

# Ban on ore exports gaining momentum

The ban on ore exports - be it iron ore or chrome ore - is gaining momentum from all sections. Firstly, the steel minister Ram Vilas Paswan raised the voice against the exports of valued raw material which, he argued, would be exhausted over few years, if not banned. Concerned over supply shortages to its 100 steel units and 70 sponge iron plants, Chhattisgarh Chief Minister Raman Singh has also sought a ban on exports of iron ore by the National Mineral Development Corporation (NMDC). 'NMDC should cater to iron ore demands of domestic customers to help India become a global leader in steel manufacturing, but it's concentrating on profit income by exporting to foreign countries. I seek a ban on exports of the country's rare natural resources,' the chief minister stated. The Hyderabad-headquartered public sector undertaking NMDC produced 20.7 million tonnes (MT) of

iron ore during the last fiscal year, of which 15.75 MT came only from Chhattisgarh's three mines in Bailadila in the Bastar region. The NMDC exported nearly 5 MT to foreign



countries, mainly to Japan during the financial year 2004-05 that helped it earn an all time high profit of Rs.7.55 billion (\$171 million) after tax.

## Crisis In Chhattisgarh

Last month, 70 sponge iron units and 115 steel units in Chhattisgarh

stopped production because of the recurring iron ore shortage. The NMDC was accused of pushing domestic steel units into crisis by exporting iron ore from Bailadila. The strike ended after 15 days when Raman Singh promised a solution. 'Chhattisgarh has emerged as a favourite destination for investors. In the last two years, business deals worth Rs.400 billion have been struck with various firms mainly in the steel sector. The NMDC should think about catering to the growing iron ore demand of domestic customers,' the chief minister said. He met Prime Minister Manmohan Singh earlier this month to press his demand that iron ore exports be stopped. 'I also brought the matter to the attention of Finance Minister P. Chidambaram and Steel Minister Ramvilas Paswan. I am hopeful of some immediate positive outcome.' While Raman Singh firms his moves, the Chhattisgarh Sponge Iron Manufacturers Association has threatened to shut down again if the

NMDC fails to provide all its iron ore demand. The association represents the 70 sponge iron units that account for 30 percent of India's total annual output of 10 million tonnes. 'Chhattisgarh's sponge iron units that make galvanised steel need a monthly supply of 500,000 tonnes of iron ore, but are getting just 70,000 tonnes. We will begin an indefinite shutdown from March if the issue of raw material shortage is not addressed soon,' said association president Suresh Agrawal.

### **Neelachal Ispat facing ore supply blues**

Large steel producers have started facing ore supply problems. Neelachal Ispat Nigam Limited (NINL) has all the potential to become a viable large integrated steel plant. But NINL, mainly promoted by trading house MMTC and a clutch of Orissa government owned agencies, has remained in a limbo in the absence of steel making and rerolling facilities in the downstream of hot metal production. The NINL plant is currently engaged in converting hot metal into low value pig iron, used by foundries or as a metallic in induction arc furnaces. People in Orissa believe that NINL might not have seen the light of day had it not been for the spirited intervention of the legendary Biju Patnaik, the architect of projects like Paradip Port and National Aluminium (Nalco). Nalco, it will be recalled, was

a toss up between Orissa and Andhra Pradesh and Patnaik clinched it for Orissa. What, however, Patnaik did not foresee was that the principal promoters of NINL did not see steel as an area of core competence.

Let's take the case of one principal promoter, that is, Orissa Mining

atleast 15 days of raw material inventory in hand. NINL will consider itself lucky to have stocks of this order. "It's fire fighting for us all the way. There will be occasions when our ore stocks will see us through for not more than

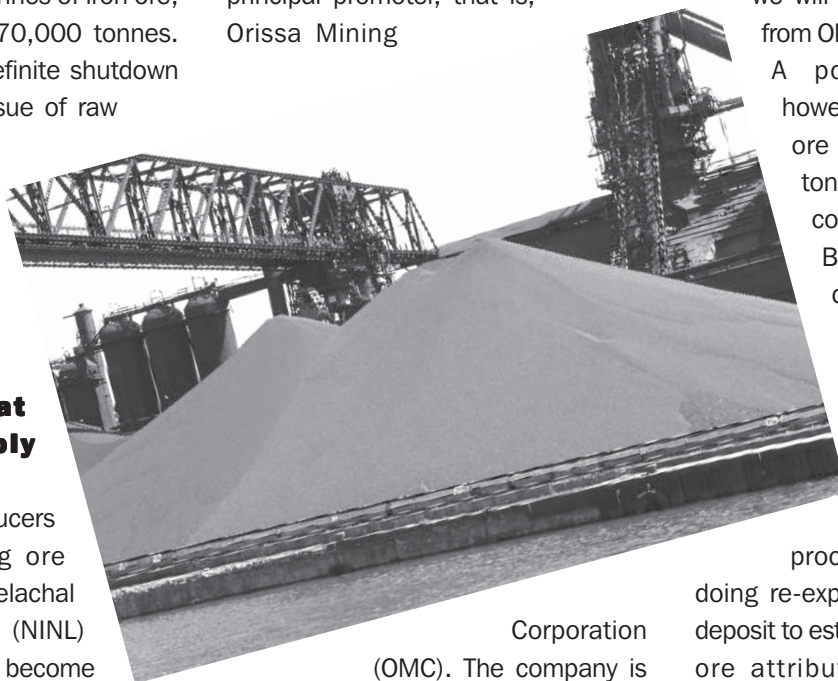
eight hours. Being our promoter, we will expect kinder treatment from OMC," said an NINL official.

A positive development, however, is that a large iron ore deposit of 110 million tonne with average Fe (iron) content of 62 per cent at Baspani in Sundargarh district has been allotted to NINL. "But as you know, getting the whole host of clearances before you can actually start taking out ore is a lengthy

process. Moreover, we are doing re-exploration of the Baspani deposit to establish the actual size and ore attributes," said SK Sarna, managing director.

### **The Issue**

The deposit earmarked for NINL is in a dense forest area. Therefore, taking out ore from there will be a task as environmentalists have become watchful and the judicial frowning on mining which disturbs the ecology is well recorded. Vedanta's discomfiture with bauxite mining to feed the upcoming alumina refinery at Lanjigarh is a case in point. NINL has neither mining experience nor the financial might. Will it then not be right for NINL to become part of a profitable steel group before it embarks on ore mining? A move in this direction will lead to



Corporation (OMC). The company is committed to giving 1 million tonne of iron ore to NINL. OMC owned Daitari mines are close to the NINL plant with good road connectivity. But it has never been the case that NINL got the full contractual quota from OMC, forcing it to source the mineral from other sources on spot price basis. Not only are spot prices higher than contract prices, NINL's procurement of ore from non-OMC sources at Keonjhar results in an additional freight of Rs 45 a tonne. This extra burden on freight account is pinching NINL hard, as in recent months it has to contend with sharp falls in the prices of pig iron, its only product. The global norm for the steel industry is that a unit should have

the right size of investment and technology application in mining. It will at least be a year before NINL has received environmental and other clearances to start mining. Assuming that everything will be in place to start ore mining, Daitari where the NINL plant is and Baspani will have rail connection spanning a length of 140 km. The worth of NINL, which on the back of last year's good prices of pig iron, made a profit of Rs 106 crore, will be going up quite a few notches once the mine related clearances are with it. Stories of leading public and private sector steel groups showing interest in NINL acquisition are circulating at regular intervals. But nothing concrete appears to be happening. At this point, Steel Authority

of India's (SAIL) hands are full, busy as it is in capacity expansion of its plants from 13 million tonne of hot metal to 20 million tonne by 2011-12.

Moreover, the status of IISCO will change from a subsidiary to a unit of SAIL on completion of merger process. At IISCO alone, SAIL will be investing over Rs 8,000 crore to lift the capacity at Bumpur to 2 million tonne, including a greenfield unit. It is highly unlikely to ever have a consensus at either the centre or in the state to hand over NINL to entities like Tata Steel or Essar. Considering all this, Rashtriya Ispat Nigam Limited, popularly known as Vizag Steel, appears to be the ideal suitor for NINL. Vizag Steel is a single location unit with hot metal capacity

of 3.4 million tonne being expanded to 6.5 million tonne. Not only has Vizag Steel been keen on having a second unit, but the unions there will be supportive if NINL is acquired. Whoever is the suitor, the deal will be complex. This is because NINL's equity of Rs 336 crore is distributed principally among MMTC (Rs 165 crore), IPICOL (Rs 89 crore), NMDC (Rs 49 crore), OMC (Rs 16 crore), BHEL (Rs 5 crore) and Mecon (Rs 5 crore). The change in status of NINL should ideally happen now as the company is preparing for an investment of Rs 1,300 crore for building a steel melting shop, a 6-strand high speed billet caster and a bar and rod mill to produce rounds, wire rods and reinforcement bars. ☐

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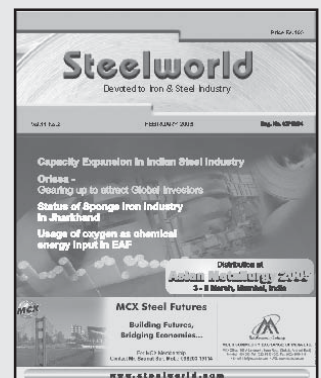
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