

K'TAKA: CBI RAIDS MINING FIRMS' OFFICES

**AGE CORRESPONDENTS
BENGALURU/BELLARY,
OCT. 3**

CBI teams raided offices and homes across five cities in Karnataka which included the residences of two MLAs, one from the BJP and the other from the Congress, as well as the offices of two mining companies in connection with the alleged illegal mining scam linked to arrested BJP legislator and former Karnataka minister Gali Janardhan Reddy.

In early morning raids, teams of CBI officials investigating two separate cases raided the Bengaluru offices of Associated Mining Company, owned by Mr Reddy's wife Aruna Lakshmi, and Deccan Mining Syndicate.

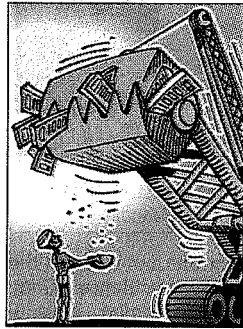
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A Mixed Bag

*Mining Bill is long on intention,
short on clarity*

The Mines and Minerals (Development & Regulation) Bill, cleared by the cabinet last week, signals that the government's heart is in the right place. Under its provisions, coal firms must share 26% of their net profits with project area residents, while non-coal miners will have to provide them a sum equal to royalty paid to state governments. No system is in place at present to properly compensate mining-affected communities. So, there's no faulting the intention to reduce popular resistance to mining projects by giving locals a stake in them.

What isn't clear is how we'll ensure that these funds don't vanish into a black hole but truly help the targeted sections. The Bill says that district mineral development funds will receive the revenues for spending on local populations and area development. But let's keep in mind that leakages blight our welfare delivery systems. Nor is politically blessed corruption in mining a secret. A technology-aided audit system must therefore ensure that money can be traced to its proclaimed developmental uses. And this



expenditure-related data has to be open to online public scrutiny. Else, compensation funds risk being misallocated or misappropriated.

Moreover, addressing local misgivings in mineral-rich tribal areas ought not to mean making mining itself unaffordable. The sector is already highly taxed. By industry estimates of the Bill's financial implications, tax incidence will rise prohibitively. Taken along with a proposed central and state cess, the cumulative costs can spook investors besides prompting firms to under-report profits. Company payouts reflected in increased prices of steel, power, etc, would also affect consumers. It makes for poor sense to hugely escalate the expenses of

industry – which is hamstrung already by tardy land acquisition and lack of labour reform – while not doing enough to guarantee transparency and accountability in disbursement of compensation funds.

The Bill rightly makes way for states to grant mining concessions via competitive bidding, but stops short of making it compulsory. It's likely to be a reform only on paper, with discretionary award of licences remaining an option. Raising punitive costs for illegal mining is a much-needed measure. As is the setting up of a national regulatory authority empowered to look into cases. This is necessary to help tackle the menace, more so in view of inadequate room for central intervention in checking rampant illegal mining in states despite its countrywide linkages and ramifications. Recently, government officials highlighted plans to use effective tools such as mandatory online registration of all mineral transactions – mining, sale, transportation, export – as well as use of satellite imagery to detect illegal operations. The quicker these ideas are implemented, the better. Finally, the government should consider ways, including through imposition of a levy and greater deregulation of local industry, to discourage over-export of precious resources at the cost of domestic users.

Hind Copper's Malanjkhand project gets Govt approval

Our Bureau

New Delhi, Oct. 3

The Cabinet Committee on Economic Affairs has cleared Hindustan Copper Ltd's (HCL) proposal to expand its mine capacity at Malanjkhand in Madhya Pradesh.

HCL proposes to invest Rs 1,856.36 crore to develop an underground copper mine of 5 million tonnes a year (mtpa) capacity at Malanjkhand Copper Project (MCP).

HCL currently produces 2 mtpa of copper ore through the opencast mine at MCP.

The fund required for the project will be met by Hindustan Copper and no budgetary support will be taken from the Government, a statement said.

The Malanjkhand Copper Project has extractable copper reserves of 141 mt, which is more than 70 per cent of the known reserves in the country.

The depth of open cast mines has reached 340 metres and the residual life is estimated to be less than seven years till March 2018.

Beyond this depth the open cast mining is not financially viable as it is expensive.

The underground mining project beneath the existing open cast mine will be executed by an engineering procurement and construction (EPC) contractor and is expected to take five years for completion.

CBI conducts search on JSW Steel offices in Bellary

Residences of MLA and mine owner also searched

M. Ahiraj
Bellary, Oct. 3

Officials from the Central Bureau of Investigation (CBI) on Monday conducted searches in the offices of JSW Steel in Bellary district and also the residence of Mr B. Nagendra, Kudligi MLA, a trader and transporter of iron ore and a close associate of Mr G. Jannardhan Reddy, former Karnataka Minister.

Simultaneous searches were also conducted on the residence of Ms K.M. Parvathamma, a mine owner, and the offices of Deccan Mining Syndicate and Karthikeya Mineral Exports in Bellary.

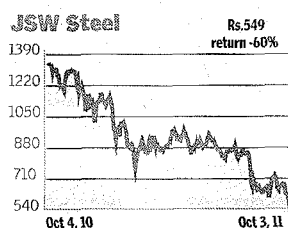
STOCK PLUNGES

JSW Steel's shares at the BSE on Monday hit an over two-year low (since July 2009) on the back of this news. During intra-day trade, the steel maker's share prices fell 8.67 per cent to Rs 540, finally

dropping 7.07 per cent to Rs 549.50 as markets closed for the day.

The CBI officials, divided into seven teams, swung into action in the early morning and carried out searches besides verifying documents and records at JSW Steel premises, Mr Nagendra's house and also his office and at the residence of Ms Parvathamma, located at Parvathi Nagar.

Ms Parvathamma and her son, Mr K.M. Vishwanath, were instrumental in roping in Mr Reddy and his wife Ms Lakshmi Aruna as partners of Associated Mining Company (AMC) and retired as partners the very next day. AMC, according to the Lokayukta report on illegal mining and also the Central Empowered Committee report, was accused of transporting huge quantity of ore, extracted in other mines.



Sources said that a five-member team from CBI were busy verifying the documents at the JSW premises, besides quizzing the executives. The transport operators were also summoned to be quizzed over the extent of ore transported from AMC and also on over loading.

Another team, after searching the house of Mr Nagendra, which lasted for over four hours, began searching his office as well. Yet another team that searched the house of Ms Parvathamma, also searched the house and the office of AMC, located in the

adjacent compound.

JSW'S REPLY

Our Mumbai Bureau reports: The Sajjan Jindal-led JSW Steel, however, said that the CBI team visited the company's Vijayanagar works today only to seek "certain information about procurement of iron ore". It denied that there were any "raids", calling the media reports on Monday morning as "misleading".

"JSW Steel has been procuring iron ore from various sources for its steel production requirements and every tonne procured is accounted, paid for and in compliance with applicable rules and regulations. JSW Steel has and will fully cooperate and provide all the information that may be sought by the authorities concerned in this regard," the steel maker said in an official statement.

Hindalco-Novelis: Just the novelty the latter needed

REVISITING M&A

Adarsh Gopalakrishnan

BL Research Bureau

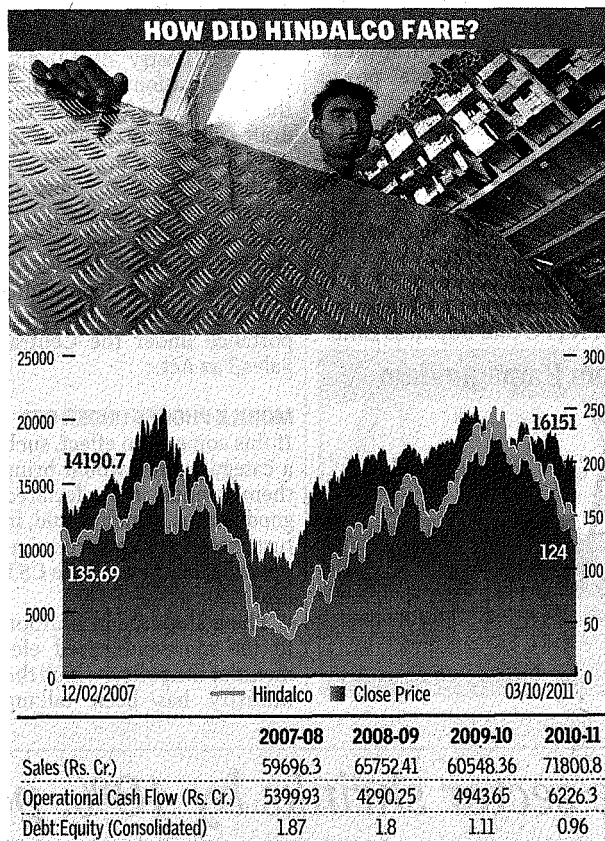
Four years have passed since Hindalco, the leading Indian aluminium producer, acquired the global aluminium processor Novelis. Given Hindalco's capacity to produce alumina and aluminium metal at low cost, the acquisition seemed a good fit. It was neatly complemented by Novelis' using aluminium metal to make products catering to beverages, producer automobiles and consumer durable sectors.

HOW HAS THE MOVE TURNED OUT SO FAR?

Not too badly, considering that Novelis had come with a debt of about \$3.5 billion and there was little overlap between Hindalco and Novelis in terms of product mix. Hindalco was producing the low-end stuff and Novelis had to process them into value-added products. Hindalco also had to manage new products and a much larger scale of operations because Novelis consumes roughly 5-6 times the amount of aluminium produced by Hindalco.

Novelis was also locked into risky long-term contracts with key customers. The contracts left Novelis footing the bill for higher aluminium prices when they soared, thus pushing it into losses.

Hindalco's first challenge was to tide over Novelis' sizable portfolio of problem contracts which had locked it into fixed selling prices for many years. The second was to minimise possible losses by hedging against rising raw material costs. Novelis became a drag on Hindalco's bottom-line. It



was the latter's net profits that came to the rescue of Novelis in FY08 when both revenue and volumes dropped off the shelf. 2009 was a bit better in spite of an 8 per cent drop in volumes because, thanks to stimulus spending by governments around the world, realisations saw a mild-recovery.

Hindalco, whose consolidated debt spiked by four fold to Rs 32,000 crore following the acquisition, had to tide over the contractual obligations and ensure its hedges minimized losses.

But bad things also pass, and the sizable loss-making long-term contracts expired in December 2009. Gradually, things

improved. The consolidated operational cash flows have risen from Rs 5,400 crore in FY08 (first full year of acquisition) to Rs 6,200 crore in FY11. Improving performance at Novelis also led to a debt-rejig within the consolidated entity. Novelis raised \$4.8 billion of which \$1.7 billion was returned to the parent entity, Hindalco, freeing it up to raise fresh leverage for its domestic expansion.

In addition, Novelis is also undertaking an over 30 per cent increase in overall processing capacity over the next five years. Among the more physical benefits of acquiring Novelis is that of a UK plant used to produce beverage cans being

moved to India. The Hindalco domestic operations are likely to be the major growth drivers over the next few years.

DOMESTIC CHALLENGES

Hindalco's consolidated debt has dropped from Rs 32,350 crore in FY08 to Rs 27,700 crore in FY11. Expansions are underway to increase alumina and aluminium metal production capacity by four and three fold, respectively. With these additions, Hindalco hopes to boost consolidated margins given the integrated Indian operations.

The additions also provide Novelis an effective hedge against raw material price rise. Being among the world's lowest cost producers of alumina and aluminium metal (by virtue of captive mines and power) Hindalco is well-placed to emerge as a fully-integrated bauxite to aluminium producing entity. Challenges facing the company on this front include land acquisition, adding coal mining capacity (new mines) and avoiding cost and time over-runs which could dent profits.

INVESTOR POSITION

Investors who bought into the Hindalco stock at its peak of Rs 200 in early-January 2008 now find its value themselves down by over 30 per cent. Buying into the stock within a few days of the Novelis-acquisition announcement would not have been the most profitable endeavour, given that the stock hasn't gained from that level.

The BSE Sensex has posted 15 per cent absolute returns in the same period. Investors who did have the stomach for risk in October 2008 to buy the stock at Rs 40 find themselves with a more than three-fold gain.

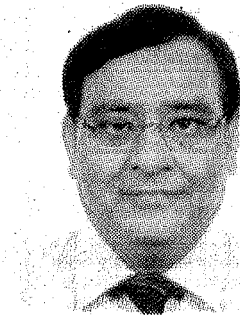
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Iron ore scenario poised for many surprises



SUSHIM BANERJEE

CURRENTLY the iron ore scenario in the country is a little messy and murky. With banning of iron ore mining in Karnataka by court order, JSW had to drastically cut down steel production in the state, NMDC is to make available around 1 million tonne per month from its own mines and the sale of inventories through e-auction has been found to be too costly. Looking from another angle, banning is a step against illegal mining which has violated environment and forest regulations, evaded payment of taxes and duties, made a mockery of labour laws and got the most out of a unholy nexus between state administration, political parties and the owners leading to mounting loss of revenue. The latest example relates to the cancellation of the

green clearance given to Pirna iron ore mines of Sesa Goa for suppressing information and faulty environment impact assessment.

Also it is to be appreciated that the high differential that exists between the cost of mining and the prices charged by the miners has led to mining of iron ore becoming one of the most profitable ventures and therefore the envy of steel and sponge iron industry. The wor-

AS DEMAND FOR IRON ORE IS MARGINALLY SUBDUED DUE TO CUT IN PRODUCTION ANNOUNCED BY MAJOR GLOBAL PLAYERS, THE SHORTFALL IN SUPPLY FROM INDIA MAY BE FILLED UP BY BHP, VALE OR RIO TINTO

rying part of the story is the probable extension of the banning to other ore producing states like Goa, Odisha and Chattisgarh. This would result in the embargo on inter-state movement of the consignment, currently being resorted to by steel and sponge iron units even at a higher cost.

Exports of iron ore from India to China are coming down

due to Karnataka issue. As demand for iron ore is marginally subdued due to cut in production announced by major global players, the shortfall in supply from India may be filled up by BHP, Vale or Rio Tinto, thereby preventing any rise in prices of fines (63.5% Fe) from the current level of \$ 180/t CFR China. The proposed hike in export tax to 30% by ministry of steel may not come through immediately under the current political impasse. Reduced availability of steel would lead to rise in steel prices, more in long (to take care of reasonably good demand from construction) and less in flats.

Steel imports may not rise as fall in prices is neutralised by increase in exchange rate. If the banning of iron ore mining extends to other states, would the shortage in raw material prompt major steel producers to arrange imports? The situation may also lead to revisiting the issue of utilisation of the captive mines and expediting investment in them to enhance production. Iron ore scenario in the short term is therefore poised for many surprises.

The author is DG, Institute of Steel Growth and Development. The views expressed are personal

**Gold gains ₹350,
silver ₹500**

Both gold and silver moved up on Monday on buying by stockists and jewellers to meet the festival demand, amid a firming trend in Asia. While gold prices surged by ₹350 to ₹26,990 per 10gm, silver rose by ₹500 to ₹53,500 per kg.

ANALYST
CORNER

Nalco target cut to ₹56

WE lower target price of Nalco to ₹56 (from ₹86) as we cut earnings, reduce our target P/E multiple to 10 times (from 11x) in line with global majors, roll forward to September 12 (from June 12), take cash/share at ₹ 23 (from ₹ 24). At our target price, Nalco's implied September 12 PE would be 12.4x and does not appear cheap as it is currently trading at 13.6x September 12 PE. Hindalco is our preferred metal play for more earnings stability in a volatile price environment.

We lower FY12/13 PAT by 37%/23% as we incorporate FY11 annual report data, lower LME prices (-13%/-11%), lower volumes (disruption in coal supply), higher wage costs—Nalco has signed its 5th long-term wage settlement with employees, and the revised salary is valid for ten years with effect from January 1, 2007.

Our global commodities team is relatively positive on aluminium despite the cut in prices by 13% to \$2,411/tonne for FY12 and by 11% to \$2,369/t for FY13. Demand has been strong, particularly in China. Below \$2,300/t, a significant number of producers would make losses and we could expect production cuts. With interest rates set to remain extremely low for at least two years, inventory financing deals will likely be rolled. This should act to keep the price high.

Lower availability of linkage coal (80-85%) and poor-quality continues to be an issue. Nalco will be adversely impacted in FY12 as linkage coal usage may remain an issue and domestic coal prices were raised about 30% in February 11. It has been impacted by disrupted coal supplies from Mahanadi Coalfields in Sep 11 and has been receiving 60-70% of coal requirement over the last few weeks.

We think captive coal will benefit after FY14 (Nalco expects to start mining in FY13). A 5% change in aluminium prices would impact FY13 PAT by 22%. A 5% change in ₹/\$ rate would impact FY13 PAT by about 22%. We rate Nalco shares Sell/low risk (3L). Though aluminium is our preferred base metal, Nalco does not appear cheap as it is currently trading at 13.6x Sep 12 PE.

Citi

Goldman Sachs set to become biggest winner in sale of LME

By Jack Farchy in London

Goldman Sachs has more than quadrupled its stake in the London Metal Exchange in the past two years, making the US investment bank the biggest potential winner from the proposed sale of the 130-year-old exchange.

The LME, the centre for global metals trading, said last week it had been approached by more than 10 suitors over a sale that shareholders hope will value it at more than £1bn.

That would give the shares a value of about £77.50 each, 15 times the last traded price, putting Goldman and other shareholders in line for a large windfall.

Ownership of the exchange, which houses the last open outcry trading pit in Europe, is restricted to its 94 members and shares rarely come on the market. The most recent trade in shares was the sale of the shareholding of Lehman Brothers' European arm, which Goldman bought in July, according to people familiar with the situation. Since August 2009 it has raised its stake from 300,000 shares to 1.23m.

The buying spree has made the bank the LME's largest shareholder with a stake of 9.5 per cent, potentially worth as much as £95m (\$150m).

The prospective sale of the LME will be a central topic at the main annual



A trader on the floor of the London Metal Exchange

The second largest shareholder with a 9.4 per cent stake is the family of Raj Bagri, the former chairman of the LME, through its ownership of metals brokerage Metdist

gathering of the metals industry, LME week, which begins today in London.

The idea of a sale has divided the LME's members, with some reluctant to give up control of the exchange while others are keen to profit from their shareholdings. Likely bidders include CME Group, the US exchange, SGX, the Singapore exchange, and Intercontinental Exchange (ICE), according to people familiar with the situation.

Goldman, which has the leading commodities business by revenues among investment banks, is an active participant in the market. The head of its metals trading business, Stephen Branton-Speak, is a member of the LME's board.

A person close to Goldman said its LME shareholding was managed separately from its trading operations.

The second-largest shareholder with a 9.4 per cent stake is the family of Raj Bagri, the former chairman of the LME, through its ownership of metals brokerage Metdist. Other top shareholders include JPMorgan, MF Global and UBS.

NTPC wants to go solo on coal hunt

Indronil Roychowdhury

Kolkata, Oct 3: NTPC has started hunting overseas coal assets for long term off-takes, while considering to come out of International Coal Ventures (ICVL), which five PSUs formed for acquiring overseas coal assets.

Arup Roy Chowdhury, NTPC chairman, said the company was not yet out of ICVL but its purpose was not in sync with what ICVL was doing.

"Whatever assets ICVL identified assets were mainly coking coal assets — a requirement for the steel industry. In Indonesia, it located some thermal coal assets but the calorific value of those coal were between 5,100 and 5,700, which we generally don't require. The Indonesian government has decided to ban exports of coal below the calorific value of 5,100, which could have been our requirement. So ICVL doesn't serve our purpose," Roy Chowdhury said.

He said it was not NTPC's decision whether to stay in ICVL or not but it was up to the Cabinet to take a decision, since ICVL was formed at the decision of the Cabinet. "We have written to the Cabinet about our concerns and we will now wait for it to decide," Roy Chowdhury said.

ICVL, formed by SAIL, CIL, RINL, NMDC and NTPC, was incorporated in May 2009 and was conferred the power of a Navaratna company for



acquiring foreign coal assets. Although the company has not yet struck any acquisition, sources said it was carrying out due diligence of assets worth \$1.2 billion at present. The assets were spread around in Australia, the US, South Africa and Singapore.

Roy Chowdhury said NTPC could go for hunting coal assets alone but it would be interested in such mines, which were either ready for production or were already producing.

Officials said the company could acquire stake in an operational mine or could strike a long term offtake contract.

Roy Chowdhury made it clear that whatever deal NTPC struck, it would not be supplies above 10% of its requirement. NTPC's current coal requirement was 160 million tonnes (mt) which would go up to 240 mt by the end of the 12th Plan period. Supplies of coal should match its requirement and any deal struck would have to be framed accordingly.

JSW scrip tanks to 2-year low on reports of CBI visit

■ Residences of Janardhana Reddy & BJP MLA B Nagendra also searched

fe Bureau
Bangalore, Oct 3

THE JSW Steel factory in Vijayanagar had an early morning visitor on Monday in the form of a team from the Central Bureau of Investigation (CBI), seeking information about its procurement of iron ore, a development that saw the company's shares decline to a two-year low.

The team's visit to the steel company came amid separate instances of CBI searches at a few places in Bellary on Monday, including the residences of former Karnataka minister Janardhana Reddy and B Nagendra, a BJP MLA from Bellary district.

JSW Steel in a statement admitted that the CBI team had visited the company's works at Vijayanagar, but denied that it was

THE STEELMAKER'S SHARE PRICE HAS BEEN HURT OVER THE PAST WEEK WITH OUTPUT AT ITS VIJAYANAGAR PLANT BEING REDUCED BY 70% ON THE DISRUPTION IN IRON ORE SUPPLY

araid. "JSW has been procuring iron ore from various sources for its steel production requirements and every tonne procured is accounted, paid for and in compliance with applicable rules and regulations. JSW will fully cooperate and provide all the information that may be sought by the authorities concerned in this regard," the company said.

JSW's shares fell 8.8% to ₹540, to slip to its lowest price since July 2009, before rising slightly to close at ₹549.50 at the end of trading on Monday, down 7.1%. The steelmaker's share price has been hurt over the past

week with production constraints at its Vijayanagar plant that last week reduced output by 70% because of the disruption in iron ore supply, resulting from the mining ban in Bellary.

Karnataka's steel makers including JSW have been asking for the state government to intervene to help ease the shortage of ore through more frequent e-auctioning of ore. An estimated 3.75 lakh tonnes had been auctioned in September and the next auction is expected to take place this week.

Janardhana Reddy, who is associated with the Obulapuram

Mining Company in Andhra Pradesh, was arrested by the CBI on September 5 in connection with the probe into his company. Two weeks ago, the Supreme Court directed the agency to extend its probe to a separate firm, Associated Mining Company, owned by Reddy in Karnataka and investigate the link between illegal mining in both the states.

CBI, in a statement on Monday evening, said that it has registered two separate cases against two Bellary based mining companies as per the directions of the Supreme Court. It added that searches were being conducted at the residences of several former officials in Bellary, Bangalore, Dharwad, Davanagere and Chitradurga and it had seized incriminating documents.

Orissa, Centre lock horns over iron ore prices

Dilip Bisoi

Bhubaneswar, Oct 3: The tussle between the Orissa government and the Union ministry of mines over the fixation of iron ore prices for levy of royalty has deepened further with the Orissa government deciding to contest the Union minister's statement that the prices have been fixed after consultations with the Orissa government.

"We are going to write to the Union ministry of mines that fixation of prices by Indian Bureau of Mines is faulty," the state's chief secretary told *FE*.

Orissa chief minister Naveen Patnaik in May 2011 had written a letter to the Union minister for mines, Dinsha J Patel, pointing out that the procedure of fixing the sale value of iron ore by IBM (Indian Bureau of Mines) is "flawed". He had asked the Centre to revise the price to match the prevailing market rate.

The state chief secretary, BK Patnaik, had also written a letter suggesting that the market value be fixed as per the prevailing prices.

IBM publishes the sale value of iron ore on a monthly basis, over which royalty is calcu-

lated. Currently, the sale value is fixed by IBM on the basis of pit mouth value. And, the state believes the iron ore rates to be underestimated as a result of which the state government is incurring losses in terms of royalty.

The Union minister has replied to the Orissa chief minister recently that IBM is fixing the prices after consultations with the Orissa government.

A top state government official alleged that prices have been fixed after consultations with private mine owners. The official said even the Orissa government-owned Orissa Mining Corporation (OMC) and the Central-sector Orissa Minerals Development Corporation and captive mine owners have not been consulted for the fixation of the iron ore prices.

Following the switch over to levy of royalty on iron ore on ad-valorem basis, the Orissa government's collections from mine royalty has increased. While in 2010-11, it had a target of mopping up ₹2,500 crore, it collected ₹3,000 crore. This year the government is expecting ₹4,500 crore royalty against the target of ₹4,000 crore.

CAIRN INDIA ARM STRIKES GAS IN SRI LANKA

AFTER THE prolific oil discoveries in India, Cairn India on Sunday said it has struck natural gas reserves in the very first well it drilled in the offshore Mannar basin of Sri Lanka. "Cairn Lanka (Pvt) Ltd, a wholly owned subsidiary of Cairn India, has notified the appropriate authorities in the government of Sri Lanka of a gas discovery in the CLPL-Dorado-91H/1z well, drilled in a water depth of 1,354 metres, located in the block SL 2007-01-001, Mannar Basin, Sri Lanka," the company said. Cairn had spud the well in early August and natural gas was discovered a few days back. "A gross 25 metres hydrocarbon column" was tested, it said. "Further drilling will be required to establish the commerciality of the discovery," it added. CLPL-Dorado-91H/1z well is the first well to be drilled in Sri Lanka in 30 years and the first well to discover hydrocarbons in the country. BSE-listed Cairn had in 2004 made India's biggest oil discovery in more than two decades in Rajasthan. It is currently producing 125,000 barrels of oil per day from the Mangala oilfield in Rajasthan. Cairn India is the target of a \$9 billion takeover by Vedanta Resources. Vedanta is buying 40 per cent of Cairn Energy Plc's stake in Cairn India.

—PTI

प्रति चिंतित हो गये हैं। चूंकि इस क्षेत्रके देश एक दूसरेको शकका दृष्टिसे देखते हैं इसीलिए वे इस क्षेत्रमें अमेरिकाको उपस्थितिका स्वागत करते हैं। दक्षिण चीन सागरके रणनीतिक और आर्थिक महत्त्वके कारण चीन इसका कब्जा जमानेमें लगा रहा है। पिछले साल मईमें संयुक्त राष्ट्रमें चीनने यह दावा किया था कि दक्षिण चीन सागरके द्वीपोंपर इसकी निर्विवाद संप्रभुता है और इसके कारण इस सागरके जलपर इसका संप्रभु अधिकार है। चीनने संयुक्त राष्ट्रको दिये गये अपने दावा संदर्भमें एक नक्शा भी भेजा था जिसमें यह दर्शाया गया था कि परा दक्षिण चीन सागर इसके कब्जे क्षेत्रको ही हिस्सा है।

Initiate trades on lower exposure levels as outlook is choppy



COMMODITY TECHNICALS

Vijay L. Bhambhani

The markets witnessed a lower turnover week as the traders turned cautious due to the heightened fears of a slowdown in the Euro zone coupled with Chinese contraction emerged on the horizon. The week-on-week market wide turnover on the MCX fell by 14 %. The market wide open interest fell by 5 %.

The MCX turnover gainers during the week were Copper, Crude Palm Oil and Refined Soya Oil. The open interest gainers were Cardamom, Copper, Crude Oil, Mentha Oil, Natural Gas and Zinc. The US non strategic petroleum reserves were higher by 1.9 million barrels, at the 341 million barrel mark. The expiry of the September contracts coupled with slowdown fears have

taken a toll on the base metals and will probably weigh on the near term sentiments. Traders should initiate fresh trades on lower exposure levels as the immediate outlook is choppy and with a downward bias as world wide deleveraging is seen.

Agri Commodities

Mentha Oil has rallied in spite of the overall weakness in the markets and is now approaching a resistance area at the ₹1,450 levels where sizable selling pressure may be encountered. Fresh buys should be curtailed in case of rallies, while existing longs may be held. Market internals indicate a 33 % decrease in turnover and a 1 % increase in open interest.

Potato will remain weak as long as the price stays below the ₹427 levels and the possibility of testing / violating the ₹400 levels should not be ruled out for now. Avoid fresh longs as the near term outlook is under pressure. Market in-

ternals indicate a 50 % decrease in turnover and a 9 % decrease in open interest.

Refined Soya Oil has logged a steep decline as the outlook for edible oils eased in spite of the impending festive season. The stability in the INR also contributed to the price decline in oils as bulls booked profits on speculative longs. Avoid bottom fishing in the near term as fresh declines are likely. Market internals indicate a 116 % increase in turnover and a 550 % increase in open interest.

Metals

Aluminium has continued with its lower tops and bottoms formation and the ₹104 recent low will be an area to watch as the bulls will need to defend this threshold. Should it be violated forcefully, expect a fresh decline to get triggered. Avoid fresh buys for now. Market internals indicate a 9 % decrease in turnover and a 5 % decrease in open interest.

Copper has led the decline

Commodity	Close	Open Interest	Resistance	Support
Aluminium - Oct	106.75	1738	112	103
Copper - Nov	346.80	28880	403	321
Gold - Dec	26313.00	9419.00	27963	24366
Lead - Oct	97.95	2784.00	108	86
Nickel - Oct	875.00	8133.00	993	789
Silver - Dec	51181.00	16799.00	62167	39582
Zinc - Oct	92.20	3840.00	102	84
Crude - Oct	3933.00	11957.00	4300	3682
Nat Gas - Oct	182.50	6263.00	197	176
Cardamom - Oct	714.20	3257.00	770	652
CPO - Oct	469.40	5146.00	507	448
Mentha Oil - Oct	1353.10	3621.00	1498	1214
Potato - Oct	420.20	1522.00	452	397
Ref Soya Oil - Oct	603.55	12.00	660	581
Sugar/MKOl - Oct	2750.00	178.00	2822	2585

Figures in ₹

in base metals and being the bell weather in the space, it indicates a continued over head supply in the near / medium term. Bulls should refrain from initiating fresh longs and await a breakout above the ₹390 levels before buying afresh. Market internals indicate a 1 % increase in turnover and a 9 % increase in open interest.

Gold has made a spinning top formation (open and close being almost identical and in the center of the weekly range) on the weekly candle charts, indicating a lack of direction in the near term. In case the ₹25,750 levels is violated, the possibility of ₹25,200 cannot be ruled out in the coming sessions. Avoid fresh longs for now. Market in-

ternals indicate a 16 % decrease in turnover and a 20 % decrease in open interest.

Nickel remains entrenched in a downward sloping channel and the possibility of fresh downsidings cannot be ruled out as the base metals space remains under pressure. A relief rally too will be possible only after the metal stays above the ₹900 levels with turnover and open interest expansion only. Till then, avoid buying. Market internals indicate a 26 % decrease in turnover and a 14 % decrease in open interest.

Silver fell as safe haven buying eased for the second consecutive week in a row and the stable INR saw the bulls refraining from providing fresh buying support. As long as the price stays above the psychological threshold of ₹50,000 levels, the possibility of a pullback rally remains open, though upsides will be calibrated. On the flip side, below ₹50,000 on a sustained

daily closing basis, a violation of the recent lows should not be ruled out. Market internals indicate a 16 % decrease in turnover and a 3 % decrease in open interest.

Zinc remains under pressure in tandem with the overall base metals segment as the weekly chart indicates a continued falling tops and bottoms formation. The ₹91 level is a significant multiple bottom support below which the bulls will be on the ropes and sub ₹85 levels will become a possibility. Avoid longs for now. Market internals indicate a 6 % decrease in turnover and an 8 % increase in open interest.

Energy

Crude Oil has logged a second consecutive week of declines as the fears of demand destruction coupled with higher US non strategic inventories kept prices under pressure. Should the price stay below the ₹3,825 levels, the bears are likely to push

prices lower in the coming months. With the US hurricane season behind us, cyclical factors too favour a downside. Market internals indicate a 20 % decrease in turnover and a 10 % increase in open interest.

Natural Gas has recorded losses on a week-on-week basis as the outlook for fossil fuels eased on anticipated demand destruction. The counter needs to stay above the ₹192 levels with higher turnover and open interest expansion if the up thrust, if any, is to sustain. Till such a breakout occurs, avoid initiating longs. Market internals indicate a 21 % decrease in turnover and a 9 % increase in open interest.

The writer is the author of A Traders Guide to Indian Commodity Markets and invites feedback at vijay@BSPLIndia.com
Fair disclosure: The analyst has no exposure to any of the commodities recommended above

PSU strategy

■ **New Delhi, Oct. 2:** The department of public enterprises will soon move a cabinet note to allow PSUs to acquire natural assets such as oil, coal and mines abroad without government nod. The proposal has already got the approval of the heavy industries and public enterprises ministry.

**CBI court
extends
Janardhana
Reddy's remand
till Oct 17**

Our Bureau

Hyderabad, Oct 3

The special court for Central Bureau of Investigation (CBI) has on Monday extended judicial custody of ex-Karnataka Minister, Mr Gali Janardhana Reddy, and the Managing Director of Obulapuram Mining Company (OMC), Mr Srinivasa Reddy, till October 17.

Mr Janardhana Reddy and Mr Srinivasa Reddy were arrested by CBI on September 5 in an illegal mining case and are under judicial remand in the Chenchalguda jail here.

The court also agreed to conduct the case proceedings through video-conference following a submission by police submitted that the accused were under "high threat" and could not be brought to court every day.

Nalco bags top export award

Bhubaneswar, Oct. 3

Navaratna PSU National Aluminium Company Limited (Nalco) has bagged the top export award of CAPEXIL, for its outstanding export performance during 2010-11. On behalf of the company, Mr P K Parida, Executive Director (Marketing), received the award from Mr Jyotiraditya Scindia, Union Minister of State for Commerce and Industry, in Mumbai on September 30, a company release said today. During the fiscal 2010-11, Nalco exported 639,855 MT alumina and 98,200 MT aluminium to different countries earning Rs 2,065 crore.

— PTI

Mining cos raided for Reddy links

KV Aditya Bharadwaja | TNN

Bellary: A 24-member team led by Karnataka SP Subramanya Rao landed in Bellary on Monday after the Supreme Court asked



J Reddy

the CBI to probe the Associated Mining Company owned by jailed minister G Janardhana Reddy and his wife G Lakshmi Aruna and probe their illegal mining links.

The team split into four units and simultaneously carried out raids at the offices of Deccan Mining Syndi-

cate; the Martin Road residence of its owner Rajendar Jain; Kudligi BJP MLA Gummanuru Nagendra's house in Madhavanagar; AMC office in Parvatinagar and residence of K M Parvattamma and K M Vishvanath, previous owners of AMC and office of Jindal Steel Works at Toranagal.

The CBI and anti-corruption branch, Bangalore registered two cases against AMC owned by Janardhana Reddy and Deccan Mining syndicate. CBI officers searched the residence of Rajendar Jain. They questioned Deccan Mining Syndicate GM, Ritesh Jain and confiscated documents.

Prism Cement Awards ₹1,200-cr Contract to Perth-based Co

OUR BUREAU
KOLKATA

Prism Cement has awarded Perth-based India Resources a ₹1,200-crore contract to develop a captive coal mine, underscoring a growing trend of Indian companies outsourcing their mining operations to foreign entities.

India Resources (IRL) will develop and operate the first phase of BSE-listed Prism's Sial Ghogri coal deposit in Madhya Pradesh's Chhindwara district for 30 years. The mine, which is expected to produce some 9.06 million tonnes of coal, was awarded to Prism for its cement plant at Satna.

IRL, which is listed on the Australian Stock Exchange, specialises

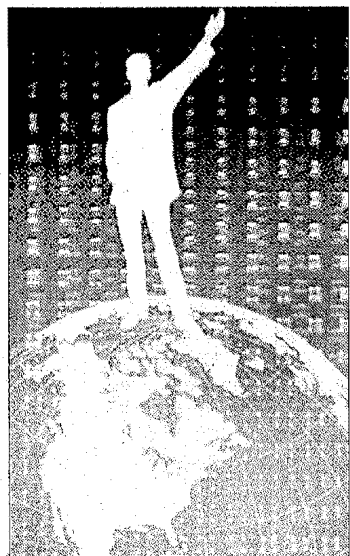
in exploration of various metal groups in India. It first entered the country's growing mining services market in 2007 by winning a deal from state-owned Hindustan Copper to mine at Surda, Jharkhand. It has also been shortlisted to operate HCL's Rakha mines.

At Sial Ghogri, IRL will construct all necessary infrastructure linked to the mine's development within 24 months. "It is a major milestone for the company and underpins our growth prospect in the Indian mining industry," IRL managing director Arvind Misra said. Since demand for coal far exceeds supply in India, it has led to local companies with large energy needs to develop and own captive sources of coal. Apart

from IRL, the Indian market has also attracted Australia-based Thiess, a large contract coal miner which won a contract for NTPC's Pakri Barwadhi coal project. State-run Steel Authority of India, too, is planning to contract out a few of its mines at Chiria to foreign company. Stipulation of stricter environment norms is also prompting a number of Indian companies such as Prism to seek specialised expertise to firm up mine development plans. The coal ministry had also determined that the Sial Ghogri block requires specialised skill and technology and asked Prism to appoint a financially sound and experienced agency to develop and operate the coal block.

New Mining Bill to Speed Up Local Cos' Foreign Rush

Cos will have to shell out ₹10,000 crore extra when the bill becomes law; total tax incidence on coal and iron ore will jump to 61% and 55%



Global Play

OUR BUREAU MUMBAI

The new mining Bill will force Indian companies to aggressively hunt for assets abroad as the bill will make mining costlier in the country.

The Bill, cleared by the cabinet last month, calls on miners to share a bigger portion of their profits with local communities. Mining companies will have to shell out about ₹10,000 crore extra when the bill becomes law.

"There are enough taxes and cess that mining companies already pay. There was no need for an additional provision," said Jatinder Mehra, a director with the Essar Group, which was recently shortlisted to bid for 18 mines of Coal India.

The Mumbai-based group re-

cently paid \$750 million for a Zimbabwe-based steel company that owns iron ore mines.

The Mines and Minerals (Regulation and Development) Bill of 2011 stipulates that coal miners share 26% of their profits with local communities, while companies that drill for other minerals need to pay an amount equal to the royalty they pay.

Through the mining Bill, the government seeks to reduce exploitation of tribal land by giving them part ownership of coal mines. For other minerals, the Bill aims to create a separate fund from additional royalty, which would be used for development of local communities.

Currently, royalty on iron ore is 10% of the sale price. Iron ore miners must also pay 12% as forest development tax, which is calculat-

ed on the basic price of the ore.

The Bill also seeks to install a cess of 2.5% on customs and excise duty to meet the expenditure involved in capacity building of the Indian Bureau of Mines.

According to the industry, the total tax incidence on coal will now be 61%, while that on iron ore will be 55%.

"The intent of the Bill is to ensure decentralisation of powers, increase revenues by bringing in concepts of price discovery and true value, and promote scientific mining and sustainable development," said Chandrajit Banerjee, director-general of Confederation of Indian Industry, an industry body.

"However, industry is concerned about the percentage of royalty/profit that it is expected to contribute, given that compa-

nies are already carrying out work for project-affected people as part of their CSR (corporate social responsibility), Banerjee said, adding that setting up of a fund to provide assistance to project-affected people may be difficult to implement.

Over the past year, Indian companies, both state-run and private, have scouted for coal and iron ore mines overseas to secure resources for their units.

Hyderabad-based GVK Group paid \$1.26 billion to buy two coal mines in Australia, while other large industrial houses including the Jindals, R-Power and the Tatas bought equity stakes in coal mines in South Africa, Indonesia and Australia.

Similarly, a consortium of seven companies led by Steel Authority of India Ltd, recently bid for Af-

ghanistan's Hajigak iron ore mines that contain one of the world's largest deposits of high-grade ore.

The head of a state-owned mining firm said India's mining industry had one of the highest taxes in the world and that the Bill would put off foreign investment in the sector. "It would be more prudent for companies to look at mines elsewhere, provided the freight is also viable," he added.

But the trend of charging higher taxes on mining companies is not limited to India alone. Mineral-rich Australia recently announced imposition of a mineral resource rent tax of 30% on iron ore to develop regions where it is mined.

Indonesia plans to make coal exports expensive by linking prices of the mineral with global rates.

Gold Prices will be Buoyant, Use ETF, FoF to Make the Most of it

Expert Take



Lakshmi Iyer
HEAD - FIXED INCOME & PRODUCTS
Kotak Asset Management

The potential of 'gold' as an asset class for investment has been a function of jewellery and industrial demand, inflation outlook, strength of the dominant currency, geopolitical stability and the gold supply variable. The investment demand for gold tends to rise in the case of adverse economic condition, rising inflation, weakening dollar, or general sociopolitical instability.

The 17.70% CAGR run-up in the gold prices since 2000 has largely been attributable to the

surfeit liquidity in the early part of the decade, and in the latter half, to the turbulent economic conditions post the sub-prime crisis, which continued to contribute to the gold rally.

However, despite the teetered recovery in the global economic environment, the optimistic outlook on gold remains unchanged. And here's why.

Today's geopolitical climate has become increasingly volatile. The stability of regimes in some of the Middle East and North African states is being questioned due to the 'Arab spring'. This has spiked uncertainty in the region, which, in turn, has provided significant buoyancy for gold prices.

However, it is the extensive hardship surrounding the sovereign debt solvency in Europe that has caused increasing jitters to the financial markets (and has spiked the performance of gold). Moreover, the likelihood of renewed slowdown in the US, and the prevalence of high unemployment, too, continues to drive up gold demand. It is believed that if the troubled economies resort to monetary expansion to wriggle their way

out of their debt problems, the resultant erosion in money-value may further increase the prices of gold. Thus, the resultant investor wariness, and the decline in the global risk appetite, is expected to fuel institutional and retail demand for gold.

Also, traditionally, the demand for gold has had a seasonal flavour to it. The post-monsoon festivities and the onset of marriage season in India, the corresponding gold inventory expansion by the US and Europe retailers, and the week-long national celebrations in China, all come along during this phase of the financial calendar. The interplay of these factors provides a potent case for investment in gold.

But, from a retail investor's point of view, physical investment in gold comes with some inconvenience. Buying physical gold involves the risk of theft, misplacement and potential wrong pricing. Also, when an investor needs to sell physical gold, he/she has to go through the inconvenience that accompanies the process of valuation, bargaining, transaction and delivery.

But, thankfully, there is an al-

ternative avenue to invest in gold without having to face these inconveniences. It is through gold exchange traded fund (GETF). Gold ETF is nothing but gold, traded online through a medium of exchange. Normally, each unit of ETF is worth approximately 1 gram of gold. GETF allows investors to invest in gold without worrying about purity, security or liquidity of the gold investment that is attendant with gold hoarding. However, for an investor to invest and trade in gold through GETF, a demat account is mandatory. This excludes a large segment of Indian investors from benefiting from the growth potential of gold. To do away with this, mutual funds have devised a mechanism which allows investors to invest in gold, even through SIP, like any regular mutual fund scheme. This medium is known as Gold Fund of Fund (FoF).

Gold FoF collects the corpus from regular investors and invests it in a gold ETF. This gives investors a stake in gold without they having to have a demat account. Given this facility, investors can plan a long-term investment in gold at economical cost.

Goa PAC Report Could Hit Officials, Mining Companies

PANAJI The Goa assembly's public accounts committee (PAC) would crack down on not just errant government officials but also mining companies operating illegally, panel chief Manohar Parrikar said on Monday. "Both (govt officials and mining cos) will be held responsible if they are found to be indulging in illegal mining or involved in any illegalities," he said.

R'sthan Minister, Sons Booked for Illegal Mining

JAIPUR A case has been registered against Rajasthan Minister Bharosi Lal Jatav and his four sons on charges of illegal mining following a court order. The case against 12 persons, including Jatav, was lodged late on Saturday night with Hindaun Sadar police station and later transferred to CID (Crime Branch) for investigation, police sources said.

Illegal mining: Goa PAC set to nail officials, firms

MAYABHUSHAN ■ PANAJI

The Goa Public Accounts Committee (PAC) probing large scale illegal mining in the State will not only indict Government officials but also mining companies who have indulged in illegal mining.

"Both, officials as well as mining companies, will be held responsible if they are found to be indulging in illegal mining or involved in any illegalities," PAC chairman Manohar Parrikar and Leader of the Opposition said. The committee that reports directly to the Goa Assembly Speaker and in turn to the House, has been probing the large-scale and unabated illegal mining in the State.

"The PAC will not deviate from the data, other than the certified documents submitted by the Government departments or collected through witnesses," Parrikar said, adding that the report will stick to facts. Parrikar added that the new trend of illegal mining by companies running operations based on a power of attorney from the original lease-holder, will also be nailed. "Even in case of witnesses, they should provide evidence which are beyond doubt."



PAC chairman Manohar Parrikar

PAC is investigating into the findings by the CAG, who had pointed out that during 2004-06, 10.9 million metric tonnes of iron ore was dispatched by evading royalty," Parrikar said.

The Congress, on the other hand, has expressed doubts over the PAC report, claiming that Parrikar had been leaking the contents of the report with a biased mind. The report will be tabled in the House either on October 5 or October 7.

Parrikar, however, refuted allegations that the report was biased. "It is dependent on the facts submitted by the Government departments. All the members, including those from the Congress, were invited for the meetings, but a few remained habitually absent from the deliberations," he remarked.

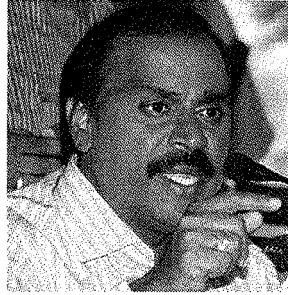
CBI raids at Reddy brothers, aides continue

Judicial custody
extended till Oct 17

KESTUR VASUKI ■ BANGALORE

The judicial custody of former Karnataka Tourism Minister and mining baron Gali Janardhana Reddy and his brother-in-law BV Srinivasa Reddy, arrested in the illegal mining case, was extended till October 17 by a CBI special court in Hyderabad on Monday, even as the CBI continued raids at offices of Reddy brothers in Bellary and their aides across Karnataka.

Simultaneous raids were conducted at the offices of two companies owned by Janardhana Reddy and his wife at Bellary. The investigating agency also raided the residence



Gali Janardhana Reddy

of Kudlagi MLA B Nagendra, a close associate of the Reddy brothers, on Monday.

A 25-member CBI team led by Subramanya Rao, SP at CBI Bangalore, conducted searches at the offices of the Associated Mining Company (AMC) and the Deccan Mining Company owned by Aruna Lakshmi, wife of Janardhana Reddy, at

Parvathinagara in Bellary and seized important documents.

According to a CBI source, the officials have also searched the Human Resource Department at Jindal Steel Works in Toranagal near Bellary in the backdrop of the company getting about 51 lakh tonnes of iron ore from AMC in March 2010.

However, Jindal Steel Works said that no searches had been conducted but that a CBI team visited the company's Vijayanagar works on Monday morning and sought certain information about procurement of iron ore.

"JSW will fully cooperate and provide all information that may be sought by the authorities concerned in this regard," the company said in a statement.

Fresh Cases Against Bellary's Reddy, 15 Places raided

Cases against BJP MLA B Nagendra, Cong's ex-minister V Muniyappa & host of cos

OUR POLITICAL BUREAU
NEW DELHI

Continuing with its efforts to break the hold of the mining mafia in Karnataka, CBI on Monday registered two fresh cases against as many companies, including one owned by jailed former tourism minister G Janardhana Reddy and his wife Aruna Lakshmi, and carried out searches at 15 locations in the state.

While the first case was registered against Associated Mining Company, owned and promoted by Janardhana Reddy and his wife and another BJP MLA B Nagendra, the second case was filed against Deccan Mining Syndicate, a consortium of companies dealing with iron ore. The DMS is headed by Rajendra Kumar Jain.

Former Karnataka mining and geology minister V Muniyappa, now a Congress MLA, former deputy chief conservator of forests Muthaiah, and former mining and geology department director ME Shivalinga Murthy find their names as accused in both the cases.

The New List

AMONG COS NAMED IN THE FIRST FIR are Eagle Traders, promoted by Nagendra, and the Sajjan Jindal-run JSW Steel

JSW STEEL SAID IT HAS BEEN procuring iron ore from various sources in compliance with applicable rules and regulations

Among the companies named in the first FIR are Eagle Traders, promoted by Nagendra, and the Sajjan Jindal-run JSW Steel, which according to a CBI source is accused of taking iron ore from Associated Mining Company even after its mining lease had expired. During the raids conducted at JSW's offices in Bangalore and Bellary, CBI sleuths are said to have found documents

which showed the company had close ties with Associated Mining Company.

In a statement issued later in the day, the Sajjan Jindal-owned company said, "JSW Steel has and will fully cooperate and provide all the information that may be sought by the authorities concerned in this regard." It said that JSW Steel has been procuring iron ore from various sources for its steel production requirements and every tonne procured was accounted for and paid for in compliance with applicable rules and regulations.

The cases, CBI said, were registered under sections of the IPC, Prevention of Corruption Act, 1988, Indian Forest Act, and MMDR Act, at the behest of the Supreme Court of India.

Teams of CBI officials kicked off searches early Monday morning in Bangalore, Bellary, Dharwad, Davangere and Chitradurga. The raids took place nearly a week after the Supreme Court sought its response with regard to its probe into alleged links between mining activities in the state's Bellary district and Anantapur in Andhra Pradesh.

Profit-sharing with locals

This refers to the report "New Mining Bill wants coal companies

Business Line, Delhi

Tuesday, 4th October 2011, Page: 14

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to share 26 per cent profits with locals" (*Business Line*, October 1).

On the face of it, one may get a feeling that government is coming out with a helping hand to resolve the problems faced by the people who are displaced or need rehabilitation when large areas are taken over for mining.

The apprehensions from industry that the implementation of the proposal for deployment of 26 per cent profit would result in an annual 'loss' of Rs10,000 crore would strengthen this feeling.

While measures like setting up District Level Mining Foundation, eyeing a portion of the miners' profits for funding the foundation, are welcome steps in the right direction, the government cannot abdicate the responsibility to ensure that local residents who are affected by mining projects are not worse off post-implementation.

This responsibility can be fulfilled only by supporting rehabilitation in the vicinity of the projects where displaced persons can find jobs either in the project itself or in ancillary units.

M. G. Warrier
Mumbai

Minister, sons booked for illegal mining

Press Trust of India

Jaipur, Oct. 3

A case has been registered against Rajasthan Minister Bharosi Lal Jatav and his four sons on charges of illegal mining following a court order.

The case against 12 persons, including Mr Jatav, was lodged late on Saturday night with Hindaun Sadar police station and later transferred to CID (Crime Branch) for investigation, police sources said today.

The Additional Chief Judicial Magistrate, Mr Hindaun Randhir Singh, directed the police last week to file the case against Mr Jatav, who is Minister for Real Estate and Motor Garages in the Congress government in Rajasthan.

Complainant Ashok Pathak, a local resident, had accused the 12 of running illegal stone quarries on forestland.

Copper hits 14-month low on China's data

Reuters

London, Oct. 3

Copper fell more than 5 per cent to its lowest since July 2010 on Monday after Greece admitted it would miss its deficit target and improving but still disappointing economic data from China fuelled worries over metals demand growth.

Benchmark copper on the London Metal Exchange declined to a session low of \$6,635 a tonne, its weakest since July 21, 2010.

COST SUPPORT

Some other metals performed better than copper. Aluminium traded at \$2,158 a tonne in official rings from \$2,163 at the close on Friday.

"The recent divergence between the fall in prices of copper and aluminium underlines the perception that commodities investors always turn to marginal cost of production in order to guess the potential losses during a market downturn," said Metal Bulletin Research analyst Mr Kamil Wlazly.

Zinc and nickel were also supported by high production costs in comparison with their trading prices.

Zinc traded at \$1,871 a tonne in rings while nickel, untraded in rings, was bid at \$18,145 from \$17,600 at Friday's close. Tin changed hands at \$20,050 from \$20,350 while lead traded at \$1,960.5 in rings from \$1,985.

Stopping the loot

A robust new law to regulate mining in India is overdue. The proposed Mines and Minerals (Development and Regulation) Bill, 2011 is the central government's response to a full-blown crisis in the sector. There are several serious issues that the legislation promises to address, such as sharing of profits with project-affected people, environmental sustainability, competitive bidding to improve returns to States, and transparency in grant of permits. A major challenge the law must confront is illegal mining. Under the federal structure, the State governments are the owners of minerals located within their boundaries and issue mining leases under the empowering Central law, the Mines and Minerals (Development and Regulation) Act, 1957. As recent experience has shown, the law is virtually a dead letter; and illegal extraction, transfer, and export of millions of tonnes of minerals, including iron ore, has become rampant. This loot of finite natural resources has gone on despite the powers available to the State governments under Section 23(C) of the 1957 Act to stop the practice. It is not just that they have failed to act; they have egregiously aided the activity in some cases. The reluctant arrests of influential politicians in Karnataka and Goa point to the rot.

The enquiry by the Justice M.B. Shah Commission instituted by the Centre to go into illegal mining must be unsparing and present the complete truth. It is vital that the Commission unravel the factors that facilitated massive unlawful appropriation of public wealth. This will aid investigation of specific cases and prosecution of the guilty. There are also pointers to the unethical tactics adopted by mining companies to smother and even co-opt opposition. In some instances, they have ploughed funds into communities, inducting local labour to create a sense of prosperity. The consequential environmental destruction, loss of agriculture, and harm to public health have been staggering. The State governments have not been serious about constituting State Coordination-and-Empowered Committees, as suggested by the Centre. These panels should include representatives from the Railways, Ports, and Customs to check the movement of minerals. Many States have formed task forces for enforcement only on paper. The result has been all too predictable. Union Minister Dinsha J. Patel has told Parliament that there were 43,317 illegal mining cases in 2010 up to September compared with 41,578 for the whole of 2009. The new legislation, which provides for speedier and effective prosecution of the guilty through special courts, must be enacted quickly and used by all States to do justice to the people of India.

A minefield of issues

Viewed purely from an 'ability-to-pay' perspective where EBITDA margins have ranged from 30 per cent to in some cases as high as 80 per cent, the mining industry may have little to complain about if they are now called upon to shell out more to compensate people for loss of habitats or livelihoods arising from their activities. The proposed Mines and Minerals (Development and Regulation) law seeks to do so, by making coal miners (basically Coal India) set aside 26 per cent of their post-tax profits and those mining other minerals to make a similar extra provision equivalent to 100 per cent of their existing royalty sums. All this money would be credited to district level bodies that would make the payments to the project-affected families and also spend it for local infrastructure development. But under whose exact jurisdiction would these bodies be, whether they would bypass the State Governments concerned, how the profits or additional royalties paid by companies would be allocated among the various district mineral foundations (DMFs) — all these are grey areas. Also, it is not clear why coal is being accorded different treatment from other minerals in the payment of the new levies. If these weren't enough, the Bill cleared by the Union Cabinet last week also plans setting up a host of other bodies — a National Mineral Fund, State Mineral Funds, a National Mining Regulatory Authority, State Mining Regulatory Authorities and a National Mining Tribunal — to be financed from separate cesses.

► **The proposed mining law shows how a good idea of making local communities stakeholders in development can be derailed by new bureaucracies.**

All this only shows how a basically good idea — of making local communities, especially disenfranchised rural folk and tribals, stakeholders in the development process — can be derailed by official thinking that cannot go beyond spawning new bureaucracies. For all their crying hoarse about already being over-burdened with imposts, what the mining industry has been looking for is clarity and predictability that would also help bring new mines into the system. Over the next five years, some 50 million tonnes of fresh steel, over 70,000 MW of power and millions of tonnes of alumina refinery capacities would require significant amount of iron ore, coal or bauxite that the existing mining facilities are not geared to meet.

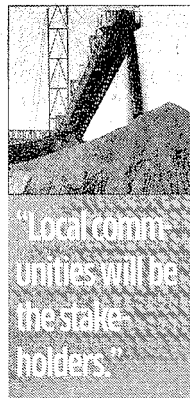
The proposed mining law does not seem to address these issues in the desired manner. State Governments are getting about Rs 4,000 crore as royalty from major minerals other than coal. The collections from coal and lignite would add another Rs 6,000 crore or so. There is no proper accounting of how even these monies are getting spent, or whether they are reaching the targeted populations at all. Creating new animals (DMF) is hardly an answer, as the proposed mechanism for disbursing the collected amounts would take at least 3-5 years to roll-out on the ground. And that is a pretty long time.

**Reddy, Muniyappa's
houses searched**

BANGALORE: The CBI carried out searches at 15 places in five cities of Karnataka on Monday in connection with the illegal mining scam. The places included the houses of the former Karnataka Minister, G. Janardhana Reddy, who is under arrest, and another former Minister, V. Muniyappa. It claims to have seized "incriminating documents".

Towards inclusion

India has moved a step closer towards inclusive development of its mineral-rich areas. The Union cabinet has given its nod to the Mines and Minerals (Development and Regulation) (MMDR) Bill. The proposed legislation requires coal mining companies to pay 26 per cent of their profits and non-coal mining companies an amount equal to the royalty they pay the government towards a fund set up for welfare of people affected by mining projects. This means local communities will be stakeholders in the mining projects set up on their land and thus emerge beneficiaries in the region's development. Hitherto, mining and mineral extraction projects spelt doom for local communities, especially tribals. They were displaced by the projects and rarely compensated. It led to the strange anomaly of their land being mineral rich, even as they were condemned to a life of desperate poverty. Despair over their exclusion resulted in thousands of tribals turning to the Maoists to articulate their grievances against exploitation by the mining companies and the land-liquor mafia. This exploitation is now poised to end with the MMDR bill promising local communities a share in the profits. They can hope for freedom from the abysmal poverty that



"Local communities will be the stakeholders."

has marked their lives. The proposed legislation seeks to tackle illegal mining as well by providing for stern penalties. It provides for a National Mining Regulatory Authority, which is likely to be particularly effective in tackling illegal mining across state borders, similar to that along the Karnataka-Andhra Pradesh border.

Mining companies, especially those in the coal sector, have sought to block the mining bill, arguing that their contributions to the tribal welfare fund will diminish their profits and make their business unsustainable. Clearly, they are not

looking at the big picture. Inclusive development of the mineral and mining industry will reduce tribal anger and alienation, and thus mass protests and Maoist violence that are currently preventing the industry from realising its full potential. A more peaceful environment will enable them to get clearances quickly, allow them to run business without interruption and thus reap larger profits. Coal production, for instance, has the potential to increase by 25 per cent if Maoist violence ends.

The Centre must be applauded for resisting immense pressure from corporates to dilute the bill's provisions. It must ensure this landmark legislation, which has the potential to transform rural India, does not stumble at the final hurdle – passage through parliament.