Iron-ore shortage forces DRI plants to operate at reduced capacity

Indian sponge iron, or direct reduced iron (DRI), manufacturers are facing an acute shortage of iron-ore despite the government liberalising norms for the allocation of iron-ore blocks and with the country poised to achieve a five-year high in the production of the raw material.

The shortage of iron-ore faced by DRI units has become so acute that a Minister of the southern Indian province of Karnataka, in a meeting with federal government officials earlier this week, sought urgent and immediate supplies to units located in the southern province.

Karnataka has sought a directive from the federal government to the largest State-owned and -operated iron-ore miner, NMDC, to increase volume shipments to DRI units in the region.

According to Karnataka government officials, an estimated 75% of the 69 sponge iron manufacturing units in the region are either closed down or operating at drastically reduced capacities as a result of the shortage of iron-ore or pellets available in the open market.

This follows persistent pleas by the Karnataka Sponge Iron Manufacturers' Association for assured supplies of raw material.

In October last year, the association revealed that DRI units were closing down as iron-ore miners were not making any specific allocations to sponge iron producers, with the estimated 27-mln tons a year of iron-ore production in the province mostly being taken up by integrated steel producers, leaving very little supplies for DRI units which were largely small to medium-sized companies.

DRI units in the southern province require an estimated 9-mln tons a year of iron-ore to be able to operate at full capacity.

However, officials in the Mines Ministry have been caught by surprise by the shortage of raw materials faced by DRI units, particularly at a time when India is expected to close the current fiscal year with iron-ore production at a five-year high of around 180-mln tons.

Officials pointed out that the government also made changes in the legal environment and liberalised auction rules that would ensure greater supply of iron-ore to DRI units, in the long-term.

The officials said that, in the auction rules first framed in 2015, sponge iron units and pellet plants were disadvantaged as the rules heavily favoured large integrated steel producers in bidding for iron-ore blocks at the auctions.

However, the Mines Ministry late last year tweaked the rules, which now enable provincial governments to set aside specific iron-ore blocks within their respective territories on the basis of end-use.

Under this provision, iron-ore-bearing provinces are empowered to reserve iron-ore blocks for specific sectors like DRI units or pellet plants, the officials added.

Simultaneously, the Steel Ministry has scrapped the practice of categorising steel plants as integrated, secondary or major producers and placed all steel producers, irrespective of sourcing of raw material, technology used or size of operation, on a level playing field where uniform norms are applicable.

However, at least two DRI plant operators pointed out that given the small size of the DRI manufacturers, they did not have the financial or managerial wherewithal to participate in competitive bidding to secure iron-ore blocks through the auction route.

Owing to their limitations in size and financial muscle, securing raw material through e-auctions conducted by various provincial government controlled mining agencies, was also a challenge and the bulk of volumes offered through these e-auctions was mostly bagged by large steel mills, the operators added.