Geonesis

(A GEMCO KATI INITIATIVE)

Indian Mining & Exploration Updates

VOLUME 6, ISSUE 12 NOVEMBER 2019

MINE THE GAP: POLICY PARALYSIS ERODING INDIA'S MINING POTENTIAL

www.geonesis.org

Linkedin /company/geonesis--a-gemcokati-company

/geonesis

GEMCO KATI

MINE THE GAP: POLICY PARALYSIS ERODING INDIA'S MINING POTENTIAL

Delay in amending Section 8A (4) of the MMDR Act that allows auctioning of mines only on expiry of the lease period will disrupt mineral supply from captive mines

The mining sector is plagued by lack of a holistic approach, and unpredictable policymaking. The industry contributes 2.5% of India's GDP, and employs more than a million people. A policy paralysis in the sector could have a strong bearing on the economy, and hit sectors that are already battling the slowdown. The biggest challenge the sector faces is the perception that mining damages the environment.

But, modern technologies allow extraction with minimal damage, and subsequent replenishment of soil and plantation of forests means very little environmental destruction. Mining techniques like conveyor belts and slurry pipelines have also brought down the negative environmental impact. However, delayed decision-making and lack of oversight continue to be challenges.

There are about 3,100 major mines in India, including 560 metal mines, and 600 coal mines. Ensuring unhindered exploration for new mines needs constant effort on the government's part.

Under the new policy, mines are to be auctioned instead of being allocated. This brings transparency, but delays due to absence of clear timelines for conducting auctions results in non-availability of raw material to industry. The import of material that India is already blessed with is on the rise, hurting trade deficit and forex reserves. Relooking this approach is crucial to ensure both quality and quantity. Three minerals—coal, coking coal, and iron ore—are key to maintaining India's economic growth. The government needs to ensure there is no delay in granting mining leases to ensure their steady supply.

Coal: India is currently the fourth largest producer in the world, with reserves estimated to be to the tune of 315.14 billion metric tonne (mt)—the fifth largest in the world. We have huge thermal coal deposits, but imports are increasing in double digits. As the prime minister mentioned in his address at the Global Business Forum in New York, "In a poor country like India… we will have to change the ways of mining and we have to carry out underground mining so that it does not damage the environment." He also mentioned coal gasification, which gives clean energy, as a solution for which the right technology is being considered.

Ensuring quality coal supply near the point of use is the basic principle to avoid logistical burdens. Currently, Coal India doesn't necessarily provide industry with coal from the same mine, creating inefficiency in the mineral's calorie use. Similarly, the auction route may disrupt logistical convenience.

While transparency in allocation is a must, it is equally important to address these issues to optimise coal use. If all blocks, instead of small portions, are auctioned, bids can be made depending on logistical convenience and quality of mines, rather than on a random basis. Also, environment clearances for technology and transport are a better alternative to a ban on mining. It is important to adopt non-polluting technologies to make mining possible.

Coking coal: India imports nearly 45 million tonnes (mt) of coking coal at a cost of \$188/mt. While it is important to replace imports, ash content in the coking coal available in India is high. Thus, there is need to allocate new coking coal mines in Jharkhand, Odisha and Madhya Pradesh, and also attract technology and investment in washeries to reduce ash content. The ash can be used in the cement industry and brick-making. The government is auctioning 21 coal mines for end-use in non-regulated sectors, and six coking coal mines for end-use in iron and steel. Five coal mines are allotted to power sector, nine for sale of coal, and one for the iron and steel industry. Here, too, coal gasification will enable reduction of coking coal dependency.

Iron Ore: At the height of the mineral boom in 2010, before the Supreme Court clamped down on illegal mining, India produced 209 mt of iron ore. Production surpassed 205 mt in 2018, mainly due to increased production in Odisha.

The levy of 30% export duty on iron ore will discourage its export, but there is no export duty on pellets. So, it is prudent to have steel plants in close proximity to iron ore mines.

Delay in amending Section 8A (4) of the Mines and Minerals (Development and Regulation), or MMDR, Act that allows auctioning of mines only on expiry of the lease period will disrupt mineral supply from captive mines. This can bring down the steel industry, which is performing well despite the slowdown—any further delay in auctions will disrupt production of ~60 mt of iron ore affecting nearly 40 mt of steel-making.

Post-auctions, transfer of ownership to make mines operative will take upto a year. The resulting mineral shortage could spur further imports. The recent decision to allow SAIL to mine commercially in captive mines will provide a buffer in case

(Continued on page 2)...

availability of iron ore falls because of delay in clearing the bids. It will also stabilise the input cost for steel.

To remove cartelisation in commercial mining, it is important to have a minimum production clause. If production up to the environment clearance limit is not possible, this minimum requirement should be imposed on the miners.

The concerns of environmental degradation have put restrictions of the quantity being mined in Karnataka and Goa. In Karnataka, these have made iron ore production more expensive, resulting in more imports. Closed mines, including Kudremukh, need to restart. Goa produces low quality of iron ore only for exports—modern techniques can help reduce the associated environmental impact. The Centre should set up a committee of the steel, mining and environment ministries, and state governments to resolve this issue. The need is to rationalise the approach. The mining, when completed, will result in good forest cover in these areas.

Further, five royalties are levied on miners. These must be subsumed under one, with back-end distribution between district, state, and central authorities. Globally, the royalty is around 4%, but, in India, it is 15%. Then, there are the 30% district mineral fund levy on the royalty amount, surcharge, and GST. Once a detailed regional exploration is concluded, the prospector undertakes development and operation of the mine.

For this, the prospector is required to obtain a lease, generally granted for 30 years, extendable for a further 20 years. In addition to the levies under the MMDR Act, a mine operator must pay fees and levies for the use of forest land for mining operations under the Forest Conservation Act, 1980, and the Indian Forest Act, 1927. These are (i) forest tax, levied on forest produce removed from forest areas, and its rate varies from state to state; (ii) Compensatory forestation charges, levied to undertake forestation.

Globally, mining royalty arrangements are profit-based (levied on the net cash flow or some measure of profit from a mining project), ad-valorem-based (levied as a percentage of the value of production of a mining project), or unit-based (levied as a set charge per physical unit of production of a mining project). India's mining royalty regime must be aligned with global practices to encourage investments and modernisation.

Mining in India can generate significant employment and prevent further decline of the GDP. India is blessed with major mines, the need is to optimise them to achieve self-sufficiency, and bring down or replace imports.

ODISHA GOVT TO AUCTION 31 MINES IN PHASED MANNER

Bhubaneswar: As the mineral industry is concerned about the lapse of many mining lease on March 31, 2020, Odisha Steel and Mines Minister Prafulla Mallick allayed there apprehensions by informing that the State Government is committed to completing mining auctions on time.

While addressing India Mining Conclave 2019, organised by Indian Chamber of Commerce, as Chief Guest, Mallick said, "Odisha Government has already started the auction process for mineral blocks. Auction of three iron ore blocks, one manganese block, two chromite blocks and one graphite block has already been completed. Auction of another 31 mineral blocks is in the pipeline and notification for the same has already been issued. This auction process will be completed in phased manner. Out of 31 blocks in offer, 27 blocks iron ore mines, 2 graphite and 2 manganese mines." He also urged the mineral industry to use latest technology in exploration process and ensure least damage to environment and ecosystem of the mining area. Chief Secretary, Odisha Asit Tripathy said that, "Odisha is steel hub and minining is an important Industry in the State. In few months there is likely chance that mines can move from one operator to another. Government is trying to ensure that there is no disruption in mineral the production." Mr Tripathy emphasised on the Mining Companies following the Triple Bottom Line (People, Planet and Profit) for pursuing sustainable development.

Additional Chief Secretary (Steel & Mines), Odisha R K Sharma said, "Mines sector contributes 10% to the GSDP of the state. But due to some reason it came down from the double digit to single digit. Now it has stated picking up and in future it will contribute significantly to the state economy. Odisha is most compliant state as compared to others in the mining area. We bounced back so early and are able to increase our production while other states are still fighting with so many issues."

Regarding the expiry of the Mining lease of several mines on 31st March 2020 Mr R.K. Sharma reiterated that the Govt of Odisha has already started the process for fresh suction of mines with the sole intention of providing uninterrupted supply of raw material to the Value Addition Industries. Mr Sharma also said that the State Govt is always open to ideas and suggestions within the framework of law from experts and existing players in mining.

(Continued on page 3)...

Mr Manish Kharbanda, Convenor, Steel and Mines Committee, ICC Odisha State Council in his theme address highlighted three important aspects of mines and mineral industry. He said that, "commencement of production in Mines after 2 years of allotment is not going to help the industry. For virgin mines it is still acceptable, but those mines, which are already in operation the production ramp up should be different. We urge both Centre and State Government to make necessary arrangement".

Comparing to the auction rules between Coal and None Coal mines, Mr. Kharbanda said, "In coal block auction there are normative rules based on which a company / individual can bid for coal blocks. If expansion is proposed then 60 percent financial closure has to be shown and a big performance guarantee be provided. In non-coal auction these issues have not been addressed. This can lead to monopolisation and hoarding of resources by few companies. The secondary steel will suffer the most and also some primary steel producers."

Mr Kharbanda also highlighted the challenges relating to taxation, beneficiation and transportation issues of minerals.

Today and tomorrow we shall engage with the stakeholders ranging from Government, mines lessees, Industries, environmentalists , academicians , legal advisors and development experts on the perspectives of Sustainable Mining as a key enabler of holistic development ," said Mr. Kharbanda , who is also the Group Advisor of Corp Affair , Legal, CSR and Sustainability of Jindal Steel & Power. Other dignitaries present at the event are Prabodh Mohanty, Director of SNM Group, Scott Caithness, Director (Exploration) of Vedanta Group, M C Thomas, Chairman of ICC State Odisha Council and J B Pany, Co-Chairman of ICC State Odisha Council.

The Indian Chamber of Commerce is holding the two-day Indian Mining Conclave on 30th and 31st October 2019 in partnership with the Government of Odisha to trigger the perspectives of sustainable mining and to suggest the way forward to the Government and other stakeholders.

ENVIRONMENT MINISTRY WORKING OUT WAYS TO MAKE MINING ACTIVITIES HASSLE-FREE

A major bottleneck for Indian energy resources mining and exploration has been attaining various regulatory approvals to undertake the activities. One such approval, which is also the most important one, is environmental clearance.

Contractors have surrendered or relinquished the areas awarded to undertake hydrocarbons exploration or mining activities, due to delay in getting such clearances or at times approvals being denied.

To overcome such hurdles, the Ministry for Environment, Forest and Climate Change (MoEF & CC) has decided to come up with guidelines that will detail how much and what can be allowed for undertaking exploration activities.

Secretary of Ministry of Environment, Forest & Climate Change CK Mishra in conversation with BusinessLine agreed that it is a very good idea to have a pre-embedded contract – where all approvals are in place before awarding the mining areas. But, when will that happen remains to be seen. Meanwhile, the Ministry is working out ways by which the delays are brought down.

"Indian Exploration and Production companies continue to face inordinate delays in getting environmental approvals, which delay their seismic survey and exploratory drilling activities thereby pushing project timelines beyond what was originally envisaged," K. Ravichandran, Senior Vice President, Group Head-Corporate Ratings ICRA Limited.

"In many instances, the delay is due to local agitations over compensation issues and perceived threat to their livelihood. Hence, unless the environmental approval process is further streamlined, the companies will continue to face delays in their projects. In this regard, awarding the blocks after getting 100 per cent approvals by a nodal agency could be a best practice and that may be considered to speed up the exploration process," he added.

An example of local issues coupled with regulatory approvals delay is what happened in two contract areas — Karaikal in Puducherry, and Neduvasal in Tamil Nadu. There are many such examples. On the mining (of other mineral resources) side, for example, State governments have come up with mining ban. "How can we pre-judge the mining ban," asks Mishra. "Environment clearances are not an issue, we have initiated a process so that environment ministry is not a hindrance to mining," he added.

Asked what the measures are he said, "We have given forest clearance and environment clearance, as long as geography and region does not change, if they want to change it they will have to come back to us. If you want to remap the area then you will have to come to us separately."

On the debate about coal mining and its environmental challenges, Mishra said, "There are certain developmental narratives where coal will continue to remain a requirement for India. As a country we are slowly moving towards replacement, but till such time that our requirements are fulfilled, coal remains to be used. What we are insisting on is that make it more efficient – like good quality coal, good SOX, NOX levels for emissions to be kept in check, concept of washeries, etc."

But, there were debate on washeries also, "We are for washeries. Coal with certain amount of ash content cannot be allowed. We are also saying if you are carrying coal by road let it be well covered, we prefer railways because they have those containers."

Come to think of it, having specialised containers to carry coal by road can be a good Make in India initiative, said Mishra adding that he has been talking to Coal India about it..

NINE NEW MINERAL BLOCKS AT ODISHA'S AUCTIONS MAY DRAW LUKEWARM BIDS

Stakeholders feel these blocks may lose out to the lapsing merchant blocks where it will be easier to recommence mining and achieve seamless production and despatch

Nine new freehold mineral blocks notified for online auctions in Odisha may fail to evoked firm bidding interest.

The state steel & mines department has issued the Notice Inviting Tenders (NIT) and tender documents in respect of nine iron and manganese ore blocks - Purheibahal, Chandiposhi, Rengalaberha North-East, Gandhalpada, Netrabandh Pahar (West), Dholtapahar, Jumka Pathriposhi, Unchabali and Kalimati on October. Auction activity is set to begin towards the third week of November

Alongside these virgin resources, Odisha is also conducting auctions of 20 more merchant mine blocks whose lease validity ceases by March 31, 2020. Stakeholders feel that the freehold or new mineral blocks may lose out to the lapsing merchant blocks where it will be easier to recommence mining and achieve seamless production and despatch.

“Merchant mines are set to witness frenzied bids as both steel industries and non-captive players will be keen to grab them. The merchant mines boast of good quality deposits and are endowed with infrastructure to ensure seamless operations. Moreover, there is a buzz of these mines getting extension in environment clearances. All these are positives for the new owners. By contrast, bids for the virgin deposits may not be robust since starting any mining activity will run into three to five years”, said an official with a standalone player.

Odisha has hitherto successfully auctioned two lapsable merchant chromite mines- Misrilall Mines and Kamarda mine in the leasehold of B C Mohanty. Both leases were pocketed by T S Alloys, a fully owned Tata Steel subsidiary. T S Alloys placed steep bids for bagging both mines- 88.5 per cent (of the sale value of the block) for Misrilall Mines and 96.8 per cent for Kamarda.

If the initial outcome at these mines is any indication, the bidding momentum is likely for the other mines as well, especially some of the prized deposits in iron ore. To stave off lower bids, the state government has kept the reserve price of blocks a bit on the higher side. For iron ore blocks with resources up to 10 million tonnes (mt), the floor price is kept at 15 per cent of the sale value of the mineral asset. And, in case of blocks with deposits beyond 10 mt, the reserve price is 25 per cent. In case of the immense Gonua mine now held by big merchant player KJS Ahluwalia where the net estimated deposits are in excess of 700 mt, the reserve price is staggering at 50 per cent, a source in the know confirmed. For all manganese ore mines, the bid price is uniform at 15 per cent.

Key merchant mines now controlled by Serajuddin, KJS Ahluwalia, Aditya Birla owned Essel Mining & Industries Ltd and others have been notified for electronic auctions.

“Merchant mines are anyways going to be a safer bet for any bidder than the unopened freehold blocks. While any successful bidder can straightaway commence mining from an operative block, extraction from a new mine is fraught with delay as the new lessee has to go through the labyrinth of approvals before laying hands on the asset”, said an official with a steel company.

To ensure hassle-free operations after the merchant mines' validity lapses, the Ministry of Environment, Forest & Climate Change (MoEFCC) is contemplating to extend the existing environment clearances by two years. Since forest clearance is co-terminus with the mine lease validity, an amendment is in the works on Forest (Conservation) Act. The MoEF is believed to consulting the Ministries of mines and law on the amendment.

ODISHA SET TO GARNER RS 1 TRN IN 50 YEARS FROM AUCTION OF 20 MERCHANT MINES

The lease validity of these iron and manganese ore blocks notified for auctions is expiring by March 31, 2020

The auctions of 20 merchant mines initiated by Odisha is set to mop up Rs one trillion in revenue for the state government over the lease period of 50 years.

The lease validity of these iron and manganese ore blocks notified for auctions is expiring by March 31, 2020. Whilst five iron ore blocks are set aside for end user industries, the remaining 15 are earmarked for bidding by merchant miners. Steel players, sponge iron ore producers, pellet manufacturers and pig iron makers along with leading merchant miners are anticipated to bid aggressively for these blocks and place steep premiums to acquire these mines where production hopes to take off seamlessly.

Since a large number of iron ore blocks are concomitantly offered for auctions, the Odisha government has pegged the reserve price for bids on a higher side. And, higher floor price is expected to hike the cost of mine acquisition and bolster the state coffers.

“The floor price is fixed at 15 per cent for iron ore blocks with deposits of up to 10 million tonnes and 25 per cent for higher quantum of deposits. Higher reserve price will spur more revenue for the state government. Besides, all these mines are ready

(Continued on page 5)...

to operate with associated infrastructure for smooth movement of minerals. Amid all these congenial factors, both merchant mine producers and end users looking to grab mine for captive use are expected to pledge higher premiums. Our estimates suggest that over the 50 year lease period, Odisha could end up garnering Rs one trillion from these 20 blocks opened up for bids", said a mining industry source.

Presently, Odisha has 17 operative merchant mines whose approved production capacity stands at 80 million tonnes. The leases whose tenure ceases by March 31, 2020 include the ones in the leasehold of major non-captive producers like Serajuddin, Essel Mining & Industries Ltd, KJS Ahluwalia and others.

Plans are afoot to extend the environment clearance of these mines by two more years to facilitate seamless transfer of ownership and unhindered production. Since forest clearance is coterminus with the lease validity and cannot be extended as per existing statutes, an amendment is in the works on the Forest (Conservation) Act. The Union ministries of mines, law as well as environment, forest & climate change are holding mutual consultations in this connection.

In two phases, the state steel & mines department has issued Notice Inviting Tenders (NITs) to auction 20 blocks on October 4 and 14. After issue of NITs, the bids are set to be invited on November 18 and 28. Letters of Intent (LoIs) to the preferred bidders will be issued on January 3 and 15, 2020.

LIBERTY HOUSE'S SANJEEV GUPTA TO CONSOLIDATE STEEL AND MINING EMPIRE

Producing a single set of accounts and single board will make us transparent to customers, suppliers, employers and the financial markets. We will be like a normal listed company for governance except we are privately owned - Sanjeev Gupta, Founder, Liberty Steel Group

British Indian steel tycoon Sanjeev Gupta plans to consolidate his steelmaking and mining interests into a single company, which he says will emerge as the eighth-largest in the world outside China. Liberty Steel Group will be created as a single entity comprising interests accumulated worldwide by his Gupta Family Group Alliance entity.

In July, Liberty Steel announced the completion of its acquisition of seven major steelworks and five service centres across seven European countries from Lakshmi N Mittal-led ArcelorMittal. Liberty said the €740-million deal makes it one of the top 10 producers globally, excluding China, with a total rolling capacity in excess of 18 million tonnes covering a wide range of finished products.

"These businesses will form a key part of our global steel strategy, of building a sustainable steel business, with a fully integrated value chain, from raw materials to high-value finished products that are distributed in high quality markets," he said. It came in the wake of a series of acquisitions of assets from around the world as part of the company's wider GreenSteel sustainable strategy

Under the plans, Liberty Steel plans to be carbon neutral by 2030, through a combination of using renewable power for arc furnaces recycling steel, new technology such as hydrogen power in primary steelmaking, and environmental plans such as reforestation. Liberty Steel as part of the GFG Alliance is a global group of energy, mining, metals, engineering, logistics and financial services businesse headquartered in London, with additional hubs and a presence in around 30 countries worldwide. The latest consolidation plans are expected to eventually lead to a market flotation.

Gupta has so far declined to comment on reports that his company was interested in bidding for Britain's second-largest steelmaker British Steel, which went into liquidation back in

POLICY | THE POTENTIAL AND THE PITFALLS OF COAL MINE AUCTIONS

Poor market condition is cited as a reason for the tepid response to coal block auctions, but, the overriding feeling is that the government's policy change on coal mining has dampened the interest of developers for coal mines with end-use restrictions.

The auctioning of coal mines for captive use seems to have become a hostage to the government's policy overdrive. During the latest round of auction, it is learnt that only six out of the 27 coal blocks received an adequate number of bids. Another six blocks received interest for allocation to state or central government entities.

The coal ministry had started the process of auctioning 27 coal mines and allocating 15 to developers in August. The point to note is the process had to be re-initiated after previous attempts failed to elicit adequate response from bidders because of market conditions. The allocation of blocks, however, will be restricted to central and state public sector undertakings.

In all, 45 bids were received for the assets on offer. The Jamkhani coal mine in Odisha had attracted the highest number of bids, including from companies such as Vedanta, JSW, Hindalco, JSPL, Rungta Mines and Natural Resources Energy.

While poor market condition is cited as one of the reasons for the tepid response to the auction, the overriding feeling is that the government's policy change on coal mining has dampened the interest of developers for coal mines with end-use restrictions.

Following up on its last year's decision to allow auction of coal-bearing blocks to private parties for commercial mining, the government, on August 28, allowed 100 per cent foreign direct investment (FDI) under the automatic route in coal mining and associated infrastructure.

Many within the government and the industry are convinced

(Continued on page 6)...

that this has impacted investment sentiment among domestic players and their interest in bidding for coal blocks with end-use restrictions.

With the government opening up coal mining to global majors and allowing them to undertake projects through wholly-owned subsidiaries, they feel that smaller domestic developers have become wary of participating in the auction. Many are also of the opinion that smaller domestic developers will not be able to compete in the changed domestic coal market with the advent of overseas resource majors, and more coal being available in the market will affect the viability of captive mining.

There is also another reason for the lukewarm response to the current round of coal auction.

It seems the location of the coal blocks put up for bidding acted as a deterrent to attracting a sufficient number of bidders. The majority of the blocks that were put up for auction were in the western region, mostly in Maharashtra, whereas most coal end-use plants are located in the eastern part of the country. Investors are naturally apprehensive about the logistics and the transportation cost of shipping coal from the mines to plants. They would rather prefer to buy coal from Coal India or its subsidiaries to meet their requirements.

What should not be missed is the fact that in order to attract bids for coal mines with end-use restrictions, the government had relaxed regulations for captive mining, allowing developers free sale from the asset of up to 25 per cent of the production. This bait, it would appear, is not good enough for developers to join the fray for captive coal mines.

The government has now decided to be more lenient and, as reports suggest, will relax the criterion regarding the minimum participants for such auction. Under the existing rules, the bidding process cannot go through if each coal block receives less than three bidders. It is now understood that the government has decided to allow the auction to go through even if the number of bidders is less than three. This move is part of a committee report that submitted its recommendations in October 2018.

This high-powered committee was formed in December 2017 under the chairmanship of former chief vigilance commissioner Pratyush Sinha, with SBI former chairperson Arundhati Bhattacharya and Union Bank of India former chairman Arun Tiwari as members. The panel was tasked with examining the criteria in the coal mine bidding system and study their challenges and efficacy. It also examined the difficulties in the fixed-bid system and proposed changes in bid criteria.

Except for the first round, the auction process, which was introduced in 2014 after the de-allocation of 214 coal mines, has not generated much enthusiasm among bidders. Already 10 rounds had been conducted and the Sinha Committee was formed after the annulment of the fourth and fifth rounds of auction to non-power firms due to a tepid response.

While the government is concerned about the lack of enthusiasm among bidders about coal mine auctions, so far it has been taking piecemeal steps to charge up the process and is not getting the desired result. It is high time the government took a look at the Sinha panel report in its entirety and came up with a holistic solution so that different policy initiatives do not act at cross purposes.

It must be kept in mind that, in spite of huge reserves, India has not been able to rein in coal import, putting a strain on the foreign exchange kitty. If India has to bring down its reliance on coal import, related policies have to be transparent and dynamic so that prospective developers become interested to mine the fossil fuel in the country.

COAL SECTOR FOR COMMERCIAL MINING BID DOCUMENTS POST DIWALI

After more than five-year wait, the government may finally throw open the doors of the regulated coal sector for commercial mining by the private sector Indian and overseas miners post Diwali.

Government sources said that draft rules, bid documents and agreements for commercial mining has been prepared and it would be finalized by the first week of November with auctions starting soon thereafter in the first week of December.

The decision would permit domestic mining firms like Essel Mining, Sesa Goa and global giants like Rio Tinto, BHP Billiton, PesBody, Glencore and Vale to mine and sell and help ramp up output from the country's huge reserves — the world's fifth biggest. It will also offer an additional source of fuel for power producers, some of whom are facing low coal stocks at their plants.

However, the success of the first bidding round for commercial mines would have to be weighed against lack of investor interest in the recent coal auctions for end user plants. Companies shied away from bidding for 27 coal mine put up for auctions in the recent eighth, ninth and tenth rounds of bids turning the exercise into a damp squib. Only six blocks out of 27 received adequate bids to go under the hammer. "It is tough time to get investment commitment from investors even for commercial mining. However, the location of mines and quality and reserve of coal could change investment decisions," said a coal ministry official, adding that size of coal blocks under commercial mining route would be substantially large.

The commercial mining auctions could see in all 15 large coal blocks with annual production potential of 5-10 million tonnes being put up for bidding in phases. The reserves in five of these mines could be in excess of 500 million tonnes. These could fetch anywhere between Rs 5,000 and 6,000 crore to the State government. If the pilot auctions are successful all future blocks could be considered to be offered for commercial mining with permission even for captive use by end use plants.

(Continued on page 7)...

As of now, power, steel and cement companies can mine coal but for their own consumption after getting blocks through auction. State-owned Coal India (CIL) dominates commercial mining in India. The commercial mine auction will offer coal blocks without end-use restrictions to the private sector with permission to sell their output to consumers in steel, power and cement sectors on commercial terms.

Enabling provisions for commercial mining were made in the Coal Mines (Special Provisions) Act, 2015 for allocation of mines by way of auction and allotment for sale, but sluggish market conditions and unavailability of blocks of requisite size prevented auction under this route for the past three years. In February 2018, the government also laid out the guidelines for commercial coal mining. The methodology for auction is expected to ask bidders to submit upfront payment and bank guarantees. While the government will not regulate price, marketing or sale of coal, minimum production from the commercial coal mines will be specified. Bank guarantees will be linked to production schedule. Overseas companies bidding for mines would have to get themselves register in India.

Sources said price of coal to be sold by new entrants in mining may be determined on the basis of a formula that would fix prices by taking a mean of weighted average price of global benchmarks as well as prevailing Coal India prices. It would be akin to the gas sector where prices are not market-determined but fixed by the government based on global indices.

Commercial coal miners would also not have the freedom to export coal in the initial years. The government wants to take its coal block auction to logical conclusion with the aim of boosting production. A coal production target of 1.6 billion tonnes by 2020 has been fixed. It has factored in 200 mt production from commercial miners other than CIL.

Opening of coal sector is a long overdue reform initiative that successive governments failed to take forward due to strong opposition from CIL unions

ONE BILLION TONNE COAL PRODUCTION WOULD BE ACHIEVED SOON: PRAHLAD JOSHI

The minister said the 'Continuous Miner' will add a new chapter in the long history of Churi underground mines with the commencement of mass production technology, having a capacity to produce up to 4000-tonne coal per day.

Coal Minister Prahlad Joshi on October 18 said that one billion tonne coal production would be achieved at the earliest.

The minister visited the command area of the Central Coalfields Limited (CCL) and dedicated a 'Continuous Miner', a machine to scrape coal from the seam, at Churi underground mines at north Karnapura in Jharkhand, a CCL press note said.

"The government will go all the way to achieve one billion tonne coal production at the earliest and (put an) end (to the) dependence on imported coal," Joshi said.

The Coal minister said, "the government under the dynamic leadership of Prime Minister Narendra Modi is committed to help the CCL and other coal companies to clear all hurdles and challenges such as environmental clearance, authentication of land by state machinery etc ...".

Joshi was accompanied by CCL CMD Gopal Singh and other officials of the Coal India subsidiary.

The minister said the 'Continuous Miner' will add a new chapter in the long history of Churi underground mines with the commencement of mass production technology, having a capacity to produce up to 4000-tonne coal per day.

Till date, the production at Churi underground mines was 4000-tonne coal per annum and after the installation of the mass production technology through 'Continuous Miner', the coal production is expected to rise up to five lakh tonne per annum and the pit has 7.5 MT coal reserve.

The coal reserve at Churi underground mine has low ash content with high heating capacity, the release said.

Earlier, the Coal minister chaired a review meeting along with CMD of CCL, functional directors and senior officials.

Joshi discussed in length on the performance as well as challenges faced by the company.

He asked the CCL management to make an all-out effort to boost coal production to register themselves in "100 million club" as it has all the potential and resources to achieve it.

MNCS EYE JODA MINES, WORKERS FEAR JOB LOSS

As the state government had failed to auction even a single block during 2018-19 financial year, owing mainly to legal issues, the Steel and Mines department is leaving no stone unturned to auction maximum blocks in 2019-20

With the state government announcing to auction eight iron ore and manganese blocks under Joda Mining Circle in Keonjhar district October 18, the present lease holders are apprehensive about their business prospects while thousands of workers engaged in the sector fear losing their jobs. The lease period of these non-captive blocks would expire March 31 next year.

According to the notification— Kalinga Mining Corporation Mine at Jurudi, KN Ram Mine, Roida-2, Patnaik Mineral Pvt Ltd at Jaribahal, Jiling Essel Mining and Industries at Jurdi, Jajanga Rungta Mine, Silijoda Mines of Rungta Sons KJS Ahluwalia mines, KP Enterprises mines at Thakurani and Kalimati Sirajuddin Mine at Balada— are the iron ore blocks which would go under the hammer.

Sources said multinational companies have set their eyes on the eight mines coming under Joda Mining Circle. Representative

(Continued on page 9)...

teams of the companies including TATA Steel, JSW, Adani Group, Arcelor Mittal, TATA Steel Long Product Sponge LTD., Lloyds Steels, Rio Tinto, Vedanta Groups, STEMCOR Steel, TVS group, Jindal Steel and Power LTD. and Allied Steel Industries are known to have visited the mines, inspected the quality of the mineral ores and estimated the necessary costs.

Sources added that the mines may fetch huge sum for the government. However, the valuation of mineral ores and the permanent assets in the mines of old lease holders are yet to be estimated and the state government has made a committee for it. The committee will start its work soon.

On the other hand, the workers who are working under the existing lease holding companies are worried fearing job losses in case the new lease holders get rid of them.

Sources said the new bidders have estimated the remaining ore in the mines to be very low in quantity and hence they may want to cut down on the manual labour. In addition to that automation would just exacerbate their re-employment prospects.

As the state government has not set any particular guideline to protect the employment of the mine workers, the workers are jittery.

It may be mentioned here that interested bidders can purchase the tender documents till November 29 while December 4 is the last date for submission of the bids.

As the state government had failed to auction even a single block during 2018-19 financial year, owing mainly to legal issues, the Steel and Mines department is leaving no stone unturned to auction maximum blocks in 2019-20. Sources in the department said many top mining players of the country are expected to participate in the auction process.

Bidders who would successfully get the working mines can operate the blocks immediately after obtaining necessary statutory clearances while successful bidders of virgin area mines would have to address issues like land acquisition for development of road and other logistic infrastructure, rehabilitation and resettlement of the oustees, and other clearances.

ODISHA ASSURES NO IRON ORE SUPPLY SHOCK AFTER MINES' VALIDITY ENDS IN MARCH

The state boasts of the country's largest iron ore output. In the last fiscal year, Odisha churned out 114 mt, contributing more than a half to the nationwide production of 207 mt

The Odisha government has ruled out supply shock of iron ore after the validity of merchant mines ceases by March 31 2020, putting to rest fears of a crunch in the key steel making ingredient.

“It would not be a supply shock after March 2020. We have allowed both end user industries and merchant miners to build up stocks. Twenty four merchant mines are lapsing by 2020 and we have started the auctions process of these mines. Till now, we have completed auctions of two chromite mines," said R K Sharma, additional chief secretary (steel & mines), Odisha government.

Sharma said about half of the state's iron ore production, which corresponds to a quarter of the country's output, will not be coming from these lapsing mines.

He was speaking at the 'India Mining Conclave' hosted by the Indian Chamber of Commerce (ICC) in collaboration with the steel & mines department, Odisha government.

Odisha has successfully auctioned two lapsing chromite leases -- Misrilall Mines and Kamarda mines -- under the leasehold of B C Mohanty. T S Alloys, a wholly owned subsidiary of Tata Steel has emerged the highest bidder for both the mines.

In addition to chromite mines, the state government has notified 20 more lapsing iron ore and manganese ore blocks for auctions. Moreover, nine more virgin iron ore blocks have been listed for online auctions.

Despite an array of iron ore blocks offered for auctions, a section of the industry dreads raw material shortfall post the expiry of the merchant mining leases.

Odisha has 17 operative merchant iron ore mines which are producing around 55 million tonnes (mt) against the approved environment clearance (EC) limit of 80 mt.

The state boasts of the country's largest iron ore output. In the last fiscal year, Odisha churned out 114 mt, contributing more than a half to the nationwide production of 207 mt.

The state's iron ore output is important since it largely feeds the domestic steel plants and other dependent end-use industrial units while only a fraction (of production) is shipped overseas.

“After March 31, there could be a major disruption. Availability of raw material will be in trouble if the future of EC and forest clearance (FC) with respect to the lapsing mines is not decided. Also, it remains to be seen if the initial euphoria on auctions will sustain or it will meet the fate of coal block auctions," said Manish Kharbanda, convener (steel & mines), ICC Odisha State Council and advisor at Jindal Steel & Power Ltd (JSPL).

FUTURE MINING LEASES TO GO HYBRID

The government plans a slew of reforms in the mining sector, including giving a big push to commercial mining to help attract investment and improve mineral production in the country.

As part of this, highly placed sources said the government would discontinue the practice of offering mining rights for mineral resources, including coal, to companies for captive use. Instead, a new hybrid mining lease agreement would be framed under which companies would be free to use extracted mineral

(Continued on Page 9)...

both for captive use of end use plants (power, steel, cement etc) and commercial sale in the open market.

This would be a major reform that would allow companies such as Tata, Vedanta, JSW to commercially sell out from their captive iron ore mines for higher gains. State-owned SAIL has already been permitted to commercially sell iron ore from its captive mines.

A high level committee headed by NITI Aayog vice chairman and having top representation from ministries of finance, mines, coal and environment, has suggested that all mines hence forth be auctioned for commercial production. For companies taking mines largely for captive use, 50 per cent of production from those mines would be permitted to be sold in the open market under the new hybrid lease agreement.

Sources said the government has accepted these recommendations and necessary changes in mineral laws would be made to allow the reform measures to take shape.

"Captive mining rights do not result in optimal extraction of mineral resources, making the activity uneconomic. Often companies with captive leases are forced to contain production as extra production would cause loss of revenue to them in the absence of commercial selling right for surplus production. Thus, a hybrid agreement will allow full potential of mineral block to be realised and also help both the Centre and the state to increase their earnings," said a former head of Coal India Ltd asking not to be named.

The high level committee has suggested that changes in grant of mineral rights with the option to do both captive and commercial mining may be applied prospectively for all exploration and mining activities. In addition to extraction of main mineral, the hybrid model will also allow leaseholders to extract other minerals found in their mine lease area on payment of 10 per cent of the quoted revenue share for the main mineral.

For existing captive mines allocated before the auction mechanism was made mandatory for grant of mineral leases, the high level committee has suggested the companies can use surplus mineral in their new end-use units formed under a joint venture agreement with a minimum 26 per cent shareholding. Mining has been identified as a critical activity that needs a big push to help other capital intensive and employment generating industries. The sector is braving a slowdown that has seen declining investment and production.

JSW STEEL TO BID FOR ODISHA, KARNATAKA MINES EVEN AS IT CUTS CAPEX GUIDANCE FOR FY20

JSW Steel has undertaken steel capacity expansions at the Dolvi plant to 10 mtpa from 5 mtpa, and at Vijayanagar Works to 13 mtpa from 12 mtpa.

Even as JSW Steel cut its capex guidance for FY20, the company is looking at bidding for a majority of the 20 iron ore mines in Odisha to secure raw material for its greenfield and brownfield projects. The company is also looking to bid for mines in Karnataka, where it has already secured nine iron-ore mines.

Jayant Acharya, director, JSW Steel, said the company was bidding for mines given the 20 mtpa greenfield project in Odisha. "The mines in Odisha will primarily help the company secure the future raw material needs of the new plant in Odisha, but it will be taken to other plants as well to meet the requirement," Acharya said.

JSW Steel has undertaken steel capacity expansions at the Dolvi plant to 10 mtpa from 5 mtpa, and at Vijayanagar Works to 13 mtpa from 12 mtpa, which would increase the requirement of iron ore from current 32.4 mtpa to 43.2 mtpa.

JSW steel meets around 8-9% of its total requirement from

captive mines, while the rest is sourced from NMDC and other miners. In H1FY20, JSW Steel's captive iron ore mines volume was around 2 million tonne and it is expected to cross 3 million tonne in H2FY20.

According to sources close to the development, the Odisha tender has a reserve price or premium

(Continued on page 10)...

requirement of 15-50% depending on the resources available at the mines. This would mean the miner will have to pay the government between 15-50% of the price per tonne of iron ore as premium. The cost of iron ore in Odisha ranges between Rs 2,000 per tonne to Rs 6,000 per tonne depending on the grade.

The Odisha mines would be viable for JSW Steel in the long term only if it is used for greenfield plant near the mines. Otherwise, the landed cost would be higher compared with the iron ore available in Karnataka where JSW Steel plants are located. The ore is available at `3,000 per tonne to Rs 4,000 per tonne in Karnataka with an additional `500/tonne for transportation. It is better to import a higher grade iron ore from abroad for `6,500 per tonne than to import from the east coast of India to the west coast, sources said.

The steel ministry has planned a target of 300 mtpa of steel capacity by 2030 from 100 mtpa at present that would require additional iron ore mining leases in coming years. The Federation of Indian Minerals Industry said India is set to auction 48 mining leases of independent miners before March 31, 2020, which will be effective for 50 years.

The federation has, however, expressed concern over the delayin auctions of mining leases that are due to expire in March. It believes that the delays could disrupt India's iron ore production and raise the prospect of higher imports. Even Citigroup had forecast last month that the country could become a net importer of 25 million to 30 million tonne of iron ore as the expiry of mining leases threaten to disrupt nearly a quarter of India's output. This would be highest in records since 2009.

Ratings agency Icra said, "The slow pace of auctions could push the domestic iron ore market to a deficit from a surplus, and lead to a disruption of as much as 55 million tonne of production capacity in the next fiscal year."

GOVT READIES POLICY TO ATTRACT FOREIGN INVESTMENT IN COAL MINING

India's coal demand to rise more than 21 per cent from current levels to 1.2 billion tonnes in 2023, says Joshi.

India expects to have formulated a policy within the next two weeks to attract foreign investment to its coal mining industry, the country's Coal Minister Pralhad Joshi said on Tuesday.

Sources told Reuters last month that the country planned to invite bids for coal mining blocks by the end of 2019. It is also creating a coal price index as part of plans to open the sector to outside investment.

"We are formulating various policies within the coal ministry to attract foreign investment. Hopefully within a fortnight or a month's time we will come out with a policy," Joshi said at the India Energy Forum by CERAWeek.

India's recently concluded thermal coal mine auctions received a tepid response, with 15 out of 21 attracting fewer than three bidders. An industry source told Reuters none of 6 coking coal blocks received interest from at least 3 bidders, the minimum required for a mine to be allocated.

Joshi said the government was looking to make investing in coal mines more attractive to bidders.

"We have several small blocks which usually don't attract foreign investment. For that we need bigger blocks."

Joshi said he expects India's coal demand to rise more than 21 per cent from current levels to 1.2 billion tonnes in 2023, adding that coal would be necessary for the next three decades.

SAIL MAY REPLACE NMDC IN JV WITH AUSTRALIAN FIRM FOR STEEL MAKING

The joint venture, between NMDC, NLC and ECT signed in May 2018, failed to take off as NMDC backed out

Public sector steel major SAIL may replace fellow PSU mining company, NMDC, in a steel-making joint venture with an Australian technology company.

In May 2018, two Indian PSUs – NMDC and NLC India Ltd – signed an agreement with Environmental Clean Technologies of Australia to use the Australian company's 'Matmor' technology to make steel with cheap lignite rather than costly coking coal.

It was proposed that the joint venture company, in which ECT would hold a 49 per cent stake with the other 51 per cent shared equally between the Indian partners, would set up a pilot project at Neyveli, Tamil Nadu, to produce steel with lignite, investing approximately ₹150 crore.

The joint venture failed to take off as NMDC backed out. It is now reliably learnt that SAIL could step in. SAIL and NLC India officials are in Melbourne today to see if the JV can be revived.

For ECT it has been a very unhappy experience dealing with India, as is evident from many of its press releases, which spoke of "increasing lack of responsiveness" and "apparent lack of willingness" on the part of NMDC. The Australian company, whose business is to develop technology, offered Matmor first to India, in the belief that with abundance of lignite and a hunger for steel, Indian companies would be very keen.

However, for over a year after signing the agreement, NMDC did not get it ratified by its Board, even as ECT kept waiting and sending reminders. NMDC had, in fact, decided not to proceed with the JV but never communicated this to the partners. Its decision to back out finally came to light only in the form of NMDC's response to a news story in BusinessLine on the delay in the project. NLC India, however, continued to be interested in the JV.

(Continued on Page 11)...

Making steel with lignite

Carbon is essential in making steel. Iron ore exists naturally in the form of oxides, and steel is produced by removing oxygen from the ores (this is called 'reduction' in chemistry). The marriage between iron and oxygen is broken by introducing carbon, whereupon the oxygen divorces iron and goes with carbon. The traditional source of carbon is the costly coking coal.

ECT's 'matmor' technology uses the wet, low-carbon and cheap lignite in the place of coking coal. Since lignite costs about a third of coking coal, the finished product, steel, is cheaper.

Your suggestions and feedback is awaited at :-

editor@geonesis.org