Addressing Structural Challenges in Coal Mining

What is the issue?

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- Union government has decided to open up the coal industry for private sector participation.
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- Few structural issues need to be addressed to gain results from the move.
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What is the significance of coal in India?

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- India has third-largest coal reserves in the world, enough to last for the next 400 years at current consumption levels.
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- The fossil fuel’s importance to the country cannot be over-emphasised, 66 per cent of India’s electricity is generated from it.
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What are the practical issues in coal mines?

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- Despite its criticality, the sector continues to be plagued by periodic crises, when coal stocks with power plants almost run out.
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- It has happened twice in the last four months, this is due to poor policy mechanism taken way back in 1973 to nationalise the coal sector.
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- With a monopoly over the market for 45 long years, Coal India and its subsidiaries had very little incentive to become efficient and market savvy to meet the demands of their consumers.
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What is the recent move about?

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- Union government decided to open up the coal industry for private sector participation, by both domestic and foreign players.
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- The government has allowed private sector to mine without any end-use restriction or price caps is significant.
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- Earlier reforms had at best allowed private players especially in power, cement, steel and aluminium sectors to mine for captive use.
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- It is expected that investments will now flow into this sector and along with it modern technology and global manufacturing. .
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What structural issues government must consider?

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- Recent move will face challenges as Coal is a freight-sensitive commodity and most of the coal is mined in the country’s hinterland.
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- Indian coal is inferior in quality due to its high ash content rendering it almost unusable for sectors such as cement which has over the years preferred to import and more recently, shifted to pet coke.
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- Private coal producers will thus have to sell predominantly to power producers, many of whom are not exactly in good financial shape.
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- Lack of rail links to mines and where such links exist, inadequate availability of railway rakes create enormous disruption in supply of coal, government needs to address this bottleneck on a war footing.
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- Foreign firms will hesitate to invest if they are unsure how to reach the coal they mine to the users.
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Source: Business Line

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