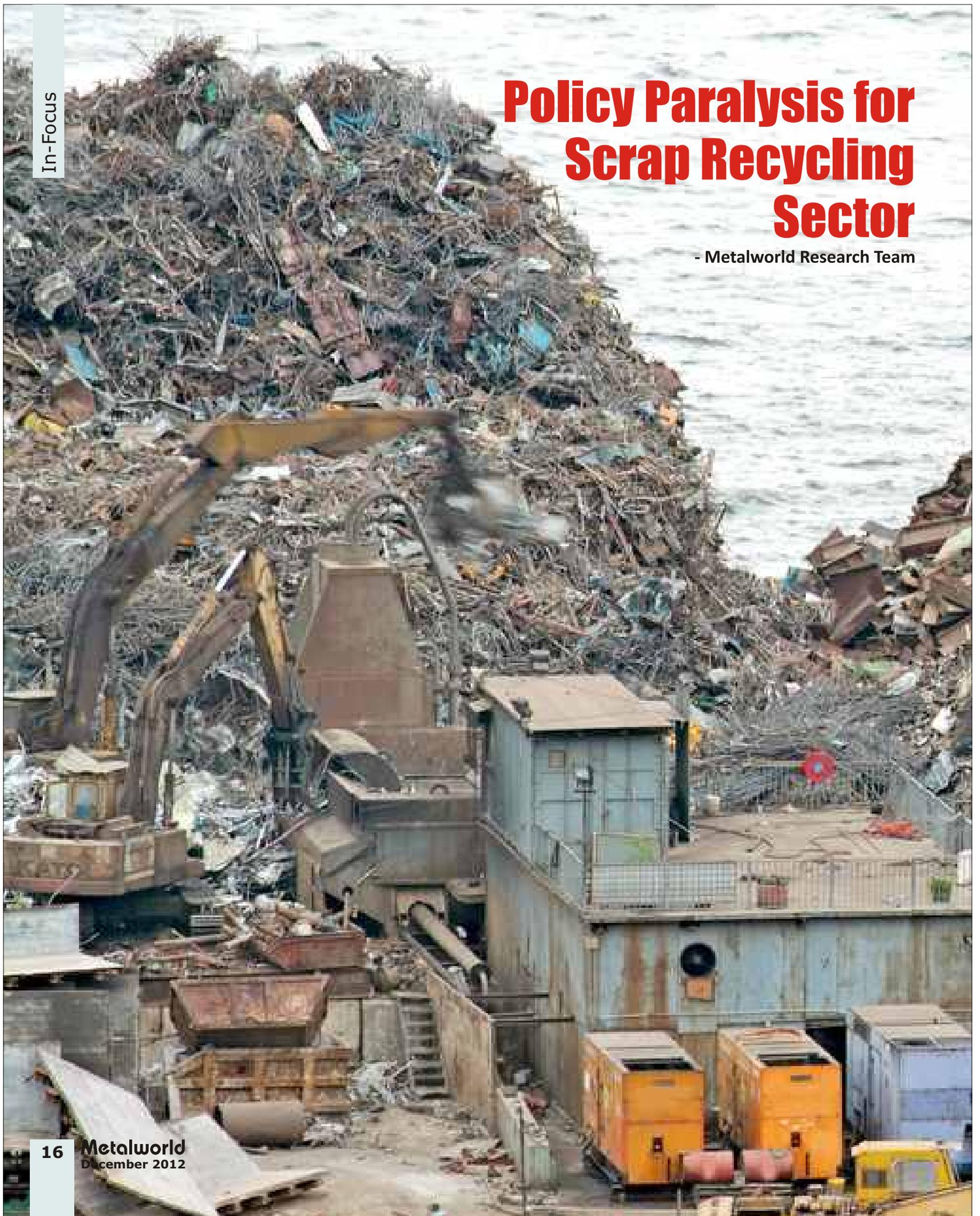


# Policy Paralysis for Scrap Recycling Sector

- Metalworld Research Team



**D**espite being a cost-effective source for metal recovery, scrap recycling is one of the most neglected sectors in India. Consequently, the sector has been facing a number of challenges including non availability of scrap equal tariff with imported virgin metal and accreditation of it as the most polluting industry in India. Apart from that scrap recycling which often offers negligible returns due

excessive use of energy and manpower, the metal obtained in the process is used primarily for secondary applications inspite of full recovery of tensile strength including physical and chemical properties. Consequently, neither the government nor the industries as their backward integration often invest heavily in scrap recycling which often pushes the industry in doldrums.



### Impact of Economic Slowdown

Indian brassware, mainly antique pieces, was in good demand abroad till recently. The industry uses about 100,000 tonnes of copper and about 60,000 tonnes of zinc to make huge artilleries to generate export revenues worth Rs 5000 crore. But, economic slowdown has hit medium and tiny brassware units as well. The industry is now expecting the total export order to decline from the normal level of Rs 5000 crore to Rs 3500 crore this year mainly a dramatic fall in demand from European and American orders.

The government policy has so far discouraged copper recycling industry which is currently engaged in imports of scrap for producing the secondary red metal. The metal so obtained is prominently used for manufacturing artifacts and brass utensils. Over 5000 small scale units are engaged in melting of imported scrap copper across the country. Owing to India's privileged recognition as the largest exporter of brass artifacts which find immense demand in developed countries including Europe and the US, the demand of secondary metal is high in India. But, over the past few years, the slowdown in industrial activities due to the ongoing economic drawdown in the European Union left a cascading affect on India's exports of brass artifacts. According to Rohit Shah, an industry veteran and past president of the Bombay Metal Exchange (BME), the demand of Indian artifacts has declined over 80 per cent from overseas markets. India executes overseas export orders worth around Rs 1000 crore annually. But, the orders have declined sustainably over the last few years. Consequently, Indian manufacturers are now planning to divert their focus on domestic markets.

### Threat of Closure

Around 5000 small and medium copper smelters producing largely brass artifacts and utensils are facing the threat of closure due to a massive differential in import duty and discouraging government policies. In an unfortunate case of illogical difference, the accumulative import duty levy on raw material works out to 22.85% (12.3% countervailing duty + 4% of special additional duty (SAD) and host of others) on copper and brass scrap against a mere 12.3% levy on finished products. "The government has signed Free Trade Agreement (FTA) with many neighbouring countries and has allowed import of finished products under preferential duty benefit. With this, the domestic small scale industry (SSI) and micro units with smelting capacity of upto 100 tonnes per month have been suffering due to higher cost of production through imported raw material," said Shah. Import of finished products through neighbouring countries including Sri Lanka, Myanmar, Bangladesh, Vietnam and a host of others through which India has signed FTA, works out to cheaper than the import of raw materials directly to India and pay high duty. Non ferrous metals are usually characterized as high value and high investment products providing large scale employment. But, because of raw material becoming costlier than finished product, operating domestic SSI and micro units have become unviable. Looking at the growing demand of India-make artifacts, the government should bring down import duty lower on raw materials than finished products.

A majority of processing units are borrowing working capital from banks

and financial institutions at a very high interest rate due to a massive volatility in non ferrous metals prices. Since, scrap price moves in tandem with non ferrous metals, the cost of raw material keep fluctuating. In the last three months, the average operating capacity of these units has declined from 40% to 25% on gradual fall in import of copper scrap. Another important issue, secondary copper smelters are facing is the refund of central value added tax (CENVAT). Being little room of value addition in the products like copper which remains 100% copper even after use, is impossible. The existing norms say that smelters can claim refund of CENVAT at the time of supply of finished products out of the factory. Ideally, CENVAT is paid while on purchase of raw materials. Meanwhile, registered dealers / traders are allowed to claim refund of the 4% SAD amount against the sale of goods with the collection of state or central sales tax. In contrast, manufacturing units are allowed to take the credit of the same payment as CENVAT which is allowed to get debited while clearing finished goods from factory, said Surendra Mardia, Director of BME. In a critical situation, the differential duty between raw material and finished products to the tune of around Rs 800 crore is lying with the government unutilized which smelters cannot claim for refund due to lower room value addition in melting of copper scrap. While borrowing, however, they pay interest to banks. This not only blocks our working capital but also increases our interest outgo accumulatively which the government must allow us to get a refund, Mardia added. The price of imported scrap varies with copper content in scrap.

### Immediate Measures

In order to address the issue amicably for the betterment of the both the government and the industry, the BME has demanded basic import duty to be reduced on all non-ferrous metals (raw materials) to the below mentioned levels: prime / virgin ingots / cathodes) and scrap of all i.e. copper, brass, lead and tin should be brought down to "nil" from the current levy of 5 per cent, aluminium ingots should be brought down to "nil" from current

level of 5 per cent and nickel should be brought down to “nil” from current levy of 2 per cent. Apparently, zinc ingots, scrap and dross are exempted from basic duty vide notification No. 56/2008 dt. 29/04/2008. Aluminium scrap also attracts “nil” duty. Also, the premier association of the base metals industry in India has suggested the government to reduce counterveiling duty (CVD) to be brought down to 8 per cent from the existing 10 per cent for the economic growth of the industry. Further, all the manufacturing units (registered) should be exempted from the levy of 4 per cent SAD. Today, refund is allowed which is a time consuming job for the government as well as for the industry. Apparently, manufacturers are entitled to take credit of 4% SAD as Cenvat, however because of low value addition and heavy price fluctuation manufacturing units are unable to utilise the said credit and are accumulating, blocking our finance under the head of Excise-Cenvat, which is also a major reason for slow down of industrial activities.

Additionally, the exchange demanded a difference in duty between raw material and finished products minimum between 7.5 – 10 per cent so that the manufacturing units may easily produce and sell their output with protected margins. Import duty on all the metals should be charged on weight basis. By doing so, the mis-declaration, corruption, legal litigation in customs and excise will be avoided. The system will have more transparency and will save lots of time and environment by preventing dumping of low value items. Transaction value and or contemporary import price should be taken for the purpose of assessment and revenue and finally, all bankers should be instructed to facilitate small and medium scale industries.

### Lead Recycling in Deep Distress

Drastic change in the nature's behaviour with drought in some regions and flood elsewhere has forced global think tank to rework strategies and reduce discharge of obnoxious gases including carbon monoxide (CO), carbon di-oxide (CO<sub>2</sub>), nitrogen oxide (NO<sub>x</sub>) and sulphur di-oxide (SO<sub>2</sub>) into the environment. With the United



Nations (UN) taking the lead in this initiative, a parameter was set few years ago for all its signatories to adhere to it and set a stringent norm for all polluting industries in their respective countries. But, the UN introduced “carbon credit” – a mechanism through which the age old industries with decades of running machinery can settle higher emission discharge through purchase of reduction certificates from other industries. But, many countries including India drafted stringent norms for industries and enforced them for manufacturing industries. The lead recycling industry has become a victim of climate change norm in India.

As a heavy, malleable, bluish grey metal, lead is one of the most resistant to common corrosion problems. This is a bright luster, dense, ductile, very soft and highly malleable bluish-white metal which can be toughened by adding a small amount of antimony or other metals to it. It is a naturally occurring element and is usually associated with other minerals, notably zinc, silver and copper. Trace amounts of other elements, including gold, are sometimes found with lead ore. The ore is mined, concentrated and then smelted in a blast furnace with limestone and coke. It is refined to remove and recover other metals. Lead is one of man's most valuable commodities in present scenario. Occurring naturally in the environment, the metal is mined and processed in some 60 countries. The usage continues to increase and has risen from 4 million tonnes per year. Of this, nearly 2 million tonnes per year is produced in Asia. Secondary production or recycling is now widely practised and currently accounts for some about 50 per cent of usage

worldwide. Lead has some important properties, in particular malleability (i.e. it can be hammered into shape), ease of production, ease of melting and joining, and good corrosion resistance. As a result, it has been used for purposes such as roofing, window canes, piping, kitchen/tableware and ornamental uses for many centuries. The electrochemical properties of lead enable it to be used in storage batteries in all motor vehicles, and for some back-up power supplies.

Certain compounds of lead, particularly brightly coloured lead oxides, and leaded glasses and leaded glazes on ceramics, have been used for millennia. The main producers of lead mineral are: China, Australia, USA, Peru, Canada and Mexico. These six countries produce three quarters of world output. The largest exporters of lead metal are nations which mine large quantities of lead ore: China, Australia and Canada. All industrialized nations use lead. The USA is by far the greatest consumer, most of it being used for batteries. Other major consumers are: China, UK, Germany, Japan, Republic of Korea, France and Italy. Spain, Mexico and Brazil use less. In India about 75 per cent of total demand is from the domestic battery industries. Demand is growing at the rate of 6–7 per cent per annum and will continue to grow in the near future. Annual demand for lead is nearly 1.60 lakh tones. Domestic demand is fed up by mine production and recycling. But in India the recycling sector is not performing well in comparison to other developed countries so the share of recycled metals in domestic supply is no significant. Mostly lead is mined as co-product of zinc so the prices and supply demand is highly affected by the zinc market. India is lead production rate is



not stagnant its keep change year-by-year.

### Tough Going

Of the secondary producers' contribution of 320,000 tonnes, nearly 250 – 300 unorganised sector players mainly smaller ones in remote Indian cities contribute around 170,000 tonnes. These producers randomly consider installing pollution control equipment. Nearly 30–40 organised sector players like Gravita India Ltd and others, however, have installed all mandatory equipment for controlling discharge of obnoxious gases into the environment while processing of lead through secondary sources. These players contribute 150,000 tonnes of lead output annually. India's secondary lead industry is likely to witness a sea change in the next few years due to stringent environment guidelines framed by state pollution control boards (SPCB). Organised sector players are set to get a majority of share of smelters in unorganised sector. The country's total lead demand stands today at 600,000 tonnes. Hindustan Zinc, the only producer of primary metal produces around 70,000 tonnes while the remaining is met through a combination of secondary producers and imports. The remaining around 33 per cent or 200,000 tonnes of India's lead demand is met through imports. Lead demand in the country is growing at 12 per cent due to rapid growth in infrastructure as against 6 per cent of global average. SPCBs in the industrialised states have come out with stringent regulations for processing of secondary lead from battery scrap. Under these regulations, all plants engaged in this sector require to install pollution control equipment before seeking a clearance from SPCB. Since, small unorganised sector

players do not have financial capability to install pollution control equipment, they will not get their license renewed, said an official SPCB.

### Need for a Favourable Policy

The brass scrap industry in India is currently passing through double whammy. In one hand, the global economic slowdown has hampered their export demand resulting into their monthly revenue has halved over the last one year. The sector is also struggling to convince the government to reduce tariff for survival. Many household units with a daily capacity of 10–15 kgs in Moradabad in Uttar Pradesh, Jamnagar in Gujarat and Raigadh and Pune districts of Maharashtra have already announced their closure considering the business unviable. The industry with good revenue through handicraft exports has suffered more from government policies than the global economic crises. India imports about a lakh tonnes of brass scrap every year from every corner of the world which was attracting duty about half of the virgin copper price on the London Metal Exchange (LME). The sudden Brass scrap imports attracts today 127.24 per cent of duty than the landed cost of virgin copper as the government determined tariff on the import of brass has increased despite copper price collapsed on poor lifting from consumer industries. In the last eight months, the copper price reduced to one third but the government's tariff on brass scrap imports remained almost unchanged. Most importantly, the tariff recorded a drastic decline in November which was surprisingly, restored to the level of \$4082 per tonne, a rise of over \$350 from the previous month. This constitutes about 95 per cent of virgin copper price. Significantly, the tariff

was hovering around \$4479 in June constituting about 54.22 per cent of the prevailing price of copper on the LME. The Ministry of Commerce in consultation with Ministry of Finance determines tariff of brass imports frequently depending upon market forces and development in global metals industry. Sometimes, the tariff is revised twice a month while it draws the government's attention once a two months. The recent revision in tariff was taken by surprise as the landed cost of virgin metals is lower than brass, an alloy of copper and zinc. Ideally, scrap or alloy of any metal should be cheaper than virgin metal.

For lead recycling industry, however, the environmental concerns remain a major challenge which the government needs to address through a proper and sustainable policy in order to protect the industry from extinction.

As a representative body, the BME has suggested the following :

- Amendment in Cenvat act to refund accumulated cenvat if not used within 90days from the date of payment .+ provision for intrest @15%pa. After 90 days. + should be allowed to debit against fresh import .
- All manufacturing unit should be exempted from levy of SAD.
- All non ferrous metal ( -aluminium + , Copper+ Tin+ Nickel+ lead+ Zinc - scrap should be exempted from. SAD n brought under the fix terrif value ( like Brass Scrap).
- Since import of finish product are allowed at NIL rate from nebhgouring country under various Free Trade Agreement ,Raw Material -(scrap) for SME units should be allowed to import at " 0" duty .in int rest of survival of thousand's of Small -Micro units and Lacs of labour who is working with that small units.we must demand all above to protect indigenious industries n to remain in competition with china in international market.
- To give bust to indian industries and Economy, every sme units should get finance @6 %pa up to 10 core on merits as a special package to minimize import bill.also should be exempted from filing Q1, Q2 ( only Q3 yearly ) .
- Customs Authority must follow the valuation rules and accept declared value in general. ○○○