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ISSUES AND INSIGHTS



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Building India's steel capacity Make in India starts with making steel in India



The Government of India recently circulated a New Draft Steel Policy 2017 for public discussion which is an outline for attaining a most challenging target capacity by 2030 of 300 million tonnes (mt) of crude steel capacity, the anticipated demand then. To put this in context, India today produces only around a 100 million tonnes annually while China alone produces around 750/800 mt a year, an astounding 50 per cent of the global output. To achieve the stated goal, India will have to add manufacturing capacity every year at a rate never remotely achieved by it.

India's per capita consumption of steel, as for most of its other comparative necessities such as energy or plastics, is much lower than global averages. The government has expressed confidence in achieving rapid growth in all infrastructure which would result in increasing demand for all forms of vehicles and consumer durables. All of which have, and will continue to have, steel as one of their principal constituents.

Correctly this Draft Policy points out that adequate steel making capability is of strategic importance for India. Hence enablers for a competitive Indian steel making not only create economic value, but add vitally to national security as the only country which could otherwise supply steel to India in large quantities is China.

The Steel Vision 2017 document compiles all predicaments facing Indian steel companies – such as non-availability of key raw materials like coking coal indigenously – also elaborates that acquiring land, establishing key linkages for water, power and transport, obtaining iron ore mining rights and crucial environmental clearances do delay construction of new projects significantly. High prevailing interest rates and the huge debts of most Indian steel companies further compound the difficulties for them to expand. Indian banks remain extremely wary lending to the sector. Further, the recent initiatives of the government to assist the Indian steel industry may have to be rolled back fairly soon.

Given all that is stacked up against Indian steel companies, including those in the public sector, it is completely unlikely that anywhere near 300 mt in annual steel making capacity can be achieved within a decade and India would remain undesirably dependent on imports from China or accept impaired development.

The future doesn't have to be so bleak if the government accepts the reality and is prepared to jettison the deeply ingrained concept of owning the six public sector steel plants that produce only about 17 mt annually. These established units possess tens of thousands of acres each, extraordinarily good water and transport linkages, qualified manpower as well as abundant mining rights for iron ore and coal. It is totally possible, if truly land efficient layouts are employed, to achieve upwards of 25 mt of capacity in each of these six locations instead of the 3-5 mt they produce today. This is most unlikely within the public sector, given their ineffective record of timely project management and long commissioning delays of at least five years beyond set deadlines. Their manpower productivity is much lower compared to most large steel companies anywhere.

The only path ahead – it becomes apparent – is for the government to disinvest each of these six plants to large, qualified and competent global steel companies, and perhaps to one or two Indian firms, with guarantees taken for investing and expanding to mandated levels of capacity. Investment of nearly \$125-150 billion of low cost funds over a decade will be essential, a large part of which can only come from international sources. The government could also realise over \$15 billion through disinvestment of their stakes in these steel units.

Japan, South Korea, China and France, the only remaining major steel producing nations, should be wooed so that their premier steel companies are encouraged and supported to bid for and take over Indian public sector steel plants and expand them rapidly to meet all of India's future needs. All government assistance and assurances for safeguarding such unprecedented foreign investment in a single sector must be given. Employees are protected by the law and their tenure can be assured as part of the contract with the new owners. Such massive expansion of India's steel capabilities would necessarily generate millions of skilled jobs directly and indirectly.

If the infrastructure, transportation and housing aspirations of a billion-plus Indians are to be realised, and if the essential long-term economic security is not to be imperilled, then this rational route needs be adopted without delay.

Make in India absolutely commences with making steel in India.

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