FICCI'S RECOMMENDATIONS TO ASHOK CHAWLA COMMITTEE ON ALLOCATION OF NATURAL RESOURCES

FICCI Recommends Auction Based System for Allocation of Natural Resources

April 30, 2011, New Delhi: In its recommendations to Ashok Chawla Committee on Allocation of Natural Resources, FICCI has suggested that auction based system should be followed for allocation of natural resources like iron ore, coal, lignite, bauxite etc. Currently, for allocation of most minerals the system of First-come-First-Served basis is followed. FICCI said that for fully explored blocks of minerals a transparent auction system can be adopted as is done in the case of NELP (National Exploration Licensing Policy). The essential feature of NELP process is that in order to attract largest possible investments in exploitation of natural resources, where multiple parties stake claim for the resources, allocation is done through a transparent auction and competitive bidding process only.

Elaborating further, FICCI said that in case of unknown mineralisation the Committee may consider Open Sky policy. Given India's geologically underexplored reserves, it is important that large investments are attracted and incentivised for exploration, the chamber said. In order to incentivise large investments for exploration of unknown minerals, FICCI said that preference may be given in allocation of mines to those who have participated in the exploration of unknown minerals. FICCI said that auction based system may not be appropriate in those cases where adequate information about the extent/size/grade of minerals is not there. In such cases it may lead to a speculative bidding with a high risk of over paying by investor which may force him to abandon the project midway with associated environmental, social and technical consequences. It is therefore suggested that auctioning should be limited to fully explored blocks and other areas should be granted on First-Come-First-Served basis subject to competitive criteria of technical expertise, financial resources and investment proposed etc.

Other recommendations to the committee are- a) due weightage to value addition while allocating natural resources, b) time bound mechanism for development of mineral resources, c) single levy that is royalty for mining industry instead of multiple levies, d) transparent rules for reselling of mineral rights, e) stability in the pricing and duration of long term supply contracts, f) establishment of independent regulators for each major group of natural resources etc.

FICCI emphasised that the detailed criteria of bidding as provided in the draft MMDR Act (Mines and Minerals Development & Regulation) should be retained. Also, a time bound mechanism should be in place to ensure development of mineral resources. Strict penalty clauses should be put in place in case of non-adherence to developmental plan, said FICCI. This would ensure that only serious players are given mines and they are developed in a timely manner. FICCI feels that for mining leases Government may consider flexibility in payment mechanism instead of adopting one mechanism for all minerals. Government may consider drafting mineral specific terms for mining leases which may include modalities like Royalty alone, Production Sharing, Signing bonus with royalty etc, said FICCI.

FICCI further said that value addition should get due weightage while allocating the mineral resources through open competitive bidding. Preference should also be given to end users seeking allocation of raw materials. The chamber has also recommended to the committee that the proposed payment of 26% of the profit from mining or 100% of royalty whichever is higher in the MMDR Act ('draft Act') will adversely impact all stakeholders and may not serve the desired objectives as envisaged. FICCI fears that this provision would make organised and modern mining financially unviable. This may defeat the purpose of legislation as more sophisticated and large operators will be driven out and the objective of scientific and environmentally sustainable mining may not be achieved. Instead, FICCI proposed that mining companies could be required to pay 25% of royalty in a year and this amount could go into the District Mineral Foundation. This amount may be utilized for the benefit of the affected population. Such an approach would ensure that:

(a) The payment is actually linked to mining operation and the contribution amount would be simple to determine even in case of a captive mine

(b) There would be a steady flow of income even if the company may not be making profit

(c) Revision in royalty rates would automatically result in revision of contribution requirements.

There is also a need to bring parity between private and PSU players in allocation of mineral resources. Currently, State Governments provide exclusive reservations to PSUs in allocation of certain mineral reserves. The Government needs to release substantial mineral reserves for exploration and exploitation by the private sector to attract the required investments in the sector, added FICCI.

In order to ensure predictability of raw material supply, FICCI has suggested that Long Term Supply Contracts, once concluded, should remain valid and not be cancelled unilaterally. Similarly, under an existing long term supply contract, price revisions should not be implemented with retrospective basis.

On coal, FICCI said that the draft policy of Ministry of Coal (put on the website on 4th April 2011) does not allow a mining company to participate in the bidding process for auctioning of coal blocks for end users. At present, mining of coal reserves is restricted either to Coal India Limited or end users for captive mining. In this regard, FICCI has suggested that mining of coal may be opened to companies having strong technical and financial capability as long as they have entered into long term tie-up for supply with specific end users.

For spectrum also FICCI has suggested the auction based system for allocation. Except for 3-G, India had been following the principle of "First come first served" for spectrum. This policy was appropriate when there were limited number of operators. However, in the current scenario of a fierced competitive telecom broadband industry, auctioning of spectrum may be the best method going forward. FICCI also recommended that the Government releases more spectrum that is currently being held by PSUs and utilised inefficiently.

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