India's Worst Time to Resume Iron Ore Mining

Adding to an ever increasing global oversupply of iron ore from Australia and Brazil, India's top ore exporting state of Goa resumed production, led by Vedanta Resources, after an almost three year hiatus.

The move, however, couldn't come at a worst time, analysts say, especially when it comes to private firms. According to the latest report from BMI Research, production from restarted mines will be hit by high costs, low prices and a poor export market. Instead, the firm is predicting that state owned miners will be the ones leading the nation's production growth, which it estimates at 3.8% a year from now until 2019.Iron ore mining resumption from the private sector will be hampered by several factors, says BMI.

First, high taxation costs will limit output growth. Although the government has cut the export duty from 30.0% to 10.0% for iron ore below 58.0% grade in April 2015, further supportive measures could still be implemented in the current environment of

low prices. Second, a three-year hiatus in production has resulted in a shift in iron ore consumption patterns by Chinese steel mills. This will create some difficulty in finding buyers of Goa's iron ore products. According to anecdotal evidence, steel mills in China, which before the ban used low-grade iron ore from India, have now become accustomed to using medium grades of iron ore from Australia.

Third, environmental clearances and other bureaucratic hurdles will continue to hinder mine production growth. The Supreme Court of India banned mining in Goa in 2012 as part of a clampdown on illegal mining, freezing shipments that reached about 50 million tonnes in 2010-11. It lifted the ban in April last year, but companies had to wait to get environmental and other clearances from the government.

India has cut the export duty on low quality ore to 10% from 30%, mainly to help companies sell Goa's ore that contains less than 58% iron. Most Indian steel companies either do not have the technology to use low grade iron ore competitively or their location makes transportation costs prohibitive.

On the supply side, output expansions by major iron ore mining companies such as Vale, Rio Tinto and BHP Billiton keeps feeding a global oversupply. The worldwide surplus of seaborne iron ore supply is expected to rise to 437 million tons in 2018, from an expected surplus of 184 million tons in 2015. A combination of weak demand and oversupply is likely to result in weak iron ore prices in the near term.

Yuan Devaluation Spurs India

India said it's being forced to consider steel safeguard duties and more anti-dumping curbs as the Yuan's devaluation threatens to stoke surging Chinese shipments.

A steel import tax increase earlier may not be enough of deterrence, Financial Services Secretary Hasmukh Adhia said. Adhia has seen the steel industry contribute to elevated bad debt in India, in part as producers struggle to compete with imports from nations such as China and Russia.

"The global lack of demand in steel is so strong that one isn't sure how, even after this recent increase, it's going to help," Adhia said. "We'll have to think about other options, whether safeguard uty and anti-dumping duty can also be used."

China's shipments of metals such as steel and aluminum were at a record even before the Yuan's devaluation on August 11 threatened to make the export flood from the top producer even cheaper. Asian, European and U.S. mills are braced for pressure on profits, with Chicago-based Century Aluminum Co. citing Chinese exports for the permanent closure of an idled smelter.

India's import levies were pushed up after talks at the highest levels of government concluded that domestic producers must be shielded for the time being, Adhia said. The industry should also spell out the need for more measures, he said. The finance and commerce ministries usually take decisions on curbs.

STEEL PUNCH

- Shrinivas Prabhudesai

"Sir, nobody is coming forward to buy our shares !"