

Mining Sector in Doldrums

- Metalworld Research Team

The mining industry in India is passing currently through doldrums due to restrictions imposed by government under strict monitoring of the Supreme Court. The excavation of natural resources is also facing huge resistance from local inhabitants of mine sites which both the government and the miner term as a major challenge. Currently, mining industry in India is squeezed between slow economic growth and the government's crackdown in illegal operation. The growth in mining industry is directly proportional to the country's economy. Hence, the impact of economic destabilization would be imperative for mining sector in the country. In India, the Finance Minister P Chidambaram along with the Reserve Bank of India (RBI) has cut

growth forecast in the gross domestic products (GDP) to 5.5 per cent for the current financial year compared to 6.7 early this year. Although, reform measures have been taken to bring the economy on rapid growth track, yet they prove to be inadequate to support the real growth. The manufacturing sector lagging behind the other segment of economic growth trajectory that proves to be a major speed breaker for the mining sector going forward. Until, the government comes out with a clear rehabilitation and settlement policy, the mining sector would continue to remain in limbo.

Challenges

There are two primary issues for mining sector across the world – rehabilitation of displaced and land acquisition. While the land acquisition has partly been taken care of by the respective state governments, there is no benchmark set for compensation of displaced people on the mine site. Consequently, miners devise their own compensation formula. This is where local inhabitants show their dissatisfaction resulting into clash with the miner and protest from local people.

India is the largest producer of sheet mica, the third largest producer of iron ore and the fifth largest producer of bauxite in the



world. India's metal and mining industry was estimated to be \$106.4bn (£68.5bn) in 2010. The mining industry in India is a major economic activity which contributes significantly to the economy of India. The GDP contribution of the mining industry varies from 2.2% to 2.5% only but going by the GDP of the total industrial sector it contributes around 10% to 11%. Even mining done on small scale contributes 6% to the entire cost of mineral production. Indian mining industry provides job opportunities to around 700,000 individuals. The economic reforms of 1991 and the 1993 National Mining Policy further helped the growth of the mining sector.

India's minerals range from both metallic

and non metallic types. The metallic minerals comprise ferrous and non-ferrous minerals, while the nonmetallic minerals comprise mineral fuels, precious stones among others. D.R. Khullar holds that mining in India depends on over 3,100 mines, out of which over 550 are fuel mines, over 560 are mines for metals, and over 1970 are mines for extraction of nonmetals types. The total mineral potential area in India covers 5.75 lakh sq. km., of which an area of only 75,000 sq. km. has been explored in detail so far. According to industry estimates, the mining industry turnover is projected at \$30 billion by 2012. The future demand for mining products will be driven by a growing Indian economy, resurging industrial production & rapid infrastructure development. Endowed with rich mineral resources, the segment constitutes the backbone of economic growth of India as it has been generously endowed with minerals. India's ranking in 2009-10 in world production was second in barytes, chromite and talc / steatite / pyrophyllite, third in coal and lignite and bauxite, fourth in iron ore and kyanite / sillimanite, fifth in manganese ore, steel (crude) and zinc, sixth in bauxite, eighth in aluminium and tenth in magnesite. Mining and quarrying sector accounts for 2.5% of India's GDP, as estimated by Central

Statistical Organization. According to the Indian Ministry of Mines, India produces as many as 87 minerals, which include 4 fuel, 10 metallic, 47 non-metallic, 3 atomic and 23 minor minerals including building and other minerals. In India, 80% of mining is in coal and the balance 20% is in various metals and other raw materials such as gold, copper, iron, lead, bauxite, zinc and uranium. According to the Ministry's statistics, the total value of mineral production (excluding atomic minerals) during 2010-11 has been estimated at US \$ 41.79 billion. During 2010-11, estimated value for fuel minerals accounts for US \$ 28.17 billion or 67.42%, metallic minerals, US \$ 8.7 billion or 20.85% of the total value and non-metallic minerals including minor minerals US \$ 4.89 billion or 11.73% of the total value. In 2010, India exported minerals worth an estimated of US \$ 30.79 billion. Iron ore is one of the key minerals exported from India.

Mineral Production

The index of mineral production of mining and quarrying sector in October 2012 was higher by 10.1% compared to that of the preceding month. The mineral sector has shown a negative growth of 0.1% during October 2012 as compared to that of the corresponding month of previous year. The total value of mineral production (excluding atomic & minor minerals) in the country during October 2012 was Rs. 16975 crore. The contribution of petroleum (crude) was the highest at Rs. 5850 crore (34%).

Next in the order of importance were: coal Rs. 5067 crore, iron ore Rs. 2418 crore, natural gas (utilized) Rs.





2130 crore, lignite Rs. 361 crore and limestone Rs. 338 crore. These six minerals together contributed about 95% of the total value of mineral production in October 2012. Production level of important minerals in October 2012 were: coal 445 lakh tonnes, lignite 33 lakh tonnes, natural gas (utilized) 3328 million cu. m., petroleum (crude) 32 lakh tonnes, bauxite 1745 thousand tonnes, chromite 176 thousand tonnes, copper conc. 11 thousand tonnes, gold 134 kg., iron ore 100 lakh tonnes, lead conc. 15 thousand tonnes, manganese ore 159 thousand tonnes, zinc conc. 131 thousand tonnes, apatite & phosphorite 151 thousand tonnes, dolomite 435 thousand tonnes, limestone 222 lakh tonnes, magnesite 18 thousand tonnes and diamond 2501 carat. In October 2012 the output of coal increased by 22.9%, bauxite 20.8%, iron ore 12.1%, apatite & phosphorite 10.8%, zinc conc. 10.7%, gold 8.1%, copper conc. 7.2%, lead conc. 7.0%, dolomite 5.3%, lignite 5.1%, petroleum (crude) 4.5%, limestone 3.7%, manganese ore 2.3%, natural gas (utilized) 2.0 percent. However the production of diamond decreased by 0.6%, magnesite 5.8% and chromite 21.2 percent.

The total value of mineral production (excluding atomic minerals) during 2012-13 has been estimated at Rs 234612.66 crore. During 2012-13, estimated value for fuel minerals account for Rs 156834.04 crore or 66.85% of mineral production. The production of metallic minerals stood at Rs 43381.67 crore or 18.49% of the total value of production and non-metallic minerals including minor minerals contributed to Rs. 34396.95 crore or 14.66% of the total value. The provisional value of minerals and ores exported during the year 2011-12 (Provisional) was Rs. 175310 crore whereas the value of import was

Rs.944430 crore.

Hindustan Copper Expansion Plan

The public sector Hindustan Copper Ltd (HCL) has rolled out mine expansion plan to increase mine production to 12.4 million tonnes by financial year 2017-18. The plan envisages expansion of Malanjkhand, Khetri, Kolihan and Surda Mines; re-opening of Rakha and Kendadih Mines; & development of new mines namely Banwas and Chapri - Siddheswar. Meanwhile, the company earned a profit before tax of Rs 472.92 crore for the financial year 2011-12 which is highest ever since inception. The company has paid Rs 92.14 crore as dividend to government of India for the year 2011-12. Ore production in 2011-12 at 3.48 million tonnes is second highest in last 13 years.

FDI Policy for Mining Sector

FDI up to 100% is permitted under the automatic route in mining and exploration of metal and non-metal ores including diamond, gold, silver and precious ores etc. subject to the Mines and Minerals (Development & Regulations) Act, 1957, as per Consolidated Foreign Direct Investment Policy Circular 1 of 2012 dated 10th April, 2012 issued by the Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, Government of India. Restrictions are stipulated for Titanium Ores. Further, FDI is not allowed in prescribed substances as notified by Department of Atomic Energy. As per the Government statistics maintained by the Department of Industrial Policy and Promotion, the magnitude of the Foreign Direct Investment (FDI) into the mining sectors since April, 2000 to March 2012 is Rs.4054.63 crore (US\$ 940.40 million). FDI inflow leads to induction of (i) mining technology, (ii) Automation in mining, and

(iii) productivity increases.

The Government has come out with a New Mines and Minerals (Development and Regulation) Bill, 2011 that seeks a complete and holistic reform in the mining sector with provisions to address issues relating to sustainable mining and local area development, especially families impacted by mining operations. The existing National Mineral Policy, 2008 provides measures to streamline and simplify the procedures for grant of mineral concessions, develop a sustainable framework for optimum utilisation of the country's natural mineral resources for the industrial growth in the country and at the same time improving the life of people living in the mining areas which are generally located in the backward and tribal regions of the country. The new Policy spelt out measures to optimise the scientific mining and exploration of the country's mineral resources.

Fast Growth in Mining Sector

The government opened up the mining sector to foreign direct investment in 1993 after the announcement of the National Mineral Policy to infuse funds, technology and managerial expertise in the sector. As a result, private investment -both domestic and foreign, has been permitted for the exploration and exploitation of the following minerals: Iron - ore, Copper, Manganese, Lead, Chrome Ore, Zinc, Sulphur, Molybdenum, Gold, Tungsten Ore, Diamond, Precious Stones, Nickel and Platinum group of metals. The Foreign direct investment policy in the mining sector has been gradually liberalized over the last few years. As a result, several foreign companies have begun investing in India, with the majority coming from Canada and the USA, followed by Australia, the UK and South Africa. Most interest has been shown in the base metals, diamond, mineral sands and gold sectors.

Apart from the Ministry of Mines, India has several governmental agencies that have been set up to assist in the development of the country's mineral resources. The Geological Survey of India (GSI) is the principal agency responsible for the assessment of geological and regional mineral resources of the country. Its areas of operation encompass scientific surveys and research, for locating mineral resources. GSI operates through six regional offices and four specialised

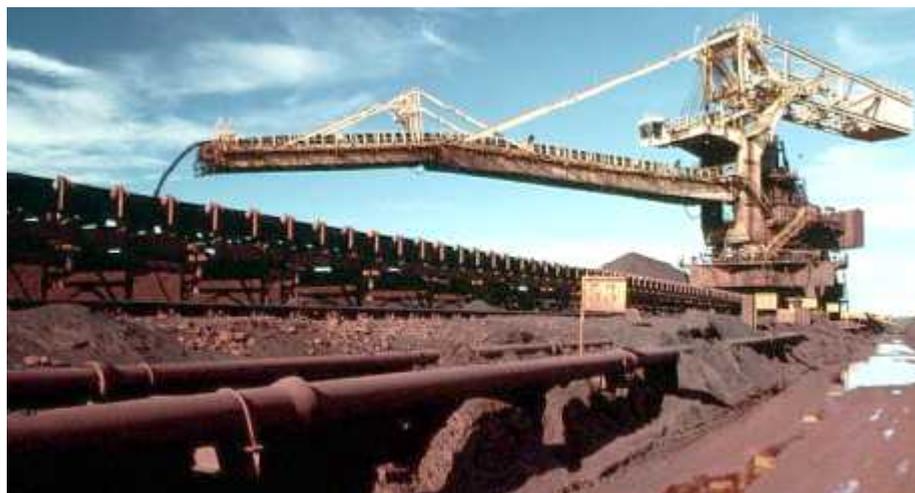
wings - marine, coal geophysics, airborne surveys and training. The Indian Bureau of Mines (IBM) is the principal government agency responsible for compiling exploration data and mineral maps and for providing access to the latest information in respect of mineral resources in the country.

Working Mines

During 2009-2010 timeframe, the Public Sector continued to play a dominant role in mineral production accounting for 74.48% or US\$ 24.9 billion in the total value. At the same time, Indian mining industry was characterized by a large number of small operational mines which are mostly in the private sector. The number of mines which reported mineral production (excluding minor minerals, petroleum (crude), natural gas and atomic minerals) in India was 2,628 in 2010-2011. Out of 2,628 reporting mines, 377 were located in Gujarat followed by Andhra Pradesh (372), Jharkhand (288), Madhya Pradesh (251), Rajasthan (215), Karnataka (211), Orissa (159), Tamil Nadu (156), Maharashtra (142), Chhattisgarh (135) and West Bengal (111). These 11 States together accounted for 91.97% of total number of mines in the country in 2010-2011.

The names of few top players in India in the industry of mining and mineral production are Coal India, Bharat Aluminium Company, Bharat Gold Mines, Gujarat Mineral Development Corporation, Hindalco Industries, Hindustan Copper Limited, Hindustan Zinc, Hutti Gold Mines, Indian Rare Earths, Kudremukh Iron Ore Company, MOIL, MSPL, National Aluminium Company, National Mineral Development Corporation, Obulapuram Mining Company, Rajasthan State Mines and Minerals, Sesa Goa, Singareni Collieries Company, Sterlite Industries, Uranium Corporation of India and Vedanta Resources.

Out of the total 2,628 operational mines during 2010-11, 574 are involved in the extraction of coal and lignite, 608 in metallic minerals and 1,446 in non-metallic minerals. Mineral production in India is primarily concentrated in 5 states of AP, Chattisgarh, Jharkhand, Rajasthan and Orissa. In fact, these states together contributed more than 40% of the national mineral production in value terms in 2010-11. Broadly, there are five mineral 'belts' in the country: The North Eastern Peninsular Belt, Central Belt, Southern



Belt, South Western Belt, and the North Western Belt. The North Eastern Peninsular Belt is the largest mining belt in India and is composed of the Chota Nagpur plateau and the Orissa plateau covering the states of Jharkhand, West Bengal and Orissa. This belt is abundant in coal, iron ore, manganese, mica, bauxite, copper, kyanite, chromite, beryl, apatite etc. The Central Belt is found in the states of Chattisgarh, Andhra Pradesh, Madhya Pradesh and Maharashtra. Manganese, bauxite, uranium, limestone, marble, coal, gems, mica, graphite etc. exist in large quantities in this region. This is the second largest belt of minerals in the country. The Southern Belt is found in Karnataka plateau and Tamil Nadu and is rich in ferrous minerals and bauxite.

The South Western Belt is found in States of Karnataka and Goa and is rich in iron ore, garnet and clay. The North Western Belt is present in the States of Rajasthan and Gujarat along the Aravali Range and has non-ferrous minerals, uranium, mica, beryllium, aquamarine, petroleum, gypsum and emerald in abundance.

Meanwhile, India hosts a wide range of globally significant mineral resources, including four fuel minerals (such as coal and uranium), 11 metallic minerals (such as iron), 22 minor minerals and 52 non-metallic minerals (such as clay). The country ranks among the world's top five nations for its core competency commodity reserves of coal and iron ore. Iron ore reserves are estimated in the region of 23 billion tonnes accounting for 6 per cent of the global reserves, while coal reserves are reported to be around 255 billion tonnes. India is the world's third-largest producer of coal, fourth largest iron ore and fifth-largest producer of

bauxite. However, only 10 per cent of the country's landmass has been explored due primarily to significant regulation and bureaucratic obstacles.

India's mining industry is set to reach US\$36.2 billion by 2016 as output growth of key minerals remains strong. However, growth in 2012 and beyond will continue to be curtailed by India's poor operating environment. A bright spot, however, is the increasing number of Indian companies venturing overseas to secure stable, long term supplies of minerals such as coal and iron ore in a bid to meet fast - rising domestic demand. Growth in 2012 and beyond will continue to be curtailed by India's poor operating environment. A bright spot, however, is the increasing number of Indian companies venturing overseas to secure stable, long-term supplies of minerals such as coal and iron ore in a bid to meet fast-rising domestic demand.

The proposed 2011 Mines and Minerals Development and Regulation (MMDR) Bill allows for the granting of non-exclusive reconnaissance licences and high-tech reconnaissance / exploration licences based on ability and intention to develop an area. The new bill also calls for a system for bidding licences, which can create a market for these licences, increasing transparency. A negative for the proposed MMDR bill will be the additional taxes to be levied for community development.

Grim Future

The sentiment has suddenly turned negative in mining sector due to restriction imposed by the government. Hence, until the government promises an ambitious return on investment, miners would stay away from fresh mineral exploration.

