



COMMERCIAL MINING OF COAL

Big Boost to Aatmanirbhar Bharat



**Not only are we launching
the auction of commercial
coal mining today, but also
freeing the coal sector from
decades of lockdown**

18th June 2020

- Prime Minister Narendra Modi



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Introduction



When Prime Minister Shri Narendra Modi took office in 2014, the challenges in coal sector were daunting. Coal blocks allotted by the earlier regime for captive use had been cancelled by the Supreme Court. Modi government's response was a series of calibrated and sequential steps to reform the entire sector. A transparent mechanism was set in place through a legislation, the Coal Mines (Special Provisions) Act, 2015, to return the blocks back to industry, via auctions. Based on the feedback received from industry and stakeholders, the government came up with norms for open auction of coal mines without any restrictions.

Need for Reforms

Despite having the 4th largest coal reserves in the world, India is second largest importer. The country meets a fifth of its annual coal requirement through imports, even after recent increase in domestic coal production. India spent Rs.1.16 lakh crore of foreign exchange on coal imports in the year 2020-21 on about 215.25 MT of coal. Dependence on coal imports need to be reduced if we have to build an Aatmanirbhar Bharat.

In June 2020, more than 45 years after the nationalization of coal mines in the country, Government of India opened the coal sector for commercial mining by private players. While there have been discussions on opening the coal sector to private players for a long time, a concrete step was taken in March 2017 when a discussion paper was published by the Government for auction of commercial coal mining leases and

comments were invited from the stakeholders. Based on the consultations held with various industry participants and other stakeholders, the methodology for auction of commercial



The country's coal sector was entangled in the mesh of captive and non-captive. It was kept outside the competition; transparency was a major issue.

- Prime Minister Narendra Modi

coal mining leases was finalised and approved by the government in February 2018. Since Coal India Limited's production is unable to meet the demand of non-captive industry requirement of coal, there has been a surge in import of coal. To meet this demand and to create a market for free trade of coal in the domestic industry, commercial auction of coal blocks is a sine qua non for the country.

Moreover, coal needs for the development of the country are increasing rapidly. As per the Draft National Energy Policy of Niti Aayog, the demand for coal is expected to rise in the range of 1.3-1.5 billion tonnes by 2030. Coal India Limited and other government companies cannot meet this demand with their production alone.

It is noteworthy that China is the largest producer and consumer of coal in the world and is giving new momentum to development by extensive exploitation of its coal reserves. We are almost nearing China in terms of population and we aspire to race ahead in terms of development. It is, therefore, very important that by making extensive use of our coal deposits at the earliest, we give a new momentum and edge to the country's development.



GOVERNMENT BRINGS IN POLICY- PAVES THE WAY



The policy of allowing private coal mining to captive users has been in existence for a long time. However, it had failed to enthuse the private sector. Modi government worked assiduously over the last six years to remedy this situation. To make it equitable for investors, Government

has taken several steps to boost Ease of Doing Business in the coal sector. The process of approval for Mining Plan has been simplified from 90 days to 30 days.

With the passage of the Mineral Laws (Amendment) Act, 2020, Mines & Mineral (Development and Regulation) Act, 1957 and the Coal Mines (Special Provisions) Act, 2015 were amended.

If India is the fourth largest coal producer in the world, then why can't we become the largest exporter

- Prime Minister Narendra Modi

Mineral Laws (Amendment) Act, 2020 formed the basic framework to liberalise the coal sector in India. Many of the industry-friendly policies that transformed the entire gamut of

coal industries were possible owing to this Act. The law earlier excluded companies, not having mining operations in India, from participating in the auctions. This bar was done away with,

paving the way for local and foreign players to participate in the domestic coal sector.

The government also introduced a system of sharing of revenues, moving away from fixed rates to an ad-valorem system. So when the prices go up, the miner shares more with the government and if they soften, the sharing decreases. This was a game-changer and made the sector attractive and dynamic for companies to grow their businesses

THE LIBERALISING COAL SECTOR 

Biggest Ever Reform to Transform Indian Coal Sector

- No end-use restrictions for participating in coal mine auctions
- Free trade of coal as producer can use, sell or export coal without restriction
- Criteria of prior experience removed
- Partially explored coal blocks were also put on auction

Will fulfill the demand-supply gap by producing coal quantity in addition to that produced by coal PSUs

THE LIBERALISING COAL SECTOR



Biggest Ever Reform to Transform Indian Coal Sector

- Adoption of revenue-sharing model instead of rupees per tonne

- Market-driven prices, as per National Coal Index

- Rebate to mine allottees in case of early production

- Rebate for quantity under Coal Gasification/ Liquefaction



UNLEASHING COAL

NEW HOPES FOR AATMANIRBHAR BHARAT



Prime Minister Shri Narendra Modi launched the auction of coal mines for commercial mining, with the theme ‘Unleashing Coal: New Hopes For Aatmanirbhar Bharat’ on June 18, 2020. On that historic day, Indian coal sector broke free from the shackles of restrictions to charter new growth of development.

Commercial Coal Mining: Before and After

Before

After Nationalisation, and the increasing demand of Coal by growing power sector could not be fulfilled by the state run CIL in the meantime, leading to higher demand-supply gap. This resulted into higher demands of imports.

As against a large market for private coal industry in industries, railways, defence, power etc. earlier, the market had shrunk only to power and cement sectors.

When the PM Narendra Modi took office in 2014, the challenge in the coal sector was huge. Coal blocks for captive use allotted by the earlier

After

After decades of public-sector dominance, and controls that relegated the private sector to minority status in coal mining, India launched commercial coal mining via coal mine auctions in 2020.

PM Narendra Modi on June 18, 2020, launched the auction process of 41 coal mines which were subsequently reduced to 38 coal mines for commercial mining with an aim to achieve self-sufficiency in meeting energy needs and boost industrial development.

India concluded its first commercial coal mine auctions in 2020. A total of 20 coal mines were auctioned in this first -

regime had been struck down by the Supreme Court (SC in 2014) as illegal.

tranche, which is the highest number of successfully auctioned mines in any tranche of coal auctions.

States aim to garner a total revenue of Rs.7,358 crores annually from the success of the nation's first ever commercial mining auction.

Till March, 2022, a total of 47 mines were successfully auctioned. These mines are expected to create 1,36,964 jobs and provide Rs.13,964.50 crores as revenue to the States.

The Modi government's response was a series of calibrated steps. To begin with, a transparent mechanism was set in place through a legislation, the Coal Mines (Special Provisions) Act, 2015, to return the blocks to industry, via auctions.

COAL BLOCKS OFFERED ACROSS 5 STATES IN THE FIRST TRANCHE OF COMMERCIAL AUCTION



In line with the vision and guidance of Prime Minister, commercial mining of coal is a step towards making India Aatmanirbhar in coal production.

The coal mines auction process for commercial mining will lay a strong foundation for energy security in the country. Domestic coal production will receive a boost, along with large scale employment generation and huge opportunities for investment in the coal sector.

India has taken a big decision to fully open coal and mining sectors for competition, capital, participation and technology.

- Prime Minister Narendra Modi

UNDERSTANDING THE AUCTION PROCESS

Under MMDR Act and CMSP Act, the authority to allocate coal mines is vested with the Union Government. The Government adopted a two-stage electronic auction process for allocation of coal mines. Bids once received, were examined and determined eligibility under technical scrutiny. Once these bids qualified, the entire auction was conducted transparently on an online auction platform.

Some of the mines put on offer were previously allocated and the prior allottees of these mines had several clearances. These approvals and clearances were vested to the successful bidder as per the terms of the auction.

Additionally, Ministry of Coal has set up a Project Management Unit to assist in expediting clearances. Project Monitoring Unit will help successful bidders in getting clearances, consents etc. with all possible hand-holding and assistance

While implementing coal reforms, it has been ensured that India's commitment to protect the environment doesn't get weakened.

- Prime Minister Narendra Modi

from Governmental agencies of Centre and State for faster operationalisation of the coal mines.

It was envisioned that the auction process of coal mines for commercial mining would give a thrust to adoption of newer and cleaner technologies like coal gasification and coal liquefaction. 20% rebate was offered initially which was subsequently increased to 50% for quantity under coal gasification or liquefaction. Also, extraction of Coal Bed Methane was allowed for mine allottees. Promotion and integration of coal gasification and coal liquefaction-based energy consumption has been done to make coal mining an environmentally sustainable venture, with reduced carbon footprints.

SUCCESS OF THE AUCTIONS

Tranche 11 of CM(SP) Act and Tranche 1 of MMDR ACT

The results of the first-ever attempt at auction for commercial mining of coal have been historic. A total of 76 bids were received for 23 mines, wherein 19 mines had received 2 or more bids and qualified for the auctioning process. The cumulative peak-rated capacity of these 19 mines was approx. 51 MTPA. 4 coal mines had received single bids and were put up for auction under 2nd attempt. Under the second attempt of 1st Tranche, 1 bid was received against only 1 coal mine and the mine was successfully auctioned. Thus, a total of 20 coal mines were auctioned under the 1st Tranche out of 38 coal mines on offer.

This is the highest number of success in any tranche of coal auctions.

Out of these 20 mines, 12 are opencast, 5 are underground mines and remaining 3 are a mix of underground and opencast mines. The average success rate of last 10 tranches of auction was 30% whereas the average success rate of India's first commercial coal mining auctions (tranche 11) is ~53%, which shows the industry has given overwhelming response to the auction.

TYPES OF MINES



12
Opencast



05
Underground

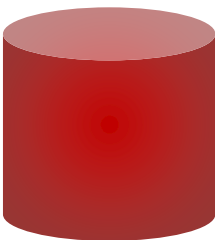


03
Opencast+
Underground

AVERAGE SUCCESS RATE

Tranche 1 to 10 vs Tranche 11

Tranche 1 to 10
30%



Tranche 11
53%



Now coal production and entire coal sector will become self-dependent. Now market has been opened for coal. so, any sector can buy as per their requirements

- Prime Minister Narendra Modi

Mines on auction across 5 states in the country witnessed strong competition in the commercial bidding and received robust offers over the floor price. Premium of more than 66% was received for a mine in Chhattisgarh.

Opening up the coal sector had garnered interest from other sectors as well. Participants in the bidding process also included players from several other sectors like Real Estate, Infrastructure, Pharma, etc. As a testimony to the positive sentiment shared by the industry on the decision to remove 'End User' criteria from the bidding process, almost 65% bidders were from the 'non-end user' category.

USHERING IN A NEW ERA IN THE COAL SECTOR

Commercial mining was a much-needed ray of hope in a Covid-induced gloom. It brought strong cues about upcoming robust economic activities.

The auction opportunity was lapped up by several key players in the industry and even many small businesses. As a result of more players operating in the domain, the country's coal production is set to increase and our dependence on coal imports will reduce. Moreover, States will benefit out of annual revenue to the tune of Rs.7,358 crores.

NUMBERS FROM THE FIRST TRANCHE

State	No. of Mines	PRC (MTPA)	Royalty and Taxes (Rs. Cr.)	Revenue Share (Rs. crore)	Annual Revenue generated based on the PRC of mine(Rs. crore)	Capital Investment (Rs Crore)	Total Employment
Chhattisgarh	2	7.20	532	323	855	1080	9734
Jharkhand	5	20.20	1759	910	2669	3030	27310
Madhya Pradesh	8	10.85	1146	567	1713	1628	14669
Maharashtra	2	1.80	181	138	319	270	2434
Odisha	3	19.00	1369	434	1802	2850	25688
TOTAL	20	59.05	4,986	2,372	7,358	8,858	79,836

Commercial coal mining is a win-win situation for stakeholders. The industries, businesses, investments will get new resources and markets. State governments will get more revenue and a huge population of the country will get employment. It means, there will be a positive impact on every sector.

- Prime Minister Narendra Modi

As we have unshackled the coal sector, private sector participation will increase, thus boosting productivity and transparency. Moreover, use of latest equipment, technology and services will result in modernising coal mining, saving time and cost.

Investment in the coal sector will have multiplier impact on the country's economy. More companies working in the coal sector means new direct and

indirect employment opportunities. Domestic industries and indigenous resources will get a boost from commercial mining activities. More than 79,000 jobs will be generated from the mines successfully auctioned in first tranche, with local people and regional economies being the biggest beneficiaries.



REFORMS CONTINUE IN THE NEXT TRANCHES OF AUCTION

A total of 47 coal mines have been successfully auctioned under the commercial mining – 20 under Tranche 1 of commercial auctions, 12 under Tranche 2 of commercial auctions, 10 under Tranche 3 of commercial auctions and 5 under Tranche 4 of commercial auctions. The second attempt of Tranche 3, second attempt of Tranche 4 and first attempt of tranche 5 of commercial auctions were launched on March 30, 2022 and is currently under progress. The 5th Tranche of auction under commercial mining is the largest tranche of mines ever being put up for auction by the Government of India with 109 coal mines on offer. The Ministry of Coal has enabled the mechanism of rolling auctions of coal mines.

Previously, auctions were launched in a sequential manner where the next tranche of auction is launched only after completion of the auction process of previous tranche. While it takes nearly 5-6 months from the launch of auction tranche to execution of the agreement, and so only one or at the most two auctions could be completed in a year. Hence, the overall process of selection of mines and sequential launch of auction tranches is time consuming.

A snapshot of the mines successfully auctioned so far is mentioned below.

State	No. of Mines	PRC (MTPA)	Royalty and Taxes (Rs. Cr.)	Revenue Share (Rs. crore)	Annual Revenue generated based on the PRC of mine (Rs. crore)	Capital Investment (Rs Crore)	Total Employment
Chhattisgarh	6	12.20	1039.72	1322.03	2361.75	1830.00	16494
Jharkhand	13	26.28	2439.92	1191.74	3631.66	3942.00	35531
Madhya Pradesh	10	10.85	1145.92	566.79	1712.71	1627.50	14669
Maharashtra	6	4.26	425.00	234.40	659.40	638.40	5754
Odisha	9	47.63	3828.91	1309.14	5138.05	7144.50	64396
Arunachal Pradesh	1	0.20	35.40	387.09	422.49	30.00	100
Assam	2	0.02	4.25	34.19	38.44	3.60	20
TOTAL	47	101.44	8,919.12	5,045.38	13,964.50	15,216.00	1,36,964

HOW THE ROLLING MECHANISM WORKS?

Upon completion of the electronic auction process of this current tranche (i.e. approximately 3-4 months from the launch of auction process), the next tranche of auction would be launched for following mines:

- a. Mines where no bid or only single bid was received
- b. New mines, if any, as identified by Ministry of Coal

Rolling auction mechanism allows conduct of parallel auction, leading to better availability of mines on offer to potential investors, as per their requirement. This leads to greater transparency in selection of mines to be auctioned in any tranche and is synergistic to the objective of Government of India of faster operationalization of newer coal mines to meet the coal demand and secure the energy security of the nation.

BACKED BY INDUSTRY

LAUDED BY EXPERTS




Opening up of commercial mining will reduce imports significantly, create jobs. Commercial coal mining auction was important move towards fulfilling self-reliance in energy are also being made for pipeline water supply.

N Chandrasekaran
Chairman,
Tata Sons




Commercial coal mining would help create infrastructure and help the people of backward regions to get employment...cost of production will be lowered and millions of jobs will be created.

Anil Agarwal
Chairman,
Vedanta




Government's recent announcement to permit coal mining for commercial sale marks a fundamental shift in the government policy to address the continuing shortfall in domestic coal production to meet the country's requirements.

Ramanuj Kumar,
Partner, Cyril
Amarchand
Mangaldas




Permitting commercial coal mining and auction of coal blocks have been among the most promising and impactful initiatives taken by the Union government as part of its Aatmanirbhar Bharat initiative... coal mining for sale will bring in a lot of competition in coal supply, and ultimately benefit the end-user

Arvind Sharma,
Partner,
SAM & CO




Commercial mining will modernise the coal sector. This landmark reform will unlock country's natural resources

Sangita Reddy
President, FICCI




It is a watershed moment in the history of the coal sector for India. The step reflects the GOI's firm commitment in moving towards AatmaNirbhar Bharat.

Chandrajit Banerjee
Director General,
CII



The government's decision to open the coal sector for private sector participation in commercial coal mining and gasification corrects a historical anomaly. It will bring investment opportunities for the private sector, competition and efficiency gains.

Amitabh Kant,
CEO, NITI Aayog



The decision to liberalize coal mining will engender a significant substitution effect by improving the availability of coal, and help meet rising domestic demand. Around half of India's humongous reserves – most of which is non-coking coal – has not yet been allocated for mining so the potential is substantial

Sachin Gupta
Senior Director,
CRISIL Ratings

Commercial coal mining is a welcome step which was long awaited. Liberalizing the sector is expected to bring in technological advancements resulting in faster and efficient production of coal, which is the need of the hour.

Arun Mehta
MD & CEO
SBI Capital
Markets Ltd

AUCTION IN NEWS



Reforms and investment in coal sector will play a big role in making the lives of people easy.

- Prime Minister Narendra Modi



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