

Canary in coal mine

Opening up the coal sector to private players is a timely reform

Forty-five years after India nationalised its coal-mining industry, the Central government has allowed the re-entry of commercial mining firms into the sector, turning the clock back. India's coal industry was predominantly driven by the private sector after Independence until the Indira Gandhi government decided to transfer all coal holdings to Coal India through the Coal Mines (Nationalisation) Act, 1973. The key reason cited for taking coal out of the private sector's hands was that it was essential to meet power needs. Now, India's coal market is a virtual monopoly for the public sector behemoth. Coal India accounts for over 80% of the country's coal supply. Another public sector firm, Singareni Collieries Company, and some captive coal mines allotted to private players for specific end-uses such as in the steel and power industries, account for the rest. Opening up commercial mining and sale of coal for private players is an overdue reform. India has a high dependence on coal for power generation. Despite an aggressive push for renewable and nuclear sources, 70% of electricity generation is through coal-fired thermal plants. In recent years there has been a significant surge in imports as Coal India, despite its rich coal-bearing belts and increased output, is unable to keep pace with demand from new power plants.

To be sure, the NDA government has moved swiftly to fix the mess it inherited from the UPA, especially irregularities in allocation. In September 2014, the Supreme Court cancelled the allocation of 204 coal mines to public and private players, after the Comptroller and Auditor General of India found fault with the allocation mechanism. An ordinance was brought in quickly and a transparent auction process was evolved for the affected mines, benefiting from lessons learnt from the telecom spectrum allocation mess. The intention was to ensure that there are no supply shocks for power producers on account of abrupt disruptions in mining operations. Enabling provisions for commercial mining and sale of coal were already included in the Coal Mines (Special Provisions) Act of 2015; the Cabinet Committee on Economic Affairs has now allowed their operationalisation by clearing the methodology to be followed for auctioning rights. The government says the move will boost energy security, making coal affordable and creating jobs. To ascertain the quality of outcomes, it will be important to see which blocks are actually offered to private players; they should not just be the mines Coal India isn't keen on. Norms to ensure miners' safety must be upgraded. Lastly, the integrity of the process is key, so that auctions don't translate into a winners' curse as has happened in sectors like telecom. The import-dependent energy sector cannot afford it.