

The Legal and Policy Context

Mineral resources in India are owned by the States. However, the national government has retained authority for most major minerals. The primary piece of legislation governing mineral development is the Mines and Minerals (Regulation and Development) Act, 1957, as amended to January 1994. In practice, this means that both levels of government will be involved in approving mineral exploration and/or development projects.

In 1993, as part of the economic liberalization process, the Government of India issued a new National Mineral Policy. The thrust of the policy is to encourage private investment and reduce the role of government in the industry. The following thirteen minerals have been opened up for private investment: Iron Ore, Manganese Ore, Chrome Ore, Sulphur, Gold, Diamonds, Copper, Lead, Zinc, Molybdenum, Tungsten Ores, Nickel, and the Platinum group of metals.

In addition, foreign equity investment in mining projects up to 50 per cent is automatic (larger foreign equity positions would be considered on a case by case basis). By implication, joint ventures are encouraged as the preferred mechanism for investment. Other simplifications to mining regulations related to approvals for leases and prospecting licenses were also introduced as part of the package.

The new mineral policy clearly presents opportunities. However, by western standards, some significant impediments to mineral investment remain. Among the most important of these, (1) the maximum area for prospecting is capped at 25 sq. km., (2) the level of royalty rates and their unit-based structure, and (3) the relatively slow and cumbersome process required for lease applications and renewals, and related environmental approvals.

The Government of India and state governments are aware of these investment impediments. They have been openly discussed in public fora. At time of writing, both the royalty structure and the land access cap are under review. Changes in these areas are expected within a matter of months.

Commodity Opportunities

Part D of this paper details mineral exploration and development opportunities for the commodities that have been opened for private investment.

Two general points bear emphasis. First, both industry and government observers indicate that the potential for new finds, especially using more advanced exploration methods, is excellent. In its economic plan, the Government of India is emphasizing the need for increased exploration, especially for the base and precious metals. Reserve levels for these commodities are generally not adequate to meet domestic demand.

The second point is that domestic demand for most minerals is projected to grow by 20 per cent or more over the period 1992-97. For example, the Ministry of Steel forecasts that iron ore demand will to grow by 47 per cent over the period. The demand for refined copper is expected to grow by 20.1 per cent. Of course, these projections will be a function of general market conditions. However, the market growth potential for minerals and metals in India is considerable compared to the relatively flat demand projections that typify the developed nations.