

**GOVERNMENT OF ORISSA
DEPARTMENT OF STEEL AND MINES**

No. 303 SM, Bhubaneswar, Dated, the 13th January, 2011
SM-AUD-29/2010

From

Shri Manoj Ahuja, IAS,
Commissioner-Cum-Secretary to Government

To

The Controller General
Indian Bureau of Mines,
2nd floor, Indira Bhawan, Civil Lines
Nagpur-440 102.

Sub: **Meeting of the Committee to monitor grade-wise production pit's mouth value (PMV), sale prices etc.**

Sir,

I am thankful to you for fixation of a meeting on dt.14.01.11. I would like to draw your kind attention on discrepancy in fixing average sale value of ore/minerals in the monthly statistics of the IBM as empowered vide Rule 64-D of M.C.Rules,1960.

- (i) In case of minerals where bench mark prices are not available , the sale price of minerals calculated from the weighted average price per ton of PMV of the mineral/ore as reported by the top ten non-captive producers or actual number of non-captive producers whichever is less in monthly returns under MCDR,1988 excluding minerals produced for captive consumption. Since introduction of Advalorem rate of royalty on the minerals, IBM has been publishing the sale value/price of minerals for different states. The methodology being used is flawed and the manner in which it is implemented is detrimental to the State's interest as the sale

value does not accurately reflect the market price of the minerals/ore. As a result, the State is losing huge revenue in terms of mining royalty.

- (ii) A comparison of sale value of iron ore published by IBM between August,09 to Sept,10 in respect of Orissa and its neighbouring State, Chhatisgarh has been made and a considerable difference has been noticed. The sale value of respective grade of Chhattisgarh is higher than that of Orissa though market price of iron ore in both the States are almost the same.
- (iii) A study of ad valorem rate of royalty published by IBM for the month of **September, 2010** has been undertaken and the following are the observations:
1. It is seen that while the rate of lower grade, e.g. 62-65% Fe lumps has been fixed at Rs.2947/- that of the higher grade e.g.65% Fe and above lumps has been fixed at Rs.2867/-.
 2. For calculation of average sale value in respect of below 60% Fe Lump iron ore IBM has considered 3 nos. of non-captive mines, namely: 1. Smt. Indrani Pattnaik ,unchabali (106.1127 hecets.) 2. Essel Mining and Industries Ltd. for Jilling-Longlota Iron Ore mines and 3. Lal Traders and agencies for Badampahar Iron Ore mines But as per the monthly return only Lal Traders & Agencies has submitted the PMV for Rs.2516/- while the other two have not furnished the same and still IBM has shown the average PMV of Rs.518/- in respect of these three producers. Thus the price reflected is only 21% of the actual market price.
 3. Due to incorrect reporting, either deliberate or due to using an incorrect procedure, there is suppression of PMV by the lessees. This is clearly evident from the very high variation of price in respect of

particular grades of mineral of iron ores. Some of the illustrations are given below:

Grade	Range of PMV	Variation in PMV
60% to below 62% Fe Lumps	Rs.900/- to 2800/-	Rs.1900/-
65% Fe & above Lumps	Rs.690/- to Rs.5790/-	Rs.5100/-
62% to below 65% Fe Fines	Rs.250/- to Rs.3211/-	Rs.2961/-

In a competitive market for the same grade of material the prices should be the same adjusted for transportation costs etc . The high variation indicates incorrect reporting. In fact the highest price should be taken as the correct reflection of the market price as there are no perverse incentives for reporting a higher figure.

4. Some more instances may also be quoted here with reference to Nuagaon iron ore Mines of KJS Ahluwalia (60% below to 62% Fe Lumps), Sarada Mines Pvt. Ltd. of Thakurani Block-B and Ingani Jharan of Bhanja Minerals Pvt. Ltd. (65% Fe Lumps and above), who have not at all furnished the PMV . Still then they have been taken into consideration for determination of the average sale value by the IBM. As such, the process of valuation of weighted average sale price is not clear.
5. Most of the lessees are showing deductions even for sale at the pit head. This is not in accordance with the definition. PMV should represent the sale value of the mineral at the pit head.
6. Sarada Mines Pvt.Ltd. has declared ROM as despatched grade which is not an enlisted grade in the form under the MCDR ,1988. Further the PMVs declared for the ROM, Fines & Lumps are much less than the market price.

<u>Details</u>		
62 -65% Fe Lump	-	Rs.1500/-
62-65% Fines	-	Rs.250/-
62-65% ROM	-	Rs.700/-

Similarly KJS Ahluwalia has furnished the PMV as follows:+65% Fe Lump – Rs.690/- Such low PMV declared by the lessee indicates the suppression of actual prices or inaccurate reporting. The above two mines are also showing the same price for a number of months thus indicating that they have long term arrangements and are showing transfer pricing rates and not the actual market prices. Such lessees should not be taken into consideration for calculating market prices.

7. There is no triangulation with benchmarked prices or any statistical checking to discern incorrect or wrong reporting .For example a simple comparison with FOB prices available from the customs shows that the IBM sale value is less than the calculated price.

1.	Avg. FOB Price at Paradip as per Custom report	Rs.5513/- (per MT)
2.	Avg. cost of transport from Joda-Koira sector by road	Rs.2500/- (per MT)
3.	Stevedore, Wharfage, Plot rent etc	Rs.300/- (per MT)
	Avg. Ex-mines price	Rs.2713/- (per MT)
	Tolerance of 10%	(-)Rs.271/-
	Total	Rs.2442/-
	Price published by IBM	Rs.1849/-
	Variation	Rs.593/-

The above examples are illustrative and have been cited to indicate the flaws in the existing methodology for calculating sale price. In view of the above it is requested that the IBM take a serious relook at the system of arriving at the prices on which ad valorem royalty is calculated.

The following suggestions are made, for taking into account, while publishing the prices of different ores and minerals in the monthly bulletin by IBM where royalty is calculated on advalorem basis.

- i. Lump iron ore and CLO should not be clubbed together and separate price for each should be published.
- ii. Audit or check of the statistical figures on price of ores and minerals in particular should be conducted to set aside recurrence of wide variation in price of ores and minerals of identical nature and grade and stringent action be taken against the lessees who are found to suppress facts.
- iii. State authorities should be consulted before publication of price.
- iv. Before accepting the PMV shown by different lessees in Form-F & H, for other than pit head sale i.e FOB etc standard cost norms given by the State Govt should be taken for deductions.
- v. The PMV and sale value given by the lessees which have been taken into calculation for the IBM price should be displayed on the website.
- vi. The highest price for a particular grade and type of ore should be considered for the purpose of calculation of royalty in a region and triangulated with the bench mark prices of PSU's like OMC, NMDC & export prices available from customs .The present system of utilising the returns of top ten producers should be done away with.
- vii. As per the Circular No.16/90/2009-MVI dated 10th November 2009 of Ministry of Mines, Government of India has constituted a monitoring committee for quarterly review. For effective working of the monitoring committee, a representative of the State

Government of Orissa may be taken in this committee who can bring to the notice of the committee the actual grade and the PMV prevailing for different minerals.

In view of the above facts, IBM is requested to take appropriate action, so that the State should not be deprived of the legitimate revenue from mining sources.

Yours faithfully,


Commissioner-cum-Secretary to
Government

Encl: *An analysis on the monthly return of top ten non-captive iron ore mine producers for September, 2010 is enclosed.*

Memo No. 304/SM, Bhubaneswar, the 13.01.2011

Copy forwarded to the Secretary, Ministry of Mines, Shastri Bhawan, New Delhi, Government of India-110 001 for kind information.


Commissioner-cum-Secretary to Government

Memo No. 305/SM, Bhubaneswar, the 13.01.2011

Copy forwarded to the Director of Mines, Orissa, Bhubaneswar for information and necessary action.


Commissioner-cum-Secretary to Government

EXAMINATION OF PMVs DURING SEPTEMBER 2010

	GRADE NAME	MINE NAME	LESSEE NAME	PMV IN Rs		IBM Price
1	Below 60% FeLumps	UNHABALI (106.1127)	SMT INDRANI PATNAIK	?		518
2		JILLING LONGLOTA	ESSEL MINING & INDUSTIES LTD	?		
3		BADAMPAHAR	LAL TRADERS & AGENCIES	2516		
1	60% below 62% FeLumps	RAIKELA	GEETARANI MOHANTY	957 ✓		1449
2		RAIKELA	PRABODH MOHANTY	1872	1200	10-40
3		NARAYAPOSHI	ARYAN MTC P LTD	1973		
4		INGANIJHARAN	BHANJA MINERALS P LTD	2000		
5		KJST, JALDIHI	PRABODH MOHANTY	2140		
6		BADAMPAHAR	LAL TRADERS & AGENCIES	2516		
7		TANTRA	M/S KORP RESOURCES P LTD	?		
8		NOAGOWN	KAMALJEET SINGH AHLUWALIA	?		
9		CHAMAKPUR	KC PRADHAN	?		
10		JORIBAHAL(263.25 AC)	PATNAIK MINERALS P LTD	?		
1	62% to below 65% FeLumps	NADIDIH	FEEGRADE & CO P LTD	1532.83 ✓		2947
2		NADIDIH	BONAI INDUSTRIAL CO LTD	2170.8		
3		JORIBAHAL(263.25 AC)	PATNAIK MINERALS P LTD	2549		
4		UNHABALI (106.1127)	SMT INDRANI PATNAIK	2690		
5		JAJANG	RUNGTA MINES P LTD	3273.7		
6		RAIKELA	NATIONAL ENTERPRISES	3642		
7		ORAGHAT	RUNGA SONS P LTD	3747.58		
8		SANINDUPUR	RUNGA SONS P LTD	5060.03		
9		THAKURANI	KAYPEE ENTERPRISES	?		
10		INGANIJHARAN	BHANJA MINERALS P LTD	?	3600	5-18
1	65% Fe Lumps and above	GORUMAHISANI	GHASHYAM MISHRA & SONS	1602		2867
2		JORURI(335 AC)	KALINGA MINING CO LTD	1865		
3		PATABEDA	MGM MINERALS LTD	2539.79	5414.97	5-18
4		GONUA	PAWAN KUMAR AHLUWALIA	2888	4558	5-18
5		GANDHAMARODAN B BI	OMC LTD	3515.45		
6		ROIDA (185 AC)	KN RAM & CO	4258		
7		JAJANG	RUNGTA MINES P LTD	5099.87		
8		JILLING LONGLOTA	ESSEL MINING & INDUSTIES LTD	5790		size
9		NOAGOWN	KAMALJEET SINGH AHLUWALIA	?		
10		THAKURANI BLOCK-B	SARDA MINES PVT LTD	?		

1	Below 62% Fe Fines	NADIDIH	FEEGRADE & CO P LTD	?		1221
2		RAIKELA	GEETARANI MOHANTY	957 ✓		
3		ORAGHAT	RUNGA SONS P LTD	2856.74		
4		SANINDUPUR	RUNGA SONS P LTD	?		
5		NADIDIH	BONAI INDUSTRIAL CO LTD	?		
6		JAJANG	RUNGTA MINES P LTD	?		
7		RAIKELA	NATIONAL ENTERPRISES	?		
8		KOIRA	ESSEL MINING & INDUSTIES LTD	?		
9		INGANIJHARAN	BHANJA MINERALS P LTD	?		
10		TANTRA	M/S KORP RESOURCES P LTD	?		
1	62% to below 65% Fe Fines	THAKURANI BLOCK-B	SARDA MINES PVT LTD	250 ✓		1518
2		SANINDURUR	RUNGA SONS P LTD	705.46 ✓	2122.82	FOB
3		UNHABALI (106.1127)	SMT INDRANI PATNAIK	1265		
4		JAJANG	RUNGTA MINES P LTD	1407.07	1872.92	FOR
5		NADIDIH	BONAI INDUSTRIAL CO LTD	1606.89	2483.79	FOB
6		KJST, JALDIHI	PRABODH MOHANTY	1741		
7		ROIDA (185 AC)	KN RAM & CO	1899		
8		TEHERAI	BONAI INDUSTRIAL CO LTD	2698.72		
9		ORAGHAT	RUNGA SONS P LTD	2741.36		
10		NOAGOWN	KAMALJEET SINGH AHLUWALIA	?		
1	65% Fe and above Fines	JORURI(335 AC)	KALINGA MINING CO LTD	1175	1660	N Fines 1849
2		GONUA	PAWAN KUMAR AHLUWALIA	1383		
3		PATABEDA	MGM MINERALS LTD	1850		
4		PATABEDA IRON(14Ha)	M/S M.G.MOHANTY	1850		
5		PATABEDA	M.G.MOHANTY	1878.95		
6		JAJANG	RUNGTA MINES P LTD	1891.17		FOR
7		JILLING LONGLOTA	ESSEL MINING & INDUSTIES LTD	2012		