

An index to determine the value of coal blocks

Major changes in the coal block auction system have been suggested by the high-powered committee set up last year to review the current process.

The recommendations, submitted this month, rest on four tenets — ensuring transparency and fairness, equity, early development of coal blocks and simplicity of implementation of the recommendations. These suggestions coincide with the opening up of the coal sector for commercial mining.

The proposed changes aim at introducing flexibility in the number of bidders, penalties for defaulting on milestones (and revoking bank guarantees), project execution, and relaxation to captive miners to sell some of the coal in the market. The panel has recommended developing a Coal Index for determining the value of blocks and a revenue-sharing model with the States. Currently, the valuation is on the basis of the notified price of Coal India Ltd.

The committee has suggested scrapping the current practice of cancelling an auction if the number of bidders drop below three, saying that a single-bid should be accepted if biddings failed to find eligible bidders, provided the offered price was benchmarked to the reserve price. In the previous auctions, majority of the blocks could not be allocated as the number of eligible bidders was less than three.

The number of milestones are now eight versus 20 earlier, with the panel suggesting that only a default in achieving critical milestones should attract penalty against the earlier penalty for each default.

Shift from current system

If accepted, the changes would mark a major shift in the current system which was put in place after the cancellation of 204 coal-block allocations and introducing a system of auctioning the mineral blocks. Triggering euphoria and intense competition since their introduction, the e-auctions failed to sustain interest after several blocks were taken at high prices. Even companies which bought the blocks found it cheaper to import coal to meet their requirements rather than developing the mines.

There were no takers for subsequent blocks, forcing the Centre to do a rethink. The Expert Committee to 'report on the challenges faced by the current auction system and recommend changes' was headed by Pratyush Sinha with bureaucrats, ex-bureaucrats and one ex-chairperson each from the SBI and the Union Bank. Jayanta Roy, senior VP and group head — corporate sector ratings, ICRA, said production from the captive mines which were auctioned had remained lower than their pre-auction output. "Aggressive bids by some of the bidders during auctions, subsequent decline in coal prices in international markets as well as in e-auctions, and weak financial health of some of the coal-block winning companies are other reasons for slower ramp-up of production from these mines," he said.

Absence of end-use condition in the guidelines is a significant positive for commercial miners, who were not eligible to participate in the coal-mine auctions conducted in 2015, he said. However, given the issues related to land acquisition and regulatory clearances, production levels from private commercial miners are not expected to rise significantly in the short- to medium term, he said.

Production from captive mines that had been auctioned, remained lower than pre-auction

outputJayanta RoySenior VP, corporate sector ratings, ICRA

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