

Mineral assets: Govt's auction-only strategy to backfire, hurt steel sector

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The government's strategy of auctioning mineral resources to ensure transparency in the allocation process would bring exploration activities in the country "to a halt" while adversely impacting the 'Make in India' programme, the National Council of Applied Economic Research (NCAER) has said in a report. Instead, the Centre must focus on incentivising mineral exploration and the 'auction only' system should be replaced with a mechanism that encourages mining and promises exploring firms of seamless concessions on mineral discovery, the report said.

Suggesting that the system of bidding out mineral resources should be supplemented with the 'first come, first served' (FCFS) system that is prevalent worldwide, the report blamed the new auction process along with the decline in global iron ore prices for the raw material crunch in the country which is "likely to push up costs of both coal and iron ore". "The FCFS system yields less spectacular revenues, but the government needs to take a policy decision whether the goal is revenue maximisation or scientific development of the sector. Auctioning everything just to have a 'non-discretionary' way of allocating resources is a sub-optimal methodology that will lead to far more waste and loss than any other system," the report titled 'Indian Steel Industry: Key Reforms for a Brighter Future', said.

GROWING DEBT BURDEN ON STEEL FIRMS: DEBT-EQUITY RATIO

Company	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Bhushan Steel	3.46	3.65	3.81	3.61	3.28	3.96	3.90
Tata Steel	1.08	1.32	0.68	0.58	0.48	0.48	0.44
SAIL	0.13	0.27	0.50	0.52	0.41	0.53	0.59
JSPL	1.03	0.92	1.24	1.39	1.45	1.66	1.87
JSW Steel	1.06	1.51	1.26	0.72	0.89	0.93	1.19
Essar Steel	1.37	1.59	2.01	2.13	2.97	4.24	5.92
Industry average	1	1.04	0.98	0.99	0.97	1.1	1.19

Source: NCAER

MINING ALLOCATION PROCESS WORLDWIDE

Region	Exploration Rights Transferability	Mining Rights
Western Australia	Non-exclusive FCFS	Automatic FCFS
Quebec, Canada	Exclusive FCFS	Automatic FCFS
Western USA	Exclusive FCFS	Automatic auction (lease by application procedure)
Chile	Exclusive FCFS	Automatic FCFS
Brazil	Exclusive FCFS	Automatic FCFS (Recent contemplation to introduce auction)
South Africa	Exclusive FCFS	Conditional FCFS
China	Auction	Conditional auction

India is also losing export competitiveness due to factors like high unit cost of labour, lack of capital, poor logistics, it added.

While fully prospected mineral deposits should be bid out, the auctions should be based on sealed bids rather than e-auctions. The reserve price should be based on independent, credible third party evaluations using the Valmin Code or an equivalent, the report says. Valmin Code is a mechanism used by Australian geoscientists for technical assessment and valuation of mineral assets.

Transferability of concessions should be facilitated, not just for auctioned concessions but for all concessions, to promote consolidation, viability, backward integration by metal-making companies and efficiency, the study said. The report has also argued against reservation for the public sector and exclusive preference for metal-makers in allocation or auction of resources which should be replaced by a system that promotes a level playing field for ore products.

Expressing concerns over the prevalent mineral royalty rates for iron ore which was raised to 15 per cent recently, it said that global standards are mostly in the range of 3-7 per cent. Further increase has been proposed under the Mining and Minerals Development Regulations Act, 2015, with royalty to be paid to the district mineral foundation. "Focus more on scale than on rate of taxation. Facilitate a quantum jump in mining output with lower tax rates, which will increase revenue yield. With the mining industry in turmoil, now is not the time to raise taxation on mines," it said.

With the sector in doldrums in the past three years, steel manufacturers are experiencing difficult times. From 2010-11 to 2013-14 their profits declined more than 46 per cent in nominal terms. Medium and small companies have experienced huge losses in recent years, the report says.

There also have been several high-profile exits from capex plans involving companies such as Posco, ArcelorMittal and JSW indicating, among other things, their downbeat assessment of the prospects of their investments in India. "Under these circumstances, there is no chance of the steel sector meeting the 12th Plan targets or of achieving the target of 300 million tonnes capacity by 2025 as envisaged by the Steel Policy 2012," the NCAER contended. During 2014-15, steel imports surged to 10 MT with 3.6 MT coming from China alone and the neighbouring nation has the potential to devastate the steel industry in India just as it has damaged several other manufacturing sectors, the report cautioned.

To overcome the land acquisition problem, the NCAER suggested that there are huge areas of under-utilised land held by steel majors, which can permit additional 100 MT of capacity. Hence, there is no need for land acquisition for the next 15 years.

The expansion programme of SAIL is inadequate to fully utilise the land in its possession, it cited.

"There should be a massive programme for privatisation of PSUs, including in steel. For enterprises that remain in the public sector, there should be a significant improvement in rate of return on capital, which could then go to finance public investment," the report says.

The think-tank has further suggested that the Niti Aayog is the best forum to address the concerns plaguing the steel industry and suggest ways to take the sector forward.

