

# Pohang Steel Company (POSCO) Project: Growth Versus Development

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## ABSTRACT

POSCO is a multinational steel-making company, incorporated in 1965 in Pohang, South Korea and ever since it had been an inseparable part of the country's economic history. In 2011, POSCO had become the world's fourth largest steel producer. The proposed POSCO project in Odisha, India's largest foreign direct investment of \$12 billion ran into trouble ever since POSCO signed a memorandum of understanding (MOU) with the State of Odisha in June 1995. The plan was to construct an integrated steel plant with total capacity of 12 million tonne per annum in Jagatsinghpur district of Odisha. It was either due to protests from the local community opposing land acquisition and displacement or on the grounds of environment protection.

The case raises some fundamental questions from the angle of public policy, regulatory and institutional framework. Was there enough clarity in the public policy framework of Indian government regarding FDI in the steel industry in mid 90s? Did the Orissa state government provide adequate institutional apparatus for monitoring such a large FDI? Were the Orissa government and the Indian state adequately prepared to identify and manage the veto players? Did they envisage and prepare a conflict resolution strategy and mechanism?

**Keywords:** POSCO, India, Sustainability, Displacement, Steel

## BACKGROUND – POSCO GLOBAL

The company is engaged in producing hot rolled steel, steel plates, wired rod, cold rolled steel, galvanized steel, electrical galvanized steel, electrical materials and automobile material, among others. During the 1990s two technology research institutions were established to assist the industry in R & D efforts. In 1988 became the world's leading company based on crude steel production. In 1999 the company completed the business transformation process. By 2011 the company had completed its third steel project. The company was selected as the world's most sustainable project. In the company was selected as the most competitive steelmaker of the world for the sixth consecutive year. The company has presence in Africa, Europe, America, and Oceania.

Historically, in the developing countries domestic investments in extractive industries did not take place on the scale of investment and technology required; further, the state policies in respect of investment regimes were also relatively slow to emerge. In such a context the international experience indicated several governments inviting foreign direct investment (FDI) in extractive industries (Africa, Latin America, and South Asia among others). This part of contemporary economic history deals with examples of US and UK investments into mining during the 1950's and 1970s. The literature on resource abundance and economic growth also suggested that point resources (oil and mineral) attracted FDI in the developing nations... for a number of reasons as compared to diffuse resources (agriculture products, as these are not extracted).

It was empirically established that in general democracies attracted more FDI than authoritarian regimes. While the countries mentioned above opened up for FDI much earlier, India decided to open up FDI rules only during the last three decades; as India was already an exporter of minerals. Prior to the Korean steel

project, Indian government had already allowed other investors and joint ventures on the case to case basis in the mineral belt of the country, including domestic investors like BALCO and NALCO and others).

### POSCO PROJECT

In June, 2005, the South Korean steel manufacturing company, Pohang Iron and Steel Company (POSCO) and the State of Orissa signed a Memorandum of Understanding (MOU) for setting up an integrated steel plant with a total capacity of 12 million tons per annum in Jagatsinghpur district of Orissa. Initially, the steel plant would produce 4 MT of steel per year which would further be increased in phases to 8 MT and thereafter to 12 MT. (The overall context of the development of steel and mineral sector in India is given in Exhibit 1)

POSCO project with estimated \$12 billion worth of investment is one of the biggest FDI in India. Orissa government attracted POSCO to their state by promising generous operational environment. The project amassed considerable support from the majority of government in Odisha, India, and Korea. Their generous behaviour was widely criticized by the Indian steel companies, who were not treated alike and also by the civil society who believed that the government was favoring POSCO at the cost of common Odisha people. The MOU signed between the Odisha government and POSCO provided access to large quantities of cheap, high-quality iron ore which was not available in Korea but was crucial to company's commercial success and industrial growth of South Korea.

The integrated steel plant was proposed to be located in Kujang Tehsil of Jagatsinghpur district, Orissa, about 12 km from Paradeep port. As per the MOU the company would also develop and operate mining facilities, road, rail and port infrastructure, including a dedicated railway line from the mining belt to Paradeep port, an integrated township and water supply infrastructure. The state level institutions had an overall responsibility to monitor various aspects of the project.

During the same period, a committee headed by Mr. N.C Saxena examined the Forest Rights Act and several other issues related to the proposed bauxite mine lease (linked to M/s Vedanta Alumina Ltd) in the Niyamgiri hills of Kalahandi district of Orissa. The report highlighted the poor implementation of Scheduled Tribe and other Traditional Forest Dwellers Act that neglected the rights of tribal's belonging to the Primitive Tribal Groups (PTGs) apart from seriously violating the Environment Protection Act and the Forest Conservation Act. On the basis of the report, the Ministry of Environment and Forests rejected Orissa Mining Corporation's application for forest clearance to start bauxite mining in the Niyamgiri hills. Since both mineral based industries POSCO and Vedanta projects were located in Orissa occupying major forest area, it was a clear indication that POSCO might also receive similar treatment by the Committee and the Ministry of Environment and Forests (MOEF).

It is important to note that POSCO and Vedanta were diverse projects operating in the different environment and circumstances. Vedanta's alumina plant was located in the less developed scheduled area in the western part of Orissa which was home to two PTGs. These tribes being forest dwellers were culturally dependent on dense forests for their livelihood hence displacing them would have irreversible consequences. The rights of these tribal groups are protected under the constitution. POSCO's plant, on the other hand, was to be located in a coastal district, a more developed eastern part of Orissa, anticipated displacing 8 villages but with virtually no scheduled tribe people. These groups were engaged in agriculture or fishery for their livelihood. Since the location of POSCO was in an area consisting sandy and waste land, it was not a major issue in terms of forest clearance procedure. The construction of Vedanta project was almost nearing completion (including

unauthorized construction of the expanded portion for which no environment clearance had been taken) whereas the construction on the POSCO project was yet to begin and the state government had so far not even handed over the land to the company.

The committee headed by Mr. N.C Saxena arrived at the consensus that the procedure to recognize forest rights for the villagers should be reassessed. Not all committee members agreed on the course of action but some recommended an alternative compensation arrangement. Few committee members suggested that a comprehensive Environmental Impact Assessment (EIA) should be prepared both for the steel plant and port by the MOEF in consultation with Expert Appraisal Committee to examine various aspects and imposition of additional conditions, before the construction of the project commences. However, the other committee members were of the view that the environment clearance C granted for the steel plant and captive port clearance should be canceled on account of several shortcomings and flaws in the study.

The proposed POSCO project required approximately 6.26 square miles of land which comprised of approximately 10 percent of private land i.e., 0.69 square miles and 5.57 square miles of government land (which included 4.62 square miles forest land and 0.94 square miles non-forest government land). According to reports, a total of 471 families would be displaced by the project. Khandadhar in Sundargarh district was the proposed site for the iron ore mines and the State Government had already granted a prospecting license to POSCO-India. However, the High Court of Orissa struck down the order in July 2010 and instructed the Orissa Government to hear all the applications for mines once again and take a decision within 4 months but the state did not agree and challenged this order in the Supreme Court.

### **RESPONSE TO POSCO PROJECT**

At the outset, all the eight villages were against the POSCO project but subsequently, a number of the villagers changed their opinion after they realized that not all 8 villages but only 2 villages would be fully displaced.. Current livelihood vs. promised livelihood was the main point of difference in opinions of the villagers. Villagers expected the liberal compensation package and the future of jobs prospects for their children. Along with villagers an association, POSCO Protirodh Sangram Samiti (PPSS) was also protesting against the project. However political consensus was altogether missing for this project. The protest was focused on diversion of forest land as it was used by many villagers to cultivate paan or betel vine and was the main source of livelihood. Apparently, the certain exclusive variety was paan (betel) was grown on this forest land.

### **REACTIONS AND ASSESSMENTS OF ANALYSTS AND CRITIQUES OF THE PROJECT**

In mid-July 2007, the then Chief Minister of Orissa along with the representatives of POSCO Pratorodh Sangram Samiti (PPSS) decided to commence land survey in five villages without the consensus among stakeholders. The issues were raised by the analyst regarding the aptness of decisions supporting FDI without any initial assessment of the human and environmental impact of the proposed POSCO plant in the state. The local resistance delayed the project for over five years and after 2010 POSCO was considering withdrawing its proposed plant from Orissa. There were also several deficiencies in the National Mineral Policy of the Government of India. The institutions which were entrusted with the task of mineral exploration such as Ecological Survey of India, Indian Bureau of Mine and National Mineral Development Corporation lost their prominence as more players from the public and private sector were allowed in the sector.

Das suggested that Indian exports should be regulated and the government should have monopoly and control oversupply of minerals and should be sold to plants at the market price. Further to regulate the state level competition a floor level should be set for concessions. POSCO declared financial compensation for 200 families in Jagatsinghpur but the families were much more in number. Many people were settled there for more than three decades but due to lack of regularization, they would lose compensation and rehabilitation benefits.

In 2007, P.K. Dang committee not only recommended a restriction on mineral exports anticipating an increase in domestic demand but also prohibited any foreign partnership in iron ore if it was located in scheduled area. The POSCO deal prompted mass protests that led to arrests of the activist and even few people losing their lives. In such a vulnerable situation, largely due to fear the local people hesitated attending the public hearing that was held in April 2007. In such circumstances, social movements gathered momentum across the globe but were more active in the developing countries. The prime reason for it was high food prices, energy and adverse ecological impact which successively raised the concern of social equity and justice.

### **CLEARANCE OF THE POSCO PROJECT**

The Expert Appraisal Committee (EAC) was assigned a task by MOEF, Government of India to appraise the POSCO project by considering EIA reports and the proceedings of the public hearing. Based on the recommended clearance by the committee for the captive port and the integrated steel plant the MOEF gave Environment Clearance (EC) for the captive port on 15 May, 2007 and to the steel plant on July 19, 2007.

On the basis of recommendations of the Forest Advisory Committee, forest clearance was granted after the scrutiny by the Central Empowered Committee (CEC) and clearance by the Supreme Court on September 19, 2008. The project was granted final clearance on December 29, 2009. Later in 2010, a notification issued by the MOEF demanding the consent of forest dwellers before granting any forest clearance. On August 5, 2010, the MOEF issued a letter directing the Government of Orissa to refrain from handing over any forest land to the user agency.

A Letter by Kapavriksh to the MOEF Committee of 2010 indicated that almost 22,000 odd families will be rendered homeless along with substantial livelihood income loss with POSCO getting the clearance. The proposed port at the mouth of Jatadhari creek will damage the ecosystem irrevocably. Kandahar hills, the proposed site for POSCO's mining operations being covered with flora and fauna will also be ruined. The process of granting clearances was not transparent. The MOU signed between POSCO and State of Orissa expired on June 22, 2010, without any commissioning of the plant which blocked the road for any future scope of an extension of the MOU. Despite the objections from the Ministry of Shipping, the state government decided to approve a port site 12 KM away from the Paradeep Port which was already functional and capable of handling the then proposed output of the POSCO plant.

### **AVENUES OF RESISTANCE AND REMEDY**

As per the OECD contact point assessments, domestic legal and regulatory process reviewed the project situations regularly. There was a significant political mobilization and in terms of transnational civil society movements, European, Korean and the US civil society organizations campaigned against the project.

International Human Rights Clinic (IHRC) suggested suspending POSCO's operations in India in the case of non-compliance with international human rights standards. They emphasized on the inclusive

implementation of the provisions of Forest Rights Act. Land clearance, acquisition or diversion of forest land needs to be executed in coordination to the rights of the forest dwelling communities. Police officials were instructed to act according to the international standards avoiding capricious arrest and detentions. The communities affected by the project should be granted protection against violence by the private sectors apart from adequate access to food, healthcare, education and work. Apart from this, ESCR-Net and IHRC recommended that foreign institutional investors of POSCO should take suitable measures to ensure POSCO's respects for human rights.

The MOU between POSCO and Government of Odisha was signed on June 22, 2005, but even until June 2012, final clearance was not given to POSCO. Based on the recommendations of NHRC Report, the state government initiated returning of the acquired land (for the proposed POSCO plant) back to the private parties in July 2012. In August 2012, a study was conducted by MoEF's expert team to investigate the impact of forest diversion on the local environment (also see Exhibit 2). In August 2015, Prime Minister's office was likely to take up the issue of stalled POSCO project with Odisha government on account of regulatory hurdles and delays in land acquisition and mining leases but the issue stands unresolved till the end of 2015.

### **THE WAY FORWARD**

As may be seen from the above text the case of POSCO has been pending for more than 11 years. The complexity was represented by a multiplicity of primary and secondary stakeholders, with a significant range of divergent opinions, views, perceptions, demands and mixed expectations on the likely outcomes of this project. The case has opened up a number of issues such as legal and regulatory framework for FDI; public policy of steel and mineral and other related infrastructure industries; human rights violations, rising poverty levels; environmental degradation; sustainable development; business ethics; CSR; role of the civil societies and NGOs (as also other activists), the role of the police, state-level bureaucracy and district administration; and a host of public and private institutions associated with and/or affected by the trends and developments of the project.

The case opens up the proverbial debate of the last 60 years of the FDI literature 'whether FDI promotes economic growth and development?' The case also has major implications on the trade-off between foreign investment and the environmental impact. In addition, the case leads to a re-examination of India's trade policy in terms of exports of iron ore which is the most crucial raw material for the steel industry despite an ever increasing demand for this raw material from the domestic investors.

### **EXHIBIT 1: STRATEGY PAPER OF THE MINISTRY OF MINES GOVERNMENT OF INDIA NOVEMBER 2011**

"India has initiated several progressive policy measures, putting itself in a good starting position to undertake the transformation of the mining sector. Unlocking the potential of the mining sector in India could add around USD 210 billion to USD 250 billion to the GDP and create 13 to 15 million jobs through a direct and indirect contribution by 2025."

#### **Trends:**

Governments worldwide are adopting progressive policy measures to boost mining in their countries: The Indian government, too, has initiated several measures to reform the mining sector, e.g., MMDR Act, Sustainable Development Framework. Contribution of mining sector to India's GDP has been stagnant and low, at around 1.2 percent over the last decade (it grew from around 4 to 6 percent in Chile and Australia and from 1 to 3 percent in China)

It takes 5 to 8 years (or more) to get a mining lease in India (it takes about a year in Australia)—India ranks very low in the Fraser Survey 2011 on both policy and mineral potential. Logistical inefficiencies lead to mining sector losses of about USD 2 billion each year, nearly double the losses in other sectors. Applying best practice technology in exploration, mining and mineral processing is a challenge in India—for instance, it can take up to 6 months to get permission for airborne surveys in India, whereas in Australia and Canada it takes less than a month.

Source: Unlocking the Potential of the Indian Minerals Strategy Paper for the Ministry of Mines, November 2011, accessed July 19, 2016. <http://mines.nic.in/writereaddata/UploadFile/Strategy%20Paper%20for%20Ministry%20of%20Mines.pdf>.

#### **EXHIBIT: 2TIMELINE: CHRONOLOGY OF EVENTS**

- June 22, 2005: MoU was signed between POSCO and Government of Odisha.
- August 2005: Formation of POSCO Pratirodh Sangram Samiti to oppose the project.
- August 8, 2008: Supreme Court endorsed 'in principle' clearance for use of forest land but advised the Ministry of Environment & Forests (MoEF) to advance 'in accordance with law.
- December 29, 2009: Final clearance for diversion of forest land was approved by the Environment Ministry.
- March 30, 2012: The environment clearance was adjourned by the National Green Tribunal.
- July 04, 2012: Based on the recommendations of NHRC Report, the state government initiated returning of the acquired land (for the proposed POSCO plant) back to the private parties.
- July 05, 2012: POSCO-India submitted a revised proposal to the state government seeking transfer of 4.23 mi<sup>2</sup> land in its favour for establishing a 8 MTPA factory.
- August 21, 2012: A study was conducted by MoEF's expert team to investigate the impact of forest diversion on the local environment.

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