

A Big Leap

Opening up coal mining for private sector is historic, now a regulator is needed

The Narendra Modi government announced on Tuesday that commercial coal mining has been opened up for private sector participation. Almost 45 years after coal mining was nationalised, this opens the door for standalone mining companies to re-enter. This is an important step. Most areas of economic activity were opened up for private participation after the economic liberalisation of 1991, but coal remained outside the ambit of reforms. Even if long delayed, the government must be commended for this reform.

Coal is the most important fuel in India's energy mix. About 70% of India's electricity is generated in coal-fired thermal power plants. However, energy reforms have bypassed coal; there is no rationale for this situation which has had an adverse impact on India's economic performance. India's estimated coal reserves are about 308.80 billion



tonnes. But as mining is confined to just the public sector and private companies such as power producers whose expertise is not mining, domestic production is inadequate to meet demand. Last year, about 22% of domestic demand was met through imports.

The decision to open the coal to private sector miners will bring in new technology and additional capital into the sector. Hopefully, this should mark the end of the era when coal

stocks in power plants keep running dangerously low. To actualise the proposal to open up coal mining, government has cleared an auction methodology. It is important for government to learn from missteps in the telecom sector where poorly designed auctions have at times led to unsold spectrum or winner's curse of overly expensive spectrum. The primary aim of coal auction should be to improve the efficiency of India's energy economy and not revenue maximisation.

Another important step that must be taken is establishment of a coal regulator. In December 2013, a bill to create a regulatory authority in coal was introduced in Lok Sabha but did not get through before the House was dissolved. NDA should revive and tweak it to meet future needs. The regulator needs to be independent as government has a direct commercial stake in both coal mining and its most important consumer, thermal power companies. The decision to open up coal mining is historic. But its potential can be fully tapped only in an ecosystem that is conducive.