Fresh norms on stacking to cool iron ore prices

The state government is giving final touches to a set of guidelines on stacking and sampling that promise to ease iron ore prices, bringing a much needed dose of relief to the stressed steel makers and end use industries like pellet plants.

Presently, the state government was charging on the highest rate of royalty even on low grade ore in stark violation of mining laws. The skewed royalty formula had adversely impacted the steel units who had to shell out higher prices compared to what was prevailing as per law in other iron ore rich states.

“We are almost ready with the guidelines on stacking and sampling of iron ore. The notification would be out after the chief minister’s order. We hope this to happen by the middle of next month", said Deepak Mohanty, director of mines for Odisha.

In case of mechanised mines, where there is a constraint of space of stacking and sampling, the royalty is charged on all grades of lumps and fines at the rate of highest grade of iron ore lumps under Odisha Mineral-Prevention of Theft, Smuggling & Illegal Mining & Regulation of Possession, Storage, Trading and Transportation (OMPTS) Rules. This makes the royalty payment for the lower grades of iron ore higher and also pushed up the market prices.

Manish Kharabanda, executive director and group head (mines & minerals) at Jindal Steel & Power Ltd (JSPL) said “We are thankful to the Odisha government for taking several pro-active steps to support the steel industries in terms of opening the mines for auction, introducing the uniform freight rates and operationalizing a vibrant i3MS (Integrated Mines and Minerals Management System). The differential royalty case is sub-judice and I would refrain from making any comment on the same. However, if the transportation rates could be rationalized and implemented as notified on November 17, 2015, the net impact on the industry could be considerably reduced.

For iron ore lumps (58-60 per cent Fe), the royalty as per statute is Rs 210 per tonne while Odisha charged Rs 380.25. Likewise in case of lumpy ore (60-62 per cent Fe), the royalty rate in Odisha was Rs 380.25 compared to the statutory Rs 217.8 per tonne.

The difference was even more glaring for iron ore fines. Fines with 60-62 per cent Fe attracted royalty of Rs 380.25 per tonne compared to the statutory rate of Rs 128.85.

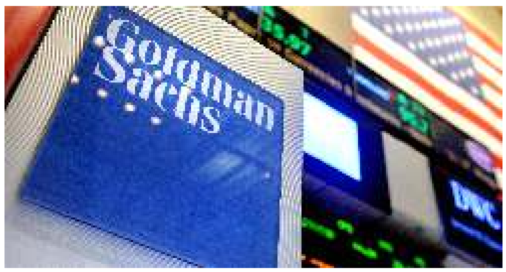
The state government had notified two circulars-one in September 2010 and the other in April 2012 through, which the royalty on Iron ore fines is charged at the rate of lumps in contravention of Mines and Minerals-Development & Regulation Act (MMDR) and Mineral Concession Rules (MCR) framed there under. The matter is sub-judice with the Supreme Court.

According to Section 9 of MMDR Act and Rule 64 B of MCR, the same royalty rate cannot be computed for different grades of ore. But the state government via a circular in September 2010 was charging royalty uniformly in violation of mining laws.

The state government, however, citing an observation in the report of the CAG said that royalty cannot be charged differentially unless the various grades of ore are stacked up separately.

Goldman sees iron ore falling back to $35 this year

Goldman Sachs Group has one piece of advice after this year's dramatic iron ore rally go short.



"We think this market will go back to $35 during the fourth quarter," analyst Christian Lelong said in an interview. That's 50 per cent below, close of $US70.46 a dry metric ton, the highest level since January 2015. "Our expectation is the oversupply in the iron ore market will return."

Iron ore has surged in 2016, in contrast to the previous three years when a slowing Chinese economy hurt steel demand and supplies increased. This year, policy makers in China have added stimulus, presiding over a revival in the property market that's boosted the outlook for steel consumption and prices. Still, burgeoning output and stalling demand growth may drag prices down once again, according to Lelong.

The $35 forecast is for average prices in the final three months, and repeats a figure given by the bank in recent reports. “It's going to be very hard to have strong enough demand growth in the Chinese steel sector to keep things in balance."