

[श्री मुहम्मद इस्माइल]

मारे फिरते हैं। अगर इसका जिक्र वह करते और दिल्ली एडमिनिस्ट्रेशन उनके बारे में कुछ कहता तो मैं मान सकता था लेकिन मैं देख रहा था कि हमारे आनरेबल मेम्बर वाजपेयी जी ने कहा कि उसको छोड़ो, उसको टच मत करो। उनकी यूनियन बनी तो कहते हैं कि उन्होंने घरों में जाकर हाथ हाथ किया। वह हाथ हाथ किस लिए करते हैं?...

समापति महोदय : अब आप अपना भाषण कल जारी रखिएगा।

अब साढ़े पांच बजे से आधे घंटे की चर्चा आरम्भ होगी।

17.29 hrs.

HALF-AN-HOUR DISCUSSION

Contract with Japan for Iron Ore Export

SHRI S. R. DAMANI (Sholapur) : Mr. Chairman, Sir, this Half-an-Hour discussion arises out of my Short Notice Question of 17th April, 1970. As I did not get satisfactory replies to my supplementaries that day on this very important matter, I am raising today this discussion.

The M.M.T.C. has entered into an agreement to supply 71.7 million tonnes of ore to Japan in the next 10 years, that is, upto 1980, at a fixed price. The price has been fixed. This is one of the very big contracts entered into for the export of iron ore.

But if we examine the terms of the contract, we will find I will place before you this contract—that the terms are not at all favourable to us. The contract is more favourable to the buyer country. It is not done on an equal basis. If you go into the terms minutely, you will see that the terms are more favourable to the buyer country than to us. My first point is this : that out of this 71 million tonnes of iron ore for which we have agreed to the price, upto the year 1974 i.e. in the next four years, we will be only supplying one-third of this

quantity. About 18 million tonnes will be supplied in the next four years and the bulk supply will start after 1974. Is it reasonable? Is it a business proposition to agree to the price to-day for the bulk supply which we are going to start from 1974? If so, what are the advantages?

Secondly, according to the figures which have been given by MMTC itself, what price they have agreed to in the contract has not been disclosed, but we can calculate from the figures given by them. The entire quantity is of the value of Rs. 535 crores. On that basis we can calculate. The per tonne realisation will be about Rs. 74. The present price is about Rs. 94. If my figures are correct and if my calculations are correct, in that case, we have entered into a contract and we have taken a big risk of supplying for a long period of 10 years at a low price. Is it a business proposition? What are the considerations?

Thirdly I want to say one thing. We have not taken into account the demand and supply and the price trend. The demand for iron ore is going to increase. Japan at present requires 80 million tonnes a year. In the next 10 years, after 1974 their production will increase gradually and they will require more ore. Their requirement will be 150 million tonnes, almost double. So, there is no need to hurry up and make the sales. When the demand is increasing, no business man will like to make a commitment in advance. If the demand is declining, then we can hurry up. When the demand is increasing and we know it and when their requirement is going to increase from 80 to 150 million tonnes and also in other countries the demand is increasing, at that stage we now enter into an agreement at a fixed price for 10 years—this thing is not understandable to me. Therefore, I would like to know as to what the considerations are when we made this commitment.

Another thing. Iron ore is the basic material for steel. Steel is in short supply. In the last 8 months the price of steel has increased by 40% and the present trend is that it is likely to go up further. When the prices of steel are likely to increase, the price of the basic raw material will also increase.

But that factor is not taken into account. When the steel price is increasing, we are committing to sell below the world market price.

Now, I come to the third point. Instead of agreeing to make these transactions under c.i.f. it is agreed on f.o.b. basis. I do not understand why it should be so. We are undertaking upon ourselves the risk of depending on the buyers to make shipping space available to lift the ore. We have to take more responsibility under this system because of this dependence. Why should we take more responsibility and what is the advantage of changing this system from c.i.f. to f.o.b. ? I would like to know this. It may lead to losses and dislocation of free movement of ore. That is one point on which I wish the hon. Minister will enlighten us. Let him clarify why we changed it from c.i.f. to f.o.b. in this case. Let him tell us what is the advantage.

Sir, previously the reject percentage in respect of this grade ore worked out to about 58 to 60 per cent ; now it is 63 per cent. Why have they agreed to increase the reject percentage now ? It is decidedly to our disadvantage. Previously we can deliver this grade of ore upto 60 per cent reject percentage; but now this reject percentage has been increased to 63 per cent. It is also against us, unfavourable to us.

The cost of production is increasing in the iron ore mines. How much will the N.M.D.C. lose ? What will be the cost of production in 1980 ? Have all these things been worked out ? I would like to know this. In this connection, I want to quote from a report of the Committee of Public Undertakings. This is from para 92, Eleventh Report of the Committee on Public Undertakings. It says, and I quote :

"From an analysis of the figures it has been observed that while the devaluation of the pound sterling has certainly had adverse effect on the profitability of the project (that is Kiriburu Iron Ore Project), the other factors such as imposition of export duty at the rate of Rs. 10.50 per tonne and increased cost of production of Rs. 6/- per tonne are equally responsible for making the project an uneconomic one."

The cost of production is increasing. Have we made analysis about it ? Because, when in the mine you go to get ore deeper and deeper, your cost of production is bound to go up. How much increase will take place for raising iron ore ? Has this been calculated, I would like to know. How is it going to affect the working of the N.M.D.C. who are in charge of production ? M.M.T.C. is entering into the selling-agency business ; they are commission agents ; they are not producers but they are working on commission. Now, what is the position ?

For the last so many years, for the last 4 or 5 years especially, we find this NMDC incurring losses. In 1967-68 the loss was Rs. 1.589 crores and it is Rs. 1.653 crores in 68-69. Every year they are making losses. Upto what extent loss will be suffered by N.M.D.C. due to the rise in the cost of production of iron ore, I want to know.

When the M.M.T.C. took over the export of ore, some of the East European countries were buyers of our iron ore. What efforts were made to look to the demands of those countries ?

The demand is there, because their source of supply from the USSR has been affected. Instead of entering into a bulk deal with Japan at a fixed price over a period of ten years, I would like to know why Government have not made any effort to capture those large markets in the East European countries. I think Government have not made any efforts in this direction. They found Japan willing to enter into an agreement and, therefore, they entered into a bulk contract with them and thereby shown to the public that they have made a big deal for Rs. 535 crores. They have not taken any pains to sell our ore at a profit to different countries, but they have entered into a contract on easy terms with Japan.

Since they took up export of ore, our export of manganese ore has dwindled. The manganese mines have closed down, and hundreds of thousands of workers have been thrown out of employment. It is a well known fact. What have we done in regard to the export of manganese ore ? Japan is also purchasing manganese ore. While entering into a bulk contract for export of iron ore to Japan, I would like to know why our Government

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did not insist on Japan purchasing manganese ore also from us on a long-term basis, say, on a ten-year basis. If they had done that, then I would say that the MMTC has done a service to our country because the mines have closed down and the workers have been thrown out of employment and the export of manganese ore would help in the reopening of the mines.

Now, I would like to put some pertinent questions to the hon. Minister. If any third party would have entered into such an agreement, so many arguments would have been advanced. On what considerations did Government enter into a bulk contract at a fixed priced over a period of ten years? When the demand is increasing and the steel prices are increasing, what were the reasons for entering into this type of contract? This matter should be gone into properly. Further, why have they neglected manganese ore exports? Why did they enter into a contract for export of only 2½ lakhs tonnes of manganese ore along with 71 million tonnes of iron ore, which is not even half per cent of the iron ore contract? Why has the MMTC not insisted on Japan to purchase manganese ore? If they had done that, that would have given us some advantage.

Now, I would like to pose some very relevant questions, and I hope that the hon. Minister will note them and give me specific answers to them. Is it true that the price of iron ore exported through Visakhapatnam inner harbour is less than that exported through the outer harbour, and if so, what is the reason for that? What is the scheduled date by which the outer harbour will be ready? What is the penalty in the agreement, which can be imposed if the outer harbour is not ready in time? Is the hon. Minister in a position to assure the House that the outer harbour will be ready within the time schedule, and no penalty will have to be paid on account of any delay? What is the loss per tonne at present in the export of iron ore and how is it distributed among the different heads? There is a loss, but it is distributed. We would like to know how it is distributed. How much is the railway freight subsidised? Will the MMTC also share some loss, and if so, to what extent? Is the hon. Minister aware that there are technological developments in the structure and design of blast

furnaces which require processed iron ore and that instead of exporting iron ore, we could export it in the processed form? What efforts are being made in this respect so that we can get benefited thereby? For, by exporting processed ores, we can make profits instead of the losses which we are making on exporting iron ore, as it is. Has the hon. Minister considered this development, and if so, what action is he going to take in this direction? The hon. Minister is a very experienced person and he is also a very able person, and I hope he will look into the matter and will consider the points seriously and take the House into confidence and give suitable replies and prove that this agreement is in the interests of the country and not in the interests of the buyer-country.

THE MINISTER OF FOREIGN TRADE: (SHRI L. N. MISHRA): I am thankful to Shri Damani for raising this important debate in the House. I would first mention some points and then go into further details of the problem. Instead of answering his questions one by one, I would like to give a detailed answer mentioning the advantages we have gained out of this contract.

His first question was whether the contract was not favourable to us. I say it is very much favourable to us as will be borne out by the facts I shall give in a minute.

He mentioned the price as Rs. 94. I do not know wherefrom he got this figure. I only say that it is not correct. I cannot divulge the price because it will not be in public interest to do so, to say at what price we are selling iron ore to Japan because it will jeopardise our further negotiations with other countries.

He mentioned about East European countries. We have got offers from East European countries and we have entered into arrangements with East European countries like Rumania, Czechoslovakia, Hungary, Bulgaria and Poland. We have a 11-year contract with Rumania.

SHRI S. R. DAMANI: What is the quantity and what is the period?

SHRI L.N. MISHRA: He asked what

was the hurry to make this long-term contract. It was necessary to make this long-term deal with Japan. I would request him to realise that today in iron ore it is not a seller's market but a buyer's market. Many countries are coming up, transport is developing fast. Even Latin American countries and other countries are coming into the field. Therefore, we had also to take into account at what price Japan would be prepared to buy from us. The price M.M.T.C. has been able to get from Japan and the other terms of the contract are very very favourable to us. Here I would like to express my deep sense of appreciation of the work done by the M.M.T.C. and its Chairman and other people. They have done a really good job.

He asked about the escalation clause. If he wants to have an escalation clause to take advantage of higher prices, he should also be prepared to accept the position that the price will have also to be lowered when the price goes down. Our estimate is that the price of iron ore is not going to rise in the near future because of the developments that are taking place all over the world. So if we have not put in an escalation clause, there is justification for it.

I would now mention some of the advantages of the long term fixed price contract. (1) It has guaranteed our exports without uncertainties of negotiations each year on price settlement with the Japanese steel mills. (2) It has enabled us to take investment decisions on opening up an additional mine and constructing a larger and modern harbour. (3) It has strengthened our position vis-a-vis the other buyers and this result has already been reflected in the price we have been able to obtain in the markets elsewhere even this year. (4) It has safeguarded our interest against the risk of any trends towards a fall in prices or reducing our bargaining position in the year to year negotiation of price in a buyer's market where as far as can be foreseen, the production of iron ore might outstrip the demand. (5) It has strengthened our bargaining position even with the Japanese steel mills for further supplies of iron ore to them. (6) In actual practice, this annual exercise in price negotiation led to a settlement more or less on a fixed price,

from year to year. The declining trends in the world market were in favour of the buyer and it was quite an effort to maintain the *status quo* on our part as sellers. (7) The contract has been concluded at a level of price which is higher than the prevailing one and will have a great effect on firming up the market in favour of the suppliers of iron ore. (9) Indian shipping interest has been adequately safeguarded by suitable provisions in the contract.

Firstly, there is a stipulation that at least 15 per cent of the ore will be carried in Indian vessels if ships of the required size are available at competitive rates. As you know, we have difficulties in transport and it is not easy for the Transport Ministry at the moment to provide us with the ships.

Secondly, preference is to be given to Indian ships over third country flag ships. Indian shippers can carry cargo even beyond this 15 per cent depending on their own performance and capacity.

Further, an understanding has been reached with the buyers that when, on the stabilisation of the freight market, we are in a position to make an offer on a C & F basis for transportation of iron ore in Indian vessels, such an offer will be given due consideration by the Japanese.

The greatest risk would have been to shy away from a fixed price basis, resulting in a serious set-back to our plans for a rising level of exports in iron ore.

We have settled a firm price which is substantially higher than the one we were getting previously, thereby augmenting our foreign exchange earnings. There is no question of our having incurred any loss. In fact, by this firm price we covered ourselves against the then prevailing downward trends set by the Australian contracts.

We have moved a step forward, in line with the changing world market, in our technique of selling iron ore abroad.

It is not in the business interest of the MMTC or even in the larger public interest, to discuss here the detailed provisions of the particular contract, but we have reason to

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be satisfied with the deal as it has been finalised. As I said earlier, we have only appreciation for the good work done by the MMTC.

The principle of fixed price contract on long-term basis has more or less, already been accepted by the world market and even by us; the spirit and manner in which it has been implemented in this deal with the Japanese steel mills augurs well for the development of our iron ore exports and the general promotion of trade between our country and Japan.

Lastly, the prices negotiated, both for the inner harbour period and the outer harbour period covered by this contract, were specially conceded by the Japanese because of the historical commitments arising out of the Kiriburu long-term agreement of 1958 and the Bailadila long-term agreement of 1960 and cover only the balance of the historically committed quantities. On a careful study of the long-term supply and demand position of iron ore in the world market, there is no prospect of prices appreciating to an extent, as the hon. Member referred, that would turn to the disadvantage of India during the period of this contract. There is, therefore, no risk of India later having to regret concluding this contract.

SHRI S. R. DAMANI : I asked whether our prices are lower than those of other countries or higher or equal. I can prove that our prices are lower. Japan is purchasing from the United States at 14.95 dollars per tonne, and from Chile at 14 dollars, whereas our price is lower.

Secondly, what are the reasons for changing from CIF to FOB ?

SHRI L. N. MISHRA : It is wrong information.

SHRI S. R. DAMANI : Why has rejection percentage been increased from 58 to 63 ?

The most important question which has not been answered is why they have not entered into an agreement for the export of manganese ore. I want to know this because hundreds and thousands of workers have been thrown out of employment and mines are closing down. Not a single word has been uttered by him about manganese ore export.

SHRI L. N. MISHRA : About the prices, I have not said that we have accepted lower prices than other countries, but we have to think what were the prices we were getting earlier and what are the prices we have accepted this time. I said earlier that we have got a higher price which is more favourable to us. This contract is much more favourable to us than before.

A contract has also been concluded with Japan for the export of three lakh tonnes of manganese ore for 1976.

17.55 hrs.

The Lok Sabha then adjourned till Eleven of the Clock on Thursday, August 6, 1970 Sravana 15, 1892 (Saka)