

CHAPTER VIII

ROYALTY

LEGAL PROVISIONS ON ROYALTY

8.1 Royalty is an amount payable by a lessee to the lessor for removing or consuming a mineral. Section 9 (1) of the Mines and Minerals (Development & Regulation) Act requires the holder of a mining lease or his agent, manager, employee, contractor or sub-lessee to pay royalty in respect of any mineral removed or consumed from the leased area at the rate specified in the Second Schedule of the Act. Section 9(3) of the MMRD Act empowers the Central Government to enhance or reduce the royalty rates in respect of any mineral by notification in the Official Gazette with effect from such date as may be specified in the notification. This revision is done by amending the particular entry of the royalty rate for the respective mineral in the Second Schedule of the Act. The proviso to Section 9(3) of the Act prevents the Central Government from enhancing the rate of royalty in respect of any mineral more than once during any period of three years. The Act also does not mandate that royalty on coal should be revised after every three years.

COAL ROYALTY RATES DURING 1971-2002

8.2 The coal royalty rates fixed in 1971 ranged from Rs. 1.50 per tonne for low quality coal to Rs. 2 per tonne for high quality coal. The royalty rates on coal were subsequently revised in July, 1975, February, 1981, August, 1991, October, 1994 and August, 2002. A comparative statement of coal royalty rates fixed on 13.2.81, 1.8.91, 11.10.94 and the existing royalty rates fixed on 16.08.02 is given below:-

(Rs. per tonne)

Coal Group	Coal Royalty Rates w.e.f. 13.2.81	Coal Royalty Rates w.e.f. 1.8.91	Coal Royalty rates w.e.f. 11.10.94	Coal Royalty rates w.e.f. 16.8.2002
Group-I Coking Coal SG-I,II WG-I	7.00	150.00	195.00	250.00
Group-II Coking Coal WG-II,III Non-coking A,B Semi-coking Gr.-I Semi-coking Gr.-II	6.50	120.00	135.00	165.00
Group-III Coking Coal WG-IV, Non-coking-C	5.50	75.00	95.00	115.00
Group-IV Non-coking D,E	4.50	45.00	70.00	85.00
Group-V Non-coking F,G	2.50	25.00	50.00	65.00
Group-VI Coal produced in Andhra Pradesh	5.00	70.00	75.00	90.00

(* the 1981 coal royalty rates are still continuing for the State of West Bengal on the ground that the Government of West Bengal is continuing to levy cesses on coal which have been withdrawn by other State Governments.)

METHODOLOGY FOR FIXING ROYALTY RATES

8.3 For fixing the rate of royalty on coal/lignite, the Ministry of Coal constitutes a Study Group headed by the Additional Secretary. The Study Group interacts and takes views of all the stakeholders, viz., the producing states, the consuming states and the consumer sector like power, iron and steel, cement etc. After taking into account views of all the stakeholders and other relevant factors, the Study Group makes its view to the Ministry. The Ministry after considering the recommendations moves a proposal for Government decision. The consequent decision is then notified and the new rates of royalty come into effect from the date of such notification. The above process is objective, transparent and has served well.

RECOMMENDATIONS OF 1997 STUDY GROUP ON ROYALTY

8.4 Section 9(3) of MMDR Act empowers the Central Government to enhance or reduce the royalty rates in respect of any mineral by notification in the Official Gazette with effect from such date as may be specified in the notification. The proviso to section 9(3) of the Act prevents the Central Government from enhancing the rate of royalty in the respect of any mineral more than once during any period of three years. Thus, there is no compulsion to revise royalty rates every three years. The Central Government has the option to keep the royalty rates unchanged as was done during 1981-91. A Study Group under the Chairmanship of Additional Secretary of the Ministry of Coal was set up on 28.1.97 to consider all aspect relating to revision of rates of royalty on coal and made recommendations to the Government. The Study Group recommended that royalty rates on ad-valorem basis, i.e., as a percentage of base prices of coal per tonne as fixed from time to time may be adopted and the various Groups of Coal may be divided into two groups for the purpose of fixing coal royalty rates. The recommendations of the 1997 Study Group were, however, never implemented.

RECOMMENDATIONS OF STUDY GROUP 2000 ON ROYALTY

8.5 Due to consistent demand from coal producing States, a Committee was set up in July, 2000 under the Chairmanship of Additional Secretary (Coal) to look into the matter of revision of royalty on coal. The Committee submitted its report in December, 2000 and recommended the adoption of tonnage basis for fixation of royalty rates on coal in preference to ad-valorem rates and increase in royalty rates of all grades of coal. However, this increase has been only a marginal. The revised rates of royalty on coal has since been notified w.e.f. 16.8.2002

REASONS FOR NOT REVISING THE ROYALTY RATES ON COAL IN 1997-98

8.6 The reasons for not revising the royalty rates on coal are as follows: -

- i) Coal companies receive only about 40-45% of the landed price of coal on an average. The larger proportion of the price is on account of cost of railway freight and the various levies such as royalty, excise duty, cess and sales tax. As a consequence, Indian coal is getting priced out in several locations and consequently there is a sharp increase in the import of coal.
- ii) The major coal consuming sectors such as steel, cement and power etc. have been passing through a recessionary phase. Any increase in royalty on coal at this stage may well deepen the crisis for the power sector, steel sector and most importantly for the coal sector.
- iii) The imported coal is not subjected to any royalty and the other Government levies like stowing excise duty and sales tax. As a result, domestic coal is being out priced within the country. Any further increase in coal royalty rates will prompt the coal consumers to go in for more coal imports.
- iv) The State Electricity Boards are struggling hard to make both ends meet specially in the context of power reforms.

The existing coal royalty rate is already affecting the marketability of Indian coal particularly, of the coal dispatches from ECL, CCL and BCCL, which are under serious financial distress.

Royalty rate on lignite was revised from Rs.2.50 per tonne to Rs.50/- per tonne w.e.f. 15-3-2001.

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