

Anil Agarwal controlled Vedanta Resources finally announced early December the closure of one million ton alumina refinery of its Odisha (India) – based subsidiary Vedanta Aluminium due to acute shortage of bauxite, the raw currently abundantly available in Odisha. Through this, its promoter billionaire Anil Agarwal's vision to consolidate Vedanta Group's aluminium business and convert into India's largest aluminium house came to an end, at least temporarily. Two group firms including Bharat Aluminium (BALCO) and Madras Aluminium Company (MALCO) in which Vedanta Group acquired majority stakes from the federal government earlier are currently operating smoothly with captive bauxite reserves.



“After being denied access to the Niyamgiri deposits, we sourced bauxite from other states to keep our refining operation afloat.

But this was thwarted with regulatory, logistic and procedural issues coming in the way. During the last five years of curtailed operation, the company lost about \$455 million (INR 2.5 billion) on an investment of \$950 million (INR 5 billion) in the Lanjigarh plant”.

- MUKESH KUMAR
Chief Executive Officer, VAL.

Bauxite Creating Hoax for Vedanta Aluminium

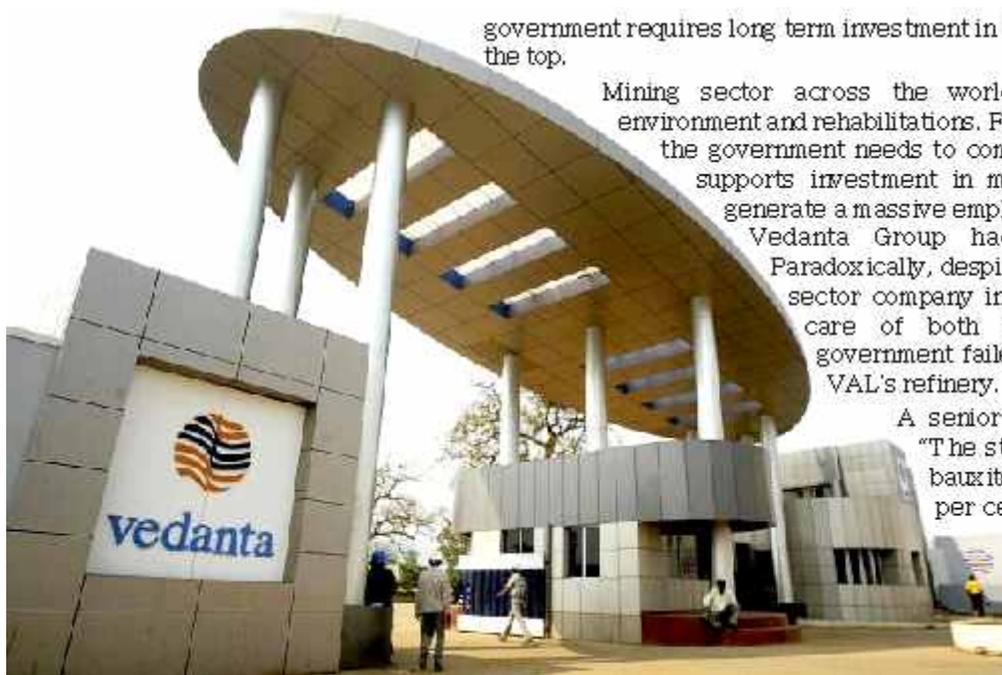
- Metalworld Research Team

About 13-year ago in 1991, VAL's parent company Sterlite Industries Ltd signed a memorandum of understanding (MoU) with the government of Odisha under which a joint venture was proposed to be formed in association with the state owned Orissa Mining Corporation (OMC). The new company was aimed to excavate bauxite from Niyamgiri Hills in Kalahandi district of Odisha which possesses an estimated 72 million tons of premium quality deposits. Amidst protests from around 10,000 local tribals, the mining never started. But, the company started production on its 1 million tons alumina refinery and 0.5 million tons aluminium smelter in 2007 through bauxite and alumina sourcing from open market. Around half of VAL's alumina requirement was met through imports while the remaining from the independent local players.

Interestingly, private miners used to supply bauxite in low quantity through which VAL raised its refinery capacity utilization of upto 60 per cent.

But, the government later tightened grip over private miners resulting into supply getting squeezed steadily. Consequently, dependence on imported alumina increased due to reduced output from local sources taking thereby, smelter's reliance of upto 70 per cent on imports from Australia, Canada and South Africa.

Meanwhile, the company over a period of time, started sourcing bauxite from far-reaching western Indian states including Maharashtra, Chhattisgarh, Jharkhand, Andhra Pradesh and Gujarat which raised company's cost of aluminium production at an estimated \$500 higher than the prevailing market price. At one point in time, cost of production shot up to as high as \$2500 a ton against the prevailing aluminum market price of \$1900 a ton. But, VAL continued operation with maximum possible capacity utilization amid hope of getting final mining nod in its favour sooner or later.



government requires long term investment in infrastructure and mining comes on the top.

Mining sector across the world faces two biggest obstacles; environment and rehabilitations. For a smooth excavation of minerals, the government needs to come out with a proper policy which supports investment in mining and metal sector and also generate a massive employment, Anil Agarwal, chairman of Vedanta Group has said in a recent meeting. Paradoxically, despite having involvement of the public sector company in excavation of bauxite and taking care of both aforementioned objectives, the government failed to provide the raw material for VAL's refinery.

A senior Odisha government official said, "The state is sitting on two billion tons of bauxite deposit accounting for nearly 60 per cent of the entire country's reserve.

While exploration and prospecting have not been taken up in most mines, in others, the opening of mines will take at least three to four years due to cumbersome regulatory and

No Supply to Competitor : Nalco

Meanwhile, the public sector aluminium major National Aluminium Company (Nalco) has turned down alumina supply request from VAL considering it as a competitor. Despite VAL's assurance of paying a premium between 7 and 10 per cent over and above FOB price quoted by the company for exports of alumina, Nalco denied supply of the raw material to it. BL Bagra, director (finance) of Nalco said that VAL had offered to pay a premium over Nalco's export price but the company strategy was to export alumina. The state-owned aluminium maker - Nalco has around 900,000 tons of surplus alumina comprising around 100,000 tons lesser than VAL's annual requirement. Both these companies being in the same state, alumina supply to VAL from Nalco refinery would save transportation cost to the former resulting into lower cost of production.

Policy Paralysis

India's mining sector has been the worst victim of the government's policy paralysis. Several such projects in ferrous and non ferrous metal sector have suspended operations due to mining restrictions. L N Mittal, the India-born global steel giant termed India's mining environment non-conducive. Hence, the government needs to take a pro-active approach to support the mining sector. Looking at burgeoning current account deficit, the

approval process." Moreover, the Niyamgiri case is still locked up in the Supreme Court. Hence, both the government and VAL are hoping for a turnaround in their fortunes with the apex court's decision in their favour.

Hopes Alive

Kumar seems reluctant on workers' lay off at VAL unproductive refinery to avoid expenses to the tune of around INR 1.8 billion. He also denied recommencement of the plant unless bauxite inventory equivalent to the refinery's six months consumption is built. VAL requires around 3.65 million tons of bauxite per annum of which 1.1 million tons supply assured from Balco. Unless the assurance of the remaining quantity is obtained, the company would not recommence its refinery. Meanwhile, the Odisha government has urged the Centre to allocate an alternative site - Karlapat bauxite mine in the same district with 200 million tons of bauxite deposit, a part of which falls under a wildlife sanctuary. Lack of assured raw material supply may also see a negative impact on smelters going forward.



TIMELINE OF THIS PROJECT	
April 1997	Orissa Mining Corporation (OMC) signed over its rights to mine bauxite in the Niyamgiri Hills to Sterlite.
June 2003	Sterlite transferred the MoU for setting up an alumina refinery to VAL
September 2004	MoEF grants the refinery environmental clearance on condition that Sterlite got mining clearance before commencement of the refinery
September 2005	The Central Empowered Committee objects mining in Niyamgiri Hills
February 2006	The Supreme Court refers the matter to MoEF, seeks report in 3 months
August 2007	VAL commissions 1mtpa refinery
April 2009	MoEF clears Niyamgiri mining project
August 2010	MoEF scraps Stage-II forest clearance for Niyamgiri lease
March 2011	OMC moves to Supreme Court against MoEF
September 2012	VAL serves three-month closure notice to Odisha govt.
December 2012	VAL shuts down Lanjigarh refinery and 75-Mw captive power plant