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Steel firms likely to be rescued soon

Banks, with loans at stake, push govt to notify minimum import price and stop flow from abroad; commerce dept wants dilution in proposed list of products

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With all major steel companies in the red and banks accumulating non-performing assets (NPAs) in the sector, a push to impose a minimum price for imports is being



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spearheaded by banks through the ministry of finance.

Senior government officials said the government is set to issue a minimum import price (MIP) notification later this week. According to a CARE Ratings report, 145 steel and iron companies accumulated debt worth Rs 2.98 lakh crore and an unfavourable debt to equity ratio of 1.27. Similar to UDAY, the financial restructuring scheme for power distribution companies, this notification would also be primarily to rescue banks.

The ministry of steel had earlier this month sent a long list of items for the proposed MIP to the department of commerce. The latter has some reservations and views it as a trade barrier which might not comply with World Trade Organization norms.

"The list is likely to be pruned down to around 34 items, with stainless steel products expected to be kept out," said a person privy to discussions within the government. The issue has been discussed at the prime minister's office, too, said an official.

Both ministries are trying for a consensus on the rates and products to be covered. A final notification would come from the directorate general of foreign trade, once approval is given by commerce minister Nirmala Seetharaman, away to Nairobi for a scheduled WTO ministerial meeting.

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The Sponge Iron Manufacturers' Association is opposed to the move. It says the secondary steel industry would then be faced with a shutdown.

It quotes a Bank of America Merrill Lynch report to say that of the Rs 280,000 crore of NPAs in steel for the banking sector, Rs 195,000 crore is with tier-2 mills and the unorganised sector. On December 11, the government imposed an anti-dumping duty of five to 57 per cent on cold-rolled flat products of stainless steel for five years.

This was on such imports from China, South Korea, the European Union, America, South Africa, Thailand and Taiwan. On September 14, the government imposed a 20 per cent provisional safeguard duty for 200 days on the import of hot-rolled flat products in coils of a width of 600 mm or more.

The ministry of steel had proposed 14 categories of products, with different MIPs for base and special grades.

The government is also likely to put in place a mechanism whereby if the FOB price of steel at the point of origin according to major indices is lower than the invoiced price, the listed one would be considered for enforcing MIP.

The department of commerce wishes to exempt exporters of products from the MIP norm if the imports were being used for manufacturing export products.

To prevent misuse of this, it is mulling a mandatory export obligation within six months and refund of actual value and MIP.

Steel companies had accumulated losses of Rs 4,238 crore in the quarter ending September, as against Rs 4,647 crore of profit last year in the same period.

Government-owned Steel Authority of India made its highest ever operating loss, of Rs 3,900 crore, in the quarter.

Till October this year, a little more than seven mt was imported, as against five mt during 2013-14. Imports are expected to reach 15 mt this year. "It is not only the quantity but the rate and predatory pricing which is worrying the sector," said a senior official.

According to World Steel Association data, the global steel demand is down 1.7 per cent over last year.

In China, it is minus 3.5 per cent, Korea has minus 1.3 per cent and Japan minus 5.4 per cent.

LIFELINE FOR STEEL FIRMS

- Quiet like Uday, the financial restructuring scheme for power distribution companies, the minimum import price (MIP) notification would also be primarily to bail out banks
- The ministry of steel had proposed 14 categories of steel products with different MIP for base and special grades
- The MIP would set the floor price below which imports into the country would not be allowed
- The comprehensive list covered more than 40 products including pig iron, heavy melting and shredded scrap, semi-finished products, quarto plates, cold rolled coils and many such

products

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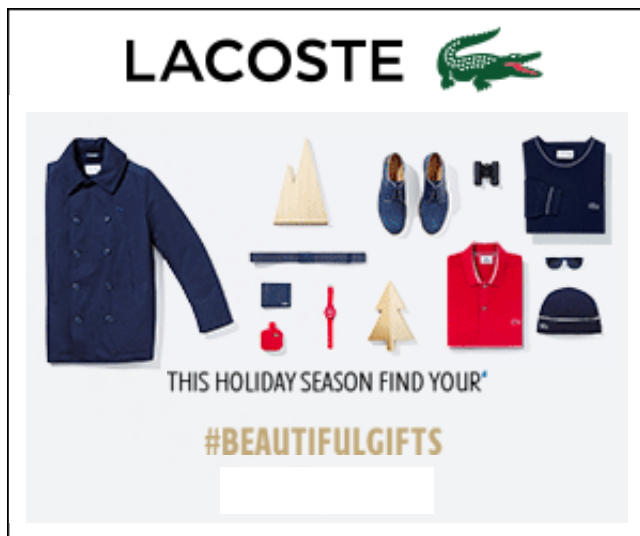
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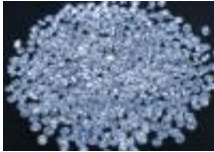
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