India's Coal Crisis*

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In recent weeks the media have featured stories bordering on the alarmist about a coal shortage in India. Coal inventories with thermal power plants had fallen to levels at which major country-wide power outages seemed inevitable. Fortunately, that has not (as yet) materialized, but it is indeed true that coal inventories with the power producers did collapse from the equivalent of around 30 days requirement to that for a couple of days or more in the case of many plants. According to data from the 135 plants with over 165 GW of installed generation capacity monitored by the Central Electricity Authority (CEA), 70 were down to less than four days of fuel on October 10, 2021, compared to 64 a week earlier. Which raises a question: why should this situation arise in a country with the fifth largest coal reserves in the world and long years of experience in mining coal?

Explanations provided by different sources have included sharp increases in demand for power, and therefore coal, as the economy revives from the Covid shock, and unseasonal rains that have affected mining and transportation. But these fail to convince. Neither is the recovery robust nor is demand likely to exceed pre-Covid levels which the existing supply system had been consistently servicing. And India's coal industry is acclimatized enough to the vagaries of the monsoon to keep production going when confronted by changes in the intensity and timing of rainfall. Focusing on such explanations perhaps serves only one purpose: that of running down Coal India Ltd (CIL), the public sector behemoth, that since the nationalization of coal mines in 1973 has almost single-handedly shouldered the burden of meeting India's rising coal demands. The state-owned leviathan is constantly attacked fpr being inefficient and unequal to the task of sustaining coal supply.

However, for some time now the government has been working to reduce the relative role of CIL in the country's coal supply chain. Successive administrations over the last couple of decades have attempted to get the private sector, domestic and foreign, to invest in coal mining by diverting coal blocks to potential investors, even if not always successfully. In 1993 the Coal Mines (Nationalisation) Act, 1973 was amended to allow private sector participation in coal mining activities for captive purposes in industries like steel, power, and cement. By 2010, more than 200 coal blocks with around 30 billion tonnes of reserves were allocated to user units for captive mining by a high-powered committee chaired by the Secretary, Ministry of Coal. Challenged in the Supreme Court, following an assessment by the Comptroller and Auditor General that the high-powered committee had not followed a transparent method of allocation, the allocations were cancelled in 2014, excepting for a few that were allocated through auction or to central government undertakings.

But an examination of what occurred in the period between 1993 and the cancellation does not present the private sector in good light, since little coal was produced through investment in the captive coal blocks. But this failure of the private sector to augment production is discounted by attributing it to the fact that privatization of coal production was through the captive mining route and, that too through an allocation that was not transparent. So, in 2015, the Coal Mines (Special Provisions) Act, 2015 was enacted to permit the sale of coal blocks earlier reserved for captive mining to domestic and foreign bidders through an auction process. As of 2018, those investors who win such blocks through auctions are allowed to undertake commercial mining with no restrictions on the sale or utilization of the resulting production. Mining to market rather than use has been legalized. But, all this is yet to make much difference to the source of domestic coal supply. Production outside of the two public sector majors Coal India Limited and Singareni Collieries Company Limited (SCCL) touched a maximum of 68.75 million tonnes in 2020-21.

Meanwhile, the task of stripping Coal India of its ostensibly inefficient monopoly has been underway in other forms. To start with, the government has been facilitating coal imports, which have been resorted to by power producers when cheap sources of global coal supply could be identified. As per the present import policy, coal can be freely imported (under Open General Licence) by the consumers if they prefer that source of supply. India's coal imports rose from 190.95 million tonnes in 2016-17 to 248.53 million tonnes in 2019-20, when production rose from 645.98 million tonnes to 706.77 million tonnes. Imports in 2020-21 are estimated at a lower 215.9 million tonnes because of a Covid-induced fall in demand and excess stocks in the system. Production that year was also down to 690.89 million tonnes. So, any increase in demand because of a post-Covid recovery should have been easy to meet, partly with increased production and the running down of inventories and partly through imports. Imports did rise April-August 2021, touching 92.49 million tonnes as compared with 51.23 million tonnes in the corresponding period of the previous year. But there was one hitch. The prices at which imports could be accessed were rising rapidly. The import price of Indonesian coal, for example, rose from $60 per tonne in March to $200 per tonne by October. The result was that coal users were unwilling to lift the imported coal, because that would raise costs of production to levels which could possibly not be neutralized with increases in tariffs. As a result, they all turned to the market for domestic coal, resulting in a spike in demand.

This occurred in a context in which signals had been sent out for some time that CIL's role as a producer was to be cutback by limiting investment. The government not only was unwilling to give it substantial funds for new investment to expand mining capcity, but also decided to treat the public sector as a cash cow to finance its budget which had been starved of revenues from taxation. CIL's dividend payout ratio reportedly increased from 22.7 per cent of earnings in 2010-11 to a peak of 145.5 per cent of earnings in 2017-18 (Indian Express, 19 October 2021). Meanwhile, power generators were defaulting on their payments for coal purchased, with producers in states such as Uttar Pradesh, Rajasthan, Madhya Pradesh, Maharashtra and Tamil Nadu accumulating large arrears. Receivables on the accounts of CIL rose from Rs. 6,258 crore in 2017-18 to Rs. 19,623 crore in 2020-21. With the government signaling a new era in coal mining with a reduced role for CIL and a willingness to permit meeting supply shortfalls with imports, despite the availability of domestic reserves, investment in expanding mining capacity was a casualty. That in turn meant that the flexibility to raise production in the face of a sudden increase in demand for domestic coal would have been constrained. Moreover, offtake from the public sector was not growing fast and inventories were not being transported out at a pace that encouraged increased production, given the turn to. To expect the public sector in those circumstances to accumulate inventories to be held as a strategic reserve to meet contingencies of the kind reflected in the spurt in demand in recent months is completely unwarranted.

Finally, despite the government's stated position that the share of installed capacity and power supply from non-fossil fuel sources is rising fast and that India is achieving more than it committed through the nationally determined contribution submitted to the UNFCC as required by the Paris Agreement, the share of coal-based power generation reportedly increased from 61.91 per cent in pre-Covid year 2019 to 66.35 per cent in 2021. As a result, coal consumption during August-September 2021 was 18 per cent higher than in the corresponding months of 2019. India's green energy thrust does not appear to be giving coal a reprieve.

In sum, India's coal crisis is the result of botched policy initiatives resulting from its adherence to a neoliberal agenda in which the public sector's role was to shrink and the private sector offered new avenues for profit. Unfortunately, in this case, while one aspect of that transition, which involving curbing public sector growth worked, the other, which is to get the private sector to fill the gap, was a failure. Imports served to fill the resulting gap in supply. But when prices of imported coal spiked, that option was not viable anymore. A country with abundant coal reserves and long experience with coal production was left to face a coal crisis.

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