

PREFACE

This Report contains the results of the Performance Audit on Controls and Systems for Sustainable Mining in Karnataka under Article 151 (2) of the Constitution of India.

The audit of non-tax mining receipts of the State Government is conducted under Section 16 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

The issue regarding illegal mining of Iron Ore has been widely reported in the print and electronic media. The Lokayukta of Karnataka has submitted the final report to the Government in July 2011 on illegal mining in Karnataka for the period from 2006-07 to July 2010. Separately the Hon'ble Supreme Court has directed the Central Empowered Committee (CEC) and the Central Bureau of Investigation (CBI) to probe into the issue of illegal mining in Karnataka. In the context of the issues highlighted in the report of the Lokayukta and the concerns expressed by the CEC, Audit felt it appropriate to conduct a performance appraisal on the controls and systems in place in the State of Karnataka for ensuring and regulating legitimate and sustainable mining. This report is in pursuance of such an audit. The report does not audit issues connected with illegal mining of Iron Ore as that issue has been adequately examined by the Lokayukta and under investigation by CBI.

The cases mentioned in this Report relating to the period from 2006-07 to 2010-11, are among those which came to notice in the course of test-audit of records of selected units during the year 2011-12, as well as, those noticed in earlier years but could not be included in the previous reports.

EXECUTIVE SUMMARY

A Performance Audit was conducted on Controls and Systems for Sustainable Mining in Karnataka to ascertain whether policies of the Government were monitored and implemented; the system of assessment, levy and collection of revenue was effective and efficient. The impact of mining on socio-economic and environment sectors has been discussed.

The audit revealed a number of system and compliance deficiencies which are briefly discussed in this Report.

General

Management of mineral resources is the responsibility of both the Central and the State Governments in terms of entry 54 of the Union list and entry 23 and 50 of the State list of the Seventh Schedule of the Constitution of India. The Department of Mines and Geology is responsible for the levy and collection of mineral receipts based on the production and despatch of minerals.

(Paragraph 1.1)

Audit findings

In the course of audit it was noticed that a committee for implementation and monitoring of Karnataka Mineral Policy (KMP), 2008 was formed in July 2009 under the chairmanship of the Secretary, Commerce and Industries Department. However, even after a lapse of three years of its formation, the Government has not formulated any time bound action plan to monitor the implementation of the KMP, so that the desired objectives of the policy could be achieved in a time bound manner.

(Paragraph 2.2.2)

Audit revealed that though the Government constituted a high level committee in May 2007 under the chairmanship of the Chief Secretary of the State for working out the modalities for granting leases to integrated steel plants, no mining lease was sanctioned to these steel plants after 2007.

(Paragraph 2.3)

Incorrect application of sale prices of iron ore published by the India Bureau of Mines (IBM) in 36 cases in three divisions resulted in short levy of royalty amounting to ₹ 13.11 crore.

(Paragraph 3.3)

There was lack of co-ordination between work executing departments responsible for deduction of royalty at source and the Department of Mines and Geology (DMG). This resulted in non/short collection and remittance of royalty to the extent of ₹ 23.75 crore to the Government.

(Paragraph 3.6)

Audit found procedural inconsistencies and lack of transparency in the Department while considering applications for mining lease, which triggered a number of court cases.

(Paragraph 4.3.1 and 4.3.2)

Non-insistence for registration of lease deeds and short determination of consideration for levy of stamp duty resulted in non/short realisation of stamp duty and registration fee of ₹ 1.11 crore.

(Paragraph 4.5)

Deficiencies in fixation of annual targets for production of iron ore were noticed, quarry plans in 104 out of 120 granite quarry leases test checked were not available, leading to non-monitoring of activities of lessees as per mining plan.

(Paragraph 5.2.1 and 5.3)

Though the State was empowered to frame rules for preventing illegal mining, transportation and storage of minerals, these were not framed till April 2011. This resulted in irregular mining, transportation, etc. and loss of revenue to the State exchequer.

(Paragraph 6.1)

In three Divisions, four lessees had extracted 14.68 lakh MT of iron ore valued at ₹ 150.59 crore either without the approval of mining scheme or without the consent of Karnataka State Pollution Control Board (KSPCB).

(Paragraph 6.2.1)

Iron ore of 9.95 lakh MT valued at ₹ 107.40 crore was extracted beyond the permissible limit prescribed in the mining plan. The cost of the mineral though recoverable, was not recovered. Besides, three lessees had extracted 3.26 lakh MT of iron ore valued at ₹ 40.46 crore before entering into mining leases.

(Paragraph 6.2.2 and 6.2.3)

There was lack of coordination between Indian Bureau of Mines (IBM), Commercial Tax Department (CTD), Forest Department, Transport Department and DMG to ascertain the correct quantity of the production figures of iron ore. We also found that the data/information relating to mining activities available with the departments like Transport, Forest, Commercial Tax were at variance with the data available with the DMG.

(Paragraph 6.2.7)

The mining operations were taken up without obtaining statutory clearances from Ministry of Environment and Forests (MoEF)/Karnataka State Pollution Control Board (KSPCB) and the quantity of mineral valued at ₹ 562.79 crore produced was more than the quantity prescribed in environment clearance and the consent issued by KSPCB.

(Paragraph 8.7 and 8.9)

Higher level of air pollution contributed to the growth of diseases like tuberculosis and other respiratory infections in the mining taluks of Hospet and Sandur. The area under cultivation and irrigation in Bellary had declined leading to increase in the extent of barren land. Report on prosecution of the employers under Child Labour Act was indicative of promotion of child labour which apart from being unlawful would affect the sustained development of the society.

(Paragraph 9.9)

CHAPTER – I

INTRODUCTION TO CONTROLS AND SYSTEMS FOR SUSTAINABLE MINING IN KARNATAKA

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CHAPTER-I INTRODUCTION TO CONTROLS AND SYSTEMS FOR SUSTAINABLE MINING IN KARNATAKA

1.1 Introductory

Minerals are valuable natural resources which are finite and non-renewable. Mineral exploration and development is closely linked with development of country's economy and the people. However, as it intervenes with the environment and social structure, a harmony and balance is to be maintained between conservation and extraction in the interest of sustainable development. Minerals are classified as major minerals (iron ore, manganese, gold, etc.) and minor minerals (granite, building stone, gravel, sand, etc).

The responsibility for the management of mineral resources is shared between the Central and State Governments¹. The Mines and Minerals (Development and Regulation) (MMDR) Act, 1957 enacted by the Central Government, lays down the legal framework for regulation of mines and development of minerals². The Mineral Concession (MC) Rules, 1960, the Mineral Conservation and Development (MCD) Rules, 1988 and the Granite Conservation and Development Rules, 1999 have been framed for conservation and systematic development of minerals and for regulating grant of permits, licences and leases.

Legislations for exploitation of minor minerals have been delegated to the States. Accordingly, Karnataka Minor Mineral Concession (KMMC) Rules, 1994 were framed by the State Government.

1.2 Organisational set-up

The Department of Mines and Geology (DMG) is responsible for the levy and collection of mineral receipts based on the production and dispatch of minerals. The DMG is under the administrative control of the Principal Secretary to the Government of Karnataka, Commerce and Industries Department. The Director of Mines and Geology is responsible for implementation of the related Acts and Rules for the Controls and systems for sustainable mining in Karnataka and assisted by Additional Director (Mineral), Joint Director (Administration), Accounts Officer and Deputy Directors for Legal, Mineral Administration and Planning & Monitoring at headquarters besides two Joint Directors for North zone and South zone. There are 31 district level offices; each office headed by a Deputy Director or a Senior Geologist.

¹ Entry 54 of the Union list (list I) and entry 23 and 50 of the State list (list II) of the Seventh Schedule of the Constitution of India.

² Other than petroleum and natural gas and atomic minerals.

1.3 Audit Criteria

The audit criteria are derived from the following Central and State Laws and the Rules made there under to govern the management and regulation of mines and levy and collection of royalty.

1. The MMDR Act, 1957
2. The MC Rules, 1960
3. Water (Prevention and Control of Pollution) Act, 1974
4. Forest Conservation Act, 1980
5. Air (Prevention and Control of Pollution) Act, 1981
6. Environment (Protection) Act, 1986 and Rules made thereunder
7. Mineral Conservation and Development (MCD) Rules, 1988
8. Karnataka Minor Mineral Concession (KMMC) Rules, 1994
9. Granite Conservation and Development Rules, 1999
10. National Mineral Policy 1993 and 2008
11. Karnataka Mineral Policy 2000 and 2008
12. Relevant Notifications/Circulars issued by the Central/State Government/Directorate of the Mines and Geology
13. INTOSAI Guidelines on auditing of Mining Sector.

1.4 Audit objectives

The main audit objectives were to ascertain whether effective controls and systems were in place for:

1. monitoring and implementation of mining policies of the Government;
2. levy and collection of fees, rent, royalty, penalty etc.;
3. grant and renewal of mining and quarrying leases for prevention of illegal excavation of minerals;
4. estimation of mineral resources and for fixing targets of production;
5. ensuring that environmental and ecological concerns were addressed and preventive measures were useful; and
6. addressing the socio economic concerns of the persons affected by mining.

1.5 Reasons for selection and scope of Performance Audit

A Performance Audit Report on Mineral Receipts for the period from 2001-02 to 2005-06 appeared in the Report of the Comptroller and Auditor General of India for the year 2006. The Report is yet to be discussed by the Public Accounts Committee (PAC). The issue of illegal mining of iron ore was repeatedly covered in the print and electronic media. The Lokayukta of Karnataka submitted (July 2011) final report on illegal mining in Karnataka to the Government covering the period from 2006-07 to July 2010. The issue of illegal mining in Karnataka was also taken up by the Hon'ble Supreme Court who directed the Central Empowered Committee (CEC) and the Central Bureau of Investigation (CBI) to investigate the matter.

In view of the issues highlighted in the Report of the Lokayukta and the concerns expressed by the CEC, we felt it appropriate to conduct a performance appraisal on the controls and systems in place in the State of Karnataka for legitimate and sustainable mining.

The controls comprise policy initiatives and their implementation, the regulatory frame work for processing applications and allotment of leases, the approval of mining plans, assessments of quantities mined and permission for transportation of the same along with enforcement activities. The other crucial systems governing the mining of natural resources in the State include protective measures for safeguarding the environment as well as the well being of the local citizenry. The existing processes and status of the controls have been analysed to see how effective they are, to what extent they conform to the stated policy objectives including revenue maximization and sustainable development. The gaps between policy and implementation and their effect on environment have been highlighted.

The Performance Audit relies on samples selected for analysis of each of the controls and individual instances have been quoted to the extent that these support our observations or recommendations. These instances, however, do not reflect the whole gamut of transactions connected with mining. The Performance Audit also does not deal with those examples of individual irregularities that have already been examined by the Lokayukta, which is a statutory institution with a mandated procedure for action taken and follow up on its reports.

To achieve our objectives, we test-checked during 2011-12 the records of the DMG at the selected districts, records at the Secretariat of Commerce and Industries Department, Environment and Ecology Department, Indian Bureau of Mines (IBM), Karnataka State Pollution Control Board (KSPCB) and two divisional forest offices (Chitradurga and Bellary) for the period from 2006-07 to 2010-11. The mining activities were stopped on the orders of Supreme Court during most of 2011-12. As such this period has not been covered. We selected mining of iron ore and stone quarrying in the State as these were the two major contributors of revenue to the State in major and minor minerals.

Export of iron ore from the three ports of Karnataka viz., Mangalore, Belikere and Karwar were not checked as it was dealt with extensively in the report of the Lokayukta.

The Performance Audit also does not cover the activities of the Public Sector Undertakings involved in mining except to the extent mentioned in Chapter-VIII. Transactions relating to sale of mineral below the market price by Mysore Minerals Limited (MML) involving ₹ 82.20 crore have been commented in the Commercial Audit Reports of the Comptroller and Auditor General of India for the years 2005-06 to 2009-10. The Reports have already been laid in the State Legislature and action in this regard is being taken by Committee on Public Undertakings (COPU).

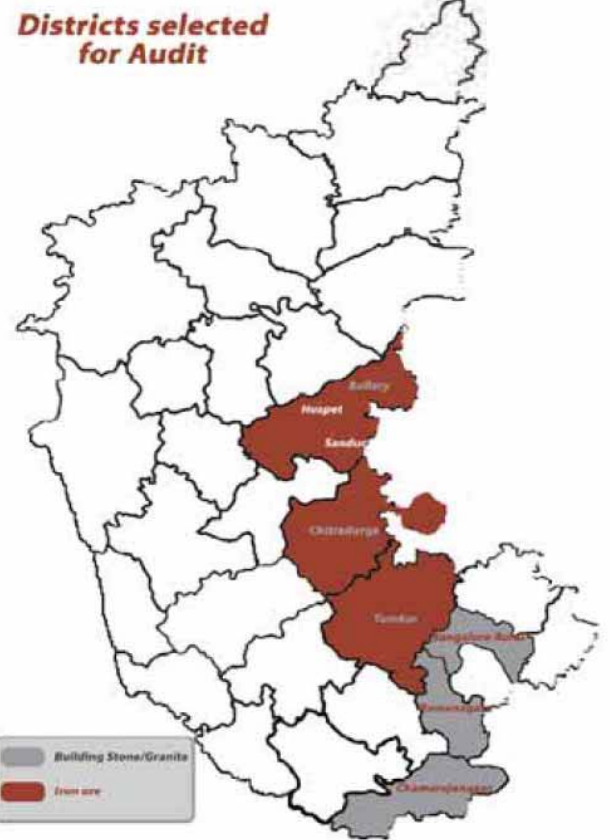
1.6 Methodology of audit

The sample selected by us for audit was a judgmental sampling based on the criteria mentioned in the following paragraph:

Population under examination	Sample selected for test check	Basis for the sample selected
Minerals	1. Iron ore 2. Stones	Major contributor of revenue ³ . Media reports on illegal quarrying.
Field offices of DMG for major minerals (Iron ore)	Offices of the Deputy Directors (DD), Hospet in Bellary district, Tumkur and Chitradurga	Finding in the Hon'ble Lokayukta report, media reports on illegal mining and regions having maximum contribution of revenue.
Field offices of DMG for minor minerals (Granite and building stone)	Bangalore Rural, Ramanagara and Chamarajanagara. In addition, offices of DDs, Chitradurga, Hospet and Tumkur were also covered.	Media reports on illegal quarrying and results of our local audit in the previous years.

Scrutiny of the systems in place for grant and renewal of mining leases in the Director's office and actual transactions in the office of the DD, Hospet were conducted based on random sampling. In the field offices of Tumkur and Chitradurga, the transactions were checked fully. In respect of minor minerals, transactions of the six selected divisions were test checked based on random sampling.

With a view to assess the social and economic impact of mining, we scrutinised data available with the district offices of the Agriculture, Veterinary services, Medical, Labour, Health and Statistics departments of Bellary district besides conducting a local survey in Hospet and Sandur taluks with the help of the Revenue authorities. Further, the services of three subject experts from the Indian Institute of Science, Bangalore were obtained. We held meetings with lessees viz., MML, Hutti Gold Mines Limited (HGML) and Sandur Manganese and Iron Ore Limited (SMIORE). We also consulted Indian Space Research Organisation and Geological Survey of India.



³ 29 per cent of the revenue from major minerals

1.7 Production of major minerals

We noticed that the despatches of iron ore was consistently showing a decreasing trend from 2007-08 to 2009-10 though there was increase in production from 2006-07 to 2008-09 as is evident from the data⁴ on production and despatch of major minerals during the years 2006-07 to 2010-11 summarised below:

(in lakh tonnes)

Mineral	2006-07		2007-08		2008-09		2009-10		2010-11	
	Production	Despatch	Production	Despatch	Production	Despatch	Production	Despatch	Production	Despatch
Iron Ore	414.66	624.85	629.26	487.97	693.75	474.94	529.22	349.37	383.26	365.38
Manganese	1.82	1.65	2.64	1.89	1.21	1.18	0.47	0.64	1.90	0.99
Lime Stone	146.75	145.66	162.86	161.14	645.01	643.33	127.22	124.76	28.89	14.39
Bauxite	1.04	1.40	1.62	1.30	1.38	1.73	1.23	1.12	0.65	0.59
Others	16.36	15.19	20.24	17.88	21.88	20.84	14.18	12.07	14.27	9.77

1.8 Trend of Revenue

The components of the revenue are royalty, penalty, fee, interest etc. The details of revenue realised under the Head of Account "0853 – Non-Ferrous Mining and Metallurgical Industries" for the years 2006-07 to 2010-11 and the variations in revenue over previous year and its growth rate were as under:

(₹ in crore)

Year	Revenue	Variation in revenue over previous year	Percentage of increase (+)/decrease (-) over previous year
2006-07	366.29	-	-
2007-08	472.35	106.06	28.96
2008-09	556.07	83.72	17.72
2009-10	859.50	303.43	54.57
2010-11	1185.96	326.46	37.98

It could be seen from the above that the growth rate of revenue ranged between 17.72 per cent and 54.57 per cent.

1.9 Acknowledgement

The Indian Audit and Accounts Department acknowledges the co-operation extended by the Director of Mines and Geology and all the departmental officers for their cooperation in completing the audit. We have benefited from the opinions and research findings of three subject experts of the Indian Institute of Science (IISc), Bangalore namely, Dr. T. V. Ramachandra, Prof. K. A. Natarajan and Dr. N.K.S. Rajan. Further, we acknowledge the cooperation of the Indian Space Research Organisation and Geological Survey of India for sharing their knowledge with us on usage of satellite imagery and survey.

⁴ As obtained from DMG, Government of Karnataka

We held an entry conference with the Principal Secretary, Commerce and Industries Department on 22 August 2011, wherein we explained objectives, scope and methodology of audit. We also held an exit conference with the Secretary, Commerce and Industries Department on 3 September 2012. The replies received in the exit conference and other points of time have been commented in the relevant paragraphs.

1.10 This Report

This Report on "Performance Audit on Controls and Systems for Sustainable Mining in Karnataka" consists of 47 paragraphs relating to assessment, levy and collection of revenue and to assess the impact of mining on socio-economic and environment sectors. It revealed a number of system and compliance deficiencies in the assessment, collection and accounting of revenue involving monetary implication of ₹ 3,414.45 crore. Out of these, the Department accepted audit observations involving ₹ 1,212.12 crore and recovered ₹ 7.22 crore. These are discussed in succeeding Chapters II to IX.

CHAPTER – II

MANAGEMENT OF MINERAL RESOURCES

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Grant of Mining Leases for Integrated Steel Plant	2.3
Implementation of measures to improve environment and livelihood of people	2.4
Conclusion	2.5
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CHAPTER II - MANAGEMENT OF MINERAL RESOURCES

In this chapter we discuss the policies of the Union Government and the State Government with regard to minerals, the action plan devised to implement the policy and the efficacy of the monitoring mechanism which was in place to ensure proper implementation of the mineral policies.

2.1 Karnataka Mineral Policy

National Mineral Policy (NMP) 1993, as amended in 2008 was framed with a view to developing a sustainable framework for optimum utilisation of mineral wealth for industrial growth while improving the living standards of the affected population and keeping pace with the national policy goals and encouraging private investments in the mining sector.

Consequently the Government of Karnataka framed the 'Karnataka Mineral Policy (KMP) 2008' with the following main objectives:

- promote transparency in granting mining concessions
- maximise value addition to the minerals extracted within the State by encouraging maximum investments in downstream industries
- formulate rules to regulate mineral trade
- promote indigenous utilisation of iron ore fines and beneficiation of low grade ores
- pursue the policy of preserving flora, fauna and bio-diversity and ensure that the invaluable forest wealth is safeguarded while granting mineral concessions
- promote scientific mining and good environmental management
- ensure better quality of life for mine workers and their families, enforce adherence to minimum wages and other statutory requirements as per law, develop townships nearer to the workplace with health, educational, recreational and other utilities
- apportion the revenue generated from mining towards development of mining areas/districts
- encourage companies to practice corporate social responsibility.

2.2 Implementation of the Mineral Policy

2.2.1 Paragraph 15 of the KMP states that the implementation of the policy was to be monitored by a committee under the Chairmanship of the Additional Chief Secretary and members drawn from the DMG, Forest Department, Revenue Department, Public Works Department (PWD), Pollution Control Board, IBM, Directorate of Mines Safety and representatives of mining and allied industries. We noticed that no such committee under the chairmanship of the Additional Chief Secretary was constituted by the State Government to monitor

implementation of the policy. This clearly shows failure in monitoring of implementation of KMP at the apex level.

2.2.2 Formation of Committee for implementation of Karnataka Mineral Policy

We noticed that a committee for implementation and monitoring of KMP, 2008, was formed in July 2009 under the Chairmanship of the Secretary, Commerce and Industries Department. This committee held two meetings (July 2009 and February 2010).

In the first meeting, four task monitoring committees were formed to prepare guidelines for implementation of the policy and to chalk out programmes to speed up the implementation of the policy. In the second meeting, based on the guidelines of the first meeting, an action plan was drawn by the task monitoring committees for implementation of the policy. The action plan included digitisation of geological maps of mining lease (ML) and quarrying leases (QL), clearance of backlog of ML/QL applications, compilation of all mineral location data, etc.

We noticed that no meeting was held after February 2010 to monitor the implementation of the action plan. The digitised or compiled database, if any, prepared by the DMG as per the action plan suggested by the committee, though called for (January 2012) has not been made available (October 2012).

The Department stated (September 2012) that they had initiated action for digitisation of the mineral resource maps district wise and mineralised belts have been identified and plotted. Digitisation work of ML/QL of 4200 leases has been completed and the balance leases would be digitised for users with online facility for filing of application for the mining fraternity. However, the Department stated (October 2012) that only 2984 ML/QL have been digitised and process of digitisation of all ML/QL maps is underway.

The two sets of figures furnished by the Department regarding digitisation of ML/QL as mentioned above are in variance and indicate that the data available with the Department need reconciliation and proper monitoring.

The above facts indicate that even after a lapse of three years of formation of the committee, the Government of Karnataka has not formulated any time bound action plan to monitor the implementation of the KMP, so that desired objectives of the policy are achieved in a time bound manner.

2.2.3 Formation of Coordination Committee for allocation of mining leases

The Government of India, Ministry of Steel, requested (June 2009) the State Government to set up a Coordination-cum-Empowered Committee under the chairmanship of the Chief Secretary with State level representatives from all the concerned departments to speed up allocation of mineral concessions (leases) in respect of raw materials for steel sector. Accordingly, the Government of Karnataka, in January 2010, constituted a State level Coordination-cum-

Empowered Committee under the chairmanship of the Chief Secretary. The functions of the committee included reviewing the implementation of KMP 2008, building up of a computerised database, streamlining and simplification of grant of mineral concessions and to review action taken by different departments to check illegal mining. Though five meetings were held till January 2012, we noticed that action plans were not drawn up for speedy allocation of the mining leases to the steel sector and no efforts for implementation of KMP were found on record.

After we pointed this out (December 2011 and January 2012), the Department stated (October 2012) that action plan for implementation of KMP was discussed in the meetings. However, we found that issues relating to the implementation were not recorded in the minutes of the meetings, except at one occasion (second meeting), wherein Chairman (Chief Secretary) had asked the Secretary (Commerce and Industries) for taking appropriate action for implementation of the computerisation of mineral administration at the earliest. Thereafter no follow up for implementation of KMP was found on record.

2.3 Grant of mining leases for integrated steel plants

With a view to promoting captive consumption of minerals by integrated steel plants for industrial growth simultaneously improving economic development, revenue mobilisation and employment generation, the Government constituted a high level committee in May 2007 under the chairmanship of the Chief Secretary with the Principal Secretaries of Commerce & Industries, Finance, Revenue, Planning and Forest Departments as members. The committee was required to work out the modalities of inviting mining lease applications from the existing and proposed captive mine users preferably for integrated steel plants by duly incorporating the terms and conditions and to scrutinise the same before finalising the Memorandum of Understanding. It was also decided that the Member Secretary (Secretary, Commerce & Industries Department) should come before the committee with details regarding the modalities of inviting applications, areas to be notified along with the sketch and other details. We also observed that the no mining leases were sanctioned to integrated steel plants after 2007.

The Department accepted (September 2012) that no leases were sanctioned to integrated steel plants after 2007 and stated that thousands of applications were received over the notified areas which included those who were willing to establish steel plant in the State. The Government of Karnataka had recommended to the Government of India iron ore leases to eleven applicants who had established steel plants in the State.

2.4 Implementation of measures to improve environment and livelihood of people

The objectives KMP included ensuring of better quality of life for mine workers and their families, development of townships with health, educational and protection of environment etc. The 11th Five Year Plan (2007-12) suggested measures which included building up infrastructure development in the Indian

mineral sector. We observed that effective steps were not taken for implementing the suggestions as discussed below.

Sl. No.	Suggestion of the 11 th Five year plan	Action taken
a)	Setting up a Mineral Development Fund (MDF), by earmarking fifteen percent of the annual royalty collections, in order to undertake the task of building the infrastructure in the mining areas.	No steps were taken by the Government for setting up of a MDF.
b)	Development of high quality roads connecting priority sector mines to loading stations. For this purpose, the State Governments were required to earmark revenue from their royalty earnings for such infrastructure development in mining sector.	The status of implementation of the suggestion is still awaited from Government.
c)	Providing new railway lines/ dedicated freight corridors in Karnataka sector connecting mining areas to ports to support exports and for reducing cost structure of various steel plants.	As per information furnished by South Western Railway (SWR), Hubli, doubling of railway line from Hospet to Vasco was sanctioned only in 2010-11 by the Railway Board at a cost of ₹ 2127 crore and entrusted to an agency.
d)	Strengthening and improving railway line carrying capacities in respect of Bellary-Hospet Sector by increasing the rake capacity, electrification of all routes, doubling of tracks and ensuring availability of wagons	With a view to increase the number of rakes from 24 to 65 per day, remodeling of railway yard at Hospet, which was sanctioned by the Railway Board in 2008-09 for ₹ 12.98 crore was yet to commence as at the end of March 2012. The SWR did not furnish information regarding their efforts to deal with the increased demands prior to 2010-11.
e)	Construction of railway line between Hubli and Ankola for a distance of 172 Km on fast-track basis	As per the information furnished by the SWR, five additional sidings were under different stages of construction.

The Department stated (October 2012) that a Special Purpose Vehicle (SPV) headed by the Chief Secretary would be established as recommended by CEC which will plan and implement measures to improve the livelihood of the people and improve the environment by providing high quality roads, dedicated freight corridors, high tech hospitals, etc.

2.5 Conclusion

We noticed that though different committees were formed between May 2007 and January 2012 to ensure implementation of objectives of the mineral policies, the details of action plan suggested by those committees and their follow up were not forthcoming from the records. Though the Government had a policy of granting ML to integrated steel plants, we noticed that no mining leases were sanctioned to integrated steel plants after 2007. The Government did not earmark 15 per cent of the annual royalties collected towards MDF for building infrastructure in mining areas. No new railway lines were commissioned.

2.6 Recommendations

1. The Government may consider putting in place a system for monitoring the implementation of the KMP in a time bound manner so that desired objectives of the KMF are achieved within a fixed time frame.
2. The Government may, in line with the suggestions made in the Five year plan 2007-12, consider creation of a Mineral Development Fund to undertake the task of building infrastructure in mining areas and make efforts to get the railway lines commissioned to augment the transport facilities in mining areas.

CHAPTER – III

FINANCIAL MANAGEMENT IN DEPARTMENT OF MINES AND GEOLOGY

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CHAPTER III - FINANCIAL MANAGEMENT IN THE DEPARTMENT OF MINES AND GEOLOGY

The Department of Mines and Geology (DMG) is responsible for the levy and collection of mineral receipts based on the production and despatch of minerals. Receipts from minerals include royalty, dead rent, application fee, licence fee, permit fee, prospecting charges, penalties, interest on belated payment of dues, etc. In this chapter we discuss the procedure of budget estimates, additional resource mobilisation, preparation of Demand, Collection and Balance (DCB) statements, internal audit of the Department, assessment, levy and collection of revenue from the lease holders, deduction of royalty at source by other departments, etc., having a financial impact of ₹ 113.94 crore.

3.1 Trend of Revenue

Details of budget estimates, actual revenue realised and percentage of variation under the Head of Account “0853 – Non-Ferrous Mining and Metallurgical Industries” for the years 2006-07 to 2010-11 are as detailed below:

(₹ in crore)

Year	Budget estimates (BE)	Actual revenue	Excess/shortfall	Percentage of variation
2006-07	350.00	366.29	(+) 16.29	(+) 4.65
2007-08	600.00	472.35	(-) 127.65	(-) 21.28
2008-09	632.70	556.07	(-) 76.63	(-) 12.11
2009-10	670.64	859.50	(+) 188.86	(+) 28.16
2010-11	1000.00	1185.96	(+) 185.96	(+) 18.60
Total	3253.34	3440.17	(+) 186.83	(+) 0.06

The revenue realised from iron ore as furnished by the Department was ₹ 648.90 crore during the period 2006-07 to 2009-10. This was 29 *per cent* of the revenue realised during that period. The DMG did not furnish mineral wise revenue for the year 2010-11.

The variation between the BE and the actual ranged between (-) 21.28 *per cent* and 28.16 *per cent* indicating that the BE framed were not realistic.

During 2007-08 the collection of actual revenue was less by 21.28 *per cent* compared to the receipts estimated. After this being pointed out (September 2011), the DMG stated (January 2012) less collection during 2007-08 and 2008-09 was due to non-revision of rates of royalty in respect of major minerals. Excess revenue realised during 2009-10 and 2010-11, was stated to be, due to increased utilisation of minor minerals, auction sale of iron ore and receipts from licence fees.

3.2 Failure to recognise revenue mobilisation resource

We obtained turnover particulars (for the years for which assessments were completed) of three prominent companies in the State from the Income Tax Department to verify whether growth in revenue from royalty was

commensurate with the growth in the companies engaged in mining of iron ore. A comparative statement of turnover of these companies *vis-a-vis* royalty paid by them on iron ore despatched as per the records of the DMG is as under:

(₹ in crore)

Particulars	VS Lad & Sons (base year 2003-04 compared with the year 2007-08)		MSPL (base year 2004-05 compared with the year 2007-08)		Obalapuram Mining Company (base year 2005-06 compared with the year 2008-09)	
	Turnover	Royalty	Turnover	Royalty	Turnover	Royalty
For base year	18.28	2.96	576.25	4.15	207.99	2.46
For the year 2007-08/2008-09	768.71	4.75	2516.65	3.73	1522.68	7.40
Percentage variation	4205	160	437	(-) 10	732	300

It may be seen from the above that despite the accelerated growth in turnover of the mining companies from 2003-04 onwards, there was no upsurge in revenue from royalty. The growth in turnover of mining companies was incongruous with the revenue increase in the State by way of royalty. This indicates failure of the Government to recognise the revenue mobilisation opportunity in an industrial sector which was showing an exponential growth. The incongruity was occasioned by either low rate of royalty or by possible under reporting of actual quantities mined or a combination of both. The first problem has been addressed to some extent by the switching of royalty to ad valorem rates from 13 August 2009.

After this was pointed out (August 2012), the Department stated (October 2012) that the Central Government is empowered to fix/revise royalty rates and it had been the grouse of the State Government that ad valorem rates were not the actual rates and therefore the State Governments were not getting the due royalty from the miners. It is only after the Hon'ble Supreme Court order the royalty on iron ore has been collected at auction rates and thus the royalty collection significantly improved.

This indicates that the royalty rate collected by the State before auctioning of iron ore was lesser as the Indian Bureau of Mines (IBM) fixed sale price was far below the actual rates.

3.3 Assessment of royalty

Iron ore:

3.3.1 Non/short levy of royalty on iron ore

Three¹ Deputy Director Offices

MMDR Act, 1957 stipulates that the holder of a mining lease shall pay royalty in respect of iron ore removed or consumed from the lease area at the rate of 10 *per cent* of the sale price. The State-wise sale price published by the IBM shall be the basis for levy of royalty. The IBM publishes the sale value of iron ore for each month in the subsequent month. Further, during the period from 13 August 2009 to 9 December 2009, 20 *per cent* over and above the value published by IBM had to be taken as sale price of the mineral. With effect from 10 December 2009 the IBM sale price only is to be adopted.

We checked records of 73 major mining leases for years 2009-10 and 2010-11. We noticed in 28 cases that royalty was levied on the sale price published by the IBM as applicable to the month of issue of permits. However, in these

cases the lessees transported the iron ore in the subsequent months. The DD instead of applying rates applicable on the date of transportation applied rates applicable on the date of issue of permits. This resulted in short levy of royalty amounting to ₹ 10.20 crore.

After we pointed out (October 2010, September 2011 and November 2011), the DD, Hospet replied (January 2012) that demand notices for payment of differential amount of ₹ 8.16 crore in respect of 11 lessees were issued. The DD, Chitradurga replied (October 2010) that differential amount of ₹ 89.47 lakh was adjusted out of the credit available in one case. The DD, Tumkur replied (May 2012) that notices had been issued.

3.3.2 Short levy of royalty on auctioned iron ore

Two² Deputy Director offices

We noticed seven auction sales of seized iron ore were held in 2008-09 and 2009-10. In these cases, royalty was levied on the sale price published by IBM which was available with the Department at the time of issue of permits. However, successful bidders transported the ore subsequently during 2009-10 and 2010-11. The relevant sale price for the month of transportation was published by IBM subsequently. The concerned DDs failed to obtain an undertaking from the successful bidders for recovery of additional liability which may arise due to publication of IBM sale price subsequently. This resulted in short levy of royalty of ₹ 23.86 lakh.

After we pointed out (November 2011), the DD, Hospet replied (November 2011) that as per the guidelines under Rule 64 D of MC Rules, if the sale price

¹ Chitradurga (all cases), Hospet (50 per cent), Tumkur (all cases)

² Chitradurga, Hospet.

for the State for a particular month was not published by IBM, the latest information available in the State shall be referred failing which the latest information for 'All India' shall be referred. Accordingly, royalty was collected based on the latest sale value available at the time of issue of permits since no guidelines were incorporated under 64-D to re-calculate royalty at subsequent stage.

In respect of lessees, the levy of royalty can be regulated and rectified annually at the time of assessment. However, in respect of auction cases such a precaution cannot be taken and a preventive clause should be added in the agreement for sale.

As the Rules did not provide to re-calculate royalty, we recommend that a system should be developed to regulate short levy of royalty arising due to late publication by IBM.

The Director, DMG stated (October 2012) that action has been taken to regulate recovery of royalty.

3.3.3 Short collection of value of the seized iron ore

The Hon'ble Lokayukta noticed (February 2009) illegal mining activities by M/s.Lakshminarayana Mining Company (Mining Lease No.2487) in forest area outside its sanctioned lease area. A case was booked by the Forest Department and 84,622 cubic meters (m³) of illegally extracted iron ore was seized. The Forest Department released entire quantity of seized iron ore in December 2009 against the bank guarantee for ₹ 14 crore furnished by the lessee based on the IBM rates for September 2009. The bank guarantee was subsequently converted as revenue during September 2011. Though the ore was released between 13 August 2009 and 9 December 2009, we noticed that the Forest Department assessed the value of minerals without adding twenty per cent over and above the sale price published by IBM. This resulted in short collection of value of minerals by ₹ 2.67 crore.

The Deputy Conservator of Forests (DCF) (T), Bellary replied (April 2012) that the IBM rates as intimated by the Range Forest Officer were adopted for assessing the value of the minerals. Thus the failure of the Forest Department to ascertain the value of minerals from DMG resulted in loss of revenue to the Government.

3.4 Non/short collection of royalty by DMG due to incorrect opening/closing stock

3.4.1 Major minerals (Iron ore)

Office of the Deputy Director, Hospet

We observed from the annual audit reports and annual reports in respect of two lessees that the closing stock of minerals at the end of a previous year was not carried forward as opening balance for the subsequent year. The value of 3,24,334 MT of minerals short accounted was ₹ 27.72 crore and royalty recoverable worked out to ₹ 35.68 lakh as shown below:

Office, Name of the lessee and ML No.	Type of mineral	Quantity of ore short accounted (in MT)	Value (₹ in lakh)	Royalty amount at the minimum rate of ₹ 11/- per MT.	Remarks
Hospet/ Aswathnarayan Singh & Co: ML 2531	Iron ore fines	30,000	236.70	3.3	The lessee had short accounted closing stock of 147994 MT of dump workings and 30000 MT of iron ore fines during 2006-07. In addition, as against a production of 3 lakh MT of iron ore lumps during 2006-07, 2.111 lakh MT was despatched during that year. However, the balance quantities were not carried forward during 2007-08 and onwards.
	Iron ore lumps	83,900	701.42	9.78	
	Dump workings	1,47,994	1,167.67	16.28	
Hospet/ S.B.Minerals: ML 2559	Iron ore lumps	57,440	666.30	6.32	During 2007-08, the lessee produced 132440 MT of iron ore lumps and despatched 75000 MT. The balance of 57440 MT was however not carried forward by the lessee in the subsequent years.
	Total	3,24,334	2,772.09	35.68	

Note: Value of the minerals was adopted at ₹ 789 and ₹ 1,160 per MT for the years 2006-07 and 2007-08 respectively as per Mineral Year Book of IBM.

The Department replied (October 2012) that notices have been issued to the defaulting lessees and instructions have been given to the DDs to recover royalty with applicable penalties as per rules.

3.4.2 Minor minerals (stone)

Office of the Deputy Director, Ramanagara

Rule 18 (9) and (10) of the KMMC Rules, 1994 stipulates that every QL holder shall keep correct accounts and furnish annual returns regarding quantity of minerals produced, sold or despatched from leased area, quantity in stock, royalty paid, etc. No person shall transport any mineral except under or in accordance with MDP. Contravention of these rules attracts penalty at five times of royalty as stipulated in QL Deed.

We noticed from the annual stock returns and annual audit reports of seven Quarry Leases (QLs) for the years 2003-04, 2004-05, 2007-08 and 2008-09 that 1231.757 m³ of granite was shown as closing stock. However, the same was not carried forward as opening balance during the subsequent years. This indicated possible transportation of granite without valid permit involving

royalty of ₹ 14.94 lakh. Besides, interest of ₹ 9.24 lakh and penalty of ₹ 74.69 lakh were also leviable.

After we pointed out (September 2011), the DMG stated (October 2012) that after notices were issued (January 2012) to the concerned lessees regarding short-accounting of stock, five out of the seven lessees replied that granite blocks are still lying in the quarry heads and not transported. The DD has been directed to verify the fact and send a detailed report to the Director.

3.5 Non- levy of interest

3.5.1 Major Minerals.

Office of the Deputy Director, Hospet

Rule 64-A of MC Rules, 1960, stipulates levy of interest at 24 *per cent* per annum on dues not paid from the sixtieth day after the expiry of date fixed for payment of such dues.

We noticed in respect of two³ Mining Leases (MLs) that royalty amounting to ₹ 158.92 lakh was demanded by the Department in the annual audit reports issued in

August/September 2010 for the assessment year 2009-10. The lessees paid the dues during March/April 2011. The delay in payment of royalty, beyond sixty days from the date of issue of demand notice was 122 and 198 days. However, interest amounting to ₹ 16.62 lakh was not levied by the Department.

The DD accepted (October 2012) our observation and issued a demand notice for entire amount. In one case interest of ₹ 6.52 lakh was recovered while in another case, the lessee had requested for adjustment of amount from his credit balance available with the department.

3.5.2 Minor Minerals

Office of the Deputy Director, Ramanagara

Rule 41 of KMMC Rules, 1994, stipulates levy of interest at 15 *per cent* per annum on dues not paid from the sixtieth day after the expiry of date fixed for payment of such dues.

In one case⁴ Department noticed that 193.68 cum of ornamental stone was extracted and transported by a lessee during January 2001. On

this illegal extraction and transportation of ornamental stone, department raised demand in January 2011 for ₹ 3.87 lakh towards value of the mineral. However, we noticed that interest at the rate of fifteen per cent per annum from 2001-02 (January 2001) to January 2011 amounting to ₹ 5.81 lakh was not levied and demanded by the Department.

³ M/s. P. Balasubba Shetty and Sons (Mining Lease No. 2502), M/s.Gogga Gurushanthaiah and Brothers (Mining Lease No.2522).

⁴ Sri.D.Venkataramanaswamy (QL No.636).

The DD, Ramanagara in response to our observation stated (January 2012) that demand notice for recovery of interest amount would be issued.

The Department stated that out of ₹ 3.87 lakh the lessee has paid ₹ 50,000 and the lease period had expired on 9 May 2009. The lessee had applied for renewal and the DD agreed to recover arrears along with interest before considering the request for renewal.

3.6 Deduction of royalty by other departments

The Hon'ble High Court of Karnataka held (March 2007) that the work executing departments should deduct royalty from the bills of the contractors if they fail to produce proof of payment of royalty to the concerned departments. The DMG issued (December 2007) circular instructions to the work executing departments in this regard and also to remit royalty to the Head of Account "0853-102-1-05 – Non Ferrous Mining and Metallurgical Industries" as per Rule 37 of KMMC Rules. 1994.

We noticed that the work executing departments were sending cheques/ Demand Drafts in respect of total royalty deducted from the bills of the contractors without indicating the type of mineral, total quantity consumed,

rate of royalty recovered, etc.

The Director, DMG, Bangalore after observing that the work-executing departments were adopting different conversion factors for arriving at the rates of royalty per m³ recoverable from the bills of the contractors, circulated (Oct 2010) rates of royalty per m³ by specifying relevant conversion factors in respect of these minor minerals. Subsequently, the Director, DMG, Bangalore, after noticing (July 2011) that the conversion factors circulated in October 2010 were incorrect, issued another circular (July 2011) revising the rates as detailed below.

(Amount in ₹)

Type of mineral	Rate as per circular dated 26.10.2010		Rate as per circular dated 15.07.2011		Difference	
	Per MT	Per m ³	Per MT	Per m ³	Per MT	Per m ³
Building stone	30	45	30	79	0	34
Jelly/metal	30	45	30	54	0	9
Sand	30	51.60	30	52	0	0.40
Soil/earth	20	20	20	30	0	10

We also noticed that there was lack of co-ordination between work executing departments and DMG in ascertaining the correctness of the amounts collected as royalty by these departments and prompt credit of such collections to the Government, as discussed in the following paragraphs:

3.6.1 Short deduction of royalty

We obtained information regarding royalty deducted from contractors' bills from Public Works Department, Karnataka Neeravari Nigam Limited, Cauvery Neeravari Nigam Limited, etc. We noticed that as against ₹ 11.74 crore royalty deductible in respect of building stone, sand, jelly and murrum

consumed for works in nine⁵ offices during the period from 2008-09 to 2010-11, an amount of ₹ 6.87 crore was deducted. This resulted in short deduction of royalty by ₹ 4.87 crore as detailed below.

(₹ in lakh)

Name of the minor mineral	Total quantity consumed (in m ³)	Rate of royalty per m ³	Royalty due to be deducted from the bills	Royalty actually deducted	Short deduction of royalty
Building stone	254740.43	79	201.24	66.88	134.36
Sand	572274.60	52	297.58	212.54	85.04
Jelly	894096.72	54	482.81	315.75	167.06
Murram	1287793.50	15	193.17	92.19	100.98
Total			1174.80	687.36	487.44

The basis on which the amount of royalty was collected or deducted was not furnished.

Thus, the absence of a system to check the correctness of the royalty being deducted by the other departments in DMG resulted in short collection of royalty.

The Department while accepting the audit observation stated (October 2012) that efforts would be made to recover the differential royalty from the concerned Departments.

3.6.2 Short remittance of royalty by Karnataka Warehousing Corporation Limited

On verification of the annual accounts/ledger accounts of Karnataka Warehousing Corporation Limited, Bangalore for the years 2006-07 to 2010-11, we noticed that out of ₹ 1.23 crore deducted from the bills of the contractors towards royalty during 2006-07 to 2010-11 an amount of ₹ 1.20 crore was not remitted (November 2011) to the Government account. The interest leviable on the amount not remitted to the Government Account worked out to ₹ 38.47 lakh (December 2011) as detailed below:

(₹ in lakh)

Sl.No.	Year	Amount of royalty deducted from the bills of the contractors	Interest to be charged for the months (upto December 2011)	Interest leviable at the rate of 15 per cent per annum
1	Upto March 2006	6.32	69	5.45
2	2006-07	5.44	57	3.87
3	2007-08	20.79	43	11.18
4	2008-09	21.77	31	8.44
5	2009-10	17.17	19	4.08
6	2010-11	48.48	9	5.45
	Total	119.97		38.47

⁵ Cauvery Neeravari Nigam Limited - Gorur, Mandya and Ramanagara Offices, Karnataka Neeravari Nigam Limited - Ranadurga, Ranebennur and Ron offices, Executive Engineer (Rural Water Supply Division), Tumkur, Executive Engineer (PWD), Koppal and Executive Engineer (PWD Building Division), Bangalore.

3.6.3 Non-collection of royalty by Railways

On scrutiny of the information obtained from the office of the Principal Director, Railway Audit, Hubli, we noticed that 3274976 m³ of stone ballast was procured by SWR during the period from 2007-08 to 2009-10 for open line and construction works from the contractors. Royalty at the rate of ₹ 54 per cum amounting to ₹ 17.68 crore was not deducted from the bills of the contractors for supplying the stone ballast.

After this was pointed out (January 2012), the Director, DMG, Bangalore stated (May 2012) that the Department was negotiating with SWR authorities to deduct royalty in respect of stone ballast from the bills of the contractors for the works executed between the years 2007 and 2010.

3.7 Non-collection of processing fee

3.7.1 Minor minerals

As per amendment (June 2007) to Rule 42 of KMMC Rules 1994, any person who desires to transport minor minerals by road, by rail or any other means of transport shall apply in Form-AP along with ₹ 50/- as processing fees for each MDP/Trip sheet for specified or non-specified minor mineral to the concerned competent authority.

As per the information furnished by the DMG (pertaining to 25 offices out of 31 offices), we noticed that 3.25 crore MT of building stone were transported without obtaining MDPs during the years 2007-08 to 2010-11.

Failure of the Department to enforce transportation of building stones with MDPs resulted in foregoing revenue amounting to ₹ 9.55⁶ crore.

3.7.2 Major minerals

Section 23-C of the MMDR Act empowers the State Government to make regulations in respect of transportation of minerals.

We noticed that there was no levy of processing fee in respect of major minerals as in the case of minor minerals for

transportation, though similar incidental charges towards issue of computer-generated MDPs and printing/issuing of trip sheets in triplicate for the corresponding quantity of major minerals were incurred by the department. Provision for collection of nominal processing fee for each MDP/trip sheet, atleast on par with the amount levied in respect of minor minerals, should have been made by the department, in consultation with the Central Government, in respect of major minerals.

We noticed in the three⁷ test checked offices, 12.87 crore MT of iron ore was transported during the years from 2007-08 to 2009-10. Taking into account 17 MT as the maximum quantity of iron ore permitted per truck for

⁶ Total quantity transported with out MDP = 3.25 crore MT
1 MDP = 17 MT

Fee for the MDPs = 3.25 crore MT/17 MT = 19.11 lakh x 50 = 9.55 crore

⁷ Chitradurga, Hospet, Tumkur.

transportation, 75.70 lakh trip sheets were issued for transportation of 12.87 crore MT of iron ore. Non-collection of processing fee at the time of issue of trip sheets for transportation of iron ore thus resulted in potential loss of revenue amounting to ₹ 37.85 crore.

During exit conference, the Director stated that processing fee of ₹ 10 was collected per trip sheet issued for major minerals from April 2012 and agreed to enhance the same on par with minor minerals in consultation with the Central Government.

The Department stated (October 2012) that there will be no revenue loss in future since the mineral administration of the department has been computerised and online e-permit system has been introduced.

3.8 Non-maintenance of records of waste rocks in respect of ornamental stone quarries

Four⁸ Deputy Director offices

As per Rule 31 of Granite Conservation and Development Rules 1999, the overburden, waste rock and non-saleable granite generated during prospecting or mining operations for granite shall be stored separately in properly formed dumps. Further, Rule 22(2) of the rules stipulates that the small granite blocks from such non-saleable granite can be used for the manufacture of bricks as well as flooring or wall tiles. In addition, as per Schedule II of KMMC Rules 1994, royalty at ₹ 30 per MT was leviable on irregular shaped waste rocks.

We noticed that the information relating to total quantity of waste rock generated during the quarrying operations, its proper storage and consequent utilisation towards backfilling or for commercial purposes such as tiles, etc., was not available in any of the lease files. The lessees also

did not maintain the account of waste rocks generated. In the absence of any account regarding wastes generated, audit could not ensure whether royalty at the rate of ₹ 30 per MT prescribed for such waste rocks was collected or not from the lessees.

We also noticed that the Department did not fix any norms regarding generation of waste in the production of ornamental stones.

After we pointed out (September 2011, October 2011, December 2011 and January 2012), DMG stated (September 2012) that though large quantity of waste rock is generated in ornamental stone quarries, maintenance of such accounts is not possible. Useful material out of the waste rock was identified as khandas and royalty for the same was collected. The reply is not in line with the provisions of Rule 31 which stipulates proper maintenance of accounts and levy of royalty for the waste rocks as provided in the Rules.

⁸ Bangalore (Rural), Chamarajanagar, Ramanagar, Tumkur.

3.9 Unrealistic assessment of production of building stone

Six⁹ Deputy Director/Senior Geologist offices

Rule 40 of KMMC Rules, 1994 envisages that the competent authority i.e. Geologist, Senior Geologist and DD shall conduct inspection of register and accounts of production, despatch and stock maintained by a quarry lease holder for issue of annual audit reports. Further, as per Part-VI Clause 2 of the quarry lease deed, the quarry lease holder shall maintain correct account of mineral produced, despatched and stock of the mineral.

We noticed that no books of accounts relating to production, despatch and closing stock of the building stone were maintained by the quarry lease holders and permits were also not obtained for transportation of building stone. Due to non-maintenance of

accounts, assessment of the actual quantity of production of building stone could not be ascertained by the department.

The Department replied (October 2012) that since most of the quarry holders were illiterate, maintenance of books of accounts could not be insisted upon. It was further replied that the assessment of production and despatch of the building stone was done during spot inspection in Bangalore (Rural), Chamarajanagar and Ramanagar divisions during the years 2006-07 to 2009-10 by taking into account the number of labourers employed while in Chitradurga and Hospet divisions, it was done based on local enquiry.

Thus, the assessment of royalty in respect of building stone without taking measurements of pits was not realistic.

A circular was issued by DMG in April 2010 instructing to record the length, breadth and depth of the quarried area in the assessment order called Audit Reports. In this regard, we observed these measurements were not recorded in the Audit Reports during the year 2010-11 in Ramanagar and Chamarajanagar districts. The DMG stated that that the pit measurements would be recorded in future.

The Department accepted (October 2012) our audit observation and stated that the accounts and auditing process are computerised from 2011-12 and the lessees are being instructed to file the quarterly reports by e-mail.

3.10 Demand, Collection and Balance (DCB) statements

As per the Departmental Manual DCB statements are prepared by the Divisional Offices indicating the actual position of dues outstanding at the beginning of the year, demands raised, amounts realised and closing balance at the end of the year against each lessee. The DCB statements are required to be submitted to the Director, DMG in the first week of July of the following year. As per the guidelines issued (August 2002) by the Director, DMG, Bangalore, at least twenty *percent* of the arrears should be collected along with advance royalty in cases where huge balances are outstanding. Further, issue of

⁹ Bangalore (Rural), Chamarajanagara, Chitradurga, Hospet, Ramanagara, Tumkur.

Revenue Recovery Certificates (RRC) may be resorted to for ensuring prompt recovery of arrears even from ongoing leases.

We noticed (July 2012) that the consolidated DCB statements for the years 2006-07 to 2010-11 were not prepared by DMG. After we called for the DCB, the information in respect of major minerals only was compiled (excluding details from Hospet, Udupi and Karwar Divisions) and furnished to us. A perusal of the statement revealed difference in closing balance and opening balance of the subsequent year as detailed below:

(₹ in crore)

Year	Opening balance	Demand	Collection	Actual closing balance	Closing balance arrived by DMG	Difference in closing balance
2006-2007	100.65	95.36	92.04	103.97	108.17	4.20
2007-2008	104.44	104.83	103.83	105.44	115.61	10.17
2008-2009	139.75	115.40	96.52	158.63	164.18	5.55
2009-2010	160.28	196.58	182.35	174.51	184.16	9.65
2010-2011	194.50	251.91	243.21	203.20	216.68	13.48

We also noticed that the arrears had doubled from ₹ 100.65 crore at the beginning of the year 2006-07 to ₹ 216.68 crore as at the end of 2010-11.

Further scrutiny of DCB statements of major minerals in two test-checked divisions also revealed differences between the closing balance of the arrears of previous years and opening balance of arrears in the subsequent year is given below:

(₹ in lakh)

Office	Year	Closing balance of arrears at the end of the previous year	Opening balance of arrears at the beginning of the year	Difference
Chitradurga	2007-08	22.14	19.71	2.43
	2008-09	29.74	24.13	5.61
	2009-10	10.62	4.65	5.97
	2010-11	151.78	150.71	1.07
Tumkur	2007-08	38.31	38.85	-0.54
	2008-09	16.34	13.85	2.49
	2009-10	73.73	39.50	34.23
	2010-11	74.80	52.81	21.99
TOTAL				73.25

Therefore the DCB statements prepared by the Department were not reliable.

Regarding balances not carried forward to the subsequent year amounting to ₹ 73.25 lakh, the DMG had not taken any action to reconcile the accounts. Hence, a probable loss to the tune of ₹ 73.25 lakh not carried forward to the subsequent year cannot be ruled out.

The Department replied (October 2012) that all out efforts will be initiated for the early recovery of arrears. Regarding differences in closing balance figures, the Department replied that the differences occurred due to non-incorporating any revisions in demands in the DCB statement. The Department is developing new software for systematic accounting of the demand raised, amount collected and the closing balance of the arrears and statistical positions in DCB statements to avoid any ambiguity. It was further replied that all efforts will be made to outsource the accounting process to Chartered Accountants as is being done in Gujarat.

3.11 Arrears of revenue

As per provisions of Section 9 of the MMDR Act, royalty has to be paid at the time of despatch of mineral from the lease area which permits no arrears of revenue on minerals despatched. However, we noticed that arrears in revenue accumulated on account of dispute in assessment of royalty on limestone, differential royalty on sale price due to delayed notification of sale value of mineral by the IBM, with retrospective effect, non-payment of dead rent by the idle leases etc.

The arrears of revenue included arrears from existing leases and from expired leases. We noticed (October 2011, November 2011 and March 2012) that no mechanism existed to ensure recovery of arrears in respect of expired leases on priority and that the arrears position of revenue up to the year ending March 2011 was not analysed and documented in the department. In the absence of the same, the possibility of recovery of old arrears is doubtful.

The Department stated (October 2012) that the consolidated position of arrears pending collection as at the end of March 2011 could not be prepared due to non-preparation of DCB statements in Gulbarga and Hospet. Further, it was also stated that the periodical position of arrears pending recovery was not prepared and this would be assessed and documented from 2011-12 onwards after issuing directions in this regard to all the field officers.

Scrutiny of DCB statements and position of arrears in the test checked divisions revealed that the recovery of arrears was not monitored Directorate as the consolidated position of arrears was not prepared.

3.11.1 Arrears in respect of expired leases

Analysis of the data available in the DCB statements of 2006-07 to 2010-11 revealed that an amount of ₹ 9.29 crore was pending recovery from 857 expired leases in six test-checked offices. There is no time limit within which arrears of revenue should be declared as arrears as land revenue.

We noticed (September to December 2011 and March 2012) that the cases were not referred to Land Revenue Department for recovery as arrears of land revenue. Accumulation of arrears in respect of expired blocks indicates that the Department did not take effective action to collect the revenue periodically before closure of the lease period.

The Department stated (October 2012) that the arrears would be referred to Revenue Department for recovery through Revenue Recovery

Certificate (RRC) and assured that due care would be taken in future for systematic recovery of arrears before the closure of lease period.

3.11.2 Arrears referred to RRC

In five test-checked offices, arrears amounting to ₹ 10.18 crore were pending recovery under RRC as per the latest DCB statements. In respect of Tumkur, details of cases pursued for recovery through RRC was not exhibited in the DCB statements. Further, out of these, only ₹ 15.12 lakh was collected under RRC during 2006-07 to 2009-10 indicating inadequate action by the Department in pursuing the recovery process.

The Department stated (October 2012) that persons in default were not traceable and details of fixed assets held by them, if any, were not available in many cases and hence the department was unable to recover the dues. Due to this, the Department issued a circular (June 2011) for submission of TIN number and fixed assets details from the lease holders. It was also replied that the arrears at present will be pursued through Revenue Department. Further, it was replied that non accounting of RRC details in Tumkur has been rectified.

3.11.3 Delay in issuing demand notices

As per Rule 40 of KMMC Rules, 1994, the annual assessment of royalty or dead rent shall be issued before the end of June of the year next following the financial year. The Rules do not stipulate any time limit for issue of demand notices.

We noticed in six test-checked offices that in respect of 233 leases where spot inspections of quarries were conducted, demand notices for royalty and dead rent, etc., amounting to ₹ 8.18 crore were issued after

delay ranging from two days to

490 days. The Department attributed (October 2012) the delay to shortage of staff and work load. However, the reply failed to justify the corresponding delay in realising government revenue due to belated raising of demands.

The Department stated (October 2012) that after computerisation, permits are issued after checking the royalty credit of the lessee and demand notices will be issued in respect of old and idle mines.

3.12 Internal audit

Internal Audit is an important mechanism to ensure that the departmental operations are carried out according to the applicable laws, regulations and approved procedures in an economical, efficient and effective manner.

3.12.1 The Internal Audit Wing (IAW) is functional in the Department since 1985. It is headed by an Accounts Officer on deputation from State Accounts Department under the overall control of the Director. However, Internal Audit Manual codifying the

practices and procedures relating to conduct of internal audit was not in place

in the Department. It was stated (October 2012) that the drafting of the Manual is under process.

3.12.2 The details of number of offices due for audit and the number of offices audited by IAW during the years 2006-07 to 2010-11 as furnished by the DMG is mentioned below:

Year	Total Number of offices	Number of offices due for audit	Number of offices audited	Shortfall (percentage)
2006-07	23	23	13	10 (43.47)
2007-08	23	23	15	08 (34.78)
2008-09	24	24	06	18 (75.00)
2009-10	24	24	09	15 (62.50)
2010-11	31	31	01	30 (96.77)

3.12.3 The shortfall in coverage of offices by IAW varied from 35 per cent to 97 per cent. The Department stated that the sanctioned staff strength of the IAW was based on the organisation structure as existed in the year 1985. Subsequent expansion of the Department by formation of new divisional offices and increase in the volume of operations rendered the staff strength of IAW inadequate to cover the internal audit work of the entire department. Where shortfall is 97 per cent, it was stated that the records were not available for examination as they were taken over by Lokayukta and CEC for investigation and the majority of the staff were deputed to assist these investigating agencies.

The year-wise details of the number of objections raised and settled by IAW along with money value during the years 2006-07 to 2010-11 as furnished by the Department are detailed below:

(₹ in crore)

Year	Objections raised		Objections settled		Objections pending	
	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
Up to 2006-07	1576	302.49	1394	294.41	182	8.08
2007-08	14	0.52	-	-	14	0.52
2008-09	03	0.03	-	-	03	0.03
2009-10	18	16.09	-	-	18	16.09
2010-11	04	4.10	-	-	04	4.10
Total	1615	323.23	1394	294.41	221	28.81

As seen from the above, 221 cases involving money value of ₹ 28.81 crore were pending for settlement out of which 182 cases are pending for over five years. It was replied that the objections pending settlement up to 2006-07 include the cases referred to RRC and in legal disputes. However, the fact remains that not a single observation has been settled after 2006-07.

The Department stated (October 2012) that additional posts for internal audit have been sanctioned by the Government and the State Accounts Department has been requested to post officials against sanctioned posts.

3.13 Conclusion

We noticed that despite the accelerated growth in turnover of the mining companies from 2003-04 onwards, there was no upsurge in revenue from royalty. This indicated that the Government did not recognise the revenue mobilisation opportunity in an industrial sector which was showing an exponential growth. There was short levy and collection of royalty on value of minerals auctioned or removed due to incorrect adoption of sale price published by IBM. The annual returns submitted by the lessees were not checked correctly as the closing stock of minerals at the end of a previous year was not carried forward as opening balance for the subsequent year resulting in escapement of royalty. We noticed lack of coordination between the Departments responsible for collection of royalty at source and DMG in ascertaining the correctness of the amounts collected by the work executing Department and prompt credit of such collections to the Government. The unrealistic assessment of the quantity of extraction of the minor minerals, non-fixing of norms for arriving at the waste rocks generated and the non-collection of processing fee for issue of permits resulted in loss to the State exchequer. The DCB statements of major minerals available in the Department revealed differences between the closing balance of the arrears of previous years and opening balance of arrears in the subsequent year indicating that the DCB statements prepared by the Department were not reliable. We also noticed that the arrears of revenue pending collection had doubled from 2006-07 to 2010-11. There was delay in raising of demands and lack of monitoring in recovering the arrears.

Internal Audit Manual codifying the practices and procedures relating to conduct of internal audit was not prepared by the Department. The shortfall in coverage of offices by IAW varied from 35 per cent to 97 per cent. We found that 221 cases involving ₹ 28.81 crore were pending for settlement out of which 182 cases are pending for over five years and not a single observation was settled after 2006-07. Thus, not only was the coverage of internal audit but also the compliance to internal audit objections was poor.

3.14 Recommendations:

We recommend that;

1. The Department may ensure proper maintenance of DCB Register for all minerals.
2. A system may be established for proper coordination with the departments responsible for deducting royalty at source to ensure that the royalty due is collected and remitted in an efficient manner.
3. The Government may fix norms for waste rock generation in ornamental stone quarries apart from directing the Department for maintaining proper accounts as per Rules.
4. The Government may consider prescribing a time limit for declaring the cases of arrears involved in expired leases as arrears of land revenue and stipulate a fixed time limit for issue of demand notices after finalisation of annual assessments.

5. Internal Audit Manual codifying the practices and procedures relating to conduct of internal audit may be prepared by the Department. The coverage of internal audit may be enlarged and timely compliance ensured.

CHAPTER – IV

SANCTION AND RENEWAL OF MINING LEASE

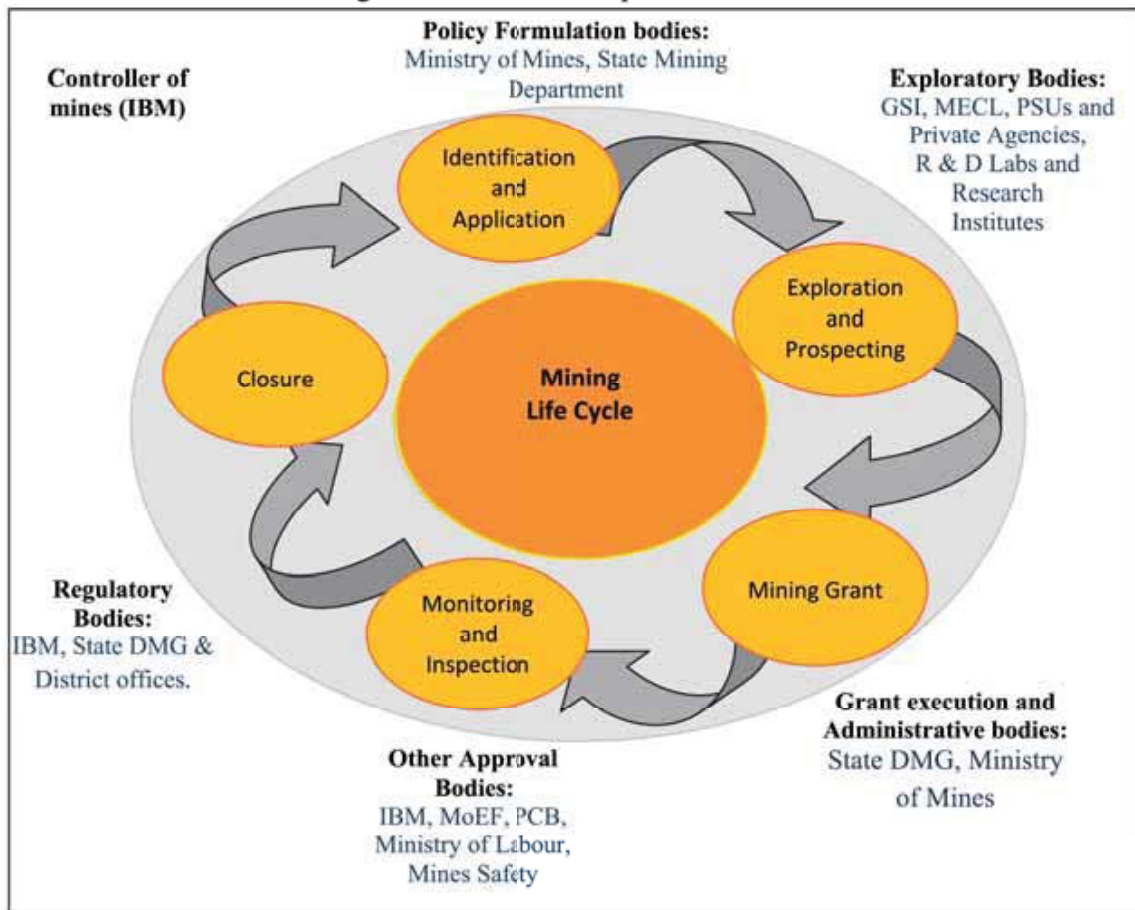
Mining Cycle	4.1
Grant of permits/licence	4.2
Deficiencies in processing of applications	4.3
Renewal of leases	4.4
Non/short realisation of stamp duty and registration fee on mining/quarrying lease deeds	4.5
Conclusion	4.6
Recommendations	4.7

CHAPTER IV - SANCTION AND RENEWAL OF MINING LEASE

All rights to minerals vest with the Government. The MMDR Act, the MC Rules and the KMMC Rules prescribe various powers and procedures for grant of concessions for mining. In this chapter, we discuss the compliance with procedures for grant of mining concessions.

4.1 Mining Cycle¹

The overall mining activity together with the stakeholders involved therein can be best brought out in the form of mining life cycle. The major stages involved in a mining cycle are identification of area and application, exploration and prospecting, grant of lease, monitoring and inspection of the mining activities and closure of the mines. Authorities/stakeholders empowered to implement, monitor and regulate the same are depicted below.



¹ Exploitation of major minerals is described as mining and that of minor minerals as quarrying. Reconnaissance and prospecting are done only in respect of major minerals. Leases are given for quarrying on public lands and licenses for operations on private lands.

CHAPTER – V

EXPLORATION OF MINERAL RESERVES

Classification of reserves	5.1
Approval of mining plans	5.2
Non-submission of quarry plan in respect of ornamental quarry	5.3
Utilisation of Satellite Imagery and field data for assessment of mineral wealth and environmental impact	5.4
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CHAPTER V - EXPLORATION OF MINERAL RESERVES

A mining plan indicating the kinds of ore, quantity of reserve, life span of the mine, the programme of annual production and method of disposal of waste etc., is prepared by a Recognised Qualified Personnel (RQP) and submitted for approval to the IBM in respect of major minerals. The mining plan approved by IBM is sent to Government of India for approval and every lessee has to work the mine in accordance with the approved mining plan. Monitoring the implementation of mining plan is to ensure that the mineral reserves are extracted under proper authority. In this chapter we discuss the compliance with procedures for approval and monitoring of mining plans.

5.1 Classification of reserves

The classification according to United Nations Framework for Classification (UNFC) of minerals is a three digit code based system, the economic viability axis representing the first digit, the feasibility axis the second digit and the geologic axis the third digit. The three categories of economic viability have codes 1, 2 and 3 in decreasing order, similarly the three categories of feasibility study have also codes 1, 2 and 3 while the four stages of geological assessment are represented by 4 codes i.e. 1 (detailed exploration), 2 (general exploration), 3 (prospecting) and 4 (reconnaissance). Thus the highest category of resources under UNFC system will have the code (111) and lowest category the code (334). As per this codification, proved reserves are 111, probable reserves are 121 and 122.

5.2 Approval of mining plans

The primary mission of IBM is to promote systematic and scientific development of mineral resources of the country (both onshore and offshore), through regulatory inspections of the mines, approval of mining plans and environment management plans to ensure minimal adverse impact on environment. The audit observations on check of records of IBM are detailed below :

5.2.1 Deficiencies noticed in fixation of annual targets for production of iron ore

As per the amendment (April 2003) to MCD Rules 1988, it is a statutory requirement that all major mineral mine owners have to report their reserves data as per UNFC guidelines. Accordingly, the reserves are classified as proved, probable and possible. In order to ensure that sufficient reserves are available a detailed exploration as envisaged in the UNFC guidelines has to be done. Detailed Exploration involves the detailed three-dimensional delineation of a known deposit achieved through sampling, such as from outcrops, trenches, boreholes, shafts and tunnels. Sampling grids are closely spaced such that size, shape, structure, grade, and other relevant characteristics of the deposit are established with a high degree of accuracy.

We found that no parameters were fixed for fixation of targets of annual production. In some cases proved and probable reserves were taken into account while in some cases proved, probable and possible reserves were taken into

account for fixation of the targets. No system was put in place to ensure systematic and scientific mining operations. A few cases are mentioned below:

➤ The proved reserves for ML 2315 (Trident Minerals, Hospet), were originally shown in the mining plan as 11.02 lakh MT during 2006-07. But the proved reserves were revised (10 January 2008) to 155.65 lakh MT. Further, the annual target fixed initially at 2.84 lakh MT was revised to 10.02 lakh MT. At both occasions the estimates of the reserves were without detailed study, and the target was fixed considering proved, probable and possible reserves.

After this was pointed out by us IBM replied (September 2011) that though the deposit was economically viable, feasibility study was not conducted and documented. This indicated that the mining plans were approved without proper survey and documentation of feasibility and economic viability was not obtained.

➤ As per approved (19 May 2006) mining plan for five years that is from 2006 to 2011 for ML 2290 (V.S.Lad & Sons, Bellary), the IBM accepted a proved reserve of 1.85 crore MT mentioned in the mining plan. It was found that this was based on general assessment and not on detailed exploration and the annual target was fixed considering proved, probable and possible reserves.

After we pointed this out, IBM stated (August 2012) that in recent years annual target was being fixed by considering various factors like existence of proved reserve, capacity of dumping area and the capacity of rural roads, etc. to support their despatch and transportation to consumers.

➤ As per approved (5 February 2004) mining plan for ML 1732 (Trident Mining Company, Hospet), the annual target was approved for one lakh MT based on proved and probable reserves.

IBM confirmed that the target was fixed with reference to proved and probable reserves.

5.2.2 Monitoring disposal of waste

Rule 33 of the MCD Rules 1988 stipulates that the waste rocks/tailings produced during mining shall be stored in separate dumps and should be properly secured to prevent escape of material in harmful quantities which may cause degradation of environment.

5.2.2.1 In ML 2290: V.S.Lad & Sons, Bellary, as against an area of 14.28 Ha¹ required to be provided in the mining plan (2006-11) for dumping 5.71 million MT of waste to a height of 20m (proposed height in the mining scheme) during the

plan period, an area of 2.53 Ha was provided in the mining plan. The mining plan approved on 19 May 2006 by the IBM indicated that viability of waste disposal was not ensured. The inspection team of IBM during inspection

¹ $5710000 \text{ MT} / (20 \text{ m} * \text{Bulk density of } 2 \text{ MT/cum as per mining plan}) = 142750 \text{ sqm}$ equivalent to 14.28 Ha.

reported (September 2008) that the area already covered with dump in the lease area was 22.13 Ha (ten times the approved dump area) which included encroachment of 2.74 Ha of forest area.

Thus, approval of the mining plan in spite of the area proposed in the mining scheme for dumping of overburden which prima facie appeared to be inadequate indicated that due importance was not accorded to waste management. The fact of encroachment of forest land was also not reported by IBM to DMG and to Forest Department.

We reported the case to IBM and they replied that the height of the dumps was maintained at 45m and thereby accommodated the total waste generated. The reply is not correct as the height of the dump waste proposed in the mining plan was only 20m and no modification was either proposed by the lessee nor “*suo motu*” made by IBM while approving mining plan.

5.2.3 Short collection of financial assurance

As per Rule 23F of MCD Rules 1988, an amount of ₹ 25000/ha shall be collected as financial assurance from the lessee for the mining and allied activities subject to a minimum amount of ₹ 2 lakh in respect of ‘A’ category mines. The leaseholder should enhance the amount of financial assurance with the increase in the area of mining and allied activities.

- In ML 2290: V.S.Lad & Sons, Bellary, the financial assurance for the area utilised for the dump was collected for an area of 5.62 Ha whereas IBM during inspection reported that an area of 22.13 Ha was already covered with dump. Evidently, financial

assurance was short-collected by ₹ 4.12 lakh for the balance area of 16.51 Ha.

- In ML 1114: S.B.Minerals, Hospet, an area of 8 Ha approved by IBM for dumping the overburden was falling outside the lease area and was not considered for calculation of financial assurance resulting in non-collection of financial assurance of ₹ 2 lakh. IBM replied that mining activities undertaken outside the mining area do not come under its purview but the proposal in the instant case for dumping outside the lease area was approved to make the document self-contained. Reply is not tenable since the definition of mine as per the MMDR Act includes ‘any area which is temporarily used for mining or storage or waste disposal’.

5.2.4 Submission of monthly and annual returns

As per Rules 45 and 52 of MCD Rules, 1988, every mine shall submit monthly and annual return of the mining activities undertaken to IBM and to the State Government or the competent authority prescribed in this regard. Rule 58 provides that whoever contravenes any of these provisions shall be punishable with imprisonment for a term which may extend up to two years or with a fine up to ₹ 50,000. In cases of continuing contravention, additional fine which may extend up to ₹ 5,000 for every day during which the contravention continues shall also be levied.

It was noticed that out of 2,146 monthly returns due to be received, 1,360 returns were not submitted by the lessees and 509 returns were furnished belatedly. However no action was taken by DMG to ensure compliance or to levy penalty for the

omission. We worked penalty leviable for non-compliance at ₹ 9.35 crore. Further, out of 183 annual returns due to be received, 150 annual returns were not submitted by the lessees and 23 returns were furnished belatedly. The penalty leviable worked out to ₹ 86.50 lakh.

In the absence of such returns, periodical production/closing stock of minerals was also not monitored by the department.

The Department accepted that the accounts were not submitted regularly by the lessees and computer enabled Integrated Lease Management System has been introduced wherein e-returns are to be submitted on line. Further, software is also being developed to issue of notices automatically to such of the lessees who fail to file e-returns within the time limit prescribed.

5.2.5 Inspections by IBM

The IBM inspected 1,163 mines through its MCDR inspection team during the period from 2006-07 to 2010-11. Violations were reported in 219 cases as detailed below:

	2006-07	2007-08	2008-09	2009-10	2010-11	Total
No. of mines proposed to be inspected	226	182	170	228	174	980
No. of mines inspected	288	237	180	233	225	1,163
No. of cases in which violations were noticed	53	31	27	38	70	219
No. of cases in which compliance was submitted	-	-	-	23	49	-
No. of cases pending	-	-	-	15	21	-

(Source: Information furnished by IBM)

The status of compliance in respect of the years from 2006-07 to 2008-09 was not available with IBM and it replied that the same would be furnished after compilation. The non-compliance in respect of the years 2009-10 to 2010-11 ranged from 30 to 40 *per cent*. It was stated that the non-compliance was due to the ban of mining activities in Karnataka by the Hon'ble Supreme Court.

It was noticed in one case (ML 2434: Associated Mining Company, Hospet) that the height of benches was approved as 8 meters in the mining plan. The MCDR team during inspection (Sept 2006) reported that the height of the benches formed in the area of working were 30m and 20m. The lessee was however allowed by IBM to continue mining without taking action to suspend the mining lease until April 2010 when the task force team during inspection ordered for suspension of the lease on the grounds that the height of the benches formed was 30m and 20m as against the approved height of 8m. Reasons for not taking action till April 2010 were not furnished.

5.3 Non-submission of quarry plan in respect of ornamental quarry leases

Rules 16 and 19 of the Granite Conservation and Development Rules, 1999, state that no person shall commence mining operations for granite in any area except in accordance with a mining plan approved by the State Government or any person authorised in this behalf by the Government. Violation of the Rules leads to suspension of all or any of the mining operations and permit continuance of only such operations as may be necessary to restore the conditions in the quarry as envisaged in the mining plan.

On verification of 120 granite quarry leases in three Deputy Director offices², we noticed that quarry plan was not available in these offices in respect of 104 quarry leases. In the absence of quarry plans, it could not be ensured in audit as to how the field offices ensured adherence to the conditions envisaged in quarry plan such as production, environmental safeguards, etc.

We noticed that in respect of two quarry leases³ in Chamarajanagara and Ramanagara as against the approved production of 3,750 cum of granite as per quarry plan for the years 2005-06 to 2010-11, the production of granite was 10,940.734 cum.

The Deputy Director, Ramanagara, stated (January 2012) that no directions were received from the Director to monitor the activities of the lessees as per the quarry plan. The Deputy Director, Chamarajanagara replied that notices were issued to the lessees to furnish quarry plans. The Deputy Director, Tumkur, replied that the quarry plan would be obtained from the lessees.

Regarding exceeding annual production, the Department stated (October 2012) that at present, the annual production is being entered in the computer

² Chamarajanagara, Ramanagara, Tumkur.

³ Sri.K.M. Basavaraj (QL No.778 in Ramanagara), Sri. Jayaprakash (QL No.589 in Chamarajanagara).

and while issuing e-permits, generation of e-permits would stop as soon as the production exceeds the limit.

5.4 Utilisation of Satellite Imagery and field data for assessment of mineral wealth and environmental impact

The following possibilities can be explored for optimising mineral exploration and extraction and to mitigate the ill effects of mining.

Using Remote Sensing Data (RSD), the extent of area that will be affected and the impact on the various natural resources due to taking up of a mining project can be studied prior to the initiation of the project. Such a project was undertaken by NRSA (National Remote Sensing Agency) for identifying distillery sites in Karnataka on the request of Karnataka State Pollution Control Board (KSPCB) and similar models can be worked out for mining projects which will go a long way in identifying the adverse impacts on the environment and mitigating them through planned intervention-

We are of the opinion that Remote Sensing Data coupled with information obtained from Geological Survey of India (GSI) through physical probes, sampling, etc., could be used to fix floor level of quantities and quality of mineral wealth that can be reasonably expected to be extracted from a lease site within a mining plan timeline and revenue expected in terms of royalty. If quantity reported as mined and therefore royalty recovered is less than the floor level quantity, suitable penalties can be fixed to minimise loss to public exchequer and to curtail illegal mining. Physical verification of adherence to the commitments made in the mining plan and periodic review of the activities should be undertaken by the regulatory bodies. Here again the help of satellite imagery can be taken.

The Director during exit conference stated that the issue has already been taken up and efforts are being made to accurately determine the mineral available in the mine with the help of the latest technology. The Department has also initiated action for establishing Mining Exploration and Resource Audit Trust "Khanija".

5.5 Conclusion

We noticed that there were no parameters for fixing of annual target for production of minerals. The areas proposed for dumping the overburden in the mining plan were found inadequate indicating that due importance was not accorded to waste management. The submissions of periodical returns by the lessees were also not monitored by the Department. The status of compliance to the violations noticed by IBM from 2006-07 to 2008-09 was not made available. It was noticed that the lessees were allowed to continue mining operations even in cases where violations were noticed or where the production was more than the approved production.

5.6 Recommendations

The Government may consider putting in place a mechanism to prescribe parameters for fixation of targets of annual production giving due importance to the areas proposed for dumping the overburden in the mining plan so as to discourage unauthorised dumping .

CHAPTER – VI

IRREGULARITIES IN MINING

Delay in framing rules to prevent irregular mining and transportation	6.1
Irregular extraction of minerals	6.2
Transportation of minerals	6.3
Conclusion	6.4
Recommendations	6.5

CHAPTER VI – IRREGULARITIES IN MINING

In terms of National Mineral Policy, all minerals have to be extracted and transported under lawful authority. The extraction of mineral should be in accordance with approved mining plan and despatch of minerals should be on obtaining mineral despatch permits from the DMG on payment of royalty. In this chapter, we discuss the extraction and despatch of minerals in violation of prescribed norms, that is, production of minerals in the absence of mining plan, in excess over the approved mining plan, mineral extraction before entering into lease, transportation of minerals without permit/in excess over the permitted quantity, all of which resulted in illegal extraction and despatch of mineral.

6.1 Delay in framing rules to prevent irregular mining and transportation

Section 23 C of the MMDR Act, empowered the State Government to frame rules for preventing illegal mining, transportation and storage of minerals and for the purposes connected therewith.

Failure to frame Rules in pursuance of the provisions of the MMDR Act was mentioned in Paragraph No. 7.2.9 of the Audit Report of the Comptroller and Auditor

General of India (Revenue Receipts) for the year 2005-06. The Standing Committee on Coal and Steel, Ministry of Mines, Government of India in their 19th Report (August 2006) commented on the lackadaisical attitude of the State Governments in framing the Rules resulting in rampant illegal mining and asked the Ministry of Mines of Government of India to issue directions to the concerned States to immediately frame the Rules for prevention of illegal mining.

The Karnataka Mineral (Regulation of Transport) Rules, 2008 were notified in March 2008. However promulgation of the Rules was stayed by the Hon'ble High Court of Karnataka based on the writ petitions filed by the miners challenging the validity of the Rules, 2008 as discriminatory, arbitrary, etc. Subsequently, the Hon'ble High Court disposed of (September 2010) the writ petition subject to the mutual agreement on provisions relating to transportation of ore between the Department and the lessees and amendment to the Rules accordingly. Consequently, separate Rules viz., Karnataka (Prevention of Illegal Mining, Transportation and Storage of Minerals) Rules, 2011 were notified (April 2011). These Rules provide for fitting of vehicles with Global Positioning Device, validity of the permits based on the destination of the transportation, registration of stock yards/mineral based industries, establishment of check posts, barriers, weigh bridges, etc. Thus the delay in framing the Rules till April 2011 resulted in absence of controls with respect to transportation and huge revenue loss to the State exchequer. This is evidenced from the statement made by the then Chief Minister of Karnataka on the Floor of the Karnataka Assembly on 9 July 2010, wherein it was stated that as against the permitted quantity of 470.43 lakh MT of iron ore, a quantity of 775.34 lakh MT was exported. This resulted in as much as 304.91 lakh MT iron ore valued at ₹ 15,245 crore (adopted at a conservative free-on-board rate

of ₹ 5,000 per MT) exported without valid permits during 2003-04 to 2009-10.

The Director, DMG replied (January 2012) that action was initiated to draft the Rules in March 2005 but was delayed due to administrative reasons and also due to litigations pending before the Hon'ble High Court of Karnataka between the period March 2008 and September 2010. It was also stated that the issue of loss due to illegal mining was covered in the Second Report of the Hon'ble Lokayukta and also in the Report of CEC which would be placed before the Hon'ble Supreme Court and appropriate action to prevent recurrence of illegal mining and transportation of minerals would be taken up based on the directions issued by the Hon'ble Supreme Court. Further, the committee constituted to fix responsibilities on the officers/officials for illegal mining and transportation of minerals had submitted its Report to the Government and certain issues were referred to CBI for investigation.

The Director DMG during exit conference stated that the rules were notified in 2008 after allowing a period of one month for the public to file objections, if any, before publication of notification. However, during that period no objections were raised and lessees approached court only after notifying the rules.

Thus, in spite of the State Government being empowered under Sec 23C of MMDR Act to frame separate Rules in 1999 itself, administrative delay to notify initial Rules till 2008 was not justifiable especially in view of rampant illegal mining in the State.

6.2 Irregular extraction of minerals

Major minerals (Iron ore)

Rule 22 (4) of MC Rules states that on receipt of application for the grant of a mining lease, the State Government shall take a decision to grant precise area for the said purpose and communicate such decision to the applicant. On receipt of communication, the applicant shall submit a mining plan, within a period of six months or such other period as allowed by the State Government, to the Central Government, i.e. the IBM for its approval. The applicant shall submit the mining plan thus approved to the State Government to grant mining lease over that area. MCD Rules, 1988, stipulates that the lessees have to prepare and submit the mining plans every five years along with the scheme of mining. The mining plan and the scheme of mining thus becomes extremely vital documents for the scientific and systematic development of mineral deposits. Section 21(5) of MMDR Act states that whenever any person raises, without any lawful authority, any mineral from any land, the State Government may recover from such person the mineral so raised, or, where the mineral has already been disposed of, the price thereof, along with royalty.

We test checked 73 out of 120 mining leases in Hospet, Chitradurga and Tumkur. We noticed violations of Rules/norms in 14 cases which resulted in illegal extraction and despatch of minerals in the following paragraphs:

6.2.1 Production of minerals in the absence of approved Mining Plan/scheme

As per MCD Rules, lessee shall review the MP and submit mining scheme for the next five years 120 days before expiry of the current plan and IBM shall communicate its approval or rejection within 90 days. If no decision is communicated within 90 days, the mining plan/scheme is deemed approved provisionally subject to communication of final decision.

We noticed that the field offices did not monitor the extraction of iron ore vis-à-vis approved mining plan/scheme by IBM and issued permits for despatch of ore on collection of royalty. The Management Information System in the DMG also did not provide for monitoring

this at Directorate level. We noticed in three test-checked Divisions that four lessees had extracted 14.68 lakh MT of iron ore valued at ₹ 150.59¹ crore without approved mining scheme. The concerned Deputy Director/Senior Geologist had permitted despatch of mineral on collection of royalty without ensuring the approval of the mining scheme. Details are given below:

6.2.1.1 We noticed that in respect of mining lease No. 2436 in Chitradurga, application for mining scheme for the period 2007-08 to 2011-12 was submitted to IBM only in January 2009 and the same was approved in March 2009. However, as per the annual audit reports finalised by the DD, Chitradurga, the lessee had produced 3,73,443 MT of iron ore during 2007-08 and 2008-09 without approved mining scheme. The Department had permitted despatch of mineral on collection of royalty and not recovered the value of mineral amounting to ₹ 44.65 crore under Section 21 (5) of the MMDR Act.

After we pointed out (October 2011), the DD replied that demand notice was issued (December 2011). Further, progress made has not been received.

6.2.1.2 A Mining scheme for the period 2006-07 to 2010-11 was approved in February 2007 in respect of mining lease No. 2220 in Tumkur. In terms of the approved mining scheme, the lessee had not worked the mine from 2000-01 to 2005-06. Scrutiny of the Annual Audit Reports furnished by the DD, concerned, revealed that the lessee had produced 1,54,916 MT of iron ore between April 2005 to January 2007 (before approval of mining scheme). However, the Department did not recover the value of mineral amounting to ₹ 12.27 crore for this unauthorised extraction.

After we pointed out (September 2011) the irregularities, the DD, Tumkur stated that the mining scheme approved by IBM on 2 February 2007 was for the period from 2006-07 to 2010-11. The reply was silent about why the

¹ For the purpose of computation of value of iron ore, the details of overall quantity of iron ore produced and value realised in respect of iron ore as available in the Mineral Year Book published by IBM for the year 2006-07 to 2009-10 were considered. Accordingly, the rate of iron ore per MT have been adopted as ₹ 789, ₹ 1160, ₹ 1219 and ₹ 1116 for the years 2006-07 to 2009-10 respectively.

penalty was not levied/leviable for unauthorised extraction of 1,56,120 MT of iron ore prior to the approval of mining scheme.

Further examination of the production and despatch statement furnished by the same lessee for the period 2005-06, indicated that the closing stock of iron ore available was 5144 MT. However, 369032 MT of iron ore was declared by the lessee as opening stock (March 2007) and the same was allowed to be transported during the subsequent years. Since the lessee had shown production of 13,900 MT of iron ore from the start (April 1996-97) of the mines and only 21,267 MT of waste could be generated as per the ore-waste ratio (arrived from the mining plan approved on 2nd February 2007), accumulation of such huge quantity of iron ore as opening stock leads to the suspicions of illegal mining.

Further, on verification of the inspection records in KSPCB regarding the same lessee, we found that KSPCB had issued closure orders for the mine for the period from 2006-07 to 2009-10 and had given permission only to transport the already mined ore. The KSPCB during inspection (February/April 2009) observed production of iron ore by the lessee using vehicles and formation of 22 working benches in different directions in the mines and concluded that the lessee was working continuously without the consent of the KSPCB thus indulging in illegal, haphazard and unscientific mining. A copy of the inspection report was also forwarded (February 2009) to DMG with instructions to stop the issue of permits for transportation. Thus, 6,90,597 MT produced by the lessee between 2006-07 and 2009-10 valued at ₹ 76.28 crore made was unauthorised.

6.2.1.3 The Mining scheme for extraction of manganese ore for the period 2003-04 to 2007-08 for lease No.2600 in Tumkur was approved in December 2003. The revised mining plan approved in February 2006 was also for manganese ore. However, we noticed from the DCB statement of the Division that the lessee had extracted 3,56,466 MT of iron ore during 2004-2006 which was not authorised in the approved mining scheme. The Deputy Director, Tumkur issued MDPs for transportation of iron ore of 3,56,466 MT of iron ore though there was no mining scheme approved by IBM for extraction of iron ore which had resulted in loss of revenue of ₹ 24.47 crore.

After we pointed out (September 2011), the Deputy Director, Tumkur replied that the lessee had produced iron ore based on the consent on establishment issued by KSPCB (August 2004 to June 2006). The reply is not tenable since the consent given by KSPCB is for environment clearance and not for extraction of mineral which was to be done in terms of the mining plan approved by IBM.

6.2.1.4 The Special Task Force of IBM during inspection (April 2010) noticed that the mining operations in lease No. 2604, Hospet were carried out without having approved mining scheme and suspended mining operations in May 2010. Meanwhile, the lessee had extracted 42,000 MT of iron ore (April and May 2010) without approved mining scheme was unauthorised leading to loss of revenue of ₹ 4.69 crore.

The Department stated (October 2012) that in cases where the lessee applies for approval of mining scheme within the prescribed period of 120 days prior

to the expiry of the existing scheme of mining and IBM failed to either accept or reject the application within the stipulated period of 90 days, the lessee have the rights to continue with mining operations treating it as deemed approval as per rule 12(3) of MCD rules. The reply is not tenable since in the instant cases the lessee had not applied for approval of mining scheme within the prescribed period and hence the question of deemed approval does not arise.

6.2.2 Production of minerals in excess over the quantity approved in the Mining Plan

Rule 22-A of MC Rules and Rule 9 and 10 of MCD Rules 1988 stipulate that a lessee desirous of seeking modifications in the approved mining plan, in the interest of safe and scientific mining, conservation of minerals and protection of environment, shall obtain prior approval for such modifications after applying to the competent authority setting forth the intended modification and explaining reasons for such modifications.

We noticed that in ten cases, the Department failed to monitor the extraction of iron ore in accordance with the approved mining plan. We verified the annual audit reports of the DMG with the approved mining plans/ schemes and noticed that as against 41.24 lakh MT of

iron ore to be extracted, 51.19 lakh MT of iron ore was extracted by ten lessees resulting in unauthorised extraction of 9.95 lakh MT of iron ore valued at ₹ 107.41 crore as detailed below:

Sl. No.	Name of the lessee and ML No.	Year	Quantity of iron ore (in MT)			Value (₹ in lakh)
			Approved for extraction as per mining plan	Actually extracted	Extracted in excess	
1	ML 2557: M/s Razia Khanum: Chitradurga	2007-08	21000	42000	21000	243.6
2	ML 2566: M/s Laxminarasimha Mining Co., Chitradurga	2007-08	234450	473000	238550	2767.18
3	ML 2585: M/s Thangavelu, Chitradurga	2007-08	161322	213277	51955	602.68
4	M/s Matha Minerals: ML 2600: Tumkur	2006-09	353754	631049	277295	2865.2
5	2354: Ambica Ghorpade: Hospet	2006-07	115800	178305	62505	493.16
6	2522: Gogga Gurushanthaiah: Hospet	2006-07	302434	314401	11967	94.42
7	2584: Auro Minerals: Hospet	2009-10	420225	436951	16726	186.66
8	2525: M/s Deccan Mining Syndicate: Hospet	2006-08	2416000	2635600	219600	2376.7

Sl. No.	Name of the lessee and ML No.	Year	Quantity of iron ore (in MT)			Value (₹ in lakh)
			Approved for extraction as per mining plan	Actually extracted	Extracted in excess	
9	2545: Laxmi Minerals: Hospet	2007-08	49770	73000	23230	269.47
10	2551: Laxmi Minerals: Hospet	2007-09	49455	122000	72545	841.52
		Total	4124210	5119583	995373	10740.59

After we pointed out (September 2011 to November 2011) these deviations, the DD, Chitradurga stated that demand notices were issued (December 2011) in respect of three lessees. Reply in respect of the remaining seven leases was not received (October 2012).

The Department stated (October 2012) that Integrated Lease Management System (ILMS) has been introduced which has a fool proof mechanism which locks the system in respect of a particular mining lease where production of ore in excess of the prescribed limit is noticed.

6.2.3 Extraction of mineral before obtaining a mining lease

As per Rule 27(a) and 27(b) of MC Rules 1960, the lessee shall report the discovery of any mineral in the leased area other than specified in the lease to the State Government within sixty days of such discovery and if any mineral not specified in the lease is discovered in the leased area, the lessee shall not win and dispose of such mineral unless included in the lease or a separate lease is obtained thereof.

We noticed that the Department had permitted some lease holders to remove the mineral not specified in the lease deed prior to grant of lease for that mineral as detailed below:

➤ Mining Lease No 836 of Tumkur was for extraction of

manganese ore in an area of 39.66 ha. Renewal of the lease for an area of 11.33 ha was applied (March 2004) by the lessee. Working permission² was granted (September 2006) and notification for renewal of the lease for manganese ore was issued (Nov 2006). The IBM during its inspection (June 2008) found that mine pit had developed two benches below 870m where there was only iron ore without any occurrence of manganese ore and ordered for suspension of mining since iron ore was not included in the mining lease.

² As per Rule 24 (a) (6) of MC Rules, 1960, if the mining lease holder applies for renewal of mining lease one year prior to the expiry of the lease and the said renewal application is not renewed within twelve months by the Department, then the mining lease is deemed to have been renewed. In such cases, the Department will issue working permission for carrying out the mining operations till the mining leases are not renewed.

We noticed that the lessee had reported occurrence of iron ore and had applied for inclusion of the same in the mining lease and the same was under process. The lessee sought (January 2007) permission for transportation of iron ore claimed to be encountered while extracting manganese ore but the same was not granted by the Department. The lessee had extracted 1.60 lakh MT of iron ore during 2006-07 before inclusion of iron ore in the lease. However, when approval for extraction was granted, the lessee had declared opening balance of 80,000 MT during 2010-11 as against 1.60 lakh MT, which indicated that the lessee had already transported 80000 MT of iron ore before the lease was granted and also without valid permits. The value of the iron ore thus extracted and transported without valid lease worked out to ₹ 12.62 crore.

The Director stated (February 2012) that it was difficult to extract manganese ore only when iron ore was also present in the area. Reply is not tenable since IBM had observed that there was only iron ore in the mining pit without any occurrence of manganese ore. Regarding shortage of 80000 MT, the Department replied that a detailed report had been called for from the DD, Tumkur. Further compliance is awaited (October 2012).

(ii) In respect of mining lease No.2087, the lessee had applied for renewal of lease previously held for manganese ore only for a further period of twenty years in March 1998 and also applied for inclusion of iron ore in the lease. However, we noticed that before entering into lease for iron ore, the Department issued working permission for extraction of iron and manganese ore during the year 2008-09 and later restricted the working permission for manganese ore during 2009-10 in violation of the provisions of Act/Rules. The Government accorded (January 2010) sanction for renewal of mining lease for a period of twenty years with effect from April 1999 for manganese ore only. We noticed that the lessee had extracted 4000 MT of iron ore during the year 2008-09 and 51500 MT during 2009-10 out of which 16,044 MT of iron ore was also permitted to be transported. The value of the iron ore thus extracted without valid lease works out to ₹ 6.23 crore.

The Director, DMG, Bangalore replied (May 2012) that show-cause notice had been issued (February 2012) to the Deputy Director, Hospet calling for explanation for issuing permits for transportation of iron ore though extraction of the iron ore was not included in the lease deed.

(iii) In respect of mining lease No.1266/2601, we noticed that the lease was determined (February 1988) under rule 27(1) of MC Rules. The revision application against this was rejected and the lessee filed a fresh application (December 1991) for grant of mining lease in the same area and the application was under process. Meanwhile, the Director, DMG gave (August 2004) permission to lift and transport stock of manganese ore and iron ore lying in the lease area. Further, working permission was also accorded (October 2004) but was withdrawn (January 2005) subsequently. Accordingly, the application was processed and lease (ML 2601) was granted (April 2008) and the deed was executed (April 2009). Meanwhile, the applicant extracted (2004-06) 1.5 lakh MT of manganese ore and 52000 MT of iron ore without a valid lease. Out of this, entire stock of manganese ore was transported by the lessee on payment of royalty whereas the iron ore was

kept as stock. The cost of the mineral thus raised without valid lease was ₹ 21.51 crore³.

The Department accepted that if the lessee extracts any other minerals not included in the lease, he has to stock such minerals separately until lease is executed for extraction of that mineral also and market value of the mineral has to be collected from the lessee if the lessee transports the mineral before inclusion of the mineral in the lease deed. It is further replied that steps were being taken to recover the value of the minerals from the lessees for such violations.

6.2.4 Declaration of huge stock of old dumps

The mining plan for a lease prescribes ore to overburden ratio which determines the amount of dump available when mining is done as per mining plan.

We noticed that in respect of mining lease No. 2388 of Chitradurga, stock of six lakh MT of iron ore was declared (September 2005) by the

lessee as old dumps of previous activity and was allowed to be transported during the subsequent years. As verified from the mining scheme for 2006-07 to 2010-11 approved in January 2006, the iron ore production during the previous years was nil and there was no previous activity. As per the mining plan the lessee had produced only 58,400 MT of iron ore during the period from 1988 to 2005, accumulation of such huge quantity of old dumps was doubtful and declaration of 6 lakh MT of iron ore in September 2005 shows illegal extraction of iron ore valued at ₹ 47.34 crore which should have been recovered from the lessee.

After we pointed out, the Department issued notice (December 2011) to the lessee. Further progress made has not been received (October 2012)

6.2.5 Iron ore found in the area applied for lease

In respect of mining lease No. 2658 of Chitradurga, we noticed that the lessee had applied (July 2005) for grant of mining lease from a patta land. While the application was under process, the lessee requested for issue of permits for transportation of iron ore dumps found in the applied area.

The DD, Chitradurga permitted (March 2006) the lessee to transport the iron ore found in the applied area after collecting royalty and levying a fine of ₹ 25,000. The grant of permission for transportation of 37,593 MT iron ore without recovering the cost of the ore was incorrect and resulted in non-realisation of Government revenue of ₹ 2.97 crore.

The Department stated (September 2012) that notice was served on the lessee for the violation and the value of the mineral was being collected from the lessee.

³ By adopting the rate of @ ₹ 1184 per MT for Manganese ore and @ ₹ 722 per MT for iron ore

6.2.6 Short declaration of production

In a mining lease of M/s. Sandur Manganese and Iron Ore Limited (Mining Lease Nos. 2580 and 2581) of Hospet, we noticed that the lessee was operating two leases for extraction of iron ore and manganese ore. On verification of modified mining plan for the period 2009-10 to 2010-11 for the above leases approved by IBM in June 2009, we noticed that the production of manganese ore achieved in the mining plan for the period from 2006-07 to 2008-09 was 8,79,131 MT. However, cross verification of production mentioned in the modified mining plan and the production as per the DCB statement revealed that for the same years the production of manganese ore was shown as 6,76,768 MT as against 8,79,131 MT reported to IBM, resulting in short declaration of production by 2,02,363 MT valued at ₹ 81.18 crore. Since royalty is collected for the quantity of ore transported in terms of the DCB statement, escapement of royalty amounting to ₹ 2.44 crore⁴ in respect of 2,02,363 MT of manganese ore short declared could not be ruled out.

The Department accepted that the differences were found in the production declared to IBM and DMG by the lessee and instructions were issued to the field office to recover the difference in royalty.

6.2.7 Lack of co-ordination with other Departments

The extraction of minerals and despatch being monitored by various agencies, co-ordination among these agencies and other departments like Transport and Commercial Taxes are essential to detect and curb evasions and illegal mining. To ascertain the effectiveness of co-ordination, we cross verified data of the DMG with other agencies and Departments like IBM, Transport, Commercial Taxes and Forest. We noticed that there were differences in the data of these institutions as relates to mining activities as detailed below.

6.2.7.1 Indian Bureau of Mines (IBM)

Discrepancies in production figures reported by the lessees

We obtained production details from IBM, Nagpur and compared the same with production statement given by DMG district-wise and found that the figures are at variance indicating that there was lack of coordination between the IBM and DMG to ascertain the correct position of the production figures.

The following table depicts the difference between the figures of production furnished by lessees to the DMG and IBM:

⁴ At 3 per cent of the sale value of the ore computed on the basis of average price of the ore declared by the lessee during the period.

(in lakh MT)

Mineral	2006-07			2007-08			2008-09			2009-10		
	DMG	IBM	Difference	DMG	IBM	Difference	DMG	IBM	Difference	DMG	IBM	Difference
Iron Ore	414.66	342.01	72.65	629.26	440.81	188.45	693.75	494.05	199.70	529.22	338.31	190.91
Manganese	1.82	2.74	-0.92	2.64	3.12	-0.47	1.21	3.38	-2.16	0.47	2.76	-2.29
Lime Stone	146.75	149.39	-2.64	162.86	148.82	14.04	645.01	275.74	369.27	127.22	313.61	-186.39
Bauxite	1.04	3.13	-2.08	1.62	1.62	0.00	1.38	1.36	0.02	1.23	1.12	0.11
Gold in Kgs	2335.00	2335.00	0.00	3153.52	2817.00	336.52	2616.09	2445.00	171.09	2166.30	2095.00	71.30
Others	16.39	17.14	-0.75	22.99	21.52	1.47	24.33	23.26	1.07	16.38	21.54	-5.16

Thus it could be seen from the above that the figures furnished to the two departments were at variance and DMG at no time has attempted reconciliation between the figures to arrive at the actual figure of production.

We obtained the production details in respect of 73 iron ore lessees from the Regional Controller of Mines, IBM, Bangalore and compared it with the production figures mentioned as per Annual Audit Reports concluded by DMG and our scrutiny revealed the following discrepancies between the productions intimated to DMG and IBM in the following 57 cases:

6.2.7.1.1 Production reported in excess to Department of Mines and Geology

The production reported to IBM during the period from 2006-07 to 2009-10 in respect of 34 lessees was 282.25 lakh MT whereas the production reported by DMG in the annual audit reports during the same period was 347.94 lakh MT resulting in excess reporting of production of iron ore to DMG by 65.69 lakh MT valued at ₹ 698.30 crore. As the returns furnished by the lessees to IBM were verified during the periodical inspections conducted by IBM and in none of these cases any excess production was reported after inspection, the possibility of the differential production being obtained from outside the mines through illegal means cannot be ruled out. DMG had not developed any system for reconciliation of the figures furnished to them by the lessees with IBM to ascertain the actual production. The sources of excess ore need to be investigated.

After we pointed out this, the Deputy Directors, Chitradurga and Hospet stated that notices were issued to the concerned lessees calling for explanation for violation and necessary action would be initiated after receipt of replies.

If it is established that the ore was illegally extracted penalty of ₹ 698.30 crore (i.e. value of ore) was recoverable from the perspective of illegal mining.

The Department replied that ILMS introduced in the Department provides for online submission of monthly returns as per Rule of MCD Rules which would be helpful in solving the problem of differences in production between DMG and IBM.

6.2.7.1.2 Furnishing of lesser production to Department of Mines and Geology

In Tumkur, Chitradurga and Hospet, the production reported to IBM during the period from 2006-07 to 2009-10 in respect of 23 lessees was 141.67 lakh MT whereas the production reported to DMG by these lessees during the same period was 108.36 lakh MT. As the dispatches are made on the basis of production, the differential quantity of 33.31 lakh MT of iron ore valued at ₹ 315.15 crore was transported without obtaining valid permission from DMG which was contrary to the provisions of the Act and is liable to be recovered from the lessees concerned. The loss of royalty in this regard for the period from 2006-07 to 2009-10 works out to ₹ 5.93 crore⁵.

DD, Hospet replied that demand notices were issued to the concerned lessees for payment of ₹ 2.77 crore. DD, Chitradurga replied that notices were issued to the lessees calling for explanation for differences.

We recommended DMG should put in place a system of periodical reconciliation of the production figures furnished by the lessees with that of the IBM to ascertain the actual production of mineral wealth.

6.2.7.2 Commercial Tax Department

As per provisions under Section 4(1) of the Karnataka Value Added Tax (KVAT) Act 2003 read with relevant notifications (March/April 2005), every dealer engaged in the sales of iron ore has to pay a tax at the rate of four *per cent* on the turnover and also required to file monthly returns (Form VAT 100), annual return (form VAT 110) and audited statement (VAT 270) to the concerned Commercial Tax Officer.

We obtained details of the sales of iron ore made by 10 lessees from the Commercial Tax Department as per their returns and the connected records maintained and the same was compared with the despatch figures in the annual audit reports concluded by DMG. We found the following discrepancies:

In one case (ML 2236: Sessa Goa Limited: Chitradurga), we noticed that the lessee had declared sales of 3921172 MT of iron ore as per VAT returns whereas the quantity of despatch declared in DMG was 2575508 MT during 2005-06 and 2006-07 as detailed below.

Year	Total Sales in MT as VAT returns	Despatches in MT declared to DMG	Difference in MT	Value (at ₹ 750 per MT) in crore
2005-06	1744787	1072613	672174	50.41
2006-07	2176385	1502895	673490	50.51
Total	3921172	2575508	1345664	100.92

We noticed from the VAT returns that the assessee had not declared any purchase of iron ore during the course of his transactions in these years. The

⁵ Rate of royalty was adopted as ₹ 11 per MT during 2006-07 to 2008-09 and ₹ 80 per MT for 2009-10

value of the excess sale of mineral works out to ₹ 100.92 crore⁶ and royalty realisable thereon was ₹ 1.48 crore (at ₹ 11 per MT), which showed illegal extraction and sale of iron ore.

➤ **Trading by unregistered dealers:** According to section 22 of the Karnataka Value Added Tax (KVAT) Act 2003, every dealer who at any time has reason to believe that his turnover is likely to exceed two lakh rupees (₹ 5 lakh from April 2010) shall be liable to be registered from April 2005 and report such liability forthwith or on such date as may be notified by the Government. Dealers having the turnover below the above limit are treated as unregistered dealers (URD) and they have no liability to pay taxes. All the sanctioned mining leases are registered under KVAT Act (commonly known as registered commercial tax dealers).

We obtained information from the CTD and found that 97 registered dealers have purchased of iron ore worth ₹ 508.27 crore from URDs during 2006-07 to 2009-10. This information was not passed on to DMG and no efforts were made by the DMG to trace out URDs. This shows that a lack of co-ordination between the departments resulted in a large quantity of iron ore being handled by individuals who were not having any registration either with the CTD or with the DMG.

After this was pointed out by us, the DD Hospet stated that action was initiated in this regard by the Director's Office. However we found that Director's Office could not make much headway on the issue as they could not trace the concerned dealers since most of them were non-existent. This indicates that the enforcement wing of DMG was weak and could not trace the URDs engaged in the sales of iron ore and the mineral had been despatched without the knowledge of the Department.

Absence of a system to register all the dealers engaged in the transaction of iron ore and lack of timely action in co ordination with the Department of Commercial Tax resulted loss of royalty to the extent of ₹ 7.09 crore (₹ 11 per MT). In addition, the value of the iron ore thus illegally extracted worked out to ₹ 508.27 crore.

The Department stated (October 2012) that ILMS introduced in the Department would resolve such differences between DMG and CTD.

To stop the leakages in the revenue realisation we recommend that DMG in consultation with CTD may consider putting in place a system by way of cross verification for registration of all dealers engaged in the transaction of iron ore.

⁶ By adopting the rate of ₹ 750 per MT arrived as an average of local and interstate sales for the year 2005-06

6.2.7.3 Forest Department

In respect of leases operating in forest areas, the lessee has to obtain transit permits (geological permits) from DMG for transportation of the mineral extracted. Based on the same, Forest Department issues permits for the same quantity as indicated in the geological permits. Thus, the quantities permitted by DMG should match with the quantities permitted by the Forest Department to ensure that no illegal transportation had taken place.

We obtained details of the quantity of iron ore permitted to be transported by the Deputy Conservator of Forest, Bellary in respect of 71 lessees and compared the same with the quantity permitted to be transported as per the DCB of DMG. The scrutiny revealed discrepancies are

mentioned in the following paragraph:

Excess quantities transported based on permits issued by Forest Department

We observed that 399.90 lakh MT of iron ore was permitted by DMG for transportation by 32 lessees during 2006-07 to 2009-10. Cross verification of the quantum of iron ore permitted by the Forest Department for these leases, however, revealed that 437.42 lakh MT of iron ore was permitted by the Forest Department during the same period. Since geological permits are mandatory in respect of movement of mineral from the mine head, the movement of iron ore in excess of the geological permits was not authorised. The differential quantity of 37.52 lakh MT of iron ore, valued at ₹ 296.02 crore, thus permitted in excess by the Forest Department indicates that the same was irregularly extracted and transported without payment of royalty amounting to ₹ 4.13 crore. The details are as under:

Sl. No	Name of the lessee / ML Number	Years	Quantity of iron ore for which permits issued (in MTs)	Quantity of iron ore for which permits from DMG obtained (in MTs)	Difference quantity (in MTs)	Value of the mineral (₹ in crore)
1	M/s. Aswathnarayana Singh and Company, ML No.2531	2006-2010	1828457	1714376	114081	9.00
2	Sri. Kanhaiyalal Dudheria, ML No.2563	2007-2010	2082160	2014730	67430	5.32
3	M/s. Kumaraswamy Mineral Exports, ML No.2141	2006-2010	3153777	2301258	852519	67.26
4	M/s. Mysore Minerals Limited (Subbarayanahalli)	2006-2009	4509448	4121425	388023	30.61
5	M/s. Mysore Minerals Limited (Thimmappanagudi), ML No.2002	2006-2010	5798686	4889158	909528	71.76

Sl. No	Name of the lessee / ML Number	Years	Quantity of iron ore for which forest permits issued (in MTs)	Quantity of iron ore for which permits from DMG obtained (in MTs)	Difference quantity (in MTs)	Value of the mineral (₹ in crore)
6	Smt. R. Mallamma, ML. No.1806	2006-2010	2337409	2232418	104991	8.28
7	M/s. Ramgad Minerals and Mining Pvt. Ltd., ML. No.2541	2006-2010	1201140	998021	203119	16.03
8	M/s. S.B. Minerals (Vyasakeri), ML No.2515	2006-2010	3552100	3314054	238046	18.78
9	Others 24 lessees	2006-2010	19278699	18404413	874286	68.98
TOTAL			4,37,41,876	3,99,89,853	37,52,023	296.02

6.2.7.4 Transport Department

As per circular instruction issued on 25 July 2006 by the Director, DMG, the maximum quantity of iron ore permitted for transportation of iron ore per truck is 17 MT; the value and royalty for every tonne of iron ore transported in excess of the permitted quantity was recoverable. However, this circular instruction was not communicated to other Departments like CTD, Transport Department, etc.

We noticed from the records of Regional Transport Office (RTO) for the years 2005-06 to 2010-11 that in 3,314 cases where vehicles were found overloaded beyond the permissible limit of 17 MT per truck. These cases were not referred by the Transport Department to DMG

indicating absence of coordination between RTO and DMG authorities in regulating and controlling movement of overloaded vehicles. Consequently, the levy of the value of the mineral for transporting iron ore of 38342 MT amounting to ₹ 4.61 crore thus transported beyond the permitted load and royalty amounting to ₹ 4.22 lakh could not be levied and collected by DMG as detailed below.

Office and period	Period	No. of vehicles overloaded	Quantity overloaded (in MT)	Royalty	Value of the overloaded quantity ⁷ (₹ in lakh)
Tumkur	2005-06 to 2008-09	83	972	0.11	8.67
Chitradurga	2006-07 to 2008-09	196	2,475	0.27	22.39

⁷ For the purpose of computation of value of iron ore, the details of overall quantity of iron ore produced and value realized in respect of iron ore as available in the Mineral Year Book published by IBM for the year 2005-06 to 2010-11 were considered. Accordingly, the rate of iron ore per MT has been adopted as ₹ 721, ₹ 789, ₹ 1160, ₹ 1219, ₹ 1116 and ₹ 1640 for the years 2005-06 to 2010-11 respectively.

Office and period	Period	No. of vehicles overloaded	Quantity overloaded (in MT)	Royalty	Value of the overloaded quantity ⁷ (₹ in lakh)
Hospet	2008-09 to 2010-11	3,035	34,895	3.84	429.96
Total		3,314	38,342	4.22	461.02

DD, Chitradurga replied that RTO, Chitradurga had not referred the cases of overloading of vehicles to DMG.

The Department stated (October 2012) that cases where the District Task Force Committee noticed overloading of mineral carrying vehicles during joint operations, action was taken to seize the ore and dispose of the same through public auction. However, Department has not furnished details in this regard.

Minor minerals (Stone)

6.2.8 Non-levy/short levy of value of mineral in cases of irregular quarrying of minor minerals

As per provisions under sub-rule (3) below Rule 44 of KMMC Rules 1994, any person who undertakes any quarrying operation in respect of minor mineral without a license or lease, is liable to pay a penalty of ₹ five thousand or value of the mineral whichever is higher. The cost of the mineral is mentioned in Schedule-III of the Rules. The rates have not been revised since 1994.

The Department adopted the benchmark rates prescribed in 1994 for auction of seized minor minerals under Schedule III of KMMC Rules 1994 for assessing the value of the minerals quarried instead of assessing the same based on the prevailing market

value.

In two test-checked cases (Ramanagar and Chitradurga), the Department found (May 2010 and October 2010) that the lessees had done quarrying beyond the leased area and had transported 403.842 cum of grey/multi-coloured granite. Audit observed that in one case in Ramanagar, the Department adopted the rate of ₹ 2,000 per cum as per Schedule III for collecting the value of the mineral. The cost of the mineral as per a sale invoice issued by the lessee was ₹ 12,000 per m³. Thus, non-revision of the rates resulted in short collection of value of the mineral in of ₹ 40.38 lakh⁸. Failure to revise the minimum rates thus resulted in short levy of the value of the mineral. In another case in Chitradurga, the Department did not levy the value ₹ 9.33 lakh for the mineral extracted irregularly. After we pointed this out, it was stated that that demand notice was since issued to the lessee.

The Department stated (October 2012) that proposal for revision of market rates was sent to the Government in June 2012 and steps would be taken to notify the value of the minerals on the basis of value so fixed for the purpose of recovery.

⁸ The rate of ₹ 12,000 per cum prevalent during 2009-10 as per sale invoice is adopted for calculation of short/non-levy.

6.3 Transportation of minerals without valid permits

The minerals extracted from the lease are to be removed and transported on the basis of mineral despatch permits (MDP) granted on payment of royalty. As per the conditions stipulated, the permits are valid for 30 days only. Permits not used within the valid period would lapse unless the same is not renewed. Further, along with the permits, the trip sheets in triplicate will be issued by the Department to the lessees to facilitate transportation of mineral.

The instructions of the Director, DMG (July 2006), specified that value of the minerals transported in excess over the permitted quantity in the MDPs was also required to be collected along with corresponding royalty from the lessees concerned. We noticed that the value of the minerals was not

collected for transportation of minerals in excess over the permitted quantity as brought out in the following paragraphs.

6.3.1 Delay in recovery of value of the minerals transported without permits

In respect of mining lease of Sessa Goa Limited (Mining Lease No. 2236) of Chitradurga, the Department had noticed (July 2006) that as against 5,98,686 MT of iron ore permitted for transportation during April 2006 to July 2006, a quantity of 6,58,929 MT was transported by the lessee resulting in excess transportation of 60,243 MT of iron ore without permit. The Department issued demand notice (August 2006) for payment of value of the mineral (₹ 6.20 crore) and royalty (₹ 16.27 lakh). Subsequently, the lessee submitted (November 2006) that the quantity of 60,243 MT was inclusive of 36,867 MT of fines and paid royalty amounting to ₹ 10.37 lakh in November 2006 and requested not to demand value of the mineral. Consequently, the Commissioner, DMG, Bangalore put the demand on stay (November 2006) subject to verification of records at the office of Deputy Director, DMG, Chitradurga.

We observed that action regarding recovery of the value of 60,243 MT of iron ore transported without permit was not taken by the Department though five years had elapsed since then.

After we pointed out, the Director issued (January 2012) instructions to the Deputy Director, Chitradurga to take action. Accordingly, DD, Chitradurga replied that notice was issued (February 2012) to the lessee intimating adjustment of ₹ 6.26 crore towards value of the iron ore thus illegally transported against the credit balance available with the Department in respect of the lessee as per DCB of 2010-11.

6.3.2 Utilisation of time-barred permits

In one case, the quantity of iron ore despatched during December 2009 in respect of one lessee (ML 2563: Kannaiyalal Dudheria: Hospet) was 61043 MT whereas the permits were issued only for 52000 MT during the month.

Further, no permits were issued during November 2009 and no lapsed permits were also got renewed by the lessee. Evidently, 9,043 MT of iron ore valued at ₹ 1.01 crore was transported without permit by the lessee. Similarly, audit observed that 3,21,668 MT of iron ore lumps and 3,32,185 MT of iron ore fines valued at ₹ 73.54 crore were transported by 12 lessees (Hospet) during 2006-10 through time barred permits.

The Department stated (October 2012) that notice was served on the concerned for the lapse and further action would be taken as per rules.

6.3.3 Non-collection of value of minerals

We noticed that DD, Hospet and DD, Tumkur had levied penalty on 293 trucks for carrying minerals without permit during 2006-10. However, value of the minerals amounting to ₹ 46.46 lakh was not levied and collected from the concerned transporters.

The Department replied that notice was served on the concerned for the lapse and further action would be taken as per rules.

6.3.4 Transportation of iron ore in excess over the quantity produced

In one case (Charuchandra: ML 2102: Hospet), the lessee transported (2003-06) 93,674MT of iron ore fines as against the available stock of 25000 MT declared by the lessee and there was no production during these years. Thus the Deputy Director allowed the transportation of excess quantity of 68,674 MT valued at ₹ 4.96 crore. The cost of the quantity transported was recoverable as it was on account of illegal extraction.

The Department replied that notices were issued to the concerned for the lapse and further action would be taken as per rules.

Minor minerals

6.3.5 Non-levy of penalty for not obtaining Mineral Despatch Permits

Rule 42 of the KMMC Rules, 1994 envisages that no person shall transport or cause to be transported any minor mineral except under or in accordance with a Mineral Despatch Permit (MDP). Further, as per Part-V Clause 4 of the quarry lease deed, the quarry lease holder will be liable for penalty at five times of royalty for transporting minor mineral without MDP.

Mention was made in Para 7.2.16 of the Audit Report of the Comptroller and Auditor General of India for the year 2005-06 regarding non-levy of penalty for not obtaining MDP for transportation of building stones.

As per the information furnished by the Department (pertaining to 25 offices out of 31 offices), 4.21 crore MT of building stone were transported by the lessees during the years 2006-07 to 2010-11. Out of this, only 0.16 crore MT of building stone were transported after obtaining MDPs and remaining 4.05 crore MT of building stone were transported without obtaining MDPs. However, penalty leviable at five times of royalty of ₹ 109.56 crore for transporting building stone without

obtaining MDPs which works out to ₹ 547.80 crore was not levied. In addition, processing fee of ₹ 50 per MDP leviable with effect from June 2007 also could not be levied due to non-obtaining MDP resulting in loss of revenue of ₹ 10.15 crore.

The Department stated (October 2012) that most of the stone quarries were being operated by traditional quarry workers and their education level was very low and hence the Department was not insisting these lessees for obtaining permits for mineral transportation. However, on the introduction of e-permit system, these quarry holders would also be covered in a year or two. But, the fact still remains that obtaining of MDP was essential to monitor extraction and despatch of mineral and the Department had not instituted any other mechanism to monitor the same. Provisions of the Act could not be violated on plea of ignorance and the Department should initiate action to educate and assist the quarry holders to comply with the provisions.

6.4 Conclusion

We found that the delay in framing the Rules till 2011 resulted in absence of control with respect to transportation and huge revenue loss to the State exchequer. We noticed that the Department had permitted removal of the mineral prior to grant of lease and had not monitored the extraction of iron ore in accordance with the approved mining plan. We noticed that there was lack of coordination among DMG, IBM, CTD, Transport Department, etc. to ascertain the correct position of the production figures. The data/information relating to mining activities available with the Departments like Transport, Forest, etc. were at variance with the data available with the DMG. The lackadaisical control exercised by the Department over the mining activities resulted in lessees excavating and despatching minerals without lawful authority. Lack of stringent action in respect of unauthorised transportation resulted in rampant illegal transportation of ores.

6.5 Recommendations:

It would be advisable to establish proper coordination among various Departments/Authorities/Agencies involved in mining activities like IBM, CTD, Transport Department, Forest Department, etc. with DMG to ensure better control over mining activities.

CHAPTER – VII

ENFORCEMENT ACTIVITIES OF DEPARTMENT OF MINES AND GEOLOGY

Deficiencies noticed in functioning of Check posts	7.1
Improper maintenance of Vehicle Check Register	7.2
Working of the Mobile squad	7.3
Improper maintenance/misuse of Tripsheets	7.4
Conclusion	7.5
Recommendations	7.6

CHAPTER VII - ENFORCEMENT ACTIVITIES OF DMG

In this Chapter we discuss the deficiencies noticed in the working of check posts such as deficiencies in vehicle check registers, inadequate inspection of vehicles, deficient enforcement activities in the absence of prescribed norms and targets for inspection of mines, unsecured custody of permits/trip sheets resulting in deficient monitoring of transportation of minerals affecting Government revenue besides causing theft of valuable trip sheets. As per the provisions of rule 43 of KMMC Rules 1994, the State Government may, by notification, direct to establish check posts at such place or places as it thinks fit with a view to prevent or check unauthorised transportation of minerals and evasion of royalty. It also provides that till the establishment of such check posts, the State Government may notify the check posts already established in such places under the provisions of the Karnataka Sales Tax Act, 1957 or the Karnataka Forest Rules 1964.

The DMG established 28 check posts (including 13 composite check posts¹) to control illegal transportation of minerals. However, we noticed that only one check post had the facility of weighing machine to weigh minerals.

7.1 Deficiencies noticed at check posts

7.1.1 Penalty collected at check posts

As per the information furnished by DMG, Bangalore, the details of vehicles checked at check posts and penalty realised are detailed below.

(₹ in lakh)

Year	Total number of vehicles checked		Total number of vehicles penalised		Penalty collected	
	Major minerals	Minor minerals	Major minerals	Minor minerals	Major minerals	Minor minerals
2006-07	386551	77400	1811	1125	97.89	12.91
2007-08	430635	73033	459	991	153.17	16.83
2008-09	792244	70269	1771	482	415.83	16.56
2009-10	481281	41988	843	1230	148.74	45.63
2010-11	536156	98270	2805	730	196.97	31.96
Total	2626867	360960	7689	4558	1012.6	123.89

It would be seen from the above table that the DMG collected penalty of ₹ 11.36 crore at the check posts. More vigil is required to be exercised at the check posts to prevent the unauthorised transportation of the mineral as is evident from the following paragraphs:

7.1.2 Percentage check of vehicles at check posts

We checked the records of Chitradurga and Hospet check posts to ascertain the extent of inspections conducted in these check posts. We found that total

¹ These checkpoints are functioning in combination with the other Nodal Departments such as PWD, Forest, Commercial Tax and RTO.

number of vehicles that passed through Chitradurga and Hospet check posts were not available with the concerned checkpost. We called for the records relating to the movement of vehicles carrying iron ore in Chitradurga and Hospet. Out of these, records were furnished only by DD, Chitradurga. As regards, DD, Hospet, total despatch of the mineral only was furnished. We found that the percentage of check conducted at the check posts was very small as mentioned below:

Our cross check of Trip Sheets, Issue Registers, DCB registers maintained in the Divisional Offices with the "Vehicle Check Registers" at Checkposts (Chitradurga and Hospet), revealed that in Hospet Division, the number of vehicles checked was only eight *per cent* of the total number of vehicles during 2009-10 and 2010-11. In Chitradurga Division, the percentage of vehicles checked ranged from eight to 26 during 2007-08 to 2010-11 as detailed below:

Office of the Deputy Director, DMG	Year	Total number of vehicles passed (based on the tripsheets issued)	No. of vehicles checked at the checkpost	Percentage check of vehicles
Chitradurga	2007-08	498302	44166	8.9
	2008-09	562439	142837	25.4
	2009-10	573786	136804	23.8
	2010-11	431095	113839	26
Hospet*	2009-10	1602831	120621	8
	2010-11	3550362	276735	8.3

(*Total number of vehicles in Hospet was arrived from total quantity despatched and considering 17 MT/lorry as per trip quantity).

The low percentage of check defeated the very purpose for which checkposts were notified.

7.1.3 Despatch of iron ore by Railways

We also noticed that 40 to 50 *per cent* of the iron ore produced in Chitradurga and Hospet Divisions were lifted from pit mouth of the mines to Railway sidings/Railway stations. The DMG had made no effort to reconcile/verify the figures of quantity despatched by Railways to ensure that no iron ore was moved out from the Railway sidings/stations illegally.

The DD, Chitradurga replied that Railway authorities had been requested to intimate the quantity despatched through Railway sidings/stations during 2005-06 to 2010-11 for verification. The fact, however, remains that the DMG failed to verify the quantity transported through railways for more than six years.

The DMG replied that steps to establish check posts at important locations have been taken and also introduced a Comprehensive Computerisation of Mineral Administration and Integrated Lease Management System, which provides information related to lease holders, end-users, payment transactions, updated mineral rates, issuance of e-permits, integration with weigh bridges/check posts, etc.

7.2 Improper maintenance of Vehicle-check register

According to Rule 43(4) of the KMMC Rules, 1994, the driver or any other person in-charge of the vehicle, as the case may be, carrying the mineral shall stop the same at every check post and allow the officer in charge of the check post to examine and take measurements of the minerals in transit and inspect all records relating to the minerals in possession of such driver.

We noticed that DMG had not prescribed any format for the Vehicle Check Register of the vehicles inspected. Test check of Vehicle Check Register in seven check posts, revealed that in 531 cases no other details were recorded except the name of the driver. In certain cases only the words 'lorry driver' was recorded in place of his name. The essential details of the vehicle like name of the owner, quantity of mineral in transit, name of the driver, reference to permit issued and cases of violation, if any, in the check register were not being recorded. Thus, details of the material transported and offences committed could not be ascertained.

Absence of these necessary details has rendered the inspection of vehicles at the check posts ineffective. After we pointed out these omissions, the DD, Chitradurga replied that all the details are now being indicated in the Vehicle Check Register. The DD, Hospet replied that no Departmental manual, notifications or circulars were issued by the Government prescribing procedure or format for maintenance of registers at the check post.

7.3 Working of the Mobile squad

To curb illegal mining/quarrying in the State, three mobile squads each consisting of one DD, three Senior Geologists, four Geologists and four Group 'D' officials were formed between March and April 2008 by the Director, DMG, Bangalore. No posts were sanctioned by the Government for these squads and the persons were deployed from the existing strength. The squads were entrusted with the work of inspection of the mining activity besides checking the vehicles transporting minerals.

We noticed that targets were not fixed for inspection of mines and number of vehicles to be checked by the squad each year. Besides, criteria for selection of mines for inspections were also not laid down by the DMG.

As per the information made available by the Director, DMG, Bangalore, out of 120 mines in operation, 61 mines were inspected and 9,14,721 MT of iron ore was seized in 65 cases during the years 2008 to 2011. Further, 56,026 vehicles were also checked and 3,83,058 MT of iron ore valued at ₹ 30.22 crore was seized after booking 427 cases of illegal transportation during the above period. The DMG replied that target would be fixed for the mobile squad to inspect mining lease areas as well as checking of vehicles transporting the ore.

7.4 Improper maintenance/misuse of Tripsheets

The stock register of trip sheets should indicate the details such as opening balance, quantity of trip sheets received, issued. The closing balance has to be worked out at the end of every month.



Source : Dy. Director Office, Hospet

From the stock registers maintained in Hospet Division, we noticed that the details such as opening balance, quantity of trip sheets received, quantity issued and closing balance were not indicated in the register. Periodical physical stock verification was also not conducted. It was also noticed that the trip sheets were bundled and piled up in a corner of the office in a highly insecure manner. Thus, the correctness of the receipts, issues and balances could not be ascertained. The chances of loss/misuse of trip sheets could not be ruled out.

Transportation of iron ore through fake trip sheets was detected (September 2010) in Hospet Division. A case was registered before Judicial Magistrate First Class (JMFC), Sandur in Crime No.171/2010 against Yeriswamy Minerals, Hospet. The improper maintenance of stock accounts and unsecured storage of trip sheets may have resulted in misuse of the trip sheets and consequent loss of revenue.

The DMG accepted the misuse of trip sheets and stated that through Integrated Lease Management System online e-permits/trip sheets will be generated, which will be helpful to monitor transportation of minerals and prevent illegal/excess transportation and misuse of trip sheets.

Though the State Government was conversant with e-enabled technology such as Global Positioning System (GPS) fitted to transportation vehicles and issue of online permits, insertion of load sensors at check posts, to check actual quantities of minerals transported, etc., enabling verification at various toll gates/ports/railway yards/forest checkposts/RTO checkposts, installation of the same were reported to be still under consideration (June 2012) of the Government.

Besides, with no mechanism institutionalised by the State Government to mark the coordinates of the boundary stones of the lease areas with reference to specific longitudes and latitudes, the boundary violations often go unnoticed. The Department may evolve a mechanism of marking the coordinates with GPS at the time of grant of lease and so as to resolve the issues of encroachments of lease boundaries.

7.5 Conclusion

We noticed that no format was prescribed under the rules for maintaining the Vehicle Check Register of vehicles inspected. The necessary details like name and address of the driver or of the vehicles owner were not recorded in the Vehicle Check Register. Verification of the quantity despatched by Railways was also not done by the Department to ensure that no excess quantity of iron ore was moved out from the Railway sidings/stations. We noticed that targets were not fixed for inspection of mines and number of vehicles to be checked by the enforcement squad each year. Besides, criteria for selection of mines for inspection were also not laid down by the department. We noticed that the trip sheets were bundled up in the corner of the office in a highly insecure manner. Thus, the chances of loss/misuse of trip sheets could not be ruled out.

7.6 Recommendations

The Government may consider:-

1. Prescribing a proforma/format for maintaining vehicle check register so as to record all the details required for enforcement purposes and fixing the targets for inspection of vehicles at check posts and for the mobile squad to prevent illegal transportation of minerals
2. Technological advances such as GPS on trucks, load sensors at check points etc., should be leveraged by DMG to improve enforcement activities.

CHAPTER – VIII

ENVIRONMENT ISSUES

Failure to adhere to recommendations of NEERI for environmental safe mining	8.1
Failure to comply with the conditions stipulated for diversion of forest land	8.2
Execution of reclamation works	8.3
Failure to monitor the plantations raised by the lessees	8.4
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CHAPTER VIII - ENVIRONMENT ISSUES

The environmental effects associated with mining activities start at the exploration stage, extend through the extraction and processing of minerals and continue even after the closure of mines. Legislation for mining requires an environmental impact assessment to be carried out before a mine is developed and operated in an environmentally sound manner with the least adverse impact on the environment.

In this chapter we discuss the compliance with legislations dealing with environment protection and other regulatory orders issued for safe, sustainable, scientific and environment friendly mining operations. A few cases of non-compliance with such legislations and regulatory orders are brought out in the succeeding paragraphs.

8.1 Failure to adhere to recommendations of NEERI for environmental safe mining

In order to integrate the environmental concerns with the developmental activities (inviting specific reference to scientific mining in the Bellary-Hospet region) as also to plan and implement appropriate strategies for the protection of environment and maintenance of ecological balance in the region, the State Government through DMG requested National Environmental Engineering Research Institute (NEERI), Nagpur for conducting Regional Environmental Impact Assessment Study in Bellary-Hospet Region.

After considering the present status of the ore reserves and mining activity of Bellary district, NEERI in its Report (April 2004) proposed for a phase-wise increase in annual iron ore production, compatible with environmental preservation. The proposal specified the extraction of ore ranging from 16 million MT during the period 2005-10 to 34 million MT during the period 2026-30. The report had also recommended extraction of 16 million MT of iron ore from 2004-05 to 2009-10.

The phase wise increase was made considering the status of the ore reserve and to facilitate the dumping of overburdens and its restoration within a five year plan period, during which overburdens would be well stabilised by planting acclimatise vegetation cover. As suitable dumping areas are limited on hill ranges, this production schedule was devised to suit the dumping requirements and possibilities existing in the ground.

We observed that the iron ore production made by the lessees in Bellary district was more than the production recommended by NEERI. The excess ranged from 108 per cent to 211 per cent during the period from 2006-07 to 2009-10 as shown below:

Year	Recommended annual production in the NEERI report in million MT	Production of iron ore in Bellary district in million MT	Excess production in million MT	Percentage variation from the recommended production
2006-07	16	33.26	17.26	108
2007-08	16	44.30	28.30	176
2008-09	16	49.81	33.81	211
2009-10	16	33.37	17.37	109

As the recommended production proposed in the NEERI report was scientifically arrived at and also compatible with the environmental requirements keeping in view the ore resource and dumps, the adherence to such a schedule was very much necessary for the conservation of the ore and to cause as little damage as possible to the environment. Increase in the production in huge proportions over the recommended quantity lead to unscientific mining and irreparable damage to the environment.

After this being pointed out by us, the Director DMG in exit conference stated that the report was not accepted by the State Government. However, the documentary evidence of the Government rejecting the report was not produced to us.

8.2 Failure to comply with the conditions stipulated for diversion of forest land

The MoEF, Government of India stipulated conditions for diversion of forest land for non-forestry purposes which *inter alia* provide that compensatory afforestation shall be raised over identified non-forest land at the cost of user agency, demarcation of the proposed forest area shall be carried out by erecting cement concrete pillars at the cost of user agency and the State Government shall raise and maintain a safety zone and will also raise and maintain the plantation over an area of one and half times of the extent of the safety zone of the degraded forest land at the project cost.

On verification of the lease register in two Divisional forest offices¹, we noticed shortfall in compliance with the conditions stipulated while agreeing to diversion of forest land for mining purposes as brought out

below:

- Afforestation in degraded forest area at one and half times of the safety zone area was not done to an extent of 261.26 ha in 72 mines in Bellary and to an extent of 19.90 ha in nine mines in Chitradurga.
- Regeneration of safety zone area was not done to an extent of 308.48 ha in 58 mines in Bellary and to an extent of 13.3 ha in nine mines in Chitradurga.
- Fencing around the safety zone was not done to an extent of 264.645 ha in 65 mines in Bellary and in an extent of 36.42 ha in 14 mines in Chitradurga.
- Compensatory plantations to an extent of 2573.89 ha were not raised in 43 mines in Bellary.

The DCF (Territorial), Bellary replied that afforestation of degraded forest areas and compensatory plantations would be taken up in the subsequent years and regeneration of safety zone areas would be done after release of funds. Regarding fencing of the safety zone areas, the reply stated that the Hon'ble Supreme Court of India had constituted a committee to carryout survey works

¹ Bellary, Chitradurga.

of all the ML areas, after which fencing and afforestation works would be taken up.

DCF (Territorial), Chitradurga replied that the MLs of the Division were being re-surveyed and verified by the CEC appointed by the Hon'ble Supreme Court of India and the balance works would be carried out during the next years.

However, the fact remained that the conditions of afforestation, safety zone, etc., stipulated with a view to reduce adverse impacts of mining on the environment and to check encroachments/overlapping of lease area remained unexecuted to the extent mentioned above.

8.3 Execution of reclamation works

As per the conditions stipulated by the Forest Department for diversion of forest land for mining purposes, reclamation plan shall be executed by the user agency from the very first year of mining and an annual report shall be submitted to the Nodal officer i.e., Chief Conservator of Forests. Further, as per the conditions prescribed by IBM in the mining plan, working shall be undertaken in blocks. Working in the second and subsequent blocks shall not be taken up until completion of working in the first block and execution of reclamation works in that block.

As ascertained from IBM, as against an area of 1317.40 Ha (covered by overburden waste dumps) was proposed to be reclaimed/rehabilitated by the lessees, an area of 416.72 Ha (31.6 per cent) was taken up for the same and the balance area of 900.68 Ha was not reclaimed/rehabilitated. Similarly, out of the total topsoil to be preserved in 47.32 ha, top soil in an extent of 9.74

ha (20.6 per cent) only was utilised.

A review of the lease register in the office of the DCF (Territorial), Bellary revealed that an amount of ₹ 277.17 lakh was collected from 22 lessees towards execution of reclamation charges out of which reclamation works were completed in respect of only five lessees.

When we pointed out the failure to take up of reclamation works in respect of the remaining 17 lessees, forest authorities stated that the reclamation works would be taken up after the exhaust of ore body i.e. closure of mines only. The logic of the Department of Environment and Forest is at variance with the conditions prescribed by the IBM that the working of mines in subsequent blocks should not be undertaken without reclamation of the worked block and need to be resolved in the interest of environment.

8.4 Failure to monitor the plantations raised by the lessees

According to the provisions of the Environment Impact Assessment Notification published by the Central Government, the projects having an extent of more than 5 Ha have to obtain the environmental clearance from MoEF. This was made mandatory for the mining industry to mitigate the environmental hazards caused as a result of the mining operations. While issuing the Environmental Clearance, the MOEF, puts a condition that adequate plantation shall be raised by the lessee in the ML area in consultation with the local Forest Department including selection of plant species.

We noticed that responsibility to ensure correctness of the quantum of seedlings, reported in the mining plan by the lessees, as raised, its proper maintenance and periodical survival status has not been fixed either by DMG or by the Forest Department of GOK.

We checked mining plans in respect of 12 lessees in two² test-checked offices and found

that a total of 35.92 lakh seedlings were reported by these lessees as planted by them during the period from 2006 to 2011. The DDs of DMG did not ascertain the factual position regarding actual number of seedlings raised and their survival status in consultation with the Forest Department.

After we pointed out, the Department replied that survival status of the plantations would be pursued with the Forest Department and action would be taken to maximise the survival rate. In the exit conference the Additional PCCF stated that the plantations raised by the lessees were not monitored and the survival status was really very low.

8.5 Levy and collection of Environment Protection Fee for diversion of non-forest land for mining purposes

Government of Karnataka imposed (February 2009) levy and collection of Environment Protection Fee (EPF) at the rate of ₹ 84000 per Ha on the non-forest land permitted to use for mining/quarrying. The order was made effective for both ongoing as well as fresh mining/quarrying leases. The EPF was to be collected by the DMG and remitted under the Head of account "0406-01-800-0-11-EPF" and periodical reconciliation of the figures were also required to be done by DMG.

As per the information obtained from the Director, DMG, we noticed that against an amount of ₹ 238.23 crore due to be collected towards EPF, an amount of ₹ 102.82 crore was collected from the lessees leaving an arrears of ₹ 135.41 crore for collection as

at the end of (March 2011).

² Chitradurga and Hospet

We noticed that periodical reconciliation of departmental figures with that of treasury figures was not done by DMG. We also noticed that the Head of Account “0406-01-800-0-11-EPF” was not in operation in the budget even as at the end of March 2011. Evidently, the amounts collected towards EPF could have been misclassified under other budget heads and diverted for purposes other than for which it was specified.

When we referred the above position to the Finance Department, the Director was asked (April 2012) to furnish the details of actual credits made towards EPF and expenditure booked out of it and instructed to ensure that all the deposits towards EPF are made under ‘0406-01-800-0-11-EPF’ only and the figures are reconciled periodically.

Regarding adoption of the rate of ₹ 84,000 per Ha for collection towards EPF, we noticed that the Department did not assess the actual impact of mining/quarrying on environment taking into various factors such as the type of mineral extracted, extent of area involved, actual working period in a year, extent of impact on environment, etc., before arriving at the rate for levying EPF. Instead, it decided to levy fee at a common rate of ₹ 84,000 per Ha for all the leases irrespective of whether it was for major or minor mineral. Consequently, the lessees approached Hon’ble High Court which in its interim order directed the Department to collect fifty *per cent* of the amount in cash and the remaining fifty *per cent* in the form of Bank guarantee.

The Secretary, Ecology and Environment Department replied (April 2012) that further action would be taken only after deciding the legality of the issue in question by the Hon’ble High Court. It was further replied (May 2012) that guidelines with regard to imposing EPF uniformly throughout the country had not been issued by the Central Government though request in this regard was submitted (July 2009) by the department.

The Finance Department (August 2012) accepted that it was not possible to reconcile the credits already made under EPF and instructed the DMG to collect and remit EPF into the designated Head of Account “0406-01-800-0-11” and to reconcile on monthly basis. The Treasury was also advised to activate the above Head of Account for receiving credits of EPF from DMG.

The Chief Minister addressed a letter (August 2012) to the Hon’ble Minister of State for Environment and Forest, Government of India, emphasising the need for an uniform policy applicable to the entire nation with regard to imposing EPF for mining in non-forest land by adopting the principles of compensatory afforestation and NPV being levied in case of diversion of forest land.

8.6 Air, noise and water pollution due to mining

The Karnataka State Pollution Control Board (KSPCB) was formed (1974) with a view to control pollution. The different kinds of pollution due to mining activities are air pollution during extraction and transportation of minerals, water pollution on account of tailings and waste dump and noise pollution due to blasting in open area.



Source : Ore Dumped near a Lake at Sandur

Scrutiny of the activities of KSPCB indicated the following details of inspections conducted during the years from 2006-07 to 2010-11 in three field units (Chitradurga, Bellary and Tumkur) are as under:

Year	Number of mines				
	Inspected by office of the District Environment officer	Inspected by office of the Chairman, KSPCB	Not adhered to the conditions prescribed in the consents issued	Recommended for suspension for non-adherence of conditions	Recommended for closure for non-adherence of conditions
2006-07	150	1	14	10	10
2007-08	154	0	4	3	3
2008-09	154	2	0	0	0
2009-10	153	3	3	3	3
2010-11	141	4	3	3	4
TOTAL	752	10	24	19	20

We noticed that guidelines/standards for controlling air, noise and water pollutions in respect of minor mineral quarries were not evolved by MoEF. In terms of one of the conditions prescribed by MoEF in respect of major minerals, while according environment clearances, four ambient air quality monitoring (AAQM) stations shall be established by the lessee for monitoring air quality in consultation with KSPCB. No standards of ambient air quality were prescribed by KSPCB till September 2010.

Regarding establishment of AAQM stations, the KSPCB replied that none of the mines had installed permanent AAQM stations and the lessees were getting air quality monitored through private laboratories/agencies.

We observed the failure of KSPCB to monitor in the following cases:

8.6.1 Transportation of iron ore by Road/Rail

The KSPCB, while giving consent for establishment for extraction/expansion of iron ore, imposed a condition to the effect that the transportation of iron ore shall be done through railway wagon only to prevent air pollution.

In one test-checked office³, we observed that 79 permits were issued to three MLs⁴ for transportation of 4,49,043 MT of iron ore valued at ₹ 35.42 crore from mining area to the destination i.e. Chennai, Mangalore, Belekere, Karwar and Gujarat by road. In all these

cases, compliance or to the prescribed conditions by the lessee was not monitored by KSPCB.

In reply, KSPCB stated that the condition was stipulated with an intention to check air pollution due to spill over of minerals during transportation, overloading of roads, etc., and the condition was advisory in nature.

However, we suggest that as the economics of fuel consumption on account of transportation by rail has other added advantages like reduction in the green house gas emissions and containing of excessive pollution, including resultant carbon emission, the same may be consideration by the Government.

8.6.2 Dumping of copper tailings in open space

Rule 33 of MCD Rules 1988 stipulate that the waste rocks/ tailings produced during mining shall be stored in separate dumps and should be properly secured to prevent escape of material in harmful quantities which may cause degradation of environment. Wherever backfilling is not feasible, the waste dumps shall be suitably terraced and stabilized through vegetation or otherwise. Such tailings shall be deposited and disposed in a specially prepared tailing disposal area and shall not be allowed to flow away and cause land degradation or damage to agricultural field, pollution of surface water bodies and ground water.

We noticed in Chitradurga that two leases (relating to Hutti Gold Mines Limited) granted for extraction of copper ore were remained idle since 1995 and copper ore tailings (COT) were found to be despatched during 2007-08 to 2009-10. Thus, COT were lying in the open space for 15 years

without being suitably terraced and stabilised through vegetation. Adverse effects of the same on the environment could not be ruled out.

³ Chitradurga.

⁴ Canara Minerals (ML No.2556), Lakshmi Narasimha Mining Company (ML No.2566), Sri. Praveen Chandra (ML No.2294)



Copper Ore Tailings dumped at Chitradurga

When we brought the above omissions to the notice of KSPCB during entry conference (December 2011), the KSPCB stated that these mines were not inspected and no water samples were also collected/analysed as the mines were not working and agreed to conduct inspection. Subsequently, the mining areas were inspected by KSPCB authorities on (December 2011) and reported that

- The waste dumps were not covered with geo-coir mat and plantations were not done on the surface of the waste dumps which lead to erosion during rainy season.
- Copper ore tailings were being disposed off to a firm for using as micronutrients in agriculture and permission for the same was not obtained from the KSPCB.
- The mining authorities had not taken adequate measures to avoid erosion of ore dumps and no water-sprinkling facilities were provided.
- Metalling of the road for vehicle movement was not done by the mining authorities resulting in generation of fugitive emission on the agriculture land.

Further, analysis of water samples of three borewells and one open well around the mine area conducted (December 2011) by KSPCB indicated that the results were not conforming to the stipulated standards.

8.7 Mining without consent from KSPCB

According to Air (Prevention & Control of pollution) Act 1981 and Water (Prevention & Control of Pollution) Act 1974, the mining projects shall obtain consent for establishment (CFE) from KSPCB, which will be valid for five years. They shall also obtain the consent for operation (CFO) from KSPCB each year in which standards for emission and waste management are fixed. While granting CFE, mining authorities shall obtain environment clearance from MoEF, Department of Ecology and Environment of the State Government before commencing mining and CFO shall be issued only after the above statutory clearances are obtained.

On verification of 73 MLs in three Deputy Director offices⁵, we noticed, non-compliance with relevant provisions of the Air Act and Water Act in 20 cases, as brought out in the following paragraphs.

8.7.1 In one case (ML 958: M/s Latha Mining Company, Tumkur), the CFO granted to the lessee for extraction of 2400 MT of iron ore per

annum was lapsed in June 2006. While sanction for expansion of production of iron ore to 5 lakh MT was issued (July 2007) by KSPCB, CFO for the expanded quantity and Environmental clearance from the Department of Ecology and Environment was not granted to the lessee (July 2009).

Meanwhile, KSPCB during inspection noticed (April 2008) that the lessee had continued to produce iron ore in the absence of CFO and environmental clearance and the quantity thus produced during 2006-08 was 706107 MT. Further verification in audit revealed that the total production of iron ore made during 2006-09 was 954161 MT. This production was not reported to IBM and no inspection was also conducted by IBM during this period. Hence, 954161 MT of iron ore produced during 2006-09 in the absence of CFO and environmental clearance is unauthorised. The value of the mineral thus extracted worked out to ₹ 90.15 crore. No reply has been furnished by DD, Tumkur.

8.7.2 In one case (ML 2500: M/s Matha Minerals, Tumkur), the environmental clearance was granted in March 2007 and issue of CFO by KSPCB was still pending. Meanwhile, 587635 MT of iron ore was extracted by the lessee during 2004-07. Out of this, 107455 MT of iron ore was produced in excess over the quantity approved in the mining plan during 2006-07 and 356466 MT of iron ore which was produced without approved mining plan during the 2004-2006 has been commented in the earlier paragraphs. The value of the remaining 123714 MT of iron ore which was done with out environmental clearance works out to ₹ 9.76 crore. Reply has not been furnished by DD, Tumkur.

8.7.3 In one case (ML 2087: Kumaraswamy Mining Co: Hospet), 56275 MT of iron ore was extracted by the lessee during 2008-09 and 2009-10 whereas

⁵ Chitradurga, Hospet, Tumkur.

environmental clearance was accorded by the State Level Environment Impact Assessment Authority in January 2011 and CFE was granted by KSPCB in March 2011. In addition, the lessee was permitted to extract only manganese ore and extraction of iron ore during the above period was not included in the ML as already commented in the earlier paragraphs. Reply has not been furnished by DD, Hospet.

8.7.4 In 17 other cases⁶ (5 cases in Tumkur, 8 cases in Chitradurga and 4 cases in Hospet), mining was permitted without the consent from KSPCB during 2006-07 to 2009-10 and production of 31.52 lakh MT of iron ore valued at ₹ 299.60 crore was reported during this period.

After receiving our observation, the DD, Chitradurga replied that notices were served to the lessees concerned calling for their explanation. Replies from the DDs, Hospet and Tumkur were yet to be received (October 2012).

The DMG in the exit conference accepted that there were instances of production without KSPCB Clearance and Environment Clearance and that all the clearances are now taken care of through e-permit system.

8.8 Monitoring of conditions stipulated in the Consent for Establishment

Three Deputy Director offices⁷

According to paragraph VI (2) of the CFE of mines, the mining authority shall take up tree plantation year after year during rainy seasons either under compensatory afforestation or on their own to preserve the environment and nature *status quo* in the mining area and two percent of the annual turnover shall be earmarked every year for this purpose. Conditions were also stipulated to provide for rainwater harvesting and ground water recharging immediately after obtaining CFE and two percent of the profit was to be earmarked for the maintenance of roads used for transportation. It also required that the lessee had to maintain good roads around the mining area as a social obligation.

We noticed that KSPCB has not monitored whether the mining companies have earmarked two *per cent* of their annual turnover towards afforestation. In terms of information furnished by two Companies⁸, one company⁹ whose total turnover during the period from 2006-07 to 2011-12 was ₹ 1528.60 crore,

⁶ Out of these, comment regarding production excess over mining plan has already been made vide paragraph 6.2.2 earlier in two cases (ML. 2585; ML 2566), comment regarding production without mining plan vide paragraph 6.2.1 (2) in one case (ML 2220) and comment regarding excess production declared to DMG vide paragraph 6.2.7.1 in two cases (ML 2313 and ML 2290).

⁷ Chitradurga, Hospet, Tumkur.

⁸ Mysore Minerals Limited, Sandur Manganese and Iron Ore Limited.

⁹ Sandur Manganese and Iron Ore Limited.

spent an amount of ₹ 10.23 crore (constituting 0.67 per cent of the total turnover) only towards afforestation. The other Company¹⁰ whose total turnover during the period from 2008-09 to 2010-11 was ₹ 907 crore, spent an amount of ₹ 0.27 crore (constituting 0.02 per cent of the total turnover) only towards afforestation.

We also further observed that KSPCB was not aware whether lessees had invested in rainwater harvesting and ground water recharging immediately after obtaining CFE. Compliance with the condition regarding maintenance of road and earmarking two per cent of the profit towards maintenance of the roads was also not verified by KSPCB.

In reply, KSPCB stated that the main focus of the KSPCB was to implement provisions of Water Act and Air Act. Consent conditions like afforestation, soil conservation, etc., were more of advisory in nature and were stipulated as supplement conditions for environmental clearance and IBM should have enforced them. Further, for carrying out specific measures to control the damage to environment and ecology, MoEF brought out (October 2010) standards for emission and discharge in respect of iron ore mines only and the same would be incorporated by the KSPCB in the future consents. Regarding earmarking two per cent of the profit for maintenance of the roads, it is replied that it was difficult to impose this condition in cases where the mines were in forest area as the lessees were not getting permission from the Forest Department for asphaltting the road. In cases of leases falling in non-forest land, compliance of the conditions would be reviewed by the KSPCB.

Reply of the KSPCB relating to monitoring the implementation of the conditions like afforestation, soil conservation by the lessees is not tenable since the KSPCB had itself stipulated the conditions and adherence to the conditions by the lessees was required to be watched by the KSPCB.

8.9 Mining without environmental clearance

On verification of 73 MLs in three¹¹ DD offices, we noticed that production of 1791766 MT of iron ore valued at ₹ 163.28 crore was made in 13 cases¹² without environmental clearance during 2006-07 to 2008-09.

The DD, Chitradurga replied that notices were issued to five lessees calling for explanation for the above omissions. Replies from the DDs, Hospet and Tumkur are yet to be received.

¹⁰ Mysore Minerals Limited.

¹¹ Chitradurga, Hospet, Tumkur.

¹² Out of these, comment regarding production without approved mining plan/in excess over the approved mining plan in two cases (ML 2584 and ML 2522) has already been made vide paragraph 6.2.2, comment regarding excess production in DMG in one case (ML 1842) has already been made vide paragraph 6.2.7.1 and comment regarding mining without consent from KSPCB in eight cases (ML 1957, ML 2313, ML 2436, ML 2585, ML 2566 ML 2524, ML 2141 and ML 1842) has already been made vide paragraph 8.7.

8.10 Filing of annual environment statement

Rule 14 of the Environment (Protection) Rules, 1986, stipulates every person carrying on an industry requiring consent under Section 25 of the Water (Prevention and control of pollution) Act, 1974 or under Section 21 of the Air (Prevention and Control of Pollution) Act, 1981, shall submit an environmental statement for the financial year ending on 31 March to the concerned State Pollution Control Board (SPCB) on or before 30 September of every year. Further, as per Section 15 of the Environment (Protection) Act, 1986, penalty up to ₹ 1 lakh shall be levied for contravention of these Acts/Rules and in case of repeated failures an additional fine which may extend to ₹ 5,000 per day shall be levied.

We noticed in three¹³ DD offices, that only ten to forty per cent of the lessees had submitted an environmental statement during the period from 2006-07 to 2010-11. We also observed from the records of KSPCB that penalty for non-submission of environmental statements was not levied by KSPCB. In the absence of the Environmental Statement, the Board could not keep a watch over the areas like discharge of pollutants, management of solid waste etc. which required attention on a periodical basis.

In reply, KSPCB stated that most of the information sought in the format was not relevant to mines and does not allow the Board to draw any meaningful conclusion. Hence, MoEF would be addressed suggesting amendment to the format specially to suit the mines in order to arrive at noteworthy conclusions.

8.11 Planting and maintenance of trees in quarrying leases

As per Rule 37 of Granite Conservation and Development Rules 1999, every lease holder shall take immediate measures for planting in the leased area such number of trees as are sufficient to improve the environment and to minimise effects of land degradation during the entire period of such lease. He shall also look after such tree plantations during the subsistence of the lease.

We noticed from the review of the ornamental stone quarry records in four¹⁴ DD offices that the information regarding details of trees planted and maintained by

each lease holder during the currency of lease was not available in the lease files.

The DD, Chamarajanagar replied that the areas granted for quarrying are in rocky belt and unfit for cultivation. Hence, the revenue authorities would be requested to spare alternative lands for this purpose. However, no efforts were

¹³ Chitradurga, Hospet, Tumkur.

¹⁴ Bangalore (Rural), Chamarajanagara, Chitradurga, Tumkur.

made by the mining authorities to consult with forest authorities for an alternative green cover.

Thus, adverse impacts on environment due to sufficient number of trees not being planted in and around the lease area and consequent land degradation could not be ruled out.

8.12 Conclusion

The guidelines suggested by NEERI report were not implemented resulting in mining not compatible with environmental preservation. DMG did not monitor adherence to the conditions by the lessee prescribed in clearances issued by Pollution Control Board and MoEF. The Head of Account “0406-01-800-0-11-EPF” could not be made operational and the receipts of EPF were not reconciled with treasury records at periodical intervals.

8.13 Recommendations

We recommend that:

1. The Government may issue instructions for taking necessary measures for proper accounting of the plantations raised by the lessees and monitor their periodical survival status in coordination with Forest Department.
2. The Government may take up the matter for framing the guidelines/standards for controlling air, noise and water pollution in respect of minor mineral quarries with MoEF.

CHAPTER – IX

SOCIO-ECONOMIC IMPACT OF MINING

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CHAPTER IX - SOCIO ECONOMIC IMPACT OF MINING

9.1 Introduction

The MMDR Act 1957, Rules and Regulations and the postulates of CSR prescribe adequate safeguards for scientific, sustainable and eco-friendly mining. Accordingly, the lessees and regulators should strive to actively engage with all stakeholders and inform them of inherent risks and deploy effective measures to mitigate them. Lessees associated with mining should also provide a safe work place environment and means for training and career advancement for labour employed in the mines, besides desisting from employing children and forced labour. Measures should also be taken by lessees to check and prevent pollution and manage natural resources in a sustained manner, adopt environment friendly production methods and undertake activities for economic and social development of communities and geographical areas particularly in the vicinity of business. Failure of Government in enforcing the statutory requirements under the Act, Rules and regulations will have its ill effects on the environment and other Socio-economic aspects besides causing environmental pollution affecting the lives of humans and livestock.

9.2 Environmental Pollution

Air quality monitoring data obtained by us from the KSPCB, Bellary Region, for the years 2007-08 to 2009-10 revealed consistent increase in air pollution in Bellary District. Against the permissible limit of Respirable Suspended Particulate Matter (RSPM) at $100 \mu\text{g}/\text{m}^3$ and Suspended Particulate Matter (SPM) at $200 \mu\text{g}/\text{m}^3$, the pollution level of RSPM ranged between 103 and 1,119 while that of SPM ranged from 201 to 1,195 as per measurements recorded during the period.



Generation of dust during transportation in Sandur Taluk

The higher level of air pollution liberally contributed to the growth of diseases like Respiratory infection and Tuberculosis (TB) in the mining taluks of Hospet and Sandur as abstracted below:

Years	Respiratory Diseases		T.B.	
	Hospet	Sandur	Hospet	Sandur
2006	9,706	14,902	55	46
2007	4,698	13,165	95	86
2008	5,189	12,882	71	88
2009	7,252	11,756	61	88
2010	10,369	20,251	95	3

Source: Health and Family Welfare Officer, Bellary

The growth in respiratory diseases due to air pollution showed an increasing trend due to the effect of growth in mining activities.

9.3 Impact of Mining on Animal Husbandry Sector

As per the Report on “Impact of mining on animal husbandry sector” furnished by the Deputy Director, Animal Husbandry and Veterinary Services, Bellary, the 18th Census of livestock in Bellary, Hospet and Sandur taluks conducted in 2007 registered a considerable reduction in growth rate and population of cattle/buffalo compared to the 17th Census (2003) as detailed below.

Year	Bellary		Hospet		Sandur	
	Cattle	Buffalo	Cattle	Buffalo	Cattle	Buffalo
2003	4,859	6,265	1,632	435	16,562	3,011
2007	2,651	1,160	1,262	193	14,977	2,866
Growth rate percentage	(-) 38	(-) 43	(-) 23	(-) 56	(-) 10	(-) 5

Source : Department of Animal Husbandry and Veterinary Services

The current estimates made by the Veterinary authorities reported that (2010-11), the livestock population have declined in the mining affected villages. It was also reported that the decrease in the livestock population was due to:

- (i) decrease in availability of grazing land due to mining.
- (ii) nutritional deficiency disorders due to non-availability of quality fodder.
- (iii) health Hazards.
- (iv) high Manganese content in water and soil.
- (v) contamination of water source and fodder due to toxic materials used in mining.
- (vi) increased susceptibility to diseases of respiratory, digestive and reproductive systems.

It was also observed that while the population of livestock declined over the years, the incidence of various diseases was on the increase as seen from the information furnished to audit on livestock by Deputy Director, Animal Husbandry and Veterinary Services, Bellary treated for various diseases during the years 2006-07 to 2010-11 as shown below.

Year	Respiratory Diseases			Digestive Diseases			Endocrine Diseases		
	Cattle	Buffalo	Goat/ Sheep	Cattle	Buffalo	Goat/ Sheep	Cattle	Buffalo	Goat/ Sheep
2006-07	9,238	5,514	14,782	20,949	11,217	23,775	886	641	133
2007-08	10,576	6,267	15,621	22,054	11,018	42,750	1,386	673	160
2008-09	10,467	6,227	15,896	16,417	8,744	41,517	1,566	693	224
2009-10	8,384	4,311	12,220	18,424	9,093	26,001	1,393	665	282
2010-11	10,379	5,509	14,588	22,867	11,370	28,163	1,317	874	798

9.4 Impact of Mining on Agriculture

Based on the socio economic report for the year 2009-10 prepared by the Statistics Department, the area under cultivation in Bellary declined from 4,79,188 hectares in 2005-06 to 4,36,067 hectares in 2009-10 showing a reduction in agricultural operation to the extent of 43,121 hectares. Consequently the area of barren lands increased to 1,24,157 hectares in 2009-10 from 81,036 hectares during 2005-06. Similarly, information obtained from Minor Irrigation Division, Bellary also revealed that the area of irrigated land consistently reduced from 2,324.80 hectares in 2001-02 to 2,192.51 hectares during 2010-11.

As per the Report of the Joint Director of Agriculture, Bellary on the area affected due to mining, a large area of land was rendered unusable for agriculture besides causing crop loss due to dust deposits on plants which affected the photosynthetic process leading to retarded growth of plants.

(Areas in Ha)

Particulars	Hospet	Sandur	Bellary
Areas unsown due to digging and dumping	1,050	1,858	40
Crop loss due to dust deposits.	2,615	3,700	2,030



Agricultural area dug up for iron ore in Sandur Taluk

The Agricultural Department attributed the reduction in cultivated area and crop loss to digging and dumping of iron ore resulting in loss of fertile top soil, alterations in land structure making the land unfit for cultivation, loss of vegetation due to erosion of top soil and crust formation in arable lands due to water movement. Unscientific mining and transportation of ore also caused dust deposits on plants resulting in reduced photosynthetic process causing loss of yield and quality of the product.



Dust deposition on banana crop in Sardur Taluk

Rampant mining activity also resulted in farmers and farm labourers engaging in mining activity neglecting agriculture operations leaving the fields barren.



farm lands left barren in Sandur Taluk

9.5 Encroachment of lands by mining companies

The Hon'ble Supreme Court ordered, in August 2011, for survey of the mining leases in Bellary, Hospet, Sandur, Chitradurga and Tumkur areas to detect forest encroachments and mining outside its allotted areas. The survey work was entrusted to National Institute of Technology, Suratkal (NITK). As per the survey report submitted to the CEC, 166 lease holders encroached 1,606.91 hectares of land.

As per the details obtained from the Deputy Conservator of Forest, Bellary, 931.58 Ha of forest area was encroached by the mining companies between 2008-09 and 2009-10. Details of the encroachments for the years 2006-07, 2007-08 and 2010-11 were not furnished.

Besides, a total of 944 forest offence cases were reported to have been booked by the Forest Department during the year 2006-07 to 2010-11 towards illegal mining, illegal transportation, waste dumped outside the lease area, overloading etc., in Bellary District. The rampant encroachment of forests and illegal mining in forest area contributed to environmental degradation, besides being unlawful.

9.6 Child Labour

Uncontrolled mining in the District of Bellary also permitted child labour in mines. Though statistics on child labour employed in mining activities were not on record, report on prosecution against 123 employers under child labour Act in Hospet and Sandur circle involving 167 children was indicative of employment of children below 14 years of age in mines. Evidently, promotion of child labour apart from being unlawful directly affected the sustained development of the Society.

Out of 123 cases, 98 cases were acquitted due to insufficient evidence and documents to prove the existence of the establishment and age, 6 cases were abated due to death of the accused while in 9 cases penalty has been ordered. 10 cases were reported to be still pending.

Regarding socio-economic issues such as impact of mining on environment, animal husbandry, agriculture, encroachment of forest lands and child labour, the Department stated that the CEC had recommended for setting up a Special Purpose Vehicle under the Chairmanship of the Chief Secretary and also proposed that the levies and penalties to be collected for illegal mining activities may be used exclusively for the socio-economic development, conservation and protection of forest, development of common facilities such as maintenance and widening of the existing roads, construction of alternate roads, conveyor belts, railway siding, etc., for the transportation of iron ore. The matter relating to the plan of action by the Special Purpose Vehicle is being examined by the Government.

9.7 Damage to roads due to overloading of mine lorries

In the deliberations (May 2007) for appointment of the High Level Committee for finalisation of Mining Lease Applications, the estimated loss on maintenance of State Highways, District Major Roads and Bridges damaged due to the transportation of iron ore was stated to be ₹ 1,709 crore (Chief Engineer, Communications and Buildings, South Zone - ₹ 830 crore Chief Engineer, Communications and Buildings, North Zone - ₹ 879 crore). Details of the expenditure were not furnished by the Chief Engineers.



State Highway-49 Road in Sandur area damaged by mine lorries

Out of three Public Works Divisions test checked, scrutiny of records in the Bellary Public Works Division revealed that during the years from 2006-07 to 2010-11 an expenditure of ₹ 24.29 crore was incurred towards maintenance of roads damaged due to overloaded mine lorries.

In Mangalore National Highways Division (NH 17 and NH 48) the percentage of overloaded mine lorries during 2007 and 2008 ranged between 90.16 per cent and 100 per cent. Information on premature damages to roads due to overloaded mine lorries were not furnished by the Executive Engineer. The Executive Engineer was, however, of the opinion that damage due to overloading cannot be attributed to mines vehicles only. Information from Dharwad Division is still awaited.

9.8 Results of survey on impact on Socio-Economic conditions

A survey of local opinion regarding mining was conducted by audit through personal interaction with the villagers, Social workers, NGOs, Village Panchayat bodies of Hospet and Sandur taluks. Results of the survey indicate that the stakeholders largely concurred with the prevailing opinion about the adverse impact of mining on environment, water and Air pollution, Agriculture, livestock, Social life and spread of diseases affecting both human livestock as discussed above. The public opinion also speaks about the existence of child labour and forest degradation besides disturbing the fabric of Social life.

Results of opinion poll on the adverse impact on various socio-economic aspects are expressed as under:

Particulars	Pollution of Air and Water	Agricultural loss due to mining	Spread of diseases to mankind	Spread of diseases to livestock	Loss of forest cover	Child labour in mines	Whether mining affected social life	Whether to restart mining
Total opinions obtained	67	67	67	67	67	67	67	67
Opinions favouring the impact	60	53	58	55	62	35	49	48 (Yes)
Percentage	90	79	87	82	93	52	73	72

Evidently, majority opinion concurred with the adverse impacts of mining on the various socio economic aspects of human life. However, 72 percentage of the opinion favoured restarting mining activity only if it is taken up in a scientific and controlled manner.

9.9 Conclusion

We noticed that higher level of air pollution contributed to the growth of diseases like tuberculosis and other respiratory infections in the mining taluks of Hospet and Sandur. The growth in respiratory diseases due to air pollution showed an increasing trend due to the effect of growth in mining activities. Besides, the growth in the mining activities also increased the incidence of various diseases in livestock.

The cultivation in Bellary declined from 4,79,188 hectares in 2005-06 to 4,36,067 hectares in 2009-10 showing a decline in agricultural land to the extent of 43,121 hectares. Consequently, the area of barren lands increased at an alarming rate of more than 53 *per cent* to 1, 24,157 hectares from 81,036 hectares during the corresponding period.

Similarly, information obtained from the Minor Irrigation Division, Bellary also revealed that the area of irrigated land consistently reduced from 2,324.80 hectares in 2001-02 to 2,192.51 hectares in 2010-11.

Unscientific mining and transportation of ore also caused dust deposits on plants. Rampant mining activity also resulted in farmers and farm labourers engaged in mining activity neglecting agriculture operations leading to the fields going barren.

Report on prosecution against 123 employers under Child Labour Act in Hospet and Sandur circles involving 167 children was indicative of employment of children below 14 years of age in mines. Evidently, promotion of child labour apart from being unlawful would affect the sustained development of the society.

9.10 Recommendations

The Government may consider evolving a participatory approach by involving local population after a thorough study of likely impact on life, lifestyle and livelihood of the communities for greater common good before grant of mining leases.

CHAPTER X – Summary of Recommendations

For ensuring effective Controls and Systems for Sustainable Mining we suggest the following:

- The Government may consider putting in place a system for monitoring the implementation of the KMP in a time bound manner so that desired objectives of the KMP are achieved within a fixed time frame.
- The Government may, in line with the suggestions made in the Five year plan 2007-12, consider creation of a Mineral Development Fund to undertake the task of building infrastructure in mining areas and make efforts to get the railway lines commissioned to augment the transport facilities in mining areas.
- The Department may ensure proper maintenance of DCB Register for all minerals.
- A system may be established for proper coordination with the departments responsible for deducting royalty at source to ensure that the royalty due is collected and remitted in an efficient manner.
- The Government may fix norms for waste rock generation in ornamental stone quarries apart from directing the Department for maintaining proper accounts as per Rules.
- The Government may consider prescribing a time limit for declaring the cases of arrears involved in expired leases as arrears of land revenue and stipulate a fixed time limit for issue of demand notices after finalisation of annual assessments.
- Internal Audit Manual codifying the practices and procedures relating to conduct of internal audit may be prepared by the Department. The coverage of internal audit may be enlarged and timely compliance ensured.
- Applications for lease should be processed within the time frame as per statutory provisions.

- The Government may introduce a system for periodical review of mining leases, ensure that rules prescribed for renewal of the mining leases are strictly followed and stamp duty is levied correctly and collected promptly.
- The Government may consider putting in place a mechanism to prescribe parameters for fixation of targets of annual production giving due importance to the areas proposed for dumping the overburden in the mining plan so as to discourage unauthorised dumping.
- It would be advisable to establish proper coordination among various Departments/Authorities/Agencies involved in mining activities like IBM, CTD, Transport Department, Forest Department, etc. with DMG to ensure better control over mining activities.
- It is essential to prescribe a proforma/format for maintaining vehicle check register so as to record all the details required for enforcement purposes and fixing the targets for inspection of vehicles at check posts and for the mobile squad to prevent illegal transportation of minerals.
- Technological advances such as GPS on trucks, load sensors at check points etc., should be leveraged by DMG to improve enforcement activities.
- The Government may issue instructions for taking necessary measures for proper accounting of the plantations raised by the lessees and monitor their periodical survival status in coordination with Forest Department.
- The Government may take up the matter for framing the guidelines/standards for controlling air, noise and water pollution in respect of minor mineral quarries with MoEF.

The Government may consider evolving a participatory approach by involving local population after a thorough study of likely impact on life, lifestyle and livelihood of the communities for greater common good before grant of mining leases.

The above recommendations were discussed in the exit conference held in September 2012. The Director while appreciating the audit findings stated that recommendations suggested would have far reaching effect in streamlining the mining industry in the State.



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Glossary of abbreviations

AAQM Stations	Ambient Air Quality Monitoring Stations
CAMPA	Compensatory Afforestation Management and Planning Authority
CBI	Central Bureau of Investigation
CTD	Commercial Taxes Department
CEC	Central Empowered Committee
CFE	Consent: for Establishment
CFO	Consent: for Operation
COT	Copper Ore Tailings
CSR	Corporate Social Responsibility
DCB	Demand, Collection and Balance
DCF	Deputy Conservator of Forests
DD	Deputy Director
DMG	Department of Mines and Geology, Government of Karnataka, Bangalore
EPD Cell	Environment Protection Division Cell
EPF	Environment Protection Fund
GPS	Global Positioning System
GSI	Geological Survey of India
HGML	Hutti Gold Mines Limited
HSD	High Speed Diesel
IAW	Internal Audit Wing
IBM	Indian Bureau of Mines
IISc	Indian Institute of Science, Bangalore
ILMS	Integrated Lease Management System
ISRO	Indian Space Research Organisation
KMMC Rules	Karnataka Minor Mineral Concession Rules, 1994
KMP	Karnataka Mineral Policy
KS Act	Karnataka Stamp Act, 1957
KSPCB	Karnataka State Pollution Control Board
KVAT Act	Karnataka Value Added Tax Act, 2003
m ³	Cubic Meter

MC Rules	Mineral Concession Rules, 1960
MCD Rules	Mineral Conservation and Development Rules, 1999
MDF	Mineral Development Fund
MDP	Mineral Despatch Permit
ML	Mining Lease
MMDR Act	Mines and Minerals (Development and Regulation) Act, 1957
MML	Mysore Minerals Limited
MOeF	Ministry of Environment and Forests
MT	Metric Ton
NEERI	National Environment Engineering Research Institute
NMDC	National Mineral Development Corporation
NMP	National Mineral Policy
NPV	Net Present Value
NRSA	National Remote Sensing Agency
QL	Quarrying Lease
RQP	Recognised Qualified Personnel
RRC	Revenue Recovery Certificate
RSD	Remote Sensing Data
RSPM	Respirable Suspended Particulate Matter
RTO	Regional Transport Office
SEC	State Executive Committee
SMIORE	Sandur Manganese and Iron Ore Limited
SPM	Suspended Particulate Matter
SWR	South Western Railway
UNFC	United Nations Framework for Classification
URD	Unregistered Dealers

ANNEXURE-I

Statement showing selection of applicants for grant of lease referred to Paragraph 4.3.2

Sl. No.	Area in Ha	Month of notification	Total applications received	Period during which applications were received	Present status
1	149.73	03/03	22	Between April 2003 and Feb 2007	The recommendation (Aug 2007) of the State Government for grant of lease in favour of an applicant who had applied for it on 15-05-2006 was not sent for the prior approval of the Central Government. Aggrieved by this, the applicant filed (2009) a writ appeal in the Hon'ble High Court on which the Court ordered (Sept 2009) to expedite action and take suitable action within three weeks. No action was however taken in this regard by the Govt as on March 2011.
2	116	03/03	20	Between April 2003 and Dec 2004	The comparative statement of applications was sent (Feb 2004) by DMG to the State Government by recommending the lease in favour of Gimpex Pvt. Ltd. However, the State Govt recommended (Apr 2005) lease in favour of Vir Sponge & power Ltd. who had applied for the area on 22-12-2004. The case was returned (July 2005) by the Central Government seeking additional information and the same was furnished by DMG in Nov' 2009 as the matter was pending in Court and disposed off in June 2009 only.
3	88.87	03/03	33	Between April 2003 and Dec 2004	The comparative statement of applications was first sent (Nov 2004) by DMG to the State Government. The State Govt recommended (Jan 2005) lease in favour of Vir Sponge & power Ltd. who had applied for the area on 22-12-2004. The case was returned (July 2005) by the Central Government seeking additional information. The lease is not yet granted.
4	34.12	03/03	26	Between April 2003 and June 2003	The comparative statement of applications was sent (Feb 2004) by DMG to the State Government by recommending the lease in favour of Gimpex Pvt. Ltd. Further action is awaited.
5	524.8	03/03	69	Between April 2003 and Feb 2005	The comparative statement of applications was sent (Jan 2004) by DMG to the State Government by recommending the lease in favour of two lessees who had proposed to invest Rs.600 crore in the mining industry. Finally, Government recommended (Jan 2006) to Government of India lease in favour M/s MSPL who had applied on 8.2.2005 and who had proposed to invest Rs.100 crore only in the mining industry. Final action is awaited.
6	733.14	03/03	127	Between April 2003 and Aug 2010	The comparative statement of applications was sent (Nov 2004) by DMG to the State Government. No action was taken by the Government till Aug 2010. Final action is awaited.
7	530	03/03	111	Between April 2003 and Dec 2003	Out of the total area notified, one applicant had brought stay order from the Hon'ble High Court in respect of 380.43 Ha. After disposal of the writ petition (March 2004) and based on the recommendation (Dec 2004) of the State Government, an area of 200.73 Ha and 179.70 Ha was granted (Feb 2007) by the Central Government to two different agencies. Later on, based on a series of writ petitions, Hon'ble Supreme Court quashed (Sept 2010) all the earlier decisions and directed the State Government to consider all the applications afresh.
	2176.66		408		