

# 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)
- “ 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
- “ 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

**2. Belongs to Future All**  
Minerals belong to us, our children & their children...

**3. Get All**  
Any loss from mining is irrecoverable. We must get the full value!

**4. Save All**  
Save the value in a permanent fund for future generations.

**1. Belongs to All**  
People of the state own the minerals.

**5. Share All**  
Distribute any income from the fund equally to all citizens.



# The 5 Principles of Mining

# 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
- “ Looting economics, growing inequality

# Metaphors & framing

## “ Windfall revenue

- . More mining = more revenues = good
- . Windfall = unpredictable = don't analyze

## “ 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 government
  - . no voice of people, authoritarianism
  
- “ Encourages mineral consumption
  - . 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 stakeholdership
  - . Only 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
  
- ” 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
    - ” Change cash accounting
  
- “ Government revenues
  - . IMF fiscal manual, India manual, IMF requirements, FRBM
    - ” Non-mineral revenue deficit
  
- “ National income
  - . UN statistics manual, CSO manual
    - ” 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
- “ Infrastructure financing
- “ Capital account & the exchange rate
- “ Sovereign wealth funds

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