

GOVERNMENT OF ODISHA  
DEPARTMENT OF STEEL & MINES

Letter No: 299/PRS

Date: 04.06.2021

**From:**  
Surendra Kumar, IAS  
Principal Secretary, Steel & Mines Department  
Government of Odisha, Bhubaneswar

**To:**  
Sri Sanjay Lohiya, IAS  
Additional Secretary to Government,  
Ministry of Mines, New Delhi

Sub: Response of State Government on the issue of "Royalty on Royalty".

Ref: Your letter F. No-16/40/2021 – M.VI dated 25.05.2021

Sir,

With reference to the subject and the letter cited above I am furnish the views of the State Government on the issues raised in the above referred letter.

**Proposal 1.** The incidence of double calculation of Royalty, if any, due to inclusion of royalty in calculation of ASP and suggest measure to address the same.

Response:

Rule 38 MCR 2016 provides *Sale value is the gross amount payable by the purchaser as indicated in the sale invoice where the sale transaction is on an arms' length basis and the price is the sole consideration for the sale, excluding taxes, if any. For the purpose of computing sale value no deduction from the gross amount will be made in respect of royalty, payments to the District Mineral Foundation and payments to the National Mineral Exploration Trust.* IBM publishes the Average Sale Price based on the Rule 38 of MCR 2016 which says sale value is to be inclusive of Royalty, DMF and NMET.

Since the sale price has always been inclusive of royalty, DMF and NMET, any disaggregation of the ASP into separate components is practically not possible. Iron ore market has historically operated on the gross sale value of the ore which is inclusive of Royalty, DMF and NMET. Seller and Buyer always factor in these costs, both know that the Royalty and other taxes are inbuilt in the prices and the market operates accordingly.

As you are already aware, Odisha has successfully conducted auctions of mining blocks in 2020 and many of them are in production now. During the auctions conducted in 2020, as per the Bid conditions, "Final Price Offer" shall be a percentage of Value of Mineral Dispatched and such offer



shall be greater than the Floor Price. While offering their bids, the bidders had factored in the payments of 16.8%, the present rates towards Royalty, DMF and NMET. If the royalty on royalty issue is given any retrospective effect, this in effect will lead to lowering of the ASP by almost 14.4% for newly auctioned Lessees which will reduce the premium payable by the new lessees, causing huge loss of revenue to State Government. The effect of this will be that the Final Price Offer quoted by the new lessees, basing on which the "Applicable Payments" are to be made by them is reduced by 14.4%. This will be loss of revenue to State on account of premium payable.

By the most conservative estimates, State will lose on an average Rs.3500 crores or more per year which will keep increasing as production increases and more and more mines come under auction fold paying premium. State may lose anywhere in between 35000 to 40000 crores in next one decade. In the lifetime of the entire lease period of fifty years, the State may lose anything around Two lakh crores or more. Publishing of two separate ASP by IBM - one for lessees whose auctions are over and one for future auctions is not practically feasible. Therefore, in view of these reasons State Government is of the opinion that such a step which can have a retrospective effect would adversely affect State's revenues and are hence not desirable and may not be done.


A practical solution in view of the State Government on this issue can be that in all future auctions a provision may be included in the bid condition as follows: "*The successful bidder shall be required to pay the applicable amount to the state government at the percentage quoted as the final price offer, on the average sale price, as published by IBM for the corresponding month of sale after deduction of the amount towards Royalty, DMF& NMET as applicable during that month.*" In case this suggestion is considered then it is proposed that these provisions may be implemented only prospectively to auctions which will be held after the date of notification of this clause/provision and with clear stipulations that such changes shall not have any retrospective effect. There may be no change in the methodology of calculation of average sale price by IBM as is being done at present.

**Proposal 2.** The issues and shortcomings in fixation of ASP currently being done and suggest measures to overcome these till National Mineral Index is formulated for individual minerals.

In this regard it is submitted that in case IBM observes any abnormally low or abnormally high sale prices, the same may not be taken into cognizance while calculating the ASP. IBM may also be advised to publish the ASP preferably by the succeeding month so that the revenues to the State Government are accrued in time.

This is for favour of kind information.

Yours faithfully

  
Principal Secretary 04/6/2021