MINERALS SECURITY PARTNERSHIP (MSP)

SYLLABUS: GS PAPER-I (DISTRIBUTION OF KEY NATURAL RESOURCES), GS PAPER-II (INTERNATIONAL TREATIES AND AGREEMENTS)

CONTEXT: There is growing concern in the Government over India not finding a place in the **Minerals Security Partnership.**

Minerals Security Partnership is an **ambitious new US-led partnership to secure supply chains of critical minerals, aimed at reducing dependency on Chin**a.

Demand for critical minerals, which are **essential for clean energy** and other technologies, is projected to expand significantly in the coming decades.

ABOUT MINERALS SECURITY PARTNERSHIP

- The Minerals Security Partnership (MSP) is a new initiative to bolster critical mineral supply chains.
- The US and 10 partners-**Australia, Canada, Finland, France, Germany, Japan, the Republic of Korea (South Korea), Sweden, the United Kingdom, and the European Commission** have come together to form the MSP.
- The new grouping is aimed at catalyzing investment from governments and the private sector to develop strategic opportunities and for adhering to environmental, social, and governance standards.
- The new group could focus on the supply chains of minerals such as **cobalt, nickel, lithium along with 17 rare earth minerals.**
- This alliance is seen as primarily focused on evolving an alternative to China, which has created processing infrastructure in rare earth minerals and has acquired mines in Africa for elements such as Cobalt.

ABOUT CRITICAL/RARE MINERALS

- Critical minerals are elements that are the **building blocks of essential modern-day technologies** and are at risk of supply chain disruptions.
- These minerals are now used everywhere from making mobile phones, computers to batteries, electric vehicles and green technologies like solar panels and wind turbines.
- **Graphite, Lithium and Cobalt a**re used for making EV batteries.
- Aerospace, communications, and defense industries also rely on several such minerals as they are used in manufacturing fighter jets, drones, radio sets and other critical equipment.
- While C**obalt, Nickel and Lithium** are required for batteries used in electric vehicles, rare earth minerals are critical, in trace amounts, in semiconductors and high-end electronics manufacturing

SIGNIFICANCE

- As countries around the world scale up their transition towards clean energy and digital economy, these c**ritical resources are key to the ecosystem that fuels this change.**

- Any supply shock can severely imperil the economy and strategic autonomy of a country over-dependent on others to procure critical minerals.

WHY EXCLUSION FROM MSP IS A CONCERN FOR INDIA?

Supply of Critical Minerals:

- One of the key elements of India's growth strategy is powered by an **ambitious shift in the mobility space** through the conversion of a large part of public and private transport to electric vehicles.
- This, alongside a **concerted electronics manufacturing push, underlines the need to secure the supply of critical minerals.**

Dependency on Other Countries:

- Rare earth comprises seventeen elements and are classified as **light RE elements (LREE) and heavy RE elements (HREE).**
- Some RE are available in India such as **Lanthanum, Cerium, Neodymium, Praseodymium and Samarium**, while others such as **Dysprosium, Terbium, Europium that are classified as HRE**E are not available in Indian deposits in extractable quantity.
- India would require supply support for such elements.

Technology Status:

- Industry watchers say that one reason India would not have found a place in the grouping is because the **country does not bring much expertise to the table.**
- In the group, countries like **Australia and Canada** have reserves and technology to extract them and countries like Japan have the technology to process them.

WHAT HAS INDIA DONE REGARDING CRITICAL MINERALS?

Lithium Agreement:

- In mid-2020, India, through a newly floated state-owned company, had signed an agreement with an Argentinian firm to jointly prospect lithium in the South American country that has the third largest reserves of the metal in the world.

India-Australia Critical Minerals Investment Partnership:

- India and Australia decided to strengthen their partnership in the field of **projects and supply chains for critical minerals.**
- **Australia has the resources** to help India fulfil its ambitions to lower emissions and meet the **growing demand for critical minerals to help India's space and defense industries, and the manufacture of solar panels, batteries, and electric vehicles.**

STABLECOINS

SYLLABUS: GS PAPER-III (IT & COMPUTERS)

CONTEXT: In early July, **the Financial Stability Board (FSB),** a body which advises major economies on international finance, promised to push for stablecoin regulation, citing **"recent turmoil"** in the cryptocurrency market.

The group is slated to report in October to G20 Finance Ministers and Central bank governors on regulatory and supervisory approaches to stablecoins and other crypto assets.

ABOUT STABLECOINS

- A stablecoin is **a digital currency whose value is pegged to a 'stable' asset, such as the U.S. dollar or gold.**
- The best -known stablecoin in the **crypto ecosystem today is arguably Tether (USDT), whose market cap is close to $66 billion**, putting it below Ethereum, the second largest cryptocurrency in existence.
- Other stablecoins such as **USD Coin (USDC) and Binance USD (BUSD)** are also pegged to the U.S. dollar and are known for their high market cap values.
- Tether also recently launched a stablecoin pegged to the British pound.
- Stablecoins are **not authorized for use by country lawmakers or central banks, which means that investors take on considerable legal and financial risk to hold them.**

TYPES OF STABLECOINS

Fiat-collateralized Stablecoins:

- They are collateralized by fiat money, such as the US dollar, euro, or the pound, on a 1:1 ratio.
- Examples: Tether, Gemini Dollar, and TrueSD.

Stablecoins Backed by Other Assets:

- There are a few stablecoins, which are backed by a basket of multiple assets (commercial papers, bonds, real estate, precious metals, etc.).
- The value of these stablecoins can fluctuate over time subject to movement in commodity and precious metal prices.
- Example: Digix Gold, backed by physical gold.

Crypto-Collateralized Stablecoins:

- Crypto-collateralized stablecoins are more decentralized than their peers and are backed by cryptocurrencies.
- The flipside is price volatility and to address the risk of price volatility, these stablecoins are over-collateralized.
- Example: Dai.

Non-collateralized stablecoins:

- These stablecoins do not have any backing and are decentralized in the true sense and the supply of non-collateralized stablecoins is governed by algorithms.
- Example: Basis

ROLE OF STABLECOINS IN THE CRYPTO ECOSYSTEM

- For a cryptocurrency trader, **tracking stablecoin flows can help them gauge the state of the market, or even make educated guesses about future cryptocurrency price movements.**
- For example, when the stablecoin supply on crypto exchanges spikes, it might be a sign that investors are cashing in their stablecoins to buy cryptocurrencies such as Bitcoin (BTC), Ether (ETH), or even other alt coins.

- On the other hand, if the stablecoin supply on crypto exchanges suddenly drops, one might conclude that traders are buying steadier assets. This could mean traders want to hedge against future risk and volatility, or are driven by fear.

CONCERNS PERTAINING STABLECOINS

Related to Short term Debt:

- Many stablecoins are backed by types of short-term debt that are prone to periods of illiquidity, meaning that they can become hard or impossible to trade during times of trouble.

Not all Stablecoins are Stable:

- Not all stablecoins are really 100% price-stable. Their values are dependent on their underlying assets.

Asset Contagion Risk:

- There are potential asset contagion risks linked to the liquidation of stablecoin reserve holdings.
- Contagion is the spread of an economic crisis from one market or region to another and can occur at both a domestic or international level.
- The risks are primarily associated with collateralized stablecoins, varying based on the size, liquidity, and riskiness of their asset holdings, as well as the transparency and governance of the operator.

Risks to Financial Stability:

- While stablecoins have the potential to enhance the efficiency of the provision of financial services, they may also generate risks to financial stability, particularly if they are adopted at a significant scale.

Lack of Accountability:

- They are not transparent or auditable by everyone and are operated just like non-bank financial intermediaries that provide services like traditional commercial banks, but outside normal banking regulations.

Regulatory Challenge:

- International coordination of regulatory efforts across diverse economies, jurisdictions, legal systems, and distinct levels of economic development and needs is another regulatory challenge.
- There is not (yet) a uniform regulatory approach of regulators worldwide relating to stablecoins.

PRELIMS FACTS

INSIDER TRADING

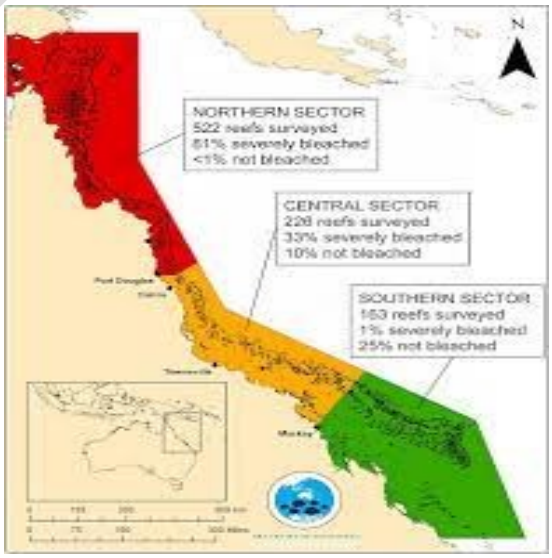
- SEBI has come up with a new framework that will prevent company insiders from dealing in shares during the closure of the trading window.
- Insider trading is defined as a **malpractice wherein trade of a company's securities is undertaken by people who by virtue of their work have access to the otherwise non-public information which can be crucial for making investment decisions.**

BORRA CAVES

- The Borra Caves, also known as **Borra Guhalu, are in the Visakhapatnam district of Andhra Pradesh, among the Anantha Giri hills of the Araku Valley**.
- These caves are thought to be more than **150 million years old**. The cave's name is derived from a hole in the roof above its middle area.
- **William King George of the Geological Survey of India** found the caverns in 1807.
- There are various legends surrounding the caverns' discovery, which the **tribals Jatapu, Porja, Kondadora, Nookadora, Valmiki,** etc. who live in the communities surrounding the caves tell.
- The **Gosthani River** flows through the caves.
- Shiva-Parvathi, Rishi's Beard, Mother-Child, Crocodile, Human Brain, Tiger, and Cow's Udder are some of the stalactite and stalagmite formations found in these caves.
- There is also a naturally formed Shivalinga deep inside the cave, and tribal people from the surrounding areas (Jatapu, Porja, Kondadora, and Nookadora) flock to the caves every Shivaratri to pray to the Linga.

THE GREAT BARRIER REEF

- The highest levels of coral cover, within the past 36 years, has been recorded in the northern and central parts of Australia's Great Barrier Reef (GBR), according to the annual long-term monitoring report by the Australian Institute of Marine Science (AIMS).



- It is the **world's most extensive and spectacular coral reef ecosystem composed of over 2,900 individual reefs and 900 islands.**
- The reef is located in the **Coral Sea (North-East Coast), off the coast of Queensland, Australia.**
- It can be seen from outer space and is the world's biggest single structure made by living organisms.
- This reef structure is composed of and built by billions of tiny organisms, known as coral polyps.
- They are **made up of genetically identical organisms called polyps, which are tiny, soft-bodied organisms.** At their base is a hard, protective limestone skeleton called a calicle, which forms the structure of coral reefs.
- These polyps have microscopic algae called zooxanthellae living within their tissues. The corals and algae have a mutualistic (symbiotic) relationship.
- It was selected as a World Heritage Site in 1981.