FICCI REACTION ON DRAFT MMDR ACT

30 September 2011, New Delhi: Reacting on the draft MMDR Act cleared by the Cabinet today, **FICCI Secretary General, Dr Rajiv Kumar said** "The proposed contribution of 26% of profit in case of coal and 100% royalty in case of other minerals to the District Mineral Development Fund will make mining unattractive for organized investors including foreign investors. Indian mining is already one of the highly taxed sectors in the world and this new Act will further increase tax incidence on coal to 61% and iron ore to 55%".

FICCI said that apparently the draft MMDR Act proposals are inspired by Black Empowerment Act (BEE) of South Africa. The BEE requires companies to have ownership by Historically Disadvantaged South Africans at a level of 15% and increasing it to 26% by 2014. However, FICCI pointed out that since the implementation of this Act in South Africa, the growth of mining sector has witnessed a decline and also the real capital expenditure in South Africa's mining industry has shrunk over the years. Hence, the current proposals in draft MMDR Act need to be relooked to avoid similar negative impacts on Indian mining industry.

"The current proposals of profit sharing and royalty contribution will create problems for existing mines where affected persons are not easily identifiable. Also, the mechanism for compensating the affected people is not very clearly defined and has many limitations", said Dr Kumar. There is all likelihood that the increased revenues collected with District Mineral Development Fund will be parked and frittered away as the absorptive capacity does not exist.

The industry would definitely like to contribute towards the development and inclusive growth of the economy but these provisions have huge financial implications for the companies and will result in elimination of all modern/organized sector mining companies and would only encourage non-scientific and low technology mining companies with large negative impact on environment.

The impact of this proposal was analyzed by FICCI Mining Committee and it was found that the proposed mandatory contribution would raise the incidence of taxation on mining industry significantly thereby making it an unattractive sector for serious investors. The table below shows that with the proposed changes, the tax incidence would rise from current 47.7% in case of Coal to over 61%; in case of iron ore it would rise from current 43% to 55%; and in case of Bauxite it would be exorbitant 110%.

Mineral	**Existing Taxation Rate**	**Effective Taxation Rate Post MMDR Act**
Coal	47.74%	61.12%
Iron Ore	43%	55%
Bauxite	55%	110%

Source: FICCI Calculations

MEDIA DIVISION

Taresh Arora
Media Relations Officer
FICCI
Industry's Voice for Policy Change
Federation House, Tansen Marg, New Delhi 110 001
T: +91-11- 23357392, 23753117
F: +91-11-23753119
M: +91-9899115719
W: www.ficci.com