CHAPTER-VIII

COAL PRODUCTION, DISTRIBUTION, MARKETING AND ROYALTY

COAL PRODUCTION, DISTRIBUTION AND MARKETING

General

8.1 Coal has been recognized as the most important source of energy for electricity generation in India. About 70% of the coal in the country is consumed in the power sector. In addition, other industries like steel, cement, fertilizers, chemicals, paper and thousands of medium and small-scale industries are also dependent on coal for their processing and energy requirements. In the transport sector, though direct consumption of coal by the Railways is decreasing on account of phasing out of steam locomotives, the energy requirement for electric traction is still dependent on coal converted into electric power. The Department of Coal, is engaged in developing coal resources of this country to meet the requirement of coal by different consuming sectors. Performance of the coal sector in this respect has been impressive.

ALL INDIA PRODUCTION OF COAL

8.2 Through a sustained programme of investment and greater thrust on application of modern technologies, it has been possible to raise the production of coal from a level of about 70 million tonnes at the time of nationalization of coal mines in early 1970's to 309.63 million tonnes (All India) in 2000-01. Certain significant statistics about coal and lignite are given at Annexure-V

8.3 Coal India limited and its subsidiaries are the major producers of coal. 196.36 million tonnes (provisional) of coal were produced by Coal India Ltd. and its subsidiaries during 2001-2002 (Apr-Dec.) as against the production of 190.12million tonnes in the year 2000-01(Apr-Dec).

8.4 SCCL is the main source for supply of coal to the southern region. The company produced 21.90 million tonnes(provisional) of coal during 2001-2002(Apr-Dec.) as against 21.17 million tonnes during the corresponding year last year. Small quantities of coal are also produced by TISCO, IISCO,DVC and others. The company-wise production, despatch and stock details for the last five years are given in Annexure-VI & Annexure-VII respectively.

PRODUCTIVITY

8.5 Productivity is measured in terms of raw coal output in tonnes per manshift (OMS). There has been substantial improvement in OMS in Coal Companies during the last decade for CIL group of companies. As against an OMS of 0.58 tonne at the time of nationalization, OMS in Coal India Limited during the year 2000-01 was 2.30 tonnes and during 2001-2002(upto Dec-2001) was 2.33 tonnes (provisional). In SCCL the OMS during 2000-2001 was 1.54 tonnes and during 2001-2002(Apr-Dec.2001) was 1.57 tonnes. Year wise details of productivity of the coal companies are at Annexure-VIII.

DISTRIBUTION

8.6 Government of India has amended the Colliery Control Order, 1945 and the new Colliery Control Order, 2000 has been notified. According to this order, the price and distribution of all grades of coal have been deregulated with effect from 1.1.2000.

8.7 Coal Companies/Coal India Limited allocate coking coal to steel plants for their requirements. For core sector, sale of coal is guided by Linkages and allocations by the competent authorities.

8.8 For non-core Sector consumers, with a view to reaching the benefit of decontrol of coal as per Colliery Control Order, 2000, Coal India Limited has decided to authorise its subsidiary companies to formulate their own system and procedure for sale of coal to this sector. The new policy of Coal India Limited is aimed at providing a simplified, transparent and customer-friendly system and procedure. In the new policy framework the system of linkage and sponsorship for the purpose of coal supply to non-core sector is being done away with. In the emerging new policy framework for coal sale to non-core sector, stress is being given on bilateral agreement between supplying subsidiary company and consumer for well defined commitment on the part of both buyer and seller.

COAL DESPATCHES AND STOCKS

8.9 All India figures of production, despatches and Vendible stocks of coal for the previous years are shown in Annexure-IX. The overall despatches (All India) during the year 2000-2001 were of the order of 313.41 million tonnes. The overall despatches during 2001-2002 (Apr-Dec) have been 233.08 million tonnes (provisional) .The Vendible stock as on 31.03.2001 was at a level of 21.84 million tonnes (All India) and as on 31.12.2001 was 14.64million tonnes (Provisional).

8.10 Coal Mining is affected by seasonal factors. Large build up of pithead stocks occurs during the winter months. Production drops during summer and monsoon period. During the period April-September each year, part of the requirements of the consumers is met by drawing down of stocks from the pitheads.

MARKETING AND DISTRIBUTION

8.11 The Marketing Division of CIL coordinates marketing activities for all its subsidiaries. CIL has set up Regional Sales Offices and Sub-States Offices at selected places in the country to cater to the needs of the consuming sectors at various regions. To cater to the tiny customers more effectively and to develop a niche market, CIL has launched Coal Traders Network at many centres in the country.

SUPPLY OF COAL TO BULK CONSUMERS

8.12 Consumer-wise off-take of coal from Coal India Limited by major consuming sectors is indicated in Annexure-X. The main consumers are the power houses, steel plants, cement industry and fertilizer industry. Almost 85% of the total production of coal is consumed by these sectors. More specific details about some of the major consuming sectors are discussed below: -

A) POWER HOUSES

8.13 Allocation of coal to thermal power stations is made on quarterly basis by the Standing Linkage Committee (Short-term). Department of Coal, Central Electricity Authority, Railways, Coal India Ltd and its subsidiary companies and Singareni Collieries Company Limited regularly monitor the despatches of coal to power stations and take corrective steps to meet any exigencies.

8.14 Off-take of coal by thermal power stations during the year 2000-01 was 237.09 million tonnes including middlings. During the year 2001-2002(Apr.-Dec), the total despatch to powerhouses (from CIL and SCCL) has been 175.84million tonnes including middlings 1.53 million tonnes (Provisional).

(B) STEEL PLANTS

8.15 The allocation of coking coal to steel plants was earlier made by the Coal Controller. However, after deregulation of coking coal, the supplies of coking coal are being made by the coal companies themselves on the basis of linkages established by a competent linkage committee or on the basis of their existing commitments. Production performance of coking coal washeries is given at Annexure-XI

8.16 During the year 2000-01, 5.53 million tonnes of washed and direct feed coal was despatched by CIL to steel plants and 3.56million tonnes (Provisional) during the year 2001-2002(upto Dec,2001) .

(C) CEMENT PLANTS

8.17 Coal allocation for cement plants is also done by the Standing Linkage Committee for Cement (Short-term) which meets every quarter to review and assess the demand of coal for each cement plant and re-establishes linkages for supply of coal to meet the demand. The despatch to cement plants from CIL and SCCL during 2000-01was 10.33 million tonnes . During the year 2001-2002(Apr-Dec.), 8.81 million tonnes (Provisional.) of coal has been despatched to cement plants from CIL and SCCL.

MODE OF TRANSPORT

8.18 Important modes of transport of coal are Railways, Road, Merry-go-Round Systems, Conveyor Belts and the Rail-cum-Sea Route (Annexure-XII). The share of these modes of transport in the total movement of coal is approximately as under:

(a)	Railways	53.5%
(b)	Road	17.0%
(c)	MGR System	22.7%
(d)	Other (Belt Conveyor Ropeways, Rail-cum-Sea Routes etc)	6.8%
		100%

(A) RAIL MOVEMENT

8.19 Railways constitute the major system of coal transportation in India as about 53.5% of the coal, the largest single commodity, is transported by the Railways. The despatch of coal by rail is governed by the Preferential Traffic Schedule of the Indian Railways, under which the programme of movement is to be sponsored by the various sponsoring authorities and accepted by the coal companies. In case of deregulated coal, Railways have allowed coal companies to sponsor the movement of coal.

(B) RAIL-CUM-SEA-MOVEMENT

8.20 Coal requirement of some consumers in Southern India, which include power stations and cement plants, are met by moving coal by Rail-cum-Sea Route. This is done in view of the difficulties experienced in moving coal via all Rail Routes from Bengal-Bihar and Main Line-Talcher Coalfields. The requirement of power stations of Tamil Nadu Electricity Board (TNEB) is met by Rail-cum-Sea Route. Haldia, Paradip and Vizag Ports handle the shipments.

EXPORT OF COAL

8.21 Coal is under Open General Licence (OGL) list. India exports coal to the neighbouring countries to meet their demand of coal. The traditional buyers of Indian coal are Nepal, Bangladesh and Bhutan. Export to Nepal and Bhutan is done in rupee exchange as per the protocol between the two countries and with Bangladesh it is done in US Dollar. Export of coal to the neighbouring countries was earlier canalised through the Mineral and Metal trading Corporation, but for the last few years it has been decanalised. Export of coal by CIL is made through tender route The quantum of coal exported by CIL during 2000-01 to the neighbouring countries was 0.043 million tonnes. During 2001-2002(Upto December,2001) the quantity of coal exported by CIL was 0.016 million tonnes (Provisional).

IMPORT OF COAL

8.22 As per the present Import Policy, coal can be freely imported (under Open General Licence) by the consumers themselves considering their needs and exercising their own commercial judgements.

8.23 Coking coal is being imported by Steel Authority of India Limited (SAIL) and other Steel Sector manufacturers mainly to bridge the gap between the requirement and indigenous availability and to improve the quality of overall blend for technological reasons. Coal based power plants, cement plants, captive power plants, sponge iron plants, industrial consumers and coal traders are importing non-coking coal on consideration of transport logistic and commercial prudence as well as against export entitlements. Coke is imported mainly by Pig-Iron manufacturers and iron & steel sector consumers using mini-blast furnace.

8.24 Details of import of coal and coal products during the last three year(as reported by Coal Controller's Organisation) are as under:

				(in million tonnes)
Coal	1998-99	1999-2000	2000-01	2001-02(April-Sep'2001) (Data provisional)
Coking Coal	10.02	10.99	11.06	4.80
Non-Coking Coal	6.51	8.71	9.87	4.85
Coke	1.57	2.41	2.42	1.09
Total Import	18.10	22.11	23.35	10.74

8.25 The current duty (during 2001-02) on imported coal is as under:

Present import duty structure for Coal				
Type of Coal		Basic Duty	Other Duties (SAD)	Total(Effective) Import Duty
Coking Coal	having upto 12% ash	5%	4.2%	9.2%
	having ash 12% and more	15%	4.6%	19.6%
Coke		15%	4.6%	19.6%
Non-Coking Coal		25%	5%	30%

Further, the basic import duty for coke (metallurgical) when imported by a manufacturer of pig-iron or steel using blast-furnace has been fixed at 5% as per amendments contained in the Notification of Government of India in Ministry of Finance (Department of Revenue) vide No.44/2001-Customs dt. 26.4.2001. Effective import duty for this category works out to 9.2%.

COAL FOR DOMESTIC USE

8.26 The production of soft coke has been declining over the years, since the process adopted is not free from pollution hazards. However, to meet the demand for this product, especially in some of the Northern States, where people use soft coke as a domestic fuel, Government have encouraged setting up of SSF Plants (Special smokeless fuel plants) based on the technology developed of CMPDIL & CFRI. This product is an ideal substitute of soft coke. Necessary linkages are being provided by CIL. CMPDIL is offering necessary technical assistance for installation of these plants. Coal India limited is also providing linkages to briquetting units, the product of which is also a substitute of soft coke.

8.27 Off-take of raw coal from Coal India Limited for manufacturing soft coke during the year 2000-01 was 0.06 lakh tonnes. Offtake during 2001-2002 (upto December, 2001) has been nil.

8.28 Coal is also supplied for production of SSF and Briquettes by the coal companies on an assured basis.

HARD COKE

8.29 The distribution of hard coke was decontrolled in 1975. The consumers are required to approach the concerned sponsoring authorities to get their demand sponsored directly to the Coal Company, which makes arrangements for supply of this commodity to the consumers. The production of hard coke by CIL in the year 2000-01 was 0.09million tonnes. The production of hard coke by CIL during the year 2001-2002(Apr.-Dec) was 0.06 million tonnes. (Provisional).

CONSUMER SATISFACTION STRESSED ON IMPROVING QUALITY OF COAL

8.30 Quality complaints mainly relate to supply of lower calorific value coal, presence of extraneous material, supply of oversized coal and short receipts. To overcome these complaints, following steps have been taken:

COAL CONSUMERS COUNCILS

8.31 For redressal of consumer's grievances and monitoring of complaints received from the consumers, one Regional Coal Consumers Council has been set up for each coal company. An Apex body viz. National Coal Consumers Council has also been set up at the Headquarters of Coal India Limited. In case the complainant does not receive a reply within a month or the complainant is not satisfied with the reply of Coal Company, he may prefer a complaint to the National Coal Consumers Council.

OPEN SALES SCHEME

8.32 With a view to make coal freely available to small scale industries and other consumers, who do not have linkages, CIL has introduced Open Sales Scheme(OSS). Any body can draw coal supplies from these schemes without valid sponsorship and/or linkages. All coals purchased under these schemes can be re-sold at a price to be charged by the purchaser at his own discretion.

ROYALTY

8.33 In terms of Section 9 of the Mines and Minerals (Regulation and Development) Act, 1957 the holder of a mining lease shall pay royalty in respect of any mineral removed/consumed. The Central Government can enhance or reduce the rate at which the royalty shall be payable provided the rates cannot be enhanced more than once in a period of 3 years. **Thus the royalty on coal is a tax which is imposed by the Central Government but collected and appropriated by the State Government where coal production takes place**. Prior to the latest revision of royalty rates in October, 1994, the rate was revised in August, 1991. The average rate was then revised from Rs. 5.30 to Rs. 70/per tonne which varied over a range from Rs. 25/per tonne for the lowest grades of coal to Rs. 150/per tonne for the highest grade. Since the next increase in royalty rates were due on or after 1.8.1994, the Central Government took up the exercise of reviewing the royalty rates. A Study Group set up under the Chairmanship of Additional Secretary, Ministry of Coal submitted its report in May, 1994. The report was considered by the Government and the rates of royalty of coal were revised w.e.f. 11.10.94. The enhancement of rates was made, keeping in view the interests of both the consumers and the coal producing States and at the same time ensuring the development of the coal mining industry. The revised rate of royalty has not been extended to the State of West Bengal as that State is levying and collecting cess on coal under their Cess Acts. The revised rates can be extended to the State Government after the Cesses levied by them are withdrawn or their Cess Acts are struck down by the Court of Law.

The revised rates are as under:-

(Rs. per tonne)

Coal Group	**Royalty w.e.f. 1.8.91**	**Royalty w.e.f. 11.10.94**
Group-I(Coking Coal SG I, II. WG I)	150	195
Group-II(Coking Coal WG II, III SC I, II N coking A, B)	120	135
Group-III (Coking Coal WG IV, Non-coking C)	75	95
Group-IV (Non-coking D, E)	45	70
Group-V (Non-coking F, G)	25	50
Group-VI (Coal produced in Andhra Pradesh)	70	75

8.34 Periodic revision of royalty on minerals, including coal, has not been laid down in any law. 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. 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. 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 the Additional Secretary of the Ministry of Coal was set up on 28.1.97 to consider all aspects relating to revision of rates of royalty of coal and make recommendations to the Government. The Study Group submitted their report to the Government in September 1997. The report of the Study Group was examined in the Ministry. In the process, it was observed that the coal companies receive only about 40-45% of the landed price of coal on an average. The larger proportion of this price is on account of cost of railway freight and 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. Import of non-coking coal has increased more that 10 times from 1993-94. The State Electricity Boards (SEBs) and State Power Corporations (SPCs) are also struggling hard to make both ends meet. Non-receipt of the huge amount of coal sale dues from the SEBs/SPCs is causing a very heavy financial burden on CIL. Apart from severely affecting the cash inflow to CIL, the non-recovery of coal sale dues from SEBs/SPCs has created an acute financial problem for CIL since the coal company is paying royalty to the State Government on the coal despatches to SEBs/SPCs, the sale value of which is not being paid to CIL. In other words, even on sale of coal to SEBs/SPCs on credit, the royalty payments to the State Government are being made by CIL since royalty payments are a statutory requirement. The steel industry is also suffering and is yet to get out of the depression. It was therefore, felt that 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. Therefore, a decision was taken not to enhance the existing royalty on coal at that stage. However royalty rate on lignite was revised from 2.50 per tones to Rs. 50/- per tonne w.e.f. 15.3.2001.

8.35 Subsequently due to consistent demand from coal producing states a Committee was set up in July 2000 under the Chairmanship of Addl. Secretary (Coal) to look into the matter of revision of rates of royalty on coal. The Committee has now submitted its report and on the basis of the recommendations of the Committee a note for CCEA has been circulated on 31.01.2002 to the concerned Ministries/Departments for their comments.