

Demand for Grants 2017-18 Analysis

Coal

The Ministry of Coal has the overall responsibility of managing coal reserves in the country. This includes exploration and development of coal and lignite reserves, and all matters relating to production, supply, distribution and prices of coal. It also looks at the administration of public sector undertakings (PSUs) dealing with coal and lignite which are Coal India Limited (CIL), Singareni Collieries Company Limited (SCCL), and Neyveli Lignite Corporation Limited (NLC). The Ministry is also responsible for the administration of central laws that relate to coal and lignite.

Coal is the primary source of energy supply in India. About 55% of the current commercial energy use is met by coal.¹ Rising demand for energy and coal as the primary energy source make it a significant resource in the country. Over the years, the coal sector has seen a shift in regulation, from the nationalisation of mines to more recent developments of opening up coal mining for private players.

This note looks at the proposed expenditure of the Ministry for the year 2017-18, its finances over the last few years, and issues with the same.

Overview of finances

Expenditure: The total expenditure on the Ministry of Coal for 2017-18 is estimated at Rs 745 crore.² This is 34% higher than the revised estimates for 2016-17.

In 2017-18, of the total expenditure, the highest allocation is towards the conservation, safety and infrastructure development in coal mines, at Rs 500 crore (67% of the total allocation). This is 43% higher than the revised estimates of 2016-17.

This is followed by allocation towards exploration of coal and lignite, at Rs 175 crore (23% of the total allocation). This is 25% higher than the revised estimates of 2016-17. This expenditure is aimed at undertaking preliminary drilling to assess availability of coal in various areas.

The Ministry has also allocated Rs 700 crore towards the acquisition of coal bearing areas. This amount will be met from the Coal Bearing Areas Acquisition (CBA) Fund.

Table 1 shows the allocations to the Ministry of Coal over the last three years.

Table 1: Budgetary allocation to the Ministry of Coal (in Rs crore)

Major Head	Actual 15-16	Revised 16-17	Budget 17-18	% change (BE 2017-18/ RE 2016-17)
Conservation, Safety and Infrastructure Development in coal mines	245	350	500	43%
Exploration of Coal and Lignite	256	140	175	25%
Acquisition of coal bearing areas (met from CBA Fund)	1,100	500	700	40%
Research and Development	18	10	10	0%
Others	51	56	60	7%
Total	570	556	745	34%

Notes: BE – Budget Estimate; RE – Revised Estimate.
Sources: Demands for Grants 2017-18, Ministry of Coal; PRS.

Utilisation of funds

As of December 2016, the total utilisation of funds for 2016-17 was Rs 265 crore, which is 48% of the revised estimate of 2016-17.³ In 2015-16, the actual expenditure was Rs 570 crore, which was 95% of the revised estimate. The Standing Committee on Coal and Steel observed that sustained monitoring mechanisms should be put in place to avoid low utilization of funds as they affect the implementation of the various schemes of the Ministry.⁴ Table 2 below shows the trends in allocation and actual expenditure of the Ministry of coal over the past ten years.

Table 2: Budgeted versus actual expenditure of the Ministry of Coal (in Rs crore)

Year	Budgeted	Actuals	Utilisation (in %)
2007-08	288	422	147%
2008-09	345	256	74%
2009-10	349	280	80%
2010-11	448	424	95%
2011-12	469	373	80%
2012-13	498	435	87%
2013-14	498	568	114%
2014-15	600	700	117%
2015-16	606	570	94%
2016-17	361	556*	154%

Note: * revised estimates.
Sources: Union Budgets 2007-08 to 2016-17; PRS.

Note that in 2013-14 and 2014-15, the actual expenditure overshoot the budget estimates significantly. In 2016-17, expenditure is expected to overshoot by 154%. This could imply lack of adequate budgeting and planning in the implementation of the schemes by the Ministry.

Expenditure on research and development

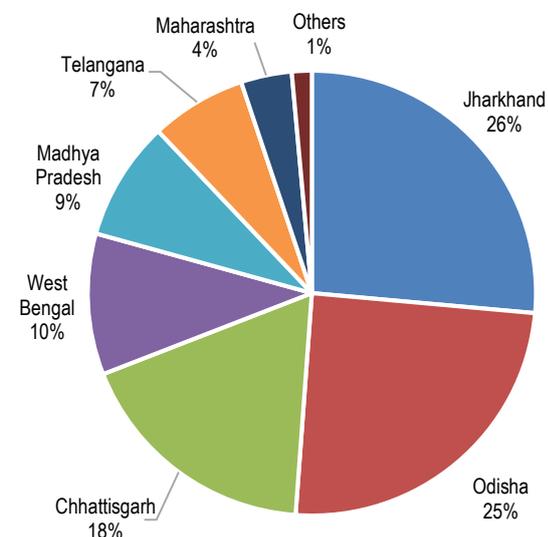
The allocation towards research and development has remained constant at Rs 10 crore. This is 50% less than the revised estimates of 2015-16 (Rs 20.25 crore). The Standing Committee on Coal had noted that this amount is insufficient for implementing the science and technology projects under the Ministry.⁵ It had further observed that in order to improve efficiency with regard to coal production, proper implementation of research projects is necessary.

Issues to consider

Status of the coal sector

As of April 1, 2016, India is estimated to have a total of about 308 billion tonnes of coal reserves.⁶ Coal deposits are mainly located in the states of Jharkhand, Odisha, Chhattisgarh, West Bengal, Madhya Pradesh, Telangana, and Maharashtra. Figure 1 shows the state-wise distribution of geological coal reserves.

Figure 1: State-wise geological reserves of coal (As of April, 2016)



Sources: Ministry of Coal; PRS.

Mismatch between estimates and actuals

In the last few years, the actual demand and supply of coal has been failing to match the estimates.

Table 3 shows the estimates and actuals for demand and supply of coal for the last three years.^{7,8}

Table 3: Estimate and actuals for the demand and supply of coal (in MT)

Year	Demand		Supply	
	Estimate	Actual	Estimate	Actual
2014-15	787	820	644	608
2015-16	910	832	700	633
2016-17	885		725	595*

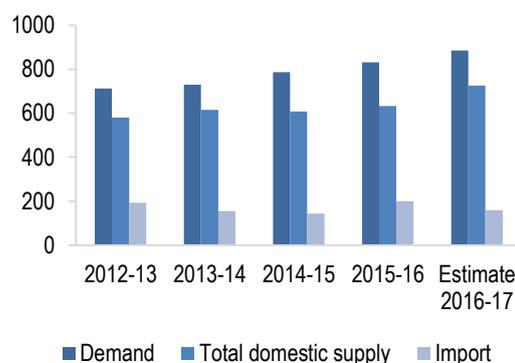
Note: * The actual supply figure for 2016-17 is the actual supply till December 2016.

Sources: Ministry of Coal; PRS.

Demand - supply gap

In the recent years, coal production has failed to match the demand for coal (see Figure 2). As a result, India's coal imports have risen from 20.5 MT in 2002-03 to 200 MT in 2015-16.^{7,8}

Figure 2: Coal Demand and Supply



Sources: Annual Report 2016-17, Ministry of Coal; PRS.

The Standing Committee on Coal had recommended improving the supply of coal by creating a time bound plan to complete the regional survey of all coal-bearing areas in the country by the Geographical Survey of India. It also recommended that the pace of detailed exploration and mine planning by both public and private agencies should be accelerated to find out more coal resources.⁹

It may be noted that the actual expenditure on the exploration of coal and lignite in 2015-16 was Rs 256 crore, which was 246% higher than the budget estimates. However, in 2016-17, the budget estimates for exploration of coal and lignite were kept at Rs 140 crore. In 2017-18, this has been increased to Rs 175 crore.

The Standing Committee on Coal had also recommended that in order to improve supply, CIL should align its production targets with the targets fixed by the government.⁹

Delays in clearances

CIL, which produces about 80% of India's coal, has witnessed a decline in its capacity utilisation.¹⁰ Reasons for such decline include transportation bottlenecks, management vacancies, delays in procurement and strikes and *bandhs*.¹¹ New coal

projects, in both the public and private sector, have faced delays due to land acquisition, environment and forest clearances and transportation issues.¹⁰

The Working Group on Coal recommended to address this issue involve changing the procedures for the clearance of the coal mine project proposals by the environment, forest and mine approval agencies. Environmental clearances should be provided in a time-bound manner to ensure a transparent and efficient approval process.¹⁰ The number of levels and stages in the processes should be reduced.¹⁰ Coal companies should take possession of the entire area of land required for the life of the project at one instance to avoid delays in land acquisition.¹⁰

The Working Group on Coal also recommended constituting an empowered group or special task force to grant necessary clearances such as mining lease, forest and environment clearances, and land acquisition.¹⁰ This empowered group may have representation from both centre and states.

To address issues around transportation of coal, the Working Group recommended that the Ministries of Railways, Coal, and Power should work together to draw up a Fuel Supply and Transport Agreement.¹⁰ Transport connectivity between ports and hinterland consumption centres should be improved to improve the supply of coal.¹⁰

Monopoly of CIL

As mentioned above, CIL produces about 80% of India's coal.⁷ Coal mining has been characterised by the monopoly of CIL, lack of an effective regulatory mechanism, poor exploration efforts and sub-par safety records.^{12, 13} The Working Group on Coal had recommended opening up the sector for more private participation, especially with regard to captive mining.¹⁰ It also recommended setting up a regulatory authority which would have powers to comprehensively handle coal resource development and regulation of its extraction and use.¹⁰

In India, raw coal is typically sold under the long-term fuel supply agreements (FSAs) or through E-Auction. The price of raw coal sold under CIL FSAs does not fully reflect market prices for coal in India or in international coal markets.¹⁴ However, the price of coal sold through E-Auction is based on the market price. Therefore, the price of raw coal sold under the E-Auction scheme is significantly higher than the price of raw coal sold through FSAs.

¹ "Coal: Choice for Indian energy", Ministry of Coal, <http://www.coal.nic.in/welcome.html>.

² Notes on Demands for Grants 2017-18, Demand no 10, Ministry of Coal,

³ "Financial Outlays and Outcomes", Annual Report 2016-17, Ministry of Coal,

The Standing Committee on Coal and Steel had recommended that CIL should come up with a National Policy for Coal Prices applicable to all coal companies.¹⁵ It also recommended reviewing domestic coal prices according to the international coal prices.

In order to address some of these issues around bringing in more private participation in the sector, a Bill to set up an independent coal regulatory authority was introduced in Lok Sabha in December 2013.¹⁶ The Bill sought to establish the Coal Regulatory Authority of India which would: (i) ensure conservation of coal resources and compliance with the mining plan and mine closure plan, (ii) specify methods for testing the quality of coal and procedure for coal sampling, (iii) specify principles and methodologies for determination of the price of coal and by-products for all producers, (iv) specify the standards of performance and norms of operational efficiency (except for mine safety), and (v) adjudicate disputes between entities and between entities and other persons.

Investment in PSUs

The allocation to all coal PSUs for 2017-18 is estimated at Rs 18,548 crore. All of this will be met through internal and extra budgetary resources. This means that the amount will be raised by the PSUs through profits, loans and equity. Allocation for 2017-18 is 5% lower than the revised estimates of 2016-17 (Rs 19,503 crore). In 2015-16, investment in coal PSUs was at Rs 10,609 crore.

The Standing Committee on Coal had observed that in 2015-16, there was under-utilization of funds by all the coal PSUs (CIL, SCCL, and NLC).⁵ Till January 2016, the fund utilization was 62% for CIL, 80% for SCCL, and 64% for NLC. In terms of production target, the achievement was 70% for CIL, 77% for SCCL, and 33% for NLC.

Further, as of March 2015, outstanding dues of the PSUs were as follows: (i) Rs 11,032 crore for CIL, (ii) Rs 2,441 crore for SCCL, and (iii) Rs 272 crore for NLC.⁵

The Committee had noted that for the PSUs to improve their production targets, the Ministry will have to address certain basic requirements such as acquisition and possession of land, creation of evacuation infrastructure facilities, and obtaining statutory forest and environmental clearances.

http://coal.nic.in/sites/upload_files/coal/files/coalupload/chap4AnnualReport1617en.pdf.

⁴ "27th Report: Demands for Grants 2017-18", Standing Committee on Coal and Steel, March 2017,

http://164.100.47.193/lssccommittee/Coal%20&%20Steel/16_Coal_And_Steel_27.pdf.

- ⁵ “18th Report: Demands for Grants 2016-17”, Standing Committee on Coal and Steel, May 2016, http://164.100.47.193/lssccommittee/Coal%20&%20Steel/16_Coal_And_Steel_18.pdf.
- ⁶ “The Year at a Glance”, Annual Report 2016-17, Ministry of Coal, http://coal.nic.in/sites/upload_files/coal/files/coalupload/chap1AnnualReport1617en.pdf.
- ⁷ “Coal and Lignite Production”, Annual Report 2016-17, Ministry of Coal, http://coal.nic.in/sites/upload_files/coal/files/coalupload/chap6AnnualReport1617en.pdf.
- ⁸ “Coal and Lignite Production”, Annual Report 2015-16, Ministry of Coal, http://coal.nic.in/sites/upload_files/coal/files/coalupload/chap6AnnualReport1516en.pdf.
- ⁹ “31st Report: Review of allotment, development and performance of coal/lignite blocks”, Standing Committee on Coal and Steel, April 23, 2014
- ¹⁰ “Report of the Working Group on Coal and Lignite for the formulation of the Twelfth Five Year Plan”, Ministry of Coal, November 2011, http://planningcommission.nic.in/aboutus/committee/wrkgrp12/wg_Coal1406.pdf.
- ¹¹ Annual reports of Coal India for the years 2005-06 to 2012-13, Coal India Ltd, <https://www.coalindia.in>.
- ¹² “Order of the Competition Commission of India – Case nos. 03, 11 and 59 of 2012”, Competition Commission of India, December 9, 2013, <http://www.cci.gov.in/May2011/OrderOfCommission/27/592012.pdf>.
- ¹³ “Order of the Competition Commission of India – Case nos. 05, 07, 37 & 44 of 2013”, Competition Commission of India, April 15, 2014, <http://www.cci.gov.in/May2011/OrderOfCommission/27/5737442013.pdf>.
- ¹⁴ “Draft Red Herring Prospectus”, Coal India Limited, <http://www.sebi.gov.in/dp/coaldrhp.pdf>.
- ¹⁵ “49th Report: Coal pricing and issues relating to coal royalty”, Standing Committee on Coal and Steel, April 2015, http://164.100.47.193/lssccommittee/Coal%20&%20Steel/16_Coal_And_Steel_10.pdf.
- ¹⁶ The Coal Regulatory Authority of India Bill, 2013, Ministry of Coal, December 13, 2013, <http://www.prsindia.org/uploads/media/Coal/Coal%20Regulatory%20Authority%20Bill.%202013.pdf>.

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