

Steel industry hit due to lack of long-term policy

by Chamitha Kuruppu

The absence of a long-term policy on steel has made the steel sector go through a difficult phase resulting in gross under utilisation of the capacity and closure of a number of units.

Committee Chairman of the Steel Sector of the Ceylon National Chamber of Commerce (CNCCI) Shiv Kumar said that direct and indirect employment opportunities have been affected due to the closure of these units and under-utilisation.

Though the country lacks any major consuming industry such as heavy, engineering or automobile industries Sri Lanka's steel industry has grown over the years only as rolling mills. The installed annual capacity of all units put together is about 484,000 MT.

Shiv Kumar said that 80% of steel is used in the construction industry while the demand for fabrication units is minimal. "This problem has occurred due to the absence of a long-term policy on steel," he said.

He called upon the government to support the ailing steel sector by way of withdrawal of exemption to import duty free steel.

Exemption to import duty free steel should be removed in the production/category/dimension and quality locally manufactured, unless these are imported for export after value addition. Increasing the current duty of 5-10 percent to 25 percent on all categories of steel locally manufactured and introducing a system to put products on higher import duty rate upon commencement of production by local steel mills are also important, Shiv Kumar said.

He said that an action plan should be finalised for a short term as well as long-term basis.

He suggested that duty on all the prod-

ucts/category for which the production facility available in the island to be kept at 25% to help revive the steel sector. This will avoid dumping by the countries giving incentives for exports.

The steel committee set up under the Ministry of Industries should meet once a month to clear all requests, which will overcome abuse of the facility, Shiv Kumar said.

Removal of VAT on steel or keeping it at minimum level will stimulate demand and reduce cost of construction.

Value addition norms should be modified to provide the country of origin certificate to qualify for concessional duty under FTA with India or any other country. This will bring investments for the value addition on steel. A steel service centre can also be set up in the island and this will open new avenues for export.

Only proven latest technology to be allowed. Clearance to be given only after recommendation by the steel committee under Ministry of Industries, within a given time frame. This will facilitate production of state of the art products for exports.

Incentives for export to overcome higher tariffs and rates of electricity, furnace oil benchmarked with international prices is another suggestion made by Shiv Kumar. Such a move will stimulate exports and help better utilisation of the capacity and will encourage investment for 100% exports. Though steel usage is higher in infrastructure development work in a country such as Sri Lanka where infrastructure development is at a minimum level steel consumption is also poor. Meanwhile, most of the consumers depend heavily on imports. "Specially bulk consumers intend to import duty free," he said.

He said that though steel manufacturing and selling needs approval from the Sri

Lanka Standards Institute, most of the steel manufactured and available in the country are not up to the required standards and are not approved. "The law is there but implementation is poor," he said.

Singapore does not manufacture steel but it is one of the major trading places. Since Sri Lanka does not have the potential for steel manufacturing, we too can become like Singapore and be an active trading centre, he added.

Shiv Kumar said the government's involvement in developing the steel sector is poor.

The steel sector comes under three Ministries namely Finance, Commerce and Consumer Affairs and Ministry of Industries. But none of these ministries is looking into the difficulties faced by the sector.

Specially the Finance Ministry, which can contribute largely to the development of the sector is more concerned about revenue and not willing to waive off duties, he said.

Stressing the importance of removing VAT he said that of the total construction cost of a project 5 to 6 percent is for steel. "By removing VAT project cost will come down".

During the last two years the steel industry in all other countries in the region has earned a lot of money. The steel sector is earning a lot of money worldwide.

Banks have lost a large amount of money on the steel sector. Specially the NDB and DFCC. Therefore the Government is the only hope for nearly 60 steel manufacturers in Sri Lanka.

"Steel products are required for engineering purposes. If we can tie up with some multinational company to produce one single product worldwide that would improve the sector. The Government can negotiate with other countries and arrange for a joint venture," Shiv Kumar said.

