### **Fairness in mining**

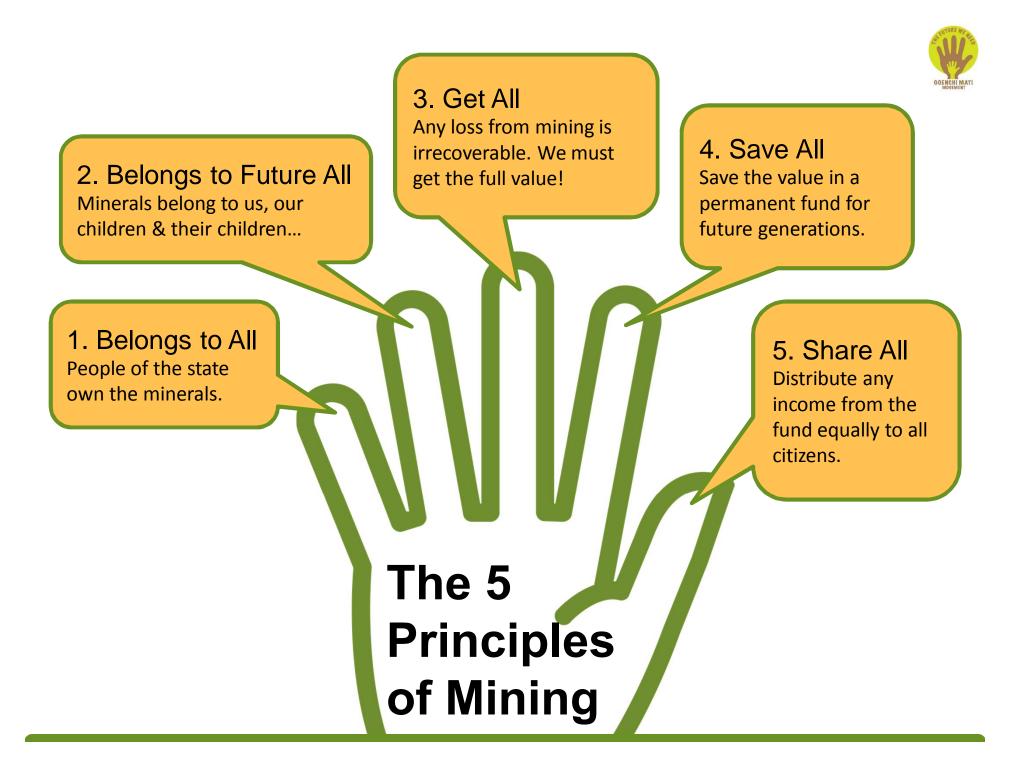
2017





# What is Royalty?

- Royalty for Economic Services
  - Rent for use of land under a lease
- " Royalty is a tax
  - . India Cement Ltd. v. State of Tamil Nadu and others (AIR 1990 SC 85)
- <sup>"</sup> Royalty not a tax, consideration for minerals
  - . State of West Bengal v. Kesoram Ltd and others, SC, CA. No. 1532-1533 of 1993, Judgement 15-Jan- 2004
  - . Raised in Threesiamma Jacob & Ors., by individual mineral owner
- <sup>"</sup> In front of a larger Bench
  - Order of reference dated 30-Mar-2011 of a three-Judge Bench in Mineral Area Development Authority & Ors. Vs. Steel Authority of India & Ors. (2011) 4 SCC 450





# Implications of selling cheap

- Rent seeking, corruption, crony capitalism
   Politician-Miner complex, patronage politics
- Skewed incentive to extract and leave quickly
   Trees, tigers and tribals are obstacles

   anti-development, anti-national
  - . Conflict, civil war, funded by minerals again
- " Under-pricing minerals
  - . encourages consumption, driving un-sustainable
- <sup>"</sup> Looting economics, growing inequality



# Metaphors & framing

- Windfall revenue
  - More mining = more revenues = good
  - . Windfall = unpredictable = don't analyze
- <sup>"</sup> Sale of family gold?
  - . Are we so desperate we need to sell our family gold?
  - . Is this the right time to sell?
  - . What is the value, what are we receiving? Any loss?
  - . Are we saving the money or frittering it away?



# Windfall revenue metaphor

- Easy money to governmentno voice of people, authoritarism
- - . Under prices minerals
  - . Driving un-sustainability
- " Commodity volatility in budget
  - . Goa, Alaska, Saudi, Venezuela, Russia
  - . Contra: Norway, Botswana



### FAQ: Government needs money

... for infrastructure, health, education, green stuff

- Citizen's Dividend is critical to stakeholdershipOnly 100% saving and 100% CD can be defended
- Stop easy money to government, improve governance
   If the needed expense is so good, the people will willingly pay more taxes, perhaps to repay loans from permanent funds
   If they don't pay taxes, it says something about governance
- <sup>"</sup> A per-head tax, morally repugnant, politically unlegislatable
- " Efficiency of individuals vs government sloth
- *"* Insulate government from commodity cycle
- " These are all "wasting" assets



## Public Sector Implications

- Consolidated fund or public trust account?
- " Government accounting
  - . IPSASB, GASAB
    - <sup>"</sup> Change cash accounting
- Government revenues
  - . IMF fiscal manual, India manual, IMF requirements, FRBM
    - Non-mineral revenue deficit
- "National income
  - . UN statistics manual, CSO manual
    - <sup>7</sup> 100% savings



## **Burning** issues

- Will center compensate owners?
  - . Lease extensions
  - . Auctions
  - . Power subsidy on coal
- " Create Permanent Funds
  - . Auction premia

#### "Finance Commission?



## Permanent fund

- Can we protect it for a 1,000 years?. NPS / PFRDA
  - . Constitutional protection
- " Capital markets
- <sup>"</sup> Infrastructure financing
- " Capital account & the exchange rate
- " Sovereign wealth funds



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The Future We Need



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