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Foreign Direct Investment in Mineral sector of India

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FDI is where foreign investors invest directly in the economic infrastructure of any foreign country, means they invest their money to establish some institution, concerns, production units or in infrastructural units. This contributes directly to the economy of the host country that's why it is a direct investment.

The metallurgical and mineral industries in India form the fundamentals of its industrial growth and development. India has a vast resource base spread throughout the country, which provides the basic raw materials for most of the industries. India produces a total of 84 minerals comprising 4 fuels, 11 metallic, 49 non-metallic industrial and 20 minor minerals. For the past three decades, the Indian mining industry has been progressing at an annual rate of 4 percent to 5 percent. The Indian mining industry currently employs over 1.1 million people.

Mining and minerals industry in India is one of the sectors which attract the highest Foreign Direct Investment (FDI). All the investments including FDI in the Indian mining and minerals industry were earlier governed by the Mines & Minerals (Development & Regulation) Act or MMDR Act, 1957. When the ill effects of the restrictions imposed by the old policy came into limelight, a new policy for the mining and minerals industry i.e. National Mining Policy - was formulated by the Ministry of Mines (1993).The National Mineral Policy was revised in 1994 and as a result, private investment (bothdomestic and foreign), has been permitted for the exploration & exploitation of thirteenminerals.In 1994, the MMDR Act, 1957, had accordingly been amended with a view to accelerate the inflow of private capital, both domestic and foreign,as also state-of-the-art technology. Consequently, the minerals and mining sector, which was earlier reserved exclusively for the public sector, has now been opened up for the private sector/foreign investors and the investments in the industry are being encouraged. The Government of India is making efforts to boost up the activities like research and making the mining and mineral's industry more competitive.

By raising the level of domestic and foreign direct investments in the sector to Rs 1, 00,000 crore, this new policy aims at promoting growth of this sector. It also plans to create employment for about five lakh skilled and unskilled labour force in the industry whichcurrently employs 1.1 million people.

The highlights of the policy are:

- The limit of FDI has been raised to 74% for the exploration and mining of diamonds and other such precious stones.
- For gold and silver mining, 100% FDI is permitted.
- 100% FDI is also allowed for metallurgy and processing.
- For those who have / had an earlier agreement or joint venture in the mining of different minerals, sanction of automatic approval for FDI comes without much procedural tangles.
- In the case of power projects initiated by private Indian players, FDI limit will be 100%. Similarly, no FDI cap will be followed for coal and lignite mines set up by private companies for captive consumption.
- 100% FDI is allowed for setting up coal processing plants subject to the condition that the company should not be engaged in coal mining.
- For FDI proposals not meeting the above-mentioned guidelines, approval will be given by the Foreign Investment Promotion Board keeping in mind parameters such as project size, commitment of external resources for funding project costs, the company's mining track record and financial strength, level of technology and the Indian partner's equity holding.

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- for FDI and/ or technology collaboration is also available to those who have or had any previous joint venture or technology transfer agreement, subject to a declaration being filed that they have no existing joint venture for the same area and/ or the mineral concerned
- The ministry of mines is now looking forward to lift all the remaining restrictions as well, so as to encourage joint ventures with overseas players and thus attract more inflow of foreign investments in the industry. Joint ventures will ensure healthy developments in the sector since good technology and funds brought in by the foreign player and the knowledge of the Indian player about the local issues can be combined. The government is also encouraging Research & Development (R&D) to boost the competitiveness in the mining and minerals sector. Rs 1,00,000 crore as FDI in the next two years, the government is also planning to lift the restriction on foreign players which forbids them to work with multiple domestic player The present flow of FDI into the Indian mining sector is measly $150 million. The data on FDI in the mining sector for the last three years and in the current year upto September, 2009 are as follows:-

YEAR	Amount in USD million
• **2006-07**	• 6.62
• **2007-08**	• 44.26
• **2008-09**	• 34.22
2009-10(April to September, 2009)	86.63

- *(Source: DIPP)
- Besides the data shown above actual inflow in this sector is quite low compared to total FDI inflows in other sectors, while the average inflow rate is 30%(other sector), it is only 4.6% of the approved amount which is perhaps due to unfavorable labour laws, bureaucratic sloth and complex rules and regulations. The sectors which received major part of FDI inflows are manufacturing sector (21.1%), financial services (19.4%) and construction sector (9.9%).

As per available facts, India still has 85 billion tonnes of mineral reserves which are yet to be exploited. Therefore, encouraging FDI in the sector can prove to be crucially important for the development of the Indian mining and minerals industry.During 1999, the Government had cleared 7 more proposals of leading international mining companies for prospecting and exploration in the mineral sector to the tune of US$ 62.5 million. 65 licenses have been issued till date for prospecting an area of around 90,142 sqkms in the states of Rajasthan, Maharashtra, Gujarat, Bihar, Haryana and Madhya Pradesh. Prospecting licenses have been granted in favour of Indian subsidiaries of well-known mining companies. These include BHP Minerals, CRA Exploration supported by Rio Tinto (RTZ-CRA), Phelps Dodge of USA, Metmin Finance and Holding supported by Metdist Group of Companies UK, Meridien Minerals of Canada, RBW Mineral Industries supported by White Tiger Resources of Australia, etc. Most of the FDI proposals in the mining sector particular in the gold mining are from Australian companies. The reason is that geological and metallgenic history of India is similar to Australia as also to South Africa, South America and Antartica.

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Australian companies are hoping that the next gold rush will be in India. Till Sept.2001, India had approved 70 proposals of FDIworth $834 million in the mining sector.

Following table shows the extent of investment allowed in the various activities of mining.

ACTIVITY	INVESTMENT CAP	ROUTE
Exploration and mining of diamonds and precious stones	74 per cent	Automatic
Exploration and mining of gold and silver and minerals other than diamond and precious stones	100 percent	Automatic
Metallurgy and processing	100 percent	Automatic
Private Indian companies setting up/operating power projects as well as coal and lignite mines for captive consumption	100 percent	Automatic , provided such investment does not exceed 49 percent of the equity of public sector undertaking
Setting up coal processing units*	100 percent	Automatic , provided such investment does not exceed 49 percent of the equity of public sector undertaking
Exploration or mining of coal or lignite for captive consumption	74 per cent	Automatic , provided such investment does not exceed 49 percent of the equity of public sector undertaking

Source:Government of India, ministry of commerce and industry.

*subject to the condition that the company shall not do coal mining and shall not sell washed coal or sized coal from its coal processing plants in the open market and shall supply the washed or sized coal to those parties who are supplying raw coal to coal processing plants for washing or sizing

Advantages of FDI in mineral sector

- The availability of cheap labour for the industry offers a major attraction to the global players.

- Due to induction of foreign technology labour productivity will increase. In coal mining the output per miner per annum in India varies from 150 to 2,650 tonnes compared to an average of around 12,000 tones in the U.S. and Australia.

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- The mining companies will improve in their operational efficiency. Mining companies are in need of an organizational transformation to gradually align its operating costs to international standards. Mining costs of Indian companies are at least 35 percent higher than those of leading coal exporting countries such as Australia, Indonesia, and South Africa. To match productivity, they will need to invest in new technologies, improve processes in planning and execution of projects, and institutionalize a comprehensive risk management framework.
- Environmental pollution will be less with the utilization of advance technology and scientific method of mining.
- R&D programs and training and development activities with global collaboration will take place in the country.
- Improvised infrastructure facilities.
- Availability of advanced and cost saving mining technology.
- Automation and globalization of mining industries.

Disadvantages of FDI in mineral sector

The disadvantages of foreign direct investment occur mostly in case of matters related to operation, distribution of the profits made on the investment and the personnel. One of the most indirect disadvantages of foreign direct investment is that the economically backward section of the host country is always inconvenienced when the stream of foreign direct investment

- Domestic firms may suffer if they are relatively uncompetitive
- At times it has been observed that certain foreign policies are adopted that are not appreciated by the workers of the recipient country.
- Foreign direct investment, at times, is also disadvantageous for the ones who are making the investment themselves.
- indigenous mining companies and equipment suppliers are under the constant threat of being taken over by foreign companies.

CONCLUSION

Although there are many advantages and disadvantages of FDI but It is normally the responsibility of the host country to limit the extent of impact that may be made by the foreign direct investment. The government must be very careful, while inviting foreign investment. It should keep a constant vigil on the activities of the companies that are coming in and prevent any potential damage to the environment. (There are few instances e.g. TNCs endangering the environment by their activities in some states of India. In Orissa (Eastern India) in the Bauxite sector have displaced the tribal population from their homeland and polluted one of the state's most important rivers by discharging effluents). The media, civil society and other stakeholders of society have a very important role to play in monitoring the activities of the government and preventing such cases from happening.