WORLD STEEL DYNAMICS (WSD) is a leading steel information service in Englewood Cliffs, N.J.

WSD's steel experience, steel database and availability of steel statistics are the principles for performing steel forecasts, studies and analysis for international clients. WSD seeks to understand how the "pricing power" of steel companies the world over will be impacted by changes in the steel industry's structure.

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Lower raw material cost: the great equalizer

Reduced raw material prices rearrange the steel industry's economics

In Figure 1, it can be observed that since November 2011, the raw material cost for WSD's monthly World Cost Curve data for the average steel mill producing hot rolled band has fallen about US$285/metric ton to US$250/metric ton. Also, the cost curve has flattened considerably, which is a factor adding to price competition.

The spread in cost between the steel mills at the 12.5 percentile and 87.5 percentile positions on the curve declined to about US$103/metric ton in April 2015 from US$210/metric ton in November 2011. Besides raw material prices, currency swings, changes in individual country inflation rates and cost-cutting measures have had an impact.

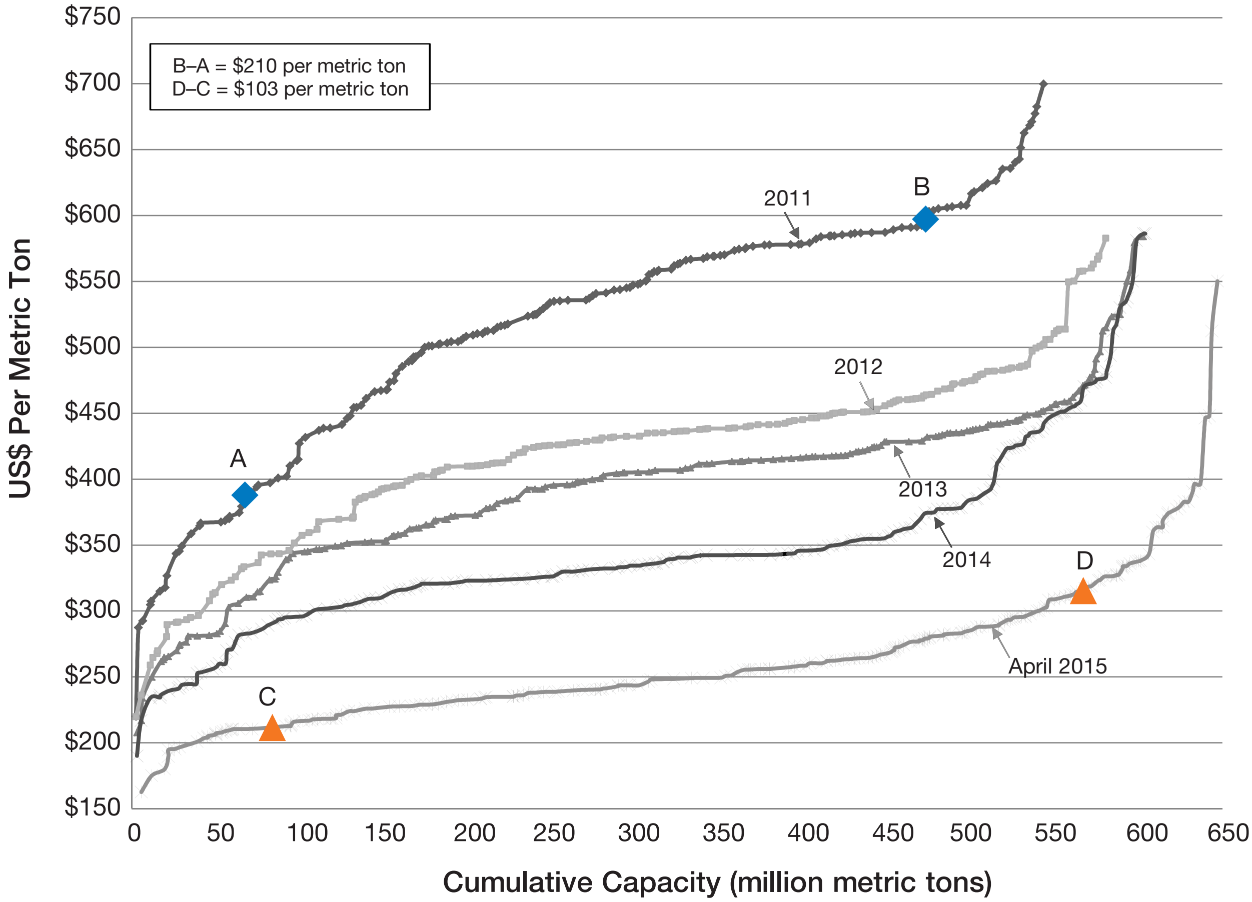
Indian steelmakers' "economic rent" diminished

India is an example of a country in which the mills have lost some of their competitive advantage in the past few years. In 2011, iron ore production in India was unbridled, the domestic iron ore price was low and Indian steelmakers enjoyed a huge cost advantage. Since then, three important developments have occurred. First, the country's Supreme Court has ordered that illegal mining be stopped, which has sharply curtailed iron ore output in the country. Second, India's policymakers have raised royalties and taxes on iron ore mining. Third, 80% government-owned National Minerals and Development Corp. (NMDC) is seeking to obtain a high price on its sales to domestic steelmakers. It wants its price to include the 2.5% duty paid on imported ore and the cost to bring in iron ore from offshore sources — with the reasoning for this strategy apparently being that, since it's partially publicly owned, it needs to maximize its profits. Also, NMDC and Steel Authority of India Ltd. (SAIL) are jointly planning to build a 6-million-metric-ton-per-year steel plant in Chhattisgarh (eastern India), where iron ore reserves are both plentiful and high-grade.

Given that iron ore and coking coal prices are now much reduced globally, it becomes even more important for Indian integrated steelmakers to have access to cheap iron ore if they are to prosper.

As Peter Marcus said in a speech at a Ministry of Steel Conference in Mumbai on 16 April 2015, the Indian government is practicing "reverse mercantilism" when it comes to its steel industry policy. Besides seeking a high price for the iron ore, largely government-owned NMDC is going into competition with the companies.

Figure 1



Average raw material cost per metric ton of hot rolled band.

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