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RBI’s re-export norm continues to impede gold imports

M. R. Subramani, Business Line (The Hindu)

Chennai, 17 October 2013: Gold imports continue to be affected as importers struggle to meet the Reserve Bank of India’s mandatory norm of re-exporting 20 per cent of the precious metal brought into the country.

This, in turn, has resulted in domestic gold prices ruling seven per cent higher than global prices. “There is huge shortfall in gold supplies currently, even as festival buying is picking up. Lack of imported consignments is pushing up prices here,” said Harmesh Arora, spokesman for the Bombay Bullion Association.

On July 22, the RBI issued a notification making it mandatory for those importing gold to re-export at least 20 per cent of the quantity imported into the country.

“Since then, hardly a couple of tonnes of gold have come into the country,” said Arora.

The RBI had come up with the re-export norm as part of the Government’s efforts to curb the rising current account deficit (CAD), which ballooned to $21.8 billion in the first quarter of the current fiscal. Gold imports are seen as a major reason for trade imbalance, resulting in CAD rising.

On Thursday, spot gold in the global market ruled at $1,318.35 for an ounce. Taking into consideration the global price (about Rs 26,000), the 10 per cent import duty (Rs 260) and other charges such as handling, the cost should be around Rs 29,000.

But in Mumbai, pure gold (99.9 per cent purity) closed at Rs 31,120 for 10 gm, a premium of over Rs 2,000.

“In fact, people are selling gold in the physical market and buying in the futures ,” said Prithviraj Kothari, Director of RiddiSiddhi Bullions Ltd. “Though prices in the domestic futures are ruling higher than global prices, they are cheaper than spot prices,” he said. On the Multi Commodity Exchange, gold contracts maturing in December ruled at Rs 29,946. “Gold in India is ruling higher only because imports have been totally hit,” said Arora.

Initially, lack of clarity and Customs authorities not being sure on implementing the norm were blamed for imports coming to a standstill. On September 20, the Commerce Department officials said that gold imports would resume as the Government would help the Customs Department in interpreting the RBI notification correctly.

“It is impossible to fulfil the norm of re-exporting 20 per cent. Banks, which buy the precious metal on our behalf, are not willing to import,” said Ba. Ramesh, Joint Managing Director of Thangamayil Jewellery Ltd.

Importers say that it will be difficult to meet the norm since re-exports accounted for hardly six per cent of total imports during the last two years.

“The problem has been compounded because Customs authorities want us to meet the stipulation for each consignment,” said Arora. The RBI notification said that fresh imports would be allowed only after an importer re-exports 20 per cent of the shipments brought into the country earlier. Banks also have to keep the gold meant for re-export in separate Customs bonded warehouses.

“It takes between 60 and 90 days for exports to take place. Until then, you can’t bring gold into the country,” said Kothari.

Currently, only gold that is meant to be re-exported is finding its way through the ports.

“Totally, imports in the last couple of months could have hardly been four tonnes,” Arora said.

During January-September this year, gold imports were a little short of 400 tonnes with the bulk coming in during April-June. Last year, gold imports totalled 860 tonnes, down from 969 tonnes in 2011.

“We don’t think that imports will rise drastically over the next couple of months due to the prohibitive policy,” said Ramesh.

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Government cuts tariff on imported gold for 2nd straight day

PTI

New Delhi, 14 November 2013: Government today slashed the import tariff value on gold for the second straight day to $414 per 10 grams and silver to $672 per kg, in line with weak global prices of the precious metals.

The import tariff value, which is the base price at which the customs duty is determined to prevent under-invoicing, was revised downward for gold only yesterday.

According to the notification issued by the Central Board of Excise and Customs (CBEC), the tariff value on imported gold has been brought down to $414 per 10 grams from $417 per 10 grams yesterday. Similarly, the import tariff value on silver has been cut to $672 per kg from $738 per kg in the review period.

However, the tariff value has been hiked on imported brass scrap and some vegetable oils. The import tariff value on RBD palmolein has been raised to $960 per tonne from $899 per tonne that prevailed till yesterday, while crude soyabean oil to $1,023 per tonne from $1,006 per tonne. The tariff value has been changed because of volatility in global prices of these imported items.

In case of gold and silver, international prices are showing a declining trend with rates of yellow metal in the Singapore market ruling down at $1,289 an ounce. However, domestic gold prices closed at Rs 31,720 per 10 grams and silver at Rs 48,000 per kg in the national capital today.

India, the world's largest consumer of gold, imported 393.68 tonnes of the yellow metal during the April-September period of this year, as per official data.

The government has taken several steps to reduce gold imports, including hike in custom duties.

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The real cost of the gold import curbs

Soumya Kanti Ghosh, Financial Express

6 February 2014: The latest release on Balance of Payments, for Q2FY14, shows a sharp decline in the current account deficit (CAD)—to 1.2% of the GDP. A bulk of this decline is attributed to the steep fall in gold imports and, for a while, the might of the government to set things right by raising import duty on gold appears to be bearing the desired fruits. The gold imports, as per the provisional data, has declined to $1,080 million in December 2013 from a peak of $7,500 million in May 2013.

Although gold imports through official channels has declined, unofficial channels are making good of the the vast, inelastic demand for gold which is fuelling the high domestic prices premium. Concomitantly, there has been a steep rise in seizures by the Directorate of Revenue Intelligence (DRI). While there was no seizure of gold in the total seizures made in FY11, in FY12 gold accounted for 3% of the seizures and 8% in FY13. This speaks volumes of the negative externality that the gold import curbs have created. Drawing inference from the latest media reports, DRI officials estimate gold smuggling to the tune of 500 kg per day (182 tonnes a year) hapenning.

This implies a monthly expenditure of Rs4,500 crores! As per the World Gold Council November 2013 report, in the first eight months of FY14, India has already imported 450 tonnes and, with festive demand in the fourth quarter expected to be strong, the unofficial channels will relentlessly cater to this demand. The massive diversion of household investible surplus into gold, irrespective of the channel through which it has been procured is a matter of serious concern. A close look at these trends reveals that the immediate solace on CAD figures attributed to the drop in gold imports may be short-lived. The comfort is ill-founded on three counts—first, the trade data for gold is highly distorted on the account of over-invoicing of imports. For example, total imports of gold from Switzerland in 2012 were $26 billion while the corresponding export figures, made by Switzerland to India, is just $6 billion! Extrapolating similar trends in other commodities implies that the official CAD need not reflect the true CAD to the extent of such discrepancies. In fact, the Financial Action Task Force survey in 2006 concluded that most of the customs agencies inspect only 5% of the cargo shipment entering their jurisdiction; the fact that the present machinery, not only in India but across the globe, is highly inadequate to assess the menace of over-/under-invoicing of shipments only strengthens our argument.

Second, the official national income figures, by construction, exclude smuggling. Hence, if one were to make a realistic assessment of the CAD, we may have to augment the standard saving-investment (S-I) identity for open economy—savings minus investments equals CAD—for smuggling. As argued above, the diversion of household investible surplus into gold will have the effect of reducing financial savings (S). The gold imports, under the present accounting treatment (which is itself debatable), are recorded as investments under a separate heading 'valuables'. When augmented for smuggling, the S-I gap in the LHS will be higher because the unofficial gold imports will add to the official estimates of valuables thus increasing the S-I gap and the same will be mirrored in the CAD. The official CAD, therefore, represents a lower bound on the true CAD, albeit with considerable band of uncertainty to the extent of trade mispricing.

Lastly, with Rs4,500 crores of monthly purchases as DRI suggest, it is reasonable to assume that there is an organised parallel market in FX which caters to financing such operations. The domestic unofficial supplier who receives rupee must convert the same in some foreign currency to pay his foreign supplier for there is hardly any domestic production of gold in India. Thus, for e.g., the dollar-rupee unofficial rate and official interbank rate will have a bidirectional causal effect. In fact, a recent RBI study on NDF

suggest such bidirectional relationship between onshore and offshore rupee markets rates which becomes unidirectional at time of distress and offshore markets determine the domestic rates. To what extent does the presence of such a domestic parallel FX market affect the official interbank exchange rates and the threat that it poses to financial stability remains unexplored.

In conclusion, in assessing the cost-benefits of import duty on gold, one has to be more realistic and factor in the ramification of gold purchases through unofficial channels and its impact on CAD. We have shown that CAD is negatively affected when standard savings-investment identity is augmented for smuggling. The extent of how such operations are financed through parallel FX markets could endanger financial stability is an area that remains unexplored. On a net, it now appears the cost of the gold curbs might have outweighed the benefits.

Co-authored with Saket Hishikar, economist, State Bank of India
The author is chief economic advisor, State Bank of India.

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RBI tightens gold import norms under 80:20 scheme

PTI

New Delhi, 15 February 2014: Seeking to restrict gold imports, the Reserve Bank of India Friday said nominated banks and agencies will not be allowed to import the precious metal in excess of their entitlements in first or second lot under the 80:20 scheme.

“Import of gold in the third lot onwards will be lesser of the two — five times the export for which proof has been submitted or quantity of gold permitted to a nominated agency in the first or second lot,” RBI said in a notification.

The government under the 80:20 scheme had in August 14, 2013, allowed nominated agencies to import gold on the condition that 20 per cent of the inward shipment will be exported. The permission to import the next lot would be given on fulfilment of export obligation.

In view of the representation being received by the RBI and the finance ministry, the central bank has said that the quantum of the third lot import would be five times the export from the previous lot subject to the condition that it would not exceed previous entitlements.

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I don't think import duty for gold is high: C Rangarajan

Rajesh Bhayani ,Business Standard

New Delhi, 10 March 2014: C Rangarajan**,** chairman, Economic Advisory Council to the Prime Minister, is known for his conservative views on gold, which he calls a 'non-productive asset'. He was amongst the first to flag up the fast-rising import of the yellow metal putting pressure on the current account deficit (CAD). After recommending tightening of gold imports, the government gradually increased the import duty and the Reserve Bank of India tightened import norms.

In an interview to *Rajesh Bhayani,*Rangarajan says CAD will be brought under control at around two per cent of the gross domestic product (GDP). He, however, doesn't see the need to relax duty or import rules. Edited excerpts:

The CAD now seems to be coming under control due to a fall in gold import. What is the accepted level of gold import?
It is expected to remain at around two per cent of the GDP in FY14, much lower than last year (FY13). This is partly due to a fall in gold imports. Gold imports prior to 2009-10 used to be $30-40 billion, which went up after that; last year, it was $54 billion. Gold demand was rising as it was imported for being a hedge against inflation, which was high and also as an asset. In my view, once investors start getting better returns from financial assets and inflation starts moderating, there would be sustained reduction in import of gold. Imports should stabilise at the pre-2009-10 level and $35-40 billion worth of gold import is still possible to absorb and may not cause any serious problem to CAD. If, eventually, Indians bring in fundamental change in the use of gold and reduce its demand, it will be good for the country but those changes don't happen in the short term.

With CAD under control and the gold import bill also much lower, do you think this is a time to relax gold import curbs?
I don't think the Customs duty on gold is so high. If you look at the import duty on many other luxury goods, others have much higher duties.

Isn't gold also a virtual currency?
But it is also a commodity and I don't think the import duty for gold is high. The other thing is the 80:20 rule (80 per cent of import for domestic use and 20 per cent for exports). This seems to be a reasonable rule, as it allows imports and is a self-correcting measure. Therefore, I think a sudden drop in gold import was not due to rules but it was the way they were implemented. Because of that, there was no import of gold for some time.

So, procedures can be simplified, even if basic rules are not changed?
It can be. In the overall current account, around $35 billion worth of gold can be absorbed. That will be consistent in our efforts to contain the CAD in the range of 2-2.5 per cent of GDP.

You may have seen unofficial import of gold estimates. The World Gold Council has estimated unofficial import in 2013 at 200 tonnes. That is due to the high duty and import curbs.
I doubt the estimate of unofficial import could be that high. There is no evidence of reduction in remittances, etc. If gold smuggling has to be financed, it can be either lower remittances or over-invoicing of imports and so on. The latest numbers don't show any decline in private remittances and, hence, I am not sure whether this number is correct.

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Curbs on gold import norms leading to smuggling: Sharma

PTI

New Delhi, 21 March 2014: Commerce and Industry Minister Anand Sharma has favoured a review of curbs on gold import norms saying the restrictions are leading to smuggling. "I feel for a review. I am not in favour of making it so difficult that it leads to increase in smuggling," Sharma told PTI.

In order to check rising Current Account Deficit (CAD), the government raised import duties and the RBI imposed curbs on import of the metal and also laid down various pre-conditions for inward shipments of the precious metal.

He said there is a need to have a balanced approach on the matter.

Gems and jewellery exporters, which account for about 15 per cent of the country's total shipments, raised concerns over the restrictions on gold imports and demanded easing of norms in this regard.

Gems and jewellery exports dipped 4.18 per cent to $3.59 billion in February. During the 11-month period of the current fiscal, shipments declined by 7.15 per cent to $35.73 billion. Gold and silver imports declined 71.4 per cent to $1.63 billion in February.

Sharma said his ministry is ensuring the exporters get adequate gold to enhance overseas shipments of jewellery.

The enforcement agencies during the first nine months of 2013-14 have seized 1,074.41 kg of gold as against 326.23 kg during the entire 2012-13 fiscal.
According to reports, sleuths of revenue department have seized gold worth about Rs 245 crore being pushed illegally through the country's borders in the past one year. As many as 700 cases of gold smuggling so far have been reported across the country during 2013-14.

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Gold imports drop to 6-year low

Rajesh Bhayani, Business Standard

Mumbai, 31 March 2014: Import of gold in the financial year which ended on Monday is estimated to have been at a six-year low of 557 tonnes, lowest after 2007-08. This follows imposition of stiff import curbs, including very high tariffs.

Abroad, gold investors lost 19.4 per cent. In India, due to a slide in the rupee's value (10.4 per cent) and the rise in duty and high premium for physical delivery, the fall in return was only to 3.2 per cent.

This month, 35 tonnes of import was expected, taking the January-March quarter total to 90 tonnes, about 80 per cent more than the September-December quarter's. Had the import in the March quarter not improved so, our year's import would have fallen to a decadal low. Apart from the curbs (which also saw a surge in 'unofficial entry' into the country), the crash in gold prices last April and a similar one a quarter later had questioned the attractiveness of gold as a safe haven. All these curtailed official import.

However, in India, people's love for gold has not changed, with prices not falling sharply. If one looks at data provided by the World Gold Council (WGC), demand in calendar 2013 has gone up, though there was a big contraction in investment demand in the second half. Jewellery demand fell marginally in the second half and because of non-availability of gold due to the stiff rule of permitting 80 per cent of import to be used for the domestic market, after exporting 20 per cent, under the Reserve Bank of India's 80:20 rule.

In sum, jewellery and investment demand in the first half of calendar year 2013 negated the fall in the second half, thereby lifting aggregate demand by an average of 13 per cent.

The change in trend in the second half, however, has implications for jewellers' balance sheet. According to Sudheesh Nambiath, precious metals analyst at GFMS, Thomson Reuters: "For jewellers, the contraction in imports in the second half has to be viewed in the context of a rise in capital costs and reduction in inventory levels. So, sales improved against a fall in net profit." Some of these impacts were seen in the December quarter results of jewellery companies and more might be visible in the March quarter. One company, Shree Ganesh Jewellery House, has approached banks for restructuring its debt; many others have put retail expansion on hold or on a slow track.

What added to that was a scarcity of gold due to much lower import and demand outweighing supply, resulting in very high premiums quoted for physical delivery. During the Diwali days, the premium was $170 an ounce; it is now quoting at $45. Smuggling, sale of old jewellery and replacement import under the gold deposit scheme of banks aided supplies. WGC estimate 'unofficial import' could be as high as 200 tonnes in FY14.

Going forward, in terms of prices, "Gold is expected to be under pressure in 2014-15. Geo-political tensions (if it escalates) could support on and off, though," said T Gnanasekar, Director, Commtrendz Research & Fund Management.

He names four factors that could keep gold prices under pressure in the near future. Gold-friendly stimulus measures are coming to an end and even interest rates are likely to rise, which means the cost of holding a zero-yield asset will discourage holders. The third point is producers' hedging; it is gaining momentum as the view changes for gold and more are ready to hedge at higher levels. This means mines have started selling future production for future deliveries.

The fourth point he mentions is that domestic prices could be under pressure due to the rupee, likely to be stronger in the coming quarters. However, he hedges this with the possibility of a relaxing in import norms. “The government, being comfortable with the current account deficit situation, could keep the duties intact but probably remove the conditional export clause. Imports are bound to improve if this decision is taken before Akshaya Trithiya, which is one month away,” he said.

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Gold, silver imports dip 40% to $33.46 billion in 2013-14

PTI

New Delhi, 11 April 2014: Gold and silver imports declined 40 per cent to USD 33.46 billion in 2013-14 mainly due to restrictions imposed by the government on inbound shipments of the precious metal to narrow the current account deficit.

Imports of gold and silver in 2012-13 stood at USD 55.79 billion. In March, the imports of the precious metals were down by 17.27 per cent to USD 2.75 billion from USD 3.33 billion in the same month previous year. Lower imports helped to narrow the trade deficit to USD 138.59 billion in the previous fiscal.

India's current account deficit (CAD), which is the excess of foreign exchange outflows over inflows, touched a historic high of 4.8 per cent of GDP in 2012-13, mainly due to rising imports of petroleum products and gold. A high CAD puts pressure on the rupee, which in turn makes imports expensive and fuels inflation.

Recently, Finance minister P Chidambaram projected CAD during 2013-14 at about 35 billion, or about 2 per cent of GDP, down from USD 88.2 billion, or 4.8 per cent of GDP, in 2012-13.

The government had increased customs duty on gold to 10 per cent and banned import of gold coins and medallions, while the RBI linked imports of the metal to exports.

India is the largest importer of gold, which is mainly utilised to meet the demand of the jewellery industry. Imports stood at about 830 tonnes in 2012-13.

The Commerce and Industry Ministry is pitching for easing of the gold import restrictions to boost gems and jewellery exports, which declined by 8.82 per cent in 2013-14 to USD 39.52 billion.

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RBI eases gold import norms

Business Line (The Hindu)

Mumbai, 21 May 2014: The Reserve Bank of India has allowed "star trading houses" and private jewellery exporters, which had been barred from importing gold since July 2013, to resume imports, with immediate effect.

In a statement. the central bank said import of the first lot of gold by trading houses under the so called “80:20 scheme” would be based on the highest monthly import during any of the last 24 months before import restrictions were imposed in August 2013. However, the import quantity has been capped at 2,000 kg.

Also, under the modified guidelines for import of gold, the RBI said the star/premier trading houses should have imported gold prior to the introduction of the 20:80 scheme.

The RBI had imposed gold import curbs to counter a steep rise in the current account deficit. Also, the gold import duty was raised last year to 10 per cent from 4 percent and the Government mandated that 20 per cent of imported gold had to be exported, under the 80:20 rule.

On Wednesday, the central bank also allowed banks to lend gold to domestic jewellery makers from the 80 per cent quota. Hitherto, banks could make gold available for domestic use only to entities engaged in the jewellery business/bullion dealers and to banks authorised to administer the Gold Deposit Scheme against full up-front payment.

In other words, supply of gold in any form to domestic users other than against full upfront payment was not permitted.

Under the modified guidelines for import of gold, the RBI said the star/premier trading houses should have imported gold prior to the introduction of the 80:20 scheme.

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Panel recommends complete ban on iron ore exports

Dilip Kumar Jha, Business Standard

Mumbai, 18 September 2013: The parliamentary standing committee on coal and steel has recommended a ban on iron ore exports, arguing mineral reserves would be exhausted within 25 years if exports continued.

The committee, chaired by Kalyan Banerjee, a Trinamool Congress Member of Parliament and comprising 22 other members from both Houses of Parliament, was mandated to give a report on iron ore export policy to the steel ministry. It met on August 26 to overview the status of mining and iron ore exports in the country.

“In view of the free trade of iron ore (up to 64 per cent *Fe* content) and export of higher grade of iron ore, the government should take immediate necessary policy measures not only to ban the export of iron ore reserves of higher grade, but also of the ore with up to 64 per cent *Fe* content, currently allowed freely. In view of the limited benefication agglomeration facilities in the country, the committee feels high grade iron ore with *Fe* content of more than 64 per cent from Bailadila, Chhattisgarh, which can be used by existing steel plants, should not be permitted for export and be made available to meet the requirement of the domestic steel industry,” said the panel’s report.

R K Sharma, Secretary General of the Federation of Indian Mineral Industries, says the recommendation is one-sided. “The committee has not taken views from all interested parties, including the ministries of commerce and mines, and mining industry representatives. The report is purely based on the one-sided view of the steel ministry. Therefore, the recommendation does not have any meaning.”

The committee said against the 28.52 billion tonnes (17.84 billion tonnes of haematite and 10.64 billion tonnes of magnetite) of iron ore resources in the country, 37 per cent of the magnetite resources, of the total iron reserves, weren't available for mining due to the Supreme Court-imposed prohibitions in Western Ghats and other sensitive environmental zones. Also, only about 18 billion tonnes (less than half the proved reserves) are economically exploitable. The committee said currently, steel production in the country was more or less commensurate with the demand, but a working group on the steel industry for the 12th Plan had projected a requirement of 206.2 million tonnes by 2016-17, against the total iron ore requirement of 135.7 million tonnes in 2012-13.

Pointing to the fact that millions of tonnes of iron ore were being exported and iron ore in India wouldn't last more than 25 years and considering the production and demand projections, the committee recommended there was an immediate need to reduce iron ore exports for the sake of India's steel industries.

“When the rupee depreciated, iron ore exports become viable at the current 30 per cent levy and four times the increased railway freight. But now, exports aren't viable. If the ban on exports continues, mining would suffer, leading to immediate repercussions on the steel industry and employment generation, which the committed didn't look into,” Sharma said.

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Country's iron ore exports fall 43.5% during April-October

Mahesh R Kulkarni, Business Standard

Bangalore, 19 December 2013: India's iron ore exports declined 43.5% in the first seven months of the current fiscal. Between April and October 2013, iron ore exports touched 8.43 million tonnes as against 14.91 million tonnes in the same period last year.

Overall this fiscal, iron ore exports are likely to be in the range of 14 million tonnes, a drop of close to 25% over the previous fiscal. In 2012-13, India exported 18.66 million tonnes.

Suspension of exports from Goa and Karnataka has largely contributed to the steep decline in export of iron ore this year. While, the Supreme Court has allowed resumption of mining in Karnataka, it still has put a bar on exports. The Apex Court has also banned mining and export of iron ore from Goa since October 2012, which is the major contributor to national exports, industry analysts said.

"Goa and Karnataka are totally absent from export market this year. There is no possibility that Goa will resume exports anytime this year. We expect another 4-5 million tonnes of exports happening in the remaining months of the current fiscal. This means the total exports from India is unlikely to reach the last year's levels," Prakash Duvvuri, senior analyst from OreTeam Research said.

When compared to production of iron ore during April to October period, which stood at 80.4 million tonnes, India's exports accounted for 10.5% of the total production, he said.

"Going by the current trends, we can expect the current year to end with an overall production of 130-135 million tonnes and total exports of 14 million tonnes. Because, Goa is still out of business and Karnataka mines reopening is very slow. The only saving grace is Odisha, which will contribute a lion's share in the total output this year," Duvvuri said.

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Iron ore exports fell 52% in 2013

Mahesh Kulkarni, Business Standard

Bangalore, 14 January 2014: Continuing a downward trend for a fifth year in a row, India's iron ore exports declined 52.5 per cent to 14.1 million tonnes for the calendar year 2013 (CY13).

This includes 820,000 tonnes of iron ore pellets. In CY2012, exports were 29.7 mt. The export in 2013 was a tenth of the peak seen in 2009. India is now the 10th largest exporter, from fourth the previous year, in the world.

China is the world's largest consumer of iron ore; 80-90 per cent of global export goes there.

The decline in 2013 was mainly due to the absence of Goa as compared to the previous year. Mining and transportation Goa was suspended there in the second half of 2012, on a direction of the Supreme Court. The continuing ban on export from Karnataka added to the drop.

"From 2014, the situation might improve but not dramatically. With more caps and bans on production and exports India might never regain its Number 3 ranking in the global export market," according to Delhi-based OreTeam Exim Pvt Ltd, which tracks the industry.

CY 2013 also saw India's ranking going below 10th on the global list of exporters of iron ore to China. Till 2011, India was behind only Australia and Brazil, both exporting 90-95 per cent of their surplus to the China. In 2012, we slipped to fourth position, behind South Africa. In 2013, India pushed out of the top 10; Iran, Indonesia, Malaysia and Canada were among those which overtook us in the export market, said Prakash Duvvuri, head of research, OreTeam.

"However, we expect Goan iron ore to rejoin the export race in 2014, giving some lift to the volumes," he said.

On the other hand, the Indian ore pellet export market is likely to remain flat in 2014. Essar, JSPL, Ardent, Stemcor and GPIL are concentrating equally on the export and domestic market. This will ensure some of the pellet volumes are diverted to China and Japan, he added.

"India's steel consumption and demand growth is unlikely to witness sharp growth to absorb the raw material completely within the country, also one of the prime factors to note in 2014. With a modest growth expected in the steel sector, keeping in view the change of guard at the Centre, it is highly unlikely that any major decisions would break ground in at least in the first half of CY2014," Duvvuri said.

On the Chinese and Japanese front, the demand for Indian iron ore and ore pellets will remain till our exporters have the capability to provide them the material, he added.

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Iron ore exports up 253% in December quarter

Dilip Kumar Jha, Business Standard

Mumbai, 18 January 2014: Iron ore export from India rose sharply in the December quarter due to the opening of new mines in Chhattisgarh, Madhya Pradesh and Rajasthan. Activity in the traditional mining states of Karnataka, Jharkhand, Goa and Odisha remained low, resulting in rising dependence on import for steel mills.

Data from the Federation of Indian Mineral Industries (Fimi) showed a 253 per cent increase in ore export during the October-December quarter of this financial year, at 3.75 million tonnes as against 1.06 mt in the corresponding period of the previous year.

This is significant, as steel mills have faced acute shortage of the key input, reducing their operating capacity. Overall export during the first nine months of 2013-14 (April-December), however, was lower by 28 per cent than in the same period of 2012-13, at 11.2 mt as compared to 15.6 mt.

Mining has stopped in Goa, which used to export a little over half of India's total. It will take months to re-commence excavation there. The other large producing state, Karnataka, has been facing a similar issue, of clamps due to a crackdown on illegal mining. While activity has resumed here in one of three categories of mines, the quantity excavated from these is inadequate to feed mills in the state.

Large steel mills are, therefore, importing ore. R K Sharma, secretary-general of Fimi, says mills have imported a little over three million tonnes of ore so far this financial year.

"In our view, the surge in (ore) export could be of pellets, as a number of steel mills have focused of late on forward integration to produce pellets for exports. As against nil duty on pellets, iron ore attracts 30 per cent export duty. Also, the realisation on pellets is higher than ore," said Hitesh Avachat, senior analyst, CARE Ratings.

Of the 18,000 million tonnes of iron ore reserves in the country, Chhattisgarh and Madhya Pradesh are estimated to have 18 per cent and Rajasthan 1.5 per cent. Government-owned Steel Authority of India has given five applications to the Madhya Pradesh government for grant of a prospecting licence to set up benefication and pelletisation plants in ore-bearing areas, in Chhattarpur district.

Another public sector steel major, Rashtriya Ispat Nigam Ltd (RINL), was allocated a large iron ore block at Bhilwara by the Rajasthan government in June last year. RINL plans to initially invest Rs 2,500 crore to set up a benefication unit and a two-million tonne pellet plant for value addition of the ore, before using it at its Vizag steel plant.

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5% duty on exports retrograde step, say pellet makers

Business Line (The Hindu)

New Delhi, 28 January 2014: Iron ore pellet makers are miffed at the Government's latest move to levy a 5 per cent duty on exports of the commodity.

"This is a retrograde step which will have far reaching implications. The duty has been levied without taking into consideration the views of pellet makers and is based on erroneous facts," said SK Chatterjee, Secretary, Pellet Manufacturers Association of India in a statement.

The Finance Ministry on Monday announced a five per cent customs duty on export of pellets.
India has become the only country that is discouraging export of a high value added manufactured product, especially when it is not hurting the domestic market, Chatterjee added.

The pellet makers claimed that pellet exports at just over a million tonnes were about 1.2 per cent of the country's installed capacity currently.

Capacity creation

The pellet manufacturing capacity, which stood at 28 million tonnes in 2010-11, has gone up to 60 million tonnes and total investments were estimated at over Rs 30,000 crore.

The Government had encouraged capacity creation in iron ore pellets, a move that was aimed at utilising the low-grade iron ore fines, traditionally considered a mining waste in India.

Moreover, the gradual depletion of high grade reserves had prompted the steel makers and mineral companies to go for processing technologies.

Steel makers

Among the steel makers who have set up — and were in the process of setting up — pellet making capacities include Jindal Steel, SAIL, Essar Steel and KIOCL.

Pellet makers claim their current capacity utilisation is less than 50 per cent owing to the lower off take by the steel industry. Pellet makers are already paying three times more rail freight for pellet meant for exports.

This additional levy will kill the industry, they said, urging the Government to exempt pellet from exports.

Industry body Assocham had urged the Government to impose 30 per cent duty on exports of pellets to ensure higher availability of raw material for domestic steel industry as the production of iron ore had declined in the current year.

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Trade min urges finmin to scrap export duty on iron ore pellets

Financial Express
New Delhi, 7 March 2014:Commerce minister Anand Sharma said Thursday his ministry has urged the finance ministry to remove the 5% export duty on iron ore pellets.

"We have reservations (against 5% export duty) because it (pellet) is a value-added product and the duty, per se, is a disincentive," Sharma told reporters in North Block. He had come to attend a group of ministers meeting on the Amritsar-Kolkata Industrial Corridor.

"We have raised this issue with the finance ministry. The domestic industries were encouraged to increase capacity, and what actually is getting exported is not even 1.5% of the total capacity. Therefore, we should be encouraging and not be disincentivising them," the minister added.

The export of raw iron ore, or fines and lumps, already attracts a duty of 30%. Substantial investmets have happened in pelletisation plants.

Sharma also said Thursday there will be no change in the government's ongoing decision-making process on relaxing norms in foreign direct investment (FDI) in railways and construction due to model code of conduct.

On Wednesday, Chidambaram had said that normal government functions will carry on, and the cabinet and committees will go ahead as usual to clear any decisions pending from before the code of conduct.

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Mining ban hurting economy, exports: Anand Sharma

PTI

25 December 2013: Ban on mining by the Supreme Court has hit the economy and exports besides increasing India's dependence on imported coal.

"It (mining ban) has hurt our economy. It has hurt exports, (particularly) iron ore exports. It has increased our dependence on coal imports. So both ways we are losers," Commerce and Industry Minister Anand Sharma told PTI in an interview.

But for the ban on mining, he said, India could have earned by exporting around 100 million tonnes of iron ore.

"We have been deprived of the precious foreign exchange, and what we could have mined in India. When it comes to coal, $22 billion plus was the coal import bill," the Minister said adding: "these are the areas which need a serious look."

The Supreme Court had banned iron ore mining in Karnataka in July-August, 2011, and in Goa in October, 2012.

Earlier, Mr. Sharma has raised concerns over judicial activism, and said, "India badly needs judicial reforms.''

Following the ban, shipments of iron ore plunged to 18 million tonnes in 2012-13 from nearly 168 million tonnes in 2010-11. Before the ban, India was exporting iron ore worth over $7 billion.

As regards coal, the environmental restrictions have significantly hampered coal production in the country, leading to increase in dependence on coal imports.

Slowdown in exports has increased the trade deficit as well as the current account deficit.

While the trade deficit soared to a record high of $191 billion in 2012-13, CAD jumped to $88.2 billion, or 4.8 per cent of the GDP during the period.

The mining sector, with a weight of about 14 per cent in Index of Industrial Production (IIP), saw a contraction of 3.5 per cent in October as against a dip of 0.2 per cent in the same month last fiscal.

During April-October, the output shrank by 2.7 per cent as against a contraction of one per cent.

Coal production, with a weight of about 4.5 per cent in the IIP, declined by 3.9 per cent in October.

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Steel exports get push from weaker rupee, new markets

Ruchira Singh, Mint

Mumbai, 15 September 2013: Indian steel makers are tapping new markets, creating more value-added products and selling directly to clients as they try to export more to take advantage of a weaker rupee that is making Indian steel products more competitive in the global market.

India has traditionally exported only a miniscule portion of its 78 million tonne (mt) annual steel production. With the domestic market seeing lower demand, steel makers have made bigger inroads overseas and analysts are forecasting a substantial rise in exports this fiscal year.

"If we see the actual destinations where the stocks are going, India can cover nearly the entire world map," said Prakash Duvvuri, head of research at metal and mining information website OreTeam. "Indian steel is in good demand, mainly due to its quality and competitive price."

Duvvuri forecast a 25% jump year-on-year in steel exports at 6-7 mt in the year to March.
The rupee closed at Rs.63.495 to a dollar on Friday, a 13.39% fall from the beginning of 2013.
While steel companies said they had been selling steel at prevailing global prices, Duvvuri said 3-5% discounts were being offered on major orders.

One of the biggest gainers of the exports push is Essar Steel India Ltd with its port-based 10 mt steel plant in Hazira in Gujarat, where it also owns a bulk port to facilitate the import of raw materials and export of steel.

"There are three or four interesting opportunities that are emerging. One of them is Iraq where there is bound to be focus on infrastructure growth," said Alok Gupta, president, sales and marketing, at Essar Steel. "The second market is the oil and gas segment. We are now approved by GASCO (Abu Dhabi Gas Industries Ltd). We are in the process of getting all the critical approvals and, therefore, one of the markets we are very focused on is the API (American Petroleum Institute) market for oil and gas."
API provides standards for steel products that are used in the hydrocarbons industry.

Essar Steel is aiming to increase its exports by 20-25% this fiscal year from 1.1 mt in the year-ago period.

"Although steel demand is generally subdued in most major markets, some products have a relatively good demand in some countries," said C.S. Verma, chairman of Steel Authority of India Ltd (SAIL). The state-owned firm is aiming to almost double its exports this fiscal year to 700,000 tonnes. Worldwide, hot-rolled steels, plates, cold-rolled coils and galvanized steels constitute the bulk of the products traded, according to Verma.

India's GDP is seen growing at 5.3% in 2013-14 from the actual growth of 5% in the preceding fiscal year. For the steel industry, where growth mirrors GDP, this means fiscal year 2014 may be another year of muted local demand. Export markets, therefore, may provide some comfort, despite the competition from Chinese and Taiwanese steel makers.

Moreover, the weak Indian currency has also raised the cost of importing coking coal for steel companies, and exports are helping clear some inventory that has resulted from the big capacity expansions.

Steel makers said the mantra for success in the exports market, other than new segments (such as Iraq and oil and gas), is value-added steel that fetches higher margins and direct contact with buyers that ensures stickiness.

"Fifty per cent of our exports go directly to customers and the rest goes to trading houses that buy from us and sell to users," said Jayant Acharya, director, commercial and marketing, JSW Steel Ltd.

JSW Steel, with clients in 90 countries, expects to export more than 3 mt of steel in this fiscal year from a total targeted sale of 11.55 mt, Acharya said.

Current international prices of steel range from $570-$580 a tonne, higher than $525 last year in September, according to Gupta of Essar Steel. Value-added steel, he said, fetched 1.5 times more on base steel prices and, therefore, the company is exporting more of these.

While India's traditional steel markets have been in the neighbourhood—Sri Lanka, Middle East and Far-East Asia—the new markets have stretched up to Australia and Central America, Essar's Gupta said. "Our focus is to own the last mile by building a relationship with the end user," Gupta said, underscoring the strategy to reduce dependence on agents.

While the move to increase exports is a good one, it may not necessarily lead to a significant boost in the net profit of the companies, said an analyst at Centrum Broking Ltd.

"The rupee's depreciation has helped exports, but costs have also been increasing because coking coal is imported. Plus globally, steel prices have been under pressure," said Abhisar Jain, vice-president, institutional research at Centrum Broking. "Steel export is an opportunistic kind of a trade at this time…it may have a mitigating impact on volumes (inventories)."

SAIL said the bigger role of the exports was to hedge the company against the volatility of the currency. "Exports' contribution in terms of turnover was 2.4% of total turnover of SAIL during 2012-13. Based on the export plan for the current year, this is likely to go up to more than 4% of our turnover during 2013-14," SAIL's Verma said. "Keeping in view the weak rupee, and our exposure to imports of coal, higher export turnover is likely to insulate us better from the vagaries of currency volatility."

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India emerges as net exporter of steel in April-December period

PTI

New Delhi, 7 January 2014: India has become a net exporter of steel in the first nine months of the current fiscal, mainly due to subdued domestic demand.

If the trend strengthens during the January-March period, the country may end up being a net exporter of steel for the entire fiscal, 2013-14, after a gap of five years.

"India emerged as a net exporter of total finished steel in December 2013 as well as during the April-December period," said Joint Plant Committee (JPC), a unit of Steel Ministry.

Exports went up by 9.5 per cent during the April-December period to 4.136 million tonne (MT), but imports in the same period registered 29.2 per cent decline at 4.09 MT.

In December, exports rose by 13.7 per cent to 0.54 MT while imports nosedived by 46 per cent to 0.37 MT.

India has been a net importer of steel since 2007-08. In the last fiscal also, it imported 7.9 MT against its exports of 5.2 MT. Before 2007-08, however, India used to export more than imports.

The surge in exports during the April-December period is a result of rupee volatility, different economic conditions, impact of global downswing and depressed domestic demand, JPC said in its latest report.
It attributed the dip in imports to slowdown in domestic economy, exchange rate volatility, relative prices, global downswing and bilateral agreements among others.

Almost all domestic producers have had a good growth on the export front in the current fiscal so far.
Steel Authority of India (SAIL) clocked a 122 per cent growth in exports to 1.77 lakh tonne during October-December quarter alone and it is eyeing doubling last year's volume to 7 lakh tonne this fiscal.
Rashtriya Ispat Nigam Ltd (RINL) recorded 142 per cent growth in its export revenue during the April-December period at Rs 519 crore.

Rising exports have also helped them raise domestic prices and reduce inventories. Steel makers have raised prices by up to Rs 1,500 per tonne earlier this month.

Impacted by economic slowdown, India's steel consumption grew by just 0.5 per cent to 53.789 MT during April-December period of the current fiscal.

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India & S Korea to upgrade CEPA, boost trade ties

Financial Express

New Delhi, 16 January 2014: India and South Korea have agreed to upgrade the Comprehensive Economic Partnership Agreement (CEPA) as early as possible to bolster trade and investment.

Visiting South Korean president Park Guen-hye and Prime Minister Manmohan Singh agreed to give a push to Posco's steel plant in Orissa. Both the sides also inked five agreements, including in defence and space.

At the end of delegation talks with the visiting leader on Thursday in New Delhi, Singh said, “I am happy that the large-scale Posco steel project in Orissa is set to be operational in the coming weeks, following the revalidation of its environmental clearance. Grant of mining concession for the project is also at an advanced stage of processing.” Singh said the project will further strengthen the fact that economic growth and and environmental protection need to be balanced well.

The South Korean president said while the Posco Integrated Steel Plant has been delayed, with the acquisition of land and environmental clearances now through, both sides should ensure smooth sailing for the 8 million tonne per annum steel plant in Orissa.

Both sides have agreed to establish the India-ROK Joint Trade and Investment Promotion Committee at the Cabinet level as an expanded and restructured replacement of the current India-ROK Joint Investment Promotion Committee, as per the joint statement issued after the meeting.

The agreement to revise CEPA was one of the highlights in the joint statement issued after the summit. The trade pact was signed in 2009 and went into effect the following year.

South Korea had called for revising the agreement, complaining its level of liberalisation is lower than that of similar accords India has with other nations, especially Japan, which makes Korean firms in India less competitive than Japanese rivals.

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Ministry of Commerce & Industry: Duty Imposed on Steel Imports by Thailand

India Public Sector News

New Delhi, 5 February 2014: Recently, Thailand imposed a definitive safeguard duty on imports of certain hot rolled steel flat products originating from India at the ad valorem rate of 44.2% for the period 15th September, 2013 to 26th February, 2014. This would be progressively reduced as per the provisions of Agreement on Safeguard under the World Trade Organization (WTO).

Safeguard duty so imposed will have an impact on India's exports of those specific products to Thailand.

Government is constantly reviewing policies and providing support from time to time to make the Indian products competitive in the international market. Apart from the neutralization of duties on imports, Government is providing incentives to various sectors, including engineering sector, by way of Focus Product Scheme, Focus Market Scheme, Market Linked Focus Product Scheme, Interest Subvention, Incremental Growth Scheme etc. To protect the domestic manufacturing sector, amongst others, Government is also monitoring the imports of steel products, so as to ensure that imports which can be avoided by strengthening the domestic manufacture are identified. Government is also invoking Trade Remedial actions by way of Anti-Dumping and Safeguard duties on imports following the rights and obligations under WTO.

The information was given by the Minister of State in the Ministry of Commerce and Industry Dr. E.M. Sudarsana Natchiappan in Rajya Sabha today.

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WTO Set to Issue Mixed Ruling on Indian Challenge to U.S. Steel Duties

Daniel Pruzin and Madhur Singh, WTO Reporter

24 February 2014: A World Trade Organization dispute panel is expected to issue a mixed ruling in April on a challenge filed by India against U.S. countervailing (CV) duties on imports of Indian hot-rolled carbon steel flat products.

A confidential preliminary ruling issued by the panel on Jan. 31 backed a number of key claims made by India against a U.S. Commerce Department investigation, which led to the imposition of the CV duties in 2001 and a renewal of the duty order in 2007, according to sources who spoke on condition of anonymity because the panel's findings are still confidential.

However, the panel rejected several additional claims made by India against the U.S. investigation, as well as the legal measures that served as the basis for the investigation, the sources said.

The preliminary findings are still subject to further review and may change when the panel issues its final ruling to the two parties in the second week of April. Should the preliminary findings be maintained, both sides are expected to claim various degrees of victory.

The final panel ruling is expected to be appealed, most likely by both parties, meaning that a final verdict wouldn't be expected from the WTO's Appellate Body until sometime in 2015.

Commerce concluded that the Indian government, at both the central and state levels, provided a wide range of subsidies to Indian manufacturers of hot-rolled steel products. The U.S. International Trade Commission later determined that those subsidies resulted in material injury to U.S. producers of hot-rolled steel.

The original duties ranged between 8.28 percent and 31.89 percent.

Status of NMDC

One of India's claims reviewed by the panel concerned the status of an Indian entity at the heart of the investigation, the National Mineral Development Corp. Ltd. (NMDC), which was found by U.S. investigators to be a “public entity” under WTO rules providing countervailable subsidies to Indian steel producers through low-cost iron ore.

India argued that the NMDC wasn't a government or public body and therefore couldn't be providing countervailable subsidies. The Indian argument is based on a March 2011 ruling by the Appellate Body which found that the U.S. Commerce Department violated WTO rules by determining that state-owned suppliers of goods to Chinese producers targeted by CV duties were “public bodies” because they were majority-owned by the Chinese government, a criteria used by Commerce in other CV investigations.

“(A)part from an express delegation of authority in a legal instrument, the existence of mere formal links between an entity and government in the narrow sense is unlikely to suffice to establish the necessary possession of governmental authority,” the Appellate Body said.

The U.S. said in its arguments before the panel that, even if the panel agreed with India that Commerce should have applied the Appellate Body's standard of providing evidence other than majority state ownership as proof of government control, the “record evidence indicates that the NMDC is a public body because it is over 98 percent owned by India and has the authority to perform Indian governmental functions.”

India also argued that the iron ore sold by NMDC isn't being supplied at subsidized prices but at prices based on that at which iron ore is exported to markets such as Japan and South Korea, noted one trade analyst familiar with the case, who added that India is one of the top 10 exporters of raw materials that go into the making of steel.

India also says that the U.S. rules serving as the basis for the duty order, Title 19, Part 351 of the U.S. Code of Federal Regulations, as well as certain provisions of the 1930 U.S. Tariff Act, are “as such” in violation of WTO subsidy rules in that they require various practices such as the automatic adoption of benchmark prices and “delivered” prices, as well as the automatic use of adverse facts available.

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India begins probe into stainless steel dumping by China, Korea

PTI

New Delhi, 25 April 2014: India has initiated an investigation into alleged dumping of a certain variety of stainless steel by China, Korea and Malaysia following a complaint by Jindal Stainless Ltd.

The commerce ministry's designated authority, the directorate general of Anti-Dumping and Allied Duties (DGAD), has begun a probe into alleged dumping of "certain Hot-Rolled Flat Products of Stainless Steel 304 series".

In a notification, the DGAD has said the applicant has provided sufficient evidence that the normal value of the product in these countries is significantly higher than the net export price. The evidences have prima facie indicated that the product is being dumped from China, Republic of Korea and Malaysia, it said.

"The authority finds sufficient prima facie evidence of dumping of subject goods by the countries, injury to the domestic industry and causal link between the dumping and injury, the authority hereby initiates an investigation ...," the notification said. In the probe, the directorate would determine the existence, degree and effect of alleged dumping and will recommend amount of anti-dumping duty, "which if levied would be adequate to remove the injury to the domestic industry".

The DGAD is the nodal agency under the commerce ministry for such investigations.

The period of investigation is April 2012 to June 2013. However, for the purpose of analysing injury, the data of previous three years (2009-2012) would also be considered, the notification added.

The country's largest stainless steel producer, Jindal Stainless Ltd, in its submission has said that the "application has been made by or on behalf of the domestic industry".

This particular variety of the steel is used for manufacture of process equipment, re-rolling, reactor vessels, material handling equipments, railways, pipes and tubes, automotive components, building and construction, industrial fabrication and power sector.

Unlike safeguard duties, which are levied in a uniform way, anti-dumping duties vary from product-to-product and from country to country.

Countries initiate anti-dumping probes to check if their domestic industries have been hurt because of a surge in cheap imports. As a counter measure, they impose duties within the multilateral regime of the WTO. Anti-dumping measures are taken to ensure fair trade and provide a level playing field to domestic industry. It is not a measure to restrict imports or cause an unjustified increase in the cost of products.

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