NOT FOR SALE

Geonesis

(A GEMCO KATI INITIATIVE)

Indian Mining & Exploration Updates

VOLUME 1, ISSUE 12 NOVEMBER 2014

Coal Ordinance

Will Private commercial coal mining be a Game changer?

Mining a Slow death ??

<u>POSCO ON ODISHA STEEL PLANT</u>

www.geonesis.org

LinkedIn /company/geonesis--a-gemcokati-company

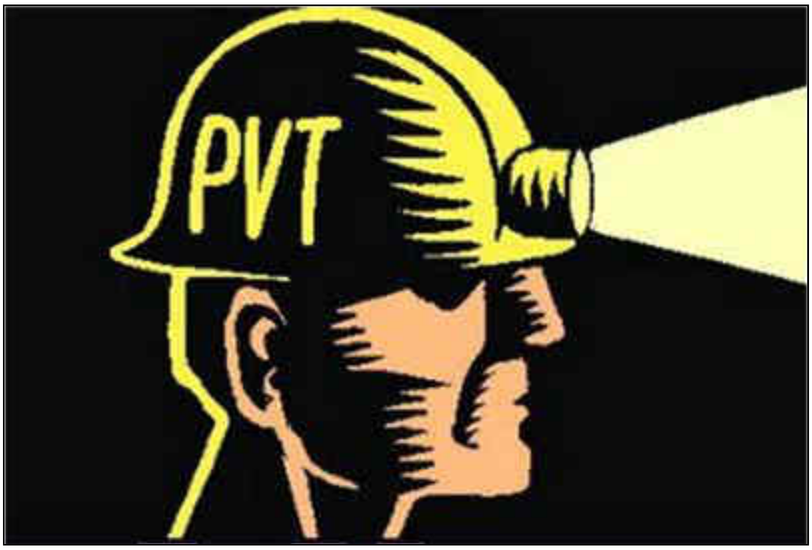
/geonesis

GEMCO KATI

COAL BLOCK AUCTIONS BY DEC 15

Union Coal Secretary SK Srivastava on Monday said the Government is committed to completing the auction of coal blocks “very soon”. He was talking to media persons in Kolkata.

Srivastava, who is scheduled to retire this month, refused to give any timeline for completion of the auction. However, sources told BusinessLine that the Government aims to invite bids by December 15.



According to the schedule, auction methodologies should be completed by November 15. The nominated authority, to conduct the auction, may be appointed by November 30.

In a parallel move, the Government will complete the detailed valuation of assets, to fix floor prices for submission of bids. The auction is expected to be completed well within the Court determined window of March 31, 2015.

According to the Srivastava, the Coal Mines (Special Provisions) Ordinance, 2014, has amended the requisite portions of the Coal Mines Nationalisation Act, 1973 (CNM) to help ensure commercial mining of coal by State Government-run outfits.

In its order (in August and September), the Supreme Court cancelled blocks allotted to such outfits citing contradiction with the CNM Act.

“Now there is no difference between the Central government and State government outfits,” Srivastava said.

CIL to be a scapegoat?

Interestingly, the Ordinance does not offer any lifeline (like first right of refusal) to the captive mine operators who have invested heavily in suitable plant and machinery.

Srivastava said such options were avoided to ensure that the Government gets maximum value for resources while the allottees of such blocks have the option to get the mines back by outbidding others in the auction.

When asked if the Government will force Coal India to commit more supplies to captive users who do not get back the mines, Srivastava, without directly referring to linkages, said: “the problem (issuing more linkages than desired) cropped up due to various reasons both internal and external.”

He said the present Government is aiming at resolving issues.

Price pooling revived?

On the issue of how supply gap would be resolved, Srivastava did not have a ready answer. He also sidestepped questions on whether the Narendra Modi Government’s planned to revive the contentious issue of pooling the price of imported coal with domestic production of CIL.

GOVT OPENS UP COAL MINING AGAIN FOR PRIVATE SECTOR

Opening up the coal sector for investment after a legal hiatus, the government enforced an ordinance to maintain continuity in coal mining and production. While the prior owners of the cancelled coal mines have been asked to continue with the mining operations, the government would soon start the e-auction process to scout for fresh investors.

“In relation to Schedule II coal mines (operational coal mines), the successful bidder which was a prior allottee, shall continue coal mining operations after the appointed date in terms of the approved mining plan,” said the coal mines (special provisions) ordinance, 2014.

Bending the rules to optimally utilise coal, the successful bidder of the block would be allowed to use the mine for common specified end-use in its plant located at different location as well. A successful bidder can also enter into an arrangement of coal supply with other successful bidders or coal linkage holders, said the ordinance. The mine owners however are not allowed to sell the coal commercially.

The government on Monday moved in cabinet the ordinance to allow private companies to bid for the 204 coal blocks cancelled by the Supreme Court in its ruling on September 24.

The government would appoint a designated authority to take control and possession of land used for coal mining operations, with discretionary power to “direct the prior allottees provide the requisite manpower, as may be necessary, to ensure continuity in coal mining operations and production of coal”. Government has earlier sought details of land ownership and human resource from the coal block owners to facilitate the mine transfer plan.

The current owners of the 42 operational coal blocks would have to pay the fine of Rs 295 per tonne imposed by the Supreme Court. These defaulters are also allowed to participate in the fresh bidding process, lest the prior allottee is convicted for an offence relating to coal block allocation.

NGT RESTRAINS CENTRE, ORISSA FROM GRANTING NEW MINING LEASES IN KEONJHAR

The National Green Tribunal (NGT) has directed the Centre and the Orissa government not to grant any fresh permission for mining and expansion of existing mines in Keonjhar district in the state due to pollution of drinking water.

A three-member bench of the NGT, headed by Justice P Jyothimani, issued the interim order while conducting a hearing on a petition filed by Rahul Kumar Agarwal alleging environmental pollution in the district due to mining activities by companies like Serajuddin and Co, Rungta Mines, Essel Mining & Industries, Tata Steel and Triveni Earthmovers.

"Considering the seriousness of the issues involved in this case, there is pollution of drinking water to a large extent and even animals like elephants are dying as it is seen in the newspaper reports produced by the applicant, we are prima facie satisfied that there should be an interim order in the interest of preserving environment and ecology of the area. Accordingly, while admitting the application, we direct respondent Nos. 1 to 6 (Centre and others) not to grant any new permission or expansion of the existing mining activity for further mining of iron ore or beneficiation plant," the bench said in its order on October 28.

The NGT wanted to know from the government whether the companies operating in the district were adhering to environmental laws of the land.

AUCTIONING ONLY FOR NEW IRON ORE LEASES: PARIKKAR

Goa Chief Minister Manohar Parrikar on Saturday said that the government will resort to auctioning of new iron ore leases, if at all, in the future.

Responding to a question over legality and prudence of his decision to go for renewal for iron ore leases, Mr. Parrikar, at a press conference reiterated that he was going by the provisions of Section 8(3) of the Mines and Minerals (Development and Regulations) Act, 1957 and that a maximum 50 leases would be renewed by the government.

He said that people have to understand that many mining firms had heavily invested in this business over the years.

Mr. Parrikar sought to explain the difference between leasing of coal mines on auction basis and Goa's iron ore mining leases.

He admitted that the Supreme Court has held that all mining leases in the State of Goa had expired in 2007. Consequently, no mining operations can be carried out until renewal or execution of mining lease deeds by the State Government.

However, tracing the history of Goa's mining, he said that as back as in 1929, the first mining concession was granted in Goa by erstwhile Portuguese. While in 1987, 595 mining concessions were converted into leases as per Mining Concessions Abolition Act and lessees were given time of 18 months for first renewal. During the second renewal in 2007, only one lease was renewed by the State Government and rest of the leases were operating on deemed permission, which have been struck down by the Court.

While there are only around 80-85 operative mines in Goa, the government from time to time had cancelled around 369 leases. He did not rule out the possibility of the government reviving some of these and resorting to auctioning if they are to be leased out.

As for the present, he reiterated that those of the leases which have no major violations only will be renewed.

He, however, cautioned that all this will be guided by the Supreme Curt imposed cap on extraction of ore to 20 million tonnes annually or the State, which also would mean cap for individual lease, to be prescribed by the government.

WON'T ABORT ODISHA STEEL PLANT: POSCO INDIA CMD

Despite inordinate delay in grounding its 12 million tonne steel plant in Odisha due to hurdles over land acquisition and getting captive mining lease, South Korean steel maker,Posco is no mood to quit the project.

"We would not quit. No, never. We have been waiting (for the project) for 10 years", said Gee Woong Sung, chairman and managing director (CMD), Posco India after emerging out of a meeting with state chief secretary G C Pati, here, today.

"The discussion was successful", he said, refusing to disclose the details.

Sung also met state industries secretary cum CMD of Odisha Industrial Infrastructure Development Corporation (Idco), Vishal Dev.

Though the and acquisition for the first phase of the project, comprising 8 million tonne, has been completed, the project has been stuck over grant of mining rights to Posco over Khandadhar iron ore deposits in Sundergarh district.

After protracted legal battle, the Supreme Court had upheld the decision of the state government recommending grant of prospecting licence (PL) to Posco and asked the Centre to dispose off the matter suitably.

However, the Centre has held up the matter, seeking some clarifications from the state government over its PL recommendation in favour of Posco.

The state government is now ready to furnish its compliance report to the Centre.

"There is no issue with the mining lease and it should not be seen as a hurdle to the Posco project. We had already recommended the Khandadhar mining lease in favour of Posco India. The mine comprised of both notified and non-notified area. The Centre has asked us to submit two separate proposals, one for the notified area and other for the non-notified area. We are working on it and will send our compliance soon", said a top state official.

In March this year, the state government had recommended grant of PL over 2500 hectare (ha) area in Khandadhar mines in favour of Posco. Of the total area recommended, 650 ha belonged to non-notified areas, or the area which was not recognised by the state government as mineral bearing site.

Uncertainty in securing a mining lease and row over land acquisition has caused inordinate delay in implementation of the project, for which the South Korean steel firm had signed MoU with the state government in June, 2005. The project cost was originally estimated at Rs 52,000 crore, cited as the largest single project FDI in the country.

Notwithstanding the delay, Posco India today said it had no plans to pull out of the Odisha project unlike its bigger revival ArcelorMittal. In July last year, the world's biggest steel player, ArcelorMittal announced withdrawal from its proposed 12 million tonne steel mill in Odisha, citing resistance to land acquisition, delay in allocation of iron ore mines and law & order issues.

It may be noted, the state-owned land acquisition agency, Idco has acquired 2,772.05 acres of land to facilitate establishment of an eight million tonne per annum (mtpa) steel mill by Posco India in the first phase.

This includes 2,193.52 acres de-reserved forest land and 578.53 acres government land. Out of this, 1703.56 acres have been handed over to the company. At today's meeting with the state chief secretary, Posco India CMD, Sung is learnt to have discussed about transfer of additional land to the company.

Idco is sore over non-deposit of Rs 54.22 crore by Posco India as government land cost. This has held up sanction of lease of additional 1,048.52 acres for the project. The 12 million tonne steel project initially needed 4,004 acres.

INDIA MAY ACCEPT SOUTH CHINA SEA OFFER

Ahead of the visit of Vietnamese Prime Minister Nguyen Tan Dung to India next week, India on Friday indicated that it is open to accepting Vietnam's offer, if found commercially viable, of participation in additional oil blocks in the South China Sea, despite Chinese concerns.

Asked if China's concern on India's presence in the South China Sea will be an impediment in the country accepting Vietnam's offer of additional oil blocks to it, ministry of external affairs spokesperson Syed Akbaruddin said, "Vietnam has offered some oil blocks in the South China Sea. We are examining it and if they are commercially viable for us we will take that into account and proceed further. India and Vietnam relationship is not contingent on other countries. Our relationship is a bilateral one and we focus on those bilateral issues."

China and Vietnam have a tense relationship due to their standoff over the South China Sea, a huge source of hydrocarbons. China has been objecting to India's oil exploration projects in the South China Sea.

(continued on page 4)….

Increased economic engagement will be the focus during the Vietnamese Prime Minister's visit next week.

On India's extension of a $100 million line of credit for purchase of defence equipment by Vietnam, the ministry officials said it was under discussion for implementation and the government will see the progress as negotiations continue between Vietnam and Indian defence suppliers.

The Vietnamese Prime Minister will be accompanied by a delegation of 50 businessmen and will hold talks with the top Indian leadership on strategically-important bil-ateral issues of security and energy as well as regional matters on October 27 and 28. Before reaching New Delhi on October 27 evening, he will visit Bodh Gaya.

INDIAN ECONOMY LOST RS 50,000 CRORE ON IRON ORE MINING BAN

The Indian economy lost $8 billion (around Rs 50,000 crore) in the last two years due to ban on mining iron ore, while mineral-rich Goa alone lost Rs 3,000 crore — the state's estimate in its new mining lease policy.

The ban was lifted in April, but miners are pessimistic as they do not see a quick upturn as the international market conditions are not favourable. Also, Indian customers in the global market have turned to other suppliers, who would not easily let their customers go, industry officials said. Goa's Grant of Mining Leases Policy, 2014, says stoppage of mining also had a cascading impact on other sectors. It said the exposure of financial institutions was more than Rs 850 crore as loan/advance on mining sector to trucks, barges, machinery and small time operators.

"This has also affected...more particularly small co-operative banks, which had advanced loans... In fact, non-payment of the installments has adversely affected the financial state of the smaller co-operative banks and societies," the policy adds.

It said the impact of the ban was "vicious". "Indeed, it is a matter of record that the country on account of stoppage of mining operations, has suffered a loss of nearly $8 billion. Stoppage of the mining operations has a cascading effect of a vicious nature. Not only those who are directly involved in mining such as the mining companies, truck operators, barge transporters, mining machinery owners, but small time business / industry such as tea stalls, automobile workshop, petrol pump, consumer goods vendor, road side tyre service provider etc. have all suffered," says the new policy.

Almost a fourth of Goa's revenues come from mining, with about 1,50,000 people — 10% of the state's population — depending on the sector. The policy estimates loss of Rs 3,000 crore due to the 2012 ban oniron ore mining in the state, making the state lose out on exports of low grade iron ore, a space now occupied by Australian and Brazilian suppliers.

Meanwhile, industry associations don't see any immediate pick up in mining operations even though the ban was revoked in April this year.

S Sridhar of Goa Mineral Ore Exporters Association says although mining leases are being renewed, operations will not be able to pick up immediately. "It is difficult to say when operations can finally be restarted. It can't happen before next year," Sridhar told ET over phone.

Members of an expert team associated with the government of Goa, said even though the state was quickly renewing mining leases, the glory days of 2007-08 are not going to be back soon as the current export market will not be as lucrative as it once was. "The Chinese market for iron ore has shrunk in the last couple of years and Indian supplies will no longer fetch the prices they once fetched. Further, the market has been vacated to some extent to players from other countries. Also, the market in India is not receptive to Goan ore. The party would have ended anyway. It just ended a couple of years earlier for Goa," said one of the members requesting anonymity.

According to economists, lower GDP growth in the last two years has a lot to do with mining slowdown and the activity may not pick up immediately "Manufacturing and industrial growth have been weakest in 2013-14 in the last two decades, with mining having a visible impact. Now there seems to be a flurry of activity in the sector but the effects will take time to reflect on the overall economy," said CRISIL chief economist DK Joshi.

Mining of iron ore was banned in Goa in September 2012 after findings of the justice MB Shah commissionreport estimated loss of Rs 35,000 crore to the exchequer due to alleged illegal mining over 12 years.

The new policy also states that the 'critical situation' arising out of the stoppage of mining operations needs to be remedied at the earliest "in order to avoid any chaos, disorder and the situation going out of control".

GEMCO ★ KATI

Exploring Perfection

DNV

NORWEGIAN ACCREDITATION MSYS 002

ISO 9001 CERTIFIED COMPANY

We at Gemco-Kati brings in

World class experience,
Technical knowledge, and
understanding to Exploration projects.

We **Explore Perfection.**

SERVICES OFFERED

- Topographic Survey & Geological Mapping
- Geo magnetic surveys
- Diamond Core Drilling
- Reserves and Grade estimation
- Preparation of Plans & Sections
- Preparation of Geological report
- Turnkey projects (from PL to ML)
- Marine Exploration

www.gemcokati.com

WHY COMMERCIAL COAL MINING WON'T SOLVE INDIA'S ENERGY PROBLEM

As Reuters reported on October 22, a new executive order on the Indian Ministry of Coal's website states that any company in India may be allowed to mine and sell coal. The move breaks a 42-year ban — Coal India is currently the only company allowed to sell coal on the open market, although other companies are allowed to operate "captive mines" to produce coal for their own use.

The news follows the cancellation of 214 coal licenses in India in September

Big changes for India's coal market

Although the Ministry of Coal document does not specifically reference foreign companies, a Coal India official told Reuters it would be natural for the government to allow foreign companies to mine in India to help alleviate the country's coal shortage. India holds the fifth-largest coal reserves in the world, but is still the third-largest importer of coal globally, and many blame that disconnect on Coal India's failure to raise output.

Manish Aggarwal, head of KPMG's energy and natural resources practice in India, praised the move to raise production, telling the news outlet, "what the government is really saying is that we will focus on domestic coal and on renewables to meet our energy needs … India needs the latest technology, the latest equipment and international expertise if it is to raise coal production."

Similarly, Aakash Jindal, a market analyst from Pure Growth Consultancy, told Channel News Asia, "the government is moving towards privatization. The government's move would increase India's capacity to compete with global, major countries, global manufacturing giants like China. So I definitely think it's a step towards reform, a step towards progress."

Companies such as Rio Tinto, BHP Billiton and Peabody Energy have been pegged as possibly taking an interest in India.

Not so fast

While the development certainly seems like good news, Channel NewsAsia notes that the ordinance will still need to tackle a few hurdles in Indian parliament before it becomes law. Furthermore, the change is already inciting some harsh opposition from India's heavily unionized coal sector — according to Mining Weekly, SQ Zama, general secretary of the Indian National Mine Workers' Federation, is fairly confident the change in regulation will not come to pass. "We know how to counter the government. In 1999, even the then government had made attempts to amend the Coal Nationalization Act 1973, but we stood against it and prevented it and this will be repeated again," he told the publication.

Meanwhile, speaking to the Financial Times' Avantika Chilkoti, Rakesh Arora at Macquarie Securities said some analysts are questioning the idea. Arora defended Coal India's failure to raise output, asserting that it is still "the largest coal producing company in the world."

More importantly, he drew attention to another problem: railroads. "The main issue for India is not coal mining, it's more to do with logistics," Arora said, explaining that poorly connected mines mean heaping stockpiles in some places and shortages elsewhere. HSBC analysts have also pointed to the need for improved rail systems as critical.

An improvement, but not the solution?

What's more, could BHP and Rio Tinto actually be interested in small, formerly captive mining blocks in India? Aside from the less-than-appealing scale, Chilkoti suggests in her article that the companies would be "wary of entering the market" based on the recent scandal surrounding illegal coal blocks and unclear processes for moving projects forward in India. In short, even if the energy-starved, coal-rich nation opens itself up to commercial mining by foreign companies, the offer might not be as desirable as it appears at first glance.

To be sure, something needs to be done about providing energy to those in India, and tackling Coal India's monopoly looks like a good start. However, more changes will be needed to ensure that other parties can address unmet coal demand.

MINING A SLOW DEATH??

India's mining output has fallen by 3.5 per cent over the last two years, making the sector among the worst hit by policy impasse. Of the 218 coal blocks allocated since 1993, only 46 are producing coal or close to doing so, while the rest are dogged by clearance and land acquisition issues. As for iron ore, companies are still struggling to resume production after some states banned it in 2012 to curb illegal mining. Last month, Jharkhand ordered the closure of a majority of iron-ore mines operating under "deemed renewal" status after their leases expired. And the recent Supreme Court order deallocating all but four coal blocks allotted since 1993 created downside risks to mining output.

The upshot is that mining-sector woes have not only slowed GDP growth, but also contributed to India's current account deficit (CAD) — even more than the popularly blamed gold imports.

Domestic fuel supply shortages have meant power and steel producers have had to rely exceedingly on imports in the last three years. Consequently, coal and metal scrap imports have risen by 50 per cent since fiscal 2011 to $30 billion last fiscal. Iron-ore exports, on the other hand, have fallen from $6 billion to just $1.6 billion after the mining ban in Karnataka and Goa. This has meant India's trade deficit in mining, measured as the difference between iron-ore exports and coal-plus-metal scrap imports, widened to 1.5 per cent of the GDP last fiscal from just 0.9 per cent in 2011. The impact of this increase on India's CAD is even larger than the impact of rising gold imports over the same period.

BREAKDOWN OF CAD INTO CATEGORY-WISE TRADE DEFICITS (% OF GDP)

	CAD	OIL DEFICIT	GOLD DEFICIT	MINING DEFICIT	OTHER GOODS DEFICIT	INVISIBLES DEFICIT
FY11	2.7	3.8	1.7	0.9	1.2	-4.9
FY12	4.2	5.3	2.2	1.4	1.2	-5.9
FY13	4.7	5.5	2.2	1.6	1.2	-5.8
FY14	1.7	5.5	1.0	1.5	-0.2	-6.1

To correctly evaluate the contribution of a commodity to the CAD, it is necessary to look at its trade deficit — or its excess imports over exports — rather than just the imports. Such an analysis reveals that while gold import did increase between fiscals 2011 and 2013, it was largely offset by the export of gold jewellery and coins. Net-net, the gold deficit rose by only 50 basis points, from 1.7 per cent of the GDP in fiscal 2011 to 2.2 per cent in 2013, even though gold imports had surged far more.

In other words, mining issues were more to blame for the surge in India's CAD to over 4.5 per cent of the GDP in fiscal 2013 from under 3 per cent in 2011. In fiscal 2014, restrictions on gold imports halved the trade deficit on gold to 1 per cent of the GDP, but the policy deficit remained high at 1.5 per cent, making it the second-biggest inflator of the CAD after oil. Between fiscals 2011 and 2013, India's trade deficit in oil, the single largest factor driving up the CAD, rose to 5.5 per cent of the GDP from 3.8 per cent of the GDP. In this period, India's oil imports rose by 2.6 per cent of the GDP because crude prices shot up to around $110 per barrel from $85, but domestic prices hardly increased. Fortunately, the worry on oil seems to have abated in recent months, partly due to luck (lower oil prices) and partly due to much-needed fiscal reforms (phased deregulation of diesel prices and market-price alignment of petrol). Globally, oil price dynamics are changing structurally. Despite persistent geopolitical tensions (Iraq, Gaza, Ukraine), crude hasn't flared up because Libya and Iraq have pumped it up, even as the US took shale gas production to new heights. Crisil Research believes that oil prices are likely to gradually trend down to $95 per barrel by 2018. India's focus thus far has been to restrict gold imports to keep the CAD in check. But the point to note is that gold prices have fallen far below fiscal 2013 levels. The Bloomberg consensus forecast sees gold at $1,240 per ounce this year, against $1,650 in fiscal 2013. That being the case, even if import volumes rebound to the pre-curb levels of 1,000 tonnes per annum, the trade deficit on account of gold won't rebound to previous highs. Falling prices also dull the perception of gold as a hedge against inflation, which, in turn, will reduce pressure on gold imports. So what needs to be watched closely at this juncture is India's rising trade deficit in mining. Over the last three fiscals, thermal power capacity addition has doubled to 16-17 GW annually from 6-7 GW annually in the two years preceding them. In contrast, growth in domestic coal production has slowed from 4 per cent to 2.2 per cent over the same periods. With over 50 GW of thermal power capacity additions expected in the next five years, coal shortage, and therefore imports, will surge if the government doesn't find supply solutions in double-quick time. The cabinet has already passed an ordinance to re-auction coal blocks to state utilities and private companies in the steel, power and cement sectors for captive consumption. Besides a transparent e-auction system, the government must streamline and accelerate the process of environmental clearances and land acquisition approvals for the fresh allotments. Any delay in production due to the lack of approvals could create a huge downside for the mining and power sectors. Similarly, the ban on iron-ore mining was recently lifted in Goa. Now the state must fast-track clearances so that production can resume, exports begin and metal scrap imports by steel players be reduced, ultimately easing the pressure on the CAD. In Jharkhand, too, where the mining leases of the majority of the iron-ore mines were cancelled last month, the state must immediately set up a transparent mechanism to renew leases so that production can resume. All resolutions must necessarily be structural if India is to sustainably rein in the CAD and not resort to stop-gap measures such as curbing gold imports. The quantitative easing programme of the US Federal Reserve is ending and the first rate hike in the US is expected by the middle of 2015. The consequent rise in interest rates there could trigger capital withdrawals from emerging economies, including India. It is, therefore, important to structurally reduce India's vulnerability to external shocks.

COAL BLOCKS TAKEN BACK, BUT THE LAND IS STILL WITH ALLOTTEES

The Supreme Court's decision to cancel all coal block allocations since 1993 on the suggestion of the coal ministry has posed a fresh problem to the Centre on acquisition of the land, which was bought by allottees for mining purposes.

Coal block allocation and cancellation was one thing, but mere cancellation of allocation does not take away the ownership of the land, on which the coal mines were situated, from the allottees.

To implement the court's decision and take back the coal mines would mean that the government has to take back the land along with the mines, but the Supreme Court judgment is silent on the land aspect.

To get out of this procedural and legal hitch, the coal ministry has thought of issuing an ordinance vesting the land along with the coal mines back with the Centre. It has referred the issue to attorney general Mukul Rohatgi for an opinion on the legality of issuing an ordinance for the purpose.

Rohatgi told from London over phone that several options were being thought of, including issuance of an ordinance. "Nothing concrete has been worked out. We have time to think over the legal process needed for implementing the Supreme Court judgment and auction the cancelled coal blocks," he said.

The Supreme Court had on September 24 cancelled 214 coal blocks allocated since 1993 and gave the owners six months time to wind up their work. The court saved only four blocks — one each belonging to NTPC and SAIL and two allocated to Sasan ultra mega power project — from cancellation.

The court granted six months time to mining companies to wind up their operations. The Centre is planning to utilize this time to devise a procedure for taking back the coal mines and put them on auction.

The court had also asked the owners of illegally allotted coal mines to pay the government an additional levy of Rs 295 per tonne of coal extracted from the mines. The SC had said the Centre's stand that it was prepared for cancellation of allocation as logical consequence of the court's earlier judgment declaring all allocations illegal and arbitrary helped it in arriving at a decision quickly on fate of coal blocks.

OWNERS OF CANCELLED COAL BLOCKS TO BE COMPENSATED

With the promulgation of the Coal Mines (Special Provisions) Ordinance, the government plans to compensate owners of cancelled coal blocks.

As a first step, allottees of 204 coal blocks have been asked to furnish details of investments for land acquisition and development of mine infrastructure.

A letter to the allottees said that if no information if provided by the November 10th deadline, it would be presumed that no investments were made, and, hence, no compensation payable.

The letter said that "There is a provision for valuation of compensation for payment to prior allottees for land and mine infrastructure. In this context, it is requested to provide details of land and mine infrastructure as per the proforma enclosed duly certified by the authorised signatory within a fortnight, ie, by November 10th positively."

According to the Ordinance, the compensation for land would be the cost of land at the time of acquisition plus an interest of 12% a year, payable for the period from the date of acquisition till the date of vesting or allotment.

The letter added that for acquisition cost, registered sale deeds have to be furnished.

What are the expenses allowed to be shown as mine infrastructure?

Investments towards land demarcated for afforestation and rehabilitation and re-settlement of project- affected persons, and infrastructure like civil works, workshop, equipment, electrical systems, communication systems, site offices, crushing machines, conveyor systems, railway sidings, but not movable equipment, have been allowed.

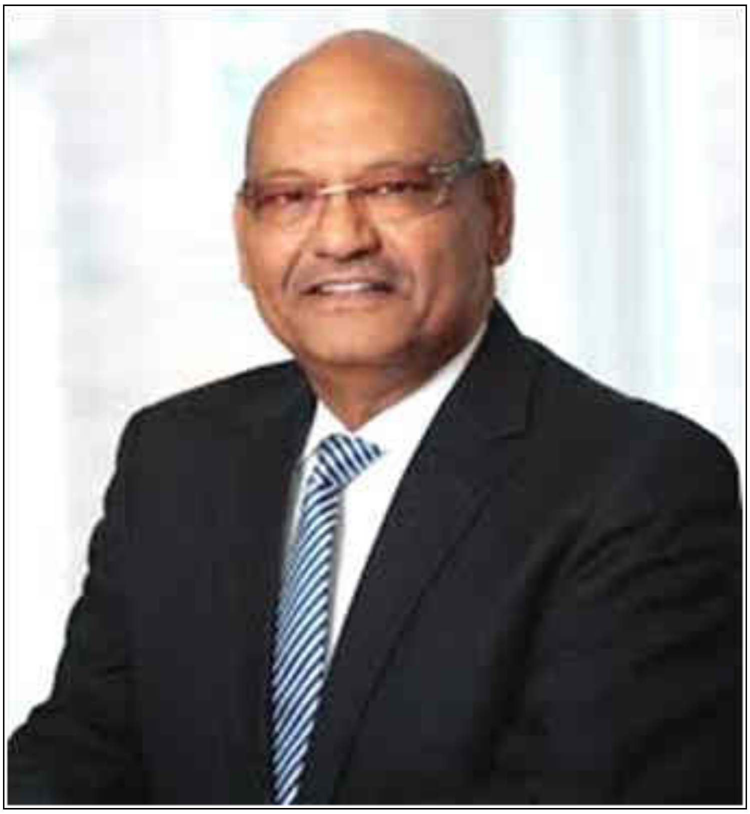
The Ordinance clarified that if a prior allottee becomes a successful bidder in the forthcoming auction, compensation payable by the government would be adjusted against the bid money payable by the allottee.

For all assets and infrastructure, the value appearing on the balance-sheet date for 2013-14 would be accepted with no recognition for the post period investments.

It said that if a prior allottee doesn't win an auction, compensation wouldn't be paid till the additional levy paid. The levy has been fixed at INR 295 for every tonne of coal extracted.

DIG SMARTLY FOR A HIGHER GROWTH

India has the fifth-largest reserves of iron ore in the world (28.5 billion tonnes), the fourth-largest reserves of coal (248 billion tonnes), thirdlargest reserves of chromium (57 billion tonnes) and the second-largest reserves of manganese (160 billion tonnes). Prime Minister Narendra Modi's agenda of 'Make in India', thus, requires a vibrant mining industry that provides jobs and livelihood to millions and uses the basic feedstock source to support the manufacturing industry.



Indian mining companies have contributed significantly in generating value for the economy transparently. Going by our experience, India's natural resources reserves may be only the tip of the iceberg. The true potential of mineral resources, whether of coal or iron ore, is yet to be tapped. Here are a few ways they can be:

First, there needs to be greater focus on increased exploration and development of our natural resources. Take India's currentlyknown reserves of iron ore at 28.5 billion tonnes. Intensified exploration can add twice the current levels to the existing resource base.

But while India is very rich in iron ore, insufficient capital investment has led to iron ore shortages.

Mining's economic potential can be further enhanced through focused and sustained investment in exploration, which requires adequate policy support, incentives and lowering existing tax costs.

Second, mining is labour-intensive. It provides additional employment to several lakhs.

Increase in output means new job opportunities and improved livelihoods across the country. It would also improve the viability and confidence in the sector and make a significant contribution to GDP growth.

Further, it will attract large amounts of capital investments for new exploration and development.

Third, sustained global exploration, coupled with advances in exploration technology, has consistently increased known mineral resources worldwide. Large mining firms with a strong track record and using the latest cutting-edge technologies bring in best practices in health and safety.

They work with local communities while also providing jobs to millions. They use every tonne of the mineral in the mines, making a significant contribution to the value chain, So their operations in India need to be encouraged, as other countries have.

Take Australia, which restricted iron ore exports until the 1960s fearing exhaustion of its 400 million tonnes (mt) resource. Today, the country exports more than 580 mt a year. In 2014, its exports are estimated to touch 700 mt with resources of more than 64 billion tonnes.With greater focus on exploration, Australian success can be replicated in India.

Exports aside, certain imports are required. The right mix of minerals is necessary to run plants at the optimum levels. Even large iron ore-producing countries such as Australia, Russia, Brazil, Canada and Ukraine import iron ore for steel production to get the right blends, and hence better efficiencies, for their steel plants.

India produces all types of iron ore, but low-grade ore is not used by the Indian steel sector. Higher grades of iron ore (lumps that have rich iron content of 61-63%) are used domestically. So there are very few takers of low-grade ore (fines, that have iron content of 55 -58%). This results in selective mining. There is, however, an international market for lowgrade ore for getting the right blends. Promoting free export of low-grade ore will prevent its non-remunerative accumulation. This may create new environmental hazards. Exports of iron ore needs policy support from our government.

Currently, benchmark global iron ore prices are at historical lows, at $80-85 a tonne. This means low grade iron ore fines are sold in the international market at about $55 per tonne. With current export duty at 30% on top of low global prices, iron ore mining has become a loss-making proposition for domestic miners. We need to make this business competitive again. And that will truly increase government revenue without oppressive duties and taxes.

The global experience suggests that a vibrant and sustainably growing mining industry has the ability to fuel the growth of a vibrant economy. The mix of right policies and the right focus would also instil confidence and positive sentiment in the sector, pave the way for bridging the current account deficit – perhaps even generate a small surplus – and make India an economic power house.

SAJJAN JINDAL LED-JSW STEEL IN TALKS TO BUY STAKE IN LONDON MINING

Sajjan Jindal's JSW Steel is believed to be in talks to acquire a stake in London Mining, a debt-laden British mining company with iron ore resources in Sierra Leone.

At a time when a 42% dip in global ore prices this year has impacted valuations of iron ore assets and Sierra Leone has been fighting the deadly Ebola virus, analysts say JSW Steel could bargain and get its hands on a prized property at a relatively low price.

The development, which was reported widely in a section of global media, comes close on heels of JSW Steel's bid for Italy's Lucchini and Ilva steel plants.

Analysts say the company seems to be following a well-drawn strategy of trying to pick up debt-laden assets.

"This is in line with JSW's strategy of looking out for backward and forward integration outside India, while focusing on basic steelmaking within the country," Goutam Chakraborty, analyst at Emkay Global, said. If the company is able to clinch the deal with London Mining and use the ore to meet its requirements in India it could be "a perfect blend", he said.

Sajjan Jindal has been able to pocket relatively small, inexpensive and mostly loss-making companies in the last 10 years while continuing to add capacity in its largest steel plant in Karnataka.

The list includes Southern Iron and Steel Company in Tamil Nadu, Ispat Industries in Maharashtra, Punjab's Vallabh Tinplate and Ispat's neighbourWelspun Maxsteel.

Both the companies on Jindal's radar in Europe are also bankrupt. London Mining — which owns 100% of Marampa mine in Sierra Leone that is set to produce 5 million tonnes of iron ore in the first phase — has been seeking a white knight since May to help reduce debt, fund its capital expenditure over the medium-term and potentially accelerate growth plans. The company is also developing two other iron ore assets in Saudi Arabia and Greenland.

London Mining is in a desperate need to get an investor into the company today as it does not have enough cash to operate its only mine. It told analysts in July that it expects to get a strategic investor by the end of this year.

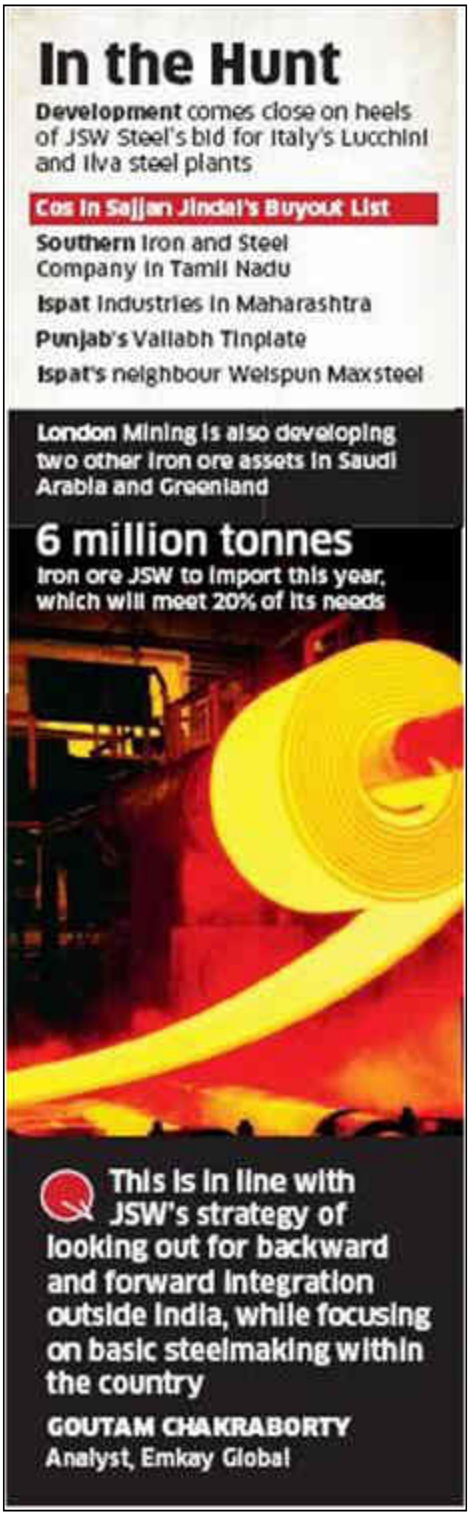
The company recently told investors that it is in detailed negotiations with a potential strategic investor to make an investment in the group for funding of the life of mine expansion and a material cash injection.

"The proposed investment as currently structured is expected to require a number of weeks to implement, and there can be no certainty that such discussions will be successful," it had said.

Analysts have warned that going alone is no longer an option for London Mining and without new funds the company's going concern' is at risk.

JPMorgan in a report in September said, "Without new funding, on our revised forecasts we estimate London Mining will run out of headroom by mid-2015 and be unable to fund the estimated $90 million in capex required to sustain 6.5 million tonnes of production from weathered ore until 2019."

The deal could also involve a strategic alliance with African Minerals, a London-headquartered mineral exploration and mining company with assets in Sierra Leone, which is developing an iron ore asset in Tonkolili along with rail and port infrastructure.



INDIA NEEDS TO SCRAP IRON ORE EXPORT TAX AS PRICES SINK - MINER SESA

India needs to swiftly remove a tax on iron ore exports, the country's top private miner of the commodity said, calling the duty an "economic barrier" in the face of falling global prices.

The country's iron ore shipments have already slowed to a trickle after a ban on mining in key producing states, with a 30 percent tax on exports making it even more difficult to sell to a world market where prices have sunk 40 percent this year.

"There is an urgent need to eliminate the export duty, which represents an economic barrier to mining in the current low price environment for low grade iron ore fines," Tom Albanese, chief executive of Vedanta Resources (VED.L) that controls Sesa Sterlite Ltd (SESA.NS), told Reuters in an email.

Sesa hopes to restart mining in Goa early next year after a decision by the Supreme Court in April 2014 to lift a 19-month mining ban in the state aimed at weeding out illegal miners.

But with global iron ore prices sliding, it makes more sense for miners there to sell to local steelmakers than export. Mining curbs have also forced some Indian steel producers to import iron ore.

The problem is that the iron ore produced in Goa is of little use to Indian steelmakers, many of whom lack the sophisticated plants needed to process the low-grade material.

"Amidst low export revenue and high taxes within the country, it is very difficult for these miners to sustain operational profits," said Prakash Duvvuri, head of research at Indian consultancy OreTeam.

The 2015 restart for Sesa's operations in Goa, previously India's top exporting state, indicates months of delay versus initial expectations for a restart in September.

"Based on recent public comments by the government of Goa, it's now probably realistic to assume mining to start by January to February at the earliest," Albanese said in the email late on Tuesday. Albanese was previously the CEO of Rio Tinto (RIO.AX) (RIO.L), but quit the mining giant last year after the company revealed a $14 billion writedown.

Rio on Tuesday said it rejected a takeover approach from smaller rival Glencore Plc (GLEN.L) that would have created a $160 billion mining and commodities behemoth, a proposal Glencore made in July as prices of Rio's top moneymaker iron ore headed to five-year lows.

SUPPLY GLUT

A surge in global supply, led by top producers Australia and Brazil, has depressed iron ore prices this year to their weakest since September 2009 at around $80 a tonne.

That has pushed many smaller producers from Asia to South America out of the market as big, low-cost miners like Vale (VALE5.SA), Rio Tinto (RIO.AX) (RIO.L) and BHP Billiton (BHP.AX) (BLT.L) dominate.

Before the sustained slump in global iron ore prices, Sesa was targeting a six-fold jump in output in the year to March 2015 after the Goa ban was lifted. Sesa's mining operations are mostly in Goa.

India used to be the world's No.3 exporter of the steelmaking ingredient until higher costs along with mining bans in key states Goa and Karnataka slashed shipments. India's exports to top market China stood at 7.5 million tonnes over January-August, ranking ninth, behind Chile and Malaysia.

Along with existing high taxes and freight charges, India is also planning to increase the royalty on iron ore - or the percentage of sales paid to state governments - to 15 percent from 10 percent. The high costs, Duvvuri said, might force smaller miners in Goa to either sell their mines or close down.

"As far as fresh mineral extraction is concerned, it's not viable at all. So it's not a question of what are the margins. Margins are not there," said Ambar Timblo, managing director of Goa-based miner Fomento Resources.

SBI SEEKS FLEXIBILITY FOR DEBT RECAST IN METAL AND POWER SECTORS

State Bank of India has sought more flexibility in restructuring exposures to metal and power companies hit by the Supreme Court verdict deallocating coal mines and curbs on operating iron mines.

In a communication to the Reserve Bank of India last week, the country's largest lender said the problem of raw material shortages will be resolved over medium to long-term.

However, the power and metal industry need short-term relief to tide over the problem of raw material shortage and weakening pricing outlook. Owing to these factors, the existing project may need flexible restructuring in line with the economic life of the underlying assets.

The 5/25 scheme may be allowed for existing projects to relieve the stress on companies, SBI said.

Under the 5/25 structure, the bank may fix longer amortisation period (about 25 years) for loans to projects in infrastructure and

(continued on page 11)….

core industries sectors, with periodic refinancing, say every five years.

Such restructuring would enable loan repayment to be co-terminus with cash flows from the projects. It would also improve debt-servicing capacity and viability of the operational projects.

SBI said, further, in cases where operational coal blocks have been de-allocated or raw material linkages have been suspended, the profitability and debt servicing ability of these companies may be adversely affected. These projects should be allowed to be refinanced again by the existing lenders. The provisioning norms should be waived off for such restructuring so that repayment tenor for project loan is in line with the revised cash flows available for debt servicing, SBI said.

Last week, global rating agency Moody's retained its negative outlook on India's banking system. The high leverage in the corporate sector could prevent any meaningful recovery in asset quality over the next 12-18 months, Moody's said.

According to Moody's report, India's broad corporate sector is highly levered, with a debt-to-equity ratio of more than 3.0x.

In particular,corporates engaged in infrastructure projects face both structural and cyclical challenges, the rating agency said.

Without a stronger economic recovery, significant deleveraging will only occur beyond the horizon of this outlook, it added.

MINING RULES TWEAKED TO PREVENT BACKDOOR ENTRY OF PRIVATE PLAYERS

In a bid to bar the backdoor entry of private players into the mining sector, the Union mines ministry has issued fresh guidelines stating that public sector undertakings (PSUs) cannot transfer mines to their private joint venture partners.

"Under no circumstances should the control or majority ownership of the joint venture be transferred to the private party," stated the revised guidelines issued by the mines ministry on the submission of mineral concession proposals on October 31.

According to the guidelines, if a PSU wants to enter into a joint venture, it will have to select its partner through competitive bidding process.

"This is done to curb the backdoor entry of private players through joint ventures. Earlier, the PSUs used to get a mine through special dispensation. When there was a transfer of ownership, the benefit used to get passed on to the private player, which was unfair," explained a ministry official.

On September 24, the Supreme Court had cancelled coal-mining allocations to state government entities on the ground that the operations had been passed on to private companies, amounting to commercial mining, which was not permitted under the Coal Mining Nationalisation Act.

According to the guidelines, the mining lease will be allotted only when there is evidence to show that the area has mineral contents that have been established. "To carry out mining operations… mining plan can be prepared only if mineralisation is established as 111 (proven mineral reserves), 121 (probable mineral reserves), 122 (probable mineral reserves) categories as per UNFC (United Nations Framework Classification) 1997," said the guidelines.

Mines Minister Narendra Singh Tomar said: "These measures are a step towards bringing transparency in the sector."

According to the ministry official, non-notified area is the biggest problem in allotting mining lease or prospecting licence. However, this has been addressed through the revised guidelines, which state there should be prior notification of all the areas available for mineral concession. If the state government fails to notify the area, "the central government will consider the proposal only if strong and compelling reasons for not notifying the area is indicated by the state government, which is demonstrated to exist".

"This, in a way, means we will not entertain non-notified areas," said a source.

The guidelines also state that once the government gives prior approval to a proposal for granting a prospecting licence or a mining lease, the state government should issue the grant order within a month.

"This should be done without any delay, preferably within one month of receipt of prior approval from the Central government. Delays in execution of mineral concessions agreement should be avoided," the guidelines noted.

IS INDIA SITTING ON A GOLD MINE?

India has very large resources of gold, say several geological studies. One estimate (2005 study) puts the country's primary gold resources at about 491 tonnes. But the country hardly finds a mention in the global list of large miners. It produces just three-four tonnes of gold annually. Sandeep Lakhwara, Managing Director, Deccan Gold Mines, a listed gold exploration and mining company, talks about the issues faced by the industry and the country's prospective gold reserves.

For how many years have you been in this business? How many operating mines do you have currently?

We have been in this business for the last 12 years, but essentially, we are still explorers and do not have operating mines yet.

But we are prospecting in many regions within the country — almost in 60-70 places. We are fairly optimistic of at least a dozen of these yielding deposits that are mineable. The grades may vary from 1-2 gm a tonne to 3-4 or 5 gm a tonne.

How many gold mines are operational in India now? What is the potential for India to become a large gold producer?

(continued on page 12)….

Currently there is only one gold mine that is operational — the Hutti gold mine in Karnataka. It produces about three tonnes of gold per annum. The potential in India is huge.

Over the next two decades, we could produce about 300 tonnes per annum, similar to what China produces currently. China started mining two-three decades ago and is one of the world's largest producers.

Does India really have such large reserves?

We believe so. However, unless you explore, it is difficult to ascertain the actual quantity of reserves. But to find and produce 300 tonnes over the next two-three decades is not an unreasonable assessment.

What is the process involved in exploring?

First and foremost, based on historical data and study by the Geological Society of India, we zero in on a particular area we think may have potential and apply for a Reconnaissance Permit (RP), which gives us the right to explore that area.

In India, the RP is granted generally for a period of three years. If after doing basic exploration, we find that the area has a strong potential, we then apply for a prospecting licence.

This gives us the right to undertake full drilling in that area. The various rock samples we obtain from drilling are then analysed to narrow down to the area where the potential for a gold deposit is high. We then apply for a mining licence.

How much time does it take to find a deposit?

Globally, it takes about 10 years to make a discovery from the time you start exploring.

But in India, it takes longer, because of the time taken to obtain licences.

In India, the RPs take one-two years, prospecting licences about two-five years, and another five years or more to obtain a mining licence.

There are some licences that are pending for more than a decade. The delay has mainly been due to lack of clarity in the regulatory system and the lengthy process for approval.

For a prospecting licence, for instance, you start at the Tahsildar level in the village where you are prospecting.

Then the file goes all the way to the Centre to the Ministry of Mines, and again comes all the way down for actual execution.

What is the cost of exploration?

The exploration cost involves the cost of geological surveying, sampling, assaying, drilling, and the cost varies depending on the size of the resource (the larger the resource, higher the cost), the type of ore and the kind of drilling.

Let me tell you about a particular mine at Ganajur, in Karnataka, where Deccan Gold has applied for a mining licence. Since this is an open pit mine, the cost of mining would be about $400-600 an ounce.

The global cost of mining, which is about $950-1,000 an ounce, is for underground mines.

Why do we not see many private players in this space (gold mining)?

Regulatory hurdles are the main reasons. The time it takes to obtain approvals and licences, makes the whole project economically unviable.

Opening up of the sector can help explore the untapped gold reserves within the country. This can, in turn, reduce our dependence on gold imports.

GEO GNESIS

(A GEMCO KATI INITIATIVE)

DISCLAIMER: This is a compilation of various news appeared in different sources. In this issue we have tried to do an honest compilation. This edition is exclusively for information purpose and not for any commercial use. Your suggestions are most valuable.

Your suggestions and feedback is awaited at :-

editor@geonesis.org