FUND FOR RESEARCH INTO INDUSTRIAL DEVELOPMENT,
GROWTH AND EQUITY (FRIDGE)

NEDLAC

STUDY TO PREPARE VARIOUS SOUTH AFRICAN MANUFACTURING SECTORS FOR EFFECTIVE NEGOTIATIONS FOR THE PROPOSED SACU/CHINA AND SACU/INDIA TRADE NEGOTIATIONS.

REPORT NO 4

INDIA

STAINLESS STEEL

April 2006

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AMENDTMENTS/ADDITIONS IN GREEN DELETIONS IN BLUE

ABREVIATIONS

EAF	Electric Arc Furnace
IF	Induction Furnace
AOD	Argon Oxygen Decarburisation
VOD	Vacuum Oxygen Decarburisation
CAGR	Compounded Annual Growth Rate
ISSDA	Indian Stainless Steel Development Association
SASSDA	South African Stainless Steel Development Association
NAMA	

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EXECUTIVE SUMMARY

General

1. India does not want to be omitted from the preferential benefits of regional and bi-lateral trade agreements especially with Asian partners. This entails numerous trade agreements with regions-, trading blocks- and bi-lateral ones with countries. .India's current strategy is to secure economic relations with key developing countries, firstly within the Asian region and secondly with selected countries in other regions. India seeks to tie the trade interests of its South Asian neighbours with its own growing economy. While the agreements focus on trade facilitation a number of them extend beyond that in the form of Comprehensive Economic Cooperation agreements.

2 India's population is 23 times that of South Africa and its GDP just less than four times. Sustained rapid growth (8%p.a.), a high investment ratio (28% of GDP) and a large population promise to propel the Indian economy to one of the largest mass markets in the world in the longer term. The Indian economy is already the 10th largest in the world. Indian firms can thus expect to benefit from economies of scale. Competition from Indian producers will in all probability be a threat to their South African counterparts but Indian markets will offer opportunities to South Africans.

3. Exchange rate movements between the Rupee and the Rand are not expected to impact significantly on trade.

4. The Indian government has traditionally had a legacy of protectionism toward the economy and this has translated into a bureaucratic system that is inefficient and infected with some measure of corruption. However, as part of the reform process, the government has endeavored to address bureaucratic obstacles and to reduce corruption.

Reforms

5. Despite significant economic reforms, India still suffers from an underdeveloped financial sector while India's infrastructure faces the twin challenges of expansion and modernisation. Incentives are to be introduced for investment in certain sectors, which include telecommunication, ports, airports, railways, roads, energy and construction.

These interventions will be to the benefit of the demand for stainless steel.

6. To further internationalisation, competitiveness and investment in industry, India undertook a number of reforms that included the adoption of a market related exchange rate; the privatisation of industries and their deregulation (de-licensing). On the back of this India is receiving foreign direct investment that together with the vibrant IT services sector and the upcoming middle class consumers, are expected to support high growth. A range of tax and other incentives apply.

7. The sectors that have been opened up to foreign competition by the liberalising reform program is contributing to significant expansion in the production and quality of durable consumer goods; motor cars; scooters; consumer electronics; computer systems; and white goods.

Stainless Steel

8. The Indian stainless steel industry has grown at a rate of 16% over the last fifteen years and has averaged growth of 20% over the last four years. The exceptional growth of the last four years can be attributed to growth in exports to China. Exports expanded by 55% p.a. between 1999 and 2004.

9. Production has increased from a low level in the early nineties to approximately. 1.7 million tonnes in 2004-2005, at a value of about US$ 2.2 billion. India's share of world production has increased from 2% in 1991-1992 to approximately. 7% in 2004-2005. It is estimated that by 2010, the production of stainless steel will amount to 2.618 million tonnes and 4 million tonnes in 2016 . The production of the CR-MN200 grade in which India has a competitive advantage is mainly used in the manufacture of utensils.

10. Flat bars manufactured by primary producers are cold rolled (by stainless steel re-rollers) into utensil grade sheets (referred to as Patta) and this is used primarily for utensils applications. According to estimates, there are approx. 410 stainless steel re-rollers in India in the production of patta (Cr-Mn grade stainless steel with a nickel content of less than 1% usually 0.5% nickel content). It is estimated that patta production in India will increase from 1821 000 tonnes in 2005 to 2618 000 tonnes in 2010.

12 India currently holds a 10% share in the global market for kitchenware. The global kitchenware market is currently dominated by China, but India has experienced an increase in market share, rising from 5% in 2001-2002 to the 2005 figure of 10%. India would like to capture 25% market share by 2015.Consumption in this sector is estimated at approx. 874 000 tonnes and is forecast to grow to 2186 000 tonnes by 2015-2016. Approx. 40% of the kitchenware sector is export based and exports of kitchenware products have been growing at a rate approx. 25% over the last four years

13. Stainless steel consumption in India is growing at 11.5% to 12% annually. It amounted to approximately 1.153 million tonnes in 2004-2005. Flat products constitute the majority of products consumed at 86% (CR-MN grade 72.4%) , whilst the balance is made up by long products. The high consumption ratio of flat products is explained by the structure of Indian downstream stainless steel consumption where the manufacture of utensils constitutes 70% of production as against a world average of about 36%.

14. Industry specific policies are developed by the industry in conjunction with government. The industry aims at improved availability; expansion of process capacity; moving up the value chain; pricing and affordability; and extending and expanding the market. Incentives available to industry include the duty drawback scheme that reimburses producers for the import duties on raw materials.

15. Use of stainless steel in construction is predicted to increase from 28 million tonnes in 2004 to 208 million tonnes in 2010 or from 2.4% to 9.1% of consumption. Application in the transport sector is to increase from 24 million

tonnes to 104 million tonnes in 2010 (2.1% to 6.1% of consumption). The remaining applications are also expected to increase in proportion to consumption while the dominance of use of stainless steel in utensil manufacture is set to decline to 62% of consumption in 2010.

16. Exports is 46 % of production. The Indian stainless steel industry is thus export orientated and especially in the upstream part of the industry where the export of flat rolled stainless steel >600mm is half of the total in tonnes. Imports of stainless steel are 9% of production and also predominantly flat rolled stainless steel >600mm. Exports is predicted to grow by 9% to 12 % p.a. over the next ten years and imports by 12% to 15% annually.

17. South Africa's consumption of stainless steel in 2005 was 149 928 tonnes (54 684 t exported after processing). Sectors consuming stainless steel include Architecture, Building and Construction, Automotive, Infrastructure, Petrochemicals and Mining.

18. Indian producers of primary products import raw materials like iron pellets, nickel etc. The high prices of nickel on the global market pose a challenge for producers.

19 The Indian stainless steel industry is on an expansionary path and geared toward product improvement, capacity building and global expansion.

Trade

17. India's bound tariff rate for stainless steel is 40%. Only 64% of the tariff headings of Chapter 74 (Metal products) are bound. .

18. India's basic (applied) duties now a days are very uniform, mostly at 15% (as from 1 March 2005). The duty on stainless steel of Heading 72.19 is 10% (actual applied rate), on other stainless steel (apparently) 20% and on products of stainless steel 15%.The South African applied tariff is 5% on primary products going up in steps of 5% to 20% on household products. .

19. However India's tariff structure is not transparent with the contents of a large number of notifications and general exemption notices not incorporated in Schedule 1 (basic duty schedule). Furthermore, India applies additional taxes on imports and their structure is not transparent. The most important of these is an additional duty of generally 16% which is actually a central excise or value added duty.

20 Tariff concessions granted by India may, therefore, in certain cases be of no real value. During negotiations on tariff concessions, SACU should make sure that the preferences offered by India will result in actual reductions in the currently applied rates.

21 NTBs remain a major problem for exporters to India although the situation has improved over the past few years. The NTBs with the most affect on exports to India are policy unpredictability and uncertainty; customs procedures and delays; customs valuation; port and other transport infrastructural problems; general burdensome red tape; and labelling requirements.

22. India has become the country that uses anti-dumping duties most of all countries. The sectors most subject to anti-dumping measures imposed by India are base metals and products thereof (33.1%) that would include stainless steel.

23. Of countries against which anti-dumping investigations have been initiated, India is fifth on the list in regard to the number of initiations. India is subject to more countervailing measures than any other country.

24. Exports of stainless steel products by South Africa and India in US$ are similar in size but South Africa's imports less stainless steel products than India. Both countries have a positive trade balance in the trade in stainless steel products while South Africa has a positive balance with India.

25. India is exporting intermediate stainless steel products complemented by downstream products especially hollowware and kitchen articles as well as

cutlery. However, compared to 2000 exports of stainless steel products by India, in 2004 came to be dominated by intermediate products.

26. The destinations of Indian stainless steel exports are dispersed with the single most important clients being China, USA and UAE. South Africa is the destination of 1% of India's stainless steel exports.

27 Revealed comparative advantages for India have been calculated in its exports to the world in the products below and any concessions to India on them should be avoided:

HS 7222 Other bars and rods of stainless steel; angles, shapes and sections.

HS 7223 Wire of stainless steel. Delete

HS 7323 Table, kitchen or other household articles and parts thereof, of iron or steel; iron or steel wool; pot scourers and scouring or polishing pads, gloves and the like, of iron or steel.

HS 7221 Bars and rods, hot-rolled, in irregularly wound coils, of stainless steel.

HS 8214 Other articles of cutlery (for example, hair clippers, butchers' or kitchen cleavers, choppers and mincing knives, paper knives); manicure or pedicure sets and instruments (including nail files).

27. Although imports of intermediate products grew significantly in latter years, most of South Africa's imports are downstream stainless steel products. Prominent among the latter are seamless pipes and tubes, knives, spoons and forks and food industry machinery. Imports from the world amounted to US$ 282 million in 2004.

28. Most imports come from Germany, China and Italy. 4% of imports are from India.

29. South African imports of stainless steel products from India doubled from US$6.4 in 2000 to US$12.4 in 2004. Most categories showed increases but the more prominent were imports of bars, rods and angles; wire; hollow and other kitchenware, and knives spoons and forks. Imports of kitchen and hollowware trebled between 2000 and 2005 and are the single most important stainless steel imports from India.

30. In addition to the products mentioned above India has a comparative advantage against South Africa in:
7220 Products of stainless steel of a width of less than 600 mm.
8215 Spoons, forks ladles, skimmers, cake-servers, fish-knives, butter-knives, sugar-tongs and similar kitchen or tableware.
8212 Razor and razor blades (including razor blades blanks in strips).

Concessions on these products to India should be avoided

31. In 2004 India imported about US$500 million worth of stainless steel products. Of that 45% was seamless pipes and tubes and a further 36% flat rolled products. Imports of stainless steel products are thus growing to be highly concentrated In 2004. Import of seamless tubes pipes were almost 4 times and that of flat rolled products 3 times higher than in 2000.

32. South Africa increased its supply of stainless steel products to the Indian market from1 % in 2000 to 2% in 2004.

33. In 2004 South Africa exported US$ 1089 million, double the exports in 2000. However, exports remain concentrated in flat rolled intermediates. Export growth in US$ averaged 23% p.a. between 2000 and 2004.

34. Italy and China are the major destinations of South African stainless steel exports. About 2% of exports (90% flat rolled) went to India in 2004 up from !% in 2000.

35 South Africa has a comparative advantage in the export of flat-rolled products of stainless steel with a width 600mm or more. Imports and exports of stainless steel products by South Africa and India are becoming more intensive although at a very low level.

37. Revealed comparative disadvantage calculations of India indicate that there may be opportunities in exporting the following products to India because of India's comparative disadvantage in their trade:

7304 Tubes, pipes and hollow profiles

7222 Other bars and rods of stainless steel, angles, shapes and sections of stainless steel

7221 Bars and rods, hot-rolled, in irregularly wound coils, of stainless steel.

38. While South Africa should be cautious in granting concessions in the trade in stainless steel in a PTA with China, the Indian stainless steel market is sufficiently attractive to pursue concessions from India in a PTA with them. Considerations of the granting and of the winning of concessions should be done in thorough consultation with the stainless steel industry.

Recommendations from a defensive position.

The cross cutting perspective

1. The Indian economy is 4 times South Africa's and the population 23 times. India's economy is the 10th largest in the world with high growth potential. South Africa is more open to international trade (66% of GDP) than India (31%). Indian exports to South Africa are expanding and because of the difference in size and trade intensity, the impact on the South African market can be much more extensive than the other way round.

The sector specific perspective

2 By considering that India's stainless steel sector is:

- undergoing robust growth in production, consumption and export;
- supported by a clear development strategy as developed by the Indian stainless steel industry;
- backed by government development incentives;
- with the real threat of excess capacity that may impact adversely on trading partners when conditions change for the worse,
- India's competitive advantage in down stream stainless steel products; and
- South Africa's greater vulnerability due to its openness to trade and the comparative smallness of its economy;

should cause negotiators to be extremely careful in granting concessions on stainless steel products to India.

3. Should any concessions be contemplated they need to be worked out in conjunction with the constituents of the stainless steel sector.

4. The tariff headings that appear in paragraphs 14 and 16 represent areas of competitive advantage by India that makes it dangerous to grant any concessions with regard to them.

5. Negotiations may be complicated by:

- the Doha Round. The applied tariff rates of some product groups will be subject to reduction over a period of time in terms of NAMA (non-agricultural market access) if the Doha Round is successfully concluded. NAMA introduces a degree of uncertainty with respect to future MNF tariff levels that may render bilateral concessions premature; and
- WTO unfriendly subsidies and incentives that may be enjoyed by Indian firms.

Recommendations from an offensive position

From a cross cutting perspective

1. By considering that

- India is the second fastest growing economy of the world;
- Already is the 10th largest and destined to become even more important with sustained high growth caused by increases in prosperity to be

generated by exports, India's IT services sector and its growing segment of middle class consumers;

suggest that opportunities for concessions on South African exports of stainless steel products be pursued.

-

From a sector specific perspective

2. Because:

- India's imports of stainless steel are predicted to grow faster than consumption over the next ten years;
- .South African exports of predominantly flat rolled products to India are growing rapidly although from a low base;.
- Applications in construction and transport are to become more prominent to supplement the large amounts of stainless steel that is used in the production of utensils,

could make it worth while for South Africa to request tariff concessions from India.

3. Apart from South Africa's apparent advantage in exporting flat rolled products India may offer opportunities in the following where it seems to be at a competitive disadvantage against the world at present.

- 7304 Tubes, pipes and hollow profiles
- 7222 Other bars and rods of stainless steel, angles, shapes and sections of stainless steel
- 7221 Bars and rods, hot-rolled, in irregularly wound coils, of stainless steel.

(These opportunities could be viable with or without a PTA)

4. Negotiations can be complicated by WTO unfriendly subsidies and incentives that Indian producers may enjoy. A further complicating factor is South Africa's very narrow range of stainless steel products on offer that limit its ability to benefit from PTA's. This could become an issue where India may request concessions over a range of down stream products where South Africa is at a competitive disadvantage. Indian NTB' s, furthermore, are a major deterrent to imports. Negotiators need to ensure that tariff concessions are real and not eroded by non-tariff barriers;

Uncertainty on future tariff levels because of NAMA may render bi-lateral concessions as premature.

3. Prospective exporters should enter the Indian market preferably in partnership with an Indian counterpart in view of the NTB's and other issues in doing business in India. .

BACKGROUND

NEDLAC launched a study into the implications of the envisaged trade agreement between SACU and India for a number of South African manufacturing sectors. It is accepted that the trade agreement with India initially will be selective in the format of a Preferential Trade Agreement (PTA) instead of a Free Trade Agreement (FTA). The primary objectives of the study are to obtain an insight into the environment of doing business in India and among others into the attributes of its stainless steel industry.

A number of aspects cut across the different sectors that NEDLAC singled out for investigation. These aspects are. bi- and multi-lateral trade agreements that India has entered into; macro aspects; the business environment; and the general trade and industrial policies as opposed to sector specific ones. Although they are important in the formulation of sector strategies in the coming trade negotiations it was required that they be reported on separately. Thus, some of the more important implications for sector strategies following the analysis of cross cutting aspects are recapped in the following paragraphs.

TRADE AGREEMENTS

India supports multi-lateral trade relations through the WTO. Since it beliefs that the multilateral system cannot drive south-south trade as such, India is pursuing bilateral and regional trade agreements. These economic cooperation agreements need to be the building blocs and drivers of global trade. India does not want to be omitted from the preferential benefits of such trade arrangements and is willing to open its economy and import more from regional countries

Implementation of the policy entails numerous trade agreements with regions-, trading blocks- and bi-lateral ones with countries. .India's current strategy is to secure economic relations with key developing countries, firstly within the Asian region and secondly with selected countries in other regions. India seeks to tie the trade interests of its South Asian neighbours with its own growing economy. While the agreements focus on trade facilitation a number of them extend beyond that in the form of Comprehensive Economic Cooperation agreements.

In negotiating future FTAs, with developed countries in particular, India will seek to secure benefits for its service sectors where its economy enjoys comparative advantages while at the same time protecting some Indian services. India will also be cautious to sign an FTA with China given China's comparative advantage in manufacturing, discrepancies like the low cost of finance in China and the notion that China will benefit more than India because India's tariffs are higher than China's.

Negotiations for a PTA between South Africa and India will depart from a position where average tariffs levied on imports from India are substantially lower than that faced by South African exports to India. The Indian stainless steel industry are among those expected to benefit from trade agreements. India would probably also negotiate for benefits in the South African services sectors. However, it need to be mentioned that India's priority would be trade with its Asian partners and PTA with South Africa, although important, would possibly lie on the periphery of the bigger picture of India's trade interests.

MACRO MATTERS

The South African and Indian economies are adapting to the demands of the global economy coming from trade protective pasts. Both economies are relatively stable with inflation under control and lower than 5%. Growth in the in Indian economy is substantially more robust on the back of an investment ratio to GDP of almost 28% compared with South Africa's 16.5%. The norm for growth in GDP in recent years came to 6% for India and 4% for South Africa. India strives to raise growth to 8% and South Africa has a vision of 6% growth.

Investment in India and the financing thereof is fundamentally on a much sounder footing than found in South Africa. However, growth in the Indian economy is constrained by bottle necks in all spheres of infrastructure and by its stringent labour regulations and opposition to privatisation. Therefore, inefficiency overhangs persists in large pockets of the Indian economy that are in the hands of the public sector.

Bold programmes are underway to improve the supply of infrastructure. Construction of infrastructure is a source of growth in its own right. In the mean time private concerns find it necessary to erect own infrastructure to safeguard their operations.

India's population is 23 times that of South Africa and its GDP just less than four times. Sustained rapid growth and a large population promise to propel the Indian economy to one of the largest mass markets in the world in the longer term. The Indian economy is already the 10th largest in the world. Indian firms can thus expect to benefit from economies of scale. Competition from Indian producers will in all probability be a threat to their South African counterparts but Indian markets will offer opportunities to South Africans**.**

The production structure of India portrays the pattern found in developing countries with a dominating agricultural sector. The manufacturing sector is more prominent in the South African economy than the contribution that manufacturing is making to the Indian economy. The South African economy (66%) is substantially more exposed to international trade than India's (31%). Both countries run deficits in the import and export of merchandise. However, India balances its deficit with strong IT export services and by remittances from Indians living abroad. South Africa relies on capital inflows to balance the trade account.

In 2004 the value of the Rand in $, and that of the Rupee, was practically the same as in 1999 at 7 Rupee to the Rand. The effect of the intermittent currency upheaval of 1999/2001 thus disappeared. If at all, future changes in the Rupee/Rand rate should reflect a weakening of the Rand because of the fundamentals of the Indian balance of payments being stronger than South Africa's.

BUSINESS ENVIROMENT

India is relatively stable politically although terrorist activity (Kashmir) is the second highest in the world. Tensions that may arise between the centre and state governments some times may project some measure of political instability.

The Indian government has traditionally had a legacy of protectionism toward the economy and this has translated into a bureaucratic system that is inefficient and infected with some measure of corruption. However, as part of the reform process, the government has endeavored to address bureaucratic obstacles for foreign investors through the creation of investment agencies for investment approvals, reducing the necessary licensing requirements and ceding more authority to state governments to allow for easier investment and business facilitation. The government has made it a priority to reduce corruption.

An Inter-State Trade Council was established to promote involvement of the States in export promotion; assist in developing export related infrastructure; assist in removing taxes and local levies imposed on inputs required for export production. The Indian Government has a range of incentives and concessions available to eligible corporations in certain specific industries. Broadly, the tax incentives include tax holidays for corporate profits, accelerated depreciation allowances and deductibility of certain expenses subject to certain conditions. Concessions apply to profits from new undertakings and location in special economic zones. Various rebate and duty drawback schemes exist to promote exports.

India has implemented significant economic reforms, but still suffers from an underdeveloped financial sector while India's infrastructure faces the twin challenges of expansion and modernisation. The major area requiring upgrading and investment is the transportation sector – roads, ports and airports, which is currently far below standard of other emerging market economies and which poses a serious obstacle to development.

Incentives are to be introduced for investment in certain sectors, which include telecommunication, ports, airports, railways, roads, energy and construction development with a view to improving competitiveness of the Indian economy. Tax incentives, customs duty concessions for imports of equipment/machinery and the implementation of Special Economic Zones within the country would be further incentives for investment. .

In recent years, India has emerged as a favourable investment destination. India has emerged as an across the board low cost base. FDI into India targets the IT and automotive industries and some metal industries.

Intellectual property rights in India, including patents, trademarks, copyright issues and industrial designs is protected by a well-established statutory, administrative and judicial framework that is constantly improved. However, the protection of intellectual property remains an area of concern for foreign investors.

TRADE AND INDUSTRIAL POLICIES -GENERAL

To further internationalisation, competitiveness and investment in industry, India undertook a number of reforms that included the adoption of a market related exchange rate; the privatisation of industries and their deregulation (de-licensing). On the back of this India is receiving foreign direct investment that together with the vibrant IT services sector and the upcoming middle class consumers, are expected to support high growth. A range of tax and other incentives apply.

The sectors that have been opened up to foreign competition by the liberalising reform program is contributing to significant expansion in the production and quality of durable consumer goods; motor cars; scooters; consumer electronics; computer systems; and white goods. However, future manufacturing performance will depend on further reform especially with regard to heavy industry largely still owned by the state. However, the appetite for reform by the present coalition government seems to be less than that of its predecessors.

Inadequate infrastructure, bureaucracy, restrictions in hiring and firing in the labour market and improper access to finance for the small scale sector are the major impediments to growth in India. The main obstacles that need to be addressed by the government include reducing entry and exit barriers for the manufacturing sector and reducing and then removing infrastructure bottlenecks. Bureaucracy proved to be a major obstacle as well as investment in infrastructure by firms to avoid disruption of activities.

The foregoing serves as background to the sector analysis of the stainless steel industry and the ultimate formulation of a strategy for the sector to be followed in trade negotiations. The emphasis of the sector analysis is to be on features of the Indian stainless steel industry, the markets and on protection and associated aspects with an evaluation of trade flows. Threats and opportunities are to be identified and defensive and offensive strategies developed with regard to the envisaged trade deal.

CROSS CUTTING THREATS AND OPPORTUNITIES.

These can be summarised as below.

THREATS

1 The Indian economy is adapting from a protective past to the demands of becoming a globalised economy. A number of reforms were introduced to achieve that and growth progressed to more than 6% p.a. with a vision to sustain 8% growth p.a. However, the reforms are threatened by serious infrastructure constraints, stringent labour regulations and opposition to privatisation.

2. A range of incentives is in force that includes tax holidays, accelerated depreciation, tax concessions, EPZ and other development zones' Liberal draw back of duty compensation to exporters apply and exporters have preferential access to finance.

3 India's priority is to conclude trade agreements with Asian countries/trading blocks. A PTA with South Africa may thus be less important than with its Asian neighbors.

4 The applied tariff rates of some product groups will be subject to reduction over a period of time in terms of NAMA (non-agricultural market access) if the Doha Round is successfully concluded. NAMA introduce a degree of uncertainty with respect to future MNF tariff levels that may render bi-lateral concessions pre-mature.

5. The Indian economy is 4 times South Africa's and the population 23 times. Its economy is the 10th largest in the world with high growth potential. South Africa is more open to international trade (66% of gdp) than India (31%) Indian exports to South Africa are expanding and because of the difference in size and trade intensity, the impact on the South African market can be much more extensive than the other way round.

7. Although legislation is considered to be sufficient concerns about the safeguarding of international property rights continue to prevail among foreign investors..

OPPORTUNITIES

8 A PTA with India will start off with South African tariffs lower than India's with the benefit of the likelihood that Indian tariffs being lowered more than South Africa's.

9. The Indian market is expanding and thus offers business opportunities Growing prosperity is expected to be sustained by exports, India's IT services sector and its growing segment of middle class consumers.

10. Prevalence of non-tariff barriers, cumbersome bureaucracy and a predilection for the use of trade remedies may distract from the attractiveness of trade barriers.The Indian market should preferably be entered in partnership with a local business counterpart.

1 INTRODUCTION

The Indian stainless steel market is currently on a wave of expansion. The opening of the Indian economy and the economic growth that followed has provided the impetus for the development and growth of the stainless steel market. The creation of the 200 series grade has provided India with a niche in the global steel market and the Indian stainless steel sector has expanded at a rate of 16% p.a. in recent years to reach a production high of 1.7 million tonnes in 2004-2005. The challenge for the Indian stainless steel industry is to promote growth, as stainless steel is consumed primarily for the manufacture of utensils. Globally, 36.5% of the stainless steel consumption is in utensils, 15% in transport, 11% in construction, 19.4% in process equipment and 12% in welded tubes. In India approximately 70% of consumption is in the form of utensils.

However, as economic growth in India continues, stainless steel is being increasingly used in infrastructure development projects. Consumption of stainless steel is also on the rise and is set to continue on an upward trend in the medium to long term.

2 SECTOR DEVELOPMENT POLICIES

2.1 Strategy / Development Plan

India is currently experiencing massive growth, in production, consumption and capacity expansion. According to ISSDA (Indian Stainless Steel Development Association), the following strategy for the strategic growth and direction of the stainless steel industry is to be implemented in order to ensure continued and sustained growth.

The domestic steel industry is classified into three different segments:

- **The technology dictated market**: This refers to the need identified by Indian manufacturers to update their technology.It is dependent on the growth of the usage of end use products and has immense growth potential. In order to achieve this potential, the grades and quality of stainless steel will have to be improved over time, in order to keep up with technological advancements. This segment is expected to grow at 15% per annum and improve its share from 22% to 32% in the next ten years.

- **The consumer dictated market**: This segment is dependent on product delivery at affordable prices. It is already a strong growing sector and is set to continue along its present growth trend.

- **Market development dictated**: This refers to the introduction of new products and applications in the Indian market. (an example is the introduction of 300 series hollowware to a targeted, upper income market.) This is dependent on market development toward the integration of new applications. Market development will involve education, promotion, new application and design development etc. This market is expected to capture the primary focus in the near future and will increase at an annual rate of 27%.

Strategic issues in the development of the stainless steel industry that still need to be addressed include:

- Improved availability: While access to goods is not a current problem, it could emerge in the future as demand continues to increase at high levels. The strategy is that increased capacity should drive demand, rather than waiting for demand to lead to an increase in capacity.

- Processing capacity expansion: The capacity at the processing levels is currently not sufficient to cater for demand. The processing capacity in consumer dictated markets like kitchenware etc are well established. Concerns regarding capacity apply to the fabrication segment where there is a shortfall in skills, technology, practices and quality of output. Effective capacity building is required in this area.

- Moving up the value chain: The stainless steel market is currently in a state of evolution, whereby it is moving up the value chain. As a result, the share of the lower quality Cr-Mn grade in the market is set to decrease, as other higher end grades come into play.

- Pricing and affordability: Related to the above point is the question of pricing and affordability in the market. Pricing has been a vital factor to consider in the Indian market. The creation of the Cr-Mn series was to offer the end users a more affordable option and remains a popular product. Whilst it is projected that the prominence of other products is set to increase, the Cr-Mn grade will continue to have a significant market hold in the medium to long term.

- Extending and expanding the market: The Indian market is regarded as being very trade centric and inward looking, as opposed to proactively exploring outside opportunities.

This strategic plan, as conceptualised by the main industry players in India is aimed at internationalising the Indian stainless steel industry, not only in terms of building up domestic capacity, but also with regards to developing and improving Indian stainless steel to international standards.

2.2 Incentives

According to interviews conducted with relevant industry players in the Indian stainless steel industry, stainless steel in India is not subsidised.

Previously, the stainless steel industry received various financial support mechanisms from the Government in the form of duty drawbacks and duty exemptions for raw material inputs for manufactured products for exports, tax breaks for exporters provided by local governments in their respective states, preferential finance at lower bank interest rates and export insurance in the event of non-payment by the importing party.

However, the majority of these schemes, most significantly the Duty Entitlement Passbook Scheme (DEPB) have been cancelled by the Government. Currently the only scheme still in place is the duty drawback scheme, whereby manufacturers are reimbursed their import duty costs, if their products are to be exported. According to Dr A.S Firoz, Chief Economist, Ministry of Steel, this is not regarded as an incentive by the government, but simply as a measure to offset the high input costs of imported raw materials. (See Addendum B for general incentive schemes.) No other significant incentives for the stainless steel industry in India were identified.

During the course of interviews conducted with industry players in India, it was categorically stated by producers (Jindal, Chandan), government (Dr Firoz, Ministry of Steel) and foreign players in the market (Mr Tolani of Arcelor and Mr Rajesh Agarwal of Stemcor) that no incentives are offered by government to the local industry.

3 OVERVIEW OF MARKETS

3.1 Structure and size

3.1.1 Structure

The Indian stainless steel industry is regarded as rather large and fragmented. It consists of an elite group of large manufacturers who hold the majority of market share,

several small and medium enterprises and thousands of companies who operate in the informal sector.

3.2 Growth

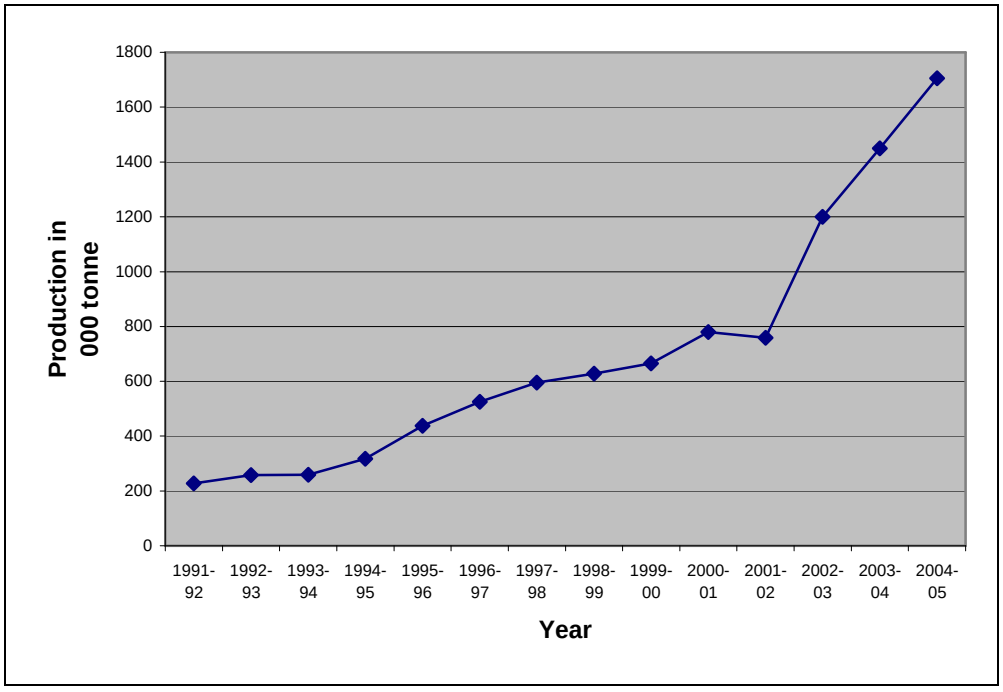
The stainless steel industry in India has grown by 16% over the last fifteen years and has averaged growth of 20% over the last four years. Production, which amounted to only 228,000 tonnes in 1991-1992, has risen to 1.7 million tonnes in 2004-2005, at a value of approximately US$ 2.2 billion. Driven by this high growth rate, the current per capita consumption of stainless steel in the country is 1.06kg. However, this remains below the world consumption figure of 4.1kg, indicating that there is still room for significant growth.

India's share of world production has increased from 2% in 1991-1992 to approximately. 7% in 2004-2005. It is estimated that by 2010, the production of stainless steel will amount to 2618 million tonnes.[1] This is an indication of the scope of the Indian stainless steel market and the potential for growth in the next few years.

The graph below provides an indication of the growth in production of stainless steel over the last fifteen years. India experienced a sharp rise in production from 2001 onwards, which was driven largely by the demand for stainless steel that was coming from China. Domestic demand also increased simultaneously (see figure 3.2) and as a result, India's production of stainless steel rose sharply.

Fig 3.1 Growth in production of Stainless Steel

[1] Indian Stainless Steel Market Report 2005, Prepared by the Indian Stainless Steel Development Association. See paragraph 4.1.2 below for specific projects.



Source: ISSDA Market Report 2005

In contrast, stainless steel production in South Africa has experienced a decline in growth. In 2005, production declined sharply, almost to 2001 levels, reaching only 440 000 tonnes. In comparison, production in India increased to 1.7 million tonnes.

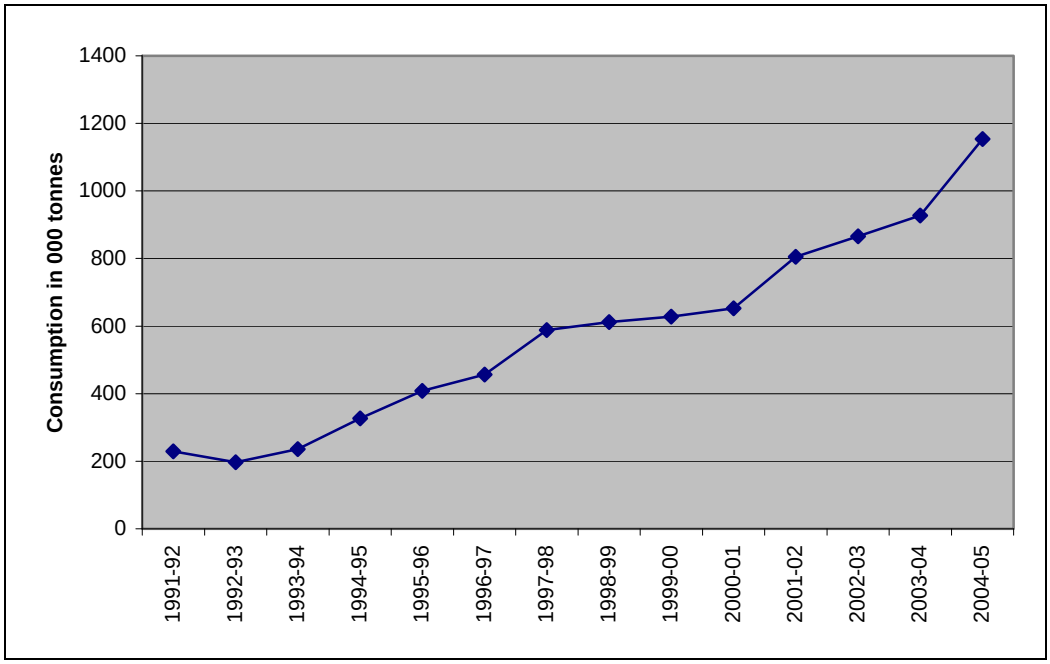
3.3 Consumption patterns

3.3.1 Present consumption patterns

Stainless steel consumption in India has increased significantly over the last 14 years at an annual compound growth rate of between 11.5% to 12%. Consumption of stainless steel in 2004-2005 amounted to approximately 1.153 million tonnes. Apparent consumption of stainless steel in South Africa amounted to 149 298 tonnes in 2005, with 54 684 tonnes destined for the export market, according to statistics from South African Stainless Steel Development Association (SASSDA). As can be seen from the graphs below, India consumers a greater amount of stainless steel than South Africa. Consumption of stainless steel has increased due to increased infrastructure development in the country, but also because stainless steel houseware products (200 series) in India are more popular and cheaper that stainless steel products in South Africa. South Africa, on the other hand, has experienced a slight decline in apparent consumption in recent years.

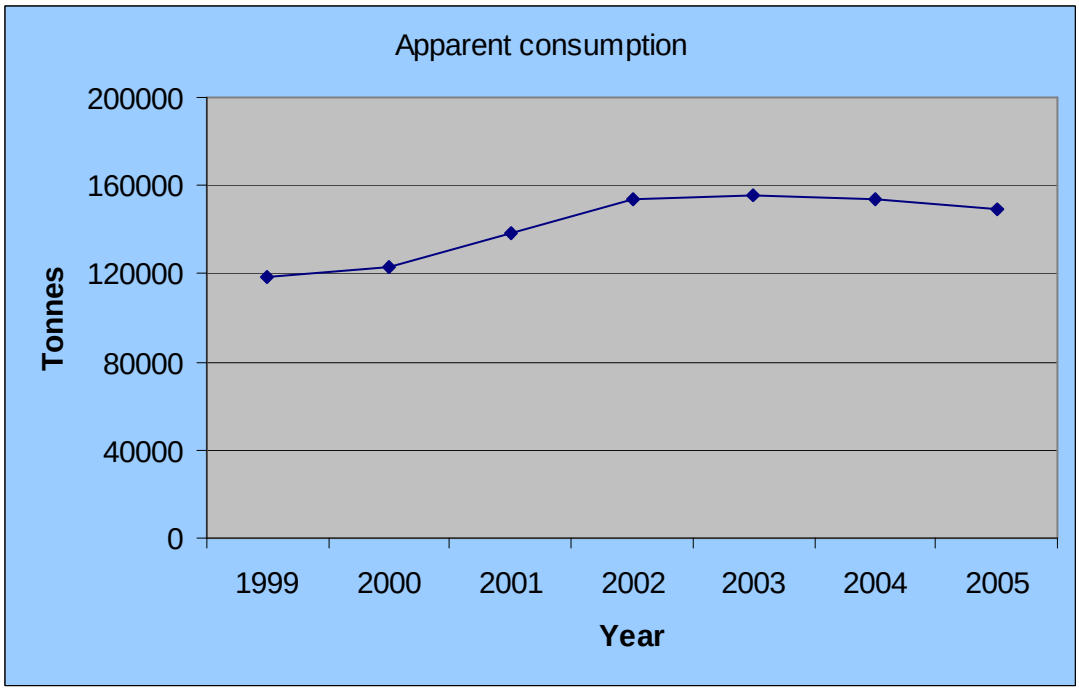
The graph below provides an indication of stainless steel consumption statistics in India for the last 14 years:

Fig 3.2 Past Consumption of Stainless Steel – India



Source: ISSDA Market Report 2005

The graph below indicates the trend of consumption in South Africa, compared to India (above). As can be seen, South Africa's consumption is on a slight decline, whilst India's consumption of stainless steel has been constantly increasing:



Flat products currently make up the majority of stainless steel consumed in India, with a market share of 86%, whilst the long products account for the balance. The Cr-Mn series of stainless steel is the grade that is most in demand, commanding a 72.4% share of the market. Cr-Mn with a nickel content of between 0.5 and 1% is used primarily in the utensils market, while Cr-Mn with a nickel content of 1 to 4% is used in metal products and in the construction industry. Austenitic grades like 304 and 316 are used mainly in the industrial sector, whilst the automotive sector makes use of mainly ferritic grades.
The table below indicates consumption according to the different grades in India's stainless steel sector:

Table 3.1 Share of SS Consumptions by forms by grades (in %) – 2004-05

Form/Grade	< 0.15 % Ni	1-4% Ni	304	316	400	Others
HRC/P	0.0	9.9	13.7	7.5	3.1	14.2
CRC	0.0	58.7	43.5	18.5	23.1	26.4
Patta	100	0.0	0.0	0.0	0.0	0.0
Wire Tubes	0.0	13	7.3	0.0	13.4	14.7
Wire Rods	0.0	0.0	14.5	37.2	27.8	0.0
Bright Bars	0.0	6.3	6.4	7.3	13.7	10.4
Bars	0.0	11.8	10.5	14.9	18.6	21.2
Seamless Tubes	0.0	0.0	3.4	14.0	0.0	11.4
Misc	0.0	0.3	0.6	0.6	0.3	1.7
	100	**100**	**100**	**100**	**100**	**100**

Source: Primary Survey conducted by ISSDA, 2005

Major Grades of Stainless Steel[2]

304: A type of austenitic stainless steel (chromium-nickel), accounting for over half of world production of stainless steel. This grade withstands ordinary corrosion in

[2] Description of major grades of stainless steel adapted from ISSDA Stainless Steel Market Survey 2005

architecture, provides durability in the food technology sector and resists most chemicals.

316: Austenitic stainless steel (chromium-nickel), which contains 2-3% molybdenum (304 has no molybdenum). The inclusion of this element gives the 316 grade a greater resistance to different forms of deterioration.

409: Ferritic stainless steel (chromium stainless) that is suitable for high temperatures. It has the lowest chromium content and is therefore less expensive than other grades.

410: This is a martensitic stainless steel (plain chromium, but extremely strong) that is a low cost option for non-severe corrosive applications.

430: This ferritic grade (chromium) is the most widely used grade in decorative applications, offering good corrosion resistance.

Cr-Mn / 200: This austenitic stainless steel is Cr-Mn alloy (1-4%) developed to conserve nickel with manganese at a ration of 2% manganese for 1% of nickel. It does not have the durability of the 300 series and its corrosion resistant properties and high temperature threshold is far lower. Applications are generally confined to consumer durables and decorative applications.

Different forms of stainless steel[3]

Stainless steel is found in several different forms, including plate, sheet, strip, foil, bar, wire, pipes and tubes etc.

Sheets: This is a flat-rolled product in coils or cut lengths that are 610mm wide and less than 4.76mm thick. It is produced in nearly all types except the free machining and certain martensitic grades.

[3] Description of different forms of stainless steel adapted from ISSDA Stainless Steel Market Survey 2005

Strip: This is a flat-rolled product, available in coils or cut lengths, less than 610mm wide and 0.13 to 4.76 mm thick. Cold rolled stainless steel strips are manufactured from hot rolled, annealed and pickled strip by rolling between polished rolls.

Plate: This is a flat-rolled or forged product more than 250mm in width and at least 4.76mm in thickness. Exception to this are the highly alloyed ferritic grades, as well as some of the martensitic and free machining grades. Plates are produced by hot rolling from slabs that have been directly cast or rolled from ingots.

Foil: This is a flat rolled product, in coil form, that is up to 0.13mm thick and less than 610mm wide. It is produced from most of the 200 and 300 grades.

Bar: Bars are produced in straight lengths and are either hot or cold rolled.

Wire rods: These are produced through the hot-rolling of billets and are processed in to bolts, screws and wires.

3.3.2 Sectors consuming stainless steel

Currently, the largest consumer of stainless steel in the country is the metals sector, for the production of utensils, which accounts for 70.5% of total consumption. The majority of utensil products are manufactured in the informal sector, which consists of more than 6000 production units across the country.

India currently holds 10% share in the global market for kitchenware. The global kitchenware market is currently dominated by China, but India has experienced an increase in market share, rising from 5% in 2001-2002 to the 2005 figure of 10%. According to estimates by ISSDA, India would like to capture 25% market share by 2015.Consumption in this sector is estimated at approx. 874 000 tonnes and is forecast to grow to 2186 000 tonnes by 2015-2016. Approx. 40% of the kitchenware sector is export based and exports of kitchenware products have been growing at a rate approx. 25% over the last four years.

The utensils sector is a traditional sector making use of stainless steel, but recently, new stainless steel consumers have emerged. The ABC sectors i.e. architecture, building and construction sectors are emerging as significant end users of stainless steel in India, as economic and infrastructure development in the country is on the increase. Stainless steel is now being used in the transportation sector also, with a significant portion of Delhi new railway system consisting of stainless steel. Lastly, consumption in the automotive sector is also on the increase, though it has not yet reached significant levels.

The diagram below represents the percentage consumption of stainless steel of each sector for 2004-2005:

Table 3.2 Consumption Segments (2004 – 2005)

Segment	**000' tonne**
Process Industry	111
Engineering	53
Electro mechanical / Electronics	17.5
Construction	28
Transport	24
Metal Products(utensils)	874
Others	45
Total	**1152.5**

Source: All India Stainless Steel Industries Association

3.3.3 Future consumption patterns

It is projected that the consumption of stainless steel in India will increase drastically in the medium to long term. Per capita consumption of stainless steel in India is currently only 1.06 kg compared to 10-15 kg in developed countries. India is also currently undergoing significant economic reform and infrastructure development and it is forecast that the usage of stainless steel will be integral to this. The demand for stainless steel in India is expected to increase at a rate of 12.4% over the next ten years. Current

consumption of stainless steel is 1.153 million tonnes and this is expected to increase to approximately 2 million tonnes by 2010 and approximately 4 million tonnes by 2016. [4]

The tables below provide an indication of the projected consumption of stainless steel, by end use sectors and by product over the next ten years:

Table 3.3 Future Domestic Consumption Pattern of SS by End Use Sectors

Sector	In 000' tonne			In %		
	2004-05	2010-11	2015-16	2004-05	2010-11	2015-16
Process Industry	111	250	479	9.3	10.8	11.7
Engineering	53	125	251	4.6	5.4	6.2
Electro mechanical/Electronics	18	57	115	1.5	2.5	2.8
Construction	28	209	500	2.4	9.1	12.3
Transport	24	104	250	2.1	4.5	6.1
Metal products	874	1433	2186	75.8	62.0	53.5
Others	46	132	302	4.0	5.7	7.4
Total	**1154**	**2311**	**4084**	**100**	**100**	**100**

Source: ISSDA Market Report 2005

Table 3.4 Projected Consumption by products forms (2015-16) India in 000 tonne

Product forms	Growth %	2005-06	2009-10	2015-16
HRP	14.7%	47.4	84.6	189.5
HRC/CRC	19.5%	185.6	394	1023
UG Flats	7.5%	830	1108	1710

[4] Interview with Mr Ramesh Gopal, Executive Director, Indian Stainless Steel Development Association, New Delhi, 6th February 2006

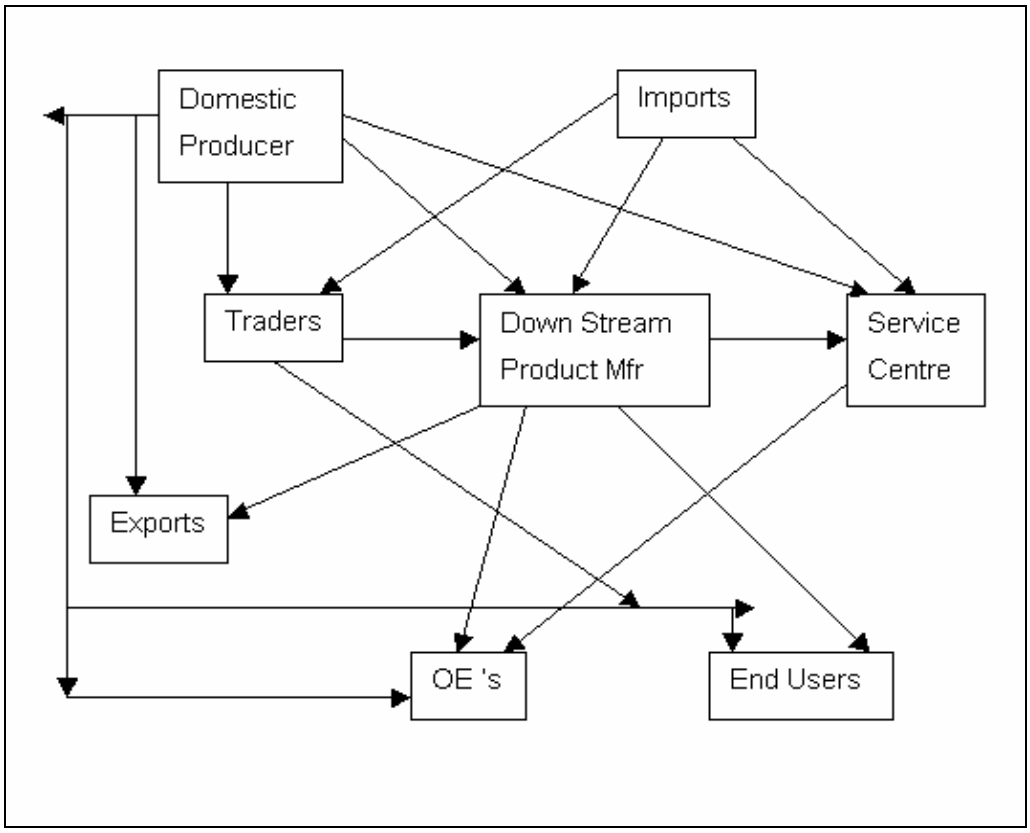
W. Tubes	20%	42	95	253
Bars	16.7%	57.7	113.6	270
BB	20%	37.4	89	225
W. Rods	18%	72.5	145	343
Seamless Tubes	14.5%	15.2	26.6	60
Misc.	15.4%	2.3	4.2	9.6
Total	**12.2%**	**1290**	**2059**	**4083**

Source: ISSDA Market Report 2005

3.4 Distribution

Approximately fifty percent of stainless steel products such as coils, sheets, bars etc are marketed through traders, whilst the balance is marketed directly by the manufacturers of the products. Downstream products like pipes, fasteners and wires are also marketed in the same fashion. Large end users tend to purchase directly from the manufacturers, whilst small and medium enterprises procure through the traders of stainless steel. The figure below depicts the distribution channels in India:

Fig 3.3 Distribution Channels – India



As can be observed, the distribution channels are fragmented and the products do not travel in a seamless manner before reaching the end user. This is due to the fact there are large product ranges, often small requirements, large distances between the producer and end user and that there are several different players involved, which results in a complicated distribution network.

4 FEATURES OF INDUSTRIES

4.1 Production

Stainless steel production in India began in earnest in the sixties – prior to that, stainless steel was imported into the country from Japan, Europe etc. Salem Steel Plant began the first stainless steel production, followed thereafter by Jindal Steel. The eighties and early nineties saw the formation of several other mid-size stainless steel producers, as well as hundreds of small scale producers.

4.1.1 Number of producers

Stainless steel producers in India are divided into two categories according to the technology that they make use of. The first category is made up of primary units that consist of melting and refining facilities, while the second category consists of units with only melting facilities. All major manufacturers of stainless steel belong to the first category as refining (through the usage of AOD/VOD converters) is necessary for products of a good quality.

Currently, there are nineteen large producers of stainless steel in India with EAF/IF melting and AOD/VOD facilities, which account for approximately 84% of the stainless steel production in the country. These primary manufacturers include Jindal Stainless Ltd, Shah Alloys Ltd, Mukund Ltd, Panchmahal, Viraj Alloys, FACOR, Ambica Steel etc. Whilst Salem Steel is a major roller of stainless steel slabs, the company does not have melting facilities. [5]

The remaining 16% is made up by approximately 22 small scale induction furnace units (in the formal sector) who produce only utensil grade sheets. The majority of these companies are located in Delhi, Ahmedabad and Sonepat. The furnace capacity of these units usually vary from 1 – 2 tonnes, whilst average per unit production is between 6000 – 12 000 tonnes per annum. These units are designed to manufacture only 200 series or Cr-Mn (Ni <1%) grade, in the form of pencil ingots, which are then rolled into flat bars. [6]

In addition to these producers, there are over 10 000 medium and small scale processors of stainless steel in India[7], most of whom work almost on an informal basis. As a result, it is extremely difficult to ascertain the exact number of stainless steel producers in the country.

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[5] Indian Stainless Steel Market Report 2005, Prepared by the Indian Stainless Steel Development Association

[6] Ibid

[7] Information adapted from a speech entitled *"Indian Stainless Steel Market: Evolution & Prospects"*, by Mrinmoy Roy, Executive Director, Salem Steel Plant, at the 8th World Stainless Steel Conference in New Delhi, 7th November 2005

4.1.2 Capacity

The current manufacturing capacity of Indian manufacturers stands at 1.4 million tonnes.[8] Most of the larger stainless steel manufacturers in the country are currently planning expansions of their current capacity in order to meet future projected demand. It is estimated that approx. 1.35 million tonnes (1.1 million tonnes for flat products and 0.25 million tonnes for long products) of capacity is to be added over the short to medium term. Several manufacturers have already implemented expansion plans in order to increase their current capacity:

- Jindal has invested in a Greenfield plant in Orissa that will have a capacity of 0.8 million tonnes per annum
- Jindal is also increasing the capacity of its Hissar plant from 0.55 to 0.7 million tonnes, bringing the new capacity to 0.15 million tonnes per annum
- ASP is expanding its plant at Durgapur that will then have a new capacity of 0.15 million tonnes per annum
- Viraj Alloys is increasing capacity from 0.1 million tonnes to 0.25 million tonnes, bringing the new capacity level to 0.15 million tonnes per annum
- Panchmahal is implementing plans to increase its capacity to 0.1 million tonnes per annum.

The above is by no means a comprehensive list of all the capacity expansion plans that are being discussed in India. According to Mr Rajiv Rajvanshi from Jindal Stainless, most of the larger manufacturers, including Jindal are exploring capacity expansion plans and that the current capacity of the industry is set to increase. [9]

[8] Interview with Mr Raju Tolani, Director, Arcelor Stainless India Pvt Ltd, Mumbai, 31st January 2006

[9] Interview with Mr Rajiv Rajvanshi, Senior Executive Officer, Jindal Stainless, New Delhi, 6th February 2006

4.2 Types of Products

Most of the producers of stainless steel in India manufacture either flat or long products. Larger companies like Jindal and Salem Steel focus on flat products, whilst other companies like Mukund, Panchmahal, Isibars, FACOR, Viraj Alloys, Sunflag, SKM and Chandan Steel are primarily into long products, though many of them also have downstream processing facilities such as wire drawing, bright bar manufacturing, forging etc. The various products being manufactured include:

- **Hot Rolled Coils/Plates**: The three main manufacturers of hot rolled coils are Jindal, Shah Alloys and Salem Steel Pant. The plates that are manufactured range in thickness from 5mm to 40mm and the coils that are manufactured range in thickness from 3mm to 6mm, with widths up to 1800mm. The total capacity is estimated at approx. 0.7 million tonnes per annum.

- **Cold rolled coils**: Jindal and Salem Steel are the two main processors of CR coils, with other re-rollers including Hissar Metals, Quality Foils, Real Strips, KPT, Sahu Refrigeration Swastik, Bhiwadi Rollwell, Bhandari Foils and Shah Alloys, which is currently setting up a plant. Current production is approx. 1, 74,000 tonnes, whilst the capacity for production is estimated at 0.25 million tonnes. The coils that are manufactured differ in thickness, ranging from .05mm to 4mm for CR coils and 0.05 to 0.5mm for precision strips and foils.

- **Utensil Grade flat bars**: The current flat bar production in the country is approx. 0.87 million tonnes, with the major manufacturers being Jindal and Shah Alloys. In addition, there are several small capacity IF producers also manufacturing flat bars.

- **Wire rods and bars**

The table below provides an indication of the total current production of stainless steel milled products:

Table 4.1 Current Production of SS Mill Products (2004-2005)

S. No	Product form	Production in 000’

		tonne
Flat Products		
1	HRC	194
2	HRP	115
3	CRC	174
4	UG Sheets	872
5	Miscellaneous	2
Total flats		**1357**
Long products		
1	Wire Rods	197
2	Bars and Rounds	109
3	Billets	45
Total Longs		**351**
Grand total		**1708**

Source: Primary Survey

Milled products are then processed into downstream products, which include utensil grade sheets for utensils manufacture, welded and seamless pipes, bright bars, wires, fasteners and forgings.

- Utensil grade sheets – the flat bars manufactured by primary producers are cold rolled (by stainless steel re-rollers) into utensil grade sheets (referred to as Patta) and this is used primarily for utensils applications. According to estimates, there are approx. 410 stainless steel re-rollers in India in the following locations: Delhi, Ahmedabad, Jagadhari and Bhiwadi. All production of patta is in Cr-Mn grade stainless steel with a nickel content of less than 1% (usually 0.5% nickel content). It is estimated that patta production in India will increase from 1821 000 tonnes in 2005 to 2618 000 tonnes in 2010.

The table below provides an estimation of patta production in India:

Table 4.2: Production of Utensil Grade Sheets / Patta (2004-2005)

Location	**Number of re-rolling mills**	**Production of patta (million tonnes per**

		annum)
Delhi	200	0.3
Jodhpur	100	0.24
Ahmedabad	60	0.2
Jagadhari and Bhiwadi	50	0.13
Total	**410**	**0.87**

- Welded pipes: It is estimated that there are approx. 32 manufacturers of welded pipes in the country. Total production of these units in 2005 amounted to approx. 32, 000 tonnes. Major manufacturers include Quality Pipes, Apex Tube, Ratnamani, Parkash Steelage, Doshi Tubes, Rajendra Mechanical. These products are used mainly in the process industries, general engineering, automobiles, architectural products and furniture.

- Drawn wires: There are approx. 12 wire drawing units in India, including Panchmahal, Isibars, Nevetia Steel, Rajratna, Triveni Shinton, Venus, Macro bars, Drowmet, Garg, Bansal wires, KEI and Bhansali. Total production in 2004-2005 amounted to 58, 000 tonnes, of which 20% is Cr-Mn series, 50% in 300 series and the remainder 30% in 400 series.

- Bright bars: Major players include Isibars, Facor, Chandan, Shah Alloys, Viraj Alloys, Venus, Macrobar, Ratnesh, Aditya, Nevetia and annual production in 2004-2005 totalled 85, 000 tonnes.

- Forging units: Production in 2005 stood at 28, 000 tonnes, with major players including Isibars, Facor, Vipras and Ambica. Apart from these larger players, there are many smaller manufacturing units in the country. Stainless steel forgings are generally produced for export purposes.

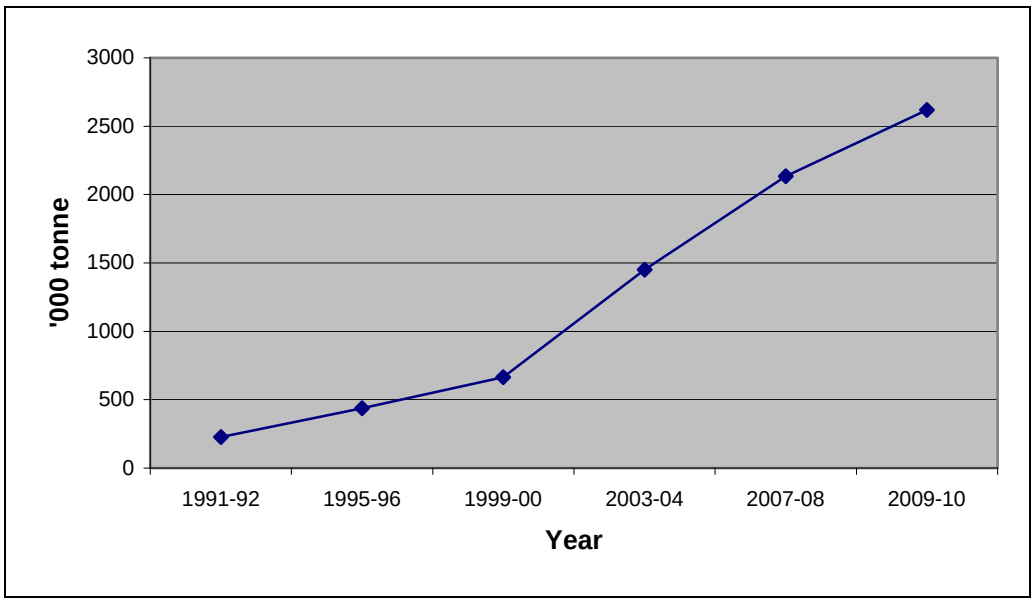
- Fasteners: Production of fasteners was estimated at 10, 000 tonnes in 2004-2005. The two major manufacturers are Kundan Fasteners and Agarwal Fasteners. However, it should be noted that are approx. 75 additional players operating on a small scale in fastener production.

- Seamless pipes and tubes: Current production of hot seamless tubes is 6,130 tonnes per annum, produced mainly by Sandvik Asia and NFC Hyderabad. Cold seamless pipe manufacturers include Ratnamani, Suraj Stainless, Heavy Metals, Parkash Steelage, Rajendra Mechanical etc and production was approx. 13, 800 tonnes in 2004-2005.

4.3 Performance (expansion/decline) and Outlook

The Indian stainless steel industry has achieved remarkable growth in the last fifteen years. Growing from a low base in the early nineties, with production at a mere 228 000 the industry has expanded at a rate of 16%, with production in 2004-2005 amounting to 1.7 million tonnes, at a value of approx. US$ 2.2 billion. This growth coincides with the economic reform process instituted in the nineties, followed by the opening of the Indian economy and the subsequent growth that followed. According to a forecast by ISSDA, the stainless steel sector will continue its upward growth to reach a production figure of 2618 million tonnes by 2010. The graph below plots the growth of the stainless steel industry over the last years and also depicts the future projected growth of the sector:

Fig 4.1 Indian Stainless Steel production – The past, the present and the future

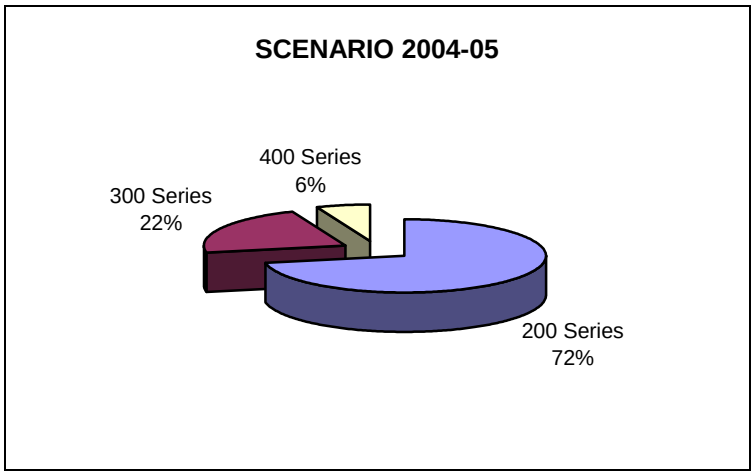


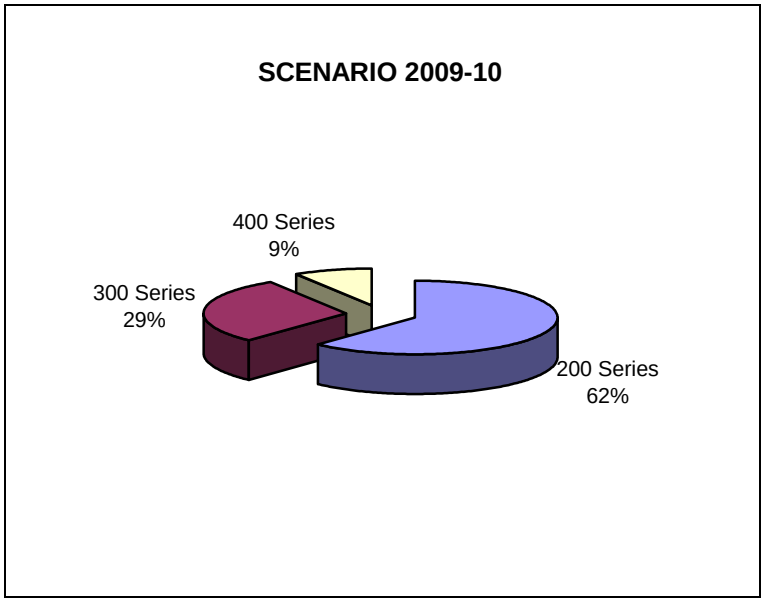
Source: *"Indian Stainless Steel Market: Evolution & Prospects"*, by Mrinmoy Roy, Executive Director, Salem Steel Plant, at the 8th World Stainless Steel Conference in New Delhi, 7th November 2005

Domestic demand previously focused primarily on the utensils or homeware sector, which in the early nineties constituted almost 90% of consumption. Currently, the utensils sector has a 72% market share, but this is expected to decrease as consumption in other sectors, such as construction, transportation etc increases.

India has also focused primarily on the Cr-Mn or 200 series grade of stainless steel, as it allowed Indian manufacturers to remain competitive at a time when the global stainless markets was dictated by the high price of nickel. The Cr-Mn series has a very low nickel content and is regarded as of lesser quality that the 300 and 400 series, but since India catered primarily to a large domestic market, the product remained popular. During the course of interviews with relevant industry players in India, many indicated that whilst the 200 series remains popular, there is also a demand for the 300 series and to a lesser extent, of the 400 series, in certain value added industries where the focus on quality and durability is more important. The graphs below provide an indication of the current market share by grade of stainless steel and the projected market share scenario in 2010:

Fig 4.2 The Indian Scenario: How the scene is expected to transform





Source: *"Indian Stainless Steel Market: Evolution & Prospects"*, by Mrinmoy Roy, Executive Director, Salem Steel Plant, at the 8th World Stainless Steel Conference in New Delhi, 7th November 2005

4.4 Employment

According to industry experts who were interviewed, labour (semi-skilled and unskilled) is plentiful in India, particularly in the rural areas, where most manufacturers have their plants. Skilled labour is at a premium, due to India's high economic growth and the influx of foreign companies into the country. However, it was also indicated that Indians are quick and eager learners and most foreign investors did not experience problems in transferring skills to their local employees. Labour in India is regarded as inexpensive with unskilled and semi-skilled workers earning between US$ 100 and US$ 120 per month. It was indicated[10] that salary trends differed significantly in India, differing from company to company as well as differing from city to rural area and from state to state. As a result, it is difficult to determine a norm for salaries in India. [11]

Productivity in India is regarded as being quite high, though according to Mr Rajvanshi of Jindal Stainless, the Chinese workers are far more productive that the Indian workers. [12]

During interviews conducted, it was indicated that it is difficult to quantify the labour component in the stainless steel industry, as much of the labour occurs in the informal sector. A portion of production, particularly that of Cr-Mn grade, also takes place within the informal sector. Such production and employment statistics are not formally reported and this makes it difficult for the government and regulatory bodies to track. Wages paid in the informal sector are also far less than that of the formal sector and differs from place to place. i.e an informal worker in Mumbai would receive more money than an informal worker in Jharkhand province, but still less that that of a worker formally employed within the stainless steel sector.

4.5 Production costs & cost of capital

[10] Interview with Mr Rajiv Rajvanshi, Senior Executive Officer, Jindal Stainless, New Delhi, 6th February 2006

[11] Interview with Mr Rajiv Rajvanshi, Senior Executive Officer, Jindal Stainless, New Delhi, 6th February 2006

[12] Interview with Mr Rajiv Rajvanshi, Senior Executive Officer, Jindal Stainless, New Delhi, 6th February 2006

Input costs are currently the most significant factor with regards to stainless steel manufacturing in India, as they have an impact on the final price of the product. The production cost of stainless steel has been on the increase due to dramatically rising input costs. Product prices have increased by 43% from Rs.13, 500 per tonne in 2002 to Rs. 20,000 per tonne in 2004.

Whilst India has rich raw material deposits such as iron ore, ferrous ores, manganese ore, chromate ore and aluminium, other items such as iron pellets, nickel etc have to be imported. The most significant input cost is that of nickel. For some years, the global nickel market has been extremely volatile and nickel prices have been subject to extreme fluctuation.

In 2004, the import of nickel was subject to customs duty of 10%. Currently the import duty on nickel stands at 5.5%. [13] This cut in import duty was as a direct result of lobbying by the stainless steel industry in order for them to remain cost competitive. As part of the export incentive scheme of the government, the import duty that is paid by the manufacturers for raw material imports is refunded back to them if the products are to be placed on the export market.[14] Whilst this measure can be interpreted as allowing Indian industry to remain competitive, Indian manufacturers and other industry players that were interviewed do not see this as a subsidy, but rather as a measure to offset certain costs such as electricity and freight, which according to them, is extremely high in India, as opposed to other countries.

The cost of capital in India for the steel sector is currently 10 – 12%. As far as could be determined, capital costs are not subsidised by the Indian government.

As part of the Government's Small Scale Industries (SSI) Development Programme, credit flow to the SSI sector has been streamlined. The credit policy is as follows:

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[13] Interview with Mr Dilip Chandan, Director, Chandan Steel, Mumbai, 1st February 2006

[14] Interview with Dr A.S Firoz, Chief Economist, Economic Research Unit, Ministry of Steel, Government of India, New Delhi, 8th February 2006

a) Priority sector lending programmes of the banks: 40% of net bank credit is earmarked for lending to SSI industries in priority sectors (including stainless steel)

Establishment of Apex Refinancing Agency: The Small Industries Development Bank of India was established in 1990 and serves to assist the SSI sector through refinancing, bills rediscounting, short term loans and credit lines.

4.6 Pricing and logistics

4.6.1 Pricing

A general trend indicates that prices have increased over the years, but according to industry experts, it remains difficult to predict pricing patterns due to the unpredictability of the prices of input materials, like nickel, molybdenum and ferro alloys. India imports most of the input materials, particularly nickel, which means that higher grade products, like the 300 series, are price dependent on the international market conditions for nickel at that time. As the Cr-Mn or 200 series uses a very low content of nickel, prices are less exposed to fluctuations. According to the All India Stainless Steel Industries Association, the following prices applied as at 10th January 2006.[15]

FLATS Rs/kg	Nickel % content
41.50	0.7%
39.50	0.6%
36.50	0.3%

The following prices were supplied by the All India Stainless Steel Industries Association:

Low nickel stainless steel coil rates (4% Nickel) - Rs 122 to Rs 124 per kg
Kitchenware and Tableware sheets (Low Nickel) - Rs 87 to Rs 100/ per kg
Kitchenware and Tableware sheets (4% Nickel) - Rs 122 to Rs 150/ per kg

[15] Interview with Dr K.D Chinivala, President, All India Stainless Steel Industries Association, Mumbai, 2nd February 2006

Kitchenware and Tableware sheets (produced by Salem) - Rs 240 to Rs 260 per kg

* Note: All the above rates are on FOR basis at the factory gate. Excise and VAT as applicable according to their place of manufacture.

4.6.2 Logistics

Due to the poor, underdeveloped infrastructure in India, logistics proves to be a problem for manufacturers. For manufacturers that are located in the interior of the country, logistics is a problem, due to the poor condition of roads, as well as high fuel costs which affect costing structures. In addition, most trucks can only transport up to 9 tonnes at a time, which means that the transportation process is often long, arduous and riddled with delays.

Manufacturers also face delays at ports due to lengthy customs procedures and due to the inefficiency that exists at ports. According to Mr Rajesh Agarwal of Stemcor,[16] due to limited capacity, ports are often congested and there are often extensive delays. As a result of this demand, freight is also very expensive. [17]

Due to inefficiency in logistics, some of the larger manufacturing plants have shifted their operations or have established plants in areas that are closer to the ports. Mr Rajvanshi of Jindal Stainless indicated that Jindal is setting up a plant in Orissa, where it will have easier and quicker access to a port that is not as busy and congested as in Mumbai and the other main centres. Mr Rajvanshi also indicated that reliability of power supply was a problem and that many of the more prominent manufacturers set up their own power stations at their plants in order to ensure power supply. [18]

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[16] Stemcor is a London based international trading company, involved primarily in the distribution of steel and raw materials

[17] Interview with Mr Rajesh Agarwal, General Manager, Stemcor India Private Limited, Mumbai, 3rd February 2006

[18] Interview with Mr Rajiv Rajvanshi, Senior Executive Officer, Jindal Stainless, New Delhi, 6th February 2006

4.7 Presence of multi-nationals

According to Mr Ramesh Gopal of ISSDA, India has not yet experienced a proliferation of investors in the stainless steel sector. [19] Companies that have currently invested in the Indian market include:

- Swiss company Franke has set up a factory in Aurangabad that is involved in the manufacturing of stainless steel sinks.
- IUP Jindal Metals & Alloys Ltd is a joint venture between Jindal Saw and IUP Arcelor and is involved in the production of stainless steel strips and soft magnetic nickel alloys.

Several trading companies that are involved in the trading of stainless steel are also present in the Indian market. Amongst the larges are Glencore, Stemcor and Mitusi of Japan.

4.8 Import and export structure (product groups)

Exports of stainless steel is currently estimated at 0.64 million tonnes, while imports are approx. 0.11 million tonnes. Over the last 14 years, imports have remained more or less constant, whilst exports experienced slight increases until 1999, when it expanded rapidly. Exports recorded immense growth of 55% per annum from 1999 until 2004, at which time there was a slight decline. The reason for the take off in Indian exports was due to the huge demand from China. Hot rolled coils and plates > 600 mm width and long products form the bulk of Indian exports, with almost 75% of the coils (Cr-Mn grade) being exported to China. Flat products account for 50% of total exports, long products for 30% and kitchenware is approximately. 13%.

The table below provides an indication of Indian exports of stainless steel by type of product for the years 1999 and 2003:

[19] Interview with Mr Ramesh Gopal, Executive Director, Indian Stainless Steel Development Association, New Delhi, 6th February 2006

Table 4.2 Exports of SS products for India (tonne)

Product Form	1999	2003
SS in Primary form	5595	56084
SS Rolled > 600 mm	9047	313574
SS Rolled < 600 mm	1963	27554
SS Bar / Rod Hot Rolled; SS Angles/Shapes	35674	133941
SS Wires	16509	38970
SS Pipes/tubes	872	4048
SS Welded Pipes/tubes	187	913
SS Flanges/others	6359	15406
SS Kitchen articles	39333	95541
Sinks	298	1682
Total	**117836**	**689716**

Source: United Nation Statistics & Indian Ministry of Commerce

Imports into India have grown at 8% per annum over the last 14 years and have accounted for approximately 12-15% of consumption in the country. India primarily imports special grades, forms and finishes of stainless steel that is aimed specifically for industrial requirements (use in automotive industry, surgical needles, engineering industry). Major imports include CR coils > 600 mm (approx. 65% of total imports) and seamless pipes and tubes.

Table 4.3 Indian Imports of SS Products by forms (tonne)

Product Form	1999	2003
SS in Primary form	11617	11350
SS Rolled > 600 mm	51657	85291
SS Rolled < 600 mm	2581	7324
SS Bar / Rod Hot Rolled	2397	2889
SS Angles/shapes	3833	5324
SS Wires	2793	1908
SS Pipes/tubes	3152	6847
SS Welded Pipes/tubes	1790	2609

SS Flanges/others	1047	1859
SS Kitchen articles	29	111
Sinks	25	30
Total	**82902**	**127545**

Source: United Nations Statistics Division

ISSDA predicts that exports will grow between 9 – 16% per annum over the next ten years, driven mainly by long products and by kitchenware.

4.9 Importance to the economy

In recent years, India has achieved high GDP growth and has attracted significant levels of foreign direct investment. After China, India has now become the second most attractive FDI destination worldwide. However, infrastructural inefficiencies in India are an obstacle to growth and FDI and as a result, the government has implemented massive infrastructure improvement and development plans.

Stainless steel plays an important role in these plans, as the main global demand driver of stainless steel is the architectural, building & construction segment (ABC segment) and automotive, railways and transport segment (ART segment). Globally around 20-25% of the stainless steel consumption goes towards the ABC segment, whilst in India it is currently about 1-2%. The total consumption of stainless steel in India is around 1.153 million tonnes, which is expected to grow approximately by 12% annually in the coming years.

Considering the fact that India is yet to develop its basic infrastructure in terms of upgrading its railways, including the development of metro trains for all major metro cities, upgrading of the airports, shopping malls, multiplexes, residential and commercial complexes etc, the demand going forward for stainless steel is expected to be substantial. Stainless steel is expected to form an integral part of the infrastructure drive in India.

4.10 Considerations

1. The Indian stainless steel industry has grown at a rate of 16% over the last fifteen years and has averaged growth of 20% over the last four years. Production has increased from a low level in the early nineties to approximately. 1.7 million tonnes in 2004-2005, at a value of about US$ 2.2 billion.

2. Stainless steel consumption in India grew at 11.5% to 12% annually, amounting to approximately 1.153 million tonnes in 2004-2005. Flat products constitute the majority of products consumed at 86%, whilst the balance is made up by long products.

3. South Africa's consumption of stainless steel in 2005 was 149 298 tonnes (54 684 t exported after processing).

4. Between 1999 and 2004 exports expanded by 55% p.a. because of Chinese demand. It is predicted to grow by between 9 to 12 % p.a. over the next ten years.

5. Imports increased by 8% p.a. the past 14 years and amounts to about 12 to 15% of consumption.

6. Stainless steel producers in India are divided into two categories according to the technology that they make use of. The first category is made up of primary units that consist of melting and refining facilities, while the second category consists of units with only melting facilities. Milled products are then processed into downstream products, which include utensil grade sheets for utensils manufacture, welded and seamless pipes, bright bars, wires, fasteners and forgings.

7. Flat bars manufactured by primary producers are cold rolled (by stainless steel re-rollers) into utensil grade sheets (referred to as Patta) and this is used primarily for utensils applications. According to estimates, there are approx. 410 stainless steel re-rollers in India in the following locations: Delhi, Ahmedabad, Jagadhari and Bhiwadi. All production of patta is in Cr-Mn grade stainless steel

with a nickel content of less than 1% (usually 0.5% nickel content). It is estimated that patta production in India will increase from 1821 000 tonnes in 2005 to 2618 000 tonnes in 2010.

8 India currently holds 10% share in the global market for kitchenware. The global kitchenware market is currently dominated by China, but India has experienced an increase in market share, rising from 5% in 2001-2002 to the 2005 figure of 10%. According to estimates by ISSDA, India would like to capture 25% market share by 2015.Consumption in this sector is estimated at approx. 874 000 tonnes and is forecast to grow to 2186 000 tonnes by 2015-2016. Approx. 40% of the kitchenware sector is export based and exports of kitchenware products have been growing at a rate approx. 25% over the last four years.

7. Primary producers in India import selected raw materials, the most important of which is nickel. Import duties on nickel currently stand at 5.5%.

8. India maintains a competitive edge with regards to the Cr-Mn / 200 series grade, which has low nickel content and is significantly cheaper than products with high nickel content.

9. India has a large pool of low cost labour, with the capability to manufacture products of international standard.

10. The Indian stainless steel industry is geared toward product improvement, capacity building and global expansion.

5 PROTECTION AND ASSOCIATED ASPECTS

This section deals with tariffs, non-tariff barriers and associated aspects in the respective countries to enable policy makers/ trade negotiators to gauge the degree to which the markets in these countries are accessible.

5.1 Tariffs

The extent of tariff bindings, bound rates and applied or actual rates are analysed.

5.1.1 Bindings and bound rates

Bound rates are the maximum rates a country is allowed to apply under its WTO commitments. Countries generally increased the coverage of their tariff bindings substantially during the Uruguay Round. In the case of most developing countries there are substantial differences between bound and applied rates. This has the implication that countries are allowed to increase current rates of duty up to the level of bound rates without transgressing their WTO commitments. In the words of the WTO (Trade Policy Review of Brazil, 2004): "--the average bound rate considerably exceeds the average applied rate, thus imparting a degree of uncertainty to the tariff and providing scope for the authorities to raise applied MFN rates".

5.1.1.1 South Africa

All South African tariff lines are bound with the exception of Chapters 3 (fish), 27 (mineral oil and fuels) and 93 (arms and ammunition) and a few lines in chemicals. The binding coverage is 96.4%.

The average bound rate for industrial products is 16.6%. The highest bound rate is 30% with the exception of two product groups, namely clothing (45%) and motor vehicles (50%).

5.1.1.2 India

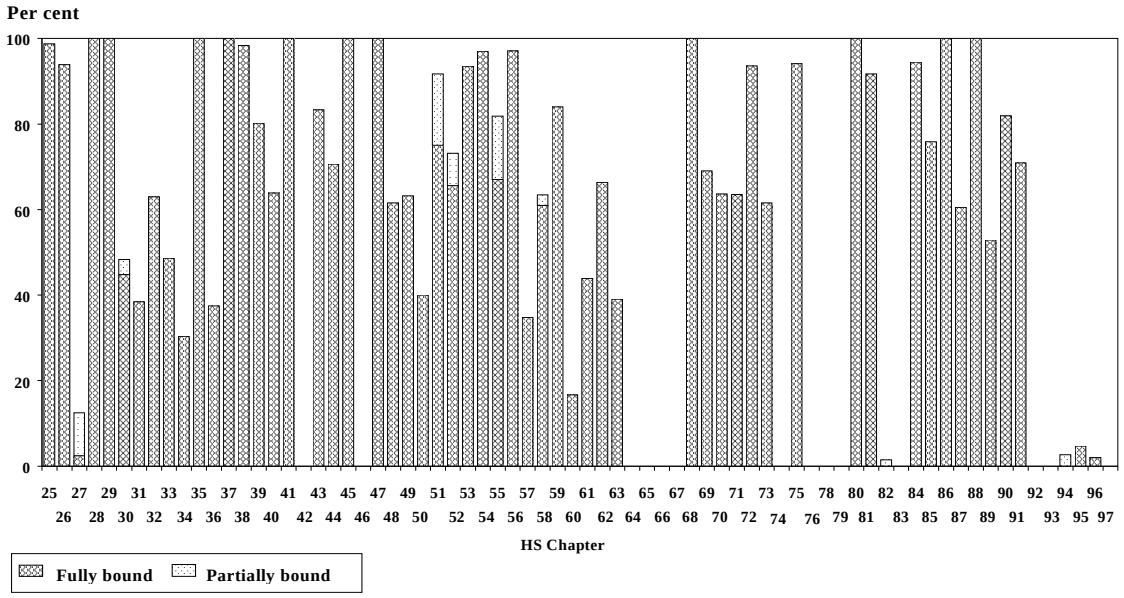
Only 68.2% of India's tariff lines for industrial products are bound. Bindings are at the 6-digit level, as India implemented an 8-digit tariff system only in 2003. The average bound rate for industrial (non-agricultural) products is 37.7%.

The following is a chart showing India's bound rates per chapter taken from the WTO Secretariat's Report for the Trade Policy Review of India in 2002 (WTO Report):

Fig 5.1 Share of bound tariff lines in manufactured products by HS chapter, 2001/02

Chart III.1

Share of bound tariff lines in manufactured products by HS chapter, 2001/02



HS Chapter	Description
25	Salt; sulphur; earths and stone, etc.
26	Ores, slag and ash
27	Mineral fuels, mineral oils, etc.
28	Inorganic chemicals; org. or inorg. compounds of precious metals, etc.
29	Organic chemicals
30	Pharmaceutical products
31	Fertilizers
32	Tanning or dyeing extracts etc.
33	Essential oils & resinoids; perfumery, cosmetic/toilet prep.
34	Soap, organic surface-active agents washing prep., etc.
35	Albuminoidal substances; modified starches; glues, etc.
36	Explosives; pyrotechnic products; matches, etc
37	Photographic or cinematographic goods
38	Miscellaneous chemical products
39	Plastics and articles thereof
40	Rubber and articles thereof
41	Raw hides and skins and leather
42	Articles of leather, etc.
43	Furskins and artificial fur; manufactures thereof
44	Wood and articles of wood, etc.
45	Cork and articles of cork
46	Manuf. of straw, of esparto, etc.
47	Pulp of wood or of other fibrous cellulosic material
48	Paper and paper board, etc.
49	Printed books, newspapers, etc.
50	Silk
51	Wool; fine/coarse animal hair, etc.
52	Cotton
53	Other vegetable textile fibres
54	Man-made filaments
55	Man-made staple fibres
56	Wadding, felt and non-wovens; special yarns; twine, cordage, etc.
57	Carpets; other textile floor coverings
58	Special woven fabrics; lace, etc.
59	Impregnated, coated, covered or laminated textile fabrics, etc.
60	Knitted or crocheted fabrics
61	Articles of apparel and clothing accessories, knitted or crocheted
62	Articles of apparel and clothing accessories, not knitted, etc.
63	Other made-up textile articles; sets, worn clothing, etc.
64	Footwear, gaiters, etc.
65	Headgear and parts thereof
66	Umbrellas, walking-sticks, etc.
67	Prepared feathers and down, etc.
68	Articles of stone, plaster, etc.
69	Ceramic products
70	Glass and glassware
71	Natural or cultured pearls, precious/ semi-prec. stones, prec. metals, etc.
72	Iron and steel
73	Articles of iron and steel
74	Copper and articles thereof
75	Nickel and articles thereof
76	Aluminium etc.
78	Lead and articles thereof
79	Zinc and articles thereof
80	Tin and articles thereof
81	Other base metals, etc.
82	Tools, implements, cutler spoons and forks, etc.
83	Misc. articles of base metals
84	Nuclear reactors, boilers, machinery, etc.
85	Electrical machinery and equipment, etc.
86	Railway or tramway locomotives, etc.
87	Vehicles other than railway or tramway rolling-stock; etc.
88	Aircraft, spacecraft, etc.
89	Ships, boats, etc.
90	Optical, photographic, etc. apparatus
91	Clocks and watches, etc.
92	Musical instruments, etc.
93	Arms and ammunition, etc.
94	Furniture, bedding, etc.
95	Toy, games, etc.
96	Miscellaneous manuf. articles
97	Works of art, antiques, etc.

***Source*: WTO Secretariat calculations, based on data provided by the Indian authorities.**

Table 5.1 shows the percentage of bound line for each of the chapters covered by this study (according to the WTO Report), the range of rates per chapter (according to

India's goods schedule under the Uruguay Round) and the comparative South African range of bound rates.

In the case of some chapters, the WTO report shows a certain percentage of lines as bound but India's schedules do not contain any lines of such chapters. This is confusing. An enquiry was sent to the WTO and details are awaited.

Table 5.1 India's % bindings and the bound tariff rates of India and South Africa

Chapter	India's % of bound lines (6-digit level)	India's bound rates: % (nb = not bound)	South Africa's most common rates: %
28	100	40	0/5/10
29	100	40 (few at 25%)	10/15
30	48	40 (few at 25%)	10/15/20
31	38	5	10
32	63	40 (few at 25%)	0/10/15
33	48	40	20
34	32	40	10/15/20
35	100	40	10/20
36	37	40	10/15
38	98	40	10/15
39	80	40	15/20/30
40	64	40	15/20/30
41	100	25	15
42	0	Nb	30
50	40	*	17.5/30
51	93, some partially	40 *	17.5/30
52	74, some partially	Yarn 25/40 *	17.5/30
53	95	Yarn 40 *	0/17.5
54	97	Yarn 40 *	17.5/30
55	82, some partially	Fibres/yarn 40 *	17.5/30
56	98	40 *	17.5/20
57	36	*	30
58	63	40 *	25
59	85	40*	25/30
60	17	*	25
61	44	*	45
62	67	*	45
63	40	*	30
64	0	Nb	20/30
72	94	40	5/10
73	61	40	15/30
74	0	40	5/15/20/30
75	95	40	5/15
76	0	Nb	5/15/30

* Bound later and/or binding rates reduced.

South Africa's bound rates show a distinct structure with an escalation from primary products to final products in most chapters.

India's binding schedule consists mostly of ceiling bindings with more than 90% of the lines bound at a rate of 40%.

5.1.2 Applied tariffs

5.1.2.1 South Africa

South Africa's tariffs are applied on the FOB value of imports.

The simple average tariff rate for industrial products is 11.4% according to the recent exercise of compiling the bound rates of the tariff lines as at 1 January 2005, and the applied rates, for the purpose of the Doha Round NAMA analysis.

A comparison of the South African and Indian applied rates in respect of the tariff lines under the chapters covered by this study follows in par 5.1.3.

5.1.2.2 India

India's customs duties are applied on a CIF basis. This means that the value for calculation of the basic duty is up to 20% higher than South Africa's FOB value basis. Furthermore, the assessable value is CIF + 1%. This has the following affect:

	Basic customs duty	**Effective customs duty**
South Africa	15%	15%
India	15%	18.15%

In addition to the basic duty, India applies additional duties. These are dealt with under non-tariff barriers The WTO Report shows an average MFN (most-favoured-nation) applied tariff rate of 31.1% for India in 2001/02.

Table 5.2 shows the average rates and range of rates per main category in 1997/98 and 2001/02. Over the period of three years there was only a slight reduction in the average

rates per category in most categories although this was more pronounced in textiles and clothing, footwear & leather and electrical machinery.

Table 5.2 Summary analysis of India's MFN tariff, 1997/98 and 2001/02

		MFN 1997/1998		MFN 2001/02	
	No. of lines	Average (%)	Range (%)	Average (%)	Range (%)
Non-agricultural products (excl. petroleum)	4,435	35.4	0-192	31.1	0-170
Mineral products, precious stones, etc.	335	37.5	0-45	30.6	0-55
Metals	588	32.5	10-45	32.0	5-35
Chemicals and photographic supplies	840	34.6	0-192	33.8	0-170
Leather, rubber, footwear, travel goods	146	39.8	0-45	32.1	0-35
Wood, pulp, paper and furniture	248	30.1	0-45	29.3	0-35
Textiles and clothing	830	43.7	25-55	31.3	15-35
Transport equipment	122	41.7	3-45	40.5	3-105
Non-electric machinery	525	27.1	10-45	25.9	0-35
Electric machinery	257	34.7	15-45	26.8	0-35

Source: WTO Secretariat Report for the TPR of India in 2002.

Since then, India has substantially reduced the basic duties. The most common rate in 2004/05 was 20%. Most of the basic duty rates were cut in the 2005/06 budget and the current rates on almost all of the products covered by this investigation are 15% as from 1 March 2005. The major exception is Chapter 72 where a rate of 20% is shown (although this is not the effective applicable rate see par 5.1.3).

On the surface, India's tariff structure, at least in respect of the basic duties, looks very simple and uniform. In some chapters the duty shown in Schedule 1 is 15% without any exceptions.

However, these rates may not be the actual rates as there are numerous 'notifications' or 'general exemptions' that exempt certain products from a duty or reduce the rate (sometimes for specified uses or subject to elaborate conditions). In fact, India's customs tariff system is extremely complex and lacks transparency. This is confirmed in the WTO (TPR) Report which states that "… the tariff remains complex and a number of exemptions applied to products, industries, and end-users add to its complexity and lack of transparency". Similar statements are made a number of times in the Report and in other study reports.

Many of the 'notifications' and 'exemptions', dating back to the nineties, although still applicable, are not incorporated in a single tariff book with its schedules as in the case of South Africa. It makes it difficult to establish what actual duties (and additional duties) are applicable on the importation of certain products. For example, the duty on passenger cars is shown as 100% - by far the highest of all duties – but General Exemption No. 107 which deals with 'Exemption and effective rates of basic and additional duty for specified goods of Chapters 1 to 98', exempts vehicles of 87.03 from so much of the duty in the First Schedule that exceeds:

- 15% 'if imported as completely knocked down (CKD) unit'
- 60% 'if imported in any other form'.

5.1.3 Comparison

This section attempts to show a summary comparison of the customs duties of India and South Africa, as in January 2006. The South African duties are at various rates and the comparison is confined to a summary of rates.

The sources of tariff information for India for the comparison that follows are the website of the Central Board of Excise and Customs[20], www.cbec.gov.in, and a regularly

[20] www.cbec.gov.in

updated publication by R.K.Jain, probably India's foremost customs and excise expert [21], under the title:

While the Central Board's databases for various duties, cesses, exemptions etc are separate, R. K. Jain's publication attempts to capture these in one publication (of 1 712 pages). Its Schedule 1 shows basic duties, additional duties, cesses and total duty D.ifferent It various parts also cover export policy with duty rates; additional duty (CVD); MRP based valuation for additional duty; educational cess; other cesses; special duties of customs; import tariff general exemptions; safeguard duties; anti-dumping duties; etc. The publication has extensive footnotes linking the rates to general exemptions and general notifications. However, it is still very difficult and sometimes not possible to ascertain the effective rates payable.

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Table 5.3 Metals: Summary Comparison Between SA and India (basic) Duty Rates Per Chapter: January 2006

Chapter	Brief description	India: %	RSA: %	Comments
72	Iron and steel	20	0/5	Primary and some intermediates – 0
73	Articles of iron & steel	15	0/5/10/15/20	Household articles at 20
74	Copper & articles	15	0/10/20	Household articles at 20
76	Aluminium & articles	15	0/5/10/20	Household articles at 20

[21] R.K. Jain's Foreign Trade Policy ITC (HS) Classifications of Export & Import Items with Customs Tariff Rates & Excemptions 2004-09 (Vol. 3) Oct. 2005 – 8th EditioCENTAX PUBLICATIONS PVT.LTD

Although the basic duty rate shown for Chapter 72 is 20%, domestic exporters report that the actual basic duty payable is only 5%. Every effort was made to establish the source for this, tracking the schedules, exemption notices and available notifications, but without success. The trail stopped at Exemption Notice 107 in terms of which imports under Chapter 72 are exempted from basic duties of more than 10%.

The India Ministry of Steel website contains a summary of applied tariffs since the 2005-06 Budget (March 2005). It shows that most steel products of Chapter 72 are in fact subject to duties of 5%. However, in respect of stainless steel, only Heading 72.19 is included in the list with an applied rate of 10%. It must be assumed that the other headings are subject to the rate of 20% shown in Schedule No 1.

The tariffs in respect of stainless steel headings in Chapter 72 and downstream metal products identified for coverage in the study are shown in Table 5.4:
It should be kept in mind that the applied rates of some product groups will be subject to reduction over a period of time in terms of NAMA (non-agricultural market access) if the Doha Round is successfully concluded. The implications cannot be evaluated before the NAMA modalities have been finalised. The agreed modalities will have different effects on the applied rates of the two countries depending on the current bound rates and the difference between the bound and applied rates.

Table 5.4 Comparison of India and SA Applied Tariffs on Stainless Steel and Certain Products as at January 2006

HS4	Description	India: % (Frequency)	RSA: % (Frequency)
7219	Flat-rolled products of stainless steel, of a width of 600 mm or more	20 (54)	5 (14)
7220	Flat-rolled products of stainless steel, of a width of less than 600 mm	20 (20)	5 (4)
7221	Bars and rods, hot-rolled, in irregularly wound coils, of stainless steel	20 (4)	0 (1)

7222	Other bars and rods of stainless steel; angles, shapes and sections of stainless steel	20 (26)	0 (5)
7223	Wire of stainless steel	20 (4)	0 (1)
7304	Tubes, pipes and hollow profiles, seamless, of iron (excluding cast iron) or steel	15 (29)	0 (5) 10 (3) 15 (5)
7304.10.20	*Line pipe of a kind used for oil or gas pipelines: Of stainless steel*		
[7304.10]	*[Line pipe of a kind used for oil or gas pipelines]**	–	*0 (1)*
7304.40	*Other, of circular cross-section, of stainless steel*	*15 (2)*	*0 (2)*
7306	*Other tubes, pipes and hollow profiles (for example, open seam or welded, riveted or similarly closed), of iron or steel*	15 (15)	10 (7)
7306.40	*Other, welded, of circular cross-section, of stainless steel*	*15 (1)*	*10 (1)*
8211	Knives with cutting blades, serrated or not (including pruning knives), (excluding knives of heading 82.08), and blades therefore*	15 (7)	0 (7) 15 (6) 20 (7)
8212	Razors and razor blades (including razor blade blanks in strips)*	15 (6)	0 (3)
8213	Scissors, tailors' shears and similar shears, and blades therefore*	15 (1)	0 (1)
8214	Other articles of cutlery (for example, hair clippers, butchers' or kitchen cleavers, choppers and mincing knives, paper knives); manicure or pedicure sets and instruments (including nail files)*	15 (6)	0 (2) 15 (2) 20 (1)

8215	Spoons, forks, ladles, skimmers, cake-servers, fish-knives, butter-knives, sugar tongs and similar kitchen or tableware*	15 (4)	30 (4)
8421	Centrifuges, including centrifugal dryers; filtering or purifying machinery and apparatus, for liquids or gases *	15 (22)	0 (13) 15 (4) 16 (1) 19 (1)
8434	Milking machines and dairy machinery*	15 (4)	0 (3)
8438	Machinery, not specified or included elsewhere in this Chapter, for the industrial preparation or manufacture of food or drink (excluding machinery for the extraction or preparation of animal or fixed vegetable fats or oils)*	15 (15)	0 (8)

* Products of stainless steel not separately specified

5.2. Non tariff barriers

5.2.1 Introduction

Non-tariff barriers (NTBs) cover a wide range of barriers, measures or situations, other than ordinary customs tariffs, that have the effect of restricting or discouraging trade.
NTBs can be arbitrarily categorised in three groups, namely:

- Trade policy measures;
- Technical regulations; and
- Administrative procedures.

Situations and conditions other than specific measures can also act as NTBs that discourage imports into a country.

5.2.1.1 Trade policy measures

These include import licensing, import quotas, state trading enterprises, additional taxes, reference prices, export assistance, subsidies, anti-dumping and countervailing duties and safeguards. The extent of policy predictability, transparency and the regularity of changes in policy and policy measures is also an important factor.

5.2.1.2 Technical regulations

These include measures such as standards and technical specifications that are aimed at protecting health, safety, the environment and the interests of consumers.

5.2.1.3 Administrative procedures

These cover a wide range of regulations, procedures and other factors that operate in a manner that restrict or discourage imports. Examples are burdensome customs procedures; a lack of transparency or consistency in customs and other import procedures; slow customs clearing that causes delays; and services that are not user-friendly.

Other situations or conditions that discourage imports are mainly related to infrastructure such as inadequate port facilities causing congestion, problems with internal transport infrastructure and facilities etc.

5.2.2 NTBs in import regimes

Substantial differences exist in the import regimes of countries and/or trade blocks. Some countries apply virtually no trade policy measures to imports; have standards that conform to international norms; and have efficient customs procedures. Such an import regime does not have a significant negative effect on imports. At the other extreme, cases exist of import regimes consisting of various, sometimes not transparent, trade policy measures; complex and burdensome standards; and complex slow customs procedures that cause delays. Such a regime will have a significant affect on imports and in fact discourage imports. If an exporter in a particular country considers exports to another country, the market potential and customs tariffs may not be the main considerations while NTBs in the other country may be an equal or even more significant factor that restrict or discourage imports.

5.2.3 NTBs in India: General

According to reports, the trading and import environment in respect of India is complex and difficult although the situation has improved over the past few years.

Most of the information in respect of India has been obtained from:

- The WTO Secretariat's Report for India Trade Policy Review (TPR) of May 2002
- Doing Business In India: A Country Commercial Guide for U.S. Companies (2005)
- USTR 2005 National trade Estimate Report on Foreign Trade Barriers
- The EU Market Access Sectoral Database for individual countries
- India Profile: Doing business – For Australian Exporters – Export assistance: The Australia Trade Commission's website under AUSTRADE.
- A report: "Identification of concrete trade obstacles to be removed through the future WTO negotiations on trade facilitations or other negotiations in the framework of the Doha development agenda: Study for the Market Access Unit of Directorate General Trade European Commission – June 2004" funded by the European Commission (EU Trade Obstacles Report)
- Market Access Analysis to identify and update the existing information on trade barriers in third countries affecting EU exports of textiles and clothing, footwear and leather: A report funded by the EC Commission: 1 March 2005
- EURATEX: Market Access for European Textiles and Clothing – A Memorandum for Trade Commissioner Peter Mandelson, January 2005
- R.K. Jain's Foreign Trade Policy: "ITC (HS) Classification of Export & Import Items, Vol. 3, 8th Edition, Oct. 2005.
- Various government sources, particularly the Central Board of Excise and Customs and the Director-General of Foreign Trade websites, including the Customs tariff before and since the 2005-06 Budget, the numerous schedules, annexures, and exemption and general notifications.

Exporters to India and Indian importers suffer from policy unpredictability.

The EU Trade Obstacles Report summarises the situation as follows:

"The rules of EXIM (export and import) Policy are published and available to operators.

However, it cannot be denied that import and export rules are complex and frequently modified. This obliges operators to be constantly aware of the EXIM Policy rules and their modifications. These constant changes in EXIM policy engender an obstacle for EU SME wishing to develop trade with India. These companies must work in close co-operation with Indian partners.

The importers and exporters stated that the transparency and their understanding of EXIM policy and other trade rules affecting their daily trade could be improved through consultation with private sectors prior to adoption of the rules.

According to private sector, over-regulation is one of the main problems of doing business in India. In several cases, the rules are adopted without prior notification and explanation of rules to private sectors' representatives."

Infrastructure in respect of ports and internal transport are major problems.

Red tape is also a disincentive. The World Bank estimates that Indian senior managers spend about 14 percent of their time dealing with regulatory issues (compared with about 8 percent for their Chinese counterparts). Starting a business in India takes 89 days, on average—more than twice as long as in China. Closing a business is just as difficult.

Stainless steel and products thereof do not appear to be subject to sector specific NTBs. They would however be affected by some of the issues covered in paragraphs 5.4 to 5.18.

5.3. Additional duties and taxes

The EU Trade Obstacles Report sums up the situation in India as follows:

"Multiplicity and complexity of import, and to a lesser extent, export rules, has been identified as a real concern for private operators.

For example, India's duty calculation is highly complex. According to Member States, trade representatives, importers and EU companies, despite the duty structure rationalisation of January 2004, duties remain high. The method of calculation of import duties and the administration of tariffs through numerous notifications makes the tariff structure extremely complicated and non-transparent."

The duty structure has however been substantially simplified through the removal of some of the additional duties.

In addition to the ordinary rate of duty – called the 'basic duty' - there are an 'Additional Duty of Customs' – also called a 'Countervailing Duty (CVD)' – which is generally 16% but different for certain products. This is actually a central excise duty or value added tax. There also used to be a 'Special Additional Duty of Customs', also called an 'Additional Duty for Special Excise Duty' of 8% or 4%. Some products were exempted from these 'additional' duties or a lower rate applied. This duty has been removed for most products.

In addition to the basic duty and the additional duty, India also applies an educational cess of 2% to imports. This calculated on the sum of the basic and CVD. The basic and additional duties and other charges are calculated on a compounded (cumulative) basis.

A levy of 1% is added to the CIF value to come to the assessable value.

When the transport and insurance costs cannot be established, or is challenged, 20% is added to the invoice price to come to the CIF value.

5.4. Customs procedures and delays

Even if applied tariffs remain high for various products a survey (EU Trade Obstacles Report) confirmed that business losses suffered through delays at borders and complicated customs procedures may exceed in many cases the costs of tariffs.

In the case of India, this involves a complex array of sometimes opaque documentation requirements, valuation issues and multiple submissions of data to different agencies (Customs, Ministry of Health, Ministry of Agriculture, etc). Various surveys have already

stressed how these problems represent a serious threat in meeting trade commitments and development objectives.

These burdensome requirements combined with delays in clearance of goods, lack of appropriate infrastructures for the storage of goods or their testing negatively affect importers daily business.

The following table shows comparative port transit times between Indian and other countries.

Table 5.6 Imports and exports - average days to clear customs

Category	Brazil	India	China	Bangladesh
Imports				
Average	14.0	7.1	7.9	11.7
Longest	32.0	12.8	12.5	23.2
Exports				
Average	8.7	5.4	5.4	8.8
Longest	16.8	8.0	8.0	14.0

Source: UNCTAD – World Bank Trade Facilitation Seminar, May 2004,

Another comparison at the same Seminar shows port transit times as follows. While there are differences in the number of days, particularly in respect of India, these can be explained by the fact that the results are from different studies and that one measures customs clearance and the other port transit times.

Table 5.7 Port transit times (days)

Category	Brazil	India	China	Malaysia
Imports				
Average	13.8	10.4	7.5	3.4
Longest	32.4	21.6	12.2	7.4
Exports				
Average	8.4	6.1	6.6	2.6
Longest	16.9	9.3	8.1	6.1

Source: World Bank, Investment Climate Assessments

Delays are apparently caused mainly by:

- Compliance with requirements to be followed prior to import;
- Inadequate port facilities leading to congestion
- Burdensome documentary requirements;
- Customs valuation and classification issues; and
- Inspections to verify products' compliance to requirements of other agencies.

5.5. Import restrictions and conditions

Import of goods into and export of goods out of India is governed by the Export-Import Policy, 2002-2007 (EXIM policy), which is framed every five years. India's current five-year trade policy has further liberalised imports and exports.

India used to have extensive import restrictions but has had to remove these in terms of its Uruguay Round WTO commitments. The removal of import restrictions did not happen at the entry into force of the Uruguay Round Commitments but substantially later and over an extended period of time, partly after pressure from other WTO members (consultations by several countries and a dispute by the US). In many cases this was accompanied by an increase in tariffs.

For the most current information on India's Prohibited Import List, see http://exim.indiamart.com/freedlist/prohibited.html.

5.6 Licensing

In April 2001, Indian Authorities implemented a significant liberalisation of the import restrictions through the removal of Quantitative Restrictions (QRs). All goods not classified as prohibited or restricted in the ITC (HS) Classification of Export and Import of items can be freely imported. Goods still subject to licensing is not available as the list is being reviewed.

According to the EU Trade Barriers Report, the removal of trade barriers has in some instances been followed by an increasing number of new non-tariff barriers affecting the importation of EU products. In particular, India has strengthened the implementation of labelling and certification requirements. According to the report:

“Sensitive products are subject to **burdensome**, **time consuming**, and sometimes **discretionary controls** by various Indian Authorities on their composition and compliance with Indian standards (foodstuffs, textiles, cosmetics, mineral water, etc.).”

There are basically four types of concern:

1. The standards are complex and sometimes difficult to comply with (e.g. for food products);
2. There is a lack in personnel (health officers) and infrastructures to send samples to the laboratories, to conduct the testing in accredited laboratories, lack of testing equipment;
3. There is a multiplication of authorities involved in the same type of controls;
4. There is a lack of efficient appeal procedures to challenge the ruling made after controls.”

Certain industries are still subject to compulsory industrial licensing, namely the following:

1. Distillation and brewing of alcoholic drinks
2. Cigars and Cigarettes of Tabocco and Manufactured Tobacco substitutes
3. Electronic, Aerospace and Defence Equipment: all types
4. Industrial explosives including detonating fuses, safety fuses, gun powder, nitrocellulose and matches
5. Hazardous chemicals
6. Drugs and pharmaceuticals (according to modified Drug Policy, 1994 as amended in 1999)

5.7. Customs valuation

According to the EU Trade Obstacles Report, Customs are alleged to challenge discretionary and quite systematically the declared value of specific products. (textile and clothing, watches, cosmetics and other consumer products). The importer is required to deliver documents proving the accuracy of the declared value. In addition to the invoice and the packing list, the importer must supply a price declaration assessment together with a document from the chamber of commerce of the country of origin. In some cases, catalogues of the product are required in order to prove the accuracy of the declared value.

In several cases, these investigations are justified by the high level of under-invoicing. However, these procedures are also considered in many cases as completely discretionary.

In practice, given the limited efficiency of appeal procedures, importers prefer to settle the problems directly with Customs than to wait for a lengthy appeal decision confirming the first customs decision (demurrage costs). While the difference in estimation remains "bearable" (20%), the importer will prefer accepting the modified customs value than paying demurrage costs.

5.8. Reference pricing and minimum import prices

The Government of India fixed minimum import prices for certain imported steel products, including hot rolled steel coils, cold rolled steel coils, hot rolled sheets, tin plates, electrical sheets, and alloy steel bars and rods. Whether to impose or withdraw the minimum import price for these products is the subject of an Indian government legal confrontation with the Indian courts. (US Trade Summary Report, 2004).

5.9. Labelling requirements

In April 2001, Indian Authorities implemented a significant liberalisation of the import restrictions (removal of Quantitative Restrictions (QRs) and a reduction of import duties. All goods not classified as prohibited or restricted in ITC (HS) Classification of Export & Import of items can be freely imported. However, since November 2000, the DGFT has started the imposition of various non tariff barriers: the extension of packaging and labelling requirements to imported consumer goods, the extension of mandatory registration of BIS standards to imported products, etc.

India applies stringent labelling requirements in respect of pre-packaged goods.

All pre-packaged commodities, imported into India, shall in particular carry the following declarations:

a) Name and address of the importer;

b) Generic or common name of the commodity packed,

c) Net quantity in terms of standards units;

d) Month and year of packing in which the commodity is manufactured or packed or imported; and

e) The maximum retail sale price (MRP) at which the commodity packaged form may be sold to the ultimate consumer. "This price shall include all taxes local or otherwise, freight, transport charges, commission payable to dealers, and all charges towards advertising, delivery, packing, forwarding and the like, as the case may be."

The MRP is calculated on the basis of different criteria (freight, insurance, internal taxes). In India, each State has a different rate of sales tax and other taxes. Sales tax varies from 8% to 20% in the state of final destination. It is often not possible to know in advance the identity of products and of consumers, as well as the quantities, which will be sold. Even if the importer can give to the exporter an accurate indication of internal taxes to the importer, he will not be able to guarantee that the information on the exchange rate is correct.

If an exporter supplies products aimed to be sold in various states, he will have to produce as many different labels as there are States of final destination for each item sold. This results in significant additional costs.

This issue is further complicated by the Customs requirement to provide one invoice by different MRP, even for the same items (e.g. same watches aimed to be distributed and sold in various States). According to various freight forwarders, if the importer cannot comply with this requirement, Customs will charge the additional duty on the highest MRP.

Compliance of the above-stated requirements has to be ensured before the import consignments are cleared by Customs in India. The import of pre-packaged commodities such as raw materials, components, bulk import etc., that need to undergo further processing before they are sold to end consumers are not included under this labeling requirement.

5.10. Standards

Indian standards are formulated by the Bureau of Indian Standards (BIS), which was established as a statutory body under the Bureau of Standards Act, 1986, and became operational on 1 April 1987. Standards are developed through 15 division councils, covering a wide number of sectors. From its formation until 1 April 2001, the BIS had developed 17,428 voluntary standards relating to a number of sectors. In order to ensure their continued relevance, Indian standards are reviewed as and when considered necessary, but at least once every five years.

Indian and foreign manufacturers who meet a BIS standard may carry the BIS Certification Mark. The BIS Certification Mark was made mandatory for 133 items (both locally produced and imported). The BIS laboratories provide conformity testing for products (both domestic and imported) requiring BIS certification. Voluntary certificates are also issued for environmentally friendly products (Ecomark), environmental management systems, quality systems, and hazard analysis and critical control points (HACCP). Licences granted for quality systems, environmental management systems, and HAACP are valid for three years and must be renewed. The BIS carries out regular surveillance audits and inspections to ensure that the systems and products meet the relevant standards. All the BIS certification schemes are operated according to the relevant ISO/IEC guides.

BIS is operating a product certification scheme for foreign manufacturers. In this scheme, a license can be granted for any product against an Indian Standard specifying product characteristics, which is amenable to certification. The schemes operate on self-certification basis, whereby the manufacturer is permitted to apply the Standard Mark on the product after ascertaining its conformity to the Indian Standard licenced for. Through its surveillance operations the Bureau maintains a close vigil on the quality of goods certified. Those desirous of obtaining the BIS licence have to apply to BIS in the prescribed application form, which can also be downloaded from BIS web-site at http://www.bis.org.in along with an application fee of Rs.1000/-.

The foreign manufacturer must set up a liaison/branch office located in India with the permission of Reserve Bank of India, which shall meet all liabilities with respect to BIS Act, Rules and Regulations for purpose of the BIS licence. The requirement to set up an

office in India shall not apply, if BIS enters into an MOU with the respective Foreign Government for implementation of BIS Act, Rules, and Regulations including the punitive provisions, or if the foreign manufacturer nominates an authourized representative located in India who declares his consent to be responsible for compliance provisions of BIS Act 1986, Rules and Regulations on behalf of the manufacturer as per terms and conditions of the Agreement signed between BIS and the foreign manufacturer. Processing charges of US $ 300 are required to be paid after scrutiny and recording of application.

The applicant has to bear expenditure of travel, stay, miscellaneous expenses like visa etc and per diem as applicable by BIS regulations for a team of officers (normally not more than 2 officers) for their inspection visit to the manufacturing premises.

5.11. Government procurement

It has been reported that Indian government procurement practices and procedures are neither transparent nor standardized. Foreign firms do not generally win Indian government contracts.

5.12. Investment

According to the US Trade Summary of India (2004), Press Note 18, introduced by the Ministry of Industry on December 14, 1998, poses major impediments to investment in India. The following are the two most restrictive provisions of Press Note 18:

1) The automatic approval route is not available to foreign investors who wish to set up new ventures in India or who wish to enter into new technical collaborations or trademark agreements in India, if such foreign investors have or have previously had any joint venture, technology transfer or trademark agreement in the same or allied field in India. Such foreign investors would have to obtain an approval from the Indian government; and
2) In its application, such foreign investor would have to give reasons for which it finds it necessary to set up a new venture or enter into a technical collaboration or trademark agreement. The onus is on the investor to provide adequate justification to the satisfaction of the Indian government that its new proposal would not jeopardize the interests of the existing venture or the stakeholders thereof.

The government may, at its discretion, approve or reject the application giving reasons for such rejection.

In addition, the foreign investors who already have an equity stake in a venture in India, and who want to increase their equity stake in the company, are required to obtain a resolution of the Board of Directors of the Indian company prior to seeking Indian government permission.

India also has extensive rules in regard to setting up an office in India, in terms of what each type of office is allowed to do and not allowed to do.

Generally, FDI rules have been substantially liberated and FDI of up to 100% equity is allowed under Automatic Route for all sectors/ activities except the following:
i) Industries retained under compulsory licensing:
ii) Manufacture of items reserved for small scale sector by non-SSI units; and
iii) When the proposed location attracts locational restriction.

5.13. Anticompetitive Practices

India suffers from a slow bureaucracy and regulatory bodies that reportedly apply monopoly and fair trade regulations selectively. With little or no fear of government action and with a clogged court system where cases languish for years, Indian firms face few if any disincentives to engaging in anticompetitive business practices.

5.14. Export taxes

Various exports have been subject to export taxes but these have been or are being removed. The export of raw hides and skins is subject to an export duty of 60%.

5.15. Intellectual property rights

India is on the USA's IPR "Priority Watch List" of 14 countries for due to continuous serious concerns about copyright and trademark infringements, inadequate enforcement of intellectual property rights, and the need to greatly improve the processing of patent

applications in a manner that is consistent with their international obligations. This is according the 2005 Special 301 Report.

5.16. The propensity to use trade remedies

Trade remedies are anti-dumping and countervailing (anti-subsidy) duties aimed at countering unfair international trade practices.

5.16.1. Anti-dumping duties

India and South Africa are some of the most frequent users of anti-dumping measures. Table 7.5 shows the number of anti-dumping measures imposed from January 1995 to 30 June 2005 (the latest data on the WTO website) by the top ten users of this measure and their percentages of the total.

Table 5.7 Anti-dumping measures per country 1995 – 30/06/2005

Country/Bloc	Number of measures	% of total measures
India	309	17.9
United States	229	13.2
European Community (EU 15)	200	11.6
Argentina	139	8.0
South Africa	113	6.5
Turkey	81	4.7
Mexico	71	4.1
Australia	65	3.8
Brazil	63	3.6
China	62	3.6
Other	536	23.0
Total	1 729	100.0%

Anti-dumping measures per country in respect of the sectors covered by the investigations for India are shown in the following table:

Table 5.8 Sectoral: Distribution of Measures By Importing Member. From 01/01/95 to 30/06/05

Member/sector	Chemicals	Plastics	Rubber	Textiles	Footwear	Metals	Total
Argentina	5	9	0	8	0	51	**73**
Australia	8	16	0	5	0	15	**44**
Brazil	15	7	0	1	0	20	**43**
Canada	2	0	0	0	2	60	**64**
Chile	0	0	0	0	1	4	**5**
China, P.R.	31	16	0	1	0	5	**53**
Colombia	1	1	0	0	0	9	**11**
Egypt	1	13	0	0	0	8	**22**
EU	38	15	1	21	5	70	**150**
India	142	48	0	39	1	29	**259**
Indonesia	7	0	0	0	0	12	**19**
Israel	0	1	0	2	0	2	**5**
Jamaica	1	0	0	0	0	0	**1**
Japan	0	0	0	3	0	0	**3**
Korea, Rep. of	14	1	0	0	0	5	**20**
Lithuania	1	0	0	0	0	0	**1**
Malaysia	3	2	0	0	0	0	**5**
Mexico	14	4	0	2	0	38	**58**
New Zealand	0	0	0	0	0	4	**4**
Pakistan	3	2	0	0	0	1	**6**
Paraguay	1	0	0	0	0	0	**1**
Peru	1	1	0	4	4	15	**25**
Philippines	1	1	0	2	0	3	**7**
Poland	1	2	0	2	0	0	**5**
Singapore	0	0	0	0	0	2	**2**
South Africa	18	20	0	10	0	30	**78**
Thailand	1	0	0	0	0	23	**24**
Trinidad and T.	0	1	0	1	0	0	**2**

Turkey	7	32	0	18	0	13	**70**
United States	29	10	0	5	0	139	**183**
Venezuela	0	3	0	2	4	14	**23**
Totals 01/01/95 - 30/06/05	**345**	**205**	**1**	**126**	**17**	**572**	**1266**

Anti-dumping measures have become a major trade policy instrument of India since 1995 when the country had to start phasing out import restrictions as required by its obligations under the Uruguay Round of the WTO. India is now the single biggest user of anti-dumping measures with 17.9% of the total number of measures imposed by all countries over the period concerned.

Base metals and articles (Chapters 72 to 83) and chemicals (Chapters 28 to 38) are the sectors most subject to anti-dumping measures with 33.1% and 20.0%, respectively, of all measures. Plastics attracted 11.9% and textiles 7.3% of all measures. 46.0% of India's measures are in respect of chemicals.

India is fifth on the list of countries against which most anti-dumping investigations have been initiated up to 30 June 2005, with 115 cases (4.2% of the total). China tops the list with 434 cases (15.8%) followed by the Republic of Korea with 212 cases (7.7%).

5.16.2. Countervailing duties

Countervailing duties are applied against subsidies by exporting countries. Such duties can be applied against prohibited subsidies, which are subsidies contingent on export performance or upon the use of domestic over imported goods, or actionable subsidies. The latter category, briefly, refers to financial contributions by a government or a public body (such as a direct transfer of funds, government revenue foregone, the provision of goods or services by a government, other than general infrastructure, and if a government makes payments to a funding mechanism, or entrusts or directs a private body to carry out any of these functions; or if there is any form of price or income support; and a benefit is thereby conferred. A countervailing duty may be applied against an actionable subsidy only if it is specific to an enterprise or industry or a group thereof.

During the period January 1995 to 31 December 2004, 108 countervailing duties have been imposed by all countries. India has not imposed any countervailing duties.

India is on top of the list of counties against which countervailing duties have been imposed. Of the total of 108 countervailing duties, 25 or 23.1% have been imposed against India. Of these, 14 were in respect of metals, 3 in chemicals, 4 in plastics and 2 in textiles.

5.16.3. Safeguard measures

A safeguard is an action taken to protect a specific industry from such increase in imports as to cause, or threaten to cause, serious injury. It is intended to prevent or remedy serious injury and to facilitate adjustment. Safeguard action is taken if the measure a country wish to impose would breach its WTO obligations, i.e. if the tariff would exceed the bound rate of duty or if the country wishes to impose quantitative restrictions on imports. Unlike anti-dumping and countervailing duties, which are applied to specific countries and exporters, safeguard measures have to be applied to a product imported irrespective of its source.

Currently a total of 68 safeguard measures or provisional safeguard measures are applied by all countries. Of these, 8 are applied by India (11.8%), namely 7 in respect of chemicals and 1 in plastics.

5.17. Other trade discriminatory measures

India applies a vast array of export support schemes base on the duty rebate and drawback principles.

The Government of India introduced the Duty Entitlement Pass Book (DEPB) Scheme in April 1997 by means of Customs Notification 34/97, after the abolishment of the Passbook Scheme. The objective of the measure is to provide duty free imports for export production, in other words to neutralise the incidence of customs duty on the import content of the export product. The neutralisation is provided by way of grant of duty credit against the export product. Thus, for exporters not desirous of going through

the licensing route, an optional facility is given under DEPB Scheme. In contrast to the usual temporary duty-free importation of goods for processing, the Pass Book Scheme may lead to an indirect subsidy of local Indian production.

The Duty Entitlement Pass Book (DEPB) Scheme entitles an exporter (both a manufacturer-exporter and a merchant-exporter) for credit as a specified percentage of FOB value of exports, made in freely convertible currency. The credit is available against such export products and at such rates as specified by the Directorate General of Foreign Trade (DGFT) by way of Public Notice, for import of raw materials, intermediates, components, parts, packaging material etc.

The DEPB is valid for a period of 12 months from the date of issue. The DEPB and/or the items imported against it are freely transferable and, as a consequence, frequently sold.

The DEPB has emerged as a favourite instrument of export promotion. The DEPB rates are available on wide-variety of items compared to the coverage under the drawback scheme, which is limited to a few items. The DEPB entitlement is also liberal compared to the drawback rate. Imports through the DEPB Scheme are exempt from special additional duties (SAD) and therefore, SAD can be avoided by duty payment through DEPB.

The scheme lacks a built-in obligation to import only goods that are consumed in production of the exported goods. There is no verification system in place to check whether the imports are actually consumed in the production process. It is not a substitution drawback scheme because the imported goods do not need to be of the same quantity and characteristics as the domestically sourced inputs that were used for export production. Exporting producers are eligible for the DEPB benefits regardless of whether they import any inputs at all. An exporter obtains the benefit by simply exporting goods without the need to show that any input material was indeed imported; thus, exporting producers which procure all of their inputs locally and do not import goods which can be used as inputs are still entitled to the DEPB benefits.

5.18. Considerations

1. India's bound tariff rates for industrial products are quite high, mostly at 40%. Many sensitive products are not bound against tariff increases. Footwear (Chapter 64), copper (Chapter 74) and aluminium (Chapter 76) are not bound at all; in the chemicals, plastics and rubber sectors many lines are not bound; while in respect of textiles and clothing there is a lack of clarity about bindings. All South Africa's tariff lines in the relevant sectors are bound with the exception of a few chemical lines.

2. India has substantially reduced its customs tariffs over the last number of years. The basic duties are very uniform, mostly at 15% (as from 1 March 2005). However the tariff structure is not transparent with the contents of a large number of notifications and general exemption notices not incorporated in Schedule 1 (basic duty schedule). There are a large number of partial exemptions, mostly reductions/exemptions for specified uses, projects etc. The actual basic duties on certain products may be lower than those indicated in Schedule 1, such as in the case of steel (actually applied duty of 5% compared to 20% shown in Schedule 1). The duty on stainless steel of Heading 72.19 is 10% (actual applied rate), on other stainless steel (apparently) 20% and on products of stainless steel 15%.

3. Tariff concessions granted by India may, therefore, in certain cases be of no real value. During negotiations on tariff concessions, SACU should make sure that the preferences offered by India will result in actual reductions in the currently applied rates.

4. India applies additional taxes on imports and the structure is not transparent. The most important of these is an additional duty of generally 16% (lower for certain products including some textiles), also called a CVD, which is actually a central excise or value added duty. A further additional duty of 4/8% applicable earlier has been removed in respect of almost all products. The situation in respect of additional taxes/duties has been simplified and these are lower than those previously applicable.

5. NTBs remain a major problem for exporters to India although the situation has improved over the past few years. The NTBs with the most affect on exports to India are policy unpredictability and uncertainty; customs procedures and delays; customs

valuation; port and other transport infrastructural problems; general burdensome red tape; and labelling requirements.

6. India has become the country that uses anti-dumping duties most of all countries. The sectors most subject to anti-dumping measures imposed by India are base metals and products thereof (33.1%).

5. Of countries against which anti-dumping investigations have been initiated, India is fifth on the list in regard to the number of initiations. India is subject to more countervailing measures than any other country.

8 Negotiations on tariff preferences should not start before the NAMA modalities under the Doha Round have been finalised and the implications thereof on the applied tariffs of the respective countries have been evaluated.

6 TRADE FLOW ANALYSIS OF THE DEFENSIVE POSITION

6.1 Introduction

The defensive position as determined by trade flows is analysed by the following approach:

- An analysis of Stainless Steel exports by India to the world.
- An analysis of export growth of Stainless Steel by India to the world.
- The revealed comparative advantages[22] of India.
- Exports of Stainless Steel by India to South Africa.
- Export penetration of India into RSA.
- Revealed comparative disadvantages of RSA against India.

A synthesis of the contents of this chapter and the previous ones appears in Chapter 12 In Chapter 12 the defensive position of the South African stainless steel industry is formulated with regard to the SACU-India trade negotiations.

6.2 Comparative size

Table 6.1 Stainless Steel exports, imports: of India and South Africa 2000 and 2004 US$ million

	Exports		Imports	
Year	**India**	**SA**	**India**	**SA**
2000	434	512	162	167
2004	1051	1089	509	282

Source Comtrade

The trade in stainless steel by South Africa and India is about of similar order. Imports are less important to South Africa than to India.

[22] See ADDENDUM A for an explanation RCA and an example for the calculation thereof.

6.3 Export to the world

The analysis of stainless steel exports and imports: of India and South Africa is undertaken at the 4-digit-level of the Harmonised System. Data is available for the period 2000 to 2004. Trade data was procured via Quantec from UN Commodity Trade Statistics Database (UN Comtrade).. The data is in US$.

The size of the database renders it impracticable to provide it on hard copy. More detailed information than that appearing in this is available electronically on request.

6.3.1 Product categories

The focus of Indian stainless steel exports is on intermediate products:65% of total exports. . The export of flat rolled products became more important since 2000. That of hollowware and other kitchen utensils receded to 16.3% in 2004 as opposed to 38.4% of stainless steel exports in 2000.

Table 6.2 India: Exports to the World Stainless Steel 2000 to 2004 (US$ million)

Sub-group	2000	2001	2002	2003	2004
Intermediate products: Flat-rolled	40	35	164	307	348
Intermediate products: Bars & rods; angles, sections	96	91	142	187	266
Intermediate products: Wire	41	27	45	61	77
Downstream products: Tubes & pipe, seamless	34	53	48	51	85
Downstream products: Other tubes & pipe, welded	0	1	1	2	11
Downstream products: Hollowware & other for kitchen and table	167	164	194	224	171
Downstream products: Sinks & wash basins	2	2	3	5	5
Downstream products: Knives, spoons, forks & other	41	40	40	50	64
Downstream products: Milking machines and dairy machines	1	1	1	2	2
Downstream products: Food industry machinery	12	8	10	17	23

TOTAL	**434**	**421**	**649**	**905**	**1051**

6.4 Destination

China has overtaken the USA and the UAE as the major market for Indian stainless steel exports. One percent of India's stainless steel exports find their way to South Africa.

Table 6.3 Destination of exports of Stainless Steel by India 2000 to 2004 ($million and percentage share)

Partner	2000		2004	
	USD m	%	USD m	%
China	10	2	212	20
USA	84	19	153	15
United Arab Emirates	62	14	74	7
Germany	20	5	51	5
Rep. of Korea	0	0	35	3
Indonesia	3	1	32	3
Other Asia, nes	5	1	27	3
China, Hong Kong SAR	15	3	25	2
Viet Nam	7	2	24	2
United Kingdom	17	4	21	2
Turkey	4	1	18	2
Australia	6	1	16	2
Canada	9	2	15	1
Italy	14	3	15	1
Netherlands	5	1	14	1
Bangladesh	15	3	14	1
Malaysia	7	2	14	1
South Africa	**7**	**2**	**13**	**1**
Singapore	7	2	13	1

Partner	2000		2004	
	USD m	%	USD m	%
Belgium	8	2	13	1
Sudan	2	1	12	1
Nigeria	15	4	12	1
Thailand	3	1	10	1
Saudi Arabia	7	2	10	1
Other	101	23	208	20
TOTAL	**434**	**100**	**1051**	**100**

6.5 Export growth

India achieves solid growth in its exports of intermediate products. However, as can be seen from table 7.5 exports of some downstream products are gaining in importance from a low level. Hollowware remains dominant among downstream exports but is stagnating at a high level.

Table 6.4 Exports ports of Stainless Steel (product categories) by India to the World 2000 to 2004 (US$ million and percentage growth p.a.)

Sub-group	2000	2001	2002	2003	2004	Growth 2000-2004
Intermediate products: Flat-rolled	40	35	164	307	348	91.8
Intermediate products: Bars & rods; angles, sections	96	91	142	187	266	31.7
Intermediate products: Wire	41	27	45	61	77	22.9
Downstream products: Tubes & pipe, seamless	34	53	48	51	85	19.2
Downstream products: Other tubes & pipe, welded	0	1	1	2	11	126.2
Downstream products: Hollowware & other for kitchen and table	167	164	194	224	171	3.7

Downstream products: Sinks & wash basins	2	2	3	5	5	29.3
Downstream products: Knives, spoons, forks & other	41	40	40	50	64	11.9
Downstream products: Milking machines and dairy machines	1	1	1	2	2	45.1
Downstream products: Food industry machinery	12	8	10	17	23	22.6
TOTAL	**434**	**421**	**649**	**905**	**1051**	**28.8**

Exports at 4-digit level and high growth appear in Table 10.5. Granting of concessions to India in the export of these products should preferably be avoided.

Table 6.5 Exports of Stainless Steel (4xdigit HS) by India to the World 2000 to 2004 (US$ million and percentage growth p.a.) Exports US$20 million plus and growth higher than average.

Sub-group	HS4	Description	2004	Growth 2000-2004
Intermediate products: Flat-rolled	7219	Flat-rolled products of stainless steel, of a width of 600 mm or more.	299	98.4
Intermediate products: Bars & rods; angles, sections	7222	Other bars and rods of stainless steel; angles, shapes and sections of stainless steel.	217	36.6
Intermediate products: Wire	7223	Wire of stainless steel.	77	22.9
Downstream products: Tubes &	7304	Tubes, pipes and hollow profiles, seamless, of iron (excluding cast iron) or steel.	85	19.2

pipe, seamless				
Downstream products: Hollowware & other for kitchen and table	7323	Table, kitchen or other household articles and parts thereof, of iron or steel; iron or steel wool; pot scourers and scouring or polishing pads, gloves and the like, of iron or steel.	171	3.7
Downstream products: Knives, spoons, forks & other	8212	Razors and razor blades (including razor blade blanks in strips).	30	4.3
Downstream products: Food industry machinery	8438	Machinery, not specified or included elsewhere in this chapter, for the industrial preparation or manufacture of food or drink, (excluding machinery for the extraction or preparation of animal or fixed vegetable fats or oils):	23	22.6

6.6 Revealed comparative advantages

The stainless steel products in which India has a comparative advantagr is shown in table 6.6 . This is not an extensive list but two categories HS 7222 and HS 7223 are also amongst those whose exports are growing fast. SACU should avoid concessions to the products shown in table 6.6.

Table 6.6 Revealed comparative advantages of India exporting to the world.

HS4	Description	RCA India export to World				
		2000	2001	2002	2003	2004
	Other bars and rods of stainless steel;	2.7	3.1	3.4	3.1	4

HS4	Description	RCA India export to World				
		2000	2001	2002	2003	2004
7222	angles, shapes and sections of stainless steel.					
7223	Wire of stainless steel.	4.2	3	3.6	3.6	3.7
7323	Table, kitchen or other household articles and parts thereof, of iron or steel; iron or steel wool; pot scourers and scouring or polishing pads, gloves and the like, of iron or steel.	6.1	6.2	4.5	3.9	3
7221	Bars and rods, hot-rolled, in irregularly wound coils, of stainless steel.	3.5	2.9	3.4	3.5	2.4
8214	Other articles of cutlery (for example, hair clippers, butchers' or kitchen cleavers, choppers and mincing knives, paper knives); manicure or pedicure sets and instruments (including nail files).	3	2.5	1.6	1.7	2.2

6.7 Imports of Stainless Steel by South Africa

6.7.1 Data

Customs data from the South African Revenue Services is used. The analysis is for the period 2000 to 2004. Data is analysed on the 4-digit-level of the HS. Exports are measured in US$.

6.7.2 South African imports of Stainless Steel from the world

Although there are imports of intermediate products most of South Africa's imports are downstream stainless steel products. Prominent among the latter are seamless pipes and tubes, knives, spoons and forks and food industry machinery.

Table 6.7 South African imports of Stainless Steel from the world – 2000 to 2004 (USD million)

Sub-group	2000	2001	2002	2003	2004
Intermediate products: Flat-rolled	17	19	15	28	49
Intermediate products: Bars & rods; angles, sections	15	14	15	17	23
Intermediate products: Wire	9	10	11	14	17
Downstream products: Tubes & pipe, seamless	31	37	35	45	50
Downstream products: Other tubes & pipe, welded	4	3	4	5	8
Downstream products: Hollowware & other for kitchen and table	8	6	7	10	16
Downstream products: Sinks & wash basins	1	1	1	2	2
Downstream products: Knives, spoons, forks & other	29	29	28	33	44
Downstream products: Milking machines and dairy machines	4	4	2	7	9
Downstream products: Food industry machinery	50	30	26	36	62
TOTAL	167	152	144	197	282

Source: South African Customs and Excise

6.7.3 Origin of imports

South Africa imports from a number of countries with Germany, China and aggregate imports of R282 million in 2004.

Table 6.8 Origin of imports of Stainless Steel by South Africa 2000 and 2004 (R million)

Partner	2000		2004	
	USD m	%	USD m	%
Germany	34	20	37	13
China	7	4	27	10
Italy	10	6	26	9
United Kingdom	17	10	22	8
United States	12	7	18	7

Partner	2000		2004	
	USD m	%	USD m	%
Taiwan Province of China	8	5	17	6
Sweden	9	6	15	5
Brazil	2	1	13	5
India	6	4	12	4
France	10	6	12	4
Spain	3	2	11	4
Republic of Korea	7	4	10	4
Japan	9	5	7	2
Other	32	19	54	19
TOTAL	167	100	282	100

Source: SARS

6.7.4 Imports from India

South African imports of stainless steel products from India doubled from US$6.4 in 2000 to US$12.4 in 2004. Most categories showed increases but the more prominent were imports of bars, rods and angles; wire; hollow and other kitchenware, and knives spoons and forks.

Table 6.9 Imports of Stainless Steel products by South Africa from India : 2000 to 2004 (USD million)

Sub-group	2000	2001	2002	2003	2004
Intermediate products: Flat-rolled	0.1	0	0	0.3	0.5
Intermediate products: Bars & rods; angles, sec	1.9	1.7	1.7	1.6	2.9
Intermediate products: Wire	0.8	0.6	0.8	1.4	2.5
Downstream products: Tubes & pipe, seamless	0.9	0.6	0.9	1	0.7
Downstream products: Other tubes & pipe, welded	0.1	0.2	0.4	0.2	0.3
Downstream products: Hollowware & other for kit	1.6	1.2	1.3	2.4	4.1
Downstream products: Sinks & wash basins	0	0	0	0	0
Downstream products: Knives, spoons, forks & ot	0.8	0.8	0.7	0.8	1.2
Downstream products: Milking machines and dairy	0	0	0	0	0
Downstream products: Food industry machinery	0.2	0.1	0.3	0.2	0.3
TOTAL	6.4	5.2	6	8	12.4

Source: SARS

In 2004 South Africa ran a positive balance of about US$14 million in its stainless steel trade with India.

In table 10 appear data on sub headings beyond the 4 digit HS level in million Rand and in physical units. There are consistent increases in the imports of kitchenware, razors and blades and cutlery.

Table 6.10 South African imports of downstream stainless steel products 2000 to 2005 From India Rand million

HS Code	Description	2000	2001	2002	2003	2004	2005
7304.10.20.	Pipes	0.5	0.0	0.2	0.0	0.0	0.0

7304.4	Stainless steel pipe and tubing	0.3	2.2	7.8	2.3	0.9	1.2
7306.40	Pipes/ tubing, stainless steel, welded	0.8	1.5	3.8	1.5	1.6	1.5
7323.93	Table/kitchen articles, parts, stainless steel	11.3	9.9	13.2	18.0	26.1	34.7
732410	Sinks and wash basins, stainless steel	0.0	0.1	0.1	0.1	0.0	0.6
821210/20	Razors and blades	2.4	3.7	4.2	4.0	4.0	5.4
8215	Cutlery	3.0	2.2	2.3	2.1	3.1	5.2
UNITS							
HS Code	Description	2000	2001	2002	2003	2004	2005
7304.10.20.	Pipes KG 000	**199**	**0.0**	**3**	**0.0**	**1.8**	0.0
7304.4	Stainless steel pipe and tubing kG	**7**	**46**	**158**	**57**	**24**	28
7306.40	Pipes/ tubing, stainless steel, welded KG	**26**	**54**	**111**	**51**	**78**	61
7323.93	Table/kitchen articles, parts, stainless steel KG	**758**	**560**	**523**	**1032**	**1507**	1884
732410	Sinks and wash basins, stainless steel KG	**0.0**	**0.1**	**0.5**	**8.1**	**2**	12
821210/20	Razors and blades 000	**1316**	**2261**	**2410**	**2028**	**2833**	2800
8215	Cutlery KG	**266**	**201**	**136**	**207**	**295**	377

8421.10 Catalytic converters

Not significant.

8708 92 90 Silencers

Not significant.

6.7.5 Revealed comparitive advantages

India is relatively strong in its exports to South Africa of the products mentioned Table 10.10. Imports of above products may pose a threat if granted concessions for favourable entry into South Africa.

Table 6.11 Revealed comparative advantages of Indian stainless steel exports to South Africa.

HS4	Description	RCA of India exporting to SA				
		2000	2001	2002	2003	2004
7222	Other bars and rods of stainless steel; angles, shapes and sections of stainless steel.	5.1	5.6	4.2	4.1	5.1
7220	Flat-rolled products of stainless steel, of a width of less than 600 mm.	0	0	0	0.6	1.8
8215	Spoons, forks, ladles, skimmers, cake-servers, fish-knives, butter-knives, sugar tongs and similar kitchen or tableware.	2.5	2.3	1.6	1.9	1.5
8212	Razors and razor blades (including razor blade blanks in strips).	0.9	1.1	0.9	1.1	1.2

6.8 Considerations.

1. Exports of stainless steel products by South Africa and India are similar in size but South Africa's imports of stainless steel products are less than that of India. Both countries have a positive trade balance in the trade in stainless steel products while South Africa has a positive balance with India.
2. India is exporting intermediate stainless steel products complemented by downstream products especially hollowware and kitchen articles as well as cutlery. However, downstream exports are stagnating while the major dynamic the past five years was the rise in exports of intermediates like flat rolled products, bars rods and wire. Compared to 2000 exports of stainless steel products by India, in 2004 came to be dominated by intermediate products.
4. The destinations of Indian stainless steel exports are dispersed with the single most important clients being China, USA and UAE. South Africa is the destination of 1% of India's stainless steel exports.
5. India have comparative advantages in its exports to the world in the products below and any concessions to India on them should be avoided:

   HS 7222 Other bars and rods of stainless steel; angles, shapes and sections.

HS 7223 Wire of stainless steel.

HS 7323 Table, kitchen or other household articles and parts thereof, of iron or steel; iron or steel wool; pot scourers and scouring or polishing pads, gloves and the like, of iron or steel (patta being the India specific material used). India share in world trade amounts to 10% and the aim is to raise it to 25%.

HS 7221 Bars and rods, hot-rolled, in irregularly wound coils, of stainless steel.

214 Other articles of cutlery (for example, hair clippers, butchers' or kitchen cleavers, choppers and mincing knives, paper knives); manicure or pedicure sets and instruments (including nail files).

5. Although imports of intermediate products grew significantly in latter years, most of South Africa's imports are downstream stainless steel products. Prominent among the latter are seamless pipes and tubes, knives, spoons and forks and food industry machinery. Imports from the world amounted to US$ 282 million in 2004.

6. Most imports come from Germany, China and Italy. 4% of imports are from India.

7. South African imports of stainless steel products from India doubled from US$6.4 in 2000 to US$12.4 in 2004. Most categories showed increases but the more prominent were imports of bars, rods and angles; wire; hollow and other kitchenware, and knives spoons and forks.

8. Imports of kitchen and hollowware (HS 7323.93) trebled between 2000 and 2005 in money terms and in units.

9. In addition to the products mentioned above India has a comparative advantage against South Africa in:

7220 Flat-rolled products of stainless steel, of a width of less than 600 mm.

8215 Spoons, forks, ladles, skimmers, cake- servers, fish-knives, butter-knives, sugar tongs and similar kitchen or tableware.

8212 Razors and razor blades (including razor blade blanks in strips).

Concessions on these products to India should be avoided.

7 TRADE FLOW ANALYSIS OF THE OFFENSIVE POSITION

7.1 Introduction

The offensive position as determined by trade flows is analysed by the following approach:

- An analysis of Stainless Steel imports by India from the world.
- An analysis of import growth of Stainless Steel products by India from the world.
- The revealed comparative disadvantages of India of Stainless Steel
- Exports of Stainless Steel to India by South Africa.
- Export penetration of India by RSA. of Stainless Steel
- Revealed comparative advantages of RSA[23] against India of Stainless Steel.
-

A synthesis of the contents of this chapter and the previous ones appears in Chapter 12. In Chapter 12 the defensive position for stainless steel in negotiations is formulated for the SACU-India -negotiations.

The analysis of the exports of Stainless Steel by India is undertaken at the 4-digit-level of the Harmonised System. Data is available for the period 2000 to 2004. Trade data was procured via Quantec from UN Commodity Trade Statistics Database (UN Comtrade). The data is in US$.

[23] See ADDENDUM A

The size of the database renders it impracticable to provide it on hard copy. More detailed information than that appearing in this is available electronically on request.

7.2 Product categories

In 2004 India imported about US$500 million worth of stainless steel products. Of that 45% was seamless pipes and tubes and a further 36% flat rolled products. Imports of stainless steel products are thus growing to be highly concentrated In 2004 import of seamless tubes pipes were almost 4 times and that of flat rolled products 3 times higher than in 2000.

Table 7.1 Imports of Stainless Steel products by India from the World 2000 to 2004 (US$ million)

Sub-group	2000	2001	2002	2003	2004
Intermediate products: Flat-rolled	59	72	68	129	182
Intermediate products: Bars & rods; angles, sections	13	13	24	22	40
Intermediate products: Wire	5	5	6	7	12
Downstream products: Tubes & pipe, seamless	62	74	101	176	230
Downstream products: Other tubes & pipe, welded	2	3	2	3	5
Downstream products: Hollowware & other for kitchen and table	1	0	1	1	1
Downstream products: Sinks & wash basins	0	0	0	0	0
Downstream products: Knives, spoons, forks & other	4	6	5	10	10
Downstream products: Milking machines and dairy machines	5	1	1	4	5
Downstream products: Food industry machinery	11	15	11	20	23
TOTAL	**162**	**191**	**219**	**371**	**509**

7.3 Origin

The major suppliers to India are Japan, Spain and China. South Africa increased its supply to the Indian market from1 % in 2000 to 5% in 2004.

Table 7.2: Origin of imports of Stainless Steel by India 2000 to 2004 ($million and percentage share)

Partner	2000		2004	
	USD m	%	USD m	%
Japan	24	15	65	13
Spain	12	7	53	10
China	4	2	46	9
Italy	7	4	34	7
USA	15	9	32	6
Rep. of Korea	4	3	28	6
Sweden	9	5	28	6
Germany	15	9	27	5
South Africa	2	1	25	5
France	11	7	21	4
Romania	1	1	21	4
Argentina	3	2	13	2
Other Asia, nes	4	2	12	2
United Kingdom	9	6	12	2
Other	41	25	92	18
TOTAL	**162**	**100**	**509**	**100**

7.4 Import growth

Table 7.3 Imports of Stainless Steel Products by India from the World 2000 to 2004 (Percentage growth p.a.)

Sub-group	2000	2001	2002	2003	2004	Growth 2000-2004
Intermediate products: Flat-rolled	59	72	68	129	182	8
Intermediate products: Bars & rods; angles, sections	13	13	24	22	40	33
Intermediate products: Wire	5	5	6	7	12	7
Downstream products: Tubes & pipe, seamless	62	74	101	176	230	28
Downstream products: Other tubes & pipe, welded	2	3	2	3	5	8
Downstream products: Hollowware & other for kitchen and table	1	0	1	1	1	-11
Downstream products: Sinks & wash basins	0	0	0	0	0	16
Downstream products: Knives, spoons, forks & other	4	6	5	10	10	10
Downstream products: Milking machines and dairy machines	5	1	1	4	5	-45
Downstream products: Food industry machinery	11	15	11	20	23	2
TOTAL	162	191	219	371	509	16

Growth of stainless steel imports in US$ was 16% p.a. between 2000 and 2004.

7.5 Revealed comparative disadvantages

India seems to be at a comparative disadvantage in the trade in the products that are shown in Table 11.4. Theoretically there may be opportunities in exporting these products to India.

Table 7.4 RCDA of Indian Stainless Steel from the world

HS4	Description	RCA World exporting to India

		2000	2001	2002	2003	2004
7304	Tubes, pipes and hollow profiles, seamless, of iron (excluding cast iron) or steel.	2.1	1.7	2.3	2.5	2.4
7223	Wire of stainless steel.	1.4	1.3	1.3	0.9	1.2
7222	Other bars and rods of stainless steel; angles, shapes and sections of stainless steel.	1.2	1.1	1.9	0.9	1.1
7221	Bars and rods, hot-rolled, in irregularly wound coils, of stainless steel.	0.8	0.5	1	0.9	1

7.6 Exports of Stainless Steel products by South Africa

7.6.1 Data

Customs data from the South African Revenue Services is used. The analysis is for the period 2000 to 2004. Data is analysed on the 4-digit-level of the HS. Exports are measured in USD.

7.6.2 South African exports of Stainless Steel to the world

In 2004 South Africa exported US$ 1089 million, double the exports in 2000. However, exports remain concentrated in flat rolled intermediates. Export growth in US$ averaged 23% p.a. between 2000 and 2004.

Table 7.5 South African exports of Stainless Steel to the world – 2000 to 2004 (USD million)

Sub-group	2000	2001	2002	2003	2004
Intermediate products: Flat-rolled	424	311	386	634	973
Intermediate products: Bars & rods; angles, sections	1	2	3	4	5
Intermediate products: Wire	0	0	0	0	1

Sub-group	2000	2001	2002	2003	2004
Downstream products: Tubes & pipe, seamless	34	33	25	35	55
Downstream products: Other tubes & pipe, welded	16	15	15	17	16
Downstream products: Hollowware & other for kitchen and table	2	2	6	9	9
Downstream products: Sinks & wash basins	2	2	3	3	3
Downstream products: Knives, spoons, forks & other	6	5	6	6	5
Downstream products: Milking machines and dairy machines	0	0	1	1	1
Downstream products: Food industry machinery	27	23	21	26	23
TOTAL	**512**	**395**	**466**	**734**	**1089**

Source: South African Customs and Excise

8421.10 Catalytic converters

South African exports to the world increased from USD 713 million in 2000 to USD 1370 million in 2004.

8708 92 90 Silencers

Exports increased from USD56 million in 2000 to USD62 million in 2004.

7.6.3 Destination of South African exports.

Italy and China are the major destinations of stainless steel exports. About 2% of exports (90% flat rolled) go to India up from !% in 2000.

Table 7.6 Destination of exports of Stainless Steel by South Africa 2000 and 2004 (R million)

Partner	2000		2004	
	USD m	%	USD m	%
Italy	114	22	172	16
China	8	2	141	13
Thailand	50	10	89	8

Partner	2000		2004	
	USD m	%	USD m	%
Germany	13	3	68	6
United States	48	9	62	6
United Kingdom	38	7	51	5
Mexico	82	16	51	5
Hong Kong Special Administrati	21	4	45	4
Sweden	1	0	40	4
Republic of Korea	1	0	33	3
Malaysia	3	1	30	3
India	4	1	27	2
Singapore	6	1	24	2
Israel	9	2	23	2
Romania	0	0	19	2
Other	112	22	215	20
TOTAL	**512**	**100**	**1089**	**100**

Source: SARS

7.7 Revealed comparative advantages

South Africa has a comparative advantage in the export of flat-rolled products of stainless steel with a width 600mm or more. Exports of welded tube and pipe(HS 7306.40) Catalytic converters (8421.10) and Silencers (8708 92 90) also demonstrate competitive advantages.

7.8 Considerations

1 In 2004 India imported about US$500 million worth of stainless steel products. Of that 45% was seamless pipes and tubes and a further 36% flat rolled products. Imports of stainless steel products are thus growing to be highly concentrated In 2004 import of seamless tubes pipes were almost 4 times and that of flat rolled products 3 times higher than in 2000.

2. South Africa increased its supply of stainless steel products to the Indian market from1 % in 2000 to 5% in 2004.

3. Theoretically[24] there may be opportunities in exporting the following products to India because of India's comparative disadvantage in their trade:

7304	Tubes, pipes and hollow profiles, seamless, of iron (excluding cast iron) or steel.
7223	Wire of stainless steel.
7222	Other bars and rods of stainless steel; angles, shapes and sections of stainless steel.
7221	Bars and rods, hot-rolled, in irregularly wound coils, of stainless steel.

4**.** In 2004 South Africa exported US$ 1089 million, double the exports in 2000. However, exports remain concentrated in flat rolled intermediates. Export growth in US$ averaged 23% p.a. between 2000 and 2004.

5. Italy and China are the major destinations of South African stainless steel exports. About 2% of exports (90% flat rolled) went to India in 2004 up from !% in 2000.

6 South Africa has a comparative advantage in the export of flat-rolled products of stainless steel with a width 600mm or more. Exports of catalytic converters and of exhaust systems also show promise.

Imports and exports of stainless steel products by South Africa and India are becoming more intensive although at a very low level.

8 SYNTHESIS AND RECOMMENDATIONS

8.1 The defensive position

8.1.1 Considerations

1. Sustained rapid growth, high investment, a large population, and a willingness to support development with incentives, promise to propel the Indian economy to one of the largest mass markets of the world. The Indian economy is already the

[24] Not produced in South Africa.

10th largest in the world. Indian firms can thus expect to benefit from economies of scale and a large home base. Competition from Indian producers will in all probability be a threat to their South African counterparts.

2. The Indian government has traditionally had a legacy of protectionism toward the economy and this has translated into a bureaucratic system that is inefficient and infected with some measure of corruption. This may frustrate exporting to India. However, as part of the reform process, the government has endeavored to address bureaucratic obstacles and to reduce corruption.

3. The Indian stainless steel industry has grown at a rate of 16% over the last fifteen years and has averaged growth of 20% over the last four years. The exceptional growth of the last four years can be attributed to growth in exports to China. Exports expanded by 55% p.a. between 1999 and 2004.

4. Industry specific policies are developed by the industry in conjunction with government. The industry aims at improved availability; expansion of process capacity; moving up the value chain; pricing and affordability; and extending and expanding the market. India maintains a competitive edge with regards to the Cr-Mn/200 series grade, which has low nickel content and is significantly cheaper than products with high nickel content. India has a large pool of low cost labour, with the capability to manufacture products of international standard. The Indian stainless steel industry is on an expansionary path and geared toward product improvement, capacity building and global expansion. This is backed by a clear industry strategy and industry development incentives.

5. India's share of world production has increased from 2% in 1991-1992 to approximately. 7% in 2004-2005. It is estimated that by 2010, the production of stainless steel will amount to 2.618 million tonnes and 4 million tonnes in 2016 compared with 1.7 million tonnes in 2004-2005. The Indian stainless steel industry follows a policy of production pre-empting demand. Should some mishap happen to growth in markets the Indian industry could become more aggressive in its home and in export markets with negative consequences for the South African stainless steel industry.

6. The Indian stainless steel industry is export orientated (46% of production) and i in the upstream part of the industry the export of flat rolled stainless steel >600mm is half of the total in tonnes. Imports of stainless steel are 9% of production and also predominantly flat rolled stainless steel >600mm. Exports is predicted to grow by 9% to 12 % p.a. over the next ten years.

..

9. Export of kitchen and hollowware is 40% of production. India's share in world trade of these products is 10% and the aim is to raise it to 25%.

7. India's bound tariff rate for stainless steel is 40%. Only 64% of the tariff headings of Chapter 74 (Metal products) are bound. India could thus raise its much lower applied rates to this higher level should circumstances require it

8. India's duty on stainless steel of Heading 72.19 is 10% (actual applied rate), on other stainless steel (apparently) 20% and on products of stainless steel 15%.The highest South African applied tariff is 30% although 20% is more typical..

9. However India's tariff structure is not transparent with the contents of a large number of notifications and general exemption notices not incorporated in Schedule 1 (basic duty schedule). Furthermore, India applies additional taxes on imports and their structure is not transparent. The most important of these is an additional duty of generally 16% which is actually a central excise or value added duty.

10. Tariff concessions granted by India may, therefore, in certain cases be of no real value. During negotiations on tariff concessions, SACU should make sure that the preferences offered by India will result in actual reductions in the currently applied rates.

11. NTBs remain a major problem for exporters to India although the situation has improved over the past few years. The NTBs with the most affect on exports to India are policy unpredictability and uncertainty; customs procedures and delays;

customs valuation; port and other transport infrastructural problems; and general burdensome red tape.

12. India has become the pre-eminent exponent of anti-dumping duties of all countries. The sectors most subject to anti-dumping measures imposed by India are base metals and products thereof (33.1%) that would include stainless steel. Of countries against which anti-dumping investigations have been initiated, India is fifth on the list in regard to the number of initiations. India is subject to more countervailing measures than any other country.

13. India have comparative advantages in its exports to the world in the products below and any concessions to India on them should be handled with great care:

HS 7222 Other bars and rods of stainless steel; angles, shapes and sections.

HS 7223 Wire of stainless steel.

HS 7323 Table, kitchen or other household articles and parts thereof, of iron or steel; iron or steel wool; pot scourers and scouring or polishing pads, gloves and the like, of iron or steel.

HS 7221 Bars and rods, hot-rolled, in irregularly wound coils, of stainless steel.

HS 8214 Other articles of cutlery (for example, hair clippers, butchers' or kitchen cleavers, choppers and mincing knives, paper knives); manicure or pedicure sets and instruments (including nail files).

14. South African imports of stainless steel products from India doubled from US$6.4 in 2000 to US$12.4 in 2004. Most categories showed increases but the more prominent were imports of bars, rods and angles; wire; hollow and other

kitchenware, and knives spoons and forks. That of HS 7323.93 (kitchen and hollowware) trebled between 2000 and 2005 in money terms and in units.South Africa is the destination of 1% of India's stainless steel exports.

15. India has a comparative advantage against South Africa in:

7220 Products of stainless steel of a width of less than 600 mm.
8215 Spoons, forks ladles, skimmers, cake-servers, fish-knives, butter-knives, sugar-tongs and similar kitchen or tableware.
8212 Razor and razor blades (including razor blades blanks in strips).

Concessions on these products to India should be avoided

8.1.2 Recommendations from a defensive position.

The cross cutting perspective

6. The Indian economy is 4 times South Africa's and the population 23 times. India's economy is the 10th largest in the world with high growth potential. South Africa is more open to international trade (66% of GDP) than India (31%). Indian exports to South Africa are expanding and because of the difference in size and trade intensity, the impact on the South African market can be much more extensive than the other way round.

The sector specific perspective

2 By considering that India's stainless steel sector is:

- undergoing robust growth in production, consumption and export;
- supported by a clear development strategy as developed by the Indian stainless steel industry;
- backed by government development incentives;
- with the real threat of excess capacity that may impact adversely on trading partners when conditions change for the worse, and
- India's competitive advantage in down stream stainless steel products,

should cause negotiators to be extremely careful in granting concessions on stainless steel products to India.

3. Should any offers be contemplated they need to be worked out in conjunction with the constituents of the stainless steel sector.
4. The tariff headings that appear in paragraphs 14 and 16 represent areas of competitive advantage by India that makes it dangerous to grant any concessions with regard to them.
5. Negotiations may be complicated by:
    - the Doha Round. The applied tariff rates of some product groups will be subject to reduction over a period of time in terms of NAMA (non-agricultural market access) if the Doha Round is successfully concluded. NAMA introduces a degree of uncertainty with respect to future MNF tariff levels that may render bilateral concessions premature; and
    - subsidies and incentives that may be enjoyed by Indian firms.
    - high bound tariffs as a potential fall back to raise applied tariffs should circumstances require that.

8.2 The offensive position

8.2.1 Considerations

1. The Indian economy is already the 10th largest in the world and driven by economic reform, high investment and growth is to progress even further. Indian markets will offer opportunities to South African business.

2. India's infrastructure faces the twin challenges of expansion and modernisation. Incentives are to be introduced for investment in certain sectors, which include telecommunication, ports, airports, railways, roads, energy and construction. Investment in infrastructure will be to the benefit of the demand for stainless steel.

3. Stainless steel consumption in India is growing at 11.5% to 12% annually. It amounted to approximately 1.153 million tonnes in 2004-2005. Flat products constitute the majority of products consumed at 86% (CR-MN grade 72.4%). 70% of downstream stainless steel consumption is in the manufacture of utensils.

4. However, other applications are to become more prominent in future. Use of stainless steel in construction is predicted to increase from 28 million tonnes in 2004 to 208 million tonnes in 2010 or from 2.4% to 9.1% of consumption.. Application in the transport sector is to increase from 24 million tonnes to 104 million tonnes in 2010 (2.1% to 6.1% of consumption). The remaining applications are also expected to increase in proportion to consumption while the dominance of use of stainless steel in utensil manufacture is set to decline to 62% of consumption in 2010.

5. Imports are predicted to remain important and set to grow by 12% to 15% over the next ten years. That is marginally faster than the growth in consumption.

6. In 2004 India imported about US$500 million worth of stainless steel products. Of that 45% was seamless pipes and tubes and a further 36% flat rolled products. Imports of stainless steel products are thus growing to be highly concentrated In 2004 import of seamless tubes pipes were almost four times and that of flat rolled products 3 times higher than in 2000.

7. South African exports of stainless steel amounted to US$ 1089 million in 2004. This was double the amount of 2000 and a growth rate of 23% p.a. Exports remain concentrated in flat rolled intermediates

8. South Africa increased its supply of stainless steel products to the Indian market from US$ 4 million (1%) in 2000 to US$ 27 million (2%) in 2004. Imports and exports of stainless steel products by South Africa and India are becoming more intensive although at a very low level. South Africa has a positive trade balance in the trade in stainless steel products with India.

9. South Africa has a comparative advantage in the export of flat-rolled products of stainless steel with a width 600mm or more. Comparative advantages are present for the exports of catalytic converters and exhausts systems. Theoretically there may be opportunities in exporting the following products to India because of India's comparative disadvantage in their trade:

7304 Tubes, pipes and hollow profiles

7222 Other bars and rods of stainless steel, angles, shapes and sections of stainless steel

7221 Bars and rods, hot-rolled, in irregularly wound coils, of stainless steel.

8.2.2 Recommendations from an offensive position

From a cross cutting perspective

1. By considering that
   - India is the second fastest growing economy of the world;
   - Already is the 10th largest and destined to become even more important with sustained high growth caused by increases in prosperity to be generated by exports, India's IT services sector and its growing segment of middle class consumers;

   suggest that opportunities for concessions on South African exports of stainless steel products be pursued.

From a sector specific perspective

2. Because:
   - India's imports of stainless steel are predicted to grow faster than consumption over the next ten years;
   - .South African exports of predominantly flat rolled products to India are growing rapidly although from a low base;.
   - Applications in construction and transport are to become more prominent to supplement the large amounts of stainless steel that is used in the production of utensils,

   could make it worth while for South Africa to request tariff concessions from India.

3. Apart from South Africa's apparent advantage in exporting flat rolled products India may offer opportunities in the following where it seems to be at a competitive disadvantage against the world at present.
   - 7304 Tubes, pipes and hollow profiles

- 7222 Other bars and rods of stainless steel, angles, shapes and sections of stainless steel
- 7221 Bars and rods, hot-rolled, in irregularly wound coils, of stainless steel.

(These opportunities could be viable with or without a PTA)

6. Considerations of concessions should be undertaken in full consultation with the industry also because the industry's perceptions of opportunities are those that really matters as they would be the ones with the better chance to be turned into reality.

7. Negotiations can be complicated by WTO unfriendly subsidies and incentives that Indian producers may enjoy. A further complicating factor is South Africa's very narrow range of stainless steel products on offer that limit its ability to benefit from PTA's. This could become an issue where India may request concessions over a range of down stream products where South Africa is at a competitive disadvantage. Indian NTB' s, furthermore, are a major deterrent to imports. Negotiators need to ensure that tariff concessions are real and not eroded by non-tariff barriers; Uncertainty on future tariff levels because of NAMA may render bi-lateral concessions as premature.

7. Prospective exporters should enter the Indian market preferably in partnership with an Indian counterpart in view of the NTB's and other issues in doing business in India. .

ADDENDUM A

Revealed Comparative Advantage (RCA)

One of the most widely used measures of comparative advantage or international competitiveness is the Revealed Comparative Advantage (RCA) index developed by Balassa (1965). The RCA index compares a country's global market share for a particular product (sector) with its global market share for all goods traded. It can therefore be used to identify a country's comparative (competitive) advantage in the production and export of specific products or sub-sectors.

Because the RCA index is based on actual trade flows, it highlights a country's actual competitive advantage in a particular product, despite the existence of trade barriers.

The Revealed Comparative Advantage (RCA) index used in this report was calculated as follows:

where:

$$RCA_{ik} = \left(X_{ik} / M_{jk} \right) / \left(X_{it} / M_{jt} \right)$$

X_{ik} = Exports from country i (SA/EU) for a specific sector k

M_{jk} = Imports from country j (SA/EU/World) for a specific sector k

X_{it} = Total exports (t) from country i (SA/EU)

M_{jt} = Total imports (t) from country j (SA/EU/World)

The Revealed Comparative Advantage (RCA) is a very good indicator of competitiveness and general performance.

There are two ways of interpreting it:

If we talking about competitiveness in the total world market

It measures the share of South African exports in a specific sector relative to total export share of world trade.

It measures the share of South African exports in the specific sector in world trade in that sector relative to total SA export share of world trade.

If we talking about competitiveness in the specific country or region

It measures the share of South African exports in a specific sector of that relative to total SA export share of that country's total imports.

It measures the share of South African exports in the specific sector in that country's total import in that sector relative to total SA export to that country share of the country total import.

The difference comes from the fact that world imports equal world exports.
A value of greater than one indicates a revealed comparative advantage

EXAMPLE

RCA India exports to SA revealed comparative advantage HS7222 - Other bars and rods of stainless steel; angles, shapes and sections of stainless steel.:

SA import from world 2004 for this heading is 18,509,788, SA total import from world for Stainless Steel 2004 is 281,621,580. India's export to SA for this line 2004 is 2,898,501, India's total export to SA for Stainless steel is 8,717,295.

RCA =(2898501 / 8717295) / (18509788 / 281621580) = 5.06 – grater than one. It means this product has comparative advantage

ADDENDUM B

INDIA: GENERAL INCENTIVE SCHEMES

India applies a vast array of export support schemes based on the duty rebate and drawback principles. These schemes and their main features are:

1. DUTY EXEMPTION & REMISSION SCHEMES

Duty exemption schemes enable duty free import of inputs required for export production. An Advance Licence is issued as a duty exemption scheme. A Duty Remission Scheme enables post export replenishment/ remission of duty on inputs used in the export product. Duty remission schemes consist of (a) DFRC (Duty Free Replenishment Certificate) and (b) DEPB (Duty Entitlement Passbook Scheme).

DFRC permits duty free replenishment of inputs used in the export product. DEPB allows drawback of import charges on inputs used in the export product.

Advance Licence for Annual Requirement 4.1.10 Advance Licence can also be issued on the basis of annual requirement for physical exports, intermediate supplies and / or deemed exports.

The entitlement in terms of CIF value of imports under this scheme shall be up to 300% of the FOB value of physical export and / or FOR value of deemed export in the preceding licensing year or Rs 1 crore, whichever is higher. Such licence shall have value addition as specified in paragraph 4.1.6 of the Foreign Trade Policy.

EXPORT PROMOTION CAPITAL GOODS SCHEME

EPCG Scheme 5.1 The scheme allows import of capital goods for pre production, production and post production (including CKD/SKD thereof as well as computer software systems) at 5% Customs duty subject to an export obligation equivalent to 8 times of duty saved on capital goods imported under EPCG scheme to be fulfilled over a period of 8 years reckoned from the date of issuance of licence.

EXPORT ORIENTED UNITS (EOUs), ELECTRONICS HARDWARE TECHNOLOGY PARKS (EHTPs), SOFTWARE TECHNOLOGY PARKS (STPs) AND BIO-TECHNOLOGY PARKS (BTPs)

Eligibility

6.1 Units undertaking to export their entire production of goods and services (except permissible sales in the DTA), may be set up under the Export Oriented Unit (EOU) Scheme, Electronic Hardware Technology Park (EHTP) Scheme, Software Technology Park (STP) Scheme or Bio-Technology Park (BTP) scheme for manufacture of goods, including repair, re-making, reconditioning, re-engineering and rendering of services. Trading units, however, are not covered under these schemes.

(b) An EOU/EHTP/STP/BTP unit may import and/or procure from DTA or bonded warehouses in DTA / international exhibition held in India without payment of duty all types of goods, including capital goods, required for its activities, provided they are not prohibited items of import in the ITC (HS). Any permission required for import under any other law shall be applicable. The units shall also be permitted to import goods including capital goods required for the approved activity, free of cost or on loan/lease from clients. The import of capital goods will be on a self certification basis.

Other Entitlements

6.12 Other entitlements of EOU/EHTP/STP/BTP units are as under:

(a) Exemption from payment of Income Tax as per

the provisions of Section 10A and 10B of Income Tax Act.

(b) Exemption from industrial licensing for manufacture of items reserved for SSI sector.

(c) deleted

(d) Will be allowed to retain 100% of its export earning in the EEFC account.

The Units will not be required to furnish bank guarantee at the time of import or going for job work in DTA, where the unit has (i) a turnover of Rupees 5 crores or above, (ii) the unit is in existence for at least three years and (iii) unit having an unblemished track record.

100% FDI investment permitted through Automatic Route similar to SEZ units.

SPECIAL ECONOMIC ZONES

Eligibility 7.1 (a) Special Economic Zone (SEZ) is a specifically delineated duty free enclave and shall be deemed to be foreign territory for the purposes of trade operations and duties and tariffs.

(b) SEZ units shall be entitled for:-

(i) Exemption from Central Sales Tax.

(ii) Exemption from payment of Central Excise Duty on all goods eligible for procurement by the unit.

(iii) Deleted.

(iv) Reimbursement of Duty paid on fuels or any other goods procured from DTA as per the rate of drawback notified by the Directorate General of Foreign Trade from the date of such notification.

Other Entitlements		Other entitlements of SEZ units are indicated in the Chapter 7 of the Handbook (Vol-1).
Entitlement for SEZ Developer	7.23	For development, operation and maintenance of infrastructure facilities in SEZs, the developer shall be eligible for the following entitlements (a) Income tax exemption as per 80 IA of the Income Tax Act. (b) Import/ procure goods without payment of Customs/Excise duty. (c) Exemption from Service tax. (d) Exemption from CST.

FREE TRADE & WAREHOUSING ZONES

Objective	7A.1	The objective is to create trade-related infrastructure to facilitate the import and export of goods and services with freedom to carry out trade transactions in free currency. The scheme envisages creation of world-class infrastructure for warehousing of various products, state-of-the-art equipment, transportation and handling facilities, commercial office-space, water, power, communications and connectivity, with one-stop clearance of import and export formality, to support the integrated Zones as 'international trading hubs'. These Zones would be established in areas proximate to seaports, airports or dry ports so as to offer easy access by rail and road.
Status	7A.2	The Free Trade & Warehousing Zones (FTWZ) shall be a special category of Special Economic Zones with a focus on trading and warehousing.
Entitlement of units	7A.6	(i) Income Tax exemption as per 80 IA of the Income Tax Act.

(ii) Exemption from Service Tax.

(iii) Free foreign exchange currency transactions would be permitted.

DEEMED EXPORTS

Deemed Exports 8.1 "Deemed Exports" refers to those transactions in which the goods supplied do not leave the country and the payment for such supplies is received either in Indian rupees or in free foreign exchange.

Benefits to the Supplier 8.4.1 (i) In respect of supplies made against Advance Licence in terms of paragraphs 8.2(a) of the Policy, the supplier shall be entitled to Advance Licence for intermediate supplies.

PROMOTIONAL MEASURES

Assistance to States for Infrastructure Development of Exports (ASIDE) 3.1 The State Governments shall be encouraged to participate in promoting exports from their respective States. For this purpose, Department of Commerce has formulated a scheme called ASIDE.

Suitable provision has been made in the Annual Plan of the Department of Commerce for allocation of funds to the States on the twin criteria of gross exports and the rate of growth of exports.

The States shall utilise this amount for developing infrastructure such as roads connecting production centres with the ports, setting up of Inland Container Depots and Container Freight Stations, creation of new State level export promotion industrial parks/zones, augmenting common facilities in the existing zones, equity participation in infrastructure projects, development of minor ports and jetties, assistance in setting up of common effluent treatment facilities, stabilizing power supply and any other activity as may be notified by Department of Commerce from time to time.

The DEPB scheme lacks a built-in obligation to import only goods that are consumed in production of the exported goods. There is no verification system in place to check whether the imports are actually consumed in the production process. It is not a substitution drawback scheme because the imported goods do not need to be of the same quantity and characteristics as the domestically sourced inputs that were used for export production. Exporting producers are eligible for the DEPB benefits regardless of whether they import any inputs at all. An exporter obtains the benefit by simply exporting goods without the need to show that any input material was indeed imported; thus, exporting producers which procure all of their inputs locally and do not import goods which can be used as inputs are still entitled to the DEPB benefits.

EOUs and exporters in special economic zones, in addition to the duty drawbacks, benefit from tax concessions and relief from other taxes such as services taxes**.**

India also has export finance, insurance, guarantee, export promotion and marketing assistance schemes. In addition, their priority-sector lending requirements require domestic banks to allocate 12% of total annual lending for exports.