

Coalgate revisited

The Statesman

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The auction of 33 of the 204 coal mines, whose allocations were cancelled by the Supreme Court, has just been completed. The auction has brought the government a 'windfall gain' of Rs 2.07 lakh crore for 19 operational blocks and 13 about-to-open blocks which were put under the hammer, against Rs 1.86 lakh crore estimated by the CAG. The phrase 'windfall gain', first quoted from the noting made by the then Secretary of the Coal Ministry in the CAG Report No. 7 of 2012-13 on the allocation of coal blocks, had at that time caused considerable rancour in the UPA government. It had incurred the wrath of all concerned, the decision-makers as well as the beneficiaries of a totally opaque allotment process.

As recommended by the CAG in his report, the NDA Government has now resorted to a completely fair and transparent e-auction process for allocation of the coal blocks. It has proved that auction is the best process, simple as well as transparent, for allocating scarce natural resources, especially for coal, a polluting fossil fuel. High bid prices incentivise faster and higher production for cost recovery and also serve as a carbon tax.

The CAG Report of 2012-13 had stated that since July 2004, 194 coal blocks with total reserves of 44440 million tonnes were allocated to various Government and private companies following the existing process of allocation that lacked transparency, objectivity and competition. Seventy-five of these blocks were allocated to private parties. Of these, 57 allocations were for opencast or mixed mines -- partly opencast and partly underground. In the absence of reliable data for underground mines, these were excluded from the CAG's calculations which were based on the net gain from estimated extractable reserves in respect of these mines. The estimates came to Rs 186,591 crore. Very few of these were producing any coal by March 2011; many of them were deliberately waiting for future price gains for selling the blocks at a premium instead of producing coal and using it for power production. The entire process of allocation was mired in such opacity and arbitrariness and created such huge controversy that finally the Supreme Court had to cancel all but four of 218 coal block allocations, just as it had cancelled all the 122 spectrum licences issued earlier as "unconstitutional and arbitrary".

The nation had to pay a heavy price for such indiscretion; the power sector suffered for want of coal, and despite sitting on one of the largest global reserves of coal estimated at more than 300 billion tonnes, the country was forced to import coal at the cost of precious foreign exchange, pushing our already high current account deficit further into the red. Economic growth was the ultimate casualty and eventually the UPA had to pay a terrible price for such gross indiscretion.

The CAG report was widely criticised by very senior functionaries of the ruling government. Their virulent criticism was relentlessly directed against the very institution of the CAG. Noted economists also maligned the institution, calling the estimates wild. They argued that the estimates ignored the net present value (NPV) of the reserves that takes into account the present value of future benefits, by discounting all future benefits at the prevailing interest rates and thereby arriving at the true value

of benefits calculated at today's prices. Had this been considered, the estimates would have been significantly lower than the 'astronomical figure' cited. The same argument is being advanced now that this Rs 2.07 lakh crore that the bids have fetched the Government is to come over the next 30 years and its NPV would be much, much less.

Mr Vinod Rai, the then CAG, had countered this argument in his book, *Not Just An Accountant* by saying that estimating the NPV would have required a lot of assumptions without supporting data; in any case, it would not have made any substantial difference in the estimates because the discounting rate at which NPV is to be estimated would have been annulled by the increase in sales price of the extracted coal which is expected to go up in line with global price trends.

Even now, from time to time, the CAG is being advised not to quote 'astronomical figures' in his reports. As things stand now, the estimates seem not astronomical at all, but rather conservative. When all the 204 blocks go under the hammer in a transparent manner as the current process has been, it is anybody's guess what would be the final aggregate figures collected from all bids, given that the price of coal may increase once the global economic downturn reverses, of which the signals are already emanating from the USA.

It will be instructive to recall a phase of the sordid history of coal allocations to remind ourselves about the need to follow transparent, objective policies in regard to allotment of natural resources. In 1991, Manmohan Singh and P. V. Narasimha Rao had dismantled the Licence Permit Raj, opening up the economy to entrepreneurs. But any enterprise would need land and natural resources like coal and other minerals like iron. As demands for these items went up, so did corruption. The nexus of politicians, contractors and bureaucrats now started taking maximum advantage of the opaqueness and discretion prevalent in the system to misappropriate land and other national resources for their own benefits; many of them never used these resources for productive purposes, but later bartered them for earning windfall gains. Raghuram Rajan, RBI Governor, rightly analysed the situation in an article -- "India's corrupt elites had moved from controlling licences to cornering newly valuable resources like land. The Resource Raj rose from the ashes of the Licence Raj." Exercising unfettered discretion with total lack of accountability and transparency was the defining characteristics of this 'Resource Raj'.

The demand for coal had increased substantially after 2003, when the Government had resolved to provide power for all by 2012 (we are light-years away from this even in 2015). Given that 70 per cent of India's power needs are supplied by thermal plants operating on coal, assured supply of coal to all producers, public and private, was an essential prerequisite. The domestic shortfall was estimated at 70 million tonnes of coal by 2011-12, and imports were costly. Under the Coal Mines Nationalisation Act, 1973, mining of coal was the monopoly of Coal India Limited. An amendment to this Act made in June 1993 allowed private companies engaged in the production of power, iron and steel the right to mine coal for captive use.

The CAG Report and Mr Vinod Rai's book together chronicle how the PMO and the then coal secretary tried their utmost to bring in transparency in the process by introducing a transparent bidding process, and how all their efforts were repeatedly stonewalled, on grounds that were extremely flimsy. And they were stonewalled by the then Minister of State for Coal, Dasari Narayana Rao, and the Coal Minister, Shibu Soren.

The Prime Minister was a mute witness to the manipulative operations. No one questions his integrity, but the fact remains that he presided over a corrupt system, marked by opacity, arbitrariness and crony capitalism. He had apparently intervened in the case of allocation of Talabira II coal block, reserved for the public sector, facilitating its final allocation to Kumarmangalam Birla's Hindalco in preference to the state-owned Neyveli Lignite Corporation, prompting a CBI Court to summon him as an accused. He had allegedly acted on the recommendation of Odisha Chief Minister, Navin Patnaik, thus 'ignoring the words of caution put forth by PMO officers', as the CBI judge had stated in his order. This indicated 'a conscious effort on his part to somehow accommodate Hindalco in Talabira II'.

The coal-block issue has underlined the need for a transparent policy in regard to allocation of national resources. In parallel with coal-block auction, open bidding for 800, 900, 1800 and 2100 MHz spectrum is also going on, and the process has already generated Rs 1.07 lakh crore. It is imperative that the Government resorts to open and transparent bidding in respect of all minerals, not simply coal and telecom spectrum. But that is unlikely to happen anytime soon.