



EXPORT DUTY AND ROYALTY ON IRON ORE

Recent news items in various newspapers have indicated that the Ministry of Steel has recommended for the re-imposition of 15% export duty on iron ore exports. It is indeed a matter of regret that last year when export duty was levied (which resulted in steep fall in exports), we furnished documents after documents to prove to the government about the inefficacy of such a levy which convinced the government to withdraw it except on lumps which still continues at 5% *ad valorem*.

2. Since the time Government of India started imposing export duty, the arguments have always been :

- iron ore resources are limited and should be conserved for own consumption
- instead of raw material, valued added items should be exported

We deal hereunder both these arguments serially :

(i) RESERVES OF IRON ORE

3. An idea of Indian iron ore resources can be had from the following table:

Table 1
Iron ore resources 1980 to 2005

Grade	Qty.: Million tonnes			
	Resources as on 1.1.1980	Resources as on 1.4.1990	Resources as on 1.4.2000	Resources as on 1.4.2005
Haematite	11469	12197 (+728)	11426 (-771)	14630 (+3204)
Magnetite	6095	10590 (+4495)	10682 (+92)	10619 (-63)
Total	17564	22787 (+5223)	22108 (-679)	25249 (+3141)

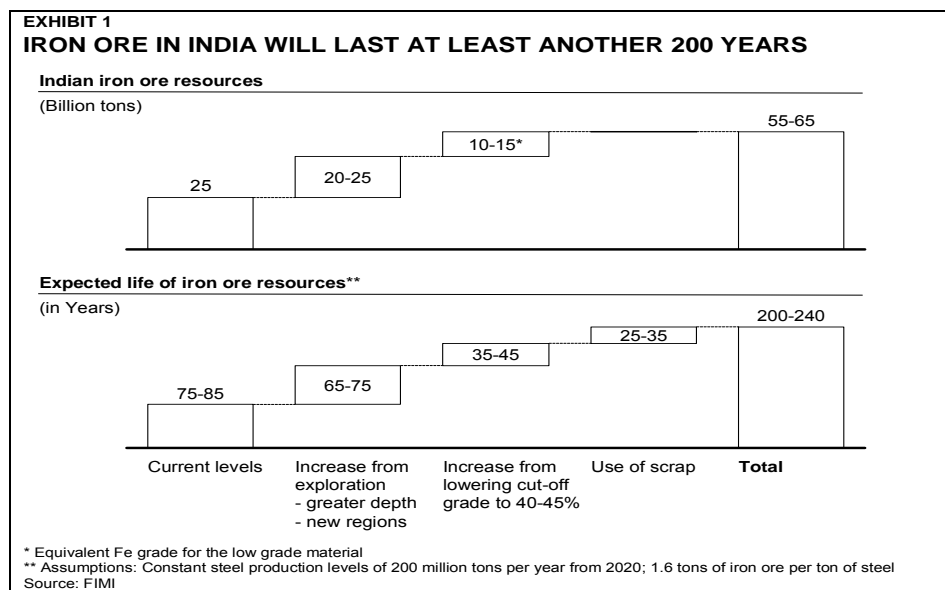
- Notes:**
- (i) Figures in parenthesis indicate decrease (-)/increase (+) in resources over previous figures.
 - (ii) The resources are with a cut-off grade of +55% Fe and roughly estimated upto 50 metre depth with sparse and far-between drilling.



(iii) These resources do not include around 1000 million tonnes of haematite iron ore recently discovered by DMG, Chattisgarh in Kabirdham district.

Source: Indian Bureau of Mines, Nagpur

4. India has one of the largest iron ore resources in the world. In fact, in late 1980s its resources were larger than those identified in Australia and Brazil (the two largest producers and exporters of iron ore). With appropriate focus on exploration and technology, India will be able to identify enough resources to sustain projected steel consumption of approximately 200 million tonnes per annum for another 200 years **(Exhibit 1)**.

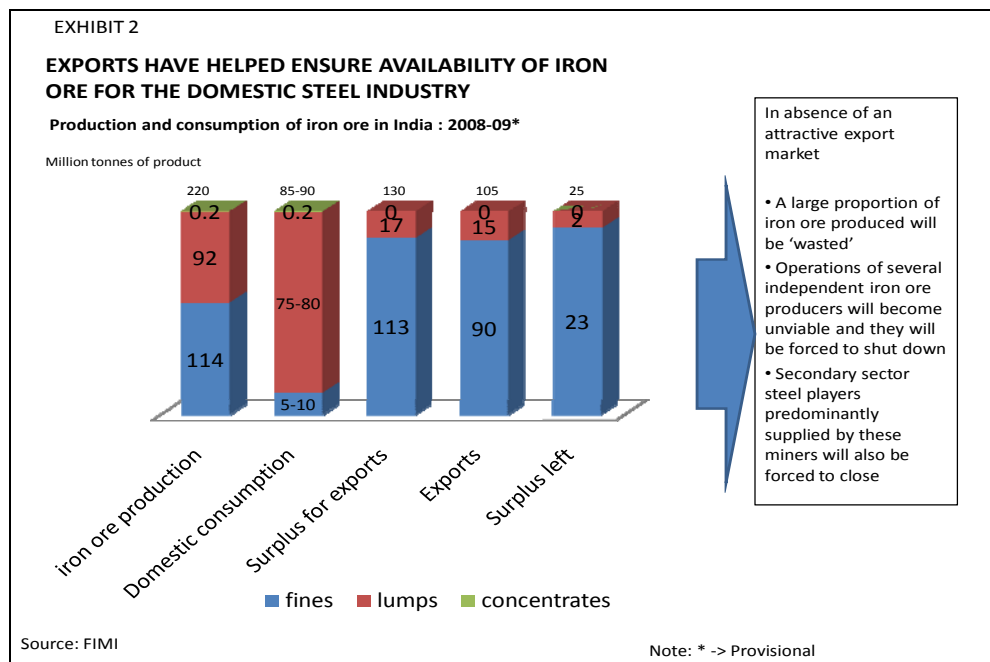


5. Even today, the domestic steel industry is not short of iron ores. On the contrary, exports (basically fines) have helped ensure supply of iron ore for steel companies (especially for the secondary sector with no captive mines that accounts for more than half of India's steel production) and resulted in optimal utilization of the iron ore resources. Fines are 55 to 60 per cent of Indian iron ore production. The domestic steel industry, on the other hand, does not consume as much of fines as lumps. Similarly, 62% Fe and lower grades constitute a fair share of the run-of-mine production and would be 'wasted' in the absence of the export market. In fact, even the steel producers with

captive mines are selling (and even exporting) iron ore from these captive mines. This reiterates two points –

- (i) *the domestic steel mills are not faced with any scarcity of iron ore; and*
- (ii) *exports or sales of iron ore in the open market are critical to ensure optimal utilization of the resources.*

6. By marketing the surplus fines and lower grades in the export market, the independent iron ore miners have been able to economically meet the requirements of the domestic industry, especially the secondary sector players with no captive mines. In the absence of the export market, the independent miners would be forced to shut down, forcing the secondary steel sector to follow suit. Further, this would encourage miners towards selective mining (as done by some mines primarily serving the domestic market) and render the lower grades uneconomical to mine in future **(Exhibit 2)**.



This surplus does not include stocks of 44 million tonnes (lumps 13.44 and fines 30.49 million tonnes) at mines heads as on 1 April, 2007.

(ii) EXPORT OF VALUE-ADDED ITEMS – NATURE OF



MINING INDUSTRY

7. There are about 250 iron ore mining leases operating in India. Except the leases of TISCO, SAIL, NMDC, OMC and MML whose areas are large and can be subject to heavy mechanization, the leases with private companies are small ranging from a few hectares (in most cases) to 250 hectares (in a very few cases). Although a few big units among the later category are now going for steel/sponge iron/pelletisation plants, the level of production and financial wherewithal of the remaining small units are not such as to go for a viable value addition projects. Further, grade, chemical and physical composition of the ore differs from mine to mine and region to region:

Table 2
State-wise production of Iron Ore

Quantity: '000 tonnes

States	2006-07			2007-08		
	Lumps	Fines	Total	Lumps	Fines	Total
Chhattisgarh	12826 (44.64)	15905 (55.35)	28731 (100)	12557 (40.9)	18142 (59.09)	30699 (100)
Goa	6656 (23.17)	22067 (76.81)	28723 (100)	5748 (19.63)	23533 (80.36)	29281 (100)
Jharkhand	8979 (48.25)	9629 (51.74)	18608 (100)	9303 (44.45)	11626 (55.54)	20929 (100)
Karnataka	18946 (46.52)	21773 (53.47)	40719 (100)	19071 (41.81)	26534 (58.18)	45605 (100)
Orissa	38300 (59.6)	25878 (40.32)	64178 (100)	39963 (58.32)	28553 (41.67)	68516 (100)
Others	2603 (38.63)	4134 (61.36)	6737 (100)	5235 (45.83)	6187 (54.16)	11422 (100)
ALL INDIA	88310	98240	187696	91877	113970	206452
TOTAL	(47.04)	(52.34)	(100)	(44.5)	(55.2)	(100)

Note: Goa produces a small amount of concentrates which have been added in fines.

It will thus be seen that India as a whole produces 55% fines and 45% lumps – ratio of fines being different from region to region: 42% in Orissa to 80% % in Goa.

8. Because of cyclical nature of (capital intensive) steel industry and consequently of its feed (pellet/sinter/sponge) and raw materials, small/medium iron ore producers are not able to take financial risk. While secondary sector (sponge iron and EAF units) consume lumps, the usage of fines is limited to a few steel companies like TATA and

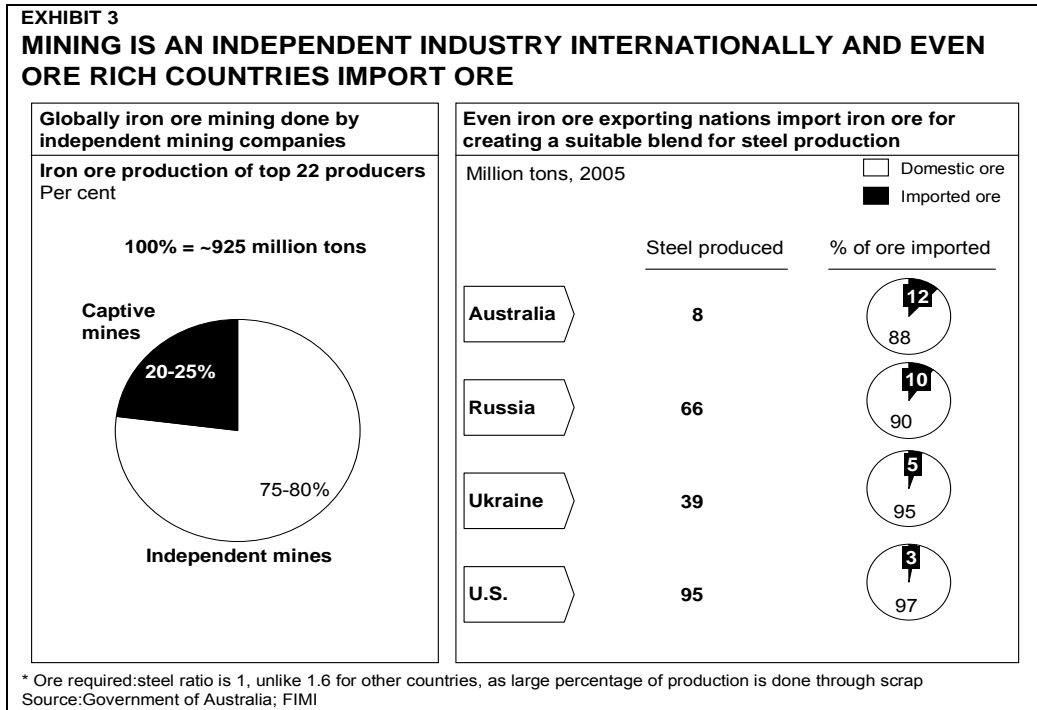


SAIL in the form of sinters and JSW in the form of pellets. Even TATA and SAIL sell the surplus of fines from their captive mines which is exported by traders.

9. Fines can be utilized in the form of sinters or pellets. A sinter plant has to be near or within steel plant premises to avoid handling which renders them into fines again. The other usage “pellet” requires huge investment, not within the reach of small lease holders. A few lessees who have set up pellet plants in Bellary-Hospet sector are facing the problem of export (domestic market virtually non-existent). Even Mandovi Pellets, a well established pellet producer, have closed down its operations because of steep fall in international prices of pellets which hover roughly around US\$ 85 per tonne (f.o.b.) whereas the cost of production is much more.

(iii) MINING TO BE ENCOURAGED AS INDEPENDENT ACTIVITY

10. World over, mining is an independent industry and has created significant value in the local economy. Approximately 75 per cent of the major iron ore producers are independent mining companies. Even large iron ore producing countries, such as Australia, Russia and Ukraine, import iron ore for steel production to get the right blends, and hence better efficiencies, for their steel plants (**Exhibit 3**). States that have recognized mining as an independent industry have witnessed rapid economic growth. For example, Western Australia has grown value of mineral output in the state from AUS\$ 0.013 billion in 1964 to AUS\$ 17 billion in 2003 (over a thousand fold increase). The state has 17 per cent share of global iron ore production, 19 per cent of alumina production, 22 per cent of diamond production and 18 per cent of nickel production. The sector accounts for 18 per cent of employment and 55 per cent of investments in the state.

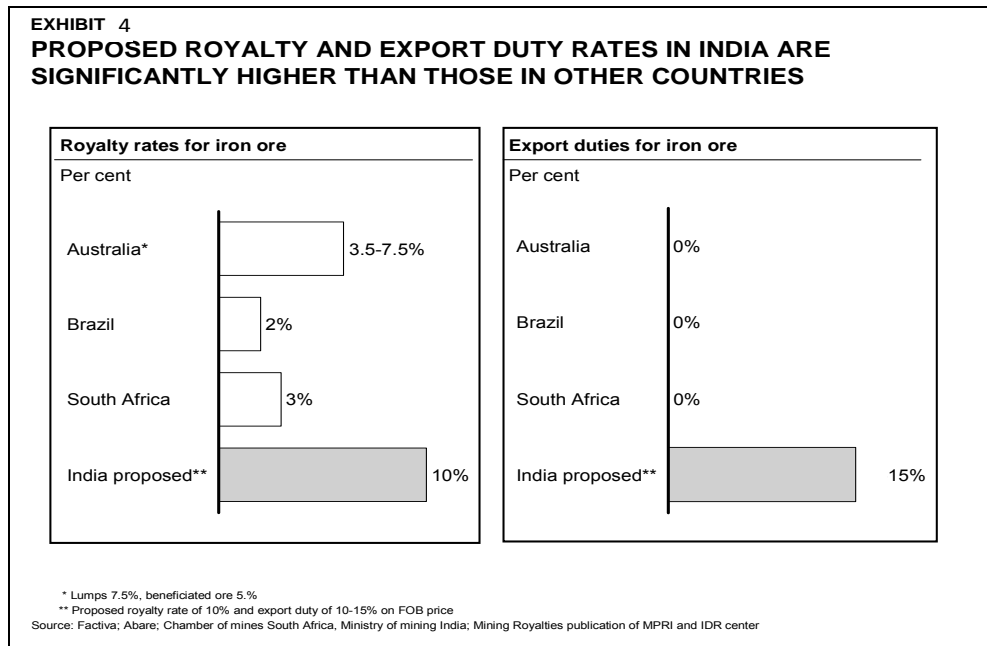


11. Recognition as an independent industry has encouraged mining companies to focus on exploration, infrastructure and new capacity creation, and environment and community development. The steel industry, itself being very capital intensive, is typically unable to deploy the required resources on developing the iron ore sector. It is the independent mining companies that typically drive such investments. Iron ore mining industry adds significantly value along the iron ore value chain by driving exploration and thereby increasing the resources available for value addition (Australia and Brazil have increased iron ore resources ten-fold in less than three decades by focusing on this). Further, by creating new infrastructure around the resources, the iron ore industry helps bring mines even in remote areas online (steel industry would typically not develop these areas away from consumption centers and hence away from their plants). Finally, large independent mining companies have the ability to create downstream pig iron and steel capacities in multiple locations across the country or region, in addition to beneficiation and processing of run-of-mine ore. On the other hand, steel companies with captive mines typically underutilize the iron ore resources in the country and remain restricted / focused around a particular region.

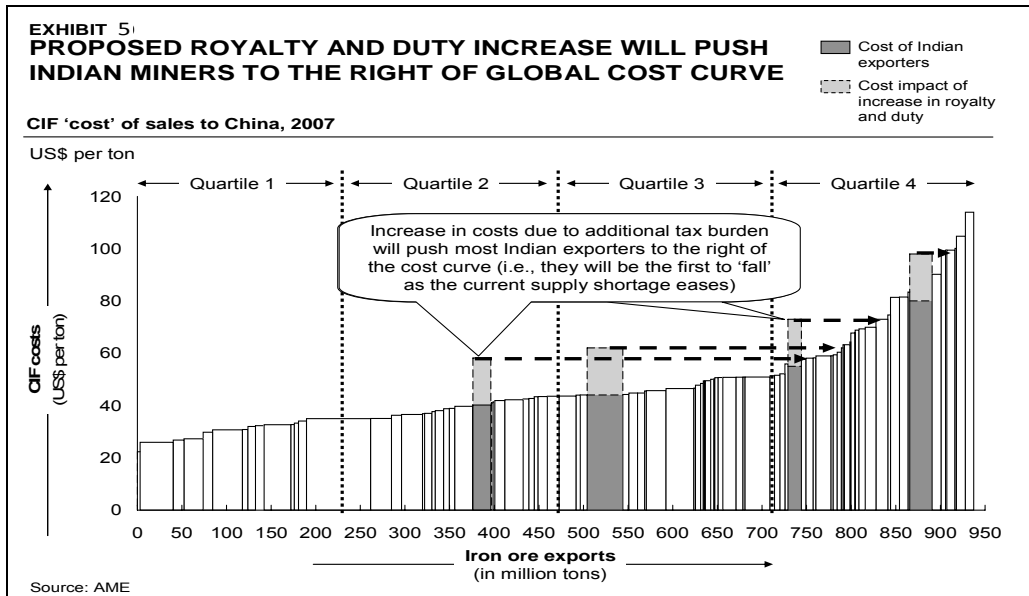


**(iv) PROPOSED ROYALTY AND EXPORT DUTY WILL MAKE
INDIAN ORE HIGHEST TAXED INDUSTRY**

12. India will be the highest taxed country amongst major iron ore producing regions with the proposed royalty and export duty rates. Brazil, the largest iron ore producer with a domestic steel production comparable to India, has a royalty of 2 per cent and no export duty. Similarly, Australia has a royalty of 3.5 to 7.5 per cent (depending on ore type) and no export duty. Even South Africa has a royalty of only 3 per cent and no export duty. The proposed royalty of 10 per cent and proposed export duty of 15 per cent in India will be significantly higher than these major iron ore producing regions **(Exhibit 4)**. This will render Indian iron ore as the highest taxed industry in the world and all this at a time when iron ore market, world-wide is on a downswing.



13. The additional tax burden on the Indian iron ore exporters will marginalize Indian exports which are already facing stiff competition from Brazil, Australia and South Africa and would result in closure of many mines. Historically, Indian iron ore industry has always been at a disadvantage to Australian and Brazilian exporters due to higher inland logistics costs (average inland logistics cost of US\$ 10 to 40 per tonne in India versus US\$ 3 to 5 per tonne in Australia and Brazil) and an inadequate port infrastructure leading to higher freight costs. The proposed royalty and export duty increases will push Indian exports to the extreme right of the global cost curve (**Exhibit 5**). The ill-effect of the increase in cost through export duty and the railway freight in 2008 by Indian government can be recognized from the fact that India's share in sea-borne trade fell by almost 40% (from 15% to 10% in the second half of 2008) whereas that of Brazil remained intact and of Australia increased marginally. A 50 per cent fall in exports will render over 50,000 employees directly employed in iron ore operations jobless and impact livelihood of over a million people across the country (the mining value chain sustains people not just from the mining areas but from most part of the country).



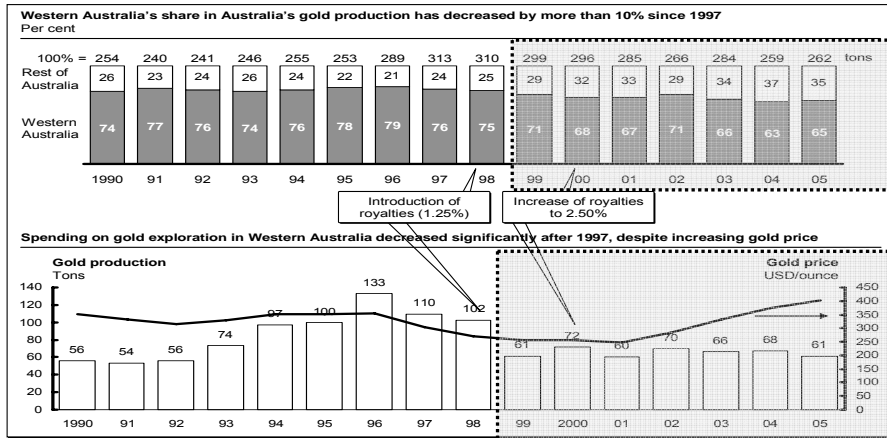
14. Experience of other countries suggests that sharp increases in royalty and export duty in mining have typically impeded industry growth.

Introduction and increases in royalty on gold in Western Australia reduced its share of gold production from 76 per cent in 1996 to 65 per cent in 2005 (a 9 per cent fall in share in less than a decade). Further, spending on exploration in Western Australia decreased significantly despite increase in gold prices (**Exhibit 6**)

EXHIBIT 6

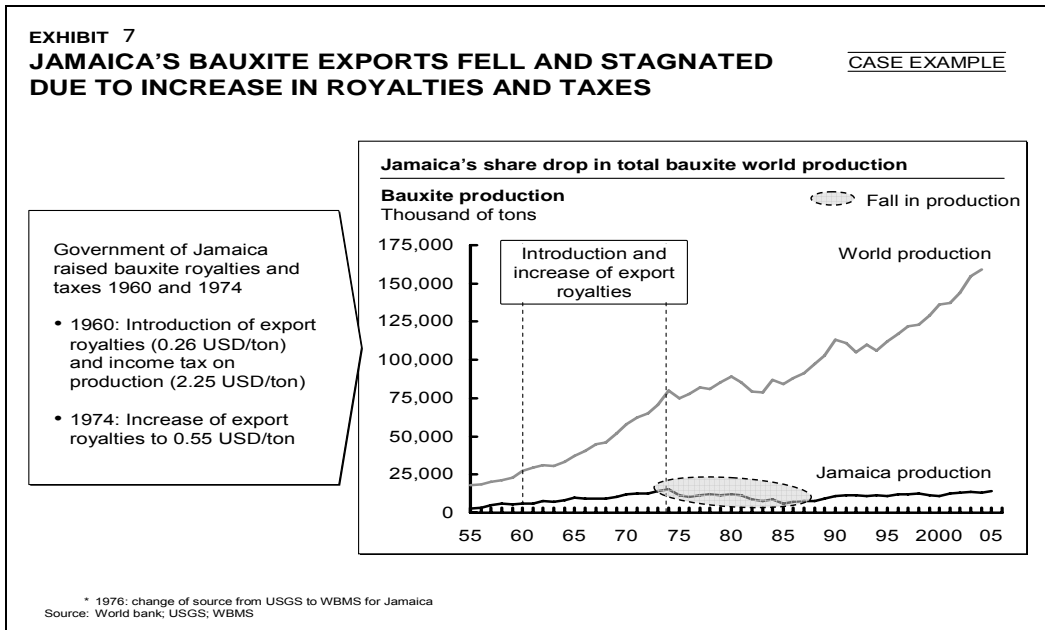
INTRODUCING ROYALTY ON GOLD, DECREASED WESTERN AUSTRALIA'S SHARE OF PRODUCTION

CASE EXAMPLE



15. Introduction of royalties and export tax on bauxite in Jamaica resulted in a stagnation of bauxite production, with its share decreasing from approximately 20 to 25 per cent in the 1960's to below 10% by 2005 (**Exhibit 7**)

16. Introduction of copper royalties in British Columbia in 1973-74 resulted in closure of many mines and loss of over 5,000 jobs, exploration spend fell to one-tenth of its previous levels, and new mine development almost came to a standstill. The royalties were repealed in three years but had a catastrophic impact on the industry.



(v) CONCLUSION

17. FIMI and its members are committed to the growth of the iron ore industry and would like to work with the government to generate maximum value from the Indian iron ore resources, and simultaneously help develop the community and environment around the mining areas. India has the potential to develop into a global player in both, steel production as well as mining. There is no rationale for looking at iron ore exports and domestic steel production as being alternatives that are mutually exclusive. In fact, they are mutually reinforcing. We believe the proposed increase in royalty and export duty rates will in fact destroy value across both the iron ore and the steel industries and will be counter-productive. Instead, creating the right enabling environment for the mining companies to encourage investments in exploration, infrastructure, value addition, and community and environment development activities would create more value for the economy.

18. The current scenario for Indian iron ore exports is very precarious as spot prices which used to get premium over benchmark (long-term) prices since 2003 (when boom started) have fallen below the benchmark prices and are likely to trade at a substantial



discount due to over-supply situation. If royalty is increased and export duty re-imposed, the Indian iron ore will definitely be out-priced. And this is the situation which Australian companies want !

19. In peroration, FIMI would like to submit

- there would be no shortfall of iron ore to domestic steel industry
- resources of iron ore will increase with more exploration with better techniques and scientific mining
- exports lead to optimal utilization of iron ore resources as only surplus and low grades, mainly fines are exported
- imposition of export duty and increase in royalty rates will make Indian iron ore uncompetitive and discourage exports

20. Lastly, as per the policies adopted by various iron ore rich States, all future leases will be given to those entrepreneurs who set up steel plants in their respective States. The stand-alone non-captive mines will thus only play the role of stop-gap (swing) suppliers at a time when the supplies from their captive mines fall short of their requirements because of

- less production vis-à-vis demand for iron ore
- fall in grade and size produced in captive mines for blending Purposes
- exhaustion of deposit
- halt in production due to strike and/or lay-offs

Simultaneous existence of stand-alone non-captive mines is therefore always a desideratum. The past experience of last five years bears out that these mines have resilience to increase production at short notice and derive benefit of the market (as has happened in the case of strong Chinese demand which these mines took advantage to fill in the gap in iron ore supplies from Australia and Brazil).