Govt may tweak bauxite pricing mechanism

Revised conversion factor would apply to new mining leases granted following the notification

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The Ministry of Mines has proposed revising the conversion factor used in calculating the Average Sale Price (ASP) for metallurgical grade bauxite, a critical component in the auction process for bauxite blocks. ASP, which determines the value of estimated resources and the premium payable by auction winners, currently uses a conversion factor of 6.4 per cent based on the London Metal Exchange (LME) aluminium price.

However, after multiple industry representations and legal challenges, the ministry has recommended reducing this factor to 4.9 per cent to better align with actual bauxite costs. To achieve this, the government has removed average logistic cost.

Metallurgical grade bauxite is a type of bauxite specifically used for producing aluminium. It has a high concentration of aluminium oxide (Al_2O_3), which makes it suitable for refining into alumina and then further processing into aluminium metal. This grade is primarily used in industries such as automotive, construction, packaging, and aerospace that rely on aluminium.

Additionally, bauxite is used to create heat-resistant materials for steel and cement industries, abrasives for sanding and polishing, and various chemicals used in water treatment and other applications.

The current conversion factor, notified in 2019, was determined based on the contribution of alumina and bauxite to the cost of producing aluminium and alumina.

Stakeholders have argued that the factor inflates the ASP, making it higher than market rates. Consequently, the ministry referred the issue to a committee chaired by retired IAS officer Shri Praveen Kumar, which recently submitted its report recommending the adjustment. This higher ASP has increased the financial burden on miners, especially during mineral auctions, by raising the premium and royalty costs tied to inflated ASP calculations.

SIGNIFICANT STEPS

- Metallurgical grade bauxite is a critical component in the auction process for bauxite blocks
- This higher ASP has increased the financial burden on miners, especially during mineral auctions
- The ministry has recommended reducing the factor to 4.9 per cent to better align with actual bauxite costs
- Lowering the conversion factor reflects a more realistic assessment of bauxite costs

Lowering the conversion factor to 4.9 per cent reflects a more realistic assessment of bauxite costs, taking into account logistics expenses and current market trends. The Centre believes that this move would result in a more accurate and competitive ASP, aligning with the actual cost and market value of bauxite.

The revised conversion factor would apply to new mining leases granted following notification of the change, while existing bauxite mines would continue with the original 6.4 per cent factor.

"The matter regarding rationalisation of ASP for metallurgical grade of bauxite has been under consideration for the last five years. Our suggestion is that the proposed conversion factor of 4.9 per cent for calculating ASP (net of logistics cost) should be applicable to all the mines, whether existing/already auctioned or to be auctioned in future as this is as per the existing rules. As per the rules in vogue, the logistics/transportation cost is not considered while calculating ASP of minerals. Such a facilitation would help the growth of the Indian aluminium industry," said B K Bhatia, additional secretary general of the Federation of Indian Mineral Industries (FIMI).

In India, metallurgical grade bauxite makes up a significant portion of the country's bauxite resources, with the majority being classified as metallurgical-I due to its high quality and suitability for efficient aluminium production.

The total resources of bauxite in the country as on April 1, 2020 are estimated at 4,958 million tonnes. These resources include about 646 million tonnes (13 per cent) reserves and 4,312 million tonnes (87 per cent) remaining resources.