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Geonesis

(A GEMCO KATI INITIATIVE)

Indian Mining & Exploration Updates

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Will govt promote

Junior Exploration Companies??

Will Govt share financial risks of natural resources exploration??

Boost Energy Security Through Reform

Coal India mines **may be run by *foreign firms***

22,000 cr illegal mining alleged

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FIMI SUGGESTS GOVERNMENT PROMOTE JUNIOR EXPLORATION COMPANIES

Federation of Indian Mineral Industries (FIMI) has suggested that the government should promote junior exploration companies as part of an initiative to attract investment into the mining sector.

Speaking at the 48th AGM of FIMI recently, H C Daga, President, said mineral-rich countries such as Canada, Australia, Brazil, Chile, do not spend tax payers' money on mineral exploration which is fraught with risk. These countries encourage junior exploration companies to undertake exploration work at their own cost. India should follow this and limit exploration by the Geological Survey of India (GSI) to areas where private sector is averse to go.

The FIMI president also said for granting mineral concessions, principle of first-come-first-served (FCFS) seems the best option. Mines & Mineral Development & Regulation (MMDR) Act, 1957 has the provision of 'preference' which has not been enough to attract an investor in exploration and resource development. "In any resource-rich country, the principle of first-come-first-served (FCFS) is cardinal to generate investors' confidence. Also, a clear-cut provision is required to be made in MMDR Act for seamless transition from exploration / prospecting to mineral concessions. MMDR Act, 1957 does provide for it. However, in many cases, this process has been violated and the lessee has been deprived prospecting/mining license (PL/ML) after completion of reconnaissance permit (RP).

The meeting was attended by Union Steel & Mines minister Narendra Singh Tomar and mines secretary Anup Pujari.

FIMI also called for rationalization of tax regime to incentivize potential investors, saying that the mining industry in India is amongst the highest taxed industries in the world.

The FIMI official pointed out in most states, renewal of mining leases, both captive and non-captive, are not done within the time-frame prescribed and the leases are operating under 'deemed extension' clause in Mineral Concession Rules 1960. This has created total uncertainty in the mining sector, also the root cause for the industry over-shooting the production limit mentioned in environment clearance (EC), dubbed as illegal mining.

According to FIMI, another important step to encourage investment in exploration and mining would be to simplify and merge the process of clearances under Forest (Conservation) Act, 1980, Environment Management Plan under Environment (Protection) Act, 1986 and land acquisition, Rehabilitation and Resettlement Act, 2013 and make the process of granting license strictly time-bound in a stipulated timeframe. This would also ensure better enforcement and monitoring, leading to better compliance and more sustainable mining.

PRIVATE COMPANIES MAY BE PERMITTED TO COMMERCIALLY MINE COAL

The Modi government will initiate the process of allowing private companies to commercially mine coaland end the state monopoly after the public offer of sharesof Coal India Ltd (CIL), official sources said.

"The new government is keen to allow private firms into commercial coal mining to increase supply of the fuel in the country. But we are not opening too many fronts at this moment. We will start discussions with stakeholders oncommercial mining only after Coal India's public offer," a senior coal ministry official said. A roadmap to allow private commercial mining of coal will be prepared after an in-principle nod from all stakeholders is secured, he said.

CIL has not been able to increase output to match the surge in demand although it has huge reserves of the fuel. The Tatas, Adani, Anil Ambani group and others have successfully mined coal in India or abroad, but the law requires them to use their domestic output only for their own captive plants. Allowing them to sell coal in the market will give a big boost to industry, particularly power plants, and cut imports that amount to almost Rs 1 lakh crore a year.

The coal ministry will hold talks with trade unions of coal companies on opening up the sector after the public offer of CIL that is expected later this financial year. Opposition from trade unions has stalled an amendment to the Coal Mines (Nationalisation) Act to allow commercial coal mining since 2000.

The amendment bill was introduced in RajyaSabha in April 2000 and a group of ministers was constituted in 2001 to convince the trade unions. The panel was re-constituted in August 2009 under the chairmanship of the finance minister. However, the previous governments did not succeed in getting the bill cleared. CIL's trade unions are against the

(Continued on page 2)….

government's move to offload 10% in the company.

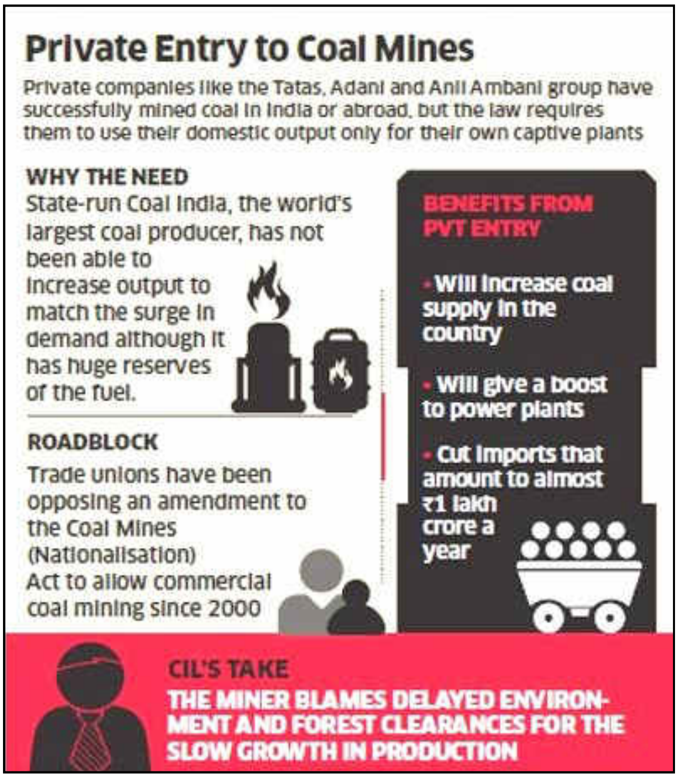
The public offer could fetch Rs 23,000 crore, over half of the Rs 43,425 crore that the government proposes to mop up in 2014-15 from equity sale in state-run companies.

The coal ministry has already sought the law ministry's comments on amending the Coal Mines Nationalisation Act in the backdrop of the recently amended Mines and Minerals Regulation and Development Act that provides for coal block allotments through auction for captive use.

"The Mines and Minerals (Development and Regulation) Act was amended only recently to auction coal blocks. Now, we have a challenge in opening the coal sector as the amended act doesn't provide for bidding blocks to commercial purposes. We have approached the law ministry for comments," the official said. The government in the Economic Survey released on July 9 said there was an urgent need to fast track entry of the private sector in commercial coal mining to augment country's coal production and reduce imports of the fuel that costed Rs 95,175 crore in 2013-2014.

Commercial coal mining is widely seen as an answer to the increasing demand-supply gap of coal in the county and allowing private commercial mining is expected to increase competition, infuse new technology and lead to a market-based price discovery.

CIL is unable to meet the demand for coal in the country. The firm blames delayed environment and forest clearances for the slow growth in production.



The captive coal blocks have also not come up as per expectations.

Of the 218 allocated mines, only 40-odd have come into production. The coal ministry has de-allocated 80 of these mines and most of the captive coal block companies have challenged the decision in courts.

STEEL MINISTRY WARNS OF LOOMING IRON ORE SHORTAGE

India could face a shortage in domestic iron ore and the competitiveness of a host of steel companies is at risk, as the promised iron ore linkages by different state governments have not materialized, steel secretary Mohan Kumar has cautioned in a letter to steel and mines minister Narendra Singh Tomar.

Urging the government to speed up clearances for captive iron ore mines allocated to steel producers, Kumar said that despite having sufficient iron ore resources in the country, companies such as JSW Steel Ltd are now having to import a sizeable chunk of their ore requirements, as pending mining leases means domestic production of the ore is declining.

So far India has been dependent on domestic sourcing of iron ore, but owing to delays in getting mining clearances, ore remains trapped under the ground, he said. "Except SAIL (Steel Authority of India Ltd), Tata Steel Ltd and JSPL (Jindal Steel and Power Ltd), none of the steel companies currently producing steel in India has been given any captive source, although they had invested in the states concerned on the assurance that captive mines will be allotted to them. These companies have been waiting for many years for the allotment of iron ore mines," the steel secretary's letter dated 16 June notes.

Iron ore production in India fell significantly in the past few years, from 218 million tonnes (mt) in 2009-10 to only 144mt in 2013-14 . Tata Steel in its 2013-14 annual report said that in the long-term, if India has to be competitive, it would need captive iron ore to make the steel investments financially

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viable and sustainable. A Tata Steel official requesting anonymity said returns from steel produced with imported ore will not meet the cost of capital. Tata Steel had a net debt of Rs.70,526.27 crore on 31 March and a debt-to-equity ratio of 1.93.

The recent closure of mines in Odisha and delays in opening up of mines in Karnataka and Goa has resulted in acute shortage of iron ore in the country, said Seshagiri Rao, joint managing director and group chief financial officer at JSW Steel. "We have decided to import half a million tonne of high-grade ore every month to maintain the capacity utilisation at optimum level. The surging iron ore prices due to shortages in India is a matter of grave concern when international iron ore prices dropped by more than 30% in the last 12 months," he said.

Unless India sustains exploration activity, new iron ore resources will not be found, Kumar said in his letter. Going by the available known resources, the country's effective iron ore reserves of high and medium grades of haematite ore will be over by 2032-33. However, H.C. Daga, president of the Federation of Indian Mineral Industries, an industry body that represents mining companies, said that the shortage of iron ore is a myth. "The state governments must speed up mining clearances. Also, a portion of the steel produced in the country is through recycled scrap thus the requirement of iron ore is exaggerated," he said. Daga added that around 120mt of iron ore fines is lying as inventory as exports markets have dried up owing to the high export duty of 30%. But these iron ore fines find low domestic demand as they are of a lower grade.

Steel companies in India are heavily in debt because of the capital-intensive nature of the business. While Tata Steel and JSW Steel are looking to reduce their interest burden by refinancing local loans overseas, JSPL is looking to pare down its new investments and sell non-core assets. Giriraj Daga, senior research analyst, institutional equities at Nirmal Bang Equities, however, does not expect major strain on steel producers' balance sheets from iron ore imports, as prices of imported iron ore have fallen significantly because of the global slump in demand. "Iron ore prices are expected to hover around the current levels of around $90 (Rs.5416.20) per tonne over the next three-four years. The spreads at these levels are good enough for viable operations," he said. Iron ore fines with 64.5% Fe content imported into India cost about Rs.5,700 per tonne. In India, a similar grade is available for about Rs.200 less. A report by brokerage Motilal Oswal Financial Services Ltd notes that falling coking coal prices, a stronger rupee and stable steel pricing should aid Tata Steel, SAIL and JSW Steel post stronger margins. The domestic iron ore industry is fragmented with 336 operating mines reporting production to the Indian Bureau of Mines (IBM) in 2011-12, as per their latest report. India is planning to almost triple steel manufacturing capacity to 300 million tonnes by 2025, but there has been a fall in the capacity utilization of Indian steel industry to 77% in 2013-14 from 88% in 2010-11.

SOME COAL INDIA MINES MAY BE RUN BY FOREIGN FIRMS:GOVT

Government has identified a few of Coal India's mining projects that could be operated by foreign firms, the coal and power minister said, a step aimed at raising supply from a monopoly that has failed to meet its output target for years.

Coal India, the world's top coal miner, has been hobbled by inefficiency, worker strikes, delays in getting environmental clearance and other issues.

As a result, India has been the world's third-biggest coal importer despite sitting on the fifth-largest reserves, and coal shortages have contributed to utilities' difficulties in providing enough power.

"For augmentation of coal production in the country, a few projects of Coal India have been identified for operation under the mine-developer-cum-operator route, where international as well as domestic operators may take part," Coal and Power Minister Piyush Goyal told Parliament on Thursday.

Goyal said that the government had approved 15 projects for Coal India, with total combined annual capacity of 136 million tonnes, for the five-year plan period of 2012-2017.

Coal India produced 462 million tonnes in the last fiscal year, against a target of 482 million. Goyal has been pushing the company to raise its output quickly to help realise Prime Minister Narendra Modi's promise of power for all.

But given issues such as the difficulties in acquiring land in India, international firms also may find it tough to bring mines into operation.

Thiess Minecs, the Indian mining unit of Australia's Leighton Holdings, was brought in to operate a coal mine owned by NTPC Ltd, India's largest power generator.

But NTPC said in May it had decided to terminate the $267 million contract after Thiess failed to make any progress in developing the mine, even though the development period had been extended twice. Leighton said NTPC was in breach of its contract by seeking to terminate it.

GEMCO KATI

AUSTRALIA APPROVES MASSIVE INDIA-BACKED COAL MINE PROJECT, EVEN AS GREENS PROTEST.

Australia has approved a massive coal mine project, which is expected to provide electricity for up to 100 million Indians. The decision, however, has angered environmentalists, who warned on Monday that it might threaten the Great Barrier Reef and be an environmental disaster.

Ben Pearson from Greenpeace Australia Pacific said the approval for Indian firm Adani's \$16.5 billion Carmichael coal mine and rail project in Queensland state was appalling, given concerns about climate change. "You can't ignore the fact that it is a mine which would impact on the Great Barrier Reef World Heritage area," he said.

assured that the approval for the project was subject to 36 conditions.

"The absolute strictest of conditions have been imposed to ensure the protection of the environment, with a specific focus on the protection of groundwater," he said in a statement.

Hunt said his conditions complemented those imposed by the Queensland government, and would ensure the developers met the highest environmental standards and that all impacts were "avoided, mitigated or offset".

Meanwhile, eEnvironmental campaigner Ruchira Talukdar said, "While some of the conditions imposed by the environment minister are welcome, they cannot stop this mine from being an environmental disaster."

FUELLING THE OIL & GAS SECTOR

The oil & gas sector is the bedrock of India's economy. By 2015, the industry is expected to be worth \$200 billion, cementing its position as amongst the largest contributors to the GDP. With the new government seeming intent on reforms, here is a wish-list for the sector.

Price deregulation

A full deregulation of diesel prices, apart from reducing the government's subsidy burden, will create a level-playing field for the private and public OMCs. The savings accruing to the government because of deregulation can be used for welfare schemes and by E&P companies for exploration, which will improve India's energy security. Diesel price hikes stoking inflation is an unfounded notion. Prices of, say, onion and potato won't increase by more than 10 paise per kg even if diesel price is hiked by R5/litre at one go (assuming a 500-km farm-to-plate journey on a 10,000-kg capacity truck, the incremental cost per kg is actually only a few paise).

Infra-sharing

A policy framework to allow infrastructure-sharing amongst refinery companies should be drawn. Players should be allowed to draw products from each other's location at transfer price, which will eliminate duplication in logistics and trim avoidable costs. Reduction/savings in the spend on logistics will be passed on to the consumers. As for product-exchange between oil companies, taxation laws should be modified to optimise the supply-chain cost across the country.

The entire pipeline network should be declared a national asset and brought under one management while being available to all OMCs at a reasonable cost on open-access basis.

E&P

Only specified goods imported for E&P operations are exempt from customs duties. To encourage E&P activity, the existing list of exemptions should be amended to include all goods required. With effect from April 1, 2009, a seven-year tax holiday is available only to blocks assigned in NELP-VIII and CBM-IV. Earlier, this benefit was available to all the blocks. Many companies had claimed this benefit before April 2009 on the blocks other than those allocated under NELP-VIII and CBM-IV. This should be extended to all mineral oil and natural gas blocks to avoid distortion in the costs of production. As CBM has low production volumes, a sliding scale production based royalty, i.e. royalty rate increasing/decreasing with increase/decrease in production volumes, may be adopted.

Excise on branded fuel

There is a huge difference between the excise duty rates imposed on branded and unbranded fuels. While branded petrol is levied a basic excise duty of R7.5/litre, the same is R1.2/litre on unbranded petrol. Similarly, branded diesel attracts a basic excise duty of R3.75/ litre, while that on unbranded is R1.46/litre. Thus, the sale of branded fuels has fallen to negligible levels despite these being more efficient. Excise duty on branded products should be on par with that levied for unbranded products.

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CST phase-out

The central sales tax (CST) was to be phased out by March 31, 2010, yet it stands at 2%. The government must phase out CST which sometimes makes the domestic product costlier than imports.

Greenfield/brownfield

The government should encourage new investments in the refinery sector by granting tax holidays given that refineries bring in large investments, growth in export/forex earnings, provide energy security and are large employment generators. The customs duty on machinery import for greenfield/brownfield refinery expansion should be eliminated to enable competitive edge.

Gas pricing

We import natural gas at $16-18/mmBtu, but it can be produced locally at less than $8/mmBtu and supplied around that price. The government should clarify the policies on cost recovery, profit sharing and the pricing of gas.

VAT on diesel

The current VAT on diesel is about 20%. If diesel price rises by 50 paise/litre, then 10 paise/litre goes to states as an unintended benefit in the form of incremental tax revenues. If the VAT rate for diesel is reduced or levied on specific basis, there will be no effect on the revenue generated and will ease the price burden on the common man. The VAT rate can be reduced through either reduction in schedule rate of VAT base on selling price or by levying VAT on the current selling price notwithstanding any increase due to deregulation of diesel, or linking the VAT rate to quantity sold instead of the price.

The author is the MD & CEO of Essar Oil. Views are personal

BOOST ENERGY SECURITY THROUGH REFORM

India is a country richly endowed with the world's largest reserve of natural resources and in today's context possesses the potential to add $1 trillion to the growth of the Indian economy over a period of few years and in turn create millions of job opportunities. The key to this simple revolution lies in implementing a simple regulatory framework, based on a transparent structure of policies and regulations and a faithful adherence to commitments to attract investments. I am sure this will attract many more companies willing to work in India, to explore and harness the vast reserve of natural resources to the benefit of the Indian economy.

Anil Agarwal (Chairman), ***Vedanta Group***

The need of the hour is to boost energy security through reform. We can meet at least 50% of our oil and gas requirements from our own resources. Today India produces oil at around $4 per barrel and import at around $110 per barrel. We are sitting on a large resource base of oil & gas and what is needed is to encourage large companies to enter this sector to unlock the true potential. This can be through joint ventures and foreign investments. In case of coal, we have the world's 4th largest coal deposits and can domestically produce most of our requirements.

India has shared geology and mineral potential with Africa and Australia, and has the world's 7th largest reserves of iron ore that are significantly underinvested in terms of exploration and development.

The Government could focus on activating social programs on top priority that help eradicate poverty, promote child welfare and women empowerment.

Immediate social measures are needed to curb malnutrition and unemployment which are the biggest woes faced by the country.

The importance of creating infrastructure and amenities by the government to promote liberal arts, culture and sports cannot be underestimated and this will also lead to a new paradigm in employment opportunities.

Universities aided by the government can play a key role in developing the intellectual capital of our country.

Tourism continues to be one of India's most unsold and underrated assets. India has a rich cultural history, its heritage monuments need to be maintained to attract a larger population of visitors to our country. About six million tourists annually visit India as compared to approximately 60 million who visit China. An all-round effort to develop tourism by building infrastructure and better marketing would lead to large-scale employment and foreign exchange earnings- a welcome addition to our GDP.

Encouraging private enterprise, exploration of natural resources, development of manufacturing, simplification of regulatory and approval processes, promoting tourism and liberal arts can open up new avenues of employment and accelerate the economic progress of the country.

I look forward to a progressive India that can be referred again as 'sonekichidya', a promise to keep made by the new government.

Anil Agarwal

Vedanta Group Chairman

JSW STEEL LATEST TO JOIN INDIA COS' EXPANSION SPREE

JSW Steel on Thursday the frenzy of multiple big-ticket investments announced by companies since the Narendra Modi-led government came to power in May, announcing an ambitious plan to invest $22 billion (`1,32,000 crore) to increase its steel capacity over three times to 40 million tonnes per annum by 2025.

In the last couple of months companies ranging from Tata Group, Reliance Industries, Adani Group to online retail heavyweights such as Amazon and Flipkart have pledged investments to the tune of over $80 billion (`4,80,000 crore) while there has been a simultaneous spike in mergers and acquisitions worth $13.4 billion (`80,400 crore) during the same period.

And this may just be the tip of the iceberg.

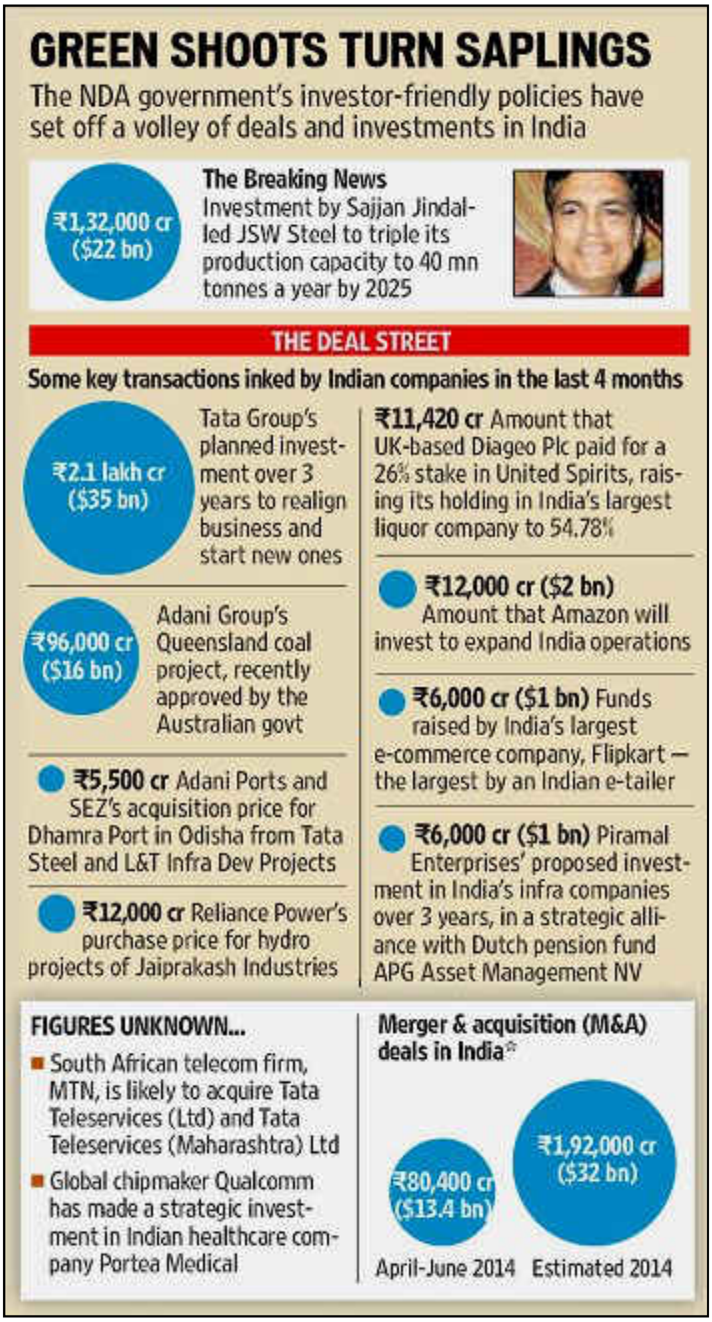
"After more than three decades, we now have a stable government at the Centre with a clear majority by a single political party. This is likely to have far-reaching consequences over the medium-term outlook for the country — from expected ushering in of reforms, a revival in economic growth and the strengthening of the governance framework," said Sajjan Jindal, chairman and managing director, JSW Steel, at the company's annual general meeting held in Mumbai on Thursday.

"India is now at an inflection point, where the government's focus is on implementing speedy reforms, nurturing strong macroeconomic fundamentals and improving the investment scenario, all of which augurs well for the country," he added.

The announcements, however, come with many riders.

A number of big investment projects from the last decade including Posco and ArcelorMittal's steel plants have remained on paper and failed to take off due to regulatory uncertainties and problems in land acquisition. Jindal's own greenfield projects in West Bengal and Jharkhand are running behind schedule and the company has said that further capital would only be employed once raw material linkages are firmly in place.

"While we remain committed to the planned greenfield projects in West Bengal and Jharkhand, committing additional capital to these projects is limited to securing raw material linkages as it is fundamental to achieve financial closure," Jindal told shareholders.



CONSULTATIONS TO DELAY TABLING OF AMENDMENTS TO MINING BILL

Mines minister Narendra Singh Tomar has indicated that amendments to the more than half-a-century old Mines and Mineral Development and Regulation (MMDR) Act, 1957, are unlikely to be tabled in the current session of Parliament, pushing back crucial reforms in the sector that has been plagued by illegalities, delayed mining leases and clearances, as well as production caps.

"This is a sensitive issue requiring wide consensus from a range of stakeholders. It has to be well thought out and discussed," Tomar told Mint on the sidelines of an Employees' State Insurance Corporation conference on Thursday.

Tomar is also in charge of the labour ministry.

The mines ministry has sought comments from various states with major mining operations, including Goa, Karnataka, Odisha and Rajasthan among others.

Finance minister Arun Jaitley in his maiden budget speech had said that he is hopeful that the impasse in the coal and mining sectors will be resolved by facilitating changes in the MMDR Act.

Ravi Uppal, managing director and chief executive officer of Jindal Steel and Power Ltd (JSPL), said mining reforms were

(Continued on Page 7)….

urgently required as mining activity has been hit over the last few years and the industry requires clarity and a sense of direction.

"There should be larger private sector participation in mining activity, maybe through the PPP (public-private partnership) model," he said.

An official from London-based Vedanta Resources Plc. said, requesting anonymity, that though it is understandable that the government is taking time in working out the amendments, there might arise uncertainties around the 63,395 mineral concession applications pending with various state governments.

"There is talk of perhaps moving from the current 'first come first served' basis method of allocation to an auction route with the new amendments. This might create uncertainty and further delay in clearances of pending cases till clarity emerges," the official said.

The Federation of Indian Mineral Industries (Fimi), an industry body representing miners, has recommended sticking to the principle of "first come first served" on a more stringent basis for granting mineral concessions, rather than the allocation of mines through the auction route, said Basant Poddar, vice-president of Fimi.

Narendra Singh Tomar

Fimi has also called for the promotion of junior exploration companies that have expertise, bank on venture capital or hedge funds, and have the latest technologies.

The National Democratic Alliance (NDA) government is still in its early days and consultations will take some time as different affected parties must be consulted, said Debasish Mishra, a senior director at consulting firm Deloitte Touche Tohmatsu India Pvt. Ltd.

The previous United Progressive Alliance (UPA) government had attempted to amend the Act in December 2011, but the Bill lapsed earlier this year.

The Bill proposed to empower the central government to intervene in cases of illegal mining where the state government concerned fails to take action against irregularities. It also called for coal miners to share 26% of their net profit with project-affected people. It required non-coal miners (miners of iron, bauxite, manganese, copper, aluminium, gold and silver) to pay 100% of the royalty on production to those displaced by the project. It also had several provisions for checking illegal mining as well as setting up special courts to dispose of such cases.

COAL PROJECTS: ENVIRONMENT MINISTRY EASES CLEARANCE RULE

The Union environment ministry has decided to consider group clearances for adjacent mines of Coal India Limited (CIL), the near-monopolist in the sector, rather than considering individual project proposals. There would be only one public hearing, a prime necessity for environment clearance, for the identified cluster, instead of examining one mine at a time.

The request to do it this way had come from the coal ministry, which was keen to raise production and sidestep environmental objections.

"It will be prudent to adopt a cluster approach for mines situated close by, so that the cumulative impact of mining on the environment could be documented and that only one public hearing for this cluster is held," the ministry said after holding discussions in its Expert Appraisal Committee meeting on the proposal. It has said the cluster classification should be based on multiple factors.

CIL mines which already have clearance, the coal ministry had also said, could be re-arranged into clusters for future clearances and earlier okays could be "treated as group environment clearance".

Prakash Javadekar

The ministry has identified 94 such clusters in various CIL units.

The coal ministry was clear that the aim was to boost production. It said while granting clearance to cluster mines, the pollution parameters in the area could be laid down by the environment ministry, instead of "restricting the production limit of the cluster mines...it would facilitate enhancement of production of the cluster/mines by taking additional pollution mitigating measures to offset the impact of additional production on the environment."

Also, a clamp on production in one unit could be allowed to be compensated by enhancing production from the other mines, keeping the overall production limit of the cluster within the limit set while giving a green nod.

The coal ministry has often blamed delay in environment clearances as the reason for shortfall in coal production across the country. (Continued on Page 8)….

The production target for CIL has been fixed at 507 million tonnes (mt) for 2014-15. It had produced 462 mt in 2013-14, about 20 mt below the target.

Pressure for this also comes from the power ministry. In June, the country's power shortage was estimated at an average of 5,295 Mw. To ensure adequate availability of coal for the power sector, the coal ministry has asked CIL to step up output.

GREEN NOD

- At present, each mine in the coalfield requires separate environment approval
- Now, one public hearing will be held for each cluster
- Move comes after coal ministry raised the matter with environment ministry
- 94 clusters of CIL identified by coal ministry
- Move to expedite environment clearance process

GOVT MUST SHARE FINANCIAL RISKS OF NATURAL RESOURCES EXPLORATION

Pricing of natural resources has become a contentious issue in the recent past and continues to bog down policy-makers even today.

The Economic Survey 2013-14, while pitching for parity in costs between domestically produced natural resources and world prices, talks about making the Government a partner in exploration risk-sharing.

"In the field of natural resources, where there is global trading, appropriate incentives for exploration and extraction in India are obtained when there is pricing parity with the world price, excluding transport costs or taxes," said the Survey, which is seen as an indicator of the Government's outlook on various policy issues.

"If firms obtain lower revenue per unit of mineral extracted in India, there will be under-investment in exploration and extraction."

Revenue share mechanism

It added the auction-based procurement or fixed-price procurement has run into many difficulties, which can be avoided by using a percentage revenue share for the Government, under which the Government becomes a partner in sharing the risks of exploration, extraction and world price fluctuations, alongside private firms.

India's oil and gas sector has been witness to a debate on whether the Government should continue with the current production sharing contracts that allowed the cost recovery concept — where a contractor first recovers its expenditure before sharing profit with the Government — or a production-linked system — which is said to be more transparent and involves less intervention in routine oil exploration activities.

A regime shift may not directly result in more revenues for the Government but will ensure that, as the contractor earns more, the Government gets progressively higher revenue.

Besides, it will also safeguard Government interests in case of a windfall arising from a price surge or a surprise geological find.

The Survey also makes a strong case for removing pricing distortions perceived by consumers, such as administered pricing for coal.

These fixed prices are dulling the market response, which is reduced consumption in response to higher prices, and reducing the flexibility of the market economy, it says

CVL BUYS COAL MINES IN MOZAMBIQUE FOR A BARGAIN-BASEMENT PRICE OF $50 MILLION FROM RIO TINTO

A consortium of Indian state-run firms has bought a bunch of once prized coal mines in Mozambique that changed hands for $3 billion in 2011 for a bargain-basement price of $50 million from global mining giant Rio Tinto. It also marks the first overseas deal of International Coal Ventures (ICVL) since it was set up in 2009 to buy mines abroad to secure the raw material needs of its members and the country's energy security.

ICVL is a joint venture between five public sector companies. a top steel ministry source told ET.

ICVL CEO Ajay Mathur and George Hartley, the director in charge of M&A at Rio Tinto, signed the agreement on July 28 in New Delhi though a formal announcement was made only on Wednesday coinciding with a divestment by Rio of some Mongolian assets. ICVL has 60 days to make the payment. Besides SAIL, ICVL's other owners are power major NTPC, Coal India, state-owned miner NMDC and South-based steel-maker RINL.

The deal marks a rare success by Indian companies in acquiring natural resources in Africa, where more often than not, they have been outbid by their Chinese counterparts.

Not surprisingly, the Cabinet minister in-charge and PSU bosses hailed the deal.

"It is a big day for ICVL. This is just the beginning of acquiring more mining assets abroad. It (the mines) has got reserves of 2.6 billion tonnes with 70% coking coal. The asset is going to be useful for our domestic steel industry and is in line with expansion plans of steel sector," Union Steel & Mines Minister Narendra Singh Tomar told ET.

"This is a historic deal, big for India since it involves three mines well prospected to contain some 2.6 billion tonnes of good-quality coking coal and thermal coal. Coal prices are ruling at historic lows. We got it at a good price because we were at the right place at the right time," said CS Verma, the chairman of SAIL and ICVL, though he refused to comment on the deal size.

"The deal was clinched at $50 million, or roughly Rs 300 crore,"

ICVL had bid for these coal mines in 2011 too but was outbid by Rio Tinto, with, as it turns out, disastrous consequences, for the latter. ICVL will own 100% in the Mozambique-based holding company as well as two of the three mines.

Of the three mines, Benga with reserves of 236 million tonnes is already operational with Tata Steel having a 35% share of production. Two other greenfield projects, Zambeze and Tete, have proven reserves of 1,984 million tonnes and 260 million tonnes, respectively.

The $50-million payment will be followed by an investment of around $1 billion to ramp up production over 3-4 years. ICVL plans to raise capacity of the Benga mine from the existing 5 million tonnes to 12 million tonnes in the first phase.

In the second phase, the capacity will rise to 16 million tonnes, making it one of the largest coal mine projects in the world. "ICVL will also have to invest in buying rolling stock while the Mozambique government augments railway infrastructure and coal jetty at the Port of Beira We need RBI approval for the deal," Verma added.

POSCO, MESCO SIGN MOU FOR STEEL PLANT IN ODISHA

Eager to get started in India after a nine-year wait to secure clearances for its greenfield plant, South Korean steel maker Posco is exploring the possibility of setting up a steel plant in Odisha jointly with Mesco Steel, three steel industry officials said on Wednesday. A memorandum of understanding was signed between the two companies last month and if their talks succeed, Posco will dismantle a 600,000-tonne Finex technology steel plant in South Korea, ship it to Odisha, and put it up on Mesco's plant site in the state, the officials said. "The main purpose of (the) MoU is to conduct co-study for the possibility of business collaboration," Posco India's spokesperson I.G. Lee said in written replies to emailed questions. "Regarding setting (up) date of new plant and shareholding structure, since this is in too early a stage of co-study, everything remains unknown till the study is finalized," Lee added. Manish Pande, vice-president of strategy at Mesco Steel, declined to comment. If Posco is successful in setting up this plant in India, it would be able to start manufacturing locally and integrate it with its processing plants already set up in several locations in India. Posco would also be able to earn royalty from its patented Finex technology that would mark a breakthrough in India as it would use low-grade iron ore fines without the need to import coking coal and thus bring down costs in a big way. For Mesco, looking to grow its 1.2 million tonne (mt) steel capacity at Jajpur in Odisha, the agreement will help it acquire a modern technology plant that can effectively use iron ore from its captive mines and a source for fresh capital. Posco's 12 mt, $12 billion, greenfield plant project in Jagatsinghpur in Odisha has been hit by controversies since it was conceived in 2005 and is still awaiting a formal handover of land and captive iron ore mines. Earlier, the project was conceived over 4,004 acres, but now the company has scaled it down to a smaller plant over 2,700 acres to bypass villages that have opposed the project. "Even though the central government and the Odisha government are trying to help them, they have not made much headway," said one industry executive. "They have an office in Odisha and they want to engage their staff." Two other executive cited above said Posco has also been in talks with other steel makers to sell its Finex plant. A plant with Mesco would also mean Steel Authority of India Ltd (SAIL), with whom Posco had an MoU earlier, has lost the chance to build a Finex technology plant at SAIL's existing plant site in Bokaro. "The MoU with SAIL expired in 2011 and also the discussion between Posco and SAIL was stopped due to shareholding issues raised by (former) minister of steel (Beni Prasad Verma) since November 2011," Lee added. Posco and SAIL held talks for many years but were at loggerheads over the management control of the proposed Finex-based plant. While Posco wanted a 51% stake, citing their patented technology about which they are secretive, SAIL said the plant would come up on their land and that mandated management control. SAIL's chairman C.S. Verma and the company's corporate communications department did not respond to a questionnaire asking if the company is still interested in setting up a plant with Posco. An analyst said Posco's plant had the potential to change the dynamics of the steel industry as their superior technology would drastically bring down the cost of steel production. Several Korean companies in the consumer goods and automobiles sector that are already clients of Posco, would increase their purchase of Posco's made in India steel. Currently, Posco imports a little less than 2 mt of steel into India, which is processed at its centres in Gurgaon, Hyderabad, Chennai and Talegaon.

SHAH COMMISSION ALLEGES `22,000 CR ILLEGAL ORE MINING IN JHARKHAND

The Justice M B Shah Commission has reported illegal mining worth over Rs 22,000 crore in Jharkhand, unlawful ore exports of about Rs 2,747 crore from Goa and blatant encroachment in Odisha by companies. Alleging "flagrant misuse" of rules, the commission in its report tabled in Parliament suggested cancellation of leases, recovery of lost revenue and punishing errant officials, who colluded with the miners.

The Shah Commission, appointed to probe on illegal iron and manganese ore mining, allegedly found big corporates like Tata Steel, SAIL and Aditya Birla Group's Essel Mining as well as medium and small firms Usha Martin and Rungta Mines guilty of wrongdoings and violation of rules.

In Jharkhand alone, iron ores worth over Rs 22,000 crore and manganese ore valued around at Rs 138 crore were extracted "illegally and without lawful authority" by firms like SAIL, Tata Steel and others, the Commission said.

The Commission in its first report on Jharkhand said 18 leases were running under deemed extension without having environment approvals and 22 were carrying mining in violation of norms.

It also said there is a difference of 53.41 million of iron ore production in the figures of Indian Bureau of Mines (IBM) and state government data.

The "mineral value of such difference of quantity of ore comes to about Rs 8,685 crore", which might have been sold to the nearby illegally operated crusher holders.

The second report on Odisha showed companies such as Tata Steel and Essel Mining carrying out mining operations beyond the leased areas.

llegal exports of iron ore were rampant in Goa, said the Commission and suggested that excess illegal exports to the tune of Rs 2,747 crore should be recovered with interest from firms in addition to penal action.

(A GEMCO KATI INITIATIVE)

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