Coal policy needs rationale approach

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As per twelfth plan approach paper, coal consumption is likely to grow @ 8-9% in twelfth plan. Production of coal India is almost stagnant since 2010. Eleventh plan had originally envisaged a production of 680 million ton by the terminal year 2012. But the production is languishing around 550 million ton. Under the circumstances, we have no other option than to open the coal sector and invite private investors to gear up production and to meet rising demand. We cannot afford the luxury of import. Today every country is in the race of securing its energy requirement, but we prefer to remain import dependent. Our lack-luster policy has created an artificial shortage of coal in the country leading to price hike.

If we look back, there was no premium on the coal and no body was interested to invest in coal mining. But today, the premium is ranging from 25-50% on the linkage price. In fact, the present politicization and audit objection on coal block is the outcome of prevailing premium, which is due to supply shortage. Therefore, the right policy approach is to increase production, may be from government or private sector. It has been well established that government sector alone cannot meet the rising needs of Indian economy. If this is true, why we are looking private investment with suspicion and treating as a loss to country. Are we sending right signals to private and global investor, who is shying away from new investments ? Do we want to turn the wheel back to 1991 ?

In fact today's debacle in coal sector, commonly known as **Coal-Gate** is an outcome of the presumptive loss calculation by central audit which has been blown out of size. It has been calculated on today's price of coal which is commanding premium due to supply shortage. Once the mismatch of demand & supply is overcome through enhanced production; then such exorbitant premium cannot remain high unless and other wise, there is monopoly or cartel. Under such circumstances, government can always impose price regulation or may increase royalty or may opt for combination of both as per the situation.

As per normal prudence, any economic activity needs a capital investment which is to be financed through debt and equity. All such economic activities are to generate reasonable profit to serve the debt and equity and to pay taxes. Thereafter, surplus profit is to be used for business expansion without which, country's growth shall be stagnant. Therefore, it may not be appropriate to evaluate profit as the difference between sale price and production cost without factoring the cost of capital, taxes and reasonable return on investment. As per standard accounting norms, future profits are always discounted to arrive at net present value (NPV) to give true and fair picture of the asset valuation. An accepted method is, **"discounted cash flow"** for asset valuation which takes care of all such factors such as investment, debt repayment, interest payment etc. If we simply add, the profits likely to accrue over life time of coal block; it will be a real abuse of prevalent commercial practice.

For example, coal block shall have a minimum life of 40 years and the entire coal cannot be produced in a single year to sustain the continuity of power plant attached to it. If any profit earned in 40th year is discounted on NPV basis @ 12% then NPV shall be reduced to hardly 1% of the profit earned in the 40th year. Similarly, if the profit of entire 40 years is discounted on NPV basis, it may work out to be hardly 15% of the simple sum as being presumed by the central audit.

It means, the figure arrived as 1.86 lakh crore could be hardly Rs. 30000 crore that too, based on today's price which is influenced with coal shortage. Perhaps, weare totally mis-guided on such calculation. Rather I feel, actual loss to the country is much higher than the presumptive loss; which is on account of import of coal. Import is exceeding 100 million ton every year and may be more in future years. As per standard economic practices, imports are considered as net loss of GDP i.e. public income. Such loss is not restricted to coal import alone but spread into power sector and entire economy. The production cost of all the goods are increasing due to high cost of energy, making us non competitive in the global market. Today inflation and trade deficit is outcome of the same. This is also responsible for economy slow down to some extent.

If we compute such actual loss of the country, which we are incurring at present and likely to incur in future years; then such loss figures can be astonishing and unbelievable. Therefore, our focus should remain on enhancing the domestic production of energy that too with affordable price to give stimulus to the economy and reduce import. We should not create hype by extrapolating the revenue loss figures which may adversely affect public opinion and judiciary pronouncement as well. Recent collapse of power grid was a warning signal for our lack-luster energy policy. Whether this signal is not enough ? Are we are waiting for a major crisis ? Let us tighten our belt before it is too late.

It could have been appreciable if the losses are calculated on account of imports and GDP loss instead of domestic production by private investors. Right policy could have been to produce enough coal to meet demand. Then the question of premium or high prices shall automatically evaporate. We could have created competition in the real sense among all coal producers. I am sure, competition will bring efficiency and shall reduce the price and shall ensure economic growth also. Therefore, I feel, we should not mis-guide public on the calculation of presumptive losses. Rather we could have focused on the real reasons for loss of domestic production which has compelled us to import coal and thereby resulting loss of gdp or public income.

During 1991, we took a bold decision of scrapping government monopolies in most of the sectors and invited private and global capital. Then only, we could come out from the crisis. Let us not forget that; we had to pledge gold to get some foreign exchange to meet the import requirement which was really shameful for the country. I hope, no body likes to repeat the same situation. We have to therefore, change our mind set towards private investments in each of the core economic activity. We have already witnessed the benefits of private investments in the sectors like Aviation, Mobile telephony, Power generation, Steel & Cement. Then why we are so much skeptical about primary energy sector like coal and oil ?

Though government has envisaged the limitation of public sector to increase coal production in 1993 and allotted few private coal blocks. But the fact remains, this was half-hearted. We could have amended Coal Nationalization Act in total and could have opened it like other mineral sector. More so, the policy approach was not composite. Despite allocation of block, environment clearance and land allocation was delayed. Transport infrastructure was not strengthened to transport coal. Even coal India was also victim of these hurdles. What I wonder, no body is objecting on these issues which has created shortage and premium on coal. It means our analysis to the problem is perhaps not honest and we believe in blaming each other. Unfortunately, public and media are also involved in this process instead of focusing on real causes which has damaged Indian economy. Can't we amend regulations which are coming on the way of energy production ? Whether regulations are superior to public interest ? We are passing through a critical phase of ballooning trade deficit and inflation. Let us decide our priorities and throw activism, which other wise, will drag our country back to old era.

Now second school of thought is prevailing in the country to auction the coal block instead of free allotment. This is also an outcome of prevailing shortages and high coal prices. Other wise, most of the developed country do not auction coal blocks and are looking for the investors only to develop and meet energy demands. Hypothetically, if we adopt auction policy; monopoly shall be created in the hands of few large cash rich corporate. Obviously, private monopoly has more ill-affects than government monopoly. At the end of the day, the burden of auction revenue will be passed on to public in shape of higher prices of electricity and manufactured goods. No doubt, government needs revenue to reduce fiscal deficit. But I believe, regular stream of revenue in shape of royalties is any day better option than one time auction revenue. Such royalty revenue can always be adjusted with respect to market condition and will not allow profiteering in the hands of few.

At the same time, present government policy of captive coal block allotment also needs a review. While allotting captive coal block to few producers, we are debarring several small and medium producers to get a level playing field. It is also true that, government cannot allot captive coal blocks to each and every producer. We also need an over all efficiency on coal production which needs larger scale of economic operation. Looking into complex problem, a fair policy can be as under. Captive coal blocks may be allotted to medium and large producers and few more small &

medium producers may be tagged with it, as being down now. In addition to it, few merchant mining should also be promoted in private sector to compete with coal India and to give fair deal to small consumers.

Captive coal block alone is not the true privatization, as it lacks competition and does not provide level playing field to all. Necessary amendments in coal nationalization act may be under taken. At present there is restriction for open market sale by the captive coal block allottee which needs total reversal. On the contrary, government should impose an essential condition that, every coal block must sell minimum 25% of their production in open market so that; small and medium producers can get regular supply. Government may enhance such open market sale quantity depending upon the demand supply gap. At the same time, sale price of coal should be regulated and should not exceed reasonable level. Of course, such price regulations may not be essential in due course of time when we attain enough production in the country.

If any allottee is not able to meet the time frame for production commencement or enhancement; his coal block may be cancelled or few more investors may be attached. Of course, reasonable opportunities may be given before any such coercive action. Coal ministry may also facilitate to expedite statutory approvals and land allocation, which are big impediments for coal production and enhancement. Today's shortage is primarily due to such regulatory activism by other wings of government for which, country is loosing in terms of loss of indigenous production and imports.

However, if government can attach statutory approvals and surface rights along with block, then captive fee should be charged from allottee. Rather this will enable the allottee to quickly commence the production. Such captive fee may be decided in judicious manner. This will be more appropriate action to save country from imports and production loss.

Any allotment whatsoever it may be should be with a judicious and transparent manner. Present controversy is perhaps the outcome of such lapses which is not desirable. Priority should be given to financial capability and experience in the mining sector. Of course captive use should get first priority. Among captive users, power sector should get high priority. But in no case, we should allow hoarding of mineral assets. No body should be allowed to sit idle without investment. Care may be also taken to avoid monopoly by allotting too many blocks to a single group. Judicious allotment shall reduce conflicts.

Most of the coal blocks are located in remote areas and hilly terrains having no infrastructures. In the event of large captive blocks, some portion of the infrastructure burden may be passed on to the coal block allottee; as it may be difficult on the part of government alone to spend enough for the same. At the same time, in absence of infrastructure, coal production and transportation cannot be geared up to the desired level. Chairman coal India has already expressed its' concern on these matter.

Primary energy requirement during FY 11 was 522.81 million ton (oil equivalent). It is likely to go upto 738.07 million ton (oil equivalent) by 2016-17 as per twelfth plan approach paper. We had imported primary energy consisting of oil, gas & coal up to 191 million ton (oil equivalent) during FY 11. This was about 36.5% of the total consumption. Well, import of oil & gas may be acceptable to some extent; but import of coal is just not acceptable, when we have large deposits for more than 100 years requirement. Today, we are importing about 100 million ton coal every year putting a pressure on our precious forex reserve. On top of it, the quantum is going up every year. Can we really afford it ? It becomes more relevant when our country is facing all time high trade deficit touching to 10% of GDP and rupee is weakening. It requires introspection by all.

Our country needs an integrated approach on energy front. We need a perfect coordination between coal, power, forest & environment and rural development ministry. In absence of proper coordination, the allotee is bound to face problems in land allotment and statutory approvals which will ultimately affect the Nation. Our country is passing through a difficult phase of economy slow down, high fiscal deficit and high trade deficit clubbed with stubborn inflation. Let us forget the conflicts and blame game and let us unite to come out of this crisis. Let us not repeat the history. Let us"highlight actual and real loss arising out of import and production loss instead of presumptive losses for domestic production by private sector.