10

STANDING COMMITTEE ON COAL AND STEEL (2004-2005) FOURTEENTH LOK SABHA

MINISTRY OF STEEL

DEMANDS FOR GRANTS
(2005-2006)

TENTH REPORT

LOK SABHA SECRETARIAT

NEW DELHI

April, 2005 / Chaitra, 1927 (Saka)

TENTH REPORT

STANDING COMMITTEE ON COAL AND STEEL (2004-2005)

(FOURTEENTH LOK SABHA)

MINISTRY OF STEEL

DEMANDS FOR GRANTS
(2005-2006)

Presented to Lok Sabha on 26.4.2005
Laid in Rajya Sabha on 28.4.2005

LOK SABHA SECRETARIAT
NEW DELHI

April, 2005 / Chaitra, 1927 (Saka)

CC&S. No. 10

Price : Rs. 44.00

Published under Rule 382 of the Rules of Procedure and Conduct of Business in Lok Sabha (Eleventh Edition) and Printed by Jainco Art India, New Delhi – 110 005.

CONTENTS

IV. Minutes of the Tenth sitting of the Standing Committee on Coal and Steel (2004-05) held on 20.4.2005)

COMPOSITION OF THE STANDING COMMITTEE ON COAL AND STEEL (2004-2005)

Shri Ananth Kumar - Chairman

Members

Lok Sabha

2. Shri Prasanna Acharya
3. Shri Hansraj G. Ahir
4. Shri Harishchandra Chavan
5. Shri Bikash Chowdhury
6. Shri Chandra Sekhar Dubey
7. Shri Chandrakant Khaire
8. Shri Faggan Singh Kulaste
9. Shri Nitish Kumar
10. Shri Vikrambhai Arjanbhai Maadam
11. Shri Bhubneshwar Prasad Mehta
12. Shri Hemlal Murmu
13. Shri Anirudh Prasad
14. Shri Dalpat Singh Paraste
15. Shri E. Ponnuswamy
16. Shri Tarachand Sahu
17. Smt. Karuna Shukla
18. Shri Prabhunath Singh
19. Shri Rewati Raman Singh
20. Shri Ramsewak Singh (Babuji)

Rajya Sabha

21. Shri M.Anjan Kumar Yadav
22. Shri Devdas Apte
23. Shri Ramadhar Kashyap
24. Capt. Jai Narayan Prasad Nishad
25. Shri Vidya Sagar Nishad
26. Shri B.J.Panda

27. Shri Jibon Roy
28. Shri G.K.Vasan

SECRETARIAT

1.	Shri P.D.T. Achary	-	Secretary
2.	Shri N.K.Sapra	-	Joint Secretary
3.	Shri A.K.Singh	-	Director
4.	Shri Shiv Singh	-	Under Secretary
5.	Shri T.Mathivanan	-	Senior Committee Assistant

INTRODUCTION

I, the Chairman, Standing Committee on Coal and Steel having been authorised by the Committee to present the Report on their behalf, present this Tenth Report (Fourteenth Lok Sabha) on Demands for Grants (2005-2006) relating to the Ministry of Steel.

2. The Committee took evidence of the representatives of the Ministry of Steel on 4 April, 2005.

3. The Committee wish to thank the representatives of the Ministry of Steel who appeared before the Committee and placed their considered views. They also wish to thank the Ministry of Steel for furnishing the replies on the points raised by the Committee.

4. The Committee in their sitting held on 20 April, 2005 considered and adopted the Report.

5. For facility of reference and convenience, the observations and recommendations of the Committee have been printed in bold letters in the body of the Report.

New Delhi;
20 April, 2005
30 Chaitra, 1927 (Saka)

ANANTH KUMAR,
Chairman,
Standing Committee on Coal and Steel.

REPORT

CHAPTER I

INTRODUCTORY

Steel is a very versatile material, one that touches every aspect of our life right from the houses to the infrastructure around us. The consumption of steel is an indicator of economic development of the country. It reflects growth in infrastructure and the maturing of the manufacturing industry of a nation.

1.2 India is the 9th largest producer of steel in the world, and has to its credit, the capability to produce a variety of grades and that too, of international quality standards. In the past Indian steel industry was operated under a regulatory regime, marked by controls in capacity, price and distribution and high levels of protection from international competition. A number of factors, such as, the liberalization of industrial policy, globalization of Indian economy since 1991-1992 and other initiatives taken by the Government, have opened up new vistas for the iron and steel industry, like participation and growth of the private sector in the steel industry. Steel Industry that was facing a recession for some time has staged a turnaround since the beginning of 2002. Global steel industry is currently in a state of position and the centres of growth both in terms of consumption and production. It provides an opportunity to the Indian Steel Industry to emerge as a leading production centre and supplier of steel globally. Moreover, the domestic market for steel is also set for a substantial expansion with the added emphasis on building physical infrastructure and a growing manufacturing base. Both the Public Sector Steel Plants and Private Sector Steel Plants are accelerating their growth in a competitive market situation and extract fully the dynamic advantages inherent in the changing global steel scenario.

1.3 The Indian Steel Industry is expected to grow from strength to strength in the coming years, as there is likely strong domestic and global steel demand. It is emerging as a strong market player and preparing to meet the challenges before it. The decade ahead is, therefore, crucial for the exponential growth in steel making facilities.

1.4 The Ministry of Steel has to play a crucial role in ensuring harmonious and integrated growth of steel sector. The main functions of the Ministry of Steel are:

(a) co-ordination of the growth of the Iron and Steel Industry (including Re-rolling Mills, Alloy Steel and Ferro Alloy industries, Refractories) both in the Public and Private Sector;

(b) formulation of policies in respect of production, pricing, distribution, import and export of iron and steel and Ferro Alloys;

(c) planning, development and control of and assistance to the entire iron and steel industry in the country; and

(d) development of input industries relating to iron ore, manganese ore, refractories etc., required mainly by the steel industry.

1.5 Besides the Secretariat, the Ministry of Steel has an attached office, ***viz.*** the Office of the Development Commissioner for Iron and Steel(DCI&S) located at Kolkata and its four Regional Offices located in New Delhi, Kolkata, Chennai and Mumbai. The Office of DCI&S including its 4 regional offices was closed w.e.f. 23 May, 2003. Under the administrative control of the Ministry of Steel the following Public Sector Undertakings are functioning:

(i) Steel Authority of India Ltd.(SAIL).

(ii) Kudremukh Iron Ore Company Ltd.(KIOCL), Bangalore.

(iii) National Mineral Development Corporation Ltd.(NMDC), Hyderabad.

(iv) Hindustan Steelworks Construction Ltd.(HSCL), Kolkata.

(v) MECON Ltd., Ranchi.

(vi) Manganese Ore India Ltd.(MOIL), Nagpur.

(vii) Sponge Iron India Ltd.(SIIL), Hyderabad.

(viii) Bharat Refractories Ltd.(BRL), Bokaro.

(ix) Rashtriya Ispat Nigam Ltd.(RINL), Visakhapatnam.

(x) MSTC Ltd., Kolkata.

(xi) Ferro Scrap Nigam Ltd.(FSNL - a subsidiary of MSTC Ltd.), Bhilai.

(xii) Bird Group of Companies (a Government managed Company), Kolkata

1.6 Consequent on acquisition of the shares of the Bird Group of Companies Ltd. 8 companies of the Bird Group related to the steel industry came under the administrative control of the Ministry of Steel which *inter-alia* include Eastern Investment Ltd.(EIL); Orissa Mineral Development Co. Ltd.(OMDC); Bisra Stone Lime Co. Ltd.(BSLC); Karanpura Development Co. Ltd.(KDCL); Scott & Saxby Ltd.(SSL - a subsidiary of KDCL); Kumardhubi Fireclay & Silica Works Ltd.(KFSW); Borrea Coal Co. Ltd. and Burrakur Coal Co. Ltd.

1.7 Borrea and Burrakur coal companies are non-operational and exist only to settle claims and counter claims with Commissioner of Payments and other agencies. KFSW has since gone under liquidation. Only four companies, *viz*. OMDC, BSLC, KDCL and SSL are now operational.

1.8 The Committee have attempted to scrutinize the Demands for Grants 2005-2006 of the Ministry of Steel to the extent possible within the short time available and approve the Demands presented by the Government, subject to their observations/recommendations, which are contained in the succeeding Chapters.

1.9 The Committee observe that the steel industry, being a core sector, is the major driving force that propels the overall economic growth in any developing country in the long term. However, the performance and growth of steel sector is dependent upon and directly proportional to the economic development of a country particularly the requirements of user sectors, *viz.* infrastructure, automobile, consumer durables, etc. The Committee hope that Indian steel industry would perform well in 2005-2006 also mainly due to huge investment in infrastructure and steep growth in the steel demand. The Committee, therefore, desire that the Government should continue to strive to create conducive environment to help the Indian steel industry to focus on major thrust areas such as higher production of value-added products, capacity expansion, upgradation/cost effective production process, etc. The Government should also play a pivotal role in providing the overall policy framework, coordination for smooth implementation of development plans and take pro-active steps in ensuring harmonious and integrated growth of steel sector.

CHAPTER II

TENTH FIVE-YEAR PLAN AND ITS MID-TERM APPRAISAL: TARGETS AND ACHIEVEMENTS

Based on the 10th Five-Year Plan proposals of the PSUs/organizations under the Ministry of Steel, the discussions held with the Planning Commission and keeping in view the Plan priorities reflected in the Approach Paper to the 10th Plan, the outlay approved for the 10th Plan of the Ministry of Steel is given below:

(Rs. in crore)

(a)	Gross Budgetary Support	65 .00
(b)	Internal & Extra Budgetary Resources (I&EBR)	10,979.00
(c)	Total Outlay (a+b) of Ministry of Steel	11,044.00

2.1 The various targets/projections set by the Ministry for the 10th Five-Year Plan, PSU-wise, is given in the table below:

(Rs. in crore)

Sl. No.	**Name of PSUs/ Organisations**	**10th Plan (2002-2007) Approved Outlay**		
		I&EBR	**B.S.**	**Total Outlay**
1.	Steel Authority of India Limited (SAIL)	5000.00	0.00	5000.00
2.	Rashtriya Ispat Nigam Ltd.(RINL)	860.00	0.00	860.00
3.	MSTC Ltd.	30.00	0.00	30.00
4.	MECON Ltd.	0.00	5.00	5.00
5.	Ferro Scrap Nigam Ltd.(FSNL)	56.00	0.00	56.00
6.	Hindustan Steelworks Construction Ltd.(HSCL)	25.00	22.00	47.00
7.	Bharat Refractories Ltd.(BRL)	36.00	33.00	69.00
8.	Sponge Iron India Ltd.(SIIL)	25.00	0.00	25.00

9.	Research & Technology Mission	750.00	0.00	750.00
10.	Kudremukh Iron Ore India Ltd. (KIOCL)	495.00	0.00	495.00
11.	National Mineral Development Corp.(NMDC)	3546.00	0.00	3546.00
12.	Manganese Ore India Ltd.(MOIL)	149.00	0.00	149.00
13.	Bird Group of Companies	7.00	5.00	12.00
	Total	**10979.00**	**65.00**	**11044.00**

Note :- Ministry of Steel has been exempted from earmarking 10% of its Budget for the North-Eastern Region, including Sikkim.

2.2 In the Mid-Term Appraisal report, the Ministry of Steel has proposed to scale down the outlay from **Rs.11,044 crore**(I&EBR:Rs.10,979 crore and Budgetary Support: Rs.65 crore) to **Rs.8,476.68 crore**(I&EBR:Rs.8,411.68 crore and Budgetary Support: Rs.65 crore). The details are as follows:

(Rs. in crore)

Name of PSUs / Organisations	I&EBR	BS	Total Outlay
1. Steel Authority of India Ltd.(SAIL)	3700.00	0.00	3700.00
2. Rashtriya Ispat Nigam Ltd.(RINL)	1219.65	0.00	1219.65
3. MSTC Ltd.	30.00	0.00	30.00
4. MECON Ltd.	0.00	5.00	5.00
5. Ferro Scrap Nigam Limited(FSNL)	56.00	0.00	56.00
6. Hindustan Steelworks Construction Ltd.(HSCL)	3.00	22.00	25.00
7. Bharat Refractories Limited(BRL)	10.00	33.00	43.00
8. Sponge Iron India Limited(SIIL)	25.00	0.00	25.00
9. Research & Technology Mission	300.00	0.00	300.00
10. Kudremukh Iron Ore (India) Ltd.(KIOCL)	200.00	0.00	200.00
11. National Mineral Dev. Corpn. (NMDC)	2660.00	0.00	2660.00
12. Manganese Ore India Limited (MOIL)	100.23	0.00	100.23
13. Bird Group of Companies	107.80	5.00	112.80
Total	**8,411.68**	**65.00**	**8,476.68**

2.3 While explaining the reasons for reduction in I&EBR in the approved 10th Five-Year Plan outlay from Rs.10,979 crore to Rs.8,411.68 crore in Mid-Term Appraisal of 10th Five-Year plan, the Ministry of Steel stated as follows:

“**SAIL:** Against the approved 10th Plan outlay of Rs.5,000 crore the proposed revised outlay under Mid-Term is Rs.3,700 crore. The major ongoing schemes on which expenditure will be incurred during 10th Plan are as under:-

(Rs. in crore)

No.	**Plant**	**Name of the Scheme**	**Anticipated expenditure**
1	**BSP**		
		Long Rail facilities in RSM	320.00
		15 MW Turbo Generator Plant at PP-I	48.10
2	**RSP**		
		Rebuilding of CO Battery No.1	112.39
		Up-gradation of ERW Pipe Plant	89.15
		Turbo alternator No. 4 in CPP-I	32.03
		Capital repair of BF No. 4	95.64
3	**DSP**	Installation of Bloom Caster as associated facilities	271.41
		130 T Ladle furnace in SMS	21.85

The reason for this downward revision is shortfall in achieving the target of expenditure in the first two years (target fulfillment only 47.3%) which was due to depressed market conditions and adverse financial position up-to 2002-03, re-prioritization and deferment of schemes and continuous monitoring and control on capital expenditure.

R&T Mission: Against the approved 10th Plan outlay of Rs.750 crore, an amount of Rs.300 crore is proposed for R&D activities of this Ministry because only 120.40 crore is expected to be spent upto 31 March 2005. Considering the fact that expenditure on R&D depends on number of proposals received and their support worthiness and the expenditure trend so far, an amount of Rs. 180 crore is proposed for the remaining two years of the plan period.

NMDC: Against the approved 10th Plan outlay of Rs. 3,546 crore, NMDC has proposed revised outlay of Rs.2,660 crore due to short fall in achieving the target of expenditure in first three years of the 10th Plan(37.16%) due to delay in getting environmental/forest clearances for setting up of iron ore project in Bailadila and Donimalai regions, delay in acquisition of private land and finalization of agreement for Romelt shop in respect of NISP, political instability in Madagascar – which hampered investigation of gold deposits in that country – and absence of favourable results in investigation leading to winding up of operations in Namibia.

KIOCL: Against the approved 10th Plan outlay of Rs.495 crore, an amount of Rs.200 crore is proposed in Mid-Term review because expenditure on schemes such as ‘Primary Ore Development’ (Rs.115 crore) and ‘Ductile Iron Spun Pipe’ (Rs.180 crore) appear to be highly doubtful. In the case of Primary Ore Development, the Hon’ble Supreme Court Judgment clearly prohibits KIOCL from exploiting primary ore at Kudremukh. The DISP project of its JVC, KISCO, has run into serious liquidity problems and is not expected to come up during the next two years. The anticipated expenditure upto 31 March 2005 is only 14.8% of the 10th Plan outlay.

BRL: Against the approved outlay of Rs.69 crore (I&EBR: Rs.36 crore and Budgetary Support: Rs.33 crore) for carrying out mostly AMR schemes, downward revision to Rs.43 crore (I&EBR: Rs.10 crore and Budgetary Support: Rs.33 crore) has been reflected in Mid-Term review because BRL has not been able to generate any I&EBR in the first three years of 10th Five-Year Plan. Based on this trend it is most unlikely that BRL would be in a position to generate Rs.36 crore of I&EBR during the remaining two years of the 10th Plan.

MOIL: Against the approved 10th Plan outlay of Rs.149 crore, downward revision to Rs.100.23 crore is reflected in the Mid-Term review due to inability of the company to meet the target in the first three years of 10th Plan. Against the target of Rs.106.45 crore for new schemes, Company has been able to spend only Rs.2.41 crore and expects to spend Rs.10.27 crore during 2004-05. Thus company has spent only 11.9% of the 10th Plan outlay meant for new schemes. The shortfall in the expenditure is due to the decision of the company to drop two proposals namely 8 MW Power Plant at Balaghat mine (Rs.31.90 crore), 2 MEW power plants at Dongri Buzurg (Rs.8.00 crore) and Crushing and Screening Plant at Kandri and Tirodi mines (Rs.4.00 crore) as these have been found to be unviable.

Schemes worth Rs.8,545 crore which were originally envisaged to be taken up during 9th Plan were deferred/dropped subsequently owing to depressed market conditions and adverse financial position. A list of such schemes is mentioned in **Annexure-II**".

2.4 In response to the specific query of the Committee about the impact of Mid-Term Appraisal on the growth and development of steel plants, the Ministry of Steel submitted as below:-

"SAIL: The expected improvement in the production of steel by SAIL group is given below:

Production Performance 10th Five-Year Plan (2002-2007)

(Unit'000T)

	2001-02 Actual	**2002-03 Actual**	**2003-04 Actual**	**2004-05 Actual**	**2005-06 (Planned)**	**2006-07 (Planned)**
Hot Metal	12,189	12,908	13,563	13,590	13,488	13,488
Crude Steel	11,023	11,628	12,384	12,522	12,072	12,072

Saleable Steel	10,000	10,640	11,283	11,336	10,747	10,747
Pig Iron	663	586	531	560	901	901

The expected improvement under techno economic parameters is given below:

Parameters	**2001-02 (Actual)**	**2004-05 (Plan)**
Energy consumption GCAL/TCS	7.69	7.45
Coke Rate Kg/THM	557	529
Blast Furnace productivity T/CuM/day (based on working volume)	1.47	1.63

RINL: Currently, the plant is operating at production levels of about 4.1mt hot metal, 3.5 mt of liquid steel and 3.1 mt of saleable steel, representing capacity utilisation levels of 119%, 117% and 119% respectively. In Phase-I expansion, production of 5 mt of hot metal per annum has been planned from the existing Blast Furnace. The production capacity of liquid steel will be increased to 5.0 mt and that of saleable steel to 4.48 mt per annum. AMR Schemes have been proposed for sustaining the current level of productivity in the context of ageing of the plant".

2.5 The achievements made during the last three years of the 10th Plan, ***viz.*** 2002-2003, 2003-2004 and 2004-2005 (anticipated), as compared to the targets, are given in the table below:

(Rs. in crore)

Name of PSUs/ Organisations	**2002-2003 Plan Outlay**		**2003 – 2004 Plan Outlay**		**2004 – 2005 Plan Outlay**	
	Approved Outlay	**Actual Expenditure**	**Approved Outlay**	**Actual Expenditure**	**Approved Outlay**	**Anticipated**
1	2	3	4	5	6	7
1. SAIL	500.00	224.33	600.00	391.10	650.00	650.00

2. RINL	55.00	35.54	227.00	24.89	300.00	174.00
3. MSTC Ltd.	20.00	14.85	5.00	0.00	5.00	5.00
4. MECON	4.00	2.00	1.00	1.00	1.00	1.00
5. FSNL	12.00	14.91	11.50	8.35	11.50	11.50
6. HSCL	9.00	4.00	4.00	4.00	3.00	3.00
7. BRL	13.00	5.00	7.00	12.00	10.00	10.00
8. SIIL	5.00	2.00	5.00	2.69	9.00	9.40
9. R &T Mission	95.00	0.41	60.00	60.00	60.00	60.00
10. KIOCL	133.00	10.07	30.00	9.22	54.00	54.00
11. NMDC	527.05	113.05	481.55	65.05	321.90	77.79
12. MOIL	32.50	13.00	26.75	7.78	20.00	34.41
13. Bird Group of Companies	3.45	3.74	2.50	20.32	16.00	44.62
Total	**1409.00**	**442.90**	**1461.30**	**606.40**	**1461.40**	**1134.72**

2.6 While analysing the expenditure pattern of Public Sector Steel Plants during the last three years of the 10th Five-Year Plan *viz*. 2002-2003, 2003-2004 and 2004-2005 (anticipated) as compared to the targets, the Ministry of Steel submitted as under:

"Except for few exceptions like FSNL and Bird Group, in respect of the remaining PSUs there is a significant shortfall in the actual expenditure on Plan schemes *vis-a-vis* the approved outlays during 2002-2003 and 2003-2004. The primary reason for the shortfall has been the depressed market conditions and the persistent slowdown in the Iron & Steel sector over the last several years, resulting in the PSUs being forced to cut down on capital expenditure and defer or altogether abandon certain schemes. Other reasons for the shortfall include delay in obtaining of forest/environmental clearance, acquisition of land, finalisation of agreements and preparation of DPR, proposed joint ventures not materializing, uncertainty over disinvestments, etc. In the case of KIOCL, the shortfall in actual expenditure is because of Hon'ble Supreme Court's directive permitting the company to mine at Kudremukh till 31 December 2005, and the resultant uncertainty over the mining lease. However, the market has turned buoyant for the iron and steel sector from 2003-2004 and it is expected that after reprioritization of schemes and revised investment planning, the PSUs(except NMDC & RINL) under the

Ministry of Steel will be in position to achieve the targets in 2004-2005. Bird Group, SIIL and MOIL have reported that they will exceed the target fixed in BE 2004-2005 as anticipated expenditure in respect of these PSUs was more than the target".

2.7 The Committee observe that the 10th Five-Year Plan of the Ministry of Steel envisaged an outlay of Rs.11,044 crore which included Rs.10,979 crore as I&EBR and Rs.65 crore as Budgetary Support. The Ministry had set up targets and made projections PSUs-wise for utilization of the allocations provided in the Plan. The Committee, however, note that during the first three years of the Plan period, the utilization has been abysmally low amounting to Rs.2,184.02 crore which comes to bare 22.8 per cent. The Ministry has advanced oft-repeated reasons, *viz.* depressed market conditions, delay in obtaining forest/environmental clearances, acquisition of land and preparation of DPR, etc. for its failure to utilize the allocated amount. The Mid-Term Appraisal was more an exercise in Mid-Term reduction of allocations wherein the Ministry has scaled down outlay from Rs.11,044 crore to Rs.8,476.68 crore. The Committee feel that the sign of upswing in the steel industry was very much discernable in the beginning of the 10th Plan Period and had the Ministry acted with foresight and utilized the allocated amount for infrastructure development, *viz.* capacity expansion, upgradation/cost effective processes, higher production of value-added products etc., it would have given big push to the steel industry and the country would have been reaping the benefits of these investments during the 10th Plan itself. However, the steel industry having been deprived of investments at propitious time and thus pulled back due to stagnant capacity and obsolete technology, the remedial measures are required to be taken up at once. The Committee, therefore, desire that the Ministry should not only ensure full utilization of the allocated funds but generate additional resources to implement dropped/deferred schemes which are still viable to take full advantage of the boom period.

2.8 The Committee also feel that the Ministry had remained inactive and appeared perplexed in so far as overcoming the procedural delays in implementation of various schemes are concerned. The Committee, therefore, recommend that a High Powered Committee consisting of the representatives from the Ministries concerned of Central/State Governments may be constituted to expedite the various clearances for the schemes/projects.

2.9 The Committee also observe that a large number of litigations relating to steel sectors are pending before various courts thereby hampering expeditious execution of the projects. The Committee, therefore, desire that the Ministry in consultation with Ministry of Law consider setting up Special courts for speedy disposal of such cases.

2.10 The Committee are of the view that there are certain issues which continue to pose difficult challenges for steel sector as well as for Union/State Governments and feel that a composite and continued dialogue with the industry, experts and other concerned agencies would be beneficial. The Committee, therefore, like that periodical Conferences may be convened to discuss the various issues, problems and challenges being faced by the Indian Steel Industry, to arrive at the possible solutions and consensus thereon.

2.11 The Committee have been informed that Manganese Ore India Limited (MOIL) could spend only 11.9 per cent of the 10^{th} Plan outlay meant for new schemes as the two major proposals, *viz*. 8 MEW power plant at Dongri Buzurg and Crushing and Screening Plant at Kandri and Tirodi mines were dropped being unviable. The Committee are dismayed to note that the Government had not analysed the viability of the new schemes and included them in the 10^{th} Plan merely on the basis of preliminary studies without any Techno-Economic Feasibility Report. The Committee are convinced that MOIL will suffer heavily in the absence of a captive power plant and, therefore, recommend that alternative projects in place of the dropped schemes may be taken up immediately.

2.12 The Committee further note that a number of schemes worth Rs.8,545 crore which were originally envisaged to be taken up during the 9th Plan were deferred/dropped owing to depressed market conditions and adverse financial positions. The Committee have also been informed that only two schemes, *viz*. Longer rail finishing facilities (39 M rails) and Bloom Caster with Ladle Furnace worth Rs.415 crore which were deferred during the 9th Plan were taken up in the 10th Plan. The Committee reiterate that the signs of buoyancy in steel sector were quite visible in early stages of the 10th Plan period and therefore, the dropped/deferred schemes of the 9th Plan should have been taken up as to give quantum jump to the steel industry. The Committee feel that the gains from the upswing in steel sector could still be reaped and, therefore, recommend the Ministry to review all deferred/dropped schemes and take up viable schemes for implementation at once.

CHAPTER III

ANALYSIS OF DEMANDS FOR GRANTS (2005-06)

The Ministry of Steel has presented the Demand No.91 to the Parliament as Demands for Grants for the year 2005-2006. The Demand includes provision for Plan and Non-Plan expenditure under Revenue and Capital sections of the Ministry proper, attached/subordinate offices and Public Sector Undertakings under the administrative control of the Ministry of Steel. The details of Ministry's Demands under Revenue section and details relating to Capital section with reference to public enterprises are shown in **Annexure-I**. Various points arising out of the scrutiny of Demands for Grants of the Ministry are discussed in the succeeding paragraphs:

3.2 The following Table shows the Actuals for 2003-04, Budget Estimate, Revised Estimate for 2004-05 and Budget Estimate for 2005-06: -

(Rs. in crore)

	Actuals 2003-04			**Budget Estimate 2004-05**			**Revised Estimate 2004-05**			**Budget Estimate 2005-06**		
Major Head	Plan	Non Plan	Total	Plan	Non Plan	Total	Plan	Non Plan	Total	Plan	Non Plan	Total
Revenue	--	1054.16	1054.16	--	91.65	91.65	--	115.32	115.32	--	72.53	72.53
Capital	18.00	2.00	20.00	15.00	73.89	88.89	15.00	74.89	89.89	15.00	2.00	17.00
Total	18.00	1056.16	1074.16	15.00	165.54	180.54	15.00	190.21	205.21	15.00	74.53	89.53

A. Demand, Projections and Actual Allocation

3.3 As against the total Plan Outlay of Rs.2,508.62 crore, including Budgetary Support of Rs.157.50 crore, proposed by the Ministry of Steel, the Planning Commission has approved an Outlay of Rs.2,466.12 crore with a Budgetary Support of Rs.15.00 crore.

3.4 The Demand projected by the Ministry of Steel for the Financial Year 2005-06, the actual amount approved by the Planning Commission is summarized in the following Table:

(i). Plan Proposal – 2005-2006(BE)

(Rs. in crore)

Sl. No	Name of PSUs/ Organisations	BE 2005-06 Proposed by Ministry of Steel			BE 2005-06 Approved by Planning Commission		
		I&EBR	B S	Total Outlay	I&EBR	B S	Total Outlay
1.	Steel Authority of India Limited (SAIL)	1030.00	0.00	1030.00	1030.00	0.00	1030.00
2.	Rashtriya Ispat Nigam Ltd (RINL)	896.00	0.00	896.00	896.00	0.00	896.00
3.	MSTC Ltd.	5.00	0.00	5.00	5.00	0.00	5.00
4.	MECON Ltd.	8.28	142.50	150.78	8.28	4.00	12.28
5.	Ferro Scrap Nigam Ltd (FSNL)	10.00	0.00	10.00	10.00	0.00	10.00
6.	Hindustan Steelworks Construction Ltd. (HSCL)	0.00	5.00	5.00	0.00	4.00	4.00
7.	Bharat Refractories Ltd (BRL)	0.00	7.00	7.00	0.00	7.00	7.00
8.	Sponge Iron India Ltd. (SIIL)	5.00	0.00	5.00	5.00	0.00	5.00
9.	Research & Technology Mission	0.00	0.00	0.00	0.00	0.00	0.00
10.	Kudremukh Iron Ore India Ltd. (KIOCL)	225.00	0.00	225.00	225.00	0.00	225.00
11.	National Mineral Development Corp. (NMDC)	220.25	0.00	220.25	220.25	0.00	220.25
12.	Manganese Ore India Ltd. (MOIL)	34.21	0.00	34.21	34.21	0.00	34.21
13.	Bird Group of Companies	17.38	3.00	20.38	17.38	0.00	17.38
	Total	2351.12	157.50	2508.62	2451.12	15.00	2466.12

(ii). Non-Plan Proposal – 2005-2006(BE)

(Rs. in crore)

Sl. No.	Item of Expenditure	BE 2005-06 Proposed by M/o Steel (Regular Budget)	BE 2005-06 Approved by M/o Finance (Regular Budget)
1.	Secretariat of the Ministry	9.82	9.66

2.	Office of DCI&S	2.75	2.75
3.	Awards to Distinguished Metallurgists	0.10	0.10
4.	Non-Plan Loans to PSUs		
	Bird Group of Companies	4.20	2.00
5.	Subsidies		
i)	Interest Subsidy to HSCL for loans raised from Banks for VRS	74.96	56.81
ii)	Subsidy to HSCL for waiver of guarantee fee for Govt. Bank Guarantee	6.60	0.92
iii)	Interest subsidy to MECON Ltd. for loans raised from banks for VRS	8.46	1.75
iv)	50% interest subsidy to SAIL for loans raised from banks for VRS	51.59*	0.00
v)	Subsidy to BRL for waiver of guarantee fee	0.54	0.54
	Total (Non-Plan)	**159.02**	**74.53**

* For accounting adjustment in respect of restructuring of SAIL

3.5 Regarding the Schemes under Plan and Non-Plan likely to be affected due to reduced allocation in 2005-2006, the Ministry submitted as under:

“The PSUs and Plan schemes likely to be affected due to allocation of lower Plan budgetary support than that proposed is as follows:

- **MECON Ltd :** The restructuring of capital base as recommended by consultant Price-Water House Coopers, Computer Information Technology scheme and the new scheme of construction of a school building at Shyamli, Ranchi.

- **HSCL:** Procurement of equipment and machinery for projects.

- **Bird Group of Companies:** New Scheme related to iron ore beneficiation plant, proposed Sponge Iron Plant and AMR Schemes.

The schemes affected due to reduced allocation of funds in BE 2005-2006 will be taken up for allocation of additional funds at RE stage on the basis of projection of the actual requirement of PSUs".

About the Non-Plan allocation, the Ministry stated as follows:-

"Against the requirement of Rs.159.02 crore proposed by the Ministry of Steel, the Ministry of Finance has approved Rs.74.53 crore. The Non-Plan scheme likely to be affected due to allocation of insufficient funds in BE 2005-2006 are:-

- Non-Plan loan to Bird Group of Companies for implementation of VRS.
- Interest subsidy to HSCL for the loan raised for implementation of VRS.
- Interest subsidy to MECON for the loan raised for implementation of VRS.
- Subsidy to HSCL for waiver of guarantee fee.
- Subsidy to MECON for waiver of guarantee fee.

The schemes affected due to allocation of insufficient funds in BE 2005-2006 will be taken up for allocation of additional funds at the Supplementary/RE stage on the basis of the projections and the actual requirements of the PSUs."

3.6 The Committee note that as against the annual Plan outlay of Rs.2,508.62 crore including Budgetary Support of Rs.157.50 crore for 2005-2006 proposed by the Ministry, the Planning Commission has approved an outlay of

Rs.2,451.12 crore with a Budgetary Support of merely Rs.15 crore. The Committee find that several Plan and Non-Plan schemes which may contribute significantly in improving the performance of MECON, HSCL and Bird Group of Companies are going to be affected due to allocation of lower Plan I&EBR and reduced Budgetary Support. In regard to Budgetary Support for MECON, the Planning Commission has approved Rs.4.00 crore only as against the proposal of Rs.142.50 crore. In the case of Bird Group of Companies, no Budgetary Support has been envisaged against the actual requirement of Rs.3.00 crore. The total Non-Plan outlay proposed for Rs.159.02 crore has been reduced to Rs.74.53 crore by the Ministry of Finance.

3.7 The Committee note that while the Ministry has been emphasizing that its budgetary proposals are directed to strengthen weak and loss- making companies, it has failed to convince the Planning Commission to approve the required allocations. The Committee deprecate the logic advanced by the Ministry that additional funds would be sought at RE stage for the affected schemes. The Committee are unhappy to note the lack of conviction and commitment on the part of Ministry of Steel in approaching the Planning Commission without sufficient justification for sanction of funds at BE stage. The Committee, therefore, recommend that in the coming years sincere efforts should be made for getting allocation at BE stage instead of resorting to allocations at RE stage. Further, the Committee also recommend that the shortfall of funds for 2005-2006 should be met at the Supplementary/Revised Estimates stage by taking up the matter vigorously with Planning Commission and Ministry of Finance to meet fund requirements of the affected Public Sector Undertakings.

(iii) Allocation of Funds under Revenue Section for 2005-2006

3.8 The brief description, in tabular form, explaining the appropriation of funds under Revenue Section for 2005-2006 is given below: -

(Rs. in crore)

Sl. No.	Description	BE 2005-06
1	Secretariat - Economic Services	9.66
2	Office of the Development Commissioner for Iron & Steel, Kolkata	2.75
3.	Interest Subsidy to Hindustan Steelworks Construction Ltd. (HSCL) for payment of interest on loans raised from Banks for implementation of VRS	56.81
4.	Subsidy to HSCL for waiver of Guarantee Fee for the Guarantee given by GOI for cash credit and bank guarantee	0.92
5.	Subsidy to BRL for waiver of guarantee fee	0.54
6.	Interest subsidy of MECON Ltd. for loans raised from banks for implementation of VRS	1.75
7.	Awards to Distinguished Metallurgists.	0.10
	Total: Non-Plan Expenditure	**72.53**

3.9 Explaining the reasons for increase in the Non-Plan outlay from Rs.91.65 crore in BE 2004-05 to Rs.115.32 crore in RE 2004-05, the Ministry of Steel forwarded the following plea:-

"Due to requirement for the additional expenditure on Salaries and Wages of Secretariat (Rs.0.73 crore), additional amount of account of interest subsidy to Hindustan Steelworks Construction Ltd.(Rs.29.49 crore), additional amount on account of waiver of Guarantee fees to Bharat Refractories Ltd.(Rs.0.30 crore) and for providing additional amount of Rs.1.00 crore to Bird Group of Companies for implementation of VRS. Against the total additional requirement of Rs.31.52 crore, saving of Rs.6.85 crore has been identified mainly form interest subsidy to SAIL and Non-Salary expenditure in respect of Secretariat and DCI & S Office".

3.10 While explaining the reasons for decrease in Non-Plan outlay under Revenue Expenditure from Rs.115.32 crore in RE 2004-05 to Rs.72.53 crore in BE 2005-06, the Ministry of Steel replied as follows:-

- Under the assistance package for HSCL approved by the Ministry of Finance in 2001-2002, Non-Plan assistance of Rs.71.89 crore was provided in RE 2004-05 for meeting statutory liabilities. Against this expenditure, no provision on this account is made in BE 2005-06.

- In RE 2004-05 a provision of Rs. 3.00 crore was made for Non-Plan loan to Bird Group of Companies for implementation of VRS and payment of statutory dues, etc. Against this provision, Rs.2.00 crore has been provided on this account in BE 2005-06.

- Against the provision of Rs. 86.15 crore in RE 2004-05, only Rs.56.81 crore has been provided in BE 2005-06 for interest subsidy to HSCL in respect of loans raised for implementation of VRS.

- Against the provision of Rs. 9.30 crore in RE 2004-05 no provision has been made in BE 2005-06 for interest subsidy to SAIL as Ministry has decided to discontinue the interest subsidy in view of the fact that company has reported profits.

- Against the provision of Rs.3.02 crore for other programmes (Administrative Expenses Office of DCI&S and award to distinguished metallurgists) and 2004-05 RE only 2.85 crore has been provided in BE 2005-06".

3.11 The Committee noted that the Office of Development Commissioner for Iron and Steel, Kolkata including the 4 regional offices *w.e.f*. 23.5.2003 and wanted to know the justification for an allocation of Rs.2.75 crore in the BE of 2005-06, the Ministry of Steel submitted the following justification:-

"The total strength of the organization at the time of closure of DCI&S organization was 226. Out of these: -

- 215 staff of the DCI&S organization have been declared surplus and are taken on the Rolls of the DoPT for redeployment. As per rules, the staff are entitled for full pay & allowances till they are redeployed or demit office whichever is earlier.

- 10 officials are yet to be declared surplus by the DoPT due to various reasons and one officer who was on deputation has been repatriated.

- 8 surplus staff have taken voluntary retirement under Spl. VRS of DoPT.

- 15 surplus employees demitted the office due to retirement etc.

- 87 surplus staff of the organization were nominated/redeployed to various Central Government offices by the DoPT. Out of these 87 surplus staff, as per DoPT instructions, 36 surplus UDCs were relieved in May 2004 to report to the Office of the Chief Post Master General, West Bengal Circle, Kolkata for redeployment within the State of West Bengal. However, on receipt of representations from surplus UDCs and various staff organizations for not deploying the 36 surplus UDCs out of Kolkata on humanitarian grounds, the matter was reviewed and a considered decision/view was taken in consultation with DoPT to take back these UDCs on the surplus roll maintained by DoPT. The services of these UDCs were to be counted continuously on the surplus roll from the date they were relieved. As and when, suitable vacancies are reported from Central Govt. Deptt. for posting at Kolkata, the group 'C' & 'D' staff would be nominated in future for their redeployment. Accordingly the withheld pay & allowances from June, 2004 to 31January 2005 were released to these UDCs.

- In view of the above, the provisions of Rs.2.92 crore and Rs.2.75 crore proposed under (Non-Plan) RE 2004-2005 and BE for 2005-2006 respectively are essential for maintaining the surplus staff establishment of DCI&S, Kolkata. It is also pertinent to mention here that due to the re-absorption of 36 surplus UDCs on the rolls of the surplus cell, till their re-deployment in Kolkata only, the provision of Rs.2.75 crore in B.E. 2005-06 may not be sufficient to meet the full expenditure on surplus staff establishment. This would however, be reviewed at the time of preparing revised estimates for 2005-06".

3.12 The Committee in their earlier recommendations had expressed its concern over the delay in re-deployment of 226 employees of Office of Development Commissioner of Iron and Steel, closed *w.e.f.* from 23 May, 2003 following the recommendations of Expenditure Reforms Commission. The Committee are distressed to note that in 2004-2005 not even a single employee was redeployed and avoidable expenditure of Rs.2.92 crore was incurred on surplus staff who were being paid without any work. The Committee reiterate that the Ministry should take up the issue with Department of Personnel and Training (DoPT) at the higher level for the time-bound re-deployment of the surplus staff and to obviate expenditure on this account.

(iv) Allocation of Funds under Capital Section for 2005-2006

3.13 The details, in tabular form, of Plan and Non-Plan Capital Expenditure projected for the financial year 2005-2006 are given below:

(Rs. in crore)

Sl. No	**Name of PSUs**	**Capital Expenditure BE 2005 – 2006**					
		Plan			**Non-Plan**		
		Equity	**Loan**	**Total**	**Equity**	**Loan**	**Total**
1.	Bird Group of Companies	0.00	0.00	0.00	0.00	2.00	2.00
2.	Bharat Refractories Ltd	7.00	0.00	7.00	0.00	0.00	0.00
3.	Hindustan Steelworks Construction Ltd.	0.00	4.00	4.00	0.00	0.00	0.00
4.	MECON	0.00	4.00	4.00	0.00	0.00	0.00
	Total	7.00	8.00	15.00	0.00	2.00	2.00

3.14 The Committee noted that Rs.15.00 crore in BE 2005-06 earmarked for the following purpose:-

Bharat Refractories Ltd	:	For implementation of AMR Schemes.
HSCL	:	For procurement of Construction Equipments.
MECON	:	For Research and Development and Computer Scheme.

3.15 About the justification for reduction in the BE 2005-2006 to the tune of Rs.2.00 crore against the RE 2004-2005 of Rs. 74.89 crore under the head, the Ministry submitted the following reply: -

"Against the Non-Plan provision of Rs 74.89 crore made for HSCL in RE 2004-05, payment of statutory dues has not been made in BE 2005-2006. In 2004-2005 RE this provision was made under the assistance packages for HSCL as approved by Ministry of Finance in 2001-2002. As this provision has not been made in BE 2005-2006, there is a decrease of Non-Plan expenditure from Rs. 74.89 crore to Rs. 2.00 crore in BE 2005-2006. The expected actual expenditure in 2004-2005 is Rs.74.89 crore".

3.16 About the steps being taken for optimal utilization of funds earmarked for specific purposes under the head, the Ministry furnished the following plea: -

"Budgetary Provisions under the Capital Head have been made for some of the financially weak PSUs under the Ministry of Steel for meeting capital expenditure for AMR Schemes to keep their plant and machinery in working condition, purchase of computer hardware and software, and for payment of outstanding statutory dues. While releasing the budgetary provisions to the PSUs, it is ensured that the companies have proper justification for seeking the release of funds and the sanction orders contain provision to the effect that the amount released should be utilized for the approved schemes/purpose only and no diversion of funds is allowed. Further, the PSUs are also required to submit utilisation certificates in respect of the budgetary provisions already released to them before processing their requests for further releases".

3.17 The Committee appreciate that the financial loan assistance is being given by the Ministry to HSCL for procuring the construction equipments, to Bharat Refractories Ltd, for implementation of AMR schemes and to MECON for Research and Development and Computer Scheme. The Committee desire that the Ministry should ensure that if there is any gap in financial requirement and loan assistance being given, it should be taken up with the Ministry of Finance at RE stage to ensure speedy implementation of the schemes.

B. Non-Plan Loans to Public Sector Steel Plants

3.18 There are four operating companies under the Bird Group of Companies. The provision of Non-Plan loan of Rs. 2.00 crore was made in BE 2004-05 and enhanced to Rs.3.00 crore in RE 2004-05 in order to liquidate the outstanding statutory dues and implementing VRS. A sum of Rs.2.00 crore has been allocated this year also for implementation of VRS to separate surplus employees to the desired level. The following table shows the details:-

(Rs.in crore)

Bird Group of Companies	**2004-05**		**2005-06**
	BE	**RE**	**BE**
Non-Plan loan to Bird Group of Companies for implementation of VRS.	2.00	3.00	2.00
Total – Non-Plan loan under MH " 6852"	2.00	3.00	2.00

3.19 When the Committee wanted to know about the progress in separation of 235 surplus employees of Bisra Stone Lime Company Ltd.(BSLC) and 40 surplus employees of Scott and Saxby Ltd.(SSL) during 2004-05 and the future programme in this regard, the Ministry of Steel expressed the following views: -

"There is no progress with regard to rationalization of manpower particularly with regard to the identified 235 surplus employees of BSLC and 40 surplus employees of SSL. Non-Plan loan of Rs.1.00 crore for implementation of VRS in BSLC is yet to be approved in RE 2004-05. Reorganisation of Companies under Bird Group is being contemplated by which rationalization of manpower could be achieved in the future".

3.20 Total number of manpower in Bird Group of Companies category-wise, as on 28 February 2005 is given below: -

(Manpower at Mines)

Company					**Contractor**					
	MP	PRW	DRMP	Total	MP	PRW	Total	Agreemental	Consolidated	Total
OMDC &SIP	542	276	Nil	820	93	806	899	82	Nil	*1801
BSLC	576	667	105	1348	Nil	Nil	Nil	37	5	1390
KDCL	50	Nil	Nil	50	Nil	Nil	Nil	6	Nil	56
SSL	96	Nil	Nil	96	Nil	Nil	Nil	Nil	Nil	96
EIL	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Burrakur	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

- Sponge Iron Plant included in OMDC
- MP- Monthly Paid, PRW- Piece rated worker, DRMP- Daily Rated Monthly Paid

(Manpower at Headquarters)

Company	Officer	Staff	S. Staff	Total	Mines and Head Office
OMDC &SIP	12	8	7	27	1828
BSLC	10	3	4	17	1407
KDCL	3	1	1	5	61
SSL	9	1	Nil	10	106
EIL	2	1	1	4	4
Burrakur	1	Nil	Nil	1	1

3.21 The Committee are happy to note that through the assistance provided by the Ministry, the Bird Group of Companies(BGC) have been able to resolve many of their problems and also reduce to a considerable extent the liabilities on account of statutory dues, *viz*. provident fund, royalty, etc. The Committee observe that since the implementation of VRS in 1992-93, BGC have rationalized the manpower to a great extent and separated a large number of employees. However, during 2004-2005, no progress has been achieved in separation of 235 and 40 surplus employees of Bisra Stone Lime Co. Ltd.(BSLC) and Scott & Saxby Ltd.(SSL) respectively and Rs.1 crore earmarked for the purpose has remained unutilized. The Committee, are concerned at the failure of the Ministry to monitor the progress of rationalization of manpower and therefore, desire that top priority should be given for separation of surplus manpower to achieve the targets set for the purpose.

C. Subsidies to Public Sector Steel Plants

(i) Hindustan Steelworks construction Limited

3.22 Interest subsidy to Hindustan Steelworks Construction Limited (HSCL) for loans raised for implementation of VRS.

(Rs. in crore)

Major Head	Budget Estimate2004-05			Revised Estimate 2004-05			Budget Estimate 2005-06		
	Plan	Non Plan	Total	Plan	Non Plan	Total	Plan	Non Plan	Total
2852	--	56.66	56.66	--	86.15	86.15	--	56.81	56.81

3.23 The Committee noted that Rs.56.66 crore in BE 2004-05 has been enhanced to Rs.86.15 crore in RE 2004-05 due to the Budgeted amount is insufficient to pay interest subsidy including arrears for 2003-2004.

3.24 Explaining the reasons for not projecting the amount in RE 2003-2004 and in BE 2004-05 for payment of arrears due for 2003-04, the Ministry of Steel submitted as below:-

"The total interest accrued on VRS loans during 2003-04 was projected in the RE 2003-04 and it was expected that the same would be made available during 2003-04 itself. As such interest accrued in 2003-04 was not carried forward into the BE 2004-05. However, Ministry of Finance could not provide funds to the required extent in the RE of 2003-04 and only an amount of Rs.33.12 crore was provided. This was not sufficient to cover the entire liability on this account leading to accumulation of arrears of interest, which was paid out of provisions of 2004-05".

3.25 Responding to the Committee's query about the amount of money required and actually raised from the banks for VRS along with the total interest accruing on the amount raised during 2004-05, the Ministry of Steel stated as follows: -

"Government of India had provided a guarantee of Rs.318.36 crore in 1999-2000 in favour of HSCL with 100% interest subsidy to separate 6000 employees. Another Govt. of India guarantee for Rs.250 crore was provided in 2001-2002 in favour of HSCL for separation of 5,000 employees through VRS. A total loan of Rs.518.36 crore has been raised till date against the guarantees. The interest on the loans of Rs.518.36 crore raised so far amounted to Rs.69.37 crore for the year 2004-2005".

3.26 In the same context, the Committee wanted to know about the amount of money required to be raised from banks for VRS purpose for which a provision of interest subsidy to the tune of Rs.56.81 crore has been made in BE 2005-06 and number of employees expected to be covered under VRS in HSCL during 2005-2006, the Ministry of Steel informed as under: -

"Provision of Rs.56.81 crore has been made in the BE-2005-2006 towards payment of interest subsidy on the loan already secured by the company from banks for VRS. It is expected that 925 employees will be separated through VRS during 2005-2006".

3.27 The Committee noted that earlier the Company had planned to achieve optimum level of manpower of 1,000 by 2005-2006 and the Estimated amount required for separation of 1,207 employees is Rs.100 crore. In this regard, the Committee asked about the amount received as subsidy, for separation of manpower and the number of employees so far separated, the Ministry informed as under: -

"The details of amount received as interest subsidy and separation of manpower year-wise is given below: -

(Rs. in crore)

Year	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**Total**
Manpower separated	6,134	1,239	3,153	346	418	11,290
Interest subsidy received	27.00	35.00	72.96	33.12	56.66	224.74

3.28 When the Committee wanted to know the total number of surplus manpower in Hindustan Steel Works Construction Ltd. (HSCL) as on date; category-wise and the required amount to separate the surplus employees, along with time schedule for achieving optimal manpower in HSCL, the Ministry of Steel submitted as follows: -

"The category-wise surplus manpower in HSCL is given below: -

Category	As on 1.4.2005	Plan	Surplus
Executive	272	272	0
Non-executive	622	228	394
Worker	1035	500	535
Total	**1929**	**1000**	**929**

The company proposes to separate surplus manpower during 2005-2006 and Rs.42 crore would be required to separate them".

(ii) Interest subsidy to MECON Ltd. for loans raised from banks for implementation of VRS

(Rs. in crore)

Major Head	Budget Estimate 2004-05			Revised Estimate2004-05			Budget Estimate 2005-06		
	Plan	Non Plan	Total	Plan	Non Plan	Total	Plan	Non Plan	Total
2852	--	3.33	3.33	--	6.89	6.89	--	1.75	1.75

3.29 When the Committee sought to know the reasons for enhancing BE 2004-05 from Rs.3.33 crore to Rs.6.89 crore in RE 2004-05, the Ministry of Steel submitted as under: -

"A Government of India guarantee for Rs.142 crore for VRS has been extended in favour of MECON Ltd. during 2003-04 with provision of 50% interest subsidy. Therefore, there has been an increase to Rs.6.89 crore in RE 2004-05 from Rs.3.33 crore in BE 2004-05 since provision of interest subsidy on this additional amount of loan of Rs.142 crore was not included in the BE 2004-05".

3.30 On being enquired, whether the budgetary allocation of Rs.1.75 crore is sufficient to effect Voluntary Retirement Scheme (VRS) and payment of statutory dues of MECON Ltd., the Ministry of Steel clarified the position as follows: -

"Budgetary allocation of Rs.1.75 crore in BE 2005-06 is towards payment of interest subsidy on the VRS loan already taken by the company. For VRS, Government has already provided guarantee to the company".

3.31 In reply to a specific query of the Committee about the impact of achievement of rationalization of manpower on the overall performance of MECON Ltd., the Ministry of Steel submitted the following details:-

"On account of rationalization of manpower, the expenditure on manpower cost has reduced substantially. It may be seen from the Table below that after implementation of VRS since 2001-2002, the expenditure on manpower has come down. This has led to improvement in the overall financial performance of the company".

(Rs.in crore)

	2001-02	**2002-03**	**2003-04**	**2004-05 (Prov.)**
Expenditure on Manpower	131.17	99.99	94.72	74.18

3.32 When the Committee wanted to know about the clearance of outstanding statutory dues to be made by MECON Ltd., the Ministry of Steel replied as follows: -

"MECON Ltd. has a liability of Rs.20.35 crore towards statutory dues and wages/salaries. The capital-restructuring proposal, presently under consideration of the Government does contain a provision of financial assistance to discharge this liability. Once this proposal is approved, the company shall be in a position to clear the outstanding dues of employees".

3.33 The Committee wanted to know about the steps taken on the following to maintain positive growth: -

- Focus on engineering and consultancy segment of business.
- Renewed focus on steel sector on account of resurgence of this sector where the company has core competence.
- Continued stress on cost reduction through outsourcing and austerity measures.
- Implementation of a strategic restructuring plan based on recommendation of Price waterhouse Coopers".

3.34 The Ministry of Steel submitted as follows: -

(i) Focus on engineering and consultancy segment of business:

Company has taken various steps to focus on engineering and consultancy segment of business. The Table given below indicates the increasing trend of consultancy jobs in total turnover the company:

(Rs. in crore)

Sectors	2001-02	2002-03	2003-04	2004-05 (Estimated)
Consultancy Services	49.17	66.66	63.56	100.00
Supplies	222.93	216.84	207.59	63.00
Total turnover	272.10	283.50	271.15	163.00

(ii) Renewed focus on steel sector on account of resurgence of this sector where the company has core competence: -

The company has renewed its focus on the steel sector on account of resurgence of this sector where the company has core competence. The company has received several orders from both public and private sector steel companies. In the restructuring exercise metals, especially steel, will be the mainstay of its business strategy in the years to come. Some examples of jobs secured in the public sector are:

SAIL – BSP, Bhilai: Installation of 15 MW T.G. and replacement of BF gas holder.

IISCO, Burnpur: Development of 7.0 MTPA Chiria Iron ore Mines.

Rebuilding of Blast Furnace No.7 for SAIL, Bhilai Steel Plant.
Rebuilding of Coke Oven Battery No.5 for SAIL, Bokaro Steel Plant.

Tuyere stock assembly for SAIL, Rourkela Steel Plant.

RINL(VSP), Vizag: Installation of coke oven battery No.4.

Company has also secured consultancy jobs from private sector steel companies like Jindal, ESSAR, Bhushan, Ramswarup and Sunflag Groups, etc. during 2004-05.

(iii) Continued stress on cost reduction through outsourcing and austerity measures: -

The company has been making continued efforts towards cost reduction through outsourcing of non-core activities and low-end designing jobs. The company has also undertaken several austerity measures to reduce costs. On account of these measures the administrative expenses and overhead costs of the company have come down considerably which is evident from the Table given below:

(Rs.in crore)

	2001-02	**2002-03**	**2003-04**	**2004-05 (Prov.)**
Administrative Expenses/Overheads	43.94	30.78	31.18	26.59
Cost reduction through Outsourcing & Austerity Measures	248.55	208.00	139.08	53.32

3.35 The Committee wanted to know whether the recommendations of M/s. Price Waterhouse Coopers for restructuring of MECON Ltd. are likely to be accepted by the Government of India, the Ministry of Steel informed as under:

"The recommendations made by M/s Price Waterhouse Coopers (PWC) for restructuring of MECON Ltd. are under consideration of the Govt. PWC has broadly recommended the following measures:

- Business restructuring

- Organisational/administrative restructuring
- Financial Restructuring

The Company has already undertaken several measures as part of business and administrative restructuring. However, the financial restructuring proposal is under consideration of the Government. As per procedure in vogue, capital restructuring proposal has to be examined by the office of the Controller General of Accounts first. At present the proposal is under examination by CGA. Thereafter, it will be sent to Board for Reconstruction of Public Sector Enterprises (BRPSE) for making recommendations for approval by the competent authority".

(iii) Interest subsidy to Steel Authority of India for loans raised from banks for implementation of VRS.

(Rs. in crore)

	Budget Estimate 2004-05			**Revised Estimate 2004-05**			**Budget Estimate 2005-06**		
Major Head	**Plan**	**Non Plan**	**Total**	**Plan**	**Non Plan**	**Total**	**Plan**	**Non Plan**	**Total**
2852	--	18.60	18.60	--	9.30	9.30	--	0.00	0.00

3.36 As against the SAIL's projected requirement of Rs.54.65 crore during 2004-05, provision of interest subsidy of Rs.18.60 crore only made in BE 2004-2005, that too reduced in the RE 2004-2005 and no amount is proposed in the BE 2005-2006. The Ministry of Steel has given the reasons for the above as follows:

"During 2004-2005, SAIL proposed a provision of Rs.54.65 crore as 50% interest subsidy against funds raised for VRS. A provision of Rs.18.60 crore towards interest subsidy was made in BE 2004-2005. SAIL pre-paid an amount of Rs.50 crore to LIC on 30.4.2004 out of Rs.500 crore raised in 2002. Therefore, in Revised Estimates (RE) 2004-2005, this provision worked out to about Rs.53.73 crore. In the year 2004-2005 an amount of Rs.9.30 crore has been released to SAIL Further, no provision has been proposed in BE 2005-2006.

The facility of interest subsidy was extended to SAIL when its financial condition was precarious and the Company had low cash available to honour its various commitments. The financial position of SAIL has now improved considerably and the Company has turned around completely. The purpose for which the interest subsidy was extended to SAIL has been achieved. Considering these facts, it has been decided to discontinue this facility to SAIL".

3.37 The Committee note that the Ministry has made provision for subsidy of Rs.56.81 crore and Rs.1.75 crore for HSCL and MECON Ltd. respectively to implement VRS proposals. In respect of SAIL, no such provision has been made. The Committee note that the HSCL have brought down the surplus employees from the level of 11,290 to 1,929 as on 1 April 2005. They have a target of bringing down the number of employees to 929 in 2005-2006. The Committee find that MECON Ltd. has already completed rationalization of manpower and provision of subsidy would help them in the overall financial performance of the company. The Committee, therefore, recommend that the Ministry should continue to facilitate weaker steel sector PSUs in achieving rationalization of manpower by extending the required assistance in the form of subsidy. The Committee, however, stress that in rationalization of manpower particularly in HSCL, the interest and welfare of the separated persons should be taken care of.

3.38 The Committee note that the capital restructuring proposal for MECON Ltd. is under consideration of the Government and once the proposal is approved the Company will be in a position in clearing its outstanding dues and liability of Rs.20.35 crore towards wages and salaries. The Committee desire the Ministry to clear the restructuring proposal of the Company at the earliest.

D. Investment in Public Sector Steel Plants

3.39 The Public Sector Steel Plants under the administrative control of Ministry of Steel, raising Internal and Extra-Budgetary Resources (I&EBR) to implement various Capital Schemes.

(i) Investment in Steel Authority of India Ltd (SAIL)

(Rs. in crore)

Major Head	Budget Estimate 2004-05			Revised Estimate 2004-05			Budget Estimate 2005-06		
	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total
12852	650.00	--	650.00	650.00	--	650.00	1,030.00	--	1,030.00

3.40 An outlay of Rs.650 crore was planned in BE 2004-2005 for completion of ongoing schemes & few new schemes and the same was maintained at RE during 2004-2005. The actual expenditure during 2004-2005 (upto February, 2005) was Rs.430.28 crore. The details of expenditure are given below:

"Out of Rs. 430.28 crore spent on capital expenditure, Rs.411.20 crore has been raised from internal resources of SAIL and Rs.19.08 crore has been spent out of Rehabilitation package of Rs. 341 crore granted to IISCO by BIFR". The details of plant wise expenditure is given below:

SAIL- Plant-wise Expenditure – 2004-05

(Rs. in crore)

Sl. No.	Name of the Plant/Unit	Expenditure Apr'04-Feb.'05
1.	2	3
A.	**SAIL Plants/Units**	
1.	Bhilai Steel Plant	142.03
2.	Durgapur Steel Plant	21.17
3.	Rourkela Steel Plant	178.49
4.	Bokaro Steel Plant	22.27
5.	Alloy Steels Plant	5.87

6.	Salem Steel Plant	0.64
7.	VISL	3.02
8.	Central Mkg. Orgn.	5.79
9.	Raw Material Divn.	24.54
10.	RDCIS, Ranchi	1.67
11.	Centre for Engg. & Tech.	0.24
12.	Corporate Office	1.15
	Total A	**406.88**
B.	**Subsidiaries**	
1.	IISCO	22.51
2.	Maharashtra Electro Smelt Ltd.	0.89
	Total B	23.40
C.	**Grand Total (A+B)**	**430.28**

3.41 While going into the details of the mode of raising I&EBR to the tune of Rs.1,030 crore during 2005-2006, the Committee wanted to know the appropriation company-wise. The Ministry of Steel submitted the following details: -

"Out of Rs.1,030 crore, Rs.908 crore will be raised through internal resources & Rs.122 crore (for IISCO) through Government guaranteed bonds for IISCO rehabilitation schemes. Plant-wise allocation is given below: -

Steel Authority of India Ltd.

(Rs. in crore)

Sl.No	**Name of the Plant / Unit**	**BE 2005-06**
1	**2**	**3**

A. SAIL Plants / Units

1.	Bhilai Steel Plant	275.00
2.	Durgapur Steel Plant	140.00
3.	Rourkela Steel Plant	200.00
4.	Bokaro Steel Plant	195.00
5.	Alloy Steel Plant	16.00
6.	Salem Steel Plant	10.00
7.	VISL	10.00
8.	Central Mkg. Org.	6.00
9.	Raw Materials Divn.	40.00
10.	RDCI & S, Ranchi	5.00
11.	Centre for Engg. & Tech.	1.00
12.	Corporate Office	2.00
	Total: A	**900.00**
B. Subsidiaries		
1.	IISCO	122.00
2.	Maharashtra Electro Smelt Ltd.	8.00
	Total: B	**130.00**
C. Grand Total (A + B)		**1,030.00**

As per Corporate Plan 2012, SAIL has envisaged capital expenditure to the tune of Rs.25,000 crore which will be met mainly through internal resources. However, some borrowings may have to be resorted to but efforts will be to contain Debt - Equity ratio at 1:1".

3.42 Regarding the factors responsible for variations between RE 2004-2005 and BE 2005-2006, the Ministry of Steel informed as below:-

"In line with Corporate Plan 2012, the number of approved schemes has increased and hence, the likely expenditure during 2005-2006 is expected to be more than 2004-2005".

3.43 During the course of evidence the representative of the Ministry had informed the Committee that Chiria Coal Mines and Coking Mines have been referred to BIFR. Now, their revival has been cleared by BIFR and SAIL has, therefore, planned to make investment in Chiria. The application for renewal of Chiria lease has been pending with the Government of Jharkhand. The Union Steel Minister had a meeting with the Chief Minister of Jharkhand and a Committee has been formed to look into the aspect.

3.44 On being asked about the start of Rowghat Project for supplementing the requirement of raw material for Bhilai Steel Plant, the representatives of the Ministry informed the Committee that the matter is being pursued with the State Government for grant of fresh lease so that matter can be taken up with the Central Government for forest clearance.

(ii) Investment in Rashtriya Ispat Nigam Ltd. (RINL)

(Rs. in crore)

Major Head	Budget Estimate 2004-2005			Revised Estimate 2004-2005			Budget Estimate 2005-2006		
	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total
12852	300.00	--	300.00	174.00	--	174.00	896.00	--	896.00

3.45 In reply to the reasons for reduction from Rs.300 crore in BE 2004-05 to Rs.174.00 crore in RE 2004-05 and the schemes affected due to this reduction, the Ministry of Steel informed as below: -

"The actual expenditure incurred by the Company in RE 2004-05 upto February 2005 is Rs. 54.58 crore. The schemes which got affected due to the revision at RE stage and the main reasons for revising the estimates downwards and the consequent fall in the expenditure, are as under:

1. **Balance payments for meeting 3 Million Tonne Capacity**

The provisions made to meet the anticipated expenditure on pending court cases and arbitration matters was revised downwards at the RE stage after reviewing the progress of various cases.

2. **Schemes (AMR) aimed at maximizing Production / Productivity**

It has been informed by RINL (VSP) that in view of the importance for investment in AMR Schemes after making a thorough study of the existing system, a detailed and meticulous procedure is now being followed. The Investment Proposals Scrutiny Committee takes up the projects studying the reasonability of cost estimates pay back period calculations and other justification for undertaking the expenditure. After it is cleared by this Committee, approval is obtained and the tendering process for award of various works commences. During 2004-05, 94 AMR Schemes amounting to Rs. 175 crore were approved and they are under various stages of implementation.

In view of introducing the detailed procedure as mentioned above in monitoring AMR Schemes during the year, the expenditure under AMR Schemes has been less. It is expected that this would increase in the coming months.

3. **New Schemes**

(A) **Coke Oven Battery-IV:** Against the anticipated early approval, the Coke Oven Battery IV was approved by the Government only on 10 December 2003. The estimates therefore had to be revised downwards with shortfall in expenditure. The main reasons are as under:

(i) Provision made for interest bearing mobilization advance (@15%) has not been availed by the agencies.

(ii) The quantum of civil and structural jobs in COB-4 has also reduced from the originally envisaged quantities, whereby expenditure on this account during the year 2004-2005 got reduced. The actual expenditure upto February 2005 is Rs.42.66 crore.

(B) **Fuel Injection:** It has been reported that Natural Gas required for the plant shall be available only from the year 2007 onwards. Hence, no expenditure is expected during the current year and accordingly the provision made in the original estimates was deleted in the revised estimates.

(C) **Expansion upto 6.3 mt capacity:** M/s. Dastur Co. had been engaged for preparation of the Report of Expansion of the plant. The report has since been submitted but the Company has not yet raised the bills. Hence, payment for the same shall be made in the next financial year.

(D) **Degassing in SMS:** A consultant has been engaged to prepare the feasibility/project report. Government will be approached shortly for clearance. As no expenditure on this account is envisaged during this year, the same has been deleted from the revised estimates.

(E) **Acquisition of Iron Ore /Coal Mines:** Outlay for the FY 2004-05(RE) towards expenditure for "Acquisition of Iron Ore Mine and Coal Mine" was projected as Rs.0.30 crore. The proposed expenditure was based on immediate finalization of iron ore deposits in the States of Chhattisgarh and Orissa, and deposits in Jharia coal fields.

RINL/VSP applied for iron ore mining leases in the States of Chhattisgarh and Orissa, and these leases are yet to be granted by the respective Governments.

RINL/VSP has applied for five (5) coal blocks in Jharia and west Bokaro Coal Fields in the State of Jharkhand. The leases are yet to be granted by the State Government.

As the mining leases for the identified deposits for iron ore and coal have not yet been granted by the respective authorities, though provision was made, there was no requirement to incur any expenditure on this account during 2004-05.

(F) **Research & Development Expenditure**: In order to emphasize on R&D activity, a separate Budget was provided in the Revised Estimate in the month of September 2004. As schemes under R&D are still under finalization, no expenditure was incurred".

3.46 While explaining about the reasons for substantial increase in BE 2005-2006 than RE 2004-2005, appropriation, sufficiency of fund and justification for optimal utilization of funds unlike in the previous year, the Ministry of Steel submitted as follows: -

"The detailed appropriations of Rs.896 crore are as given hereunder:

(Rs. in crore)

Sl.No	**Scheme**	**Amount**
1	**2**	**3**
1.	3Mt Stage payments	5.00
2.	AMR Schemes	150.00
3.	Coke Oven Battery No.4 - Phase I	100.00
	- Phase II	30.00
	Land based Pushing Emission Control System for Battery No. 4	12.00
4.	Expansion	409.00
	Feasibility / Project Report	1.00
5.	Fuel injection	10.00
6.	Degassing in SMS	65.00
7.	Acquisition of Iron Ore Mine & Coking Coal Mine	51.25
8.	Hydraulic Mud Gun & Drilling Machines (4 sets)	52.00
9.	Establishing Centre for accredited pollution control labs	1.00
10.	Research & Development	9.50
	Total	**895.75**

The main reason for substantial increase due to proposed expansion of plant capacity"..

A detailed justification scheme-wise is given hereunder: -

1. 3 Mt Stage Payments

The plant was fully commissioned in August 1992 and the Budget outlay of spill over expenditure is against land compensation, court cases, arbitration, etc. A provision of Rs.2.8 crore has been proposed to meet the expenditure Rs. 5.0 crore for FY 2005-06(BE). Payment shall be made as and when cases are disposed / finalized.

2. AMR Schemes

Various AMR schemes are undertaken to sustain the current levels of production/productivity in the context of the ageing of the plant. In respect of the Financial Year 2005-2006, the schemes under implementation/likely to be undertaken work out to a value of over Rs.400 crore, the likely expenditure against which is estimated to be around Rs.150 crore.

3. Coke Oven Battery No.4

Phase – I

The Coke Oven Battery No. I, II and III were commissioned during the year 1989, 1991 and 1992 respectively. It was necessary to take up rebuilding of first battery from the year 2006. In order to meet the coke requirement and gas balance, it was essential to have a replacement battery before any of the batteries is taken for rebuilding. The replacement battery is expected to be ready for operation by December 2006, considering 3 years for construction. GoI approval is received in December 2003.

Civil and Structural works have been awarded and works are under progress. The consultant released specifications for major equipments and ordering is in progress. A provision of Rs.100 crore was made in the Budget estimate of 2005-2006.

Phase – II

Considering the present health of the batteries with better operating practices and raw material management, it may not be necessary to take up rebuilding of the existing batteries before 2009. In such case the COB-IV will function as additional battery till any of the existing batteries – I, II, & III are taken up for rebuilding. Hence, it is necessary to provide additional by- product processing facilities and balancing facilities in coal handling etc. which are now envisaged in COB-IV (Phase-II), to match the commissioning of COB-IV.

The consultant M/s.MECON has been asked to update the project report and estimated cost for inclusion of phase-II facilities in the project. A provision of Rs. 30 crore is proposed for FY 2005-06 (BE).

Land Based Pushing Emission Control System for Cob-4

Establishing the above facility in the COB-4 is a Pollution Control measure and environmental necessity and it is a statutory requirement to install this facility to operate COB-4 as an additional / independent battery. The proposal for the installation is being approved by RINL Board and proposal will be submitted to Govt. together with Phase-II after receipt of updated project report from M/s MECON for Phase-II. A provision of Rs. 12 crore is proposed in the BE 2005-2006 .

4. Expansion to 6.3 Mt.

The production from various units has gone up substantially as a result of many improvement initiatives taken-up at RINL. Currently, the plant is operating at production levels of about 4 Mt hot metal, 3.5 Mt of liquid steel and 3.1 Mt of saleable steel, representing capacity utilization levels of 120%, 117% and 117% respectively. Now, under the proposed expansion, it is planned to realize full potential of existing units. No additional coke oven battery other than 4th battery is planned.

In the proposed Expansion, production of 6.5 Mt of hot metal per annum has been planned with one additional Blast Furnace (BF-3) apart from the existing two BFs. Additional Sinter Plant, Steel melt shop (SMS-2) have been proposed. A Special Bar Mill, Light Structural Mill, Second Wire Rod Mill and a Seamless Tube Plant are planned to be set up in this phase. The production capacity of liquid steel will be increased to 6.3 Mt and that of saleable steel to 5.717 Mt per annum.

M/s. Dastur Co. have been engaged as consultant for preparing the project report. Proposal has been submitted to the Government for their clearance of the proposed expansion of the Plant capacity. A provision of Rs. 409 crore for BE 2005-2006 is made, anticipating GoI approval, towards preliminary civil and structural works including procurement of materials.

Feasibility / Project Report

A provision of Rs.1 crore is made in BE 2005-2006, to engage consultants to make study and prepare project reports for various new schemes.

5. Fuel Injection System

COAL DUST INJECTION IN BF-I & II

Coal dust injection results in improving productivity of Blast Furnace apart from reduction in the cost of production as this envisages replacement of a portion of expensive BF coke with less expensive coal. The total cost of the project comes to Rs. 66 crore, to be implemented in 18 months time. RINL Board cleared the proposal for approval of Govt. of India.

RINL intends to go for Coal Dust Injection and a provision of Rs.10 crore has been made in BE 2005-2006 towards this Scheme.

6. Degassing Facilities in SMS

Medium and high carbon steel with minimum residual gaseous contents like hydrogen and nitrogen is having demand for Automotive/Forging industries and for various engineering applications. VSP will be able to produce 30% of its liquid steel as value added steels.

Degassing unit in the process line will improve marketability and net sales realisation of VSP. A Consultant has been engaged for preparing the project report and on receipt of the report; GoI shall be approached for approval. The estimated cost of this Scheme is Rs.75 crore and a provision of Rs.65 crore is proposed for the year BE 2005-06. The proposal will be submitted for approval shortly.

7. MINES: Acquisition of Iron Ore/Coal Mines

As envisaged in DPR, the total requirement of iron ore is not being met from Bailadilla/Kirandul. RINL is compelled to take iron ore from M/s. NMDC Donimalai Iron Ore Mine incurring avoidable excess freight of about Rs.200/- per tonne of iron ore, particularly during monsoon. In most of the major integrated steel plants in the country, the landed cost of iron ore is far less than that of RINL. All major integrated steel plants have their own leased captive iron ore mines. Due to heavy demand of iron ore in the global market, NMDC is exporting the ore and also increasing their domestic price very frequently which is affecting the profitability of the company.

Company submitted mining lease applications in November 2003 which are yet to be cleared by the State Governments of Orissa and Chhattisgarh.

RINL/VSP has applied for five (5) coal blocks in Jharia and West Bokaro Coal Fields in the State of Jharkhand. Ministry of Coal is yet to allocate the blocks to RINL.

A provision of Rs. 51.25 crore for BE 2005-2006 has been made towards preparatory and other connected works.

8. Hydraulic Mud Guns And Drilling Machines - BF

The existing electro-mechanical drilling machines at Blast Furnace have already served a life of 14 years and need to be phased out. In order to improve the productivity levels at the Blast Furnace, the furnaces have to be operated at higher pressure of 2.3 kg/cm^2 from the existing operating regime of 2 kg/cm^2. This calls for a good taphole length using taphole mass of higher strength. Taphole mass of higher strength requires powerful drilling machines and hydraulic mudguns and drilling machines are best suited for the purpose as per international and Indian experience. An amount of Rs.52 crore is provided for this purpose in the budgeted estimates of 2005-2006

9. Establishment of accredited pollution control laboratories

As per the Charter on Corporate Responsibility for Environment Protection (CREP), monitoring and analysis facilities for Air and Water pollutants are to be established as per the guidelines of CPCB. This is a statutory requirement as stipulated by Andhra Pradesh Pollution Control Board. Further, the laboratory set up would also need to be recognized by the Ministry of Environment. In order to equip this laboratory with necessary equipment/instruments, as per the stipulated guidelines, an outlay of Rs.1 crore is proposed for the financial year BE 2005-2006.

10. Research and Development

R&D activities in the company are limited to applied research applicable to process in the plant. Along with experimental development on the existing technology, R&D activities are primarily directed towards trouble shooting with technological solutions for operational activities through investigative studies, failure analysis and critical examination of process parameters. In depth study and analysis of major technological aspects to evolve a strategic solution for future course of action is also undertaken.

Some of the research activities helped in increasing the Converter life, recycling of waste material, usage of lesser grade materials etc. An expenditure of Rs.9.50 crore is earmarked towards R&D activities for the BE 2005-06

It is felt that the amount earmarked is sufficient for the purpose intended and the entire plan expenditure is expected to be met out of the internal resources".

(iii) Investment in National Mineral Development Corporation Ltd.(NMDC)

(Rs. in crore)

Major Head	**Budget Estimate 2004-05**			**Revised Estimate 2004-05**			**Budget Estimate 2005-06**		
	Plan	**Non –Plan**	**Total**	**Plan**	**Non -Plan**	**Total**	**Plan**	**Non-Plan**	**Total**
12852	321.90	--	321.90	77.79	--	77.79	220.25	--	220.25

3.47 The Committee wanted to know the reasons for considerable reduction in RE 2004-2005 as compared to BE 2004-2005, the Ministry of Steel stated as below: -

- “Delay in acquisition of private land and alternate technology for Romelt plant in respect of NMDC – Iron and Steel Plant. (Rs. 159.11 crore)
- Absence of economical market tie-up for limestone. Lime stone project in Himachal Pradesh is put on hold. (Rs.2.00 crore)

- Delay in getting environmental and forest clearances for setting up of Kumaraswamy (Rs. 25.00 crore) and other Iron ore projects at Bailadilla. (Rs. 55.00 crore)”.

3.48 When the Committee wanted to know the source of Rs.220.25 crore in BE 2005-2006 and its appropriation, the Ministry of Steel replied as under: -

“The outlay of Rs.220.25 crore approved for 2005-2006 is being met out of the internal resources of the Corporation and no external borrowings from bank or Government is contemplated. The outlay will be appropriated according to scheme-wise outlay proposed in Annual Plan 2005-2006”.

3.49 In response the Committee’s query about steps taken for early completion of Biladilla Iron Ore Projects -10/11A, Chhattisgarh, Iron and Steel Plant, Nagarnar, Chhattisgarh with alternative technology to Romelt Technology and progress in Kumaraswamy Iron Ore Project after May 2004, the Ministry of Steel replied as under : -

Bailadilla Iron Ore Project Deposit 10 & 11A, Chhattisgarh

“The project was taken up for implementation in August 1995 and was scheduled to be completed by August 1999. The construction work was stopped in November 1996 on the directions of State Forest authorities. The work could be recommenced only in February 2000 after the permission from the Hon’ble Supreme Court for felling of trees in December 1999 followed by forest clearance in January 2000.

Thereafter, because of the all-out efforts put by NMDC, the crushing plant along with mine was commissioned on 15 July 2002 as per schedule. The entire OCSL Plant could be operated on load with effect from 25 October 2002. The project is under operation since then”.

NMDC Iron & Steel Plant(NISP), Nagarnar, Chhattisgarh

“Despite seven rounds of discussions among TPE, NMDC and RSIL between November 2002 and March 2004 and all-out efforts made by NMDC, contract between NMDC and TPE could not be finalized. There was delay of more than 2 years due to this reason. Thereafter, NMDC Board of Directors in its 380th meeting held on 27 October 2004 did not approve undertaking construction of NMDC Iron & Steel Plant based on Romelt Technology.

As per the decision of the Board of Directors, NMDC is now considering 6 alternate technologies for construction of NMDC Iron & Steel Plant. A Committee to recommend most appropriate alternate technology has already been constituted. The first meeting of the Committee was held on 28 February 2005. The next meeting of the Committee is likely to be held shortly. The schedule of construction of NMDC Iron & Steel Plant (NISP) can be firmed up only after appropriate technology is finalized”.

Kumaraswamy Iron Ore Project

"Ministry of Environment & Forests (MoEF) has given Environment clearance for production of 7 million tonnes of Iron Ore from Donimalai-Kumaraswamy integrated complex in October 2004 subject to the forest clearance over an area of 341.20 ha.

The matter of forest land diversion was pursued with the Government of Karnataka and finally in February 2005 Govt. of Karnataka has forwarded the application of NMDC for diversion of 341.20 ha. of forest land to MoEF, New Delhi.

Asstt. Inspector General of Forests, Govt. of India directed Chief Conservator of Forests (Central), Bangalore for inspection of the area and to submit a report".

3.50 The Committee note that the steel sector PSUs raised I&EBR to implement their various capital schemes. The I&EBR in the year 2005-2006 in respect of SAIL, RINL and NMDC is Rs.1,030 crore, Rs.896 crore and Rs.225 crore, respectively. The Committee, however, note the discouraging trend that none of the steel sector PSUs could spend their I&EBR fully with inevitable adverse impact on various schemes. The extent of under- utilization in SAIL, RINL and NMDC was Rs.430.28 crore against BE of Rs.650 crore, Rs.54.58 crore against BE of Rs.300 crore and Rs.77.79 crore against of BE Rs.321.90 crore respectively.

3.51 The Committee feel extremely concerned that the under-utilisation has been the bane of Steel PSUs and highly detrimental to the growth of production and improvement in productivity of the Steel sector. The Committee feel that the Ministry has to address these issues with a sense of seriousness and sincerity.

3.52 The Committee, therefore, recommend that a Monitoring Committee headed by an Additional Secretary in the Ministry should be set up to review the progress of fund utilisation on monthly basis. The Committee desire that the Ministry should ensure that there is no downward revision in the targets and all the schemes are completed in time with the help of I&EBR allocated for specific purposes.

3.53 The Committee consider the investment plan at Chiria, a farsighted move of SAIL and, therefore, desire that the matter should be vigorously pursued with the State Government, etc. for renewal of lease of Chiria mines.

3.54 The Committee note that Rowghat iron ore project at an estimated cost of Rs.744 crore was included for implementation in the 9th Plan but was subsequently dropped for unjustifiable reasons. The Committee further note that with the depleting iron ore reserves for Bhilai Steel Plant, the sustainability of the Plant will be jeopardized unless the alternative sources of the raw material are identified. The Committee, therefore, desire that Rowghat Project should be taken up at once and necessary clearances for the same expedited.

(iv) Investment in Kudremukh Iron Ore Company Ltd (KIOCL)

(Rs. in crore)

Major Head	**Budget Estimate 2004-05**			**Revised Estimate 2004-05**			**Budget Estimate 2005-06**		
	Plan	**Non-Plan**	**Total**	**Plan**	**Non-Plan**	**Total**	**Plan**	**Non-Plan**	**Total**
12852	54.00	--	54.00	54.00	--	54.00	225.00	--	225.00

3.55 When the Committee called for the reasons for significant increase in I&EBR from Rs.54 crore in 2004-2005 to Rs.225.00 crore in BE 2005-2006 and its appropriation for the year 2005-2006, the Ministry of Steel Submitted as under: -

"The I&EBR of Rs.225 crore would be met out of the internal resources of the Company. The amount would be appropriated as under: -

(Rs. in crore)

Sl. No	Description	2005-06
1	Ductile Iron Spun Pipe Plant (JV)	1.00
2	Coke Oven Project (JV)	1.00
3	Other Mine Development (including mines in Jt Venture)	70.00
4	Development of Railway siding at Mangalore	20.11
5	Development of infrastructure for receipt of Iron Ore by rail	88.21
6	Formation of Jt venture with IDCOL etc.	20.00
	Total (1 to 6)	**200.32**
7	Addition, Modification and Replacement	23.68
8	R&D and feasibility studies	1.00
Grand Total		**225.00**

The Hon'ble Supreme Court had permitted mining at Kudremukh only upto 31 December 2005. Subsequently KIOCL has to procure Ore from other sources for which necessary facilities are to be created in order to run the Pellet Plant without interruption and look for alternative mine and develop the same. Keeping this in view, the investments are envisaged. The increase in the target from Rs.54 crore in BE and RE of 2004-2005 to Rs.225 crore in BE 2005-2006 are mainly on account of the following:–

(1) Development of Railway siding (Rs.20.11 crore) & Infrastructure facilities for receipt of Iron Ore at Mangalore (Rs.88.21 crore) – Provision in 2005-2006

As Magnetite Iron Ore Concentrate will not be available in the country, use of high grade Hematite Iron Ore Fines from Bellary/Hospet area, which is available in large quantity, is considered as one of the alternative sources on a long term, as raw material for the operation of the Pellet Plant. This is also considered on economic reasons. The sources so identified for obtaining Iron Ore for the Pellet Plant and KISCO are the same and ore has to be transported through Rail. It is, therefore, proposed to have common new private railway siding facility for bringing Ore consignment to KIOCL/KISCO. To handle the Iron Ore receipt, necessary infrastructure facilities like Wagon Tippler, Apron Feeders, Conveyors, etc., are to be installed.

(2) Other Mine Development – Rs.70 crore provision in 2005-06

(a) In order to continue mining activities by the Company, Orissa has been identified as a potential source. In this direction, Orissa Government has permitted the Company to prospect at Khandadhar in Sundergarh District. The Government of Orissa has identified an area of about 54 sq.km. (5,400 hectare) containing probable low-grade hematite Ore reserves. It is expected to contain about 180 million tonnes of Iron Ore containing 55-64% Fe. The company has issued a work order for prospecting on the geological department of Orissa government and the drilling is in progress.

(b) An MOU has been entered into with M/s SAIL on 28 September 2004 for formation of a Joint Venture company between SAIL and KIOCL for mining and related activities in Taldih, Barsua and Kalta Iron Ore Mines in Orissa.

(c) In March 2003, the Government of Karnataka had issued a Gazette notification inviting fresh applications for grant of mining lease in the Bellary-Hospet area. Although KIOCL had submitted an application in March 2001 for grant of mining lease for exploitation of Iron Ore deposits in Ramanadurg in Bellary district of Karnataka, a fresh application has been filed in response to the Gazette notification.

(3) Formation of Joint Venture with IDCOL etc.- Rs.20 crore provision in 2005-2006

A provision of Rs.20 crore has also been made towards formation of Joint Venture with M/s.IDCOL etc. for undertaking mining activities in Orissa.

(4) Addition, Modification and Replacement (AMR) – Rs.23.68 crore in 2005-2006

A provision of Rs.23.68 crore has been made under the head Additions, Modifications and Replacements during 2005-06. The main activity under this head is shifting of Ball Mills from Kudremukh to Mangalore. The hematite Ore to be procured for pelletisation will have a size fraction of upto 10 mm with approximately 40% consisting less than 1 mm fractions and remaining between 1 mm and 10 mm size fractions. This material requires screening to segregate less than 1 mm material as undersize which can be directly sent to slurry tank for blending with Kudremukh Ore for pelletisation. Oversize material of size fractions between 1 mm and 10 mm needs grinding to achieve the required size for pelletisation. Further, the Ore received from other sources is to be grinded to minus 1 mm size. To process this Ore, three nos. Ball Mill have to be shifted to Mangalore and a screening system is being procured for installation at Mangalore".

3.56 The Committee note that the Budget Estimates of KIOCL for the year 2004-2005 have been increased from Rs.54 crore to Rs.225 crore to enable the Company to procure ore from other sources for continued operation of its Pellet Plant and for identification and development of alternative mines in the wake of Hon'ble Supreme Court's order. The Committee note with satisfaction the various measures being taken by the Company to continue its operation beyond 31 December 2005, the deadline set by Hon'ble Supreme Court. The Committee desire the Ministry to take recourse to all legal and other appropriate remedies to enable KIOCL tide over the present crisis. The Committee also desire that the Ministry should hold immediate discussion with the Government of Karnataka for early grant of mining lease in the Bellary-Hospet area to KIOCL for sustaining its operation in future.

CHAPTER IV

PHYSICAL AND FINANCIAL PERFORMANCE

A. Steel Authority of India Ltd.(SAIL): -

SAIL is a company registered under the Indian Companies Act, 1956 and is an enterprise of the Government of India. It operates and manages four integrated plants at Bhilai (Chhattisgarh), Bokaro (Jharkand), Durgapur (West Bengal) and Rourkela (Orissa). Besides, another integrated Steel Plant at Burnpur is owned by Indian Iron and Steel Company Ltd (IISCO), a wholly owned subsidiary of SAIL. SAIL has also three special and Alloy Steels and Ferro Alloy units at Durgapur (West Bengal), Salem (Tamil Nadu) and Bhadravati (Karnataka). In addition to these, a Ferro Alloy producing plant at Chandrapur is owned by Maharashtra Elekrtosmelt Ltd., which is a subsidiary of SAIL. The IISCO-Ujjain Pipe and Foundry Co.Ltd. a subsidiary of IISCO, which was manufacturing Cast Iron Spun Pipes at its works at Ujjain (Madhya Pradesh), is under liquidation. Besides, SAIL has seven central units, *viz*. the Research and Development Centre for Iron and Steel (RDCIS), the Centre for Engineering and Technology (CET), the Management Training Institute (MTI) all located at Ranchi, Central Coal Supply Organisation located at Dhanbad, Raw Materials Division, Growth Division and Environment Management Division all located at Kolkata. SAIL Consultancy Division (SAILCON) functions from New Delhi. The Marketing of Products of SAIL plants is done through the Central Marketing Organisation (CMO), Kolkata which has a countrywide distribution network. As part of the business restructuring plan , a subsidiary company was incorporated under the name of Bhilai Oxygen Limited (BOL) on 9 February 1999.

4.2 Physical Performance

Production of Steel

(in '000 tonnes)

	2003-04		2004-05		2005-06
	Target	Actual	Target	Anticipated	Target @
HOT METAL	13,270	13,563	13,590	13,560	13,860
CRUDE STEEL	12,052	12,384	12,522	12,498	12,771
SALEABLE STEEL	10,932	11,283	11,336	11,285	11,578
PIG IRON	631	532	480	525	449

@ The detailed plans for 2005-2006 is yet to be worked out in SAIL. Therefore, provisional production plan based on an optimistic scenario is given which may undergo changes in line with market and operating conditions.

Financial Performance

4.3 The financial results of SAIL as a whole are given in the table below:

(Rs. in crore)

ITEMS	2002-03 (Actual)	2003-04 (Actual)	2004-05 (upto Dec, 2004)	2005-06 (Estimated)
Gross Margin	2,165	4,650	7,030	5,201
Profit before Tax	(-) 316	2,512	5,739	2,082

4.4 In response to a specific query of the Committee why the financial performance is anticipated to go down in 2005-06 as compared to 2004-05, the Ministry of Steel replied as follows:

"SAIL has bounced back from years of losses with a record profit of Rs.2,512 crore in 2003-04, mainly due to firming up the domestic/international market, higher production/sales, better price realization, reduction in interest cost, cost control measures, etc. The buoyancy has continued in 2004-05 also. However, profitability during 2005-06 is projected to be lower mainly because of:

(1) Input cost escalations are likely to increase substantially in the next year, which is evident from the coal prices. The price of imported coal is expected to be around US$127 in 2005-06 as against US $ 57.6 in the current year. Further, ocean freight is also likely to increase by about $15 in the coming year. Since imported coal is the major input for SAIL, the impact of the imported coal alone will be substantial for the year 2005-06. Prices of other inputs such as indigenous coal, Ferro alloys, Stores & spares, Power, etc are also likely to increase in the coming year.

(2) Further, considering the cyclic nature of steel industry, steel prices may not sustain at the current level for long and may even come down and it may not be possible to pass on the entire input cost escalations to the customers.

Due to above, profitability for 2005-2006 may be affected adversely".

4.5 Responding to further query of the Committee about the alternative plans of SAIL for managing escalation in input cost without affecting its balance sheet as well as consumers, the Ministry of Steel informed as below:

"SAIL has long and short term plan to manage the criticalities of coal supplies. In the short term, in order to reduce consumption of coke, auxiliary fuel usage in blast furnaces is being adopted such as:

- Usage of Tar injection in Blast Furnace to replace coke/coal as alternate fuels.
- Coal Dust Injection in additional Blast Furnace.
- Usage of Sponge Iron in Blast Furnace to produce extra Hot Metal.

In the long run, SAIL is exploring possibilities of forging a strategic alliance with overseas coal mines to ensure stability in supplies. For augmenting supplies of coking coal from domestic sources, SAIL is exploring the possibilities of Joint Venture with Coal India Limited. An MoU has been entered into with M/s.Gas Authority of India Limited to supply natural gas to SAIL plants".

4.6 The details of total outstanding liability/dues, loans of Government on SAIL against its total asset is given below:

(Rs. in crore)

Assets of the Company	***2001-02***	***2002-03***	***2003-04***
*Net Fixed Assets**	*15,354.09*	*14,397.11*	*13,536.05*
Current Assets, Loans & Advances	*7,129.92*	*7,290.70*	*8,201.33*
Investments	*538.62*	*543.17*	*543.17*
Outstanding Liabilities			
Secured Loans	*7,051.38*	*5,511.59*	*3,378.48*
Unsecured Loans	*6,967.98*	*7,416.35*	*5,310.28*
Current Liabilities & Provisions	*6,751.17*	*7,314.11*	*8,932.62*
Govt. of India Loans (Included in Unsecured Loans shown above & is for IISCO Ujjain, which has been wound up)	*0.62*	*0.69*	*0.77*

*Net Fixed Assets include capital WIP.

Financial Restructuring of SAIL

4.7 In response to specific query of the Committee about the present status of financial restructuring package of SAIL, the Ministry submitted as follows:

"1. Performance of SAIL

Steel Authority of India Ltd. (SAIL) after attaining an all time high net profit of Rs.1,319 crore during 1995-96 showed a declining trend and registered a net loss of Rs.1,720 crore in 1999-2000. The Government then approved a proposal on 15 February 2000 for Financial-cum-Business Restructuring of SAIL with an objective to turning around SAIL.

Financial restructuring helped in reducing the debt equity ratio and improvement in debt service capability of the company. Consequent to the adjustments carried out as per financial restructuring in 1999-2000, the company's loss for the same year was lower by Rs.756.80 crores.

As a result of the implementation of the restructuring package coupled with improved market conditions, a trend of positive growth started in the first half of 2002-2003. The positive trend continued in the year 2003-2004 and SAIL registered its highest ever net profit [after tax] at Rs.2,512 crore in the year 2003-2004. During the first nine months of 2004-2005 SAIL has recorded a highest ever net profit (after tax) of Rs.4,139 crores. Physical and financial performance for the period 2000-2001 to 2004-05 (upto December 2004) is given below:

	2000-01		2001-02		2002-03		2003-04		2004-05 (APR-DEC'04)	
Particulars	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
Production* ('000 tonnes)	9,943	9,410	10,263	9,464	10,603	10,087	10,753	10,727#	10,600	7,956
Sales Quantity ('000 tonnes)	9,874	8,755	10,132	9,255	10,445	9,782	10,633	10,800#	-	7,436

Sales Turnover (Rs. crore)	18,584	16,233	18,624	15,502	20,153	19,207	21,541	24,178#	22,407	21,558
Gross Margin (Rs crore)	2,510	2,167	2,711	1,011	3,706	2,165	4,231	4,650	3,790	7,030
Net profit after Tax (Rs crore)	-700	-729	-139	-1,707	810	-304	1376	2,512	1,502	4,139

*SAIL 4 ISPs # Highest ever in any year

2. Components of the restructuring package

The Government on 15 February 2000 approved the following financial-cum-business restructuring of SAIL :

(i) Financial Restructuring of SAIL by waiving of loans advanced to it from Steel Development Fund to a value of Rs.5,073 crore and Rs.381 crore from the Government of India.

(ii) Provision of Government Guarantee, with 50% interest subsidy, for loan of Rs.1,500 crore to be raised by SAIL from the market for implementation of Voluntary Retirement Scheme.

(iii) Provision of Government Guarantee for loan and interest thereon of Rs.1,500 crore (including Rs.500 crore already agreed to), to be raised by SAIL during 1999-2000, from the market primarily for meeting its repayment obligation on past loans.

(iv) To initiate the process of divestment of the following non-core assets, while protecting jobs of the existing employees:

- Power Plants at Bokaro, Durgapur and Rourkela *
- Oxygen Plant-2 of Bhilai Steel Plant

- Salem Steel Plant (SSP), Salem
- Alloy Steel Plant (ASP), Durgapur
- Visvesvaraya Iron and Steel Plant. (VISP), Bhadrawati
- Fertilizer Plant at Rourkela.

{* Divestment of CPP-II at Bhilai was subsequently added by CCEA on 12.3.2001}

(v) Allowing SAIL to have a minority shareholding in any joint venture contemplated for revival of Indian Iron and Steel Company (IISCO).

3. Current status of the implementation of restructuring package

Pursuant upon the approval of restructuring plan for SAIL by Govt. of India, specific milestones were set out for implementation of the Business Restructuring Plan in consultation with SAIL and a detailed Memorandum of Understanding (MoU) was signed between Ministry of Steel and SAIL on 13 March 2000 incorporating various milestones.

While financial restructuring had been completed during 1999-2000 itself, progress in business restructuring has been as per schedule in certain areas, while in some targets, there have been slippages. Those aspects of restructuring dealing with redesigning of incentive schemes, redesigning of key corporate processes, improvement in Central Marketing Organisation (CMO) and implementation of key account management, operating and purchase cost reduction as well as sale of idle assets, have either been completed or are progressing or the process has been closed.

However, aspects of business restructuring which deal with divestment of non-core assets as well as reduction in manpower have been affected by slippages. The main reason for slippages in disinvestments have been opposition by political parties and trade unions or in some cases, a lack of response to the offer for disinvestments".

4.8 The Committee note that SAIL after attaining an all-time high net profit of Rs. 1,319 crore during 1995-1996 showed a declining trend and registered a net loss of Rs. 1,720 crore in 1999-2000. The Government then approved a proposal on 15 February 2000 for financial-cum- business restructuring of SAIL with an objective of turning around of SAIL. As a result of restructuring package coupled with improved market conditions, a trend of positive growth started in 2002-2003 and in 2003-2004, SAIL registered net a profit of Rs. 2,512 crore. During 2004-2005 SAIL is expected to post net profit of Rs. 5,739 crore.

4.9 The Committee further note that during 2000-2001 to 2004-2005, the physical performance of the SAIL with reference to production of hot-metal, crude steel and saleable steel increased only marginally. The productivity of SAIL registered growth rate of (-) 2.4%, 2.92% and 4.62% in the years 2001-2002, 2002-2003 and 2003-2004, respectively. The Committee were informed that turn-around of SAIL was mainly due to firming up the domestic/international market, higher production/sales, better price realization, reduction in interest cost, cost control measures, etc.

4.10 The Committee, therefore, observe that though the production/productivity of SAIL showed marginal improvement, the profits registered impressive growth and that the higher prices and not the higher production primarily changed the fortunes of SAIL.

4.11 The Committee are, therefore, not surprised to note that the profits are going to fall by nearly 50 per cent from the high of Rs. 5,739 crore in 2004-2005 to Rs. 2,082 crore in 2005-2006 due to increase in cost of critical inputs. The Committee feel that the increasing cost of inputs coupled with cyclic nature of steel industry would put tremendous pressure on SAIL to improve its physical performance. The Committee are, therefore, constrained to observe that the financial-cum-business restructuring package of SAIL and Corporate Plan, 2012, replete with rhetoric and devoid of concrete programme of action, are too myopic and short-term to yield positive results.

4.12 The Committee, therefore, recommend that SAIL's Corporate Plan, 2012 should be thoroughly revamped to suit the requirements of long- term scenario to enable SAIL to effectively meet the challenges of the future.

4.13 The Committee also desire that transfer of land on lease by various units under SAIL should be enquired into and a report in respect thereof submitted within three months.

Position of Divestment of some of the units of SAIL

4.14 In pursuance of the decisions taken by Cabinet Committee on Economic Affairs (CCEA) in December 2003, cases of various units of SAIL *i.e.* Alloy Steel Plant [ASP], Durgapur, Visvesvaraya Iron & Steel Plant [VISP], Bhadrawati, Salem Steel Plant(SSP), Salem, Rourkela Fertiliser Plant(RFP), Rourkela, Indian Iron & Steel Company(IISCO), Burnpur, that had been approved for divestment by the Government were forwarded to the Ministry of Disinvestment. Ministry of Disinvestment returned the cases of divestment to Ministry of Steel with their advice with regard to the modalities for divestment of each of the above units. The divestment efforts could not fructify. Later on due to improved market conditions, SAIL started earning profits. In this scenario, the matter relating to divestment of aforesaid units has been further examined by SAIL and they have closed the divestment process of ASP, SSP, VISL and Fertiliser Plant of Rourkela Steel Plant (RSP).

4.15 The Ministry stated the following in respect of divestment of alloy steel plants, Visvesvaraya Iron & Steel Plant and IISCO:-

“Alloy Steel Plants and Visvesvaraya Iron & Steel Plant

Presently, SAIL would like to pursue improvement plan further. In case, divestment is pursued, the spinning off of ASP/VISL into a separate company would be taken up at an appropriate time once the partner for strategic sale has been identified.

IISCO

SAIL Board and IISCO have approved merger of IISCO with SAIL. The matter of IISCO’s merger with SAIL is under examination with the Government and a decision in the matter is likely to be taken shortly”.

4.16 The Committee are surprised to note that on the one hand when the Government has closed divestment process of Alloy Steel Plants, Salem Steel Plant, VISL and Fertiliser Plant of Rourkela Steel Plant and likely to pursue improvement plan for ASP and VISL, on the other the Government is still contemplating to introduce divestment process of ASP and VISL at an appropriate time when partner for strategic sale has been identified. The Committee, therefore, recommend that the Government should take immediate steps to implement improvement plans of ASP/VISL instead of considering the divestment.

4.17 The Committee observe that SAIL and IISCO Boards have approved the merger of IISCO with SAIL and it is in the process of examination by the Government. With the merger, the SAIL will be able to produce 11.105 mt of saleable steel during 2005-2006 as against the target of 10.90 mt for the year 2004-2005. The Committee expect the early decision of the Government regarding merger of IISCO with SAIL. The Committee also desire the Ministry to examine the issue of the merger of Maharashtra Elektrosmelt Ltd. and Hindustan Steelworks Construction Ltd. with SAIL.

SAIL's Corporate Plan, 2012

4.18 The Corporate Plan is designed to increase the hot metal production to about 20 million tonne per annum against the current level of 13 million tonne per annum. This would happen through the optimal utilization of assets coupled with marginal capacity expansion, thereby enhancing SAIL's market share to about 27%, under the presumption that domestic consumption of finished steel would be in the region of 60 million tonne by 2011-2012.

4.19 The plan envisages an investment of about Rs.25,000 crores upto 2011-2012. These investments would be substantially funded from internal accruals and supplemented by market borrowing maintaining a Debt: Equity ratio of 1:1.

4.20 SAIL including IISCO has planned to produce 11.105 (Million Tonne) MT of Saleable Steel during 2005-2006 as against the target of 10.90 MT for the year 2004-2005. The outlay of SAIL in the Budget Estimate for 2005-2006 is Rs.1030 crores (Rs.650 crores for 2004-2005) and this will be made by internal/external borrowings, as SAIL has not been provided budgetary support from the Government.

4.21 Responding to a query of the Committee about the status of rationalization of manpower in SAIL, the Ministry of Steel submitted the following details: -

“Manpower rationalization has been one of the prime thrust areas for SAIL since long to improve its competitiveness. 35,356 employees have taken VRS so far since 1998-99. SAIL raised Govt.-guaranteed bonds of Rs.1,000 crore from capital market during March 2001 to June 2002, which had been utilized for VRS. The manpower of SAIL, which was 1,76,147 as on 31 March 1998 has come down to a level of 1,27,140 as on 28 February 2005 thereby achieving a reduction by around 49,000 persons”.

Year	Manpower
31/3/1998	176147
31/3/1999	174736
31/3/2000	159940
31/3/2001	156719
31/3/2002	147601
31/3/2003	137496
31/3/2004	131910
28/2/2005	127140

The said rationalization has been achieved through:

i. Natural Superannuations

ii. Voluntary Retirements (35,356 nos.)

iii. Control on Recruitment

iv. Divestment of Power Plants

4.22 In this context, the Committee specifically wanted to know whether downsizing the manpower would affect the implementation of the Corporate Plan, 2012, the Ministry replied as under:-

"SAIL's Corporate Plan-2012 envisages improving the labour productivity to a level higher than 170 tonne of Crude Steel/man/year by 2006-2007. At present, the labour productivity of SAIL is 142 tcs/man/year (April 2004-February 2005) and the manpower is 1,27,140 (as on 28 February 2005). The goal of downsizing manpower has been reassessed and utility of the presently surplus manpower will be improved by multi-skill training. Following this, increase in labour productivity envisaged will be on account of increase in production. Also, rationalization of manpower shall come mainly through natural separation".

4.23 The Committee note that an MoU signed between SAIL and the Ministry of Steel in March 2000 *inter-alia* included manpower target of one lakh to be achieved by March 2005. As against the target, SAIL has brought down manpower to a level 1,27,140 only as on 28 February 2005. The Committee has now been informed that SAIL has re-assessed the goal of downsizing the manpower and proposed to improve the productivity of surplus manpower by multi-skill training. The SAIL has also planned to improve the labour productivity to a level of 170 tonne of crude steel/man/year by 2006-2007 from the current level of 142 tcs/man/year. The Committee are surprised that without revising the MoU, SAIL has not only reviewed the goal of downsizing manpower but proposes to retain the identified surplus manpower. The Committee are convinced that no amount of multi-skill training, the huge surplus manpower which comes to nearly 30 per cent of the total manpower can improve the productivity of the SAIL. The Committee, therefore, recommend that a study group may be constituted to go into the issue of rationalization of manpower in the SAIL and utilisation of identified surplus manpower.

4.24 The Committee have been informed about certain instances of mis-management in recruitments and transfers in the steel sector PSUs. The Committee desire the Ministry to look into these cases and come up with a policy to ensure transparency in the recruitment and transfers with due regard to local needs.

B. Rashtriya Ispat Nigam Ltd (RINL)

4.25 Visakhapatnam Steel Plant (VSP) is the first shore based integrated Steel Plant located at Visakhapatnam in Andhra Pradesh. VSP has an excellent layout, which allows expansion of the plant capacity to over 10 MTPA.

Physical Performance

Production of Steel

(in ‘000 tonnes)

	2003-04		2004-05		2005-06
	Target	**Actual**	**Target**	**Anticipated**	**Target**
Hot Metal	3,850	4,055	3,950	3,800	4,000
Crude Steel	3,235	3,508	3,300	3,400	3,400
Saleable Steel	2,900	3,169	2,958	3,044	3,044
Pig Iron	539	439	570	345	525

4.26 The production targets set for the year 2003-2004 by the company, much above the rated capacities, were also surpassed registering a growth compared to the previous year by 3% in Hot Metal production, 5% in Liquid Steel, 2% in Light & Medium Merchant Mill (LMMM) production, 6% in Wire Rod production, 9% in Medium Merchant Structural Mill (MMSM) production and 4% in Saleable Steel production.

4.27 The efficiency in Specific Energy Consumption improved by about 1%, which stood at 6.07 G.Cal/tls for the year 2003-2004, compared to 6.13 G.Cal/tls in 2002-2003. Gross water consumption stood at 3.31 Cum/tls during 2003-2004 as compared to 3.96 Cum/tls of previous year. Gross Power consumption stood at 481 Kwh/tls during 2003-2004 as compared to 478 Kwh/tls of previous year.

Financial Performance

(Rs in crore)

Sl No	Item	2003-04	2004-05		2005-06
			BE	RE	**BE**
1.	Income	6,352.72	5,612.54	7,746.71	8,340.23
2.	Operating cost	4,280.01	4,361.53	5,570.09	6,743.19

3.	Gross Margin	2,072.71	1,251.01	2,176.62	1,597.04
4.	Interest	49.05	32.24	27.56	24.58
5.	Cash Profit/Loss	2,023.66	1,218.77	2,149.07	1,572.46
6.	Depreciation including DRE & Write offs	476.47	464.51	468.72	474.00
7.	Profit/Loss before Tax	1,547.19	754.26	1,680.35	1,098.46
8.	Income Tax	0.00	0.00	131.07	86.13
9.	Profit/ Loss after Tax	1,547.19	754.26	1,549.28	1,012.33

4.28 Due to the concerted efforts of the management, there was significant improvement in the physical and financial performance of RINL from the year 2001 onwards. In 2002-03 the company turned around by making a Net Profit of Rs.520.69 crore for first time in any financial year. The company achieved a net profit of Rs.1547.19 crore during the year 2003-04. RINL also became debt free by repaying all long-term debts in the year 2003-04. The company has drawn up its Corporate Plan for expansion of its capacity to 10.20 mt of Liquid Steel in three phases by 2019-20.

4.29 The Committee specifically wanted to know about approval of expansion plan of RINL, the Ministry of Steel replied as under: -

“The proposal for the expansion of RINL was submitted by RINL on 31.12.2004. Pre-PIB meeting with all the appraising agencies to consider the proposal was held on 21.2.2005. The information/clarifications sought were also furnished to all the concerned Departments. The appraisal report from Planning Commission on the proposal is now awaited. The PIB meeting will be fixed after obtaining the appraisal report from the Planning Commission”.

4.30 When specifically asked, as a facilitator, what steps have been taken by the Ministry to resolve the raw materials crisis of RINL, especially getting iron ore from NMDC and early clearance of mining lease applications submitted to State Government of Orissa and Chhattisgarh in November 2003, the Ministry of Steel informed as below: -

"Ministry of Steel has taken up the request of VSP for their mining lease applications for iron ore mines in the States of Orissa and Chhattisgarh. This matter is being pursued with Ministry of Mines on constant basis. Ministry is also coordinating/assisting RINL in having long-term contracts in the matter of supply of iron ore from NMDC".

4.31 The Committee appreciate the physical and financial performance of Rashtriya Ispat Nigam Ltd.(RINL) since 2001. The company achieved net profit of Rs.1,547.19 crore during the year 2003-2004 and became debt-free by paying all long-term debts. The Committee note that the proposal for expansion of RINL is under consideration of the Ministry. The Committee also expects the Ministry to facilitate the RINL to obtain mining lease from Orissa and Chhattisgarh and adequate supply of iron ore from NMDC. The Committee desire that the expansion plan of RINL should be cleared at the earliest but feel that it needs to be revised as the private sector has contemplated much higher capacity expansion during the same period. The Committee, therefore, recommend that RINL should set up higher targets and achieve the same within a short period by compressing three phases into two phases of the Corporate Plan.

CHAPTER V

GENERAL TOPICS RELATING TO STEEL SECTOR

A. Research and Technology Mission

Research and Development in the iron and steel sector is normally being carried out by the steel plants, academic institutions and National Research Laboratories. However, the supplement and encouraging research activities in the iron and steel sector, Government of India is providing financial assistance from the Steel Development Fund for some of the R&D projects received from the public and private sector steel plants, national laboratories academic institutions etc.

5.2 The objectives of the Research and Development in the steel sector are as follows:-

- Design & development of new technologies & production processes.
- Reduction in raw material and energy consumption.
- Utilisation of waste materials.
- Development of new value-added products.
- Improvement in productivity and quality.

(Rs. in crore)

Major Head	**Budget Estimate 2004-05**			**Revised Estimate 2004-05**			**Budget Estimate2005-06**		
	Plan	**Non Plan**	**Total**	**Plan**	**Non Plan**	**Total**	**Plan**	**Non Plan**	**Total**
12852	60.00	--	60.00	60.00	--	60.00	0.00	0.00	0.00

5.3 While furnishing the details about (a) the amount so far spent in 10th Five-Year Plan approved outlay, (b) reasons for no amount being proposed in BE 2005-06 and its impact on the aims of Corporate Plan, 2012 and the National Draft Steel Policy, 2004, the Ministry of Steel submitted as follows:

"Out of the total revised outlay for the 10th plan (2002-07) of Rs. 300 crore in R&D for iron and steel, approximately Rs.21.00 crore has been disbursed till February 2005 for on going research projects approved by the Empowered Committee (EC). The actual expenditure in 2004-2005 till February 2005 is Rs.7.70 crore. In the Revised Estimate (RE) for 2004-2005, Rs. 60.00 crore was to be raised through I&EBR. The source of rising of this amount is from the interest proceeds from Steel Development Fund (SDF).

Even though no provision has been made in BE 2005-2006, the Ministry of Steel requires Rs. 60.00 crore for R&D for 2005-2006. At the time of seeking approval for Revised Estimates, this will be taken care of. This has no direct relation with SAIL, Corporate Plan 2012 and the National Draft Steel Policy, 2004".

5.4 While going into the details of R&D projects which have been completed till date, proposals evaluated by Ministry of Steel and forwarded to the Empowered Committee for consideration and approval during the year 2004-2005, the Ministry of Steel submitted the following details: -

"Since 1998-99, the Empowered Committee has approved 36 research and development projects. Out of these 20 projects have been completed so far.

Ministry of Steel evaluated 18 research project proposals during 2004-2005. Out of these 8 proposals were recommended to the EC for funding from Steel Development Fund (SDF) and 6 proposals were placed for rejection. The details of the proposals are as under:

S. No.	Name of the Proposal
	(A) Research Proposals recommended to EC for funding`
1.	Development of value added refractory products from Indian Bauxite: by Central Glass and Ceramic Research Institute (CGCRI) and Indian Refractory Makers' Association (IRMA), Kolkata.
2.	Microbial removal of phosphorous from LD slag: by RRL, Bhubaneswar.
3.	Ferritic Rolling: by Ispat Industries Ltd. in association with Indian Institute of Technology, Mumbai.
4.	Development & Characterization of Spot Welding techniques for Coated Steel Sheets.: Jadavpur University, Kolkata in collaboration with TATA STEEL.
5.	Center for Sheet Steel working: by Tata Iron Steel Company Ltd., Jamshedpur.
6.	Documentation of traditional iron smelting by Agaria Community: by Bappa Ray production, New Delhi.
7.	Creation of Steel Research Center: by Indian Institute of Technology, Kharagpur.
8.	Modeling and control of micro structure and mechanical properties during hot strip rolling: by RDCI&S, Ranchi.
	(**B) Research proposals recommended for rejection**
9.	Development of new sponge iron technology by combining shaft furnace and cyclone firing of coal: by RRL, Bhubaneswar.
10.	Establishment of Centre for ferrous Process Metallurgy: by National Institute of Technology, Tiruchirappali.
11.	Mineral wool (slag wool, rock wool or ceramic wool project.
12.	Development of some important properties process route for production of ultra high strength steels: by Dr. M.N. Dastur, School of Materials Science and Engineering, Bengal Engineering College, Howarh.
13.	Direct production of foundry grade pig iron through coke less cupola using agglomerates of iron ore fines and coal fines: by NML, Jamshedpur.
14.	Production of clean steel through innovative designed induction furnace and scrap/sponge preheating system for reduction in power consumption: Patnaik National Steel Institute.

The remaining proposals have been evaluated partially and some more clarifications are being sought from the proposer".

5.5 When the Committee wanted to know as to what extent the R&D results have helped in upgradation of technology, increase in productivity and reduction in energy consumption etc., the Ministry of Steel informed as follows: -

"Some of the projects have already been implemented and they are yielding benefits in areas of Iron & Steel making processes, upgradation of raw material, product development, increase in productivity, reduction in refractory consumption during steel making, reduction in energy consumption in Electric Arc Furnace/Induction Furnace route, development of new process for weld components and utilization of waste materials, etc".

5.6 The Committee deprecate the utter lack of concern for Research and Development in the Ministry of Steel, as they have not proposed any allocation for this sector in the year 2005-2006. The Committee are also anguished that Ministry had earlier scaled down the 10th Plan outlay on R&D from Rs. 750 crore to Rs. 300 crore of which hardly Rs. 21 crore has been disbursed till February 2005. The Committee are surprised that though the Ministry required Rs. 60 crore for R&D in 2005-2006 but the same allocation would be sought at the time of seeking approval for Revised Estimates. The Committee emphasize that Research and Development Programmes are investments futuristic and meagre allocation in the first instance and still lesser utilization in this regard do not augur well for increasing the productivity and efficiency of the Steel industry. The Committee stress that the R&D Programmes are *sine qua non* for design and development of new technologies, value-added products, reduction in raw material/energy consumption, improvement in productivity and quality. The Committee, therefore, recommend that immediate corrective steps should be taken and Research & Development Programmes should be given due pride of place for the needed boost to the steel sector in the long run.

B. Availability of Raw Materials

5.7 In pursuance of the recommendations contained in the 30th and 34th Report of the Parliamentary Standing Committee on Industry, Ministry of Steel is formulating a National Steel Policy. Regarding the status of Steel Policy, the Ministry of Steel submitted that it is at the drafting stage.

5.8 The Committee wanted to know about the expected requirement of the basic raw materials and the possibility of getting that requirement to meet the target set out in National Draft Steel Policy, 2004, the Ministry of Steel submitted as under:-

"The expected requirement of some of the basic raw material and the suggestions for making these critical inputs available to the industry as outlined in the proposed National Draft Steel Policy, 2004 is as follows: -

In order to support steel production of 110 mt by 2019-2020, at 100 per cent capacity utilization, the required quantities of critical inputs such as iron ore, coking and non-coking coal can be seen in Table below. The projected requirements are based on the assumption that new capacities will be 60% through the Blast Furnace (BF) route, 33% through the Sponge Iron–Electric Arc Furnace (EAF) route and 7 per cent through other routes.

Critical Inputs for Steel Production

	Iron Ore	**Coking Coal**	**Non-Coking Coal**
2019-20 (mt)	190	70	26
2003-04 (mt)	50	21	5

Iron ore: Government would encourage investments in creation of an additional mining capacity of 200 mt. The size of these investments would be Rs. 20,000 crore. The current policy of captive mining leases for the private sector would continue, but it is necessary that investment plans be put in place for idle mining leases. State Governments would recommend renewal of existing leases only against credible mining investment plans in a specified period. The Government would lay down priorities and guidelines for the State Governments to recommend fresh mining leases, having regard to the entrepreneur's mining investment plans, and technical and financial capabilities. Environmental and forest clearances would be granted within a pre-specified time frame. Though local value addition would be given priority, Government would encourage iron ore trading in order to make this essential raw material available to the iron and steel industry throughout the country. Government would encourage investments in adding value to iron ore fines. Scientific mining and economies of scale would also be encouraged through consortia of small users and by prescribing a minimum economic size for mines.

Exports of iron ore: Exports of iron ore, especially high-grade iron ore, would be leveraged for imports of coking coal or for investment in India. Long-term export supply of iron ore would be confined to a maximum of five-year contracts. This duration would be reviewed from time to time. A judicious balance would continue to be maintained between exports and domestic supply of iron ore.

Coking coal: The imperatives of coking coal security require that new sources of coking coal be tapped. Accordingly, Government would continue allocation of captive coking coal blocks to steel plants, and give freedom to supply surplus coking coal to other steel plants. Government would encourage joint ventures and equity participation abroad by steel and coal companies. Simultaneously, efforts would be made to develop and adopt technologies, which have synergy with the natural resource base of the country. The washing and beneficiation of coal would also be encouraged aggressively.

Non-Coking Coal: The sponge iron and steel industry would get first priority in the allocation of higher grades of non-coking coal of below 12 per cent ash content, being feedstock. Greater flexibilities would be introduced in the form of sale of surplus coal, re-allocation of existing unused linkages with Coal India Limited, and allocation to consortia of small users. Joint ventures of public sector steel companies with the private sector would be explored in order to finance the required investments.

Natural Gas: Considering the importance of gas based steel plants due to (a) environmental cleanliness, (b) shortages of coking coal required for other major routes, and (c) natural gas being a feedstock for sponge iron plants and not just a heating source, the present system of allocation and pricing of natural gas to the steel sector would remain under continual review".

5.9 The Committee note that the Ministry has set up the target of 110 mt of steel production by 2019-2020, at 100% capacity utilization. The required quantity of critical inputs such as iron-ore, coking and non-coking coal has been projected as 190 mt, 70 mt and 26 mt against the present availability of 50 mt, 21 mt and 5 mt respectively. The Committee feel that the Ministry will have to chalk out the detailed time-bound programme and generate considerable resources to ensure the availability of the required raw material. The Ministry would also be required to lay down priorities and frame guidelines for the State Governments for obtaining environmental and forest clearances in a pre-specified time-frame and encourage investments in value addition, scientific mining, etc. The Committee also feel that new sources of coking coal and iron ore either within the country or overseas will have to be tapped and efforts would be required to find alternative feed stock.

5.10 The Committee are surprised to learn that the Ministry is still contemplating the export of iron ore in the long-term scenario in lieu of coking coal or for other investments in the country. The Committee are convinced that to meet the shortage of a raw material, export of another important raw material is unjustifiable and against the economics of the steel industry. The Committee, therefore, recommend that the export of iron ore should be gradually stopped altogether and the necessary capacity for utilizing the same is set up in the country.

5.11 The Committee also desire the Ministry to prepare a vision document for the next 25 years and set up yearly targets with strict monitoring covering all facets of the steel industry to put the country in the league of developed nations by the year 2020.

C. Steel Price

5.12 Explaining the global and domestic trend of steel prices, the Ministry of Steel submitted the following details: -

"The price of steel in the international market has risen significantly in the past two years mainly due to unprecedented increase in steel demand from China. Further, increased steel production and import by China and other steel-producing economies supplying to the Chinese market has put tremendous pressure on prices of raw materials such as iron ore and coking coal/coke. It has also resulted in increased ocean freight rate. The domestic price of steel has risen considerably during the last two years since it is pegged with the landed cost of steel imports.

There has also been a substantial increase in the cost of essential raw materials required for steel making putting further upward pressure on steel prices. The general price rise of some of the essential raw materials is indicated in the table below: -

(FOB prices in $/Tonne)

Item	Prices in Dec., 02	Prices in Sept., 03	Prices in Apr., 04	Prices in July, 04	Prices in Jan., 05	% increase over 2002
Met. Coke	80	120	460	300	260	225

Melting Scrap	110	220	285	280	245	123
Pig Iron	110	220	325	290	300	173
Coking Coal	47	46	140	110	130	177
Freight (Cape size vessel of Brazil)	9	28	43	30	30	233

The steel prices in the domestic market are generally determined by the steel prices in the international market and are guided by the landed cost of imports. Nonetheless, it will be seen from the following Table that the domestic prices have moved at a lesser pace when compared to the global prices: -

Product	Period	FOB Price (US $/T) EU	Domestic Prices (Rs./T) Mumbai Market
HR Coils	June, 2000	330	19,500
	March, 2002	210	15,500
	% change during June 2000 & March 02	(-) 36.4	(-) 20.5
	February 2005	570	34150
	% change during March 02 & February'05	(+) 171.4	(+) 120.32
CR Coils	June, 2000	420	23,800
	March, 2002	250	18,500
	% change during June 2000 & March 02	(-) 40.5	(-) 22.27
	February 2005	660	36,750

	% change during March 02 & February' 05	(+) 164	(+) 98.6

The steel sector was de-regulated in India in 1992 and ever since the prices are being determined by the free interplay of market forces of demand and supply. Though in a deregulated environment the Government does not intervene directly in the market to influence prices, in order to reduce the landed cost of imports and assist in stabilization of domestic steel prices, the customs duty on iron and steel items has been reduced significantly. The main objective of these measures has been to reduce the price of steel in the domestic market, help the domestic steel makers using the electric arc or induction furnace route to reduce their costs of production and prepare conditions for increased supply of re-rollable scrap from ship-breaking. All the measures taken together have put a downward pressure in the domestic market through higher degree of competition and increased supply. As is evident from the Table below, the above measures have helped to stabilize prices; there has been a general reduction in all markets when compared to the price peak attained during August 2004. This is despite the fact that during this period the international prices had moved up. In January 2005 there has been a marginal increase in the price of flat products mainly due to increases in the prices of raw materials *viz.*, iron ore and rise in steel prices in the world market.

Domestic prices in Mumbai Market

(Rs. per MT)

Item	**March 2004**	**August 2004**	**November 2004**	**January 2005**	**February 2005**
Pig Iron	20000	19300	19000	19000	18800
TOR/TMT	25350	28500	28100	28250	28100
Wire Rod	24000	27750	27100	26000	26100
Round	25000	27500	28500	28000	28000
Plate	32000	32250	31750	32625	33700
HR Coil	32600	32250	32000	33625	34150

CR Coil	34750	36500	35000	36750	36750
GP Sheets	38500	36500	37000	38500	38500
Pencilingot / Billets	18700	23250	22600	22750	22800

Though there is some uncertainty about the future movement of steel prices, the World Steel Dynamics has estimated that, around 22 million tonne of new steel capacity has been commissioned around the world and has also predicted that China may soon turn into a net exporter of steel. Under such circumstances a 'big hike' in steel prices in the near future is unlikely".

5.13 About the initiatives to constitute a National Steel Regulatory Commission to control of prices of steel, the Ministry submitted as under: -

"In the 18th National Steel Consumers' Council (NSCC) meeting held in June 2004 some consumers suggested formation of National Steel Regulatory Body for keeping a check on steel prices. It was decided that the Government would examine the proposal. Requests/representations for setting up a Price Regulatory Commission have been received from various associations in Ministry of Steel. No concrete suggestions have been received in this regard. This issue was also deliberated upon in the 19th National Steel Consumers' Council meeting held in December 2004.

Prices have generally remained stable since June 2004, and the Government has felt no need for any intervention. The price situation is being carefully monitored and appropriate steps will be taken in case a need arises for exercising some measure of regulation in future".

5.14 While justifying as to what extent the measures announced in the Budget 2005-2006 would boost/affect the growth of Steel Industry, impact of VAT and steps would be taken accordingly, the Ministry of Steel stated as under: -

"The General Budget 2005-06 has laid emphasis on infrastructure development, rural development and industrial growth including construction. These measures should lead to a substantial increase in demand for steel and thus sustain the growth of the industry. In addition, measures to reduce import duty on capital goods and raw materials in the specified sector as also in general will work to make Indian industry globally more competitive.

Measures specifically related to the steel industry

1. Customs Duty

Customs duty on stainless steel, alloy steel and ferro-alloys has been reduced from 15% to 10%. While the reduction of import duty on ferro-alloys has been welcomed by the steel industry, the domestic ferro–alloy manufactures have complained that the reduction would result in a surge of imports and erode their competitiveness.

The apprehension of the domestic ferro alloy manufacturers is not totally misplaced. The lowering of customs duty added with the strengthening of the Indian rupee against the US dollar may actually make the import of ferro-alloys cheaper. Ferro-alloys is an power intensive industry and already faces a disadvantage *vis-a-vis* imports since the power tariff in India is much higher compared to other major ferro-alloy producing countries like South Africa and Kazakhstan. The raw material prices for the industry have also risen considerably in the past couple of years.

The reduction in customs duty on stainless steel would have no adverse impact on the domestic manufacturers in view of the high prices of stainless steel worldwide and significant export share of the same in domestic production. The alloy and special steel production in India is limited due to small size of the domestic market. The total production of alloy steel is about 1.5 million tonnes and an estimated 2 lakh tonne is imported. Since alloy steel is generally custom made, it is unlikely that the consumers will immediately switch to imports consequent upon the decrease in import duty rates.

Customs duty on some of the raw materials used by the steel industry have also been reduced. It has been reduced from 15% to 10% on *refractories (6902 and 6903) as well as on most of the refractory making raw materials.*

The duty structure introduced in budget 2005-2006 on refractory and refractory making raw materials may cause some problems. Raw materials constitute 60% to 70% of the cost of finished refractory. The domestic refractory industry is facing a stiff competition from China and an equal duty on finished refractories and refractory making raw materials would erode the competitiveness of the domestic refractory maker. In the Budget not only the duty has been reduced to 10% on both the refractories and refractory making raw materials but retained at 15% on some of the important inputs like Andalusite, Fused Mullite, Sea Water Magnesite, Dead Burnt Magnesite and Fused Magnesite. Most of these raw materials on which the duty has been retained at 15% are imported in large quantities, since they are either not available in the country or are not of the required specification or in short supply. The domestic refractory makers are demanding that customs duty on finished refractory be rolled back from 10% to 15% or the duty on all refractory raw materials including DBM, SWM, etc. be lowered from 15% / 10% to 5%.

Customs duty on *coking coal with more than 12 per cent ash* has also been brought down from 15% to 5%. This may not contribute in reducing the cost of production of steel in the country, as imports are mainly for low ash coking coal. However, with severe shortage of high quality low ash coking coal worldwide and the consequent price increases, the industry will have to source high ash coking coal also in addition to their import of low ash coal to maintain their basic economics of operation.

Reduction of import duty on *graphite electrodes* will help the electric arc furnace units, producing mainly alloy and stainless steels, apart from the very large players like Ispat Industries and Essar Steel.

Reduction in import duty from 15% to 10% on *zinc* will help the producers of galvanized sheets and coils. The same measure for *aluminium and copper* will also help certain segments of the steel industry reduce costs of production in a limited way.

2. Excise Duty

The excise duty on iron and steel items has been raised from 12% to 16% on iron and steel items. This means that the entire steel industry will have to bear a higher incidence of taxation which will make steel more expensive and the consumer will ultimately have to bear the brunt, directly or indirectly, of the price rise. It will have no impact on the steel producers so long as the credits are available for them in the subsequent stage of production (where steel or iron is used). Currently, construction largely comes under the purview of service tax and excise duty on steel gets adjusted with service tax liability in the construction sector. However, individual house construction and construction of group housing with less than 12 apartments are not under the purview of service tax and steel going into such areas will not be credited for excise duty. For all these, the increased excise duty will have to be borne either by the producer or the consumer. This is true for both long products (mostly bars and rods and structurals) and flat products (like galvanized sheets). Given the shortages of steel currently, the producers will find it easy to pass the burden on to their customers. It may also be noted that a large share of the construction steel sector being accounted for by the SSI limit exempted small scale sector, the burden of increased excise duty will fall mainly on the organized sector. The steel prices are already very high and the construction sector has been complaining of scarcity and high prices of steel.

Excise duty on ships for breaking has also been raised from 12 to 16 per cent. This will certainly put the ship breakers into further difficulty as they will have to first pay the excise duty on ships and then get the same adjusted on the excise duty that they are liable to pay on the re-rollable scrap that they sell. With many of their customers outside the tax net (SSI exemptions), the ship breakers will have to bear the excise duty increase and this will adversely affect their competitiveness with competing products like billets and pencil ingots. The industry's production is already down due to increased competition from neighbours *i.e*. Pakistan, Bangladesh and China and high costs of ships for breaking".

5.15 The Committee note that the prices of steel in the country are determined by domestic and international market forces and the cost of essential raw materials. The Committee note that the Budget 2005-2006 has made alterations in duty structure whereby customs duty on refractory raw material has been reduced to 10% on both the refractory and refractory-making raw material but retained at 15% on some of the important raw materials like Dead Burnt Magnesite(DBM), Sea Water Magnesite(SWM) which are imported in large quantities since they are either not available in the country or not of the required specification or in short supply. The Ministry of Steel is of the opinion that the duty structure introduced in the Budget 2005-2006 is anomalous and it should be rolled back from 10% to 15% on finished refractory and lowered from 10% to 5% on all refractory raw materials as to maintain the competitiveness of the domestic refractory industry.

5.16 The Committee is in agreement with the Ministry of Steel to the extent that the duty of all refractory raw materials including DBM, SWM, etc. be lowered from 10% to 5% but would like to emphasise that the benefits of reduction in the cost of production should be passed on to the consumer in order to raise the consumption of steel and infrastructure development. The Committee desire that the Ministry of Steel should take the lead and steel PSUs should not only maintain the price line but also pass on the benefits of lower cost of production to the consumers.

5.17 The Committee recommend that the price of steel should be domestically stable, affordable and internationally competitive so that the growth and development of domestic steel manufacturing continues to be viable and sustainable and at the same time the ancillary, SSI and allied industries, using steel as a raw material should not suffer both because of shortage of raw materials and artificial price rise.

New Delhi;
20 April 2005
30 Chaitra 1927(Saka)

ANANTH KUMAR,
Chairman,
Standing Committee on Coal and Steel.

STATEMENT OF CONCLUSIONS/RECOMMENDATIONS OF THE STANDING COMMITTEE ON COAL AND STEEL CONTAINED IN THE REPORT

Sl. No.	Reference Para No. of the Report	*Conclusions/Recommendations*
1	2	*3*

1.	1.9	The Committee observe that the steel industry, being a core sector, is the major driving force that propels the overall economic growth in any developing country in the long term. However, the performance and growth of steel sector is dependent upon and directly proportional to the economic development of a country particularly the requirements of user sectors, *viz.* infrastructure, automobile, consumer durables, etc. The Committee hope that Indian steel industry would perform well in 2005-2006 also mainly due to huge investment in infrastructure and steep growth in the steel demand. The Committee, therefore, desire that the Government should continue to strive to create conducive environment to help the Indian steel industry to focus on major thrust areas such as higher production of value-added products, capacity expansion, upgradation/cost effective production process, etc. The Government should also play a pivotal role in providing the overall policy framework, coordination for smooth implementation of development plans and take pro-active steps in ensuring harmonious and integrated growth of steel sector.

2.	2.7	The Committee observe that the 10th Five-Year Plan of the Ministry of Steel envisaged an outlay of Rs.11,044 crore which included Rs.10,979 crore as I&EBR and Rs.65 crore as Budgetary Support. The Ministry had set up targets and made projections PSUs-wise for utilization of the allocations provided in the Plan. The Committee, however, note that during the first three years of the Plan period, the utilization has been abysmally low amounting to Rs.2,184.02 crore which comes to bare 22.8 per cent. The Ministry has advanced oft-repeated reasons, *viz.* depressed market conditions, delay in obtaining forest/environmental clearances, acquisition of land and preparation of DPR, etc. for its failure to utilize the allocated amount. The Mid-Term Appraisal was more an exercise in Mid-Term reduction of allocations wherein the Ministry has scaled down outlay from Rs.11,044 crore to Rs.8,476.68 crore. The Committee feel that the sign of upswing in the steel industry was very much discernable in the beginning of the 10th Plan Period and had the Ministry acted with foresight and utilized the allocated amount for infrastructure development, *viz.* capacity expansion, upgradation/cost effective processes, higher production of value-added products etc. it would have given big push to the steel industry and the country would have been reaping the benefits of these investments during the 10th Plan itself. However, the steel industry having been deprived

3.	2.8	The Committee also feel that the Ministry had remained inactive and appeared perplexed in so far as overcoming the procedural delays in implementation of various schemes are concerned. The Committee, therefore, recommend that a High Powered Committee consisting of the representatives from the Ministries concerned of Central/State Governments may be constituted to expedite the various clearances for the schemes/projects.
4.	2.9	The Committee also observe that a large number of litigations relating to steel sectors are pending before various courts thereby hampering expeditious execution of the projects. The Committee, therefore, desire that the Ministry in consultation with Ministry of Law consider setting up Special courts for speedy disposal of such cases.
5.	2.10	The Committee are of the view that there are certain issues which continue to pose difficult challenges for steel sector as well as for Union/State Governments and feel that a composite and continued dialogue with the industry, experts and other concerned agencies would be beneficial. The Committee, therefore, like that periodical Conferences may be convened to discuss the various issues, problems and challenges being faced by the Indian Steel Industry, to arrive at the possible solutions and consensus thereon.

6.	2.11	The Committee have been informed that Manganese Ore India Limited (MOIL) could spend only 11.9 per cent of the 10th Plan outlay meant for new schemes as the two major proposals, *viz*. 8 MEW power plant at Dongri Buzurg and Crushing and Screening Plant at Kandri and Tirodi mines were dropped being unviable. The Committee are dismayed to note that the Government had not analysed the viability of the new schemes and included them in the 10th Plan merely on the basis of preliminary studies without any Techno-Economic Feasibility Report. The Committee are convinced that MOIL will suffer heavily in the absence of a captive power plant and, therefore, recommend that alternative projects in place of the dropped schemes may be taken up immediately.

7.	2.12	The Committee further note that a number of schemes worth Rs.8,545 crore which were originally envisaged to be taken up during the 9th Plan were deferred/dropped owing to depressed market conditions and adverse financial positions. The Committee have also been informed that only two schemes, *viz*. Longer rail finishing facilities(39 M rails) and Bloom Caster with Ladle Furnace worth Rs.415 crore which were deferred during the 9th Plan were taken up in the 10th Plan. The Committee reiterate that the signs of buoyancy in steel sector were quite visible in early stages of the 10th Plan period and therefore, the dropped/deferred schemes of the 9th Plan should have been taken up as to give quantum jump to the steel industry. The Committee feel that the gains from the upswing in steel sector could still be reaped and, therefore, recommend the Ministry to review all deferred/dropped schemes and take up viable schemes for implementation at once.

8.	3.6	The Committee note that as against the annual Plan outlay of Rs.2,508.62 crore including Budgetary Support of Rs.157.50 crore for 2005-2006 proposed by the Ministry, the Planning Commission has approved an outlay of Rs.2,451.12 crore with a Budgetary Support of merely Rs.15 crore. The Committee find that several Plan and Non-Plan schemes which may contribute significantly in improving the performance of MECON, HSCL and Bird Group of Companies are going to be affected due to allocation of lower Plan I&EBR and reduced Budgetary Support. In regard to Budgetary Support for MECON, the Planning Commission has approved Rs.4.00 crore only as against the proposal of Rs.142.50 crore. In the case of Bird Group of Companies, no Budgetary Support has been envisaged against the actual requirement of Rs.3.00 crore. The total Non-Plan outlay proposed for Rs.159.02 crore has been reduced to Rs.74.53 crore by the Ministry of Finance.

	3.7	The Committee note that while the Ministry has been emphasizing that its budgetary proposals are directed to strengthen weak and loss-making companies, it has failed to convince the Planning Commission to approve the required allocations. The Committee deprecate the logic advanced by the Ministry that additional funds would be sought at RE stage for the affected schemes. The Committee are unhappy to note the lack of conviction and commitment on the part of Ministry of Steel in approaching the Planning Commission without sufficient justification for sanction of funds at BE stage. The Committee, therefore, recommend that in the coming years sincere efforts should be made for getting allocation at BE stage instead of resorting to allocations at RE stage. Further, the Committee also recommend that the shortfall of funds for 2005-2006 should be met at the Supplementary/Revised Estimates stage by taking up the matter vigorously with Planning Commission and Ministry of Finance to meet fund requirements of the affected Public Sector Undertakings.

9.	3.12	The Committee in their earlier recommendations had expressed its concern over the delay in re-deployment of 226 employees of Office of Development Commissioner of Iron and Steel, closed w.e.f from 23 May, 2003 following the recommendations of Expenditure Reforms Commission. The Committee are distressed to note that in 2004-2005 not even a single employee was redeployed and avoidable expenditure of Rs.2.92 crore was incurred on surplus staff who were being paid without any work. The Committee reiterate that the Ministry should take up the issue with Department of Personnel and Training(DoPT) at the higher level for the time-bound re-deployment of the surplus staff and to obviate expenditure on this account.
10.	3.17	The Committee appreciate that the financial loan assistance is being given by the Ministry to HSCL for procuring the construction equipments, to Bharat Refractories Ltd, for implementation of AMR schemes and to MECON for Research and Development and Computer Scheme. The Committee desire that the Ministry should ensure that if there is any gap in financial requirement and loan assistance being given, it should be taken up with the Ministry of Finance at RE stage to ensure speedy implementation of the schemes.

11.	3.21	The Committee are happy to note that through the assistance provided by the Ministry, the Bird Group of Companies(BGC) have been able to resolve many of their problems and also reduce to a considerable extent the liabilities on account of statutory dues, *viz*. provident fund, royalty, etc. The Committee observe that since the implementation of VRS in 1992-93, BGC have rationalized the manpower to a great extent and separated a large number of employees. However, during 2004-2005, no progress has been achieved in separation of 235 and 40 surplus employees of Bisra Stone Lime Co. Ltd.(BSLC) and Scott & Saxby Ltd.(SSL) respectively and Rs.1 crore earmarked for the purpose has remained unutilized. The Committee, are concerned at the failure of the Ministry to monitor the progress of rationalization of manpower and therefore, desire that top priority should be given for separation of surplus manpower to achieve the targets set for the purpose.

12.	3.37	The Committee note that the Ministry has made provision for subsidy of Rs.56.81 crore and Rs.1.75 crore for HSCL and MECON Ltd. respectively to implement VRS proposals. In respect of SAIL, no such provision has been made. The Committee note that the HSCL have brought down the surplus employees from the level of 11,290 to 1,929 as on 1 April 2005. They have a target of bringing down the number of employees to 929 in 2005-2006. The Committee find that MECON Ltd. has already completed rationalization of manpower and provision of subsidy would help them in the overall financial performance of the company. The Committee, therefore, recommend that the Ministry should continue to facilitate weaker steel sector PSUs in achieving rationalization of manpower by extending the required assistance in the form of subsidy. The Committee, however, stress that in rationalization of manpower particularly in HSCL, the interest and welfare of the separated persons should be taken care of.

13.	3.38	The Committee note that the capital restructuring proposal for MECON Ltd. is under consideration of the Government and once the proposal is approved the Company will be in a position in clearing its outstanding dues and liability of Rs.20.35 crore towards wages and salaries. The Committee desire the Ministry to clear the restructuring proposal of the Company at the earliest.
14.	3.50	The Committee note that the steel sector PSUs raised I&EBR to implement their various capital schemes. The I&EBR in the year 2005-2006 in respect of SAIL, RINL and NMDC is Rs.1,030 crore, Rs.896 crore and Rs.225 crore, respectively. The Committee, however, note the discouraging trend that none of the steel sector PSUs could spend their I&EBR fully with inevitable adverse impact on various schemes. The extent of under- utilization in SAIL, RINL and NMDC was Rs.430.28 crore against BE of Rs.650 crore, Rs.54.58 crore against BE of Rs.300 crore and Rs.77.79 crore against of BE of Rs.321.90 crore respectively.
	3.51	The Committee feel extremely concerned that the under-utilisation has been the bane of Steel PSUs and highly detrimental to the growth of production and improvement in productivity of the Steel sector. The Committee feel that the Ministry has to address these issues with a sense of seriousness and sincerity.

	3.52	The Committee, therefore, recommend that a Monitoring Committee headed by an Additional Secretary in the Ministry should be set up to review the progress of fund utilisation on monthly basis. The Committee desire that the Ministry should ensure that there is no downward revision in the targets and all the schemes are completed in time with the help of I&EBR allocated for specific purposes.
15.	3.53	The Committee consider the investment plan at Chiria, a farsighted move of SAIL and therefore, desire that the matter should be vigorously pursued with the State Government, etc. for renewal of lease of Chiria mines.
16.	3.54	The Committee note that Rowghat iron ore project at an estimated cost of Rs.744 crore was included for implementation in the 9th Plan but was subsequently dropped for unjustifiable reasons. The Committee further note that with the depleting iron ore reserves for Bhilai Steel Plant, the sustainability of the Plant will be jeopardized unless the alternative sources of the raw material are identified. The Committee, therefore, desire that Rowghat Project should be taken up at once and necessary clearances for the same expedited.

17.	3.56	The Committee note that the Budget Estimates of KIOCL for the year 2004-2005 have been increased from Rs.54 crore to Rs.225 crore to enable the Company to procure ore from other sources for continued operation of its Pellet Plant and for identification and development of alternative mines in the wake of Hon'ble Supreme Court's order. The Committee note with satisfaction the various measures being taken by the Company to continue its operation beyond 31 December 2005, the deadline set by Hon'ble Supreme Court. The Committee desire the Ministry to take recourse to all legal and other appropriate remedies to enable KIOCL tide over the present crisis. The Committee also desire that the Ministry should hold immediate discussion with the Government of Karnataka for early grant of mining lease in the Bellary-Hospet area to KIOCL for sustaining its operation in future.

18.	4.8	The Committee note that SAIL after attaining an all-time high net profit of Rs. 1,319 crore during 1995-1996 showed a declining trend and registered a net loss of Rs. 1,720 crore in 1999-2000. The Government then approved a proposal on 15 February 2000 for financial-cum- business restructuring of SAIL with an objective of turning around of SAIL. As a result of restructuring package coupled with improved market conditions, a trend of positive growth started in 2002-2003 and in 2003-2004, SAIL registered net a profit of Rs.2,512 crore. During 2004-2005 SAIL is expected to post net profit of Rs. 5,739 crore.
	4.9	The Committee further note that during 2000-2001 to 2004-2005, the physical performance of the SAIL with reference to production of hot-metal, crude steel and saleable steel increased only marginally. The productivity of SAIL registered growth rate of (-) 2.4%, 2.92% and 4.62% in the years 2001-2002, 2002-2003 and 2003-2004, respectively. The Committee were informed that turn-around of SAIL was mainly due to firming up the domestic/international market, higher production/sales, better price realization, reduction in interest cost, cost control measures, etc.

	4.10	The Committee, therefore, observe that though the production/productivity of SAIL showed marginal improvement, the profits registered impressive growth and that the higher prices and not the higher production primarily changed the fortunes of SAIL.
	4.11	The Committee are, therefore, not surprised to note that the profits are going to fall by nearly 50 per cent from the high of Rs. 5,739 crore in 2004-2005 to Rs. 2,082 crore in 2005-2006 due to increase in cost of critical inputs. The Committee feel that the increasing cost of inputs coupled with cyclic nature of steel industry would put tremendous pressure on SAIL to improve its physical performance. The Committee are, therefore, constrained to observe that the financial-cum-business restructuring package of SAIL and Corporate Plan, 2012, replete with rhetoric and devoid of concrete programme of action, are too myopic and short-term to yield positive results.
	4.12	The Committee, therefore, recommend that SAIL's Corporate Plan, 2012 should be thoroughly revamped to suit the requirements of long-term scenario to enable SAIL to effectively meet the challenges of the future.
19.	4.13	The Committee also desire that transfer of land on lease by various units under SAIL should be enquired into and a report in respect thereof submitted within three months.

20.	4.16	The Committee are surprised to note that on the one hand when the Government has closed divestment process of Alloy Steel Plants, Salem Steel Plant, VISL and Fertiliser Plant of Rourkela Steel Plant and likely to pursue improvement plan for ASP and VISL, on the other the Government is still contemplating to introduce divestment process of ASP and VISL at an appropriate time when partner for strategic sale has been identified. The Committee, therefore, recommend that the Government should take immediate steps to implement improvement plans of ASP/VISL instead of considering the divestment.
21.	4.17	The Committee observe that SAIL and IISCO Boards have approved the merger of IISCO with SAIL and it is in the process of examination by the Government. With the merger, the SAIL will be able to produce 11.105 mt of saleable steel during 2005-2006 as against the target of 10.90 mt for the year 2004-2005. The Committee expect the early decision of the Government regarding merger of IISCO with SAIL. The Committee also desire the Ministry to examine the issue of the merger of Maharashtra Elektrosmelt Ltd. and Hindustan Steelworks Construction Ltd. with SAIL.

22.	4.23	The Committee note that an MoU signed between SAIL and the Ministry of Steel in March 2000 *inter-alia* included manpower target of one lakh to be achieved by March 2005. As against the target, SAIL has brought down manpower to a level 1,27,140 only as on 28 February 2005. The Committee has now been informed that SAIL has re-assessed the goal of downsizing the manpower and proposed to improve the productivity of surplus manpower by multi-skill training. The SAIL has also planned to improve the labour productivity to a level of 170 tonne of crude steel/man/year by 2006-2007 from the current level of 142 tcs/man/year. The Committee are surprised that without revising the MoU, SAIL has not only reviewed the goal of downsizing manpower but proposes to retain the identified surplus manpower. The Committee are convinced that no amount of multi-skill training, the huge surplus manpower which comes to nearly 30 per cent of the total manpower can improve the productivity of the SAIL. The Committee, therefore, recommend that a study group may be constituted to go into the issue of rationalization of manpower in the SAIL and utilisation of identified surplus manpower.

23.	4.24	The Committee have been informed about certain instances of mis-management in recruitments and transfers in the steel sector PSUs. The Committee desire the Ministry to look into these cases and come up with a policy to ensure transparency in the recruitment and transfers with due regard to local needs.
24.	4.31	The Committee appreciate the physical and financial performance of Rashtriya Ispat Nigam Ltd.(RINL) since 2001. The company achieved net profit of Rs.1,547.19 crore during the year 2003-2004 and became debt-free by paying all long-term debts. The Committee note that the proposal for expansion of RINL is under consideration of the Ministry. The Committee also expects the Ministry to facilitate the RINL to obtain mining lease from Orissa and Chhattisgarh and adequate supply of iron ore from NMDC. The Committee desire that the expansion plan of RINL should be cleared at the earliest but feel that it needs to be revised as the private sector has contemplated much higher capacity expansion during the same period. The Committee, therefore, recommend that RINL should set up higher targets and achieve the same within a short period by compressing three phases into two phases of the Corporate Plan.

25.	5.6	The Committee deprecate the utter lack of concern for Research and Development in the Ministry of Steel, as they have not proposed any allocation for this sector in the year 2005-2006. The Committee are also anguished that Ministry had earlier scaled down the 10th Plan outlay on R&D from Rs. 750 crore to Rs. 300 crore of which hardly Rs. 21 crore has been disbursed till February 2005. The Committee are surprised that though the Ministry required Rs. 60 crore for R&D in 2005-2006 but the same allocation would be sought at the time of seeking approval for Revised Estimates. The Committee emphasize that Research and Development Programmes are investments futuristic and meagre allocation in the first instance and still lesser utilization in this regard do not augur well for increasing the productivity and efficiency of the Steel industry. The Committee stress that the R&D Programmes are *sine qua non* for design and development of new technologies, value-added products, reduction in raw material/energy consumption, improvement in productivity and quality. The Committee, therefore, recommend that immediate corrective steps should be taken and Research & Development Programmes should be given due pride of place for the needed boost to the steel sector in the long run.

26.	5.9	The Committee note that the Ministry has set up the target of 110 mt of steel production by 2019-2020, at 100% capacity utilization. The required quantity of critical inputs such as iron-ore, coking and non-coking coal has been projected as 190 mt, 70 mt and 26 mt against the present availability of 50 mt, 21 mt and 5 mt respectively. The Committee feel that the Ministry will have to chalk out the detailed time-bound programme and generate considerable resources to ensure the availability of the required raw material. The Ministry would also be required to lay down priorities and frame guidelines for the State Governments for obtaining environmental and forest clearances in a pre-specified time-frame and encourage investments in value addition, scientific mining, etc. The Committee also feel that new sources of coking coal and iron ore either within the country or overseas will have to be tapped and efforts would be required to find alternative feed stock.

27.	5.10	The Committee are surprised to learn that the Ministry is still contemplating the export of iron ore in the long-term scenario in lieu of coking coal or for other investments in the country. The Committee are convinced that to meet the shortage of a raw material, export of another important raw material is unjustifiable and against the economics of the steel industry. The Committee, therefore, recommend that the export of iron ore should be gradually stopped altogether and the necessary capacity for utilizing the same is set up in the country.
28.	5.11	The Committee also desire the Ministry to prepare a vision document for the next 25 years and set up yearly targets with strict monitoring covering all facets of the steel industry to put the country in the league of developed nations by the year 2020.

29.	5.15	The Committee note that the prices of steel in the country are determined by domestic and international market forces and the cost of essential raw materials. The Committee note that the Budget 2005-2006 has made alterations in duty structure whereby customs duty on refractory raw material has been reduced to 10% on both the refractory and refractory-making raw material but retained at 15% on some of the important raw materials like Dead Burnt Magnesite(DBM), Sea Water Magnesite(SWM) which are imported in large quantities since they are either not available in the country or not of the required specification or in short supply. The Ministry of Steel is of the opinion that the duty structure introduced in the Budget 2005-2006 is anomalous and it should be rolled back from 10% to 15% on finished refractory and lowered from 10% to 5% on all refractory raw materials as to maintain the competitiveness of the domestic refractory industry.

30.	5.16	The Committee is in agreement with the Ministry of Steel to the extent that the duty of all refractory raw materials including DBM, SWM, etc. be lowered from 10% to 5% but would like to emphasise that the benefits of reduction in the cost of production should be passed on to the consumer in order to raise the consumption of steel and infrastructure development. The Committee desire that the Ministry of Steel should take the lead and steel PSUs should not only maintain the price line but also pass on the benefits of lower cost of production to the consumers.
31.	5.17	The Committee recommend that the price of steel should be domestically stable, affordable and internationally competitive so that the growth and development of domestic steel manufacturing continues to be viable and sustainable and at the same time the ancillary, SSI and allied industries, using steel as a raw material should not suffer both because of shortage of raw materials and artificial price rise.

ANNEXURE I

(Vide Para 3.1 of the Report)

BUDGET 2005-2006 AT A GLANCE

Demand No. 91

A. The Budget Allocation, Net of Recoveries are given below:

(in crore Rs.)

Sl. No.	Details		BE 2004-2005			RE 2004-2005			BE 2005-2006		
		Major Head	**Plan**	**Non Plan**	**Total**	**Plan**	**Non Plan**	**Total**	**Plan**	**Non Plan**	**Total**
		Revenue	**0.00**	**91.65**	**91.65**	**0.00**	**115.32**	**115.32**	**0.00**	**72.53**	**72.53**
		Capital	**15.00**	**73.89**	**88.89**	**15.00**	**74.89**	**89.89**	**15.00**	**2.00**	**17.00**
		Total	**15.00**	**165.54**	**180.54**	**15.00**	**190.21**	**205.21**	**15.00**	**74.53**	**89.53**
1.	Secretariat Economic Services	3451	0.00	8.04	8.04	0.00	8.50	8.50	0.00	9.66	9.66
Iron and Steel Industries											
2.	Non-Plan Loans to Public Sector Steel Plants	6852									
(i)	Bird Group of Companies		0.00	2.00	2.00	0.00	3.00	3.00	0.00	2.00	2.00
(ii)	Hindustan Steel Works Constructions Ltd.		0.00	71.89	71.89	0.00	71.89	71.89	0.00	0.00	0.00
	Total		**0.00**	**73.89**	**73.89**	**0.00**	**74.89**	**74.89**	**0.00**	**2.00**	**2.00**
3.	Subsidies to Public Sector Steel Plants	2852									
(i)	Subsidy to Hindustan Steel Works Constructions Ltd. for waiver of guarantee fee		0.00	0.92	0.92	0.00	0.92	0.92	0.00	0.92	0.92
(ii)	Interest Subsidy to Hindustan Steel Works Constructions Ltd. for loans raised for implementation of VRS		0.00	56.66	56.66	0.00	86.15	86.15	0.00	56.81	56.81
(iii)	Interest Subsidy to Steel Authority of India Ltd. for loans raised for implementation of VRS		0.00	18.60	18.60	0.00	9.30	9.30	0.00	0.00	0.00
(iv)	Interest Subsidy to MECON Ltd. for loans raised for implementation of VRS		0.00	3.33	3.33	0.00	6.89	6.89	0.00	1.75	1.75
(v)	Subsidy to BRL for waiver of guarantee fee		0.00	0.24	0.24	0.00	0.54	0.54	0.00	0.54	0.54
	Total		**0.00**	**79.75**	**79.75**	**0.00**	**103.80**	**103.80**	**0.00**	**60.02**	**60.02**
4.	Investment in Public Enterprises	4852	7.00	0.00	7.00	7.00	0.00	7.00	7.00	0.00	7.00
		6852	8.00	0.00	8.00	8.00	0.00	8.00	8.00	0.00	8.00
	Total		**15.00**	**0.00**	**15.00**	**15.00**	**0.00**	**15.00**	**15.00**	**0.00**	**15.00**
5.	Other Programmes	2852	0.00	3.86	3.86	0.00	3.02	3.02	0.00	2.85	2.85
Sl. No.	**Details**		**BE 2004-2005**			**RE 2004-2005**			**BE 2005-2006**		
B.	**Investment in Public Enterprises**	**Head of Division**	**Budget Support**	**IEBR**	**Total**	**Budget Support**	**IEBR**	**Total**	**Budget Support**	**IEBR**	**Total**

(i)	Steel Authority of India Ltd.	12852	0.00	650.00	650.00	0.00	650.00	650.00	0.00	1030.00	1030.00
(ii)	Rashtriya Ispat Nigam Ltd.	12852	0.00	300.00	300.00	0.00	174.00	174.00	0.00	896.00	896.00
(iii)	Sponge Iron India Nigam Ltd.	12852	0.00	9.00	9.00	0.00	9.40	9.40	0.00	5.00	5.00
(iv)	Hindustan Steel Works Construction Ltd.	12852	3.00	0.00	3.00	3.00	0.00	3.00	4.00	0.00	4.00
(v)	Bharat Refractories Ltd.	12852	10.00	0.00	10.00	10.00	0.00	10.00	7.00	0.00	7.00
(vi)	National Mineral Development Corporation Ltd.	12852	0.00	321.90	321.90	0.00	77.79	77.79	0.00	220.25	220.25
(vii)	Kudremukh Iron Ore Company Ltd.	12852	0.00	54.00	54.00	0.00	54.00	54.00	0.00	225.00	225.00
(viii)	Manganese Ore India Ltd.	12852	0.00	20.00	20.00	0.00	34.41	34.41	0.00	34.21	34.21
(ix)	Bird Group of Companies	12852	1.00	15.00	16.00	1.00	43.62	44.62	0.00	17.38	17.38
(x)	MECON Ltd.	12852	1.00	0.00	1.00	1.00	0.00	1.00	4.00	8.28	12.28
(xi)	MSTC Ltd.	12852	0.00	5.00	5.00	0.00	5.00	5.00	0.00	5.00	5.00
(xii)	Ferro Scrap Nigam Ltd.	12852	0.00	11.50	11.50	0.00	11.50	11.50	0.00	10.00	10.00
(xiii)	Research & Technology Mission	12852	0.00	60.00	60.00	0.00	60.00	60.00	0.00	0.00	0.00
	Total		**15.00**	**1446.40**	**1461.40**	**15.00**	**1119.72**	**1134.72**	**15.00**	**2451.12**	**2466.12**
5.	Plan Outlay		**15.00**	**1446.40**	**1461.40**	**15.00**	**1119.72**	**1134.72**	**15.00**	**2451.12**	**2466.12**

ANNEXURE-II

(vide Para 2.3 of the Report)

MAJOR SCHEMES DEFERRED/DROPPED DURING 9TH FIVE-YEAR PLAN

(Rs.in crore)

BSP	
Rowghat Iron Ore Mine (Stage-II)	744.00
Universal Beam Mill	650.00
Converter with auxiliaries in SMS-III	550.00
Longer rail finishing facilities (39 M rails)	200.00*
New CCP	380.00
COB 11	225.00
Raw material Handling System consisting of Expn. of unloading and shortage facilities and Raw material supply to RMP-III & SMS-III	125.00
Hydro refining and extractive distillation in coke oven	55.00
DSP	
New Medium Stl. Mill	600.00
Bloom Caster with Ladle Furnace	215.00*
RSP	
Renovation of CRM (Phase-II)	480.00
Turbo-blower for BF-3	70.00
2nd Power Bus for PGCIL	60.00
SSM Package	60.00
BSL	
2x1 strand conventional slab caster & 1 additional caster in SMS-I	750.00
Additional slab caster for SMS-II	300.00
Modernisation of HSM(Phase-II)	350.00
Process control & submerged gas combustion in SMS-I	420.00
2 Medium pressure boilers with Coal handling Plant	150.00
Addl. Oxygen plant of 16,000 nm3/hr. capacity	140.00
Galvalume/Electrogalvanising Technology in CRM	130.00
Gas Turbine for TPP	90.00
200 KV sub-station	71.00
Charging side dedusting system in all Blast Furnaces	50.00
Ash pond No.5 (Phase-II)	50.00
2x130 T ladle furnace for SMS-I facilities	50.00
Argon recovery from ASU-4	50.00
ASP	

Billet Caster in SMS	60.00
SSP	
Backward integration	60.00
VISL	
New Sinter Plant	50.00
RMD	
Development of Chiria/Taldih/Bolani	650.00
Mechanisation of Kuteshwar Limestone quarry	100.00
Development of Baradaur Dolomite quarry	70.00
Total	**8545.00**

* The scheme was deferred during 9th Five-Year Plan period, but were approved during beginning of 10th Five-Year Plan period.

ANNEXURE-III

MINUTES OF THE NINTH SITTING OF THE STANDING COMMITTEE ON COAL AND STEEL(2004-2005)HELD ON 4.4.2005 IN COMMITTEE ROOM 'E', PARLIAMENT HOUSE ANNEXE, NEW DELHI

The Committee met from 1100 hours to 1330 hours.

PRESENT

Shri Nitish Kumar - In the Chair

MEMBERS

2. Shri Prasanna Acharya
3. Shri Hansraj G. Ahir
4. Shri Harishchandra Chavan
5. Shri Bikash Chowdhury
6. Shri Chandra Sekhar Dubey
7. Shri Faggan Singh Kulaste
8. Shri Bhubneshwar Prasad Mehta
9. Shri Hemlal Murmu
10. Shri Anirudh Prasad
11. Shri Dalpat Singh Paraste
12. Shri E. Ponnuswamy
13. Shri Tarachand Sahu
14. Smt. Karuna Shukla
15. Shri Prabhunath Singh
16. Shri Rewati Raman Singh
17. Shri M. Anjan Kumar Yadav
18. Shri Devdas Apte
19. Shri Ramadhar Kashyap
20. Capt. Jai Narayan Prasad Nishad
21. Shri Vidya Sagar Nishad
22. Shri G.K. Vasan

SECRETARIAT

1. Shri N.K.Sapra	-	Joint Secretary
2. Shri A.K.Singh	-	Director
3. Shri Shiv Singh	-	Under Secretary

WITNESSES

1.	Dr. Mano Ranjan, Secretary	Ministry of Steel
2.	Shri A.K.Rath, AS & FA	--do--
3.	Dr. S.N.Dash, JS	--do--
4.	Shri J.P.Singh, JS	--do--
5.	Shri Ajoy Kumar, JS	--do--
6.	Dr.D.N.Pathak, CCA	--do--
7.	Shri V.S.Jain, CMD	Steel Authority of India Limited
8.	Shri B.Ramesh Kumar, CMD	National Mineral Development Corporation Limited
9.	Shri P.Ganeshan, CMD	Kudremukh Iron Ore Company Limited
10.	Shri P.M.Reddy, CMD	Manganese Ore(India) Limited
11.	Shri M.Senapati, CMD	MECON Limited
12.	Shri K.Parthasarathi, CMD	Hindustan Steelworks Construction Limited
13.	Shri K.J.Singh, CMD	Bharat Refractories Limited
14.	Shri Tapan Biswas, CMD	Bird Group of Companies

2. Since the Chairman was not available, Members of the Committee requested Shri Nitish Kumar to preside over the Meeting.

3. At the outset, the Chairman, Steel of the Standing Committee on Coal and Steel(2004-05) welcomed the Members and representatives of the Ministry of Steel to the sitting of the Committee and apprised them of the provision of Direction 58 of the Directions by the Speaker.

4. The discussion started with a detailed presentation relating to the Steel Sector. The following important points were discussed by the Committee:-

(i) Physical and Financial Performance of SAIL;

(ii) Environmental and Forest Clearances for Iron Ore and Mining;

(iii) Controlling the Steel Prices;

(iv) Availability of Raw Materials;

(v) Merger of IISCO with SAIL; and

(vi) Budgetary Outlay.

5. A copy of the verbatim proceedings of the sitting of the Committee has been kept on record.

The Committee then adjourned.

ANNEXURE-IV

MINUTES OF THE TENTH SITTING OF THE STANDING COMMITTEE ON COAL AND STEEL(2004-05) HELD ON 20th APRIL 2005 IN COMMITTEE ROOM 'B', PARLIAMENT HOUSE ANNEXE, NEW DELHI.

The Committee met from 1700 hrs. to 1815 hrs. to consider and adopt the Reports on Demands for Grants(2005-06) pertaining to the Ministries of Coal, Mines and Steel.

PRESENT

Shri Ananth Kumar - **Chairman**

MEMBERS

2. Shri Prasanna Acharya
3. Shri Hansraj G. Ahir
4. Shri Bikash Chowdhury
5. Shri Chandra Sekhar Dubey
6. Shri Chandrakant Khaire
7. Shri Faggan Singh Kulaste
8. Shri Vikrambhai Arjanbhai Maadam
9. Shri E. Ponnuswamy
10. Smt. Karuna Shukla
11. Shri Ramsevak Singh (Babuji)
12. Shri Devdas Apte
13. Shri Ramadhar Kashyap
14. Capt. Jai Narayan Prasad Nishad
15. Shri B.J.Panda
16. Shri Jibon Roy

SECRETARIAT

1. Shri N.K.Sapra - Joint Secretary
2. Shri A.K.Singh - Director
3. Shri Shiv Singh - Under Secretary

2. At the outset, the Chairman, Standing Committee on Coal and Steel welcomed the Members to the sitting of the Committee.

3. The Committee then considered and adopted the following Draft Reports with some additions/deletions/modifications:-

(i) ** ** ** ** **

(ii) ** ** ** ** **

(iii) Report on Demands for Grants (2005-06) of the Ministry of Steel.

4. The Committee authorised the Chairman to finalise the Reports after making consequential changes arising out of factual verification by the concerned Ministries and to present these Reports to both the Houses of Parliament during the current Session.

The Committee then adjourned.

** Para 3 (i) and (ii) relating to consideration and adoption of two other Reports of the Committee are not included.