Mining industry

Abstract Many factors in the macro-environment impact the development of an industry. These factors can by categorized as Political, Economic, Social, Technological, Environmental and Legal (PESTEL). Economic, legal and environmental factors are closely tied up and mostly controlled by the political factors. Political factors mainly refer to intervention of the government in the economy via introduction and amendments of various new policies and laws. The purpose of this essay is to explain how the mining industry faces an uncertain future in some parts of the world due to various political changes.

Increase and unpredictable government intervention across the globe is adding further complexity to a sector that is already heavily laden with risk (Grant Thornton, 2011). Introduction Minerals constitute the back-bone of economic growth for any nation and the entire world has been eminently endowed with this gift of nature. Primary activity of the mining industry is to extract the minerals resources from the Earth. The minerals are mainly extracted through surface mining and underground mining. Coal, iron-ore, aluminum, steel, copper, lead-zinc and other precious materials are some of the major minerals extracted from the earth surface.

Around the world, most mining lands are national assets for the county. Hence, government intervention is inevitable. In context of Michel Porter's five forces for mining industry: Rivalry: The mining industry faces a tough rivalry among various companies operating within the sector, due to fewer product differentiations and industry concentration. Substitute: Due to non-availability of any substitute for minerals and metals, mining industry is not faced by any threat from substitutes. Buyer power: Buyer power is boosted by the large size of the buyer and their financial strength (e. g. car manufactures). However, the fact that metals and minerals are important to its users and the lack of product differentiation tends to weaken the buyers' strength (Energy Business Daily, 2010). Supplier Power: Limited availability of suppliers and their importance to the industry increases the supplier power. Threat of entry: Threat of new entry is mostly negligible in this industry, mainly because of heavy capital investment and access to the natural resources which are restricted because of the natural distribution and strict laws and regulations (Energy Business Daily, 2010).

Government intervention in the mining industry includes direct and indirect taxes, royalty arrangements, nationalisation and economic empowerment policies, as well as regulatory compliance with environmental and other government standards and business criteria. A wide variety of government interventions pose a real threat to commodity prices, corporate valuations and, most critically, investment in the global mining sector (Grant Thornton, 2011). " Government is taking a more active role in the way they provide access to national assets.

Difficult obtaining permits, negotiating transactions and maintaining mining licenses is making it both more difficult and more costly to access resources" (Neven Hendricks 2011 cited in Deloitte, 2011: 7). Government Interventions: a) Taxation and Royalties: Increase in taxation and royalties is one of the most important tool used very frequently by the government to increase its revenue. However, the increase in the taxation and royalties influences the growth of an industry due to reduction in the profit margins and ultimately reduces the investor confidence.

In the era of current financial crises, the governments of various economies are looking to reduce their financial budget deficit by imposing new taxes and royalty fees on the mining sector (Deloitte, 2011). The heavy taxation will reduce the overall margins in the industry and will ultimately lead to diminishing rate of return on investments. The threat of additional taxation and royalty fee increase will lower the valuation of the companies, which will ultimately lead to increased investors risk and will make the foreign and local direct investments unappealing due to onerous tax burden (Grant Thornton, 2011).

The companies and investors will search for more profitable and competitive industry environment when they can reasonably estimate the point where the government aggregate ‘ take’ – corporate taxes, sales taxes, payroll taxes, royalties and special costs associated with doing business in a particular industry exceeds 50% (Grant Thornton, 2011). Impact of increase in the taxation and royalties in the mining industry on various economies: India Mines and Minerals Regulation and Development Bill, 2011 (“ MMRDB 2011”) The Union Cabinet Ministry of India approved MMRB 2011 on 30 September 2011.

As per the new bill, coal mining companies will share 26% of the profits and non-coal miners will pay an amount equal to the royalty paid to the state government to the project-affected persons (PTI, 2011). Enactment of the new Mining Bill is likely to have a negative impact on existing pure-play mining companies, with their profits impacted by as much as 12 percent (Macquarie 2011 cited in PTI, 2011). Mining sector in India is already heavily taxed at 43%. Whereas, the taxation rate in China is at 32%, Brazil is at 35% and Australia is at 39%.

Due to the new bill the taxation on coal mining industries will rise from 47. 7% to 61% and in case of Iron ore it will reach from current 43% to 55% (Bose, 2011). Firstly, the above tax changes will lead to reduction in the investment in the mining industry due to reduction in the profits. Secondly, the companies will restore to the old technique of mining due to the reduced profits; and, higher taxation will not find modernized mining feasible anymore. Both the above reasons, will lead to reduced efficiency and more environmental loss (Bose, 2011).

In monetary terms, the mining industry is anticipating that it will have to share around GBP 1. 875 billion from the profits over and above their current sharing (Ghosal, 2011). Australia and South Africa Carbon Tax Legislation The Carbon tax legislation which was passed in the senate on 8 November 2011 will have a negative impact on the coal mining industry (Reuters, 2011). The new legislation will lead to a reduction in the net present value of the coal companies by 4% and in the monetary terms by Australian$8 billion.

Companies in the early stages of investment in the coal mines are likely to reconsider the investment proposal due to the new legislation (Swanepoel, 2011). In South Africa the carbon tax is expected to increase the mining bill by more than ZAR26 billion in 2012 and will impact the profitability of mining companies in South Africa going forward (Deloitte 2011 cited in Wait, 2011). Australia Mineral Resource Rent Tax (“ MRRT”) The future of mining companies in Australia is uncertain due to the delay in the introduction of MRRT.

Many mining companies have already shown their concerns to pay much more in tax and royalty (Grant Thornton, 2011). The bill will take effect from July 2012 and will tax the iron ore and coal companies making more than Australian$50 million profit at a rate of 30%. Association of Mining and Exploration Companies has launched a campaign against MRRT, highlighting that the bill is unfair and anti-competitive (Regan, 2011). b) Nationalisation and Indigenisation of mines: Nationalisation refers to the process where the national or state government takeover the assets held by the lower section of the government or the private sector.

Indigenisation refers to the transfer of wealth or assets to the hands of native people (Grant Thornton, 2011). Both Nationalisation and indigenization transfers too much power to the hands of few people and ultimately hampers healthy competition among foreign and local investors. South Africa Nationalisation of mines in South Africa is one of the major concerns affecting the mining industry. Investors are reluctant to invest in mining industry in South Africa due to the unpredicted outcome of nationalisation (Grant Thornton, 2011). The kind of debate currently raging in South Africa on nationalization is indeed discouraging people who like to invest in South African economy" (Sandile Noxgina 2011 cited in Scott, 2011). Zimbabwe In the first quarter of 2011, Government of Zimbabwe gazette Indigenisation and Economic Empowerment Regulations for the mining industry. As per the regulation every mining company with net asset value of more than US$1 should dispose 51% of their shares in the mining companies to the indigenous Zimbabweans. The regulation will scare foreign direct investment and will halt the growth of the mining sector (Economist Intelligence Unit, 2011).) Environmental Regulations: Governments around the world are vigilant with their environmental green agenda, and are tightly legislating the mining sector with stringent environmental law and regulations which is a political necessity as well as ethical imperative (Grant Thornton, 2011). However, strict regulations over the environment control will halt the growth of mining industry and will divert the investments in the industry which is not environmentally regulated. Conclusion: Government and the policy makers should put an end to the uncertainties in the tax laws and the royalty schemes in the mining sector (Grant Thornton, 2011).

The policies and the tax framework should be more stable, competitive and must be drafted by keeping the interest of the mining corporations, government, people and environment. A stable lawmaking environment will encourage the local and foreign investment in the mining sector. The government should make the mining sector more competitive by encouraging more private players to invest. Excessive intervention obstructs the growth of industry and ultimately reduces the economic growth of the nation.

In order to accomplish the budget deficits, the government should not consider mining industry as a substitute; rather it should make the mining industry more attractive for the investors, which will ultimately lead to the growth and development of the mining industry and the economy of the country. Reference list Bose, R. , 2011. Mining bill: all’s not well. FIRSTPOST BUSINESS 12 August, [online]. Available from: http://www. firstpost.

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