INTERNATIONAL JOURNAL OF ADVANCE RESEARCH AND DEVELOPMENT

IJARnD

(Volume 3, Issue 10)

Available online at: www.ijarnd.com

Auction of mines in India

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ABSTRACT

The concept of the auction came right around the time economists saw the opportunity between the gap of demand and supply as well as the value attached to some items. Economists generally like to believe that the auction originates from the concept of scarcity i.e. the dearth of a certainly required commodity in the required amount. Resources are limited but the population grows, opening the biggest market in the whole wide world up for auction- resources. The land has its own format of adjusting its price according to market forces. But mineral and other resources need to be allocated not just on the basis of market forces but other factors like the population, its density, the local environment, etc. thus came into the picture the concept of controlled auctions by the government who usually own the resources. As most governments do not allow private sectors to own such important resources, the property themselves weren't auctioned but rather leased out on a contract basis. In South Africa, the debate on sharing mineral wealth between stakeholders can be traced back to the mine labor disputes of the 1920s and 1940s, and the 1955 freedom charter (competitive resource tenders as an option for mining rights allocation in South Africa, November 2013). Around the world, the auctioning of mines started in the 1950s.

Keywords— *Auction, Mining, India, Government, Market forces*

1. INTRODUCTION

India is the 7th largest country in the world. It has a growing consumer base and there has been a rapid increase in industrial and infrastructural investments which, without doubt, has led to an increase in its power and mineral consumption. India happens to have the 4th largest coal reserves and in the world and it is extremely rich in other mineral reserves as well hence, one may think that India does not face any challenges regarding mineral resources. But, it is a matter of public record that India imports a lot of its mineral requirements. Now, this is mainly due to the existing procedure of allocation of resources and monopolies over these resources.

Recently, in 2015, there has been an amendment in the Mineral Auction Rules. The Government decided to liberalise the mining sector and allow commercial mining by introducing the procedure of auctioning of mines.

Hence forth, mines will be auctioned and the private sector will be able to participate in the auction and mine coal. This is expected to lift the supplies, moderate the exorbitant prices while boosting investments but, majorly, this will be ending the monopoly of the Public sector over the mining industry.

Our main objective behind the research is to study the impact of the auctioning of mines in India and the amendments made to the Rules.

2. LITERATURE REVIEW

Mining is not a new activity and neither is the need for legislation over it new. Several laws and regulations have been guiding and regulating mining activities in India. One such act is the Mine and Minerals (development and regulations) Act, 1957. This act states the process of licensing for mining in India.

Earlier, licensing in the Mining sector was of three types:

- Prospecting/Exploration License – This gives a company the right to search for exploitable mineral resources for commercial use in accordance with the law, for not more than 3 years.
- Production License – Gives a company the right to extract minerals from an area for a limited time period, for at the most 30 years.
- Others – This deals with small-scale mining mostly. (iPleaders, 2015)

But, in 2015 the MMDR Act was amended that aimed at bringing transparency in the procedure of allocation of mines by introducing auctions. A fixed percentage to the revenue of any mine will be allocated to the development of the area around it, to be called a District Mineral Foundation (Siddhanta, 2015). For auctioning mining leases, State governments will be required to specify the reserve price, which will be the mineral despatched in a month multiplied by its sale price, as published in the Indian Bureau of Mines for the month of despatch. The rules make it clear that auctioning will be done on a forward auction basis where the highest bid above the reserve price wins. (Mineral Rules: govt comes out with two types of licences, 2015)

Another type of mining license was introduced called the "Prospecting-cum-mining lease". Now, after the amendment, the licenses have a validity of 50 years instead of 30 years. There will be no renewal of leases, there will only be re-auctions. Transfer of mining leases has also been allowed, granted not through auctions (Mines and Minerals (Development and Regulation) Act). Other than royalty, leaseholder will pay an additional amount to a District Mineral Foundation. This fund would be used for the "benefit of people and areas affected by mining activities." (ordinance on mines, ninth by NDA government, 2015).

The Mines and Mineral Development and Regulation Act, 1957 was amended in 2015. Subsequent to this amendment, the procedure for the auction process was prescribed. Auction of the concession of major minerals (apart from coal, natural gas, and petroleum) was done for the first time in the history of mineral administration in the country.

Following the amendment, 33 blocks were successfully auctioned. The value of minerals auctioned out is Rs. 169,000 Crore. Revenue to states over lease period is estimated at Rs. 128,000 Crore. The additional revenue on account of the auction process is Rs. 99,000 Crore. (Amendments in the Mineral Auction Rules , 2017)

But, 60 auctions failed during this period hence, the rules were amended again on 30/11/2017.
The amendments made to the act were:

- Under the old rules, the auction was annulled if there were less than 3 bidders and the process was carried out for 3 rounds at least with flexibility allowed in the 4th round onwards only. Each auction round carried on for 3 months at least and many mineral blocks would get annulled time and again resulting in the process becoming cumbersome but now, it is still necessary to have minimum 3 bidders in the first round but flexibility is allowed in the second resulting in speeding up the process for the states.
- Earlier the state prescribed extremely rigid end-use conditions on miners which resulted in inefficient mining but now, the miners can dispose of 25% of the dump. This will help progress towards zero waste mining and utilization of even low-grade minerals
- The upfront payment of the premium has been adjusted against the due payments of the miners which increases the liquidity of mining entities when production begins. This will further ease their capacity to carry out the business.
- The requirement of net worth for the prospective bidders has also been amended.
  Average annual production up to 2 Crore, net worth required reduced to 0.5 Crore from 4 Crore
  Average annual production up to 20 Crore, net worth required reduced to 10 Crore from 40 Crore.
- Provisions have been made to discourage squatting on bid out leases. (Amendments in the Mineral Auction Rules , 2017)

The expectation is that these changes will enhance participation in the auction process and also result in mineral blocks being auctioned successfully. (India Liberalises Mineral Auction Rules, Tweaks End-use Conditions, 2017)

Now, India has one of the largest reserves of coal but, the annual production from the monopoly miner Coal India is insufficient to cater to the needs of the industries. Coal supply by Coal India Ltd (CIL) is restricted to around 65% of actual coal requirement by coal-based thermal plants, leading to increased dependence on imported coal. This results in increased power generation costs due to limited fuel availability. Increasing operational inefficiencies and outstanding debts have led to the poor financial health of state discoms. Then there are other concerns such as land acquisition which has made a purchase of land for power projects very expensive. Installation of power plants, in any case, requires huge investments and the land acquisition cost pushes the capex to unprofitable and unsustainable levels. (India's looming power crisis , 2016)

Coal India and its affiliates account for about 80% of total coal output. But, this monopoly power is to come to an end as a result of Modi Government's policy of auctioning. This opens up the mining sector to the commercials. Opening up of the sector will lead to an increase in domestic investments as well as FDIs. The coal supplies and prices would be stabilised. This will also contribute extensively to employment generation. As competition is being brought in, both quality and price will now be reasonable. Logistics may improve, resulting in lesser environmental impact and consumers would be able to procure coal suitable to their requirement. (Coal India monopoly to end as decks cleared for mining by private players, 2018)

The coal auctions have seen aggressive bids, the challenge now lies in how to control the mining cost and ensure maximum recovery of resources. There are numerous challenges such as selection of an appropriate mining contractor, keeping checks on processes and the entire mining value chain, having a stringent data measurement system, and an adequate risk analysis in place as part of project preparedness–though the answers to these challenges will depend on how systematic and organised an approach is taken for development, and subsequently, the operations of these mines. (Indian Chamber of Commerce, n.d.)

3. METHODOLOGY

There are usually three kinds of Research namely: exploratory, descriptive and causal. Each serves a different end purpose and mastery of all three can lead to great insights and quality information. We have taken up Exploratory Research. It focuses on the discovery of ideas and valuable insights. It is helpful for finding areas of potential growth, alternatives, etc.

We will be undertaking qualitative research to understand the implications of Auction of Mines in India and their impact on the economy. The impact includes the impact on GDP of the country, the impact on the private sector, and various other aspects will be covered

We will be using secondary data available to perform an in-depth analysis of auction of mines to the private sector and how it leads to growth in infrastructure and generate employment. The secondary data will give a practical touch to the literature review and will help in better understanding the past, present and expected future scenario.

4. ANALYSIS

Exploration is the need of the hour. It is necessary to pin point the minerals that India imports the most and then spot the future prospective minerals that India can possibly use in the years to come. Also, monopolies over the mining and sector and supply bottlenecks need to be eliminated to ensure sufficient supply of minerals. And hence, private participation in Exploration should be encouraged. Despite having huge resources, there has been abysmally low exploration activity and minimal private sector participation, particularly in the exploration of strategic and deep-seated mineral deposits requiring state-of-the-art technologies and risk capital. There has been the negligible growth of the minerals in India mainly due to the lack of exploration. The low exploration and inefficient mineral production are leading India towards high dependency upon imports for mineral requirement satisfaction. And hence, the amendment in the MMDR Act, 1957 was necessary. The new law has made the process less cumbersome and ensures that mineral blocks are auctioned off quickly so as to reduce the supply bottlenecks. The 25% disposal of dump clause is a step towards the zero waste mining and optimum utilization of minerals. The law has been devised in a way to attract private investors by reducing the net worth requirement, upfront premium amount, et cetera.

At present, there are two ways for the participation of a private company in mineral exploration, i.e. either through obtaining a NERP (Non-exclusive Reconnaissance Permit) or get enlisted as an explorer with NMET (National Mineral Exploration Trust). NERP is non-exclusive in nature and hence it is unable to lure private participation. Incentives to the “Explorers” are taken care of under NMET. However, it does not allow any claim for allocation to the explorer upon successful exploration of the block. An exploring agency or company, which is responsible for the infusion of money and time to find the minerals, should be recognized by the Government of India through a policy or an act.

Also, Mining is a very sensitive industry and hence there must be rigorous check and control over it. The Ministry of Mines & the Industry should device mechanism to control excessively high and unrealistic bid price for the auction of mines. The auctions have seen aggressive bids. The Ministry of Mines should create an instrument to curb the extremely high and unreasonable bids placed so as to avoid the “Winner’s Curse”. Else, the auctioned blocks cannot come in production as scheduled and may end up in litigation. There are hurdles which have held the mining industry back. Principal among these is land availability, regulatory uncertainty, archaic labour laws and small size of mining properties. Complications, uncertainties and heart burns associated with land availability are too well known to be repeated. While it is a major hurdle in setting up almost any industry in India, it is specially challenging for the mining industry as the land requirement is very specific to the occurrence of mineral and a host of other technical considerations leaving very little by way of choice to the prospective mine operator. (Acharya, 2017)

Different pressure groups routinely interfere with the acquisition of such land and hold the project to ransom. Environmental groups understand well that this is the soft underbelly of a mining project and obstruct construction of the land rather than the mine itself. (Acharya, 2017)

Productivity remains a major concern with miners. Since the ore is degrading and the open cast mines are getting older, augmenting efficiently from underground mines is required.

When compared with the rest of the nations, India has a low level of certainty, efficiency, and clarity mainly because of rigid and tough regulations and procedural requirement in this industry.

Due to the extended delay of land acquisition, getting environmental and forest clearances, various projects have been left unfinished. High and uneven tax structure has hurt the industry’s profits and hence made it difficult to compete on a global scale. Despite the 100 percent FDI route, the mining sector has witnessed restricted FDI inflows and engagement by global mining players. Alternatively, fraud and corruption have engulfed the industry albeit only a couple of companies may be involved in such matters. The states are finding it difficult to put the mining blocks up for auction as very few blocks have G2 level exploration status (as per the UNFC norms). A mineral block with the G2 level of exploration has better clarity on the quantity of mineral reserve in the block, which makes it easy for the government to decide the base price and set norms for auction. Such blocks are put up in the auctions for Mining Licenses (ML). In case of G3 level of blocks, there is less clarity on the mineral reserve in the block. In such cases, the government auctions the blocks as Composite License (CL) that is a prospecting license cum mining lease. In a CL, the leaseholder of a mineral block would have to carry out the exploration process before commercial mining.

In FY16, India had 1,878 operative mines – excluding mining areas for minor minerals, crude petroleum, natural gas, and atomic minerals. During 2011-12 to 2016-17, the value of ore and mineral imports into India witnessed a growth of 6.1 per cent. Due to the continuing focus of the government on cutting down the imports of coal, the import demand has now shifted to petcoke. Imports of petcoke are rising due to an increasing number of end users like cement companies opting for petcoke as an alternative to coal. Imports of Iron Ore and Minerals increased at a CAGR of 6.1 percent to US$ 21.36 billion in FY17 from US$ 15.89 billion in FY12. The figure stood at US$ 19.58 billion during April-November 2017. Indian scientists have started exploring the seabed in the Indian Ocean for precious minerals including platinum, gold, and silver, thereby marking India’s entry into deep sea exploration in the southern India Ocean, where countries such as China, Korea, and Germany are already present. During April – September 2017, India’s mineral output grew by 7.9 percent year-on-year to reach US$ 17.699 billion. The contribution of coal was the highest at around US$ 6.04 billion (34.10 percent), followed by crude petroleum at US$ 5.10 billion (28.79 percent), iron-ore at US$ 2.24 billion (12.63 percent) and natural gas (utilised) at US$ 2.07 billion (11.68 percent). (ibef)

Iron and steel account for a major share in India's metals and mining sector as supported by the following data showing how crucial it is to have a fair and just mining auction process in place for the Black metal. In 2016, India stood as the 3rd largest crude steel producer in the world, while the total crude steel production was 88 MT. Crude Steel output grew 4.6 percent year-on-year to reach 75.498 million tonnes during April-December 2017. India accounted for 5.89 percent of the total steel production in the world in the year 2016. Total finished steel production for sale (alloy+ non-alloy) stood at 79.294 million tonnes during April - December 2017. India is expected to overtake Japan to become the world's second largest steel producer by 2019-20, as it aims to achieve 300 million tonnes of annual steel production by 2025-30. In FY17, the offshore region accounted for 20.20 percent share in India's share of states in value of mineral production. Steel demand is set to rise in the coming months owing to increased public sector spending by the Government of India.

Table 1: Accrual of royalties for mineral mines for the last 4 financial years (in lakh)

Sl No	State	2013-14*	2014-15*	2015-16	2016-17
1	Andhra Pradesh	48,784.20	33,571.00	26,650	29,527
2	Assam	44.87	139.67	248	512
3	Bihar	128.17	107.31	NA	NA
4	Chhattisgarh	1,14,535.52	1,55,634.52	1,07,364	1,11,517
5	Goa	3,650.62	4,838.24	4,288@	31,475@
6	Gujarat	35,031	43,476	NA	NA
7	Haryana	8	40.3	NA	NA
8	Himachal Pradesh	6,625	9,740	NA	NA
9	Jharkhand	62,706.56	82,870.25	NA	NA
10	Jammu & Kashmir	914.49	1,182.14	NA	NA
11	Karnataka	74,304	92,594	79,766	1,01,534
12	Kerala	1,239.31	1,390.53	757	NA
13	Madhya Pradesh	36,527	46,697	39,185	37,735
14	Maharashtra	16,825.87	14,100	16,241	16,925
15	Meghalaya	2,465.59	2,199.58	2,998	NA
16	Odisha	3,76,765	3,44,338	3,41,343	2,47,678
18	Rajasthan	1,59,147	1,97,024	1,86,575	NA
17	Telangana	-	19,702.72	19,015	20,126
19	Tamil Nadu	16,741.50	18,087.4	NA	NA
20	Uttara Khand	1,522	1619	NA	NA
21	Uttar Pradesh	1,410	1037	NA	NA
	Total	**9,59,375.7**	**10,70,388.66**	**8,24,430**	**5,97,029**

(official, 2018)

We will also be discussing the states with major coal and iron ore deposits to see which state government will benefit the most out of the autonomy provided by the MODIRAJ to states via revenue generation through mine auctioning. Here is the data on deposits as by IBEF presented in a graph. (ibef)

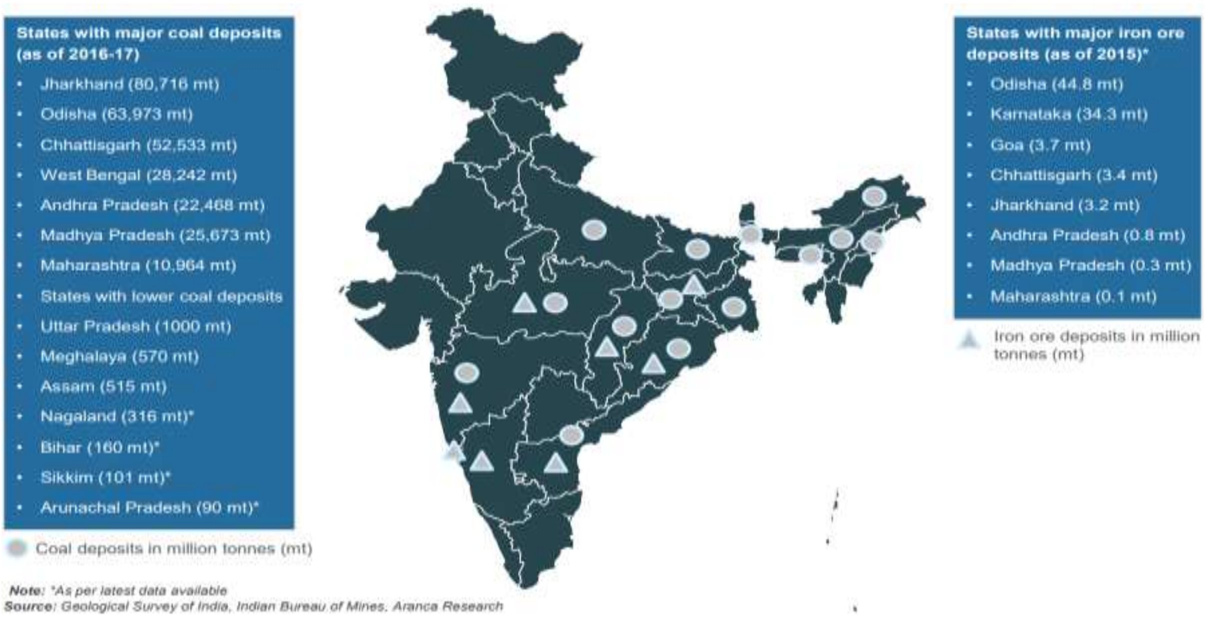

Fig. 1: States with major coal and iron deposits.

So, we know that if tomorrow all states were to hypothetically design the perfect governance system and have a justified mining rights auctioning policy, the states of Jharkhand and Odisha would get the maximum benefit from the auctioning. (ibef)

The untapped potential in Indian mining equipment sector needs to be identified to contribute to "Make in India" campaign and to the country's economic growth. Interventions should be made to make investments more attractive in the mining sector and the Government of India should encourage the manufacturing of the mining equipment and heavy machinery in India itself. This way, equipment's and spares can be procured in a cost-effective manner without having to worry about foreign exchange fluctuations. After the amendments, the grant to expenditure ration also decreased. This is the data of the grant to expenditure ratio for the last three years:

Table 2: Grant to expenditure ratio (in crore)

Schemes	2015-16			2016-17			2017-18	
	Grant	RE/FE	Actual Expenditure	Grant	RE / FE	Actual Expenditure	BE Grant	Actual Expenditure for (up to Sept' 2017)
Survey and Mapping	156.22	115.81	115.07	118.68	106.51	105.71	112.09	69.53
Mineral Exploration	53.51	38.49	38.71	54.88	63.04	63.01	67.97	35.54
Spl. Investigation	11.00	11.16	11.10	10.03	9.46	9.26	9.58	6.88
Research & Development	12.63	11.8	11.72	14.32	10.53	10.44	8.72	5.80
Information Dissemination	144.46	95.18	95.07	79.91	78.12	77.73	41.04	34.50
HRD	11.82	10.52	10.49	21.47	19.60	19.62	11.00	6.15
Mod. & Replacement	62.94*	65.07	52.10	171.64	50.12	37.19	167.60	61.43
TSP	10.00	8.20	8.20	12.70	12.70	12.51	11.00	7.37
Total	**462.58**	**356.23**	**342.46**	**483.63#**	**350.08**	**335.47**	**429.00**	**227.20**
*Minor Works Authorization to Ministry of Urban Development			14.31			13.32		
Total (considering Minor Works authorization & L/C opened)			356.77			348.79		
% of Utilisation of Fund against allotment (RE)			100.15%			99.63%		52.96%

(official, 2018)

In sum, the amendments in the MMDR Act, 1957 and changes in Auction rules will lead to enhanced participation in the auction process. These changes will lead to a fillip to the mining sector by way of more successful auctions of mineral blocks. As per predictions by March 2018, 34 blocks will be put up for auction and the additional revenue over the leased period will be nearly Rupees 75000 crore. Assuming that a few of auction may spill over to the next year, that is 2018-2019, so the greater impact will be witnessed in 2018-19.

5. CONCLUSION AND POLICY PRESCRIPTION

This study assesses the Auctioning of mines in India at large. We have researched upon the previous procedure for mineral allocation, the amendments made to the law, the introduction of the auction process, the impact of it on the Public and Private sector and finally the expected revenues this change would generate.

Earlier the process of mineral allocation was one involving corruption and monopolies but after the amendment of the MMDR Act, 1957, there has been relatively more transparency in the process and as private sector is being encouraged to enter the mining sector, the competition has pushed the redundant and inefficient public sector companies in mining sector to increase their efficiency and has put an end to their monopolies over the industry.

Though the Private companies, being new to the industry, face quite a few difficulties, recent stats show that India's states contribution to mineral production has shown a rise. Hence, we can draw a conclusion that if a proper, tightly monitored system of auction of mines is put in place and government also monitors the utilization of these resources with scrutiny, India would be able to reduce its dependency on imports for mineral requirement moreover, the revenue generated from the auction could be put to much better use like, infrastructure development or people welfare programs, et cetera.

Government should also consider a single Mining Tax (on the lines of GST) wherein all the taxes, cess, levies and royalties et cetera get merged and encourage uniform tax structure in the mining industry: At present, there is a practice of charging extra taxes by the State Governments over & above royalty, which needs to be removed immediately. Taking the example of the Karnataka Government, apart from the royalty, they also charge an extra 12% on the sale proceeds as Forest Development Fees and 10% tax levied by Supreme Court in Goa. The Effective Tax Rate after the amended MMDR act is 64% and even higher for old miners at 69%. According to the World Bank, this rate should be between 40-50%. Such taxation leads to a disequilibrium in the country's economy. Also sometimes the miners aren't able to pay such high taxes as the gestation period in mining is too long and this results. The mining sector should have the same tax rate and structure across India, irrespective of the region or state concerned.

One of the biggest problems faced before the mining activities can be commenced is the acquisition of land. There exists a gap between the auctioning, acquisition of mining lease and the acquirement of the land. To remove the hindrances that the bidder might face, after the auctioning of the mines which will slow down the process, the Government of India should form a policy regarding the land acquisition for mineral blocks.

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