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Undermining value-addition

AT A TIME when by all accounts a national consensus has evolved on the strategic direction of the Indian economy and the role of the state as a facilitator, rather than an orchestrator, of players, the Ministry of Mines would apparently like to revisit the theme. It is proposing, for the Government's consideration, that steel companies should not, as a matter of policy, be allowed to undertake iron ore mining for captive consumption.

Whether or not a project should be conceived of with iron ore mining as an integral dimension to steel making is a matter best left to the promoters. If the project acquires an unacceptable element of risk relative to returns from captive mining, then the promoters themselves would structure the project without it. They would not need the Mines Ministry to tell them that they are better off without it. If, on the other hand, a project that integrated iron ore mining and steel making offered the best returns, then preventing the company from taking that route amounts to a sub-optimal allocation of resources. Four decades of such misallocation had led the country on a path of sluggish growth and reduced prosperity for its citizens.

There are other conceptual and operational infirmities in the proposal. The Ministry says that there is an element of sop in the captive mining proposal and goes on to pin the entire value added from mining — the difference between the cost of extraction and the market price of the ore — with the tag of subsidy without quite spelling out who is bearing the loss. But it is unclear if the taint of `subsidy' would be removed if the steel-maker were to float a wholly-owned subsidiary whose entire output could be consumed by the parent. By the Ministry's own argument, subsidiarisation of the mining activity should remove that taint. But should the form of corporate structure determine if an activity is in public interest or not? Also, if the value added by incorporating an upstream activity in the production of certain goods or service is to be regarded as a burden and hence undesirable from a public welfare perspective, then the official policy of permitting power utilities to undertake coal mining for captive consumption should be bad too. Indeed, one can go on to argue that value addition under one roof is against public interest merely because there is value being added. That would of course be absurd.

On the question of loss of revenue, too, the Ministry is on weak wicket. If iron ore mining leads to windfall gains, then the solution to that problem is higher royalty on mining rather than prevention of integrated manufacture. As to the argument of loss of sales tax revenue, one can, then, object to corporate mergers and amalgamations on the same ground. But that has never been accepted for the simple reason that without timely restructuring, businesses are certain to fail and there would be no sales tax revenue. Looked at from any angle the Mining

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Ministry proposal is misconceived.

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