

POSCO Project is not an unquestionable boon for Orissa



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As with any economic enterprise, economic plans of Government of Orissa in India must account for secondary gains and lost opportunities while negotiating the much-hyped POSCO steel project. Negligence to do such an analysis suggests incompetence and when such negligence is with public funds, it is criminal.

Analysis of a direct economic impact highlights the immense loss to Orissa with this deal. But are there other benefits that Orissa gains – jobs for people? Infrastructure? Are there other indirect opportunity costs with this deal?

POSCO promises to invest \$12 billion (Rs 48,000 crores) in setting up the steel plants and running them. Even assuming it employs 10,000 people (a large number given modern automation) at Rs. 10,000 per month (a high number since most of the employees will be at lower pay scales), this accounts for Rs 3,600 crores for the 30 years of life of this project.

Other economic efforts to sustain schools, services, small businesses etc are other benefits. Some of the investment will also help build infrastructure for mining which may affect local communities – roads, schools, electricity – and that will be 5% if one is magnanimous about one's numbers. The rest of the investment is mostly on equipment and services to support production – investment that does not necessarily trickle into the local economy.

Even accounting for such indirect benefits, the state of Orissa gets less than 5% of the price of iron ore that it would get in the global market. Why such criminal neglect of state's self-interest by state's captains?

On the other hand, activists from Orissa and other parts of the country have said that thousands of people will be displaced from more than

5000 acres of land that is being sequestered for this project. Given that people from past projects have not been rehabilitated, where will the new displaced go?

In addition, the economic activity of these thousands is significant - they were sustaining themselves through access to the land that they have lived in for over generations. Now, if pushed out without rehabilitation, not only is this lost economic activity but also an increased cost on cities where they will migrate. The Orissa government has not included this in its economic calculations.

Given the scale of profits from this venture and the criminal underselling of resources to POSCO, we think the state continues with this policy to keep attention away from the loot that is being played out.

In 2007 alone, private companies exported 47.6 million tonnes of iron ores but paid the Orissa government only Rs27/tonne for ores and Rs 11/tonne for fines - we have already lost greater than Rs 10,000 crore (the annual state budget of Orissa is Rs. 4,500 crore).

Thus, it seems likely that the Orissa government and POSCO will 'give in' to human needs and pay the oustees large amounts as rehabilitation. Even paying the oustees tens of lakhs of rupees hardly causes a dent in the profit margins. This comment is not to belittle the plight of the displaced - it is to point out that perhaps they are being used as pawns in an even bigger scam.

It is also important to ask, given such humongous profits, why are those whose lands are being snatched away without giving them market prices? How will the people whose land is being snatched away benefit from this deal?

That process of indirect accounting must also include the impact on supply of water. In a review of water withdrawal, Himanshu Thakar cites POSCO website that mentions it will withdraw over 250 million liters of water per day. How does this affect the water table of that region? Arguably, this water will be used for cleaning ores and processing for steel – how will the water be cleaned and what will be the state of its discharge? How will it be discharged and what is the impact of that on local communities? Both of these are important questions that make economic impact on the enterprise of the state – and at the very least should have been accounted for in Orissa's economic plans.

Orissa government has also promised to help POSCO acquire coal either from a Public Sector Unit or elsewhere at a very nominal royalty.

Central and Orissa state Governments of India have granted Special Economic Zone (SEZ) status for the steel plant and the POSCO owned port, which is unprecedented.

SEZs are exempt of the sales and import taxes. It is estimated that Indian government will lose Rs 89,000 crores and state government of Orissa will lose Rs 22,500 crores for SEZ alone. POSCO would have paid import tax on approx \$6 billion of machinery with a loss to Indian central and state governments of 10 to 15%. This is another Rs 2,400 crores to Rs 3,600 crores subsidy, without any justification, as the competitors of POSCO, TATA and Mittals are paying that amount. There is no explanation of this action anywhere in the documents. This also does not account for duty to be paid on 12 million tonnes of steel every year for the 1st few years.

An analysis of both the direct and indirect economic impact of this project leads us to conclude:

* Orissa state government is clearly under-representing the interests of the people of the state. Even at global market conditions, it would have been able to get orders of magnitude greater benefits for the people than it is today as part of this deal

* Orissa state government has actually set up the deal where it is questionable whether the people of Orissa actually gain from this project or whether the opportunity cost of implementing this project outweighs the benefits. The project is certainly not an unquestionable boon as it is being made out to be.

- *Sandip Dasverma and Dr Sanat Mohanty*

editor

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