THE ORDEAL OF POSCO PROJECT IN ODISHA: THE INTROSPECTION

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Abstract: It seems that POSCO project at Paradeep of Jagatsinghpur district of Odisha, India would see the light of the day. The project was expected to bring the highest foreign direct investment (FDI) in the history of India. The project was to become operational from 2010. But, owing to certain hurdles like: environmental clearance, resistance from local inhabitants, difficulty in land acquisition, and delay in getting mining lease; POSCO kept on buying time to establish the steel plant. The resistance was so high, the POSCO agreed to reduce the size of the project. The port project of the POSCO was separated from the steel plant project to win environmental clearance. This paper aims to acquaint the future business leaders with the challenges of International Business. The paper examines how a global company tries to control the resources in order to consolidate its business future even if it spelt poor ethics. The article also attempts to suggest some steps so that big projects would be saved without being detrimental to the interest of the country of operation.

Keywords: Foreign direct investment, environmental clearance, mineral resources, local resistance, cost-audit, ethics in operation.

Back-ground

The US $12 billion integrated steel plant by POSCO (formerly Pohang Iron and Steel Company) at Paradeep in the Coastal Odisha, India seems to have taken shape. The South Korean giant steel producer (and the fourth largest steel producer in the world by volume) signed a memorandum of understanding (MoU) with the Chief-Minister of Odisha in June, 2005 to erect the largest steel plant in the country (http://posco-india.com/website/company/corporate-overview.htm). The project was expected to bring the highest foreign direct investment (FDI) till that point of time in the history of India. The project was to become operational from 2010. But, owing to certain hurdles POSCO kept on buying time to start the process of establishing the steel plant. The MoU expired in June, 2011. In the agreement, the State agreed to acquire and provide three land parcels to POSCO: about 25 acres (10 ha) of land in Bhubaneswar for POSCO India to establish its Indian headquarters; about 4,000 acres (1,600 ha) in the state of Odisha to set up a steel plant, build port infrastructure, establish a storage yard for coking coal, and other associated facilities; and, about 2000 acres of land for POSCO to develop a township, recreational activities and all related social infrastructure – of which approximately 1,500 acres (610 ha) would be identified adjacent/near to the Steel project and remaining 500 acres (200 ha) near the mining location (http://en.wikipedia.org/wiki/POSCO_India).

The project faced stiff resistance from those who were expecting to lose their land. During these nine years, there has been cost escalation to establish the steel plant. In the Indian rupee, the cost has been upwardly revised to Rs 74,400* Cr or Rs 744 billion owing to the depreciation of Indian currency ($1=Rs 62). On the other hand, owing to the shortage of land, the size of the steel plant has been scaled down to 8 million ton per annum (MTPA) plant from the original plan of 12 MTPA steel producing plant. Environmental clearance, resistance from the local inhabitants, difficulty in land acquisition, and delay in getting mining lease had been some of the contributing factors for the delay in the project execution (www.minesandcommunities.org/ article.php?a=10889). The problems seemed to be so insurmountable that the company was forced to agree to a smaller operation. The port project of the POSCO was separated from the project of steel plant in order to win environmental clearance (www.thehindu.com › Opinion › Editorial). POSCO project in Odisha was considered to be a kind of 'loot' of Indian resources greater in magnitude than the '2G Spectrum' scam (www.countercurrents.org/saldanha030511.htm). POSCO were so anxious to establish this project that the President of the Republic of South Korea flew to Delhi to meet the Prime-Minister, Dr. Manmohan Singh (The Hindu, January 16, 2014). In the process of the environmental clearance, the Central Minister for Environment, Jayanthi Natarajan was removed from the job; the environmental laws were moderated to suit the requirements of industry (The Economic Times, December 22, 2013). The imminent environmental devastation was so big in magnitude that the port project was separated from the plant project to win the environmental clearance (www.thehindubusinessline.com/...poscos.../article5574211.ece).

Insignificant land cost of the project

During these nine years, the Government of Odisha acquired 2700 acres of land. Out of these 2700 acres, 1700 acres have already been transferred to POSCO and rest 1000 acres of land has been in the process of being transferred to POSCO by the Government of Odisha through Industrial Development Corporation of Odisha (IDCO). The IDCO has asked the POSCO to deposit Rs 54 Cr as land cost (The Business Standard, January 12, 2014). Now the question arises in the total project cost of Rs 744 billion, is the cost of land is just 0.54 billion? If the cost of the land is calculated, the land cost stands at about 0.01 per cent of revised project cost of Rs 520 billion. It would obviously raise the question before the reader over the propriety of the project cost. It has been observed that the cost of the land in any project varies from being 4-8 per cent of equipment cost and is 1 to 2 per cent of total capital invested (www.fao.org/docrep/003/v8490e/v8490e05.htm) in food and agriculture products. The land acquisition costs are a major expenditure for building construction in high-density urban areas (http://pmbook.ce.cmu.edu/ 05_Cost_Estimation.html). Although the cost of land varies for project to project, the cost would not be just 0.01 per cent of the project cost. Then, is the actual cost of the project much less? Is it just 10 to 20 per cent of its projected cost? Is the POSCO deliberately inflating the cost of the project so as to increase the product cost when it starts producing steel? As the steel produced by the POSCO would become the product of India, obviously India world share the burden of consuming majority share of the produce. The cost would become unaffordable for the Indian populace. On the other hand, the export cost would also become uncompetitive.

The case of Dhabol Power Company

Enron power project was perhaps the first foreign initiative to invest in power sector. The project cost was high at US $2.8 billion. Owing to high investment, the cost per unit of electricity produced also went up and was prohibitive. The company proposed to charge Rs 8 per unit of electricity (Kilo watt hour-KWH) from the distributing companies in dollar terms. At that time the cost of per unit of electricity was much less (http://en.wikipedia.org/wiki/Dabhol_Power_Company). Had the distributing company paid Rs 8 per unit of electricity (which was later reduced to Rs 6.80 per unit), how much would it charge from the public to break-even? At that point of time, the Maharashtra State Electricity Board (MSEB) was generating its own electricity at Rs 1.30 per unit and was purchasing from outside at the rate of Rs 2.30 per unit of electricity (http://www.bannedthought.net/India/PeoplesMarch/PM1999-2006/archives/2001 /jan2k1/ enron.htm).The project was made to halt by the Maharashtra Government for lack of transparency, alleged padded costs, and environmental hazards (http://en.wikipedia.org/wiki/Dabhol_Power_Company). According to the agreement, the payment was to be made as per the prevailing rate of naphtha in dollar denominations in international market. As per the agreement, even if the MSEB did not purchase electricity from the Enron Company, it was bound to pay Rs 95 Cr per month to the Company. The payment was counter guaranteed by the Maharashtra Government. If Maharashtra Government failed to pay, the payment obligation was to be fulfilled by the Government of India (http://www.bannedthought.net/India/PeoplesMarch/PM1999-2006/archives/ 2001/jan2k1/enron.htm). The company had raised huge amount of money from the market and availed loans from banks and other financial institutions in proportion to the total project cost. When the original company, Enron failed, the Government of India had to take over the project for protecting the interest of the investors. The story of Dhabol Power Company (today's Ratnagiri Gas and Power Private Limited-RGPPL) has still been fresh in the memory of people of India. Should the story of Dhabol Power Company be allowed to repeat in other foreign as well as big Indian projects as well?

The usefulness of Cost audit

Companies in the liberalized era are driven by profit maximization. They are pressurized by the share-holders for declaring maximum dividend. Top talent retention without high salary has also become a challenge all over the world. It is likely that companies adopt dubious means to show maximum profit in the books of accounts. Profit maximization takes place when there is optimization in earning and expenditure. But, achieving optimization in earning and expenditure is difficult and time taking. An easy way would be to show the expenditure to be very high and to charge the enhanced cost on production overhead. If this trend is not prevented, companies would be lured to follow the path of artificial expenditure rise. All government-run organizations follow cost-audit internally as well externally. But, in case of privately run companies, there is no external cost-audit by the Government agencies. Therefore, there has been the possibility of artificially raising the project cost. The Dhabol Power Company may be taken as one of the examples. This activity may be treated as a case of criminal conspiracy by the project owner against share-holders as well as against the general public of the country of operation. On the other hand, if by any means, the criminal conspiracy is busted, the company fails. Therefore, compulsory cost audit of firms may be taken up by the Chief Auditor General (CAG) of India or other such credible bodies on the bench-mark prices of existing public sector houses in India in that sector. Of course, how it would be done; whether required numbers of trained hands are available; what would be the types of punishment for erring employees as well as the company authorities would be some of the questions to be debated and dealt with separately.

Choice of place for the POSCO steel plant

Earlier when a factory was being established, the preference was the place of raw material availability. In case of the POSCO, it is a deviation. POSCO preferred to establish the steel plant in a thickly populated area far away from the sources of raw materials. The site chosen for the project was a green belt near the sea. The per capita availability of land in that location was low and people were not prepared to lose the only source of their livelihood. POSCO also got clearance from the Government of Odisha to establish a port near the sea at Paradeep of Jagatsingpur district. It planned to export raw material as well as finished products through the sea. On the other hand, it also planned to import the raw materials as well as finished products.

In the process, India imported coal worth over $15 billion in 2012-13 while its iron ore exports were negligible compared with about $7 billion a couple of years ago. Had there been no coal imports and had iron ore exports continued, the current account gap of $88.2 billion in 2012-13 at 4.8 per cent of gross domestic product would have been a relatively comfortable $66.2 billion at 3.6 per cent (N Madhavan et al, 2013).

For seamless transaction, the POSCO would establish a port to do the job of import and export more efficiently. But, it has been a fact in International Business that the company concerned takes into account countries': socio-cultural, legal, economic, political, technological and environmental aspects. They also consider availability of raw material, water, electricity, technical manpower, transportation facilities and the distance, cost of transportation, rehabilitation of people from the project site and its cost; waste management, labor laws, and impact of industrialization on the crime rate and on the health of the people (Joshi, 2011). In case of any industrial mishap the provisions to manage the disaster should not skip the minds of the experts. Or else, it would be no surprise that the devastation of Union Carbide plant in Bhopal would repeat (www.globalresearch.ca/union-carbide-and-the-bhopal-disaster/27161). The POSCO steel plant project by the steel giant of South Korea must have gone to these calculations before selecting the site. If the purpose is only to establish a steel plant, the mathematics is probably not in favor of the POSCO.

Resistance from land losers

POSCO faced tough resistance from the local people to get the land. Till date, even after nine years the pact was signed, they are able to get only 1700 acres of land and another 1000 acres would be transferred to them from the IDCO after they deposited the required amount. Earlier local people went all out to protest the establishment of the steel plant. Even ladies and children came out to face the 'lathi charge' but would not let go their only source of income (oecdwatch.org/cases/Case_262/1087/at download/file). The Government of Odisha also faced heat to acquire land in the project area. In the fear of losing election they suspended the land acquisition drive for a few months. The company executives were desperate to acquire land and were prepared to pay any amount up to Rs 2 million per acre to go ahead with the project. A top executive during his personal talk with the author (with the assurance of anonymity) told this in desperation in 2011. After three years, the Government of Odisha charges one tenth of the amount from the company. By this time, the cost of essential goods went up at least by 50 per cent. Although the company was able to divide the local people for some time, but they also started to demand before the company to clarify a few points before starting to construct the boundary wall. They demanded that the company should declare in categorical terms how many people would work in the steel plant, in what designations, whether all employment would be in permanent category, what would be the reservation for local people in the company, and what would the reservation for employment to land losers? The company remains tight lipped in all these questions. The Government of Odisha also does not give concrete assurance in these matters. So continues the resistance.

What may be the exact interest?

The POSCO Company under stiff local resistance was forced to bring down the project size from 12MTPA steel plant to a smaller 8 MTPA steel-plant. But, it is not willing to leave the project. The project site is situated near a delicate eco-system. The environmental clearance went very tough. The company as well as the country of its origin has been so anxious that the President of South Korea flew to New Delhi to discuss the matter with Indian Prime-Minister, Dr. Manmohan Singh. The Minister of Environment, Jayanthi Natarajan was removed. The integrated POSCO Project was divided in to two projects - the steel plant project and the port project; and the environmental laws were softened to provide environmental clearance to the pending projects including the POSCO Project. Here the question arises: All these ordeals are for establishing a steel plant? It seems incredible. Then the other answer would be to capture the huge reserve of Uranium and Thorium in the coast of Odisha (www.cps-amu.org/sf/notes/b8-3-4.htm). Uranium and Thorium are the sources of atomic energy. When the sources of coal and water would become further constricted, atomic energy would become the principal source of energy to supply electricity. In addition, the capacity of atomic energy to make a powerful nation is undeniable. This answer to taking such pains seems probable because the worth of this reserve would be trillions and trillions of dollars. This may be the reason; a number of companies both domestic and foreign are interested to establish ports in the coast of Odisha. 'Vedanta' applied to the Government of Odisha to allot 10,000 acres of land to establish one university. After a lot of resistance from people as well as political colleagues (both from opposition and from ruling party), the Government of Odisha planned provide 6,000 acres of land to the 'Vedanta' company (http://en.wikipedia.org/wiki/Vedanta_University). It would be pertinent to mention that in India one needs to have 25 acres of land to establish a university.

Many experts would argue that any reserve under the earth is treated as the national property. So, POSCO and other players would not be able to mine those reserves. But, looking to the integrity of Indian politicians, would it be difficult to change the laws of the land (India) to own these reserves of atomic energy in later years? The experts related to international marketing know that in the presence of political instability, multi-national companies capture land and port to have their secured business (Joshi, 2009). They also know that multinational companies establish their manufacturing units in different countries to minimize their risk of business. In case, of the POSCO, it is no different.

Ethics: The best policy

India is a poor country with resource constraints. It accommodates 17.5 per cent of world population and 18 per cent of world cattle population with less than 2.4 per cent of world's land area (en.wikipedia.org/wiki/Demographics_of_India). But, owing to the geographical advantage and political patronage, it enjoyed the highest GDP in the world till the middle part of eighteenth century AD (Joshi, 2009; p.3). But, over two hundred years of British Rule and change of social system fueled by change of education system, it lost its position in the prosperity map of the world (www.marxists.org/archive/hyndman/1907/ruin-india.htm). India lost its position perhaps owing to the loss of manufacturing advantage, export of raw materials instead of finished products, widespread mining of non-renewable resources without restoring the ecosystem and marginalization of agriculture against service sector, entry of the use of intoxicants in public life and depreciation of Indian currency on regular intervals. When a country becomes poor, the mindset of the people changes towards short-term gain against long-term planning. The political mindset is just a reflection of public mindset. During political instability, the propensity to short-term gain increases many-fold. Multinational companies and big businesses take full advantage of this weakness and hasten the process of the country's down-fall. Therefore, the Government of Odisha would do well if it followed these steps before allowing the POSCO Project to become operational in Odisha.

Suggestions

- The plant site of POSCO or any other company may be kept near the source of the main raw material and it should be away from thickly populated areas;

- The cost and expenditure audit of the POSCO steel plant may be done by the CAG of India;
- The company may be asked to deposit 5 per cent project cost with the Government of Odisha. Fifty per cent of that amount would be spent for the development of the locality;
- Preference may be given to the machineries being manufactured inside the country;
- Employment details may be submitted with the Government Odisha through a bond. Local people would be given preference in employment. It may not be less than 90 per cent for class-3 and class-4 posts. All appointments may be in permanent category;
- The salaries of the POSCO employees may not be less than the salaries of similar employees at the Steel Authority of India;
- All mines may be kept under the control of the Mining Corporation of Orissa or other such government bodies. The company needing the raw material may mine the product according to their needs;
- The cost of raw material may be related to the cost of the finished product and the price rise may be automatic on the rise of the finished product cost;
- The mining and the transportation of raw material may be controlled with the application of ICT;
- Land ownership may be with the land owner. If the project failed to take off, the land would be automatically transferred to the land owner;
- The company may not be allowed to tap equity market before 5 years of production;
- Any underground mineral wealth may be treated as the national property by all means; and
- In case of any criminal activity the punishment may range from minimum one year rigorous imprisonment to the life term and the confiscation of property of both for the auditor firm and that of the project leaders and the person involved in the crime

Many suggestions would come from different quarters. But the cardinal question as advised by Mahatma Gandhi for finding out the usefulness of any project at hand is: "whether the project is benefitting the poorest of the poor in the country?"

[Note: Views expressed are of the author]

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