

Standing Committee Report Summary

Coal pricing and issues relating to coal royalty

- The Standing Committee on Coal and Steel (Chairman: Mr. Kalyan Banerjee) presented its 49th report on the determination of coal prices and royalties on February 6, 2014.
- The Committee recommended that coal price hikes should not be driven only by the motive of profit maximisation. Investments in future projects should not be a factor for determination of coal prices. Coal India Ltd and its subsidiaries should raise prices only to the extent necessary to match cost increases.
- The Committee viewed the practice of charging 30% higher prices to the consumers in sectors other than power and fertilisers as discriminatory.
- It underscored on the need for a regulatory mechanism for coal sector. In absence of a regulator, the central government should constitute a coal pricing regulatory committee with adequate representation of all stakeholders.
- The Committee emphasised the need for rationalisation of rail freight rates for coal transport. It suggested that Ministry of Coal and Coal India also explore alternate modes for transport of coal.
- The Committee observed that coal producers should adopt additional efforts including austerity measures to reduce production costs.
- The Committee remarked that e-auction of coal benefits only the big traders and cartels. It recommended an increase in transparency in the e-auction process and minimising the quantity of coal sold through e-auction.
- The Committee noted that the same grade of coal is being sold at different prices for some of the Coal India subsidiaries even after adoption of a new classification and pricing system. It asserted that uniform prices for same grade are essential and suggested that Coal India formulate a National Policy for Coal Prices applicable to all its subsidiaries.
- The Committee recommended that Coal India's board should review domestic coal prices in consonance with changes in international market prices. This should be done both in cases of increase as well as decrease in international prices.
- The Committee commented that the government decision to allow power producers to pass on the burden of costlier imported coal to consumers will raise electricity tariffs. It was concerned that the decision will only help private sector power producers and asked the government to review its decision.
- The Committee recommended that the Ministry bring out a simpler and workable formula for calculating the rates of royalty on coal and lignite.
- The Committee stated that the prescription of lower rates of royalty for West Bengal (in lieu of state government's cess on coal) is unjustified, as the state government is constitutionally empowered to impose a cess. It desired that the rates of royalty should be uniform across all states including West Bengal.
- The Committee stressed that state governments should be given the freedom to impose cess on coal and lignite. State governments should set the rate of cess below 50%. The Committee requested the Ministry to devise with a permanent solution to the issue after consulting all the concerned states.
- The Committee bemoaned the absence of a clear policy on the rates of royalty. It urged the Ministry to interact frequently with the states to address their grievances. In case the rates cannot be revised, the central government should compensate the states through an equivalent matching grant.
- The Committee recommended that the Ministry and Coal India check the theft of coal by setting up sophisticated and integrated technology-enabled systems using GPS, Radio Frequency Identification and CCTV in all coal fields.

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