(This article was published on September 10, 2012, in The Hindu BusinessLine)

'Coalgate' is about opaque decision-making

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The CAG report on coal allocation has kicked off much heat and dust in the form of debates, accusations and counter-accusations. Unfortunately, in spite of all this, there has been precious little emerging from these discussions.

The key message of the CAG report is not whether private parties unduly gained Rs 4.76 lakh crore, as given in the draft report or Rs 1.86 lakh crore, as in the final report.

It is not that all natural resources should, henceforth, be auctioned. The real message is that there is a crisis of governance in the country, which directly or indirectly, is the biggest obstacle to the fight against poverty. This should be a matter of serious concern, irrespective of one's ideological or political affiliation.

Vague criteria

The report states that the minutes of the screening committee meetings, that decided allottees for blocks, did not record any comparative evaluation of the merits of different applicants. The Government has not contested this. Instead, its defence has been that they were only following prevalent practices and that reasons such as resistance from some States delayed their attempts to introduce auctions.

This is eerily similar to the argument used by the Government of Maharashtra for entering into the infamous power purchase agreement with Enron through the MoU route.

Interestingly, the Committee on Allocation of Natural Resources (aka the Chawla Committee), set up by the Government after the 2G scam, had stated in its 2011 report that the criteria for choosing an allottee for a captive coal block "are so broad that any decision can be justified" — exactly what the Government is currently doing!

Allocating the country's natural resources to specific parties based on vague criteria and without sufficient documented justification is strongly indicative of a serious governance shortcoming. The Government piously claims that the purpose of allocating captive blocks was not to increase revenue but to increase coal production and enable cheaper power. Some reflection shows that both these claims fall flat.

If increasing production was an objective, one would expect facilitating mechanisms and stringent conditions attached to mine allocations. But though the Government's normative guidelines state that captive mines should come into production between 3 and 4.5 years from allocation, less than 10 of the 172 mines allotted between 2004 and 2007, and less than 30 of the over 200 captive blocks allotted since 1993, are currently in production. However, only 24 blocks were de-allocated until now, most of them in 2010 and 2011; some 60 blocks — most of them allocated before 2007 — were issued show-cause notices in May 2012, following significant media pressure in the wake of persistent coal shortages and the leaked CAG report.

False claim

The CAG report also states that there was a delay in introducing the system of bank guarantees to penalise delayed production and delays in even encashing some bank guarantees, clearly belying the Government's claim.

The Finance Minister's public statement that there has been no loss since the coal is still in the ground, perhaps best exemplifies the Government's callous approach. It not only justifies the arbitrary allocation of blocks but also concedes that the objective of increasing coal production has not been met.

The claim of captive blocks helping to lower power prices also does not stand up to scrutiny. Firstly, captive blocks were allotted not only to power generators but also to unregulated sectors such as cement and steel — which is more likely to distort those markets than lower prices. Secondly, even the blocks given for power generation had no associated conditions to ensure that the benefit of cheaper coal would be passed on to consumers.

Indeed, it is understood that one captive coal-based private power producer sells power on the open market for around Rs 4 per kWh, when it should have been considerably lower if the benefits were even partially passed on to consumers. So, the block allocations were clearly not designed to help lower power prices.

The real message

Public discourse about the CAG report has also missed the fact that it dwells on the institutional weaknesses of coal sector agencies such as CIL, Coal Controller Organisation (CCO) and the Central Mine Planning and Design Institute (CMPDI). For example, it describes how CIL fell short of its production targets not only because of the much-maligned clearance problems but also because of low availability and utilisation of mining equipment and how CCO's understaffing led to its inability to fulfill its duties of monitoring coal blocks.

So, the real message from the CAG report is not whether there were undue gains to private parties, or if auctions were unduly delayed, or whether UPA did worse than NDA. The real message is that discretionary decision-making eroded institutional capacity. If we miss this message, we would have missed the wood for the trees and left the 'system' as unaccountable as ever.