Frontier
Vol. 43, No. 25, January 2-8, 2011

COMMENT

Sharing Mining Profits

FACED WITH STIFF OPPOSITION by tribals and maoists, the Government of India, more precisely the Ministry of Mines, has of late come out with a unique plan that envisages the idea of sharing 26 percent of mining profits of Mining Giants with local people, hopefully to pacify the aggrieved in the hills and jungles of central and eastern India and buy peace for the corporates.

States like Jharkhand and Chhattisgarh are rich in minerals but poor because most profits from mining are captured by mining companies and remitted to the urban centers. Local people, in the main, bear the suffering of displacement and destruction of environment. Multinational Companies extract the minerals and remit most profits to their headquarters located in developed countries.

In truth many mineral-rich countries have similar arrangements in place already. According to a release by Delhi-based Center of Science and Environment, it is obligatory for mining companies in Papua New Guinea to enter into an agreement with local people. 20 percent of the royalty is paid to local people. They are also entitled to a share of the profits and mining companies have to build local infrastructure such as roads and schools. In South Africa, landowners have the right to exploit the minerals lying below their lands or to sell mining rights to companies. They get a share in the ownership of the mining companies. They also get preference in employment.

Mining companies have to pay a Royalty Tax in Peru. This revenue is distributed as follows: 50 percent to the Central Government, 20 percent to the State Government, 15 percent to Provincial Government, 10 percent to District Government, 10 percent to local administration and 5 percent to local Universities. A 'Mining Development Fund' has been established in Ghana. Royalty is deposited in this fund. These revenues are distributed among affected households, local government and land owners. Local communities get a share of royalty in Canada. Xingyang Province of China has recently imposed a tax on oil, natural gas and minerals extraction companies. Beijing is planning to impose a similar tax across the country. Australia has imposed a 30 percent 'Mining Super Profit Tax' on all mineral extraction companies. Petroleum companies already have to pay 30 percent of their profits as extraction tax. The policy of taxing mineral extraction profits for local people seems to have international acceptance. Principle is that the bounty provided by nature in the form of minerals belongs to all the people-especially local people. Just as farmers have the right to extract the groundwater flowing below their lands, or fishermen have the right to fish in the sea adjoining their village, similarly local people have the right to extract the minerals lying below their lands.

Quite expectedly the Indian mining companies have, however, vociferously opposed the proposal. Federation of Indian Mineral Industries has suggested that an amount linked to royalty be provided to local people instead of imposing tax on profits. But royalty is generally paid on the amount of minerals extracted and has no relation to the price. Windfall gains obtained by mining companies due to increase in the price of minerals, therefore, remain outside the ambit of royalty. Profits, on the other hand, increase and decrease in tandem with price of minerals. Therefore, local people do not get share of the windfall gains through royalty. The Federation has expressed concern that mineral extraction will not remain profitable for investors if 26 percent of the profits are taxed away. This appears more hype than reality. Similar concerns were expressed when Australia imposed tax on profits. But mining companies like Xastra resumed operations quickly. Mining companies are making such huge profits that slicing off 26 percent will not make much difference.

Tata Steel has suggested that local people should be provided with sustainable income generating opportunities instead of giving away share of profits. The suggestion is logical. Saying goes that it is better to teach a poor man how to fish instead of giving fish to him. But this is difficult to implement. Government of India already has made a National Relief and Rehabilitation Policy. But local people are rarely given permanent employment. It is difficult to believe that mining companies will actually create sustainable income generating opportunities for local people since they are not able to implement the Rehabilitation Policy. It is better to make a somewhat inferior policy that is executable than to make a good policy that remains on paper.

In fact, the principle of sharing profits should be made applicable to all developmental projects. It should not be restricted to mining companies only. □□□ *[contributed]*