

A powerful move

The government's decision to offer 10 coal mines for auction could be the first step in meeting a long-standing requirement of the country's energy sector. The opening up of the coal sector to new players will break the 41-year old stranglehold of the state-owned Coal India Limited (CIL) over commercial mining. The current regulation that restricts such operations to CIL - and Singareni Collieries Limited, a comparatively minor player - is among the major reasons for the energy-strapped country not being able to tap the full potential of its coal reserves. India is the third largest coal producer in the world. But it is also its third largest importer.

In March, the Competition Commission of India (CCI) described the near monopoly exercised by CIL as "patently unfair". The fair trade regulator found CIL and its subsidiaries to be "in contravention of the provisions of Section 4(2)(a)(i) of the Competition Act, 2002, for imposing unfair/discriminatory conditions in fuel supply agreements with power producers". It slapped a fine of Rs 591 crore on CIL. The public sector outfit's stranglehold over commercial mining has also had a bearing on the quality of coal in the Indian market.

Indian coal, on average, has about 45 per cent ash, much higher than the 25-30 per cent ideally required for the efficient burning of the fuel in thermal power stations. While geological factors are the primary reason for this lacuna, CIL's overwhelming dominance of commercial mining has made the outfit stingy in investing in technology - coal washing, for example - that increase the efficiency of coal. Less than 20 per cent of the coal produced by CIL undergoes coal washing. Thermal power plants also have to reckon with stones in the coal they procure, which adds to their production costs and contributes to the wear and tear of their equipment. In April, the Coal Controller's Organisation - the national watchdog of coal quality - downgraded 177 CIL mines because of quality concerns.

Introduction of competition in coal mining could address such concerns. To begin with, four mines each in Odisha and Chhattisgarh and one mine each in Madhya Pradesh and Jharkhand will be opened up for auction. The royalty earnings from these auctions will boost the revenues of these states. A caveat, though: The downturn in the economy means that demand for coal is likely to remain tepid in the near future. In July, the India Ratings Report noted that the coal consumption growth is likely to remain low "on account of subdued demand from thermal power plants, with an expectation of power plant capacity utilisation remaining sub-65 per cent in the medium term". However, this should not deter reform. In the long-run, competitive fuel supply arrangements and improvement in coal quality will benefit power suppliers, enhancing the country's energy security.

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