Private Mining

What is the issue?

- The government will open up the coal sector with a large offer of over 200 blocks to commercial miners.
- The bidding for 40 blocks is likely to begin this financial year of 2019-20.

What is the significance of this decision?

- According to the government, the 200 blocks being prepared for sale could produce as much as 400 million tonnes a year.
- If even a fraction of that is achieved, **India's coal import bill** would be considerably **reduced**.
- The bill would not be eliminated as India has **no real reserves** of the coking coal needed by its iron and steel plants.
- But at least the 125 million tonnes of thermal coal that is imported might now be produced at domestic sources.
- This is a long overdue measure, and it is welcome that the government has finally moved to enable commercial mining of coal.

Why India became dependent?

- The legal requirements were put in place 4 years ago, but the follow-up of auctioning the blocks did not take place.
- As a result, India has been dependent for too long on two different sources of thermal coal,
    1. Coal India Ltd, a state monopoly which is plagued by bottlenecks and inefficiency; and
    2. Captive mining, which has been surrounded by much controversy over the past decade.
- It is to be hoped that the **auction** of these coal blocks in tranches will **open up the market for thermal coal properly**.

What are the issues with this sector?

- Many thermal power plants are in danger of becoming stranded assets.
- Long-term power purchase agreements are capped at quite a low level, thanks to technological change and market forces.
- It is also very important to think carefully about how an expansion of thermal

coal extraction capability can be financed.

- There is limited private sector or global capacity available in the sector.
- Many funders have turned away from it.
- It would be dangerous for a big new expansion of thermal coal capacity to be funded entirely by the state-owned banking sector, following an unwritten mandate to that effect by New Delhi.
- This would present the very real danger of future bad debts.

What the government should keep in mind?

- The government needs to keep the lessons of the past in mind when it is designing these auctions.
- Extracting the maximum revenue possible is not necessarily a good idea from the point of view of overall welfare.
- The **rules of the game** should be made amply clear in advance.
- They shouldn't be changed at a later date, because this undermines the sanctity of the auction process.
- **Renegotiating the terms** of the auction after it has been concluded is similarly problematic.
- It can lead to **legal challenges** and, if predicted, can lead to uneconomic bids being made by those players most confident of winning a renegotiation process.
- The medium- and long-term dynamics of the coal sector should also play into the expectations and planning of the auction process.
- At the moment, there is an all-round economic slowdown, which will affect the prices being paid.
- It should also be clear that thermal power plants in particular are not quite the booming businesses they were a decade ago.

Source: Business Standard

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