COMMENT

Coal mining in India in the post US sanctions period

by G.D. Kalra

US sanctions against India in the post-nuclear device testing period, has affected many sectors of the Indian economy. This comment focuses on the impacts on the coal mining industry in the country. It is very recently that the coal industry has been deregulated allowing private sector participation. The infant private sector was looking towards the flow of funds from abroad in their capital intensive coal mining ventures. Basically, the US sanctions have failed them.

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In the wake of testing of nuclear device by India on May 11, 1998, the USA has been contemplating economic sanctions against India. It has been enlisting the support of G-5 and G-8 countries since then and has succeeded in getting their commitments. Prior to this adventurous day, a number of concessions were being given to MNCs in minerals, power and oil sectors. Most of these companies were from the USA.

The USA has already been able to get fresh loans by The World Bank and The Asian Development Bank to India postponed thanks to cooperative decision of G-8. This is likely to adversely affect the infrastructure projects. The impact of sanction could hit flows of over 2 500 MUSD.[1] Some of the conspicuous constituents of the sum, as detailed by the USA, are as follows:

1. 1 170 MUSD in international financial institutions lending suspended.
2. Foreign assistance except humanitarian assistance, food or other commodities terminated/suspended.
3. 21 MUSD in economic development assistance and housing guarantee authority terminated.
4. 6 MUSD greenhouse gases programme in India suspended.
5. Trade Development Agency will not consider new projects.
6. New commitments of US government credits and credit guarantees by US EXIM, OPIC, Commodity Credit Corporation halted (India is one of OPIC's top five countries receiving on an average 300 MUSD annually in OPIC support).
7. 500 MUSD in pending EXIM financing in India will not go forward.
8. US banks prohibited from extending loans to the government of India.

This comment focuses on the impact of the sanctions on the coal industry in India. In particular we note that the recent attempts to privatise the industry, means that foreign investment plays an important part in financing future production. However, the US sanctions severely limit the flow of such investment into the coal sector.

The power sector and the allied coal industry

In 1996–97, the growing gap in the supply and demand of electricity resulted in overall shortages of 12 percent and peaking shortages of 20 percent.[2] Projections of demand during the 1990s put the requirements for additional capacity over the next decade at 85000 megawatts (MW). The cost of this additional capacity and associated transmission/distribution expansion may be put at 160 000 MUSD. Available funds in the public sector are anticipated to be adequate to provide less than half of the additional capacity required. This leaves the Independent Power Producers (IPP) as key players in future power capacity development.

Thermal power generation is based upon coal/lignite, natural gas, naphtha and residual oil and accounts for 72 percent of the total electric capacity in India. Coal alone contributes with 68 percent. This emphasizes the overriding linkages between coal mining and the country's power generation programme.

Coal mining industry in India

After USA and China, India is the third largest coal producing country with total reserves of 204 000 Mt, out of which 7 200 Mt are mineable. The indigenous production of coal has crossed a landmark of 300 Mt annually. The Planning Commission has projected the demand for coal to reach 418 Mt by 2001–02, the terminal year of the Ninth Five Years Plan presently in operation. The public sector suppliers viz. Coal India Ltd and Singreni Coal Co.

Ltd and captive producers are expected to produce around 355–360 Mt annually based on their presently available future programme of capacity additions. This leaves a gap of around 60 Mt annually to be bridged by private initiatives.

This wide gap in demand and supply calls for investment of the order of 2 500 to 3 000 MUSD which is expected to come from private sector mining companies. The government has no funds to spare for this segment.

After more than 25 years of government control over coal mining in India, the government has initiated conscious steps towards opening the segment to private investors, both foreign and domestic. While it is still a long way to go for actual private sector commercial coal mining projects to take off, foreign coal miners believe that some critical issues need be addressed first in order to attract serious investment for commercial coal mining projects in India. However, a few steps have already been taken:

1. As a first step towards deregulation of the segment, the government in early 1997 took the pricing mechanism of coal out of the clutches of administered pricing regime.

2. While the idea of allowing end-users to operate captive coal mines, did not meet the desired level of success, the government accepted the Chari Committee recommendations to allow private sector to run commercial coal mines on 100 percent ownership basis, with a 50 percent cap on foreign equity.

Though the BJP-led coalition government with a razor thin majority in the Parliament is soft – pedaling on the issue, it is anticipated that enabling legislative measures will be brought about in a year's time. A few crucial issues are to be brought under the legislative ambit.

Coal India Ltd., which operates seven mining subsidiaries contributing 90 percent of India's coal production, is currently in possession of most of the prime blocks of coal reserves targeted to be released to the private sector. The rest are being held under Singreni Coal Co. Ltd., a joint venture between Andhra Pradesh government and the Central government. In 1995, the government identified around 56 coal blocks for distribution to captive users in power, steel and cement sector.[3] Out of these around 20 blocks were given out to power companies, which included many independent power producers (IPP). After two years only one block started actual mining operations. While the other four blocks made initial progress, are yet to achieve the financial closure and kick-start actual mining operations. This is even after the government allowed the promoters of the power projects to hold a minimum 26 percent equity and go for joint ventures with foreign coal companies to source the requisite funds. Also, the government allowed that any surplus coal after captive consumption could be sold at the open market prices to the respective state electricity boards (SEBs). It definitely meant that the attraction for the foreign investment has been lacking the desired luster in coal mining.

US sanctions and the development of coal mining

Flow of foreign capital in the form of direct investment plays a major role in linking international economies. A notable feature of Foreign Direct Investment (FDI) since 1990 is that it has become the largest and fastest growing single component of external finance for developing countries. This represents a dramatic shift in capital flow from developed to developing countries, which was previously dominated by official assistance. During 1996 (latest year for which data is available from international sources), out of the total 310 000 MUSD at global level, the share of the developing countries was 109 500 MUSD. Among the developing countries, China alone received 42 300 MUSD while India has been aspiring for 10 per cent of China's slice thanks to its being late in opening its economy by nearly two decades. What it did in 1991 should have been done in 1972 to be at par with China as a destination for foreign investment.

According to the Central Industry Ministry, The actual FDI inflow in India was 3 200 MUSD during the calendar year 1997. A target of 5 000 MUSD has been fixed for the year 1998. After the US sanctions, both the Central Finance and Industry Ministries have been concerned that there could be an adverse fall out with the number of foreign companies wanting to invest in India petering out. There are data to support this premise. The Industry Ministry officials that keep a close watch on such trends say that the actual inflow of FDI during January– July 1998 was approximately 1 600 MUSD. This is "10 per cent lower" than the corresponding period of 1997. During July 1998, FDI inflows have sunk to a low of 119 MUSD only.

Such a low rate of inflow of FDI has impinged on the development of 56 coal blocks distributed in 1995 as captive sources of supply of coal to private power plants and cement plants. This involved an additional development of annually 60 Mt of coal by the private sector as indicated earlier. Sanctions have also put a big question mark on the 1 000 MUSD assistance that Coal India Ltd, has been negotiating with the World Bank to enhance its coal mining capacity by an additional 20 Mt annually with the Bank's assistance.

No country aspiring to link their economy with the international market can afford to live in an atmosphere of sanctions against it, and India is no ex-