

**GOVERNMENT OF INDIA
COAL AND MINES
LOK SABHA**

STARRED QUESTION NO:16
ANSWERED ON:19.11.2001
REVISION OF ROYALTY ON COAL
KUMUDINI PATNAIK;SANAT KUMAR MANDAL

Will the Minister of COAL AND MINES be pleased to state:

- (a) whether the Government have any proposal to revise the royalty on coal;
- (b) if so, the details thereof; and
- (c) the time by which a decision is likely to be taken in this regard ?

Answer

MINISTER OF COAL & MINES (SHRI RAM VILAS PASWAN)

(a) to (c) : A statement is laid on the Table of the House.

Statement referred to in parts (a) to (c) of the reply to Lok Sabha Starred Question 16 for 19.11.2001.

(a) to (c) : A Committee under the Chairmanship of Additional Secretary (Coal) has been appointed to consider the revision of royalty rates on coal. The Committee is expected to submit its report shortly.

NOTE FOR THE SUPPLEMENTARIES FOR LOK SABHA STARRED QUESTION NO. 16 FOR ANSWER ON 19.11.2001 ASKED BY SHRI SANAT KUMAR MANDAL AND SHRIMATI KUMUDINI PATNAIK REGARDING REVISION OF ROYALTY ON COAL

16TH POSITION

1. Legal provisions on Royalty

1.1 Royalty is an amount payable by a lessee to the lessor for removing or consuming a mineral. Section 9 (1) of the Mines and Minerals (Development & Regulation) Act requires the holder of a mining lease or his agent, manager, employee, contractor or sublessee to pay royalty in respect of any mineral removed or consumed from the leased area at the rate specified in the Second Schedule of the Act. 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. This revision is done by amending the particular entry of the royalty rate for the respective mineral in the Second Schedule of the Act. 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. The Act also does not mandate that royalty on coal should be revised after every three years.

2. Reasons for not revising the royalty rates on coal in 1997-98.

2.1 The reasons for not revising the royalty rates on coal are as follows :-

i) Coal companies receive only about 40-45% of the landed price of coal on an average. The larger proportion of the price is on account of cost of railway freight and the 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.

ii) The major coal consuming sectors such as steel, cement and power etc. have been passing through a recessionary phase. 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.

iii) The imported coal is not subjected to any royalty and the other Government levies like stowing excise duty and sales tax. As a result, domestic coal is being outpriced within the country. Any further increase in coal royalty rates will prompt the coal consumers to go in for more coal imports.

iv) The State Electricity Boards are struggling hard to make both ends meet.

v) The existing coal royalty rate is already affecting the marketability of Indian coal particularly, of the coal dispatches from ECL, CCL

and BCCL which are under serious financial distress.

3. Coal royalty rates during 1971-1994

3.1 The coal royalty rates fixed in 1971 ranged from Rs. 1.50 per tonne for low quality coal to Rs. 2 per tonne for high quality coal. The royalty rates on coal were subsequently revised in July, 1975, February, 1981, August, 1991 and October, 1994. The October, 1994 rates are still continuing. A comparative statement of coal royalty rates fixed on 13.2.81, on 1.8.91 and the existing royalty rates fixed on 11.10.94 is given below :-

(Rs. per tonne)

Coal Group	Coal Royalty Rates w.e.f. 1.8.91	Coal Royalty Rates w.e.f. 11.10.94	Coal Royalty Rates w.e.f. 13.2.81
Group-I Coking Coal SG-I,II WG-I	7.00	150.00	195.00
Group-II Coking Coal WG-II,III Non-coking A,B Semi-coking Gr.-I	6.50	120.00	135.00
Group-III Coking Coal WG-IV, Non-coking-C	5.50	75.00	95.00
Group-IV Non-coking D,E	4.50	45.00	70.00
Group-V Non-coking F,G	2.50	25.00	50.00
Group-VI Coal produced in Andhra Pradesh	5.00	70.00	75.00

(the 1981 coal royalty rates are still continuing for the State of West Bengal on the ground that the Government of West Bengal is continuing to levy cesses on coal which have been withdrawn by other State Governments.)

4. Cess/royalty payments by CIL to various States

4.1 The cess/royalty payment made by CIL and SCCL to the various States during the last five years is as follows :-

(Rs. in crores)

Coal producing State	Income in 1995-96	Income in 1996-97	Income in 1997-98	Income in 1998-99	Income in 1999-00	Income in 2000-01
Bihar	658.33 (3.71%)	682.77 (-)	658.95 (-)	607.59 (20.96%)	591.28	467.94
Orissa	180.79 (2.53%)	185.38 (22.76%)	227.59 (0.08%)	227.40 (-)	226.58 (11.74%)	253.17
Maharashtra	217.90 (-)	200.29 (2.24%)	204.79 (9.84%)	184.62 (-)	183.13 (20.56%)	220.79

	8.08%)		0.80%)			
Madhya Pradesh	666.77	684.14	663.63	671.58	688.10	535.27
	(2.60%)	(-	(1.20%)	(2.54%)	(-	
	2.99%)		22.21%)			
Uttar Pradesh	113.50	121.41	102.35	86.78	108.30	131.48
	(6.97%)	(-	(-	(24.79%)	(21.40%	
	15.69%)	15.21%))			
Assam	21.59	9.92	6.11	11.75	13.27	6.96
	(-	(92.30%	(12.93%	(-		
	54.05%)	38.40%))	47.55%)		
Andhra Pradesh	175.28	197.14	278.11	200.16	223.07	227.34
	(12.47%	(41.07%	(-	(11.44%	(1.92%)	
	28.02%))				
West Bengal	7.82	10.87	12.64	9.53	10.26	10.08
	(39.00%	(16.28%	(-	(-	(-	
	703.04))	24.60%)	7.66%)	1.75%)	
Cess on coal		416.18	369.27	322.60	83.82	NA
Total	2041.98	2091.92	2154.17	1999.41	2043.99	1793.03

royalty only

5. Different royalty rates on coal for West Bengal

5.1 The reason for different royalty rates on coal applicable to West Bengal are as follows :-

- The royalty rates enhanced by the Central Government w.e.f. 11.10.94 were not extended to West Bengal since the Government of West Bengal continued to levy cesses. The Government of West Bengal have since reduced the cess rate from 45% to 25% w.e.f. 1.12.98.
- A Special Leave Petition has been filed by the West Bengal Government in the Supreme Court against the order dated 25.11.92 passed by the Calcutta High Court which had declared levy of cess by the State Government unconstitutional. Therefore, the question of extension of revised royalty rates can be decided by the Central Government in accordance with the judgement to be passed by the Hon'ble Supreme Court on the Special Leave Petition filed by the State Government.
- The State Sale Tax @4% on coal dispatches from the coal mines of West Bengal is also being levied.
- No other State Government levies any cess on coal production or dispatches.

6. Cess rate on coal by West Bengal Government

6.1 The Government of West Bengal used to levy the following cesses :

- West Bengal Rural Employment and Production Cess 38% of pit head price
- West Bengal Primary Education Cess 7% of pit head price
- Public Works and Road Cess Re. 1 per tonne
- Asansol Mines Board of Health Cell Re.0.40 paise per tonne

6.2 The Government of West Bengal has reduced the rates of cess levied on coal w.e.f. 1.12.98 as under :

- The West Bengal Rural Employment & production cess from 38% to 20%
- The West Bengal Primary Education Cess from 7% to 5%.
- There has been no reduction in other cesses.

7. Recommendations of 1997 Study Group on Royalty

7.1 The recommendations of 1997 Study Group on royalty in brief are as follows :-

- i) Royalty rates on ad-valorem basis, i.e., as a percentage of base prices of coal per tonne as fixed from time to time may be adopted.
- ii) The various Groups of Coal may be divided into two groups for the purpose of fixing coal royalty rates.
- iii) The Study Group has recommended the following royalty rates :

(Rates in percentage of the base prices of coal)

Groups and Grades of Coal Rates

Group-I Coals

(a) Coking Coal, Steel Grades 25% of the base price of I & II, Washery Grades respective grades of Coal I, II, III & IV

(b) Semi-coking coal Grades I -do- & II

(c) Hand picked coal produced -do- in Assam, Arunachal Pradesh and Nagaland.

(d) A, B & C grades of non- -do- coking coal.

(e) Upgraded ROM coal -do- produced in Assam, Arunachal Pradesh and Nagaland

Group-II Coals

(a) D, E, F & G grades of non- 20% of base prices of the coking coal. respective grades of coal.

(b) Coal produced in Andhra -do- Pradesh Singareni Collieries Company Limited

(c) Coals produced in -do- Meghalaya

8. Merits/demerits in adoption of ad-valorem rates for royalty

8.1 Merits

- i) By and large, ad-valorem rates of royalty for minerals is being followed internationally. In Canada, China, Indonesia, Poland, Russia and USA, ad-valorem rates of coal royalty have been adopted.
- ii) The market forces themselves take care of the increase and decrease of royalty rates and accruals. In the present context when the

policy of the Government is to allow the economics of Indian Coal Industry to be determined by the market forces gradually, the ad-valorem basis is in consonance with the policy thrusts.

iii) Repeated royalty revisions by the Central Government can be avoided, if the more equitable system of ad-valorem is accepted.

iv) It would also make the royalty revenues more buoyant for mineral producing states.

Demerits

The ad-valorem rates of royalty have not been recommended in respect of minerals which have a large number of mines on the ground that administration of ad-valorem system of royalty is difficult and leads to litigation on a large scale.

9. Sarkaria Commission's recommendations on royalty

The Sarkaria Commission in its report submitted to the Ministry of Home Affairs, in Chapter XIII on Mines & Minerals made a recommendation in Para 13.7.01 as under :

"Proviso to Section 9 of the MMDR Act should be amended to reduce the period specified therein for revision of royalty rates from four years, to two years."

The Standing Committee of the Inter-State Council monitored implementation of the recommendations of the Sarkaria Commission. The Standing Committee deliberated the recommendation of the Commission in their Eighteenth meeting held on 1.9.2000, in which representatives of the Governments of West Bengal, Tamil Nadu, Punjab, Assam, Madhya Pradesh and Department of Mines of the Government of India had expressed their views. Following the discussion the Standing Committee decided on a proposed consensus and modified the recommendation as under :

"The Government will endeavour revision of royalty every three years with a programme to shift towards a fully ad-valorem based royalty regime in accordance with the existing provisions of the MMDR Act, 1957."

QUESTIONS

Q.No. 1 What is the comparison between Indian coal royalty rates and royalty rates of other countries?

Ans. The comparison between Indian coal royalty rates and coal royalty rates of other countries is as follows :-

Country	Type	Rate	Comment
Australia (NSW) Production	Specific rate on	A\$1.70/tonne	Equivalent to <10%

(tonnage basis)
Australia Ad valorem 7% on mine

(Queensland)
Canada (B.C.) Ad valorem 1% of mine mouth value plus 13% on net revenue

China Ad valorem 13% on sales
India Specific rate on sale value production Average 12% of

(tonnage basis)
Indonesia Ad valorem Negotiable to Rate is maximum 13.5% usually on gross sales lower for recent project

Poland Ad valorem 2% of sales value

Russia Ad valorem 1-2% plus 5% reserve replacement tax on gross sales

South Africa By negotiation with the mineral rights owner

USA Federal Lands		None
USA State Lands	Ad valorem	13% on sales value

Q.No.2 How the total royalty earnings of the State Governments has declined when the production of coal has increased during 1998-99 and 1999-2000?

Ans. Royalty on coal paid by the coal companies to the coal producing State Governments are on despatch of coal. As such with increase in despatch the royalty income of the State Government increase. While the increase/decrease in royalty payments to the State Governments are more or less commensurate with the increase/decrease in despatches, the deviations such as decreases in royalty increase while despatch are increasing in 1998-99 and 1999-2000 are mainly due to change in the grade mix of despatches.

i) The rate of increase in royalty income of the State Governments except West Bengal 1995-96 over 1994-95 was high mainly because of increase in the royalty rates of various grades of coal effected in October, 1994.

ii) In Assam the royalty income during 1995-96 was much higher because the overdue interests of earlier years were paid in the year 1995-96.

Q. No. 3 What are the reasons for decline in the revenue of the West Bengal Government on account of cess ?

Ans. The reasons for decline in the revenue of the West Bengal Government on account of cess are as follows :-

i) decline in the ad-valorem rates of cess. The ad- valorem rates of cess from time to time are as follow :-

Period	Ad-valorem rates
1.1.89 to 14.7.96	35% of coal price
15.7.96 to 30.11.98	38% of coal price
1.12.98 to date	20% of coal price

ii) decrease in production of coal in West Bengal by ECL and BCCL

Year	Production in lakh mt
1995-96	174.97
1996-97	176.61
1997-98	164.80
1998-99	166.73
1999-00	152.84
2000-01	169.02

Q. No. 4 What is royalty as a percentage of average price of coal of different grades ?

Ans. Royalty as a percentage of average price of non- coking coal of different grades at present, is as follows :-

(other than West Bengal)

Grade	Rate of Average Price		Royalty
Royalty In Rs.	In Rs.	as percentag	
e of average price			
A	135	1,159	11.65
B	135	1,021	13.22

C	95	885	10.73
D	70	765	9.15
E	70	573	12.22
F	50	464	10.78

(In West Bengal)			
Grade	Rate of Average Price		Royalty
Royalty	In Rs.	as	
In Rs.	percentag		
e of			
average			
price			
A	6.50	1,283	0.51
B	6.50	1,186	0.55
C	5.50	994	0.55
D	4.30	800	0.54
E	4.30	524	0.82
F	2.50	417	0.60

Q.No. 5 How do you say that imported coal is cheaper than Indian coal in certain locations?

The following example will show how Indian coal is getting out priced by imported coal at certain destinations as on 1.4.2001:

Destinati on	North Chennai TPS			SikkaTPS	
Source	ECL	MCL	Indones	SECL	South
Raniganj	Talcher	ia	Korea-	Africa	
Rewa					
Grade/GCV	`B`	PRM "F"ROM	6000	C	PRM 6400
(KCAL/KG)	ROM/6049	(3750)		ROM	
(5597)					
Total Coal price	1775.28 (Inclusive of Royalty,	472.68 (Inclus ive of	2007.25 (CIF)	1050.92 (Inclusiv e of	2189.41 (CIF)
(Rs. per tonne) tax etc.	Sale etc.	tax , Sale etc.	Royalty	Royalty	
Rail freight	365.52	252.20	77.88	1277.55	-
(a) Port charges (b)	260	419.00	133.00	-	288.00
Sea freight	311	270.00	-	-	-
(c) Handling charges	936.52	941.20	210.88	1277.55	288.00
(a)+(b)+(c)	2711.80	1413.88	2218.13	2328.47	2477.41
Total landed cost (Rs. per tonne)	448.31	377.03	369.69	416.02	387.10
Landed Energy cost (Rs/MKCal)					

Note:

1. Import duty @ 30% charged on CIF price is included in the total price of imported coal. CIF price of imported coal is considered at 33 US \$/TE for Indonesian coal of GCV 6000 KCAL/KG And 36 US\$/TE for S. African coal of GCV 6400 Kcal/Kg.

Q.No. 6 What is the import duty on coal and quantity of coal imported?

The Import Duty /Quantity of imports

Year	Coking		Non-coking		Total
Quantity (in million tonnes)					
Import duty (in million tonnes)	Quantity (in million tonnes)	Import	Quantity		
Less than 12% ash	More than 12% ash				
1992-93	5% 85%	6.32	85%	0.42	6.74
1993-94	5% 85%	6.82	85%	0.57	7.39
1994-95	5% 35%	10.15	35%	1.24	11.39
1995-96	5% 35%	9.37	35%	3.14	12.51
1996-97	5% 22%	10.62	22%	2.56	13.18
1997-98	5% 15%	11.74	15%	4.70	16.44
1998-99	9.2% 19.6%	10.02	19.6%	6.51	16.53
1999-00	9.72% 21.16%	10.99	21.16%	8.71	19.70
2000-01	9.72% 21.16%	11.06	32.6%	9.87	20.93
2001-02	9.2% 19.6%	NA	30%	NA	NA

Note: Data Provisional

Q.No. 7 Whether Government are aware of the recommendation of 11th Finance Commission whereunder it has been stated that the revision of royalty is to be effected after 3 years and in the event of non-revision of royalty, proportionate compensation is to be paid to the mineral producing States including coal? If so, what action has been taken by the Ministry of coal in the matter?

Ans.

The recommendations of the 11th Finance Commission are as under :-

iii) Royalty rates on minerals be revised regularly and the decision about the revision of the rates of royalty be taken well before the date on which the revision falls due so that it can be notified immediately after the completion of every three-year period as provided under the law. In case the process of revision is not completed by the date the new revision is due, the States should be entitled to compensation.

iv) Fixation of royalty rates is done by the concerned Ministry/Department. For the sake of transparency and fairness, the task of making recommendations of royalty rates should be entrusted to an independent body.

Royalty is an amount payable by a lessee to the lessor for removing or consuming a mineral. Section 9 (1) of the Mines and Minerals (Development and Regulation) Act, 1957 requires the holder of a mining lease or his agent, manager, employee, contractor or sub-lessee to pay royalty, in respect of any mineral removed or consumed from the leased area, at the rate specified in the Second Schedule of the Act. Section 9(3) of the MMRD Act, 1957 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. This revision is done by amending the particular entry of royalty rate for the respective mineral in the Second Schedule of the Act. 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. No fixed periodicity of either revision or enhancement of royalty rates on major minerals including coal has been laid down in law. The Central Government has the option to keep the royalty rates on coal unchanged.

There is no proposal under consideration of Government that the task of making recommendations for revision of royalty rates on coal should be entrusted to an independent body. The royalty rates for different grades of coal from time to time are fixed by the Central Government under relevant provisions of the M(D&R) Act on the basis of the recommendations made by the study groups constituted for the purpose. The study groups make their recommendations after detailed discussions and deliberations with the coal consumers as well as the coal producing States. Before making their recommendations, the study groups keep in view the interests of the coal consumers, coal producing States as well as the interests of the economy as a whole. The recommendations made by the

study groups are examined by the Government having regard to the overall economic situation of the country.

Royalty as percentage of average price of coking coal

Grade of coal	Rate of Average	Royalty as
Royalalty(Rs price per tonne) of coal prices	percentage of average	percentage
Steel Grade - I	195	1695
		11.50
Steel Grade-II	195	1416
		13.77
Washery Grade - I	195	1199
		16.26
Washery Grade -II	135	993.40
		13.58
Washery Grade- III	135	763.40
		17.68
Washery Grade- IV	95	692.80
		13.71
Semi- coking Grade -I	135	1220
		11.06
Semi- coking Grade- II	135	1009.75
		13.36
Total - Coking Coal average of percentage of average price		
		13.86

Royalty as percentage of average price of non-coking coal

Grade of coal	Rate of Average	Royalty as
Royalalty Price	percentage of average	percentage
(Rs. per tonne)	(Rs. per of average price)	
A	135	1,159
		11.65
B	135	1,021
		13.22
C	95	885
		10.73
D	70	765
		9.15
E	70	573
		12.22
F	50	464
		10.78

Overall average of royalty as percentage of average price of coal - 12.76%