THE HINDU Business Line
INTERNET EDITION
Financial Daily from THE HINDU group of publications
Monday, Dec 26, 2005

Ministry opposes captive iron ore mining by steel producers

Ambarish Mukherjee

- Transfer pricing leads to loss of share in profit in value chain
- The Government (state and provincial governments) loses out on taxes such as sales tax and duties such as octroi.

New Delhi , Dec. 25

THE Ministry of Mines has represented to the Government that it is opposed to, as a matter of principle, the proposals of captive iron ore mining by steel manufacturers.

It has contended that this leads to an element of subsidy through transfer pricing, and that the mining sector as such is deprived of its share of profits in the value chain. There is also a loss of revenue to the Government.

The Ministry has said that allowing steel producers to impound the entire value added from captive mining of iron ore for steel production results in a huge subsidy to them. In a case of captive mining by the steel producer, the Mines Ministry has argued, the former gets subsidised in two ways.

One is the difference between the cost of extraction and the market price of iron ore is borne by the iron ore mining industry, which is not easy to quantify over the life span of the project. As of now, the cost of extraction for captive mining for SAIL and Tata Steel is between Rs 250 and 325 per tonne, while the market price (iron ore) is around Rs 2,000 per tonne.

The second part is the loss borne by the Government (state and provincial governments) also bears loss in the form of lost taxes that would have accrued to it in the form of sales tax and other duties like octroi etc.

Sources told *Business Line* that "the huge subsidy that steel makers with captive mining get, i.e. the difference between the cost of extraction and the international market price of the ore, is attracting steel makers from abroad. "In this situation, the Government has to decide whether steel making should be a subsidised activity," the sources said.

"If it is decided that steel-making needs to be subsidised by making available assured and cheap iron ore, then it has to be a conscious decision of the Government, keeping in mind the WTO obligations and the OECD (Organisation for Economic Cooperation and Development) negotiations on phasing out all forms of Government subsidies in steel-making in which India, Brazil and China had been asking for differential treatments," officials in the Mines Ministry said. In such a scenario,

Group Sites

The Hindu
Business Line
The Sportstar
Frontline
The Hindu
eBooks
The Hindu
Images

revenues from value-added products should be enough to offset the revenue lost at the raw material stage, they said.

"It will have to be ensured that the value addition by steel makers, both foreign and Indian, is enough to offset the subsidy, which has to be treated as akin to the Government's equity in the downstream project," officials said, explaining that the `losses' that the Government may suffer due to grant of captive mines should be made up through value addition by the mills.

These sources, however, did not clarify the exact mechanism by which this could be done or how such losses could be worked into the steel project as the Government's equity.

Incidentally, the Steel Ministry has been actively advocating the allotment of captive mines to steel manufacturers, both domestic and foreign — a long-standing demand of the steel industry.

Should the Government accept the Mines Ministry's contention, global steel majors such as Posco and the Mittals may be forced to rework their India plans.

Related Stories:
National Steel Policy: Govt to encourage iron ore trading for uniform availability
New iron ore mining policy on the cards

More Stories on : Steel | Minerals

Article E-Mail :: Comment :: Syndication :: Printer Friendly Page

The Hindu Group: Home | About Us | Copyright | Archives | Contacts | Subscription
Group Sites: The Hindu | Business Line | The Sportstar | Frontline | The Hindu eBooks | The Hindu Images | Home |