



# drishti

## Index to Determine the Value of Coal Blocks

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Recently, the high-powered committee, set up in 2017 to review the current process of the coal block auction system, has suggested major changes.

These suggestions coincide with the opening up of the coal sector for commercial mining.

### Recommendation

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The recommendations are based on four tenets:

1. ensuring transparency and fairness,
  2. equity,
  3. early development of coal blocks and
  4. Simplicity of implementation of the recommendations.
- Introducing flexibility in the number of bidders, penalties for defaulting on milestones (and revoking bank guarantees), project execution, and relaxation to captive miners to sell some of the coal in the market.
  - A default in achieving critical milestones should attract penalty against the earlier penalty for each default. (The number of milestones are now eight versus 20 earlier)
  - The panel has recommended developing a Coal Index for determining the value of blocks and a revenue-sharing model with the States. The valuation is on the basis of the notified price of Coal India Ltd.
  - The committee has suggested that a single-bid should be accepted if biddings failed to find eligible bidders, provided the offered price is benchmarked to the reserve price.

### Need for Changes

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- After the initial intense competition since the introduction of auctioning the mineral blocks, the e-auctions failed to sustain interest after several blocks were taken at high prices.

- Companies which bought the blocks found it cheaper to import coal to meet their requirements rather than developing the mines.
- Production from the captive mines which were auctioned had remained lower than their pre-auction output.
- Aggressive bids by bidders during auctions, the subsequent decline in coal prices in international markets as well as in e-auctions, and weak financial health of some of the coal-block winning companies were other reasons for slower production.