved huge capital investment and employed large number of workers, the users of HRC considered the same as against their interests as they also faced the same global downturn in their product market.[18]

8.20 The HR Coils downstream market is more competitive, especially in the case of GP/GC sheets and in specific segments of CR Coils. Even then, by maintaining a price differential unfavourable to the merchant mills, the integrated mills can keep the downstream product prices sufficiently competitive taking the advantage of integrated operation and lower

[16] Estimated from JPC's published information (Annual Statistics) and other company specific information.

[17] The intra industry problem does not end within the industry itself. The anti-competitive conditions within the industry seriously hurt the interests of the final steel consumer or the consumers of steel bearing products.

[18] This argument was used more specifically to counter imposition of floor prices on HR coils at an artificially high level of $302 per tonne, when the global prices of HRC went down to $210 per tonne C&F and those of CRC to $280 per tonne.It may be noted that even after the government had withdrawn the floor prices, the same had to be maintained for years following a court verdict on it.

conversion costs at their own plants, absence of transportation costs and certain non-refundable/non- adjustable taxes, reduced material loss and to some extent economies of scale. Also, they have significant individual and collective market share and at times can turn price makers. Therefore, control over HR Coils makes the integrated mills stronger in the market for downstream products as well.

8.21 Definitely, it appears from above that under normal conditions, the steel majors cannot really dictate terms with their CR and GP/GC customers (downstream), Yet, there has been a lot of talk about cartelisation in the steel industry especially involving large HR Coils producers.

8.22 As said above, the near simultaneous announcements of steel price increases several times in the past have brought in strong accusation of cartelisation and price manipulations on the part of the major steel makers. [19] One has also to note that collective pricing decisions may be purely a response to external pricing alternatives available to their customers. Not all such actions may conform to the pure text book cases of cartelisation or collusion to maximize joint profits.

8.23 However, in a market where shortages have been perpetual, there are no reasons why or conditions for the steel makers to attempt price cuts to raise their share in the market. The fact remains, with limited capacity being added, the players have no large output ready with them to attempt raising their market share by price undercutting. Each of the producers did so when the market was choked with excess capacity. While one would tend to point to the recent developments in the market where evidently the producers worked in unison, cartelisation was not evident when the prices crashed prior to 2002. This is not to say that the steel makers did not examine the possibility of collusion. But, external conditions were such that each was fighting for its own survival.

8.24 Also, since the prices are divorced from costs and are based on the best alternative cost principle and that an efficient mill cannot continuously increase capacity to grab larger market share by sheer dint of its low cost, there is no compulsion on the competitive firm to reduce price to grab a larger share of the market. *Further, as the firms with low efficiency do not die due to the soft budget constraints conditions in which they operate, any move to reduce prices by the efficient ones would have been counterproductive, as the inefficient competition would have also done since they do not see death coming to them.. Therefore, it will always make more sense for the mills to collude and work out a common pricing strategy. The*

9.0 Other Steel Products

9.1 Other steel products such as bars and rods, structurals, plates, CR coils and sheets , GP/GC sheets etc. have not drawn much attention of the public from the competition perspectives. There has been some concentration of production of cut to length plates (from plate mills). In 2004-05, SAIL accounted for about 93 per cent of the total plates production, which fell to 88 per cent the next year. Others were small players and were not competing

[19] Interestingly, while the private producers seem to have had closer relationship, the PSU pricing did not totally conform to the levels adopted by the private companies. While this is taken to some extent as a lethargic response of the PSUs to change and subsequent delay in decision, the PSUs also do come under certain political pressure to remain range bound in their actions.

with SAIL on size and grades. SAIL continued with its monopoly position till it met with some competition from plates produced from hot strip mills and expanded capacity from others. Currently, even JSPL has commissioned its new plate mill. Although there have been complaints in regards to SAIL's pricing policy, the fact remained that, the company was packed with excess capacity for quite some time forcing them to export significantly. Under these circumstances, it will be difficult to say that the company was holding monopolistic pricing power vis a vis their customers.

9.2 Conditions, however, have changed recently with severe shortage of plates being witnessed within the country with imports soaring to record levels and exports dropping sharply. But, the very fact that not much of hue and cry has been made is an indication that either SAIL has been fair to their customers or that their products were not in demand due to technical problems.

9.3 The long products market at a macro level is fairly competitive. So also are the markets for CR sheets and GP/GC sheets. In each segment, one can still find excess capacity.

9.4 In the case of semi-finished products, the market share of the main steel producers is not large enough for total business control. However, considering the fact that the secondary producers are about 750 in number and the main producers are only three, one can appreciate the individual position of each producer in the market. There are, nevertheless, divergent views on whether with such market shares, the main producers can command over prices. Who follows who in the market is difficult to establish. Further, significant quantities of billets of the main producers going to contract sales, spot prices are more likely to be determined by localised conditions and primarily by the players in the secondary sector.

10.0 Market Sharing and Collusion

10.1 Are the steel producers involved in sharing market regionally? Steel is a high transport cost industry. Therefore, there will be a natural tendency for the producers to push more sales closer to the mill. However, excess capacity in a region may make the mills look outward and sell into the territories of other mills and raise the level of competition in that market consequently. Even if this is not necessary, a certain producer may sacrifice profit to sell in markets at a distance merely for strategic commercial reasons, even when the entire quantity could be profitably sold in the market close to the production location.

10.2 Market sharing arrangements can come up to collectively raise average revenue by calibrating sales to maximize prices in the regional markets. Although there are no established and acceptable information on how much of HR coils or any other products each of the producers are selling regionally (except for SAIL), the available reports from researchers engaged in gathering commercial intelligence point to certain degree of market sharing arrangement by the producers, for the south and the west and to some extent for the northern Indian markets.[20]

10.3 The very fact that the Indian steel industry, even in the worst of its time, was outside the consolidation process always lends support to the hypothesis that the industry instead had chosen to collude rather than consolidate through mergers and acquisitions.

[20] Confidential market study undertaken by A.S.Firoz for a client. Details cannot be published.

11.0. Government Interventions

11.1 What has been observed here is that the dominant steel makers show enough market power by sheer size and collective control of the market. The perceived or real abuse of dominance, therefore, has required constant government interventions. While the most ideal conditions for the competitive growth of the industry would have been to allow the market forces to operate, the state has been forced to intervene in larger consumer interests. However, the sense and the direction of most of the government actions initiated in the recent times have not been to correct the market for better play of competitive forces, but, as a response to popular sentiments and public outcry, more as a political stunt rather than what a competition watchdog should have done. Most of such interventions correct one problem, but, generate several others to lead to greater degree of market distortion.

11.2 However, intervention of the government on the matters of pricing steel long products also in the recent times has also pointed to the acceptance of the government that the major steel producers have substantial pricing power in the market and that they can be expected to act in uniform with substantial net impact on the market to move the trends in the desired direction. In fact, although the government action is purported to correct market imperfection, it has at the same time given rise to competition issues in the market. For example, the government's action to restrict prices, through the low cost producers, while at the same time not taking similar action for reduction of prices of sponge iron and steel scrap, has put the small and medium size induction furnace based steel production at a jeopardy as they find their output prices not increasing in proportion to their costs.

12.0 Policy Induced Distortions in the Competition in the Market

12.1 The government's fiscal policy has somewhat been supportive to provide an anti-competitive conditions to the domestic steel industry against the interest of the consumer industries. For example, even when the import duty on steel has been waived recently to cope with the inflationary conditions in the country, the same remained at very high levels for a long time, at 25 per cent till January 2004. Also, the industry benefited from the floor prices imposed on prime steel products, not only when the global prices dropped to abysmal levels, but also when they started rising to reasonable positions. These have nevertheless been abolished. However, protracted protection unduly supported the steel makers at the cost of the consumers. The industry also gained from certain procedure related non-tariff barriers like mandatory certification requirement for quality of imported products by the Bureau of Indian Standards (BIS). This involved lengthy and cumbersome procedure involving high transactions costs for the importers. The government also designated ports for imports of certain categories of steel with a clear intention to curb their imports. These measures although were at times against the interests of a certain segments of the steel industry itself (for example, the merchant CRC and GP/GC producers), served the major steel producers when it came to competition with the user industry. The imposition of an anti-dumping duty on non-alloy steel a few years ago on an absolutely flimsy ground was questioned widely by the consumer industry. Further, a prohibitive import duty on seconds and defectives also went against genuine consumer forcing them to buy prime materials against their wishes and requirement. Given the fact that there is a large number of diverse industries dependent on low priced defective materials and there are no specific reasons why such consumers should be forced to buy high cost raw materials for their low value products, the government's persistent stand against imports of seconds and defectives violate the spirit of competition

with openly doled out favours to the major steel makers. The steel industry often raised health issues in certain cases which are nothing but administrative and law enforcement matters having no relation either to the policy or the market.

12.2 The differential competitive positioning of the steel firms on this count has been derived historically as a result of the market distorting regulatory government policies in the past. The erstwhile licensing policy of the government in the first place prohibited private entry into the integrated route and then gradually allowed private investment only in small EAF based mini steel plants before deregulating the sector completely in 1991-92. Further, price and distribution control for steel produced in the integrated sector did not allow for sufficient growth for the players already in the industry.

12.3 To some extent, this disparity continued even today. This may not have been due to any conscious policy of the government to favour any individual group or segment of the industry, but the slow process of change has resulted in continuation of such differentiating competitive conditions. Although the choice of technology has become increasingly market determined and is based increasingly on pure commercial considerations, the policies related to ownership and leasing of mines and specific government interventions do significantly influence the technology choice.

12.4 One of the government schemes of providing subsidies to the steel distributed through State Small Industries Corporations (SSICs) goes completely against competition in the market. The government, through this scheme, makes SAIL, Tata Steel and RINL to sell steel at a subsidized price to these SSICs which finally are to go small customers. The subsidy amount is reimbursed to the producers from Steel Development Fund (SDF). While the objective of this is to support the interest of very small consumers, a government committee report itself says that the SSICs act as an agent/trader only and the benefits do not reach the intended beneficiaries and finally the products are sold either to the significant consumers or large traders. The point is, in this way, the government creates a favourable pricing conditions for a select few and multiple prices in the market.

13.0 Control Over Natural Resources and Competition Issues

13.1 While cartelization is evident among the major Indian steel producers, even when the same cannot be established with facts and in the context of the existing competition laws in the country, there are larger concerns in the steel industry about competition issues when it comes to differential pattern of ownership, control and pricing of raw materials such as iron ore, coal, manganese ore and chromium ore, etc.. All these have put differential competitive advantage to the steel makers, even before one starts operation.

Captive Mining

13.2 The concept of captive mining historically came from steel enterprises starting iron ore or coal based production from the scratch, that is, when there was no independent mining enterprises in the relevant areas. Also, this was a concept valid in the context of administered pricing regimes like those in the centrally planned economies, as also in this country, prior to the economic reforms in the sector initiated since the early nineties. In such a situation when the output price is regulated on the basis of costs, it did not matter, whether raw materials such as iron ore or coal are mined by the steel producers themselves or were bought from an external agency mining independently at a market determined or administered price.

However, the relevance of continuation of such a system needs to be reviewed when there are no restrictions on the output (steel) prices and free market conditions prevail in that market. One needs also to study the host of distortions that arise in the market of iron ore which, in turn, get reflected in the economics of steel production and consequently raise intra industry competition issues in the steel market.

13.3 Historically, Tata Steel and SAIL got into steel production based on iron ore mines leased out to them on a captive basis. Other than them, the country had steel production only from scrap based units who had nothing to do with iron ore. However, with the emergence of other iron ore based integrated iron and steel producing units and the sponge iron industry (captive and merchant) that provided the feedstock for a very large number of electric steel making units such as electric arc and induction furnaces, arose an independent merchant iron ore market and a mining industry. The merchant iron ore production was already a business almost exclusively undertaken for exports. However, this industry had literally no domestic market till the developments in the iron and steel sector mentioned above.

13.4 As far as coal (coking or non-coking) is concerned, the sector has limited private participation in the supply side and it is sold to the steel companies at administered prices by government owned Coal India Ltd..

13.5 For other raw materials, such as manganese, some of the steel makers have captive access to them, but the bulk of that is bought from the open market. In the overall economics of steel production, manganese is not so important considering its relatively low share in the costs of production. Captive chromium ores are important in the case of stainless steel production only.

13.6 Iron ore, therefore, is the most important mineral in the context of captive mining and the related policies lie at the centre of competition issues in the iron ore and steel market.

14.0 Structure of the Iron Ore Market

14.1 From the supply side, today, the iron ore market is divided into the following segments :

(a) Merchant mining companies in the public sector such as NMDC, OMC OMDC etc.. who sell iron ore either at market based or government determined prices.
(b) Merchant mining companies in the private sector who sell iron ore at market based prices.
(c) Steel producers' captive mines.

14.2 From the demand side, the market is segmented in the following way:

(a) Iron and steel companies making use of their own captive resources mined directly or indirectly at the actual cost of mining (plus freight)
(b) Iron and steel companies getting assured allocations from NMDC or any other government company at prices fixed by the concerned iron ore company itself with or without the government clearance/approval.
(c) Iron and steel companies buying partly or fully their requirement from the merchant mining companies/traders at market prices.

14.3 The structure of the market seen both from the supply and the demand sides provides extremely interesting scenarios. In terms of supply assurance, the steel producers with captive mines are best placed followed by those with assured allocations from the merchant mining companies in the public sector. The iron and steel companies who have to depend on the market are the worst placed. Among them, those with long term arrangement with then iron ore miners are placed better.

14.4 The real competition issue is seen in the context of prices of iron ore. It is naturally expected from above that there will be different cost and price scenarios for different categories of steel producers in respect of iron ore. While the market price of iron ore is driven by specific demand and supply conditions in the market and is also linked to the prices of steel scrap, steel, sponge iron etc.., the public sector behemoths such as National Mineral Development Corporation (NMDC) provides iron ore at non-market prices, mostly far lower than the prevailing domestic or global market prices on allocation basis. [21]Since the basis of allocation is not well defined, this market remains far from being competitive, with built in subsidies, and clearly provides a competitive edge to all those who are to buy their iron ore from the market. The worst situation from the competition point of view is the one when iron ore is made available at cost to those with access to captive mining.

14.5 There is no difficulty if a raw materials resource such as iron ore or coal is available to a user industry at cost when they have captive access that that. The difficulty arises under the following circumstances,

(a) When the iron ore consumer, say, a steel producer is provided with a iron ore or coal mining lease grant, at a price/cost that has no relevance to the value of the asset and this happens especially when other producers who are dependent on the same raw material are not blessed with the same conditions. It is like providing land or capital goods to one free of cost and to another at market prices to do the same business.

(b) When an overriding priority is assigned to an applicant for mining leases when linked to forward integration, that is, when captive mining lease applications are provided overriding priority over the rest without any additional obligation to fulfill. There is a problem also when a priority is assigned to an ownership based criteria such as to a state owned mining company setting aside the fact that they operate in the same market under exactly the same conditions.

(c) When a prospective investment in downstream is incentivised with the promise of a captive mining lease by the state government. Here the potential profits from a mining operation is used to lure away investment from other potentially attractive regions or states.

14.6 Not only that all the above cases are in contravention to the free market conditions, the captive mining is being seen by the government itself as a subsidy to the industry.

14.7 As can be seen from the charts annexed, on an average the iron ore cost to the steel companies with total captive mining falls in the range of Rs.322 per tonne for Tata Steel to Rs.558 per tonne for SAIL for the year 2005-06. For a company dependent on partly captive resources (up to about 30%) such as JSW Steel, located in a mining area, the costs were Rs. 886 per tonne. For RINL, totally dependent on assured supply from NMDC at government

[21] In the past, NMDC prices were very closely based on the market. Only recently that the differential between their prices and the market prices has widened.

determined prices, the costs were in excess of Rs. 1500 per tonne in 2005-06 and Rs.1100 per tonne in the previous year. [22] As against this, a typical sponge iron unit dependent totally on the open market paid Rs. 2800 for CLO and others Rs. 1600 per tonne for fines, ex-mine, excluding transport costs. Today, when the iron ore spot prices have gone up to a much higher level, the costs of mining have risen only marginally in absolute terms.

14.8 From the competition policy point of view the differences in the procurement cost of a raw material for different types of producers are not important. What is relevant in this context is that there is no economic reason why there should be a discretionary and discriminatory policy favouring captive allocation or administered price of a product when there exists at the same time a competitive market where demand and supply conditions determine prices. *There is no difficulty if a steel producer obtains a mining lease for any mineral in its normal process 'without breaking the queue' and uses the mined output for integrated downstream operations. Obviously, they will do so if there is economic merit to it. But, allowing someone to jump the queue to derive the advantages falls out of competitive spirit of the market. This preferential treatment to the steel makers extended so far through priority allocation of mines to them under captive agreement is a competition issue vis-a-vis the merchant mining industry. However, letting a few preferred entities to have access to captive mining while others in the identical or similar business are to depend on the market raise the second set of competition issues within the steel industry itself.*

14.9 Much of the government policy favouring captive mining is based on the stated objective of providing supply security and thereby reduce the supply side risks in the usually bulky investments in steel. However, in the conditions of large scale long term and annual contracts which drive the iron ore business today, captive mining cannot be seen as the only way to provide supply security. Clearly, as seen from the Memorandum of Understanding (MoUs) signed by various entrepreneurs with different state governments, captive mines are an integral part of the steel projects proposed which recognizes in no uncertain terms the advantages that one expects from captive mining. Supply security may not be the prime issue.

14.10 The other major competition issue associated with captive mining is that till now is related to the size of the lease holding and the command over the resources extended. For example, SAIL and Tata Steel have huge iron ore resources under their control, far more than what they would be consuming in the foreseeable future. They are being allowed to hold on to these resources on rather uncertain expansion projects they often have announced. [23]In a situation when there is apparently a shortage with limitations being seen in expansion of production, significant resources are getting locked up under the lease holding of a few companies which in turn in creating a shortage of capacity and subsequent rise in the prices of iron ore in the open market. This has gone against the interest of the steel or iron producers dependent on the market.

[22] The 2005-06 figure was taken from an executive of the company on informal basis.

[23] Although one can have details of the mining leases including the mining area, location etc.., the Indian Bureau of Mines do not publish the data on reserves/resources under each lease. The resources are estimated from the average mineralization ratio in the area etc.. apart from other geological information that may be available indirectly. As per information available from FIMI, Tata Steel may have iron ore reserves of more than 2 billion tonnes while the same is over 5 billion tonnes (including Chiria) in the case of SAIL. The estimates look realistic, although it was feared that the same could be exaggerated by FIMI.

Table-9
Iron Ore Mining Leases with Tata Steel

Mining Area/Block	District	State	Mining Area in Hectares
Noamundi	West Singbhum	Jharkhand	1273.76
Noamundi	West Singbhum	Jahrkahnd	85.56
Joda East	Keonjhar	Orissa	671.093
Bamebari	Keonjhar	Orissa	464
Katamati	Keonjhar	Orissa	403.324
Joda West	Keonjhar	Orissa	1437.719
Khondbandh	Keonjhar	Orissa	978
Total			5313.456

Source: Indian Bureau of Mines, Industry Intelligence,
Respective State Governments.

Table-10
Mining Leases Granted to SAIL

Mining Area/Block	District	State	Mining Area in Hectares unless otherwise mentioned
Gua	Singbhum West	Jharkhand	1443
Gua	Singbhum West	Jharkhand	12.14
Manoharpur (Chiria)	Singbhum West	Jharkhand	2269
Kiriburu	Singbhum West	Jharkhand	82
Kiriburu	Singbhum West	Jharkhand	1936.1
Meghahataburu	Singbhum West	Jharkhand	879.43
Budhaburu (Chiria)	Singbhum West	Jharkhand	3.18 sq mile
Budhaburu (Chiria)	Singbhum West	Jharkhand	1.25 sq mile
Budhaburu (Chiria)	Singbhum West	Jharkhand	1.98 sq mile
Jilingburu1	Singbhum West	Jharkhand	210.53
Jilingburu2	Singbhum West	Jharkhand	30.44
Ankua	Singbhum West	Jharkhand	67.18
Ankua	Singbhum West	Jharkhand	622
Bolani	Keonjhar	Orissa	1586.36
Bolani	Keonjhar	Orissa	1321.45
Barsuan Kalta Taldih	Sundergarh	Orissa	2486.382
Toda Reserve Forest	Sundergarh	Orissa	77.94
Toda Reserve Forest	Sundergarh	Orissa	25.98
RAJHARA MECH.MINES	DURG	Chhattisgarh	220
JHARANDALLI	DURG	Chhattisgarh	813.19
KOKAN	DURG	Chhattisgarh	241.76
Kulwar - Nagpur	DURG	Chhattisgarh	938.06
Dalu (or Dalli?) Mechasnised Mine	Durg	Chhattisgarh	719.6
Mahamaya and Dulki	Durg	Chhattisgarh	1522.67
Kemmangundi	Chikmagalur	Karnataka	42.7
Rowghat		Chhattisgarh	500

Source: As above

14.11 The state governments such as Orissa, Chhattisgarh, Jharkhand and Karnataka, have recently signed MoUs with prospective steel enterprises promising them , among others, iron

ore mining leases on captive basis, against the promise to set up steel plants. Although the actual leasing out is linked to progress made on the investments, there were no pre-announced competitive criteria which the state governments should apply to select one among many (if the case be) even make a 'promise' against a promise. In the case of the MoU with POSCO, the Orissa government, with the implicit support of the central government has considered captive mining leases for them allowing them at the same time to export most of that, which itself is an extraordinary grant.

14.12 The state governments while according priority allocation of mines to new investors in the state has not spelt out a policy towards existing players on how to take care of their concerns and how to bring them in at par with the new players.

14.13 In many ways, one finds that policy induced bias in the policy of captive mining has worked to bring in severe distortion in the market of iron ore and steel.

15.0 Export Tax

15.1 The government has recently introduced a series of measures to curb inflation. One of them is introduction of an export tax on certain types of iron and steel products. The measures are to raise immediate supply to the domestic market. Prior to that, the government had introduced an export tax on iron ore at the rate of Rs. 300/50 per tonne (depending on the grade) last year which has since been revised to an ad valorem rate of 15 per cent flat. The export tax on iron ore is to conserve iron ore for domestic use in future as per the statement made by the Finance Minister while introducing them.

15.2 While the government is entitled to taking fiscal measures in the interest of the nation, such measures should not be at the cost of competition in the market that may adversely hit any segment of the industry or a consumer. Ideally, an export tax is expected to make exports unattractive vis-à-vis domestic sales leading to an encouragement for the producers to sell more in the home market which can lead to a price fall to favour consumer interests. However, this may not happen exactly this way in a tight supply situation where manipulative responses can lead to further distortion in the market without providing any relief to the intended consumers.

15.3 While the implications of this measure are being studied, there is a strong belief that the steel producers and the iron ore miners have passed the burden of the export duty on the buyers in the domestic market, fully or partially, wherever it was possible. While there is no evidence of the steel producers raising their list prices, the traders or the intermediaries in the system could have done so, thereby depriving the consumers of what they were supposed to get (right or wrong). The government has not provided any safeguard to prevent any conscious manipulation in the market and protect the interest of the final consumer. Thus, while the government has been able to raise its revenue from export duties, there are reasons to believe that this could be at the cost of the ultimate consumers in the domestic market.

15.4 Export tax on iron ore is more intriguing. The government has considered the tax at the current high level to conserve the mineral for future domestic use when the current production and production capacity already built up are far in excess of current demand in the country. There are many studies which claim the fear of the government and the industry that

iron ore in the country will fall short of demand in the foreseeable future is unfounded. [24] While the current iron ore production is in the range of 200-210 million tonnes, and the industry has an estimated mining capacity of about 250 million tonnes, local consumption stands at about 85-90 million tonnes. [25] That is, even after the domestic demand is fully met, there will be over 100 million tonnes of iron ore which can only be exported. There are reports of stocks accumulating in mines. [26] Given the fact that iron ore is not a manufactured item and that composition of the ore cannot be changed to suit new policies and economic conditions, bringing in restrictions in any form in the first place, will force the mining industry to adopt second best alternatives, such as setting up value adding facilities, where they do not have competitive advantage or sell at artificially depressed domestic price.

15.5 The other issue is that if conservation is a national priority, there is an economic cost to conservation and who pays for that and in which way. Today, the burden of an export tax or measures to discourage exports has fallen entirely on the iron ore mining industry with only the user industry to benefit from it. The government, in the case of its understanding that iron ore needs to be conserved, should have a policy in such a way that the burden of a restrictive policy is well distributed or the affected industry is adequately compensated so that their investments and resources are well protected in value.

15.6 The third important competition issue in respect of the export tax is that with this the merchant mining companies are automatically forced to surrender their rights to choose customers and work for an optimum sales plan to maximization of profits. This happens because the iron ore industry means several products with different sets of customers for each product type. In the absence of full access to all the customers, they will be forced to be on the supply side of a oligopoly market.

16.0 Competition issues in the Context of Investment and Growth

16.1 Steel is a huge infrastructure and raw materials dependent industry and capacity creation involves substantial direct capital costs on plants and machinery as also on developing infrastructure around for raw materials, transport logistics, storage etc.. While some of these infrastructure development activities are taken up routinely by the government as a part of larger development efforts, there are very specific investments which are directed at only specific beneficiaries such as a large steel plant. These include, for example, building of roads, bridges, urban infrastructure which are directly related to the economics of the plant. There is no clear policy in pricing such services. Since such development efforts are not made uniformly, there can be valid cases of policy based discrimination. This is particularly true when the government undertakes area based development to suit specific enterprises. Different schemes of tax concessions, especially those seen in the form of waiver of state sales tax, octroi, etc.. granted to prospective investments to attract them to particular state amount to subsidies. Competition issues are also visible when large enterprises are provided with cheaper and more assured supply of scarce resources such as energy and minerals.

[24] Mineral Policy Issues in the Context of Export and Domestic Use of Iron Ore in India, Indian Council for Research on International Economic Relations, February 2008.
[25] Estimates of production and capacity are based on discussions with FIMI. The consumption estimates are of the author based on steel production. The same, however, stands much lower in the estimates of Indian Bureau of Mines.
[26] Reports from Indian Bureau of Mines, FIMI, etc.

16.2 The behaviour of the banks and financial institutions supporting large investment and their discriminatory policy have gone against the interest of the smaller entrepreneurs who have been forced to borrow at higher costs of capital. The emergence of large investment projects in the steel industry will have a significant impact on the growth of smaller players. While the banking institutions can be expected to work on market determined commercial basis keeping their own interests ahead, one will not be surprised if their decisions are systematically manipulated to provide advantage to the larger players. This is where competition is hit directly.

16.3 As discussed above, the nineties involved mainly a transition from a regulated to an open market economy. With economic reforms, capacity expansion took place in the private sector at brisk pace making the market more competitive with larger number of players in it along with more effective external trade options. However, the possibility of monopoly behemoths taking over the steel market with their sheer size and scale advantages cannot be ruled out if the investment policy and in particular the capital market remains in favour of a few against competitive norms of the market. The recent announcement of various steel companies of their plans to expand capacity in the coming years show that if their plans materialize, the steel market will see significant increase in concentration and emergence of strong oligopoly in most product categories. It is worth noting that individual project sizes have gone up from an average of about 3 million tonnes of annual capacity for a large one to about 12-15 million tonnes today. Whereas the largest single site steel mill today has a annual crude steel capacity of only 5 million tonnes, the projects such as those of POSCO, Arcelor Mittal Steel, Tata Steel, JSW Steel, Essar Steel, etc.. are above 10 million tonnes in each case and with multiple projects in their hands, each will have huge individual capacity in the country's industry. In all such projects, bank and institutional funding will be of utmost importance and only the ones with greater financial prowess and market share will be able to draw such large funds.

17.0 Mergers and Acquisitions

17.1 Interestingly, while consolidation in the steel industry is one of the most prominent trends at a global level, developments in India have not been significant. However, the Indian steel behemoths have been able to strengthen their position globally with several overseas acquisitions. For example, Tata Steel has acquired Corus and Essar Steel has picked Algoma. There are important acquisitions by Ispat Industries, JSW Steel, JSPL (Bolivian Mines) as well. All these acquisitions may not mean so much directly to the Indian steel market. But, considering the fact that with these their bargaining strength will increase in the domestic products as also capital markets, one can foresee serious competition issues to emerge in the days ahead. It is also important that the likely presence of global giants such as Arcelor Mittal Steel, POSCO etc.. on Indian soil will bring in a new breed of very large players in the scene. Their presence in a largely fragmented customer base will be a matter to watch out for.

17.2 The effects of consolidation in the industry globally are being slowly established in the steel market as steel prices are seen to be holding firm even at times when the demand is low or the market is faced with excess supply. Points are being raised on the role of the consolidated industry and its increased market power in the context of the phenomenal price rise observed in the past couple of years. What is being apprehended is that the steel majors globally have got together to control prices and market shares to mutual advantage. A recent survey undertaken by Steel Business Briefings among top business executives point to such a

possibility.[27] Questions have been raised if the steel majors are manipulating by creating artificial shortages around the world adopting non-competitive and unethical practices. While the consolidated steel industry is in command, the iron ore and coal industries globally are far more consolidated and with their oligopolistic control over the market have been able to continuously raise prices irrespective of the actual demand supply conditions in the market. As has happened in the case of these raw materials industry, in steel too, the smaller and marginal players are finding it more convenient to merely follow the leaders instead of attempting to grow competitively.

18.0 Competitiveness : The Analytical Framework

18.1 Competitiveness of an industry as a whole is not the same as for an individual company in it. An efficient individual company can flourish even if the other companies in the industry (or the majority of it) are inefficient or the fundamental conditions determining competitiveness are missing in the economy. The systemic inefficiencies affect one and all, albeit, in varying degree.

18.2 The competitive position of an individual firm in an industry or of the industry as a whole is not determined solely by its ability to sell in a competitive domestic or world market. Competitiveness is decided upon by the state of technology; operational efficiency and the health of the plant over a period of time; availability and cost of raw materials; state of infrastructure and logistics for movement of raw materials and finished products; productivity of labour and capital; managerial excellence; innovations; externalities like systemic forces and exchange rates; cost of capital, etc.. While the benchmark of competitiveness remains at the ability of a firm to sell at a competitive price, making at least the average rate of profit, the inability to exploit any favourable condition to overcome the constraints may also put a firm in the league of inefficient ones. Therefore, apart from the actual performance, the potential to improve performance is a major criteria to look at.

18.3 The state has always a significant role to play in determining the competitiveness of any industry. The role is larger for the steel industry. This issue has been noted earlier in this study. The nature of the role the government should play also depends on the state of competitiveness of the industry itself at a given point of time and the criticality of it in the context of the larger economy. Whether the industry is strongly competitive internally or is being also propped up by pure outside support is a matter that needs to be examined in detail prior to defining any specific and concrete role for the industry.[28]

19.0 Competitiveness of the Indian Steel Industry

19.1 Competitiveness of the Indian steel industry has been examined by various experts at different points of time. While the increased presence of the Indian steel companies in the world market over the last decade has been taken as a pointer to increasing competitiveness of the industry in India, the operational performance of most of the steel plants, small or big,

[27] Steel Business Briefings, UK, August 2004

[28] The role the state plays in determining competitiveness, growth of the steel industry has been discussed widely in the existing literature. See, Howell, Noellert, Kreier and Wolfff, Steel and the State, Westview Press, London, 1988 and A.S.Firoz, Steel Industry in Turmoil : Structural Crisis of 1990s, **Economic and Political Weekly**, April 12, 2003.

have been found to be falling short of the level achieved by the international bests. It is widely reported that the Indian steel plants are relatively inefficient in specific energy and raw materials consumption. There are only few new generation plants which may be relatively better placed, but, they too are way behind the global bests. Labour productivity, in most plants are low by the standards of the global bests despite the gradual improvements noted in the past few years.

Costs of Production

19.2 As can be seen from the tables below, the costs of production of steel products in India were lower than those in the USA (integrated), Western Europe, Canada, Australia , South Korea and Japan in 2005, according to the estimates of the World Steel Dynamics. This refers to the average pre tax costs of producing CR sheets at reference plant/plants considered. The Indian costs were higher than those in the USA (mini mills), Brazil, Eastern Europe , CIS and China.

Table- 11

WSD 2005 World Cost Curve Average Comparison													
	($ per metric tonne)												
	USA	**USA**				**Western**	**Eastern**				**South Korea**		
	Integ	**Mini**	**Canada**	**Mexico**	**Brazil**	**Europe**	**Europe**	**CIS**	**India**	**Australia**	**(Integ)**	**Japan**	**China**
Coke	$188		$166	$112	$167	$194	$165	$121	$145	$204	$186	$197	$127
Pig Iron	227		204	141	153	218	202	178	146	202	201	201	202
Liquid Steel	305	270	261	254	213	304	294	239	268	275	290	290	285
Slab	337	289	286	271	232	329	321	262	285	303	309	316	302
HRB	**367**	**320**	**331**	**334**	**252**	**370**	**345**	**271**	**313**	**350**	**343**	**355**	**329**
HRC (P&O)	425	335	383	361	273	404	370	290	333	384	365	386	341
CRC	525	381	473	433	336	498	437	333	386	469	431	470	385
Overhead	24	19	19	2	36	24	26	25	32	32	22	30	33
CRC w/OH	549	400	493	455	372	522	463	358	418	501	453	499	419
Depreciation	16	19	18	25	36	32	18	15	39	27	41	50	42
Interest	6	1	6	12	30	12	6	9	35	3	1	11	13
Pretax Cost	571	420	517	492	438	566	487	382	492	531	495	560	474

Source : World Steel Dynamics, Core Report on India

19.3 The situation did change since then as the estimates pertaining to 2007 show that Indian steel industry remained competitive except for those in Brazil and the CIS. What is interesting to note is the fact that the despite lower wages, the overall labour cost per tonne of finished steel remained higher in a reference Indian plant than in China, Mexico, USA (mini mill), CIS and China. This is a reflection of low labour productivity, poor management, inefficiency in the use of resources and lower capital intensity in the plants.

19.4 Even energy costs per tonne of steel were found to be higher than in Brazil, USA (mini), Western and Eastern Europe, CIS, Australia and importantly the global average.

Table- 12

WSD 2007 World Cost Curve Average Cost Comparison as of November 2007														
					($ per metric tonne)									
	USA Integ	USA Mini	Canada	Mexico	Brazil	Western Europe	Eastern Europe	CIS	India	Australia	Japan	South Korea (Integ)	China	Global Average
Costs by Stage														
Coke	**$212**		**$208**	**$123**	**$236**	**$254**	**$199**	**$150**	**$134**	**$164**	**$220**	**$212**	**$170**	**$201**
Pig Iron	269		253	182	208	314	271	258	185	196	318	317	308	276
Liquid Steel	347	409	356	330	276	413	383	343	327	276	435	420	402	370
Slab	408	432	387	348	299	442	415	370	342	303	464	445	421	410
HRB	**448**	**469**	**452**	**446**	**326**	**492**	**434**	**367**	**372**	**357**	**511**	**492**	**456**	**452**
HRC (P&O)	507	480	508	467		534	464	388	393	396	547	534	473	482
CRC	613	537	635	541	425	647	548	437	455	497	649	614	536	563
Overhead	26	23	28	22	42	27	30	32	33	36	33	30	57	38
CRC w/OH	639	560	662	562	467	673	578	469	488	533	682	644	593	601
Depreciation	27	24	34	40	45	38	28	23	41	28	47	41	35	34
Interest	7	5	9	9	18	10	15	11	30	2	4	2	20	12
Pretax Cost	**$673**	**$589**	**$705**	**$611**	**$530**	**$722**	**$621**	**$502**	**$559**	**$563**	**$733**	**$687**	**$648**	**$647**
Costs by Category														
Raw Materials	**$379**	**$362**	**$316**	**$356**	**$245**	**$416**	**$321**	**$307**	**$289**	**$288**	**$398**	**$384**	**$399**	**$373**
Labor	121	53	164	50	77	132	100	36	57	134	123	98	35	89
Other	131	121	159	121	160	133	179	153	155	118	171	157	160	143
Energy	69	52	68	88	58	64	50	40	66	38	81	108	88	65
Energy credit	-61	-28	-52	-54	-74	-72	-73	-67	-79	-45	-91	-102	-89	-68
Total	**$639**	**$560**	**$655**	**$562**	**$467**	**$673**	**$578**	**$469**	**$488**	**$533**	**$682**	**$644**	**$593**	**$601**

Source: World Steel Dynamics, Core Report on China.

19.5 The point to note is that despite the advantages of captive iron ore and coking coal (in parts) for the reference plants considered for India (SAIL and Tata Steel), the Indian steel producers were not clearly cost competitive by global standards. The picture would have been different had other high cost producers were considered as reference.

19.6 The lack of clear competitive advantage raises an important question on the future growth strategy for the steel industry in the country. At one level, a question can be asked if one should proactively support this industry to raise its competitive position or that one should simply allow the market forces to allow the industry to grow optimally based on its competitive strength. While the latter is more acceptable in economic theory of growth and development, certain well directed governmental support can be provided for relatively short duration to take care of market imperfection derived historically and from other policy distortions. However, what one has to take care is that direct subsidies and benefits provided by government policy are not allowed under the rules of the World Trade Organisation. Also, specific policy based interventions can correct the problems in one industry at the cost of another. This is so specifically for the industries which are vertically integrated. These are some of the issues where the issues related to competitiveness and competition can have a common meeting ground.

19.7 On a future perspective, how much steel will India produce finally will also depend on how competitively it is placed in global comparison. While the costs of production of a tonne of HR coils in India vary from a low of about $415 to nearly $750 (July 2008), the upcoming plants in the eastern region, especially Orissa will see a much different cost structure from now ranging from about $500-650 per tonne at current costs and prices, depending on whether the iron ore is mined captively or bought out from the market and where exactly the plant is located and the product mix. The Jharkhand cost will be higher if coking coal are to be imported and lower in case about 30 per cent of the coal are to be locally procured. The costs elsewhere, such as on the western coast, with purchased iron ore and coal/gas, will still

be higher. But, they will save on logistics as the markets are nearer and given the far better industrial culture, the start up costs will be lower. This will reduce their capital costs.

19.8 ***The costs of production of steel in India will witness a massive increase from now on due to huge increases in the prices of inputs such as coking coal, non-coking coal, met coke, iron ore, steel scrap ferro-alloys, zinc etc..The impact of coking coal price rise will be felt by all the blast furnace operators, including SAIL and Tata Steel. Coking coal prices are expected to rise by more than 100 per cent in this year's contract.***

Table- 13
Costs of Production of Steel (HR Coils) 2006-07

$ per tonne

PRODUCER	WORKS COSTS	TOTAL COSTS
Tata Steel (Jamshedpur)	230	280
SAIL(Bokaro)	265	305
Essar Steel (Hazira)	320	380
JSW –JVSL (Torangallu)	275	316
Ispat Industries (Dolvi)	325	420

Table- 14
Costs of Production of Steel (HR Coils) 2008-09

$ per tone

PRODUCER	WORKS COSTS	TOTAL COSTS
Tata Steel (Jamshedpur)	345	415
SAIL(Bokaro)	505	595
Essar Steel (Hazira)	390	480
JSW –JVSL (Torangallu)	540	670
Ispat Industries (Dolvi)	650	750

Note for Tables 13 and 14: Estimated from data obtained from various sources including published information of the companies. Base 2005-06 for 2006-07. The 2008-09 estimates are preliminary and are based on cost models developed in house and assumed market prices of raw materials. **Not claimed to be absolutely accurate but sufficiently indicative of the actual position.**

Table- 15
Labour Costs in Indian Steel Plants ($/tonne) Based on 2004-05, 2005-06 and 2006-07

PRODUCER	LABOUR COSTS AS PERCENTAGE OF TOTAL OPERATING EXPENDITURE (EXCLUDING FINANCIAL COSTS)
Tata Steel	10.5
SAIL	17.8
Essar Steel	2.1
JSW -JVSL	2.8
Ispat Industries	2.8
JSPL	4.6
Bhushan Steel	1.5

Estimated from the published information of each company

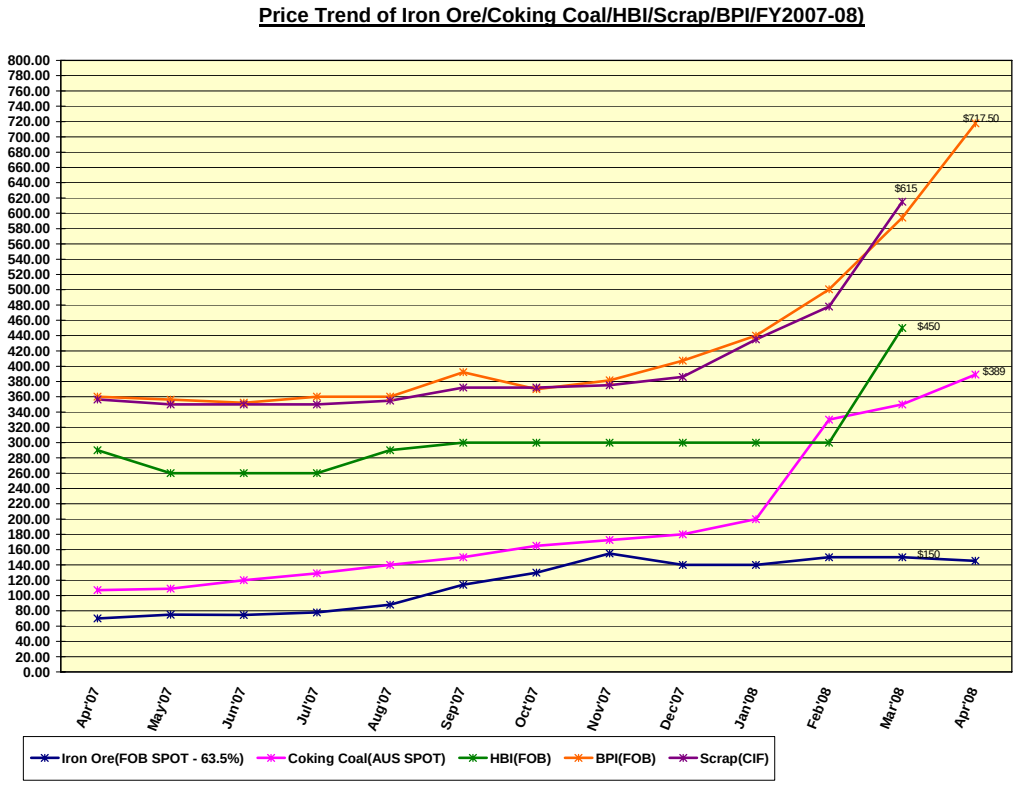
19.9 The dynamics of raw materials market will impact different plants differently as can be seen from the analysis below.

Table-16
Sensitivity Analysis

PRODUCER	IRON ORE PRICE INCREASES	COKING COAL PRICE INCREASES	NON-COKING COAL/GAS PRICES INCREASE	EXPORT TAX IS RAISED ON STEEL	EXPORTS TAX IS INCREASED ON IRON ORE
Tata Steel (Jamshed)	No impact on Jamshedpur works. Should be happy if the iron ore prices rise for others. Concerns are on Corus.	Bad news, although the company has some own coal resources that can feed upto 65% of the requirement of Jamshedpur. Big problem for Corus.	Almost the entire non-coking coal is self raised. Coal India also is maintaining price stability. Even if there is an impact, it is not alarming.	Hits this company less than others.	No impact. Captive source.
SAIL:Bokaro	No impact on own cost and should be happy seeing many others cry.	Very serious concern as imported coking coal makes for 80% of the total consumption. Shift to own/local coking coal will mean higher costs and operational difficulties.	Gets thermal coal from coal India at subsidized prices. The impact can be absorbed even if there is a price increase by Coal India .	Alomost totally dependent on the domestic market. No impact.	No impact. Captive source.
Essar Steel (Hazira)	Buys almost totally from NMDC. No price increases till now. Even if there is an increase, unlikely to be large.	Not dependent on coking coal. No impact.	Dependent on gas. GAIL may not raise prices immediately, but, will face the impact on purchasing high cost naphtha and propane.	Exports are hit as will have to share the impact with the buyer.	Theoretically benefits. But, no impact really.
JSW –JVSL (Torang.)	About 30% of the requirement is met from direct purchases from the market. Shall be hit hard on this account.	No source of own coal currently. Imported coking coal/coke/sized non-coking coal will hit the company hard.	No dependence on gas. Impact on account of thermal coal price increases not alarming.	Dependent on exports. Lose out to some extent as others.	Theoretically benefits. But, no impact really.
Ispat Industries (Dolvi)	To be hit significantly as the company is relatively more dependent on merchant private miners.	Depends on met coke. Huge problems even if prices rise just along the coking coal price trend. The company is desperate to secure long term coking coal supplies.	Gas supplies have been erratic and expensive. Even if the prices are stable from GAIL, global prices have risen. Not to raise gas based capacities. Thermal coal is not an issue.	Earnings from exports are hit, as for others.	Theoretically benefits. But, no impact really.
JSPL	No impact on steel or DRI costs. Can gain from merchant sales. Should be happy if the iron ore prices rise for others.	Minimal dependence on imported coking coal. But, dependence will rise as BF capacity is raised.	Almost the entire non-coking coal is self raised. Coal India is also maintaining price stability. Even if there is an impact, it is not alarming.	Can upset the company's plan to tap the global market for steel products.	No impact. Captive source.

PRODUCER	IRON ORE PRICE INCREASES	COKING COAL PRICE INCREASES	NON-COKING COAL/GAS PRICES INCREASE	EXPORT TAX IS RAISED ON STEEL	EXPORTS TAX IS INCREASED ON IRON ORE
RINL	Directly hit. But, assured supplies at lower than the market prices provides stability.	Very serious concern as imported coking coal makes for 95% of the total consumption. Shift to own/local coking coal will mean higher costs and operational difficulties.	Gets thermal coal from Coal India at subsidized prices. The impact can be absorbed even if there is a price increase by Coal India . No use of gas.	Largely dependent on the domestic market, but, exports will remain part of the business for strategic reasons.	No impact. Locally procures from NMDC.
Merchant Pig Iron Producers	Buys from both NMDC and others at market prices. Directly hit by iron ore price increases, as the proportion of assured upplies from NMDC is small.	Dependent on coking coal/imported coke. Directly hit by price hike. May become unviable if pig iron prices are lowered.	Minimal use of thermal coal.No impact.	Exports adversely affected as duty burden will have to shared with buyer.	Theoretically benefits. But, no impact really.
Merchant Sponge Iron	Almost totally dependent on private merchant miners. To be hit hard with price rise. A few with larger allocation from NMDC will stand in better health. Normally, the costs are passed on.	No use of coking coal.	Gas based plants are facing both gas price increase and supply constraints. Impact on account of thermal coal price increases will be strong for coal based units.	Only very small quantities are exported. No major impact.	Theoretically benefits. But, no impact really.

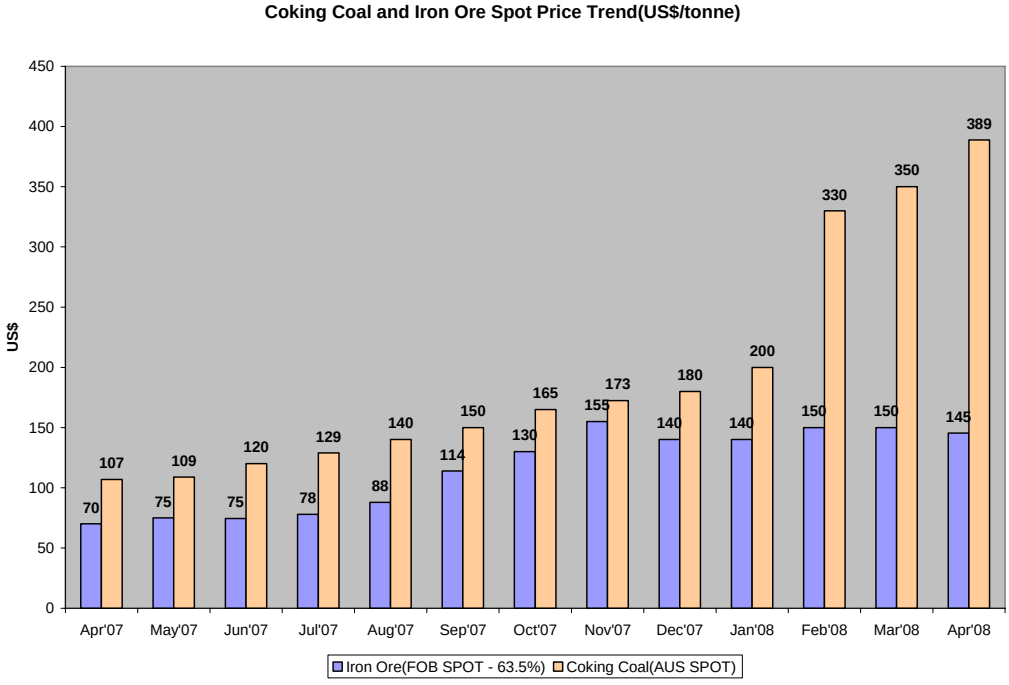
Chart-2



19.10 There is a popular misconception about the potential benefit the steel makers can pocket from the imposition of an export duty on iron ore. The misconception starts with the assumption that the iron ore miners will be forced to sell more in the domestic market as exports become unattractive with exports duties. This has no logical basis. The current iron ore product mix will not support any easy diversion from exports to domestic production. This has already been witnessed recently when the iron ore exports orders have collapsed the miners are being forced to hold huge stock and cut mining rates. The balance between export and domestic sales is nevertheless important, but, it is relevant when the market is extraordinarily strong worldwide.

19.11 ***Indian steel industry is faced with a real threat from coking coal supply situation worldwide. With the bulk of the production being planned with blast furnaces as the basic iron making unit, coking coal gains importance. To reduce dependence on coking coal, pulverized Coal Injection (PCI) has just begun.*** The Indian plants use nearly 550 kg of coke and PCI on an average with the best performances being about 510 kg per tonne of hot metal. But, the switch to semi soft coking coal and PCI globally have also raised the prices of these products which have resulted in the erosion of the potential advantage from switch.

Chart-3



19.12 The law and order situation in the steel industry areas in the eastern part of the country is deteriorating. The impact of this will be hard felt in the years to come.

19.13 All the steel projects, including the ongoing or proposed brownfield modernization and expansion projects, will see significant increase in capital costs. The current cost estimates are not even worth the paper they are written on. SAIL has already announced a three fold increase in the capital costs of its projects.

19.14 The capital mobilization for the investments at the level proposed may be a tough proposition from the industry's own accruals as also from the debt that can be mobilized from the local banks and financial institutions. Most of the projects are based on a debt-equity ratio of 2:1. This is not one the banks and the financial institutions in India will find comfortable to cope with, given their past experiences. There are foreign participation in almost all significant projects through both debt and equity routes.

19.15 The local banks and financial institutions will be constrained by their sectoral prudential caps imposed on them. Therefore, the industry will have to depend heavily on foreign investment. With a global recession on, the foreign capital to fund steel projects will not be sufficiently available making things fairly difficult for the steel companies. Higher demand for investment fund will raise the costs of capital for the industry. The interest rates in India have already risen sharply. Will there be sufficient interests at higher capital costs in investing in steel? High steel prices and massive margins in steel making continue to hold the steel ambitions strong despite increasing costs of capital. However, with raw materials prices sky high and uncertainty over long term supplies are causing significant concerns on the prospects of the steel projects especially when various regulatory interventions have already robbed the industry of potential revenue that could come handy in adding capacities in the days ahead.

19.16 There is but another question. Even if the industry continues to make money at current levels, will all the players actually plough back the profits into steel only? The steel producing business houses have multiple interests already. Foreign acquisitions and new investments will also take away a lot of money.

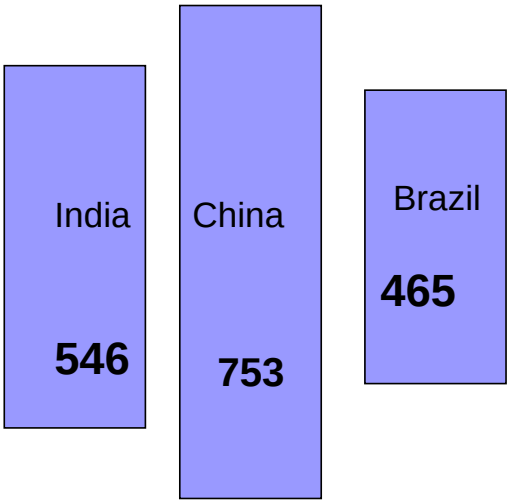
19.17 While most investors see the deficiencies as transient factors, others claim these are there to stay longer than expected. In our view, opportunities for steel in India are enormous provided the externalities support them. Poor externalities can put other nations ahead in global competition.

19.18 A 15 factor analysis of the factors contributing to the competitiveness of the steel industries in China, India and Brazil show China way ahead of both India and Brazil in terms of intrinsic strength which will determine the future growth potential. This is based on the position as in the middle of 2007 and has not been updated since then. India's position worsens since then due to shortages and high prices of coking coal which need to be imported by the country.Also, continued increase in political and social violence raises the country risk and, in fact, the country's position will significantly drop if a fresh assessment is made.

19.19 The other important externality that affects the costs of production and sales is **infrastructure.** Poor physical infrastructure for transportation hits a steel makers both while carrying raw materials, machines etc. and in moving its finished goods for sale. The quality of infrastructure available for the steel industry even to undertake its day to day operations is grossly insufficient. It has resulted in high costs at every stage of its business. It has been reported that it costs more to transport a tonne of steel from Vishakhapatnam to Delhi or from Jamshedpur to Mumbai than from Mumbai to Rotterdam or Vishakhapatnam to China. In addition, low turn around time for ships at Indian ports makes shipping in and out of India relatively more expensive. Internal transportation by railways or roads is more expensive in India than in most other major steel producing countries.

Chart-4

Relative Strength of Steel Industries in India, China and Brazil



19.20 While the competitive position of the Indian steel industry is driven by both well known and directly observed internal and external conditions, there are reasons to believe that strong market power of a few dominant players have led to sub optimal output levels which in turn leads to higher costs of production and overall rise in inefficiency in resource management.

CONCLUSIONS

On the issues pertaining to competition policy, the current situation in respect of the iron and steel industries in India is a mixed bag. There is no doubt that the concentration level in certain products market such as HR coils is significant with the dominance of a few at the top. However, there is no evidence of any formal "agreements" to fix prices or real sense of the term. But, there is definite evidence of the HR coils producers working in unison and respond identically to externalities such as changes in global prices etc.. irrespective of the fact that each has distinctly different economics of production. This points to the possibility of 'informal' arrangement which also is against the law. In fact, the purpose of this study was not to investigate whether the competition laws of the country have been violated. This is a subject matter of detailed investigation and the Competition Commission of India needs to conduct detailed investigation on that. Our concern was to see if there is prima facie evidence of that and if so, point out to the authority the areas it should focus on. We were also curious about the government at the highest level accusing the steel industry of having formed a cartel. These cannot be written off as loose statements and in fact the Competition Commission of India should have initiated a detailed study on that.

Even if the industry did not exhibit any anti-competitive behaviour, the government's approach to steel prices is based on the assumption that a few steel producers have sufficient command over the market and that they can be talked to uniformly cut prices to whatever objective to fulfill. In fact, while the government should be taking measures to bring in competitive efficiency by conscious interventions to eradicate market distortions, what the government is doing is exactly the opposite of that in most cases, bringing in more distortions than competition.

Many of the government's policy such as the priority allocation of mines to captive use, imposition of exports tax to discourage exports , tax sops to attract investment to specific

regions, etc.. have in-built anti-competitive elements. These measures may have helped an industry or a segment of the industry in some limited sense immediately. But, such actions distort the market and resource allocation and raise economic inefficiency to lower competitive position of an otherwise competitive industry. The very fact that the Indian steel market did not see sufficient competitive conditions, even the current growth has been far below the potential if compared with the success of the global peers. The Indian steel industry has been over dependent on captive iron ore advantage and the fight over these assets has deprived them of potential growth and innovations. There were many lessons to be learnt from the experiences of Japan, Korea and China, countries who came to take dominant position in the world of steel without captive iron ore sources.

Therefore, we do not have any hesitation in saying that captive iron ore and prioritization of mining leases to end user industries and export tax on steel and iron ore introduced recently have the most adverse implications on the market from the competition point of view. The steel industry and the government are taking only a short term view of the state of affairs.

Another difficulty pertaining to “cartelization” or whatever it may be termed is that it has not gone without probably hitting consumer interest as can be seen from the vehement protests against steel price increases in the recent times. While the consumer industry interests may also be exaggerated, it cannot be written off as wild or unwarranted charges. Further down, the impact of a price rise is seen in the life of the millions of people buying their day to day goods. There is therefore a need to look into this more carefully.

While there has been no major consolidation in the steel industry in India so far to draw the attention of the competition authority, the nature of investment, their size, ownership pattern which are currently at various stages of implementation can have significant concern to the government in consideration of the existing competition laws in the country. The steel producers with their increasing weight will be able to draw away larger share of the financial and mineral resources much to the disadvantage of the rest. This will further accelerate the process of concentration in the industry.

The competition scenario in the market for investment funds, mainly loans from the banks and financial institutions, has not been known to be fairly positioned with strong accusations of being biased in favour of the larger players. While this need not be a case specific to the steel industry, the steel industry is prominent in this context. What is important is that the basic criteria of sanctioning loans which remain the most important factor for any firm to be able to invest for growth have not been necessarily performance or efficiency based and the steel industry thus faced a comfortable soft budget constraint, much against the competitive character of the market.

Having competitive market conditions is the pre-requisite for the competitive and sustainable growth of the steel industry in India. The government needs to study more closely the growth pattern of the Indian steel industry and also examine its advantages and disadvantages in relation to the basic raw materials such as coal, iron ore, natural gas etc..

Annexure-1

PRODUCTION FOR SALE OF FINISHED STEEL (NON-ALLOY) 2006-07

Thousands of tonnes

	Main Producers	Secondary Producers	IPT/OWN CONSPTN	TOTAL
1. Non-Flat Products				
Bars & Rods	5161	13650		18811
Structurals/Spl.Sec.	1104	3780		4884
Rails&Rly.Materials	918	120		1038
TOTAL (Non-flat product)	7183	17550		24733
2. Flat Products				
Plates	2450	892		3342
H R Coils/Skelp/Strips	4526	8464	1809	11181
H R Sheets	292	411		703
C R Coils/Sheets/Strips	1936	5511	3125	4322
GP/GC Sheets	813	3578		4391
Elec. Sheet	76	72	5	143
Tin Plates	17	155		172
T M B P	9	11	11	9
Tin Free Steel		2		2
TOTAL (Flat Products)	10119	19096	4950	24265
3. Pipes (Large dia)	88	1110		1198
TOTAL (Fin.Carbon Steel)	17390	37756	4950	50196

Source: Annual Statistics, Joint Plant Committee, Published for internal use.

Annexure-2

Forecast of Capacities of Plate Mills/Hot Strip Mills/Other Mills

Figures in Million tonnes

	2006-07	2011-12
Plate Mills		
Bhilai : SAIL	0.95	1.42
Rourkela :SAIL	0.3	1.99
JSPL (Raigarh)	0	1
Essar Steel	0	1.5
Monnet Ispat	0	0.5
JSPL (Deojhar)	0	2.2
JSW (Torangallu)	0	0.5
Welspun	0	1.5
Total	**1.25**	**10.61**
Hot Strip Mills		
Bokaro : SAIL	3.995	7
Rourkela : SAIL	1.44	1.5
Tata Steel	3	5.9
Essar Steel	3.6	4.6
JSW Steel	2.5	6.7
Ispat Industries	3	3.6
Bhushan Steel Ltd.	0	1.8
Bhushan Power and Steel Ltd.	0	0.9
Tata Steel (Kalinga Nagar)	0	3
JSPL (Jharkhand)	0	2
BSL (West Bengal)	0	2
Jindal Stainless	0	0.8
Total Hot Strip Mill Capacity	**17.535**	**39.8**
Others Including Narrow Strips	1.25	3

Source: Company announcements time to time

Annexure-3

Iron Ore Consumption and Costs for Select Indian Steelmakers

SAIL (Average of all plants)

	2005-06	2004-05	2003-04
Iron Ore Consumed (tonnes)	23950548	20213579	21341162
Iron Ore Consumed (Value: Rs. Crore)	1335.68	1019.22	932.4
Iron ore Transfer Price (Rs./tonne)	557.68	504.23	436.90

JSW

	2005-06	2004-05	2003-04
Iron Ore Consumed (tonnes)	4672179	4430132	3872422
Iron Ore Consumed (Value: Rs. Crore)	413.91	261.06	147.03
Iron ore Transfer Price (Rs./tonne)	885.90	589.28	379.68

TATA STEEL

	2005-06	2004-05	2003-04
Iron Ore Consumed (tonnes)	8486755	5986753	6145184
Iron Ore Consumed (Value: Rs. Crore)	273.53	181.78	160.72
Iron ore Transfer Price (Rs./tonne)	322.30	303.64	261.54

RINL

	2004-5	2003-4
Iron Ore Consumed (tonnes)	6071994	6197105
Iron Ore Consumed (Value: Rs. Crore)	668.88	508.6
Iron ore Transfer Price (Rs./tonne)	1101.58	820.71

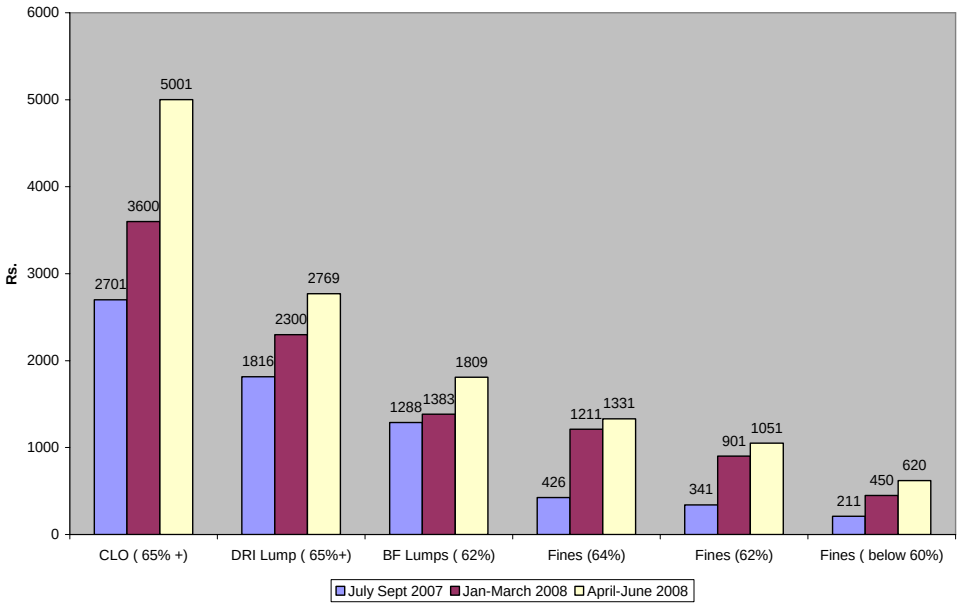
JSPL

	2005-06	2004-05	2003-04
Iron Ore Consumed (tonnes)	2862775	1846726	1620107
Iron Ore Consumed (Value: Rs. Crore)	140.01	108.18	145.22
Iron ore Transfer Price (Rs./tonne)	489.07	585.79	896.36

Note: One crore = Ten millions
Source: Estimated from Annual Reports of the respective companies

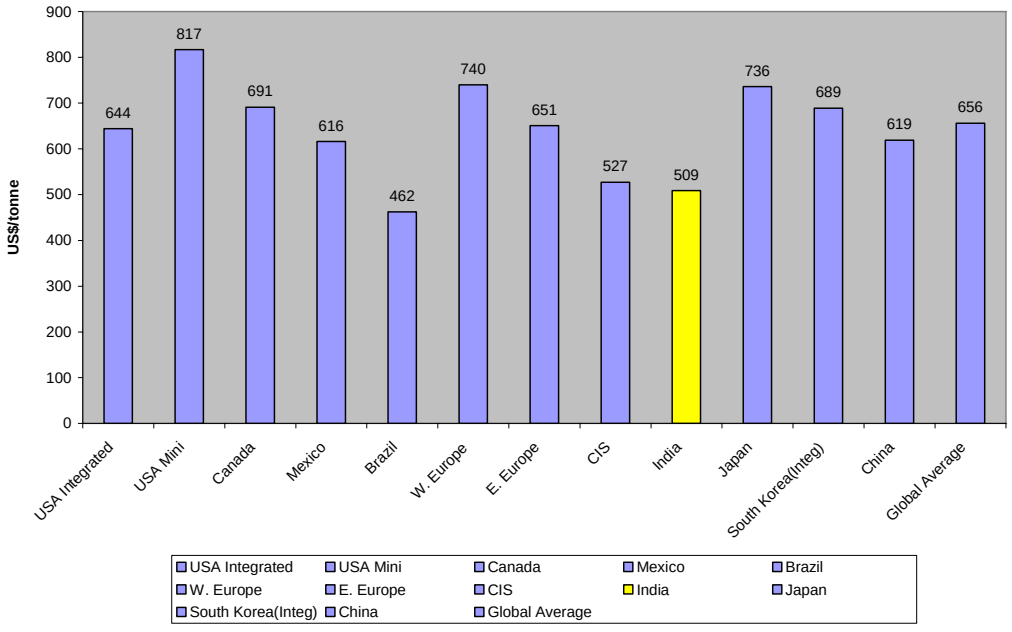
Annexure -4

Iron Ore Price Trend : Ex-Mine (Barbil Orissa)Rs./tonne

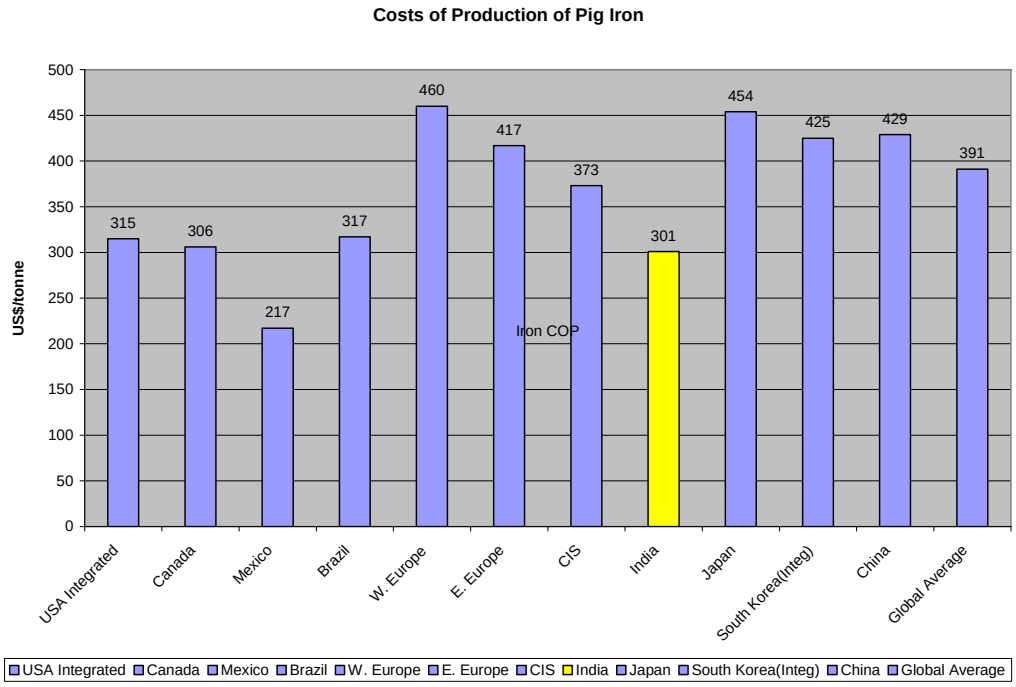


Annexure-5

Costs of Production of HRC (P&O)



Annexure-6


Costs of Production of Pig Iron
US$/tonne
500
450
400
350
300
250
200
150
100
50
0
315
306
217
317
460
417
373
301
454
425
429
391
Iron COP
USA Integrated
Canada
Mexico
Brazil
W. Europe
E. Europe
CIS
India
Japan
South Korea(Integ)
China
Global Average

Appendix-A

Steel Ministry says no sign of cartelisation

Jitin Prasada contradicts Chidambaram

Our Bureau

New Delhi, April 17

Did the Government go overboard in accusing the steel industry of functioning like a cartel? A day after the Finance Minister, Mr P. Chidambaram, told the Lok Sabha that there were signs that steel manufacturers were behaving like a cartel, another Minister informed the same House on Thursday that the Steel Ministry was not aware of any cartelisation in this industry.

Contradicting the Finance Minister, the newly-appointed Minister of State for Steel, Mr Jitin Prasada, placed a written reply to a question "whether the Government was aware of any cartel formed by steel producing companies to keep the prices high."

The reply said the Ministry of Steel monitors the retail market price of representative steel products in various markets. It also explained that steel prices were determined by market factors such as demand and supply situation, international price as per landed cost of imports and the cost of input materials.

Statement

Then comes the categorical statement: However, no evidence on cartelisation by steel companies in determining steel prices has been brought to the notice of the Ministry of Steel.

The steel industry also maintains that cartelisation is neither possible nor a reality in India.

According to the Indian Steel Alliance (ISA), a representative body of primary steel producers, out of the 60 million tonnes of steel production in the country this year, 30 mt, that is 50 per cent production, came from the large number of secondary steel producers in the unorganised sector where the material is sold mostly through middlemen and agents to customers.

Fractured structure

Of the remaining 30 mt produced by the large integrated steel plants, about 50 per cent comes from the Government-owned steel companies and only 15 mt is produced by the private steel companies.
"Therefore, with this fractured structure of the steel industry, cartelisation is neither possible nor a reality," says ISA.

The plausible reason for the Government's differing stance could be that written replies to Parliament are processed days before presentation.

But the question remains—what exactly is the Government's perception about cartelisation in the steel industry?

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Appendix-B

Realty players accuse cement, steel companies of cartelisation

DOUSING INFLATION FIRE

Press Trust Of India / New Delhi April 20, 2008

The real estate industry today hit out at steel and cement companies for alleged cartelisation saying it has increased the cost of construction and hit the consumers.

"There is a cartelisation in cement and steel industries," National Real Estate Development Council (NAREDCO) Senior Vice-President Pradeep Jain said when asked whether the industry body subscribed to the government's view that the steel companies were acting in concert to raise prices.

"Steel manufacturers have short-supplied by making a cartel," Jain, who is also the chairman of real estate firm Parsvnath Developers, alleged.

The statement comes close on the heels of Finance Minister P Chidambaram's remark in Parliament that steel and cement companies were behaving like a cartel.
NAREDCO is a real estate development and promotion council under the aegis of the Ministry of Housing and Urban Poverty Alleviation.

Appendix-C

Cartelising inflation?

14 Jun, 2008, 0035 hrs IST,Pradeep S Mehta & Siddhartha Mitra, The Economic Times

The wholesale price index has scaled new heights and reached 8.75%; with prices and temperatures threatening to go through the roof. This promises to be a hot and expensive summer. Such long bouts of inflation generate anger against two lobbies — the incumbent political coalition for its allegedly faulty policies and the suppliers of essential inputs like cement and steel.

In this article we examine the allegations of cartelisation against the iron and steel industry. Note that iron and steel are inputs into a wide variety of goods — from cycles to automobiles, bridges to stadiums, apartments to offices. When iron and steel prices rise, accusations, even if they are not justifiable, are understandable on the grounds of human psychology.

An entire assortment of items becomes more expensive to produce and therefore to consume. Producers are unhappy because they produce less at a higher cost and lose out on profits. Consumers feel cheated as they consume less but at higher prices.

A large number of dissatisfied businesses and consumers implies that it is inevitable that some potshots are taken at the steel industry in the country. For example, on January 25, 2008, the United Cycle Manufacturers Association came out with a public appeal to the prime minister, finance minister and minister of steel in a leading English daily to check the price rise in iron and steel.

This attributed the price rise to the partnership of six iron and steel barons, and added that it was putting the purchase of a bicycle beyond the reach of the aam admi. Other manufactures have also made similar protests.

Why is this state of affairs not desirable? When people react to the world around them their reactions are often exaggerated. When rumour mills are abuzz with talk about steel cartels jeopardising our national interests these result in defensive purchases; consumers rush to buy more of the commodity fuelling further price increases. Therefore, it is essential to maintain a level head during times of inflation.

The smiling, and even stern, ministers who pacify the world around them that an inflationary episode is about to end is surely of some use. Their calmness and confidence, even though it might be a façade, can help cool off some of the inflationary tendencies in the economy resulting from knee-jerk actions by consumers and businesses.

If the existence of a steel cartel is revealed it is essential that we catch the wrongdoers and bring them to book. However, in a modern society and economy everybody is innocent until proven guilty. The same is true of cartels even though circumstantial evidence that shows the formation of cartels is admissible in litigation against them.

However, circumstantial evidence does not stand the test in a court of law. This is because a single phenomenon such as price rise might have several possible reasons — operation of a cartel, rising costs, a decline in world supply and so on.

When factors other than the operation of a cartel are active it is very difficult to attribute high inflation to cartelisation. Price watching might be the answer — this involves watching international and domestic prices over time and looking out for sudden increases or decreases in the gaps separating the two which might be representative of cartelised interventions. Let us look at the story that unfolds if we use this technique.

The latest available data for the world iron and steel price index pertain to the financial year 2006-07 and point to a price rise of 75 % for that year, much in excess of the rise of 18% in the Indian iron and steel price index.

What about the very recent past for which organised data do not exist? In India fears of cartelisation in the steel industry have been sparked by a price rise of around 20% in iron and steel in the first three months of this year. But this change has to be evaluated in the perspective of what is happening globally.

Kommersant, a Russian online daily, reported on April 29 this year that world steel prices have risen by as much as 40% on average this year, primarily due to the imposition of an export tax on steel by the People's Republic of China that has significantly reduced that country's steel exports and partially due to a hike in costs of production. The 20% rise in domestic iron and steel prices, though large in absolute terms, is dwarfed by the global rise of 40%.

The iron and steel price index is an aggregate which is determined by the prices and volumes bought of many different types of the metal. Could it be that the producers of one or more variety have ganged up to form a cartel — a phenomenon not discernible from the bird's eye view of indices?

Variety specific comparisons for the last 12 months or even before are fraught with risks of inaccuracy as the international and Indian classifications of varieties do not match. But sampling indicates that detection of cartelisation should not be guided by the magnitude of price rise.

For example, in the financial year 2007-08 the price of pig iron went up from Rs 22,000 to Rs 34,500 a tonne in India. Before we attribute this phenomenon to cartelisation some more evidence needs to be examined.

Towards the end of April this year Pakistan Steel Mills raised the price of pig iron to Rs 39,200 per tonne, attributing this to a $148 (Rs 6,000) rise in the price of pig iron in the global market over the course of just one week. Our pig iron prices are not only much lower than that in neighbouring Pakistan, their upward mobility is also fairly restricted in comparison to global prices.

It seems that it is difficult to prove cartelisation in India's steel industry, given the information available about the national and global picture or the lack of it. This does not mean that a cartel does not exist. All that we can say is that available information and knowledge does not allow us to vouch for the existence of a cartel with any degree of confidence. It seems that we are better off tinkering with macroeconomic curbs on pollution and waiting for the inflationary heat in the world economy to cool off.

(The writers are secretary general and director (research), CUTS International)

Appendix-D

No. BAI/DC/04/2008/51 3rd July 2008

Ms Preeti Madan
Economic Adviser, Government of India,
Ministry of Commerce & Industry,
Room No. 238, 2nd Floor,
Udyog Bhavan, Maulana Azad Road,
New Delhi-110011.

Sub. : Problems being faced by the Construction Industry - Anomaly in publication of WPI of Steel Bars & Rods vis-à-vis prevailing market prices of Steel–reg.

Madam,

1. This is in continuation to our various letters on the subject matter.

2. We regret to point out that despite continuing rise in the steel prices, the WPI of Steel Bars & Rods remains stagnant at 330.1 since the week ended 08.03.2008. This situation is not understandable. From our reckoning the current WPI of Steel Bars & Rods should be over 400.

3. The non-upward movement of WPI of Steel Bars & Rods is depriving our members to get rightful reimbursement of the increased steel cost as per the price adjustment clauses of their committed contracts/ rates, which are linked to this index.

4. The fact of continuously rising steel prices is now known to all. In support of this we are enclosing herewith photocopies of a few recent press cuttings for your kind information and reference.

5. Despite steeply increasing prices of steel why there is no movement of the WPI of Steel Bars & Rods? This question is baffling everyone. More so, when one sees the WPI of other steel related indices such as 'MS Bars & Rods' & 'Other Iron Steel' which are being regularly updated by the OEA. Please, therefore, look into this seriously and get the necessary updation / correction of WPI of Steel Bars & Rods done at the earliest, so that this faithfully reflects the reality of the existing TMT steel prices in the market.

With warm regards,

Yours truly,

H.S. PASRICHA
Chairman - Delhi Centre
Builder's Association of India

No. BAI/DC/04/2008/52 3rd July 2008

The Secretary to the Government of India,
Ministry of Steel,
Udyog Bhawan, Maulana Azad Road,
New Delhi-110011

SUB. : CONTROL OF STEEL PRODUCTS PRICES.

Dear Sir,

1. This has reference to the News item published in the Business Standard dated 03.07.2008 captioned "Ministry Summons Steel Producers to discuss prices".

2. **The Builders Association of India (BAI),** which is the apex body of the Construction Contractors / Builders, and who are the major consumers of TMT Bars & other long and flat steel products, highly appreciates this initiative of the Ministry of Steel. There is an urgent and strong need for controlling the Steel prices in the Country as these are exerting inflationary pressures on the Economy which is causing severe hardships for every one including the 'Aam Admi'.

3. Our country in the present circumstances is not ready to absorb the high steel prices fixed on the "IMPORT PARITY BASIS". We fully trust that the Steel Ministry will use all the measures available to it and its full powers, to prevail upon the Steel Producers both Primary as well as Secondary, to bring about stability in Steel prices of TMT Bars & other long and flat steel products and to maintain these prices at reasonable / justified level in the coming months, in the larger interest of the Economic growth of our Country including the Construction Industry and lacs of steel based micro, small and medium enterprises. We therefore, look forward to a consumer friendly outcome of this meeting.

4. Sir, as the largest consumer of TMT bars and other long and flat steel products, we, the BAI, Builders' Association of India, submit for your kind information the following:-

   a) The Primary Producers of Steel namely SAIL, RINL, TISCO etc. who had promised to the Hon'able Prime Minister in May 2008 to hold steel prices from rising for three months ending July 2008, have more or less kept their promise so far. However, their supplies of Steel products notably the TMT bars used in Construction Sector, have been very restrictive. Also, small consumers are not being supplied steel directly by the Main Producers and such consumers are directed to go to their respective dealers for meeting their requirement of steel. These dealers on their part have been found to sell steel at much higher rates than recommended by the respective Main Producers, taking advantage of the demand supply mismatch at the cost of helpless consumers. The Primary Steel Producers therefore, should be asked to prevent this and they should be made to take responsibility for the conduct and actions of their respective dealers.

b) Similarly taking advantage of the demand supply mismatch in the domestic market, the Secondary Producers of Steel, who among them control nearly 70% of the long steel products, in the country, have been increasing prices of TMT bars throughout the past three months without any check. The Secondary Steel Producers are now selling TMT bars at around Rs. 48,000/- per MT which is higher by over Rs. 8,000/- than their prices prevailing in April 2008. Their present steel prices are higher by about Rs. 4000/- over the Main Producers prices. This daring act of Secondary Steel Producers' is probably happening for the first time. This increase in the rates may be justified to some extent because of the rising input costs but most of it is due to unjustifiable reasons like excessive greed for making huge profits through exploitation of the prevailing supply side constraints. Normally the price of TMT bars being sold by the Secondary Producers has always been less by Rs. 3000/- to Rs. 4000/- per tonne as compared with prices of Primary Steel Producers.

c) The present day turmoil in the Local Steel Sector has been created by the Secondary Steel Producers who are acting through a suspected cartel for un-justifiably increasing their rates of TMT bars by exploiting the prevailing market conditions. Such a suspected cartel is predominantly dominated by a group of Secondary Producers located near Delhi. There is an immediate need to curb this cartelization by the Secondary Producers who are jacking up the price of TMT bars to unjustifiable higher level.

d) The widespread speculative trade in Steel Products and the raw materials like Spong Iron &
Ingots etc. is also required to be looked into and controlled.

5. We trust the above points shall be given due consideration by the Ministry during the discussions with the Steel Producers.

With regards,

Yours truly,

H.S. PASRICHA
Chairman - Delhi Centre
Builders' Association of India

Copy to : i) Shri U.P. Singh, Joint Secretary, Govt. of India, Ministry of Steel, Udyog Bhawan, Mulana Azad Road, New Delhi-110011

ii) Shri G. Elias, Joint Secretary & Director of Grievances, Ministry of Steel, Room No. 289, Udyog Bhawan, Mulana Azad Road, New Delhi-110011

BAI/DC/04/2008/48 Dated : 20th June 2008

The Members Secretary (SPMC)
& Chief Economic (Incharge),
Economic Research Unit,
Joint Plant Committee,
New Delhi -110016

Sub.: <u>Agenda Points to be discussed in the meeting of Steel Price Monitoring Committee, to be held on Friday, the 20th June 2008 at 2.30 P.M. in the Steel Room, Udyog Bhawan, New Delhi</u>

1. Government of India has undertaken various initiatives to check the rising price of steel as well as the inflation. As a result of these efforts the Steel Manufacturers' made a commitment before the PM & Hon'ble Minister of Steel in first week of May 2008 to roll back the price by Rs. 4000 a tonne on flat products and Rs. 2000 a tonne on long products and also to hold these reduced prices for atleast 3 months i.e. upto July 2008. The Primary Steel Producers' have more are less kept this promise so far. However, on the other hand, the Secondary Producers' have been increasing price of TMT bars unabated during this period. Normally the price of TMT bars being sold by the Secondary Producers' has always been less by Rs. 3000 to 4000 per tonne as compared with the prices of Primary Steel Producers'. But they are presently selling TMT bars at prices higher than the Main Producers' prices. The Secondary Producers have increased their prices by over Rs. 6000 per tonne during the period from 20.05.2008 to 19.06.2008, as can been seen from the attached statement.

2. Our Steel Manufacturers, always try to exploit the international trends versus the domestic scenario for jacking up the price of steel and they try to raise the prices of their products equivalent / near about to the international prices. Whereas the production cost of steel in India is much lower as compared to that of many other countries. Main and Secondary Producers' of steel may be asked to have transparency in pricing of their products and they should provide price/ cost break-up data of TMT bars to the Price Monitoring Committee so that reasonability of the same is established, considering the prevailing input costs and the tax structure. This will serve dual purpose of controlling the inflation and preventing the steel producers from making undue profits and thus also safeguarding the interest of consumers.

3. The Main and Secondary Producers of steel should supply their prices of TMT bars regularly to the consumers on monthly basis as well as to the Price Monitoring Committee on regular basis, so that strict vigil is kept by the Price Monitoring Committee to remove present instability in steel market being created by frequent increases in price of steel by steel manufacturers'.

4. All the Main Producers of steel are committing supply agreement / schedule only to those Construction Companies / firms who are executing the work of DMRC/ Commonwealth Games -2010 / Airports etc. and due to this other Construction Companies are finding it extremely difficult to procure the steel for their projects, which a matter of great concern. Their projects are getting badly affected / running

behind schedule for want of steel. Also the small consumers are not being supplied steel directly by the Main Producers and such consumers are directed to go to their dealers for meeting their requirements of steel. These dealers have been found to charge inflated prices to make unjustified profits. This needs to be looked into.

With Regards,

Yours faithfully,

H.S. PASRICHA
Chairman,
Builders' Association of India,
Delhi Centre

No. BAI/DC/04/2008/47 19th June 2008

The Secretary
Department of Industrial Policy & Promotion,
Ministry of Commerce & Industry,
Udyog Bhawan, New Delhi

Sub: Problems being faced by the Construction Industry.

Dear Sir,

1. This is with reference to the meeting chaired by your goodself in Room No. 152, Udyog Bhawan, New Delhi on 17.5.2008, which was convened by your office to discuss problems being faced by the Construction Industry.

2. We, as representatives of the Builders' Association of India (BAI), during the discussions, highlighted the various problems being faced by the Construction Industry, which inter alia include the following :-

   (a) **Un-precedented steep hike of over 30% in the price of TMT bars over a short span of 3 month starting from December 2007 on ward-**Contractors have suffered huge losses on account of increased steel cost which is also resulting in time overruns of their projects.

   (b) **Non-availability of steel in required quantities due to demand supply mismatch because of the ongoing construction boom in the Country**- The Steel Manufacturers' are exploiting the market by raising rates to en-cash the rise in demand.

   (c) **Scarcity and increase in price of Cement** – Here again the Cement Manufacturers' through cartelization are exploiting the market by raising rates frequently due to demand supply mismatch. This is eating away the margins of the contractors, executing the Government contracts, through committed rates. In the recent past, there have been two judgements from the MRTP Commission about the cartelization by the cement manufacturers', but no serious action against the manufacturers' has been taken by the Government and they are continuing to exploit the situation and are increasing the prices of Cement, now & then.

   (d) **Mismatch between WPI of Bars & Rods and the prevailing market price of steel** – There is a long time lag in updating the price indices of Steel (Bars & Rods), used in the construction industry and thus these are not moving as per the actual market rates of steel. This is depriving the Construction Agencies to get their rightful reimbursement of the increased steel cost as per the price variation Clause, of their contracts, which is linked to WPI of Steel (Bars & Rods). The extent of mismatch between WPI of bars & rods vis a vis the prevailing steel prices on the corresponding dates can be gauzed from the attached statement for period spanning over three years.

(e) **The absence of a Steel Regulatory Authority to monitor the movement in Steel price and to prevent cartelization by Steel Companies, both the Main & Secondary producers** – The price monitoring committee of the Ministry of Steel is not having effective watch on the market. Steel manufacturers' are exploiting the market by raising rates without justifiable reasons in the name of free market economy and are thus causing hardships for the construction industry & the common man.

(f) **Absence of a well designed escalation formula in the Contract documents of Construction Projects of different type of works**. The existing clauses of the contract documents of different types of works are not sufficient to accommodate the large variation in prices of Construction materials. There is thus an urgent need for a well designed escalation formula to tide over the difficulties now being faced regarding reimbursement of the increased cost incurred due to unprecedented hike in prices of Cement, Steel, Bitumen and other key construction materials.

3. We trust and hope that the above mentioned details / information regarding the problems being faced by the Construction Companies will be under the active consideration of the Department of Industrial Policy & Promotion (DIPP) for formulating polices / remedial measures to ensure healthy growth of the Construction Industry on a sustainable basis, for helping it to play its rightful role in the Economic Growth of the Country by executing / developing big infrastructure projects and to provide opportunities for employment to a large section of our countrymen.

4. Sir, while we wait for the above to happen soon, one immediate relief which can be provided to the Construction Industry is related to the Office of the Economic Adviser (OEA) under the control of your goodself. And this is, to revise WPI of Steel (Bars & Rods) for the past periods on the basis of prices of various commodities forming part of this group, as prevailing during the respective periods. We are already pursuing this matter with OEA for the last three years and BAI shall feel grateful to your goodself if the needful is got done on an urgent basis. A copy of our latest letter to OEA dated 18.6.2008 is enclosed for your kind reference please.

With warm regards,

Yours truly,

(H.S.PASRICHA)
Chairman
Builders' Association of India, Delhi Centre

No. BAI/DC/04/2008/47 19th June 2008

The Secretary
Department of Industrial Policy & Promotion,
Ministry of Commerce & Industry,
Udyog Bhawan, New Delhi

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   b) **Non-availability of steel in required quantities due to demand supply mismatch because of the ongoing construction boom in the Country-** The Steel Manufacturers' are exploiting the market by raising rates to en-cash the rise in demand.

   c) **Scarcity and increase in price of Cement** – Here again the Cement Manufacturers' through cartelization are exploiting the market by raising rates frequently due to demand supply mismatch. This is eating away the margins of the contractors, executing the Government contracts, through committed rates. In the recent past, there have been two judgements from the MRTP Commission about the cartelization by the cement manufacturers', but no serious action against the manufacturers' has been taken by the Government and they are continuing to exploit the situation and are increasing the prices of Cement, now & then.

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4. Sir, while we wait for the above to happen soon, one immediate relief which can be provided to the Construction Industry is related to the Office of the Economic Adviser (OEA) under the control of your goodself. And this is, to revise WPI of Steel (Bars & Rods) for the past periods on the basis of prices of various commodities forming part of this group, as prevailing during the respective periods. We are already pursuing this matter with OEA for the last three years and BAI shall feel grateful to your goodself if the needful is got done on an urgent basis. A copy of our latest letter to OEA dated 18.6.2008 is enclosed for your kind reference please.

With warm regards,

Yours truly,

(H.S.PASRICHA)
Chairman
Builders' Association of India, Delhi Centre

BAI / DC/04/2008/46 18 June 2008

Ms Preeti Madan
Economic Adviser,
Government of India,
Ministry of Commerce & Industry
Room No. 238, 2nd Floor,
Udyog Bhavan, Maulana Azad Road,
New Delhi-110011.

Sub. : Anomaly in publication of WPI of Steel (Bars & Rods) vis-à-vis prevailing market price of steel

Madam,

1. The Builders' Association of India (BAI) begs to be excused for this reminder to our earlier letter no. BAI/DC/04/2008/40 dated 06.05.2007, which unfortunately remains unattended in your esteemed office (copy of letter enclosed for your ready reference).

2. We have already brought to it to your kind notice through the meeting we had with you on 12 March 08 & the subsequent letters, that hundreds of our members are executing construction projects for various Govt. departments/ authorities, which are spread across the length & breath of the Country, The contracts for these projects provide for increase/ decrease in value of the contract amount for every increase / decrease in the price of steel reinforcement bars (TMT bars) during the period of execution of the work. This variation in cost is determined by WPI of steel (Bars & Rods) as published by the office of Economic Advisor.

3. The problems being faced by the Construction Agencies due to steep hike in the steel prices and the mismatch between WPI of steel (Bars & Rods) vis-a-vis the prevailing market price of steel have also been brought to your kind notice fairly well. The extent of this mismatch can be seen from the following table.

Increase in Price of TMT Bars vis-à-vis WPI of steel (bars and rods)

Date	Price of TMT Bar Rs/per MT	% Increase	WPI of steel (Bars & Rods)	% Increase
Jan 2005	26951.00	--	245.70	--
Oct 2007	32750.00	21.52	258.30	5.13
Jan 2008	34010.00	3.85	258.30	NIL
02.02.2008	38150.00	12.17	258.30	NIL
28.02.2008	40000.00	4.85	258.30	NIL
09.03.2008	44000.00	10.00	330.10	27.80
Increase from Jan '05 to March '08		**63.26**		**34.35**

4. Due to the above shown severe mismatch between WPI of (Bars & Rods) & prevailing price of TMT bars, the Construction Agencies are incurring huge loses on their ongoing projects by way of increased steel cost, which they are not able to get reimbursed adequately due to incorrect indices. This is also adversely impacting the

progress of the important projects, including those connected with the Commonwealth Games 2010.

5. Though the difficulties being faced by the Office of Economic Advisor (OEA) for collection & compilation of price data on the basis of which WPI of steel (Bars & Rods) is published are appreciated, nevertheless, the OEA owes it to the Society at large and the policy makers, to issue correct indices which reflect the prevailing market conditions truly. We sincerely believe that by now updated prices of all the commodities considered for WPI of steel (Bars & Rods) are now available with OEA and we therefore request that an immediate action be taken to revise the indices for the week ended 29.03.2008 onward, all of which now stand at 330.10. **We estimate the current index WPI of (Bars & Rods) to be near 400.**

6. An urgent action for the needful is requested please which will be highly appreciated.

With warm regards,

Yours truly,

H.S. PASRICHA
Chairman - Delhi Centre
Builder's Association of India.

No. BAI/DC/04/2008/25 Date: 9th April 2008

Shri S Jaipal Reddy,
Hon'ble Minister of Urban Development,
Room No. 103 - C
Maulana Azad Road,
Nirman Bhawan,
New Delhi-110011

Sub: Regarding Abnormal Hike in Price of Steel.

Sir,

1. **Builders' Association of India (BAI)** is extremely thankful to you for giving us an opportunity for presenting our case regarding the difficulties being faced by us due to the abnormal hike in the price of steel. Sir, the price of reinforcement bars, commonly known as **T.M.T. (Thermo Mechanical Treated**) **Bars**, which are used in the construction works, has gone abnormally high from December 2007 onwards. During the past quarter, there was a rise of over 32% in the cost of TMT Bars. Such sudden and unprecedented rise in cost of steel, which constitutes about 25% of the construction cost, has created severe difficulties for the construction / building contractors. They are incurring heavy losses and many projects of national importance including the ones connected with **Commonwealth Games-2010** have started facing the time over runs.

2. Most of our members, are executing these projects under the control of CPWD and other Government Authorities like PWDs', DDA, NHAI etc. The contracts documents of these departments have price variation clause for steel (as per enclosed **Annexure A**) which is based on **WPI** of Steel (Bars & Rods) published by the **Economic Advisor to Government of India, Ministry of Commerce & Industry**. Unfortunately there is a mis-match between this index and the market price of steel (as per enclosed **Annexure B**). It can be observed from here that for May – 2007 when the market price of steel was Rs,30,943/- per MT, the index was 255.10, whereas when market price of steel rose to Rs.40,000/- in February-08, the index moved up only 3 points i.e. upto 258.30, which infect should had been 377 as per our estimates. **Due to this mis-match the construction agencies are not getting the required reimbursement of increased steel cost, for the ongoing projects, resulting into huge losses for them as well as time over runs for these projects.**

3. For working out price adjustment, in the cost of steel used in the works, the contracts of CPWD and other works authorities, provide the base price of steel, as prevailing on the date of tender. This, in turn, is based on the market rates of steel, as published by the **Steel Authority of India (SAIL),** from time to time. However, due to the inadequacy of the existing escalation clause of the contracts, as explained above, we have been requesting DG (W), CPWD and Heads of other concerned departments for modification of the escalation formula in case of steel, thereby linking it with the changes in the base price of steel, being monthly issued by of the office of DG (W), CPWD on a regular basis. Unfortunately the decision in the matter is pending for long, whereas, remedial measures are immediately needed.

4. With the above submissions, we request your goodself, to kindly intervene and issue directions to the concerned departmental heads, to take immediate action for modification of the price adjustment formula with regard to steel, for the ongoing and future projects, in the larger interest of the country.

With best regards,

Yours truly

(H.S.Pasricha)
Chairman
Builders' Association of India, Delhi Centre

Cold Rolled Steel Manufacturers Association of India
D-15, Panchsheel Enclave, New Delhi –110017
Phone Nos. 26495730, 26013775 Fax No. 41748021

CORSMA/02/2008

April 7, 2008

Dr. Manmohan Singh
Hon. Prime Minister of India
South Block
New Delhi

Sub: Reduction in exorbitant and stabilization of steel prices through Fiscal and Trade Control measures.

Respected Sir,

The shortage and high prices of steel have destabilized the industry and economy though India is well placed for the production of steel, due to inherent advantages and has been ranked one of the cheapest producers of the steel in the world. The production has lagged behind the demand for the last four years due to faulty planning and in April- 07 - January 08 period while the consumption rose sharply by over 13%, the production increased by only 5.6%. The shortages have been intensified by bulk exports of Billets and HR Coils required by the secondary producers for the production of finished steel and 2.5 million tonnes of HR Coils and Billets were exported during April-2007 – January 2008, widening the gap between the domestic supplies and Demand.

2. Prices not based on the raw material or the production costs.

The major steel producers have attributed the price hikes to rise the prices Iron Ore and Coal but three of the five major producers have captive mines and the other are receiving supplies from NMDC/Coal India at negotiated prices. The rise in the price of imported Coking Coal has also been neutralized to great extent by the appreciation of the value of Rupee and reduction in the landed cost. The major producers have not furnished any data regarding the increase in the raw material costs and its impact on their production costs to the "Steel Price Monitoring Committee" constituted by the Govt. to ensure transparency and fairness in the pricing of steel products. As per the Analysts, the total cost of raw materials based on the consumption norm of 1.5 tonnes of Iron Ore and 0.75 tonne of Coal and other inputs however ranges from Rs. 14000 to Rs. 16000 per tonne of steel against the average sales realization Rs. 32000 per MT excluding duties and taxes as apparent from windfall profits of the major steel producers.

3. Profiteering by the major producers

It has been conceded by the major producers that their selling prices are not related to the input or the production cost but based on the spot global export prices and the landed cost of imported steel. India is cheapest producer of HR Coils but the domestic prices are highest in the world. The profiteering is evident from the steep hikes in Profits and average per tonne pretax profit of SAIL for the third quarter 2007 on a production of 3.4 million tonnes of saleable steel was over Rs. 8000 per tonne against the norm of around Rs. 2000 per MT. The plea that their margins are under pressure, due to rise in the prices of inputs is therefore not tenable and prices need reduction by Rs. 4000 to Rs. 5000 per tonne.

4. Linkage of Steel prices with global prices.

It has been held that domestic steel prices have been in line with the spot global prices but as a matter of principle why only the domestic steel prices be fixed on the basis of spot global prices which are in any case higher by USD 20 to 30 per MT than the regular prices and why the price of Iron Ore be not fixed on the global price of USD 140 per MT FOB or the landed cost of USD 220 per tonne Instead of NMDC price of USD 85 per tonne. The domestic prices in India should be based on the production costs and "what the domestic market shall bear" considering that the per capita income and the production costs in India are much lower than the developed countries. Besides, the major producers utilizing the national resources of the country particularly the Public sector companies should also consider the corporate social responsibility and commitment to the economic development of the country along with their profitability. The domestic prices in China and Russia and other low cost steel producing countries are thus lower than their export prices.

5. Price reduction by major producers on voluntary basis.

5.1 In the course of past three years, the advice by the Hon. Minister of steel, Hon. Minister of Finance and even the Hon. Prime Minister to the major producers to hold back the price hikes had no impact and prices have been continually hiked. Ministry of Steel has now been exploring possibilities of voluntary rollback of prices by the producers. In a meeting with secondary productions on 2nd April 2008. Secretary steel stated that the Govt. was seriously concerned with the steep hike in steel prices and its adverse impact on economy and unless the producers agreed to bringdown the prices, the Govt. shall have to impose duties on exports, alongwith reduction in Customs duties and even appointment of a Regulator. It was explained by the representatives of Secondary Steel producers that unlike the major producers who had captive mines or received supply from the NMDC/Coal India at fair prices the secondary producers had to buy Iron Ore and Coal from the private miners at high prices and sell at the prices of major producers and were thus not in a position to reduce the prices. The representative of Cold Rolling industry and Rerolling units explained that the price rise was entirely due to the sharp escalation of their basic input, HR Coils and Billets which accounted for over 70% of the production costs and they were operating at low margins. In the circumstances, unless the prices of HR Coils and Billets were reduced by the major producers and adequate supplies assured they were not in a position to reduce the prices .

5.2 It is understood from the Press Reports that Secretary Steel also met the major producers on 3rd April 2008 but they were not agreeable to stop bulk exports of HR Coils and Billets or reduce the prices the two key products to improve domestic availability and bring down the prices. They only agreed to the reduction in prices of TMT Bars by Rs. 2000 per MT and the Galvanized sheets though the amount was not indicated. The secondary producers utilizing HR Coils as the basic input however account for the production of 50% of the Galvanized sheets and the prices can not be reduced unless the prices of HR Coils are also reduced.

5.3 Similarly, the projected additional availability of two million tonnes of HR Coils through utilization of imported coils for the export production of Galvanized sheets is erroneous since bulk of the exports are already based on the imported coils. Besides, the prices of HR Coils in the global markets have sharply escalated as China and other countries have imposed duties and restrictions on HR Coils exports to stabilize domestic prices and promote the exports of value added steel and manufactured products squeezing the differential between the HR Coils and Galvanized sheets prices to uneconomic levels. It is

ironical that instead of restricting exports to improve the domestic availability, the major producers should propose bulk imports of HR Coils at high global prices and Ocean freight to place additional burden on Indian industry and consumers and duel inflationary pressures .

5.4 As held by the Analysts, the reductions offered by the major producers are only cosmetic and shall have a nominal impact on the domestic availability and the prices of steel products. Apart from the foregoing, it apparent from the past experience that such informal offers are purely temporary as the reduction of Rs. 500 per tonne in HR Coils prices committed by the major producers following the discussions with the Hon. Minister of Steel in January 2008 was implemented by only two producers for a period of only 20 days and thereafter the prices were sharply hiked by Rs. 2500 per tonne.

6. CONCLUSION

In background of the foregoing facts, intervention by the Govt. through the Fiscal and Trade Control measures is considered essential particularly as the competition commission has not yet become operational and action as under may be taken without delay as proposed by the Industry and the Builders Associations.

(i) The Customs duty on HR Coils and Billets be reduced from 5% to zero to facilitate imports and reduction in domestic prices, fixed on import parity or landed cost basis.

(ii) A duty of 25% be levied on the exports of HR Coils and Billets to increase the domestic availability of steel by three million tonnes to curb the shortages and stabilization of prices.

(iii) The major producers be advised to furnish data regarding the rise in the cost of inputs in 2007-08 and its impact on their production costs to "Steel Price Monitoring Committee" constituted by the Ministry of Steel to ensure transparency and fairness in the fixation of steel prices.

(iv) It is understood that the Ministry of Company Affairs has advised the competition commission to undertake a study of the cement industry and a similar study may also be undertaken for the steel industry as steel and cement account for 18% of infrastructure and housing costs and have a deep impact on inflationary pressures and economy.

The implementation of foregoing proposals with immediate effect shall bring down the prices of steel products by around 15% and promote the industrial and infrastructure development, Building industry and provide relief to the commonman. It is considered that the Value-added products like Galvanized/Colourcoated Sheets manufactured from imported or domestic HR Coils be exempted from export duties and be treated at par with the export of Pipes/Tubes and Engineering goods due to higher value addition and foreign exchange realization.

We shall be pleased to furnish if of required any additional information or clarifications on the subject.

With kind regards,

Sd/-
(**S.C. Mathur**)
Executive Director

No.BAI/DC/04/2008/23 Date: 8th April 2008

Ms. Preeti Madan
Economic Adviser,
Government of India,
Ministry of Commerce & Industry
Room No. 238, 2nd Floor,
Udyog Bhavan, New Delhi

SUB. : ANOMALY IN PUBLICATION OF WPI OF STEEL (BARS & RODS).

Madam,

1. This is in continuation of our earlier letters written to your office on the above cited subject.

2. Madam, the problems / difficulties being faced by members of our association due to the mismatch of WPI of Steel Bars & Rods issued by your esteemed office vis-a-vis the prevailing market rates of steel (TMT bars) were discussed threadbare during the meeting, we had in your office on 12.03.2008. During the discussions, it was pointed out by us that whereas in the three months period since December 2007 steel prices rose by over 30%, there has been no movement of WPI of steel (Bars & Rods), which has stood at 258.3 for all these months. The fact of price rise to the extent of 25% has been accepted by the Secretary Ministry of Steel. The price of TMT Bars (SAIL) as on 31.3.2008 is over Rs.44,000/- per MT. We were told that one of the reasons of this is the fact of not furnishing of updated prices of selected steel items by the concerned 7/8 producers. We were further told that letters have already gone to them from your office, and as soon as, the required data is received, the necessary revision of indices shall get carried out.

3. Subsequently, we felt some what relieved when we saw WPI of Bars & Rods moved to 265.6 and 275.2 for the weeks ended 08.03.2008 and 15.03.2008 respectively. However, there was no movement of this index for the next week ended 22.03.2008, which came to us as a big damper.

4. With permission of your office, we have also been following up with of the concerned manufactures and we have come to know, through confirmation from them, that the required data has since been furnished to your office.

5. We sincerely hope that your goodself will look into the matter personally & will ensure publication of the indices on the basis of updated prices and thus reflecting the true market conditions.

With regards,

Yours truly

(H.S. Pasricha)
CHAIRMAN
Builders Association of India, Delhi Centre

No. BAI/DC/03/2008/21 Date: 4th April 2008

Shri S Jaipal Reddy,
Hon'ble Minister of Urban Development,
Room No. 103 - C
Maulana Azad Road,
Nirman Bhawan,
New Delhi-110011

Sub: Regarding Abnormal Hike in Price of Steel.

Sir,

Builders' Association of India (BAI) may like to bring to your kind notice that the price of **T.M.T. Bars (Thermo Mechanical Treated**) have gone abnormally high from December 2007 onwards which is badly affecting the progress of projects of national importance all over India as well as the works related to the **Commonwealth Games-2010**. Price of TMT Bars have gone up more than 35%, which can not be absorbed by the contractors.

It is surprising that the increase in steel price which is a harsh reality, known to every person, is not being reflected in the **Wholesale Price Index**, published by the **Office of the Economic Advisor,** Department of Industrial Policy & Promotion, Ministry of Commerce & Industry, Government of India, for this commodity. We apprehend if the present stalemate continue, many contractors will either go bankrupt or they will left with no option except to abandon the works which will not only bring bad name to the construction industry but also put the timely completion of stadiums and other infrastructure works related to the Commonwealth Games-2010 to standstill.

To apprise the position in detail, an All India delegation of the Association (5-6 delegates) would like to meet to you in persons. It will be highly appreciated if an early appointment is granted at the convenient time and date.

Thanking you,

Yours faithfully

(S. S. Arora)
Executive Officer

No. BAI/DC/03/2008/22 Date: 4th April 2008

Shri Ajay Maken
Minister of State (Urban Development),
Ministry of Urban Development,
Room No. 133-D,
Maulana Azad Road,
Nirman Bhawan, New Delhi - 110011

Sub: Regarding Abnormal Hike in Price of Steel.

Sir,

Builders' Association of India (BAI) may like to bring to your kind notice that the price of **T.M.T. Bars (Thermo Mechanical Treated**) have gone abnormally high from December 2007 onwards which is badly affecting the progress of projects of national importance all over India as well as the works related to the **Commonwealth Games-2010**. Price of TMT Bars have gone up more than 35%, which can not be absorbed by the contractors.

It is surprising that the increase in steel price which is a harsh reality, known to every person, is not being reflected in the **Wholesale Price Index**, published by the **Office of the Economic Advisor,** Department of Industrial Policy & Promotion, Ministry of Commerce & Industry, Government of India, for this commodity. We apprehend if the present stalemate continue, many contractors will either go bankrupt or they will left with no option except to abandon the works which will not only bring bad name to the construction industry but also put the timely completion of stadiums and other infrastructure works related to the Commonwealth Games-2010 to standstill.

To apprise the position in detail, an All India delegation of the Association (5-6 delegates) would like to meet to you in persons. It will be highly appreciated if an early appointment is granted at the convenient time and date.

Thanking you,

Yours faithfully

(S. S. Arora)
Executive Officer

No.BAI/DC/03/2008/ 09 Date : 7th March 2008

The Director General of Works,
Central Public Works Department,
'A' Wing, Nirman Bhawan,
New Delhi - 110011

Sub: Rising price of T.M.T. Bars and the mis-match of Cost Indices, published by Office of the Economic Advisor, Ministry of Commerce & Industries with regard to the prevailing market rates for Bars & Rods.

Dear Sir,

The price of T.M.T. Bars has gone abnormally high, may be due to international market or cartel like situation, created by the manufacturers. The contractors who have committed their rates for reinforcement item, based on the prevailing market rates of T.M.T. steel are not in a position to complete the projects. As already explained in the meeting dated 23rd January 2008, the cost indices formula calculated by the Office of Economic Advisor and followed by the C.P.W.D. & other Departments is wrong and can not be justified under any circumstances. We have been meeting the officers, connected with the cost index issue, but no concrete results could be achieved. It is, therefore, requested that full debate on this specific subject may be allowed under the leadership and guidance of the Director General of Works C.P.W.D. or his team at the earliest to avoid hardship to the contractors and misuse of Government revenue at stages which is to be plugged.

1. Technically, the increase or decrease in the cost index of steel should have direct effect of prices. T.M.T. Bar's rates collected directly from manufacturers- SAIL, TATA, ISPAT NIGAM, ESSAR etc., average rate calculated every month and by ratio proportion method, percentage increase or decrease should be converted into cost index or taking as 100 index, once and continue the system further.
2. The office of the Economic Advisor has not adopted method formula with consultation to any Civil Engineer Department. The items taken into consideration for deriving the cost indices of TMT Bars are at all not connected to T.M.T. Bars. The rates taken are on higher side, and imbalance. The rate of Steel Bars T.M.T. taken in the index chart are rather on higher side or mis-match the market rate. The Annexure-I, used by the Office of the Economic Advisor is submitted for specific period December 2005 to May 2006 which is self explanatory, showing wrong feed back, and data items adopted. The rate of T.M.T. Bars has gone high and the cost index published has come down by 20 points in this period.
3. Similarly in other periods also the formula and its effect of commodities, rates are all illegal irrelevant, and without any authenticity. The consumer who tendered in such periods has made fortune without purchasing the material at higher rates, as Bars & Rods index increased without any reasons.

4. The formula used by Office of Economic Advisor, may have been made, when T.M.T. Bars were not even used/produced. The Construction Industry and C.P.W.D. is only using T.M.T. Bars as reinforcement for the last ten years, and the rates of T.M.T. (Thermo Mechanical Treated Bars) should only be considered while taking the effect of cost index average monthly rates. The rates once considered may be stock Yard rate +

Tax + Cartage or any base prevailing market rate from manufacturers and compared with the next month. The net result will always be factual.

5. The contractors who have committed rates are already ruined and are under tremendous financial stresses.

6. The projects will be closed and lot of Litigation/Arbitration will start.

It is therefore, requested that meeting with the Office of Economic Advisor, Ministry of Commerce & Industry, Department of Industrial Policy & Promotion at higher level, with representative of Builder Association of India (BAI), M.E.S.BAI may please be called at the earliest to know the re-medial measures and to solve the long outstanding misunderstood issue.

Thanking you,

Yours faithfully,

(Lal Chand Ralhan)
Chairman
Builders' Association of India, Delhi Centre

Enclosure:-

1. Copy of the Builders Association of India letter dated 29.01.2008 addressed to the Member Secretary (SPMC) and Chief Economist Economic Research Unit.
2. Copy of the Builder Association of India letter dated 05.03.2008 addressed to the Secretary Ministry of Steel Government of India.
3. Copy of the Annexure-I received by Builder Association of India from the office of Economic Advisor showing compilation of WPI Bars & Rods for a particular period December 2005 to May 2006 at a glance.
4. Copy of the average rate of T.M.T. Bars from J.P.C. and SAIL for comparison.

No.BAI/DC/03/2008/12 Date : 13th March 2008

The Director General of Works
Central Public Works Department,
'A' Wing, Nirman Bhawan,
New Delhi – 110011

Sub: Market price from major manufacturers SAIL, TATA, RINL & others for T.M.T. Bars (Steel).

Sir,

Builders' Association of India (BAI) may like to bring to your kind notice that prices of T.M.T. Bars (Thermo Mechanical Treated Bars) have gone abnormally high. The rate for bulk supply of TMT Bars , produced by SAIL, RINL and other producers, which was Rs.33,650/- per M.T. in December 2007 has reached Rs.35,100/- in January 2008, Rs.39,100/- on 5th February 2008, Rs.38,860/- on 14th February 2008 and jumped to Rs.44,000/- on 9th March 2008, plus Taxes (4%) and cartage charges of Rs.250/- per tonne (minimum) for Delhi & around. Accordingly, the prices of other connected materials have also gone high. The contractors who have committed rates through their respective tenders/Agreements are not in a position to absorb this abnormal price hike, as the effect of clause 10CA in C.P.W.D. General Conditions of Contract for Escalation plus/minus and as per index published by the Economic Advisor for the corresponding periods does not reflect the increase in the real terms. The rates have gone around 80% higher as compared to the rates in the year 2005, when Tor Steel was hovering around Rs.24,000/- per M.T. and in March 2008 (10 March), the prices have gone upto Rs.44,000/- per M.T. The authorities should take immediate remedial action either to arrest the prices or by adopting the correct formula by any method (Ratio Proportion Percentage), for compensating the construction companies for the ongoing projects, plus or minus, on the basis of the rate published by SAIL.

The contractors executing important and major projects for the Department and for the Commonwealth Games 2010 otherwise will be forced to close the works. Keeping the abnormal increase in the cost of steel the Department will be required to revise the cost estimates of these projects so that the contractors can be compensated suitably.

The Builder Association of India have explained the anomaly in publishing the **Wholesale Price Indices (WPI)** of Steel Bars & Rods to the Economic Advisor in the meeting held in the office on 12th March 2008 and have placed the relevant records showing the correct rates and the effect it should have on the Price Indices of Steel Bars & Rods. The Economic Advisor has very kindly promised to look into the matter but we will appreciate if the Department also take up the matter with the Economic Advisor at the earliest to avoid the stage where contractors are forced to close down their works. For your convenience and reference, we are pleased to enclose the copy of our letter No. BAI/DC/04/2008/11 dated 12th March 2008 which is self explanatory. Keeping in view the gravity of situation, we request your goodself to take up the matter on war footing to avoid delay in completion of the project and foreclosure of works by contractors and litigation etc.

Thanking you,

Yours faithfully,

(Lal Chand Ralhan)
Chairman
Builders' Association of India, Delhi Centre

No.BAI/DC/03/2008/13 Date : 14th March 2008

The Engineer-in-Chief,
Public Works Department,
Government of NCT of Delhi,
I.P.Estate, New Delhi-110002.

Sub: Market price from major manufacturers SAIL, TATA, RINL & others for T.M.T. Bars (Steel).

Sir,

Builders' Association of India (BAI) may like to bring to your kind notice that prices of T.M.T. Bars (Thermo Mechanical Treated Bars) have gone abnormally high. The rate for bulk supply of TMT Bars , produced by SAIL, RINL and other producers, which was Rs.33,650/- per M.T. in December 2007 has reached Rs.35,100/- in January 2008, Rs.39,100/- on 5th February 2008, Rs.38,860/- on 14th February 2008 and jumped to Rs.44,000/- on 9th March 2008, plus Taxes (4%) and cartage charges of Rs.250/- per Tonne (minimum) for Delhi & around. Accordingly, the prices of other connected materials have also gone high. The contractors who have committed rates through their respective tenders/Agreements are not in a position to absorb this abnormal price hike, as the effect of clause 10CA in C.P.W.D. General Conditions of Contract for Escalation plus/minus and as per index published by the Economic Advisor for the corresponding periods does not reflect the increase in the real terms. The rates have gone around 80% higher as compared to the rates in the year 2005, when Tor Steel was hovering around Rs.24,000/- per M.T. and in March 2008 (10 March), the prices have gone upto Rs.44,000/- per M.T. The authorities should take immediate remedial action either to arrest the prices or by adopting the correct formula by any method (Ratio Proportion Percentage), for compensating the construction companies for the ongoing projects, plus or minus, on the basis of the rate published by SAIL.

The contractors executing important and major projects for the Department and for the Commonwealth Games 2010 otherwise will be forced to close the works. Keeping the abnormal increase in the cost of steel the Department will be required to revise the cost estimates of these projects so that the contractors can be compensated suitably.

The Builder Association of India have explained the anomaly in publishing the **Wholesale Price Indices (WPI)** of Steel Bars & Rods to the Economic Advisor in the meeting held in the office on 12th March 2008 and have placed the relevant records showing the correct rates and the effect it should have on the Price Indices of Steel Bars & Rods. The Economic Advisor has very kindly promised to look into the matter but we will appreciate if the Department also take up the matter with the Economic Advisor at the earliest to avoid the stage where contractors are forced to close down their works. For your convenience and reference, we are pleased to enclose the copy of our letter No. BAI/DC/04/2008/11 dated 12th March 2008 which is self explanatory. Keeping in view the gravity of situation, we request your goodself to take up the matter on war footing to avoid delay in completion of the project and foreclosure of works by contractors and litigation etc.

Thanking you,

Yours faithfully,

(Lal Chand Ralhan)
Chairman
Builders' Association of India, Delhi Centre

No. BAI/DC/04/2008/05 Date: 5th February 2008

Ms. Preeti Madan
Economic Advisor,
Department of Industrial Policy & Promotion,
Ministry of Commerce & Industry,
Room No.126/E, Udyog Bhawan,
New Delhi-110011

Subject: Regarding the Cost Indices for Bars/Rods (Steel) Published by the Office of Economic Adviser to the Government of India mis-match with prvaling market rates confirmed by 4-5 manufacture.

Madam,

Builders' Association of India (BAI) have been, time and again approaching you regarding mismatch of the Cost Indices of **Bars & Rods** (Steel), published by your office compared to the market price of the product. We regret to inform that inspite of our repeated requests to your office, no action seems to have been taken to correct the cost indices of **Bars & Rods** (Steel) resulting in the huge losses to the consumer / construction agencies. Committing their rules through agreement for projects for the Government Departments / reven in private sector, who follow the cost indices system upward/downward, published by your office for the purpose of plus / minus of cost escalation for building materials such as steel / cement / POL etc. We would also like to know the list of items and their weightage which are considered for arriving the price indices of TMT Bars & Rods andiron & Steel. TMT Bars we mainly used in construction, and the steel market in volatile situation.

We shall be highly obliged for an appointment, at your convenient date / time, in which we can discuss / clarify the issues points which are badly effecting the construction industry due to unprecedented rise in the cost of various steel items, used in the construction industry, besides the various issues which needs clarifications from your office. The rates for TMT Bars from the main producers have gone by more than 4-6 percent since June 2005 to January 2008 where as construction indices for Bars & Rods is showing an in increase of 5% only and is a big mis-match.

Thanking you and hoping for an early action as well as for an appointment, as requested.

Yours faithfully

(Ralhan Lal Chand)
Chairman
Builders' Association of India, Delhi Centre

No. BAI/DC/04/2008/06 Date: 21st February 2008

The Manager (Marketing)
Steel Authority of India Limited,
Branch Sales Office,
Jeevan Deep Building,
10-Sansad Marg,
New Delhi – 110001

Kind Attn.: Ms. Kavita Singh

Sub: - Month wise rate list of SAIL Steel Products (TMT Bars)
(June 2007 to February 2008).

Dear Madam,

Please refer to the telephonic conversation undersigned had with you today regarding the month wise rate list of **SAIL Steel Products (TMT Bars)**. A request was made by the delegation of Builders' Association of India (BAI), in person, to the Regional Manager (Northern Region) SAIL, Shri Sushim Banerjee, for supply of month wise rate list during the meeting, in his office on 29th June 2004. We were getting this monthly rate list regularly uptill June 2007 when this branch was headed by Mr Sandeep Dass. It will be highly appreciated if the rate list of the SAIL Products (TMT Bars only) is sent to us as per the past practice, either through fax No.26568763 or through email address at baidelhi@ndb.vsnl.net.in

We shall be grateful if the rate list from **July 2007 to February 2008 (month-wise)** is also made available to us at your earliest.

Thanking you,

Yours faithfully,

(S. S. ARORA)
Executive Officer

No. BAI/DC/04/2008/07 Date: 5th March 2008

The Manager (Marketing)
Steel Authority of India Limited,
Branch Sales Office,
Jeevan Deep Building,
10-Sansad Marg,
New Delhi – 110001

Kind Attn.: Ms. Kabita Singh

Sub: - Month wise rate list of SAIL Steel Products (TMT Bars)

Dear Madam,

Please refer to our letter No.BAI/DC/04/2008/06 dated 21st February 2008 (photocopy enclosed for ready reference) and the personal visit of **Shri S. S. Arora, Executive Officer** on Thursday, the 28th February, 2008 regarding the month wise rate list of **SAIL Steel Products (TMT Bars)**. We are surprised to note that he was not made available the r ate list of steel products (TMT Bars) as requested, though in the meetings **SAIL** Chairman & other senior officials have agreed to supply monthly rate lost to **BAI**.

Builders' Association of India (BAI), an apex body of Civil Engineering Construction Contractors, founded in 1941, have 10,000 direct membership through its 100 Centres, spread over the length and breadth of the country, and indirect membership of 30,000 through Affiliated Associations. **BAI** is indeed the only spokes body for the Indian Construction Industry. **BAI** is also the member of Steel Consumer's Council and Steel Price Monitoring Committee, constituted by the Ministry of steel. All the constructions companies, members of **BAI,** are the user of long products (TMT Bars) produced by the steel industry, including **SAIL.**

We being the consumer of long products have not been made available the price list which we share with our members. We were getting this monthly rate list regularly uptill June 2007 when this branch was headed by Mr Sandeep Dass, Manager Marketing (Long Products). It will be highly appreciated if the rate list of the SAIL Products (TMT Bars only) is sent to us as per the past practice, either through fax No.26568763 or through email address at baidelhi@ndb.vsnl.net.in

We shall be grateful if the rate list from **July 2007 to March 2008 (month-wise)** is also made available to us at your earliest.

Thanking you,

Yours faithfully,

(Lal Chand Ralhan)
Chairman
Builders' Association of India, Delhi Centre

No.BAI/DC/04/2008/08 Date : 7th March, 2008

The Secretary,
Ministry of Steel,
Government of India,
291, Udyog Bhawan,
Maulana Azad Road,
New Delhi-110011.

Sub:-Non-availability and abnormal rise in the price of TMT Bar (Thermo Mechanical Treated Bars).

Dear Sir,

Builder's Association of India (BAI), an apex body of Civil Engineering Construction Contractors, founded in 1941, have 10,000 direct membership through its 100 Centres, spread over the length and breadth of the country, and indirect membership of 30,000 through Affiliated Associations. BAI is indeed the only spokes body for the Indian Construction Industry. BAI is also the member of Steel Consumer's Council and steel Price Monitoring Committee, constituted by the Ministry of steel.

We may like to bring to your kind notice that the continuous abnormal rise in the price of long products (TMT Bars) being mainly used in construction as well as its scarcity has become a serious problem for the consumer in general and for the construction industry in particular. The rates of TMT Bars are increasing regularly on one pretext or the other and it seems there is no check on it, particularly from the Government, otherwise the average price of TMT Bars which was hovering are Rs. 24,200/- per MT in January 2005 have not skyrocketed to Rs. 36,500/- in January 2008 (rate for bulk supplies) which is more than 50% increase. Steel Producers are misusing the situation and taking undue advantage of the word **"Free Economy".** It is an essential item in the construction industry, particularly in the housing projects. Its price rise is so steep that even big construction companies are unable to absorb it what to talk of an ordinary consumer of steel.

The matter of rise in the price of TMT Bars have been taken up in the meetings of Steel Price Monitoring Committee, constituted by the Ministry of Steel, but without any fruitful result. The report submitted by the Committee to the Ministry does not reflect clear picture of the price rise in the steel as well as the remedial steps required to be taken to arrest this price rise.

The Committee does not come out with a clear-cut policy for monitoring the price of steel and the steps required to be taken in the event of abnormal increase in the price. Members in the Steel Price Monitoring Committee. representing the steel manufacturer side always commit in the meeting that the price will remain stable and will also be published in the news paper but it remains only a lip service and no concrete action has been taken in this regard. All the raw materials, required to produce the steel, are available in the country and the production cost of steel is lowest in India but our rates are highest in the world. There seems to be no transparency with regard to the increase in the price by manufacturers and we are sorry to state that there is no check, whatsoever from the Government Administration otherwise the situation would not have been that crucial. Country like China, who is importing iron are from India, is selling steel cheaper than the manufacturers in India. The

consumer or the contractors who have their commitments through their respective agreements are not in a position to complete the on going projects. The construction industry is suffering badly.

A similar situation arise during the year 2007, when the prices of cement started rising alarmingly and there was hue and cry from all corners. The matter was brought to the notice of the Government through letters and media. The unprecedented increase in the price of cement compelled Government of India to abolish levy of Custom Duty, special Duty and Countervailing Duly on import of cement to make it affordable to the consumers in India. **BAI's** persistent follow-up with the Ministry of Consumer Affairs Food & Distribution, Government of India, expedited the issuance of BIS Certification to foreign cement manufacturers from Bangladesh, Bhutan, China, Pakistan & UAF and as on date 36 foreign cement manufacturers have been granted BIS Certification , and now cement price and scarcity has been controlled upto a great extent..

The situation of rise in price of steel TMT Bars is identical / similar with that of cement. We shall be highly obliged if the Government may consider taking similar action i.e. lowering of the Custom Duty so that the steel is imported at an affordable price. The cartel like situation and undue profiteering should be watched closely by the Ministry and remedial steps to be taken immediately.

Thanking you,

Yours faithfully,

(Lal Chand Ralhan)
Chairman
Builders' Association of India, Delhi Centre

Enclosure:-

1. Copy of comparison of rate J.P.C. and SAIL.
2. Copy of the Builders Association of India letter dated 29.01.2008 addressed to the Member Secretary (SPMC) and Chief Economist Economic Research Unit.

No.BAI/DC/04/2008/10 Date: 10th March, 2008

Ms. Preeti Madan
Economic Advisor,
Ministry of Commerce and Industry,
Government of India,
Udyog Bhawan, New Delhi.

Sub: Mismatch of cost index of Steel, Bar & Rods and anomaly in the cost indices for T.M.T. Steel (Thermo Mechanical Treated Bars) used in Construction Industry. Our previous letters Builder Association of India, in the matter of cost index issued by your office.

Madam,

Builders' Association of India (BAI) & Members of Construction Industry are not satisfied with the reply received from your office vide letter No.Ec.Ad/F-2(0)16/BMA/2006 dated 07.07.2006 and letter No.Ec.Ad/F-2 (0)/16/BMA/2006 24.07.2006 and others as the argument and grievances explained in letters and personal hearings, have not been examined minutely by your office.

T.M.T. (Thermo Mechanical Treated Bars) Fe-415 grade is used in construction industry for the last ten years as reinforcement steel. The cost index of bar & rods, published by your office, which is based on the rates provided by the SAIL TISCO & others for T.M.T. Bars and should specifically be compared only with T.M.T. Bars directly, may be a average rate of all the diameters or basic rate of 12 mm dia bars which is generally considered as base rate of steel bars & rods.

The prices utilized for compilation of **W.P.I** Bars & Rods taking effect of 8 Commodity such as Round i) Bars, ii) Tiscon T.M.T. Bars, iii) Bars & Rounds (16 mm), iv) C T D Bars (Cold Twisted Deformed Bars), v) Round Bars, vi) Bars & Rods vii) T.M.T. 16 mm and the Index for T.M.T. based on this formula is not correct and justified. The result may be plus or minus. The method adopted should give correct result, and should not mismatch the rates prevailing in the market for T.M.T. Bars.

All Government Departments related to construction activities, wherever cost index of Tor Steel Bars & Rods for reinforcement is involved are bound to follow the monthly index published by your office from time to time.

It is strange to note that rate of T.M.T. (Thermo Mechanical Treated Bars) by **SAIL, TISCO or ISPAT** has gone abnormally high, more than 44.85%, from January 2005 to December 2007 and cost index percentage show increase of 5.42 percent only during this period.

The rates of Steel Bars (SAIL) continued to increase and in January 2008 the rates reached more than Rs. 36,500/- MT, in February 2008 Rs.38,500/- MT, in 1st week of March 2008 is Rs.39,500/- and still continue to rise upward, where as the Cost Indices for T.M.T. Bars (Bars & Rods) is stagnating continuously at 258.3 from October 2007 onwards.

The consumer / contractor who have calculated rates as per the market rates of steel are ruined / have gone bankrupt and are not in a position to complete there ongoing projects.

It is therefore, requested that the points raised may be clarified at the earliest to avoid further financial hardship. An early meeting may please be fixed to discuss the abnormality in the cost index of **Steel Bars & Rods.**

Thanking you,

Yours faithfully

(Lal Chand Ralhan)
Chairman
Builders' Association of India, Delhi Centre

No.BAI/DC/04/2008/11 Date: 12th March 2008

The Economic Advisor
Ministry of Commerce and Industry,
Government of India,
Udyog Bhawan,
New Delhi - 110011

Sub: Mismatch of Cost Index of Steel bars & rods and anomaly in the Cost Indices for T.M.T. Steel (Thermo Mechanical Treated Bars) used in Construction Industry.

Madam,

We, the members of **Builders' Association of India (BAI)** are thankful to for giving us an opportunity and listening to our grievances with regard to the issue of **WPI Price Indices of Steel Bars & Rods** issued by your esteemed office. The Cost Indices for steel bars & rods T.M.T. Steel (Thermo Mechanical Treated Bars) is supposed to be based on the market rates of steel, provided by SAIL, TISCO & others steel manufacturers. The Cost Indices published mismatch and does not reflect the prevailing market rates of Bars & Rods (Steel). The Cost Indices is used by the various Government Departments, associated with the construction related works, for cost adjustment **(±)** as per agreement clauses put in the tender. The latest rate of steel from SAIL Rs. 33,650/- per M.T. in December 2007, reached Rs.35,100/- per M.T. in January 2008, Rs. 39,100/- per M.T. on 5th February 2008, Rs.38,850/- per M.T. on 14th February 2008 and Rs. 44,000/- per M.T. on 9th March 2008, which was hovering around Rs.32,750/- per M.T. in October 2007. Accordingly, price of all other connected products in the steel category such as plain bar, wire have also gone up. We regret to point out that these steep rise in the rates does not reflected in the Cost Indices published by your office and thus requires detailed review of the system in vogue for determining the correct price indices. These prices and formulae utilised for compilation of W.P.I. bars & rods, may be on any basis but it should have effect on the indices in the right perspective.

We place on record, the following documents, for consideration of the administration, policy maker to compare and introduce some device for correctness of the Price Indices and doing justice with the issue of **WPI** of **Steel Bars & Rods.**

1. Latest rate of SAIL.
2. Prices utilised for compilation of W.P.I. bars & rods.
3. Comparative Statement of rates of SAIL, C.P.W.D. published and Cost Indices published.
4. Copy of the letter to Member Secretary (SPMC) Chief Economist, Economic Research Unit J.P.C. dated 29.01.2008.
5. Rates quotation from SAIL for T.M.T. bars.
6. Monthly price index from April 1994.
7. Letter to Economic Advisor dated 10.03.2008.
8. Letter appeal from P.H.D. Chamber of Commerce & Industry.
9. Probe in steel price.
10 Rates of J.P.C. from all 4 metro cities.

We sincerely hope that your goodself .will look into the matter personally and do the justice in correcting the **WPI of Steel Bars & Rods** on the basis the documents submitted and verbal presentation made.

Thanking you,

Yours faithfully

(Lal Chand Ralhan)
Chairman
Builders' Association of India, Delhi Centre

Encl: As above

No.BAI/DC/04/2008/16 Date: 17th March 2008

The Economic Advisor
Ministry of Commerce and Industry,
Government of India,
Room No. 238, 2nd Floor,
Udyog Bhawan,
New Delhi – 110011

Sub: Mis-Match / Anomaly in publication of Cost Indices of Steel Bars & Rods by Your office with regard to market / prevailing rates of Steel from SAIL, RINL, TISCO etc.

Respected Madam,

We are very thankful for the meeting the members of **Builders' Association of India (BAI)** had with you in your office on Wednesday, the 12th March 2008, wherein the above matter was discussed in details and it was emerged out of the discussions that your goodself will look into the matter personally and try to correct the WPI Price Indices of Steel Bars & Rods atleast for the current period, but we regret to point out that the same Price Indices has been repeated for this week also without taking into consideration of the increased rates of steel by SAIL, RINL and other producers copies of which were made available in person during the meeting. Respected Madam, we all know that our country / Government is a welfare state. The pre-amble of our constitution aims at giving justice, social and economic. Our emblem is **"SATYA MEV JAYATE"**. We feel, it is the moral and legal duty of the Office of the Economic Adviser to publish the correct cost indices faithfully, matching with ground realities. The SAIL is giving monthly rates to Central Public Works Department (CPWD), a primer construction agency of the Government of India and on the basis of the same the CPWD is publishing the base rate of steel and cement every month. The SAIL & RINL is also issuing the rates of steel bars & rods to our association as well as other consumers etc. also issue bills/quotations every week / month. We request that your office should also adopt all those rates faithfully, correctly and reflect the same in the indices published so as not to cause harm/loss to any section of the society.

It is more sincerely requested to correct indices with retrospective effect. You will appreciate that any wrong or mismatch publication of indices may and thus cause harm / loss every consumer and your organization should not be privity to any such wrong publication.

The Office of the Economic advisor is created to give correct feedback to the country as la whole. As such the prima duty of your office is to ensure collecting actual rates from SAIL & other steel manufacturers. We are running a race with time and any delay would result in injustice, injury and will ruin many consumers / contractors committed to complete the important projects connected with Commonwealth Games – 2010 for want publishing of correct indices with true reflection of SAIL Rates for Steel Bars & Rods.

We are reproducing the rates published by CPWD, Government. of India as per (Annexure-'A') and rates received by our association from SAIL (Annexure- 'B'), and quotation given to our members (Annexure -'C') and confirmation letter from CPWD, received in Association office, stating that these rates of Steel are collected from SAIL (Annexure-'D'). We are ready to call on at your office to explain the case, if so required at

anytime. We may say that Construction Industry Development Council, a premier body in the Country (sponsored by Planning Commission) has also referred this mis-match in publishing the indices by your office.

We will be highly grateful to you, Respected Madam for early action in the matter.

Yours faithfully

(Lal Chand Ralhan)
Chairman
Builders' Association of India, Delhi Centre

Encl: As above

No.BAI/DC/03/2008/31 21st April 2008

Shri S. M. Acharya
Special Secretary (UD) & CVO,
Ministry of Urban Development
Room No.117/C, Nirman Bhawan,
Maulana Azad Road,
New Delhi-110011

Sub: Unprecedented hike in the price of Steel used in construction work.

Respected Sir,

1. **Builders' Association of India (BAI),** an apex body of Civil Engineering Construction Contractors, have approached various authorities regarding abnormal rise in the price of steel, in general and especially of **TMT (Thermo Mechanically Treated) Bars** used in the **construction** projects and mis-match of this with cost indices of steel, highlighting its adverse effect on the working of construction agencies. The price of TMT Bars sold by **SAIL / RINL increased** from **Rs.26,400/MT** to **Rs.33,690/MT** during **Sept 2004** to **Dec 2007** i.e. an increase of **27.6%**. However from **December 07 to March 2008**, the price rose to Rs.44,000/MT i.e. an unprecedented increase of over 30%, in a short span of less than three months. A monthwise comparative statement of TMT Bars showing sale price of SAIL, Wholesale Price Index (WPI) of Steel (Bars & Rods) published by Economic Advisor to the Government of India, Ministry of Commerce & Industry & the Base Rates issued by CPWD, is placed at (**Annexure-A)** for your ready reference. **The Secretary, Ministry of Steel** vide his press statement has also acknowledged price rise of 25% from December 2007 onwards (Copy of press cutting is placed at **Annexure-B**).

2. This unprecedented rise in the cost of steel, as well as, its non-availability in required quantity has created severe difficulties for the construction agencies, who are executing Government contracts, including those of national importance, such as connected with Commonwealth Games-2010.

3. Most of our members, are executing these projects under the control of CPWD and other Government Departments, like PWDs', DDA, NHAI & PSUs. The contract documents of these departments, have price variation clause, namely 10 CC / 10 CA for steel, which is linked to the WPI of Steel (Bars & Rods). Unfortunately there is mismatch between the index and the market price of steel. It can be observed from the attached Annexure-A, that when the market price of steel was Rs.30,943/MT, the index was 255.10 and when the market price rose to Rs.40,000/MT in February 2008, the index moved up only 3 points i.e. upto 258.3, which infact should had been 377 as per our estimates. Due to this mismatch, the construction agencies are not getting the justified reimbursement of increased steel cost, for the ongoing projects, resulting into huge losses for them, as well as, Time Over runs for these projects.

4. The matter has also been taken up by BAI with the Economic Advisor for publication of the correct WPI of steel vide this office letter No.BAI/DC/04/2008/11 dated 12th March

2008 **(Annexure-C)** and No.BAI/DC/04/2008/16 dated 17th March 2008 **(Annexure-D)**. Sir, we would like to bring it to your kind notice that the Economic Advisor publishes the WPI of steel products under three different heads, namely **Bars & Rods**, **Iron & Steel** and **Other Iron Steel**. The WPI of these three heads in January 2005, were almost identical, being **245.7, 239.8 and 241.1** respectively, whereas, the WPI of the same heads as on **05.04.2008** were **330.1, 357.1 and 440.9** respectively i.e. there is a wide gap between these. No one is able to understand that when these indices represent only the Steel, then why there should be such a wide difference in these indices. We may further like to add here that the process/system of publishing WPI in the office of the Economic Advisor is somewhat non-transparent, because they do not share with public the criteria / system, based on which, the WPI's of steel are being published. It has been learnt that there is a time lag, and sometime it is a huge one, in updating the price data, on the basis of which WPIs' are published. Thus at most of the times, these indices do not reflect the true prevailing market situation.

5. As the office of the Economic Advisor is not publishing WPI of TMT Bars as per the actual / prevailing market rates on the given date, our members continue to suffer heavy losses on account of non-reimbursement of the increased cost of steel, we have, therefore, represented the matter to the **Hon'ble Minister for Urban Development** vide Letter No.BAI/DC/03/2008/25 dated 9th April 2008 **(Annexure-E)** and **Director General (Works)**, **CPWD** vide letter No./BAI/DC/03/2008/09 dated 7th March 2008 **(Annexure-F)** and BAI/DC/03/2008/12 dated 13th March 2008 **(Annexure-G).** However we are awaiting decision regarding remedial measures, as requested by us. We, apprehend, that if the present stalemate continues for some more time, the construction agencies may be forced to foreclose their works because they are finding it extremely difficult to absorb huge rise in the cost of steel. Thus the completion of projects will suffer badly.

6. In spite of all our efforts, we are not getting any respite with regard to the abnormal rise in the price of steel, which is continuously going upward. The construction agencies are continuing to suffer losses and progress of the works is getting affected adversely. We, therefore, request your kind honour to look into the matter at your level, to resolve the burning issue of reimbursement by the concerned works authorities, of the increased cost of steel for the ongoing contracts. We suggest the following remedial measures in this regard:-

(a) Allow reimbursement for the abnormal rise in the cost of steel, as per the Base Rate of TMT Bars, being issued by the office of DG (Works), CPWD on monthly basis, for all the ongoing, as well as, the new works, **as an interim measure,** till such time the anomaly / mis-match in the WPI of steel and the prevailing market price of steel, is removed.

(b) The matter be taken up with the Ministry of Commerce & Industry (Deptt of Industrial Policy and Promotion) at highest level for publication of WPI of Steel based on the timely updated prices of steel items from the producers.

(c) Alternatively, the concerned Work Authorities, may issue steel to the construction agencies for the new contracts, till such time market price of steel get stabilized.

7. We request an early action in the matter, at the Ministry level, in the national interest, so that the completion of time-bound projects, does not get affected and also to save construction **agencies from getting bankrupt**. We would also like to meet your goodself, at

your convenient time / date to explain in person, the grave situation being faced by us in this regard. It will be highly appreciated, if an early appointment is granted please.

With regards,

Yours truly,

(H S Pasricha)
Chairman
Builders' Association of India, Delhi Centre

Encl: As above.

(Note: all annexures and appendices mentioned in the letters etc. referred to in the appendices are not available)
References:

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Steel and Natural Resources Strategy Research

Research and Beyond

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