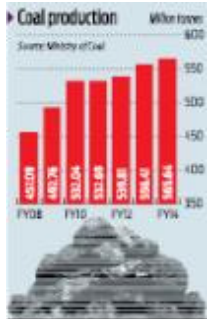




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Coal users seek exit clause in linkage pacts with CIL

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Kolkata: Planned auctioning of coal linkages, it appears, might be a tougher call for the government than putting coal blocks for bidding, which has already made a successful beginning after the last month's auctioning process.

Coal using industries have demanded for an exit clause in the linkage agreement amid concerns of getting trapped in a long-term contract at a time of falling global prices which could be a losing proposition for them, SBI Caps, the consultant appointed to decide on the modalities of the auction, has told the ministry.

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“Since coal prices in the international market fluctuate, bidders should be given the exit option in the fuel supply agreements or FSAs after a certain lock-in period. It was also suggested that escalation factor should also allow for a decrease in coal price as globally coal prices move in both positive and negative direction,” SBI Caps said in its briefing to the Inter-ministerial Committee, after meeting officials of steel ministry, department of industrial policy and promotion and several industry bodies like Cement Manufacturers Association.

The industry has further demanded that since cost to end consumers include logistics cost in a major way, it should be built into the linkage prices.

“How can you possibly include cost of transporting coal using railway infrastructure to a particular far away plant? If linkage prices doesn't capture these cost components, units located closer to the mines would stand to benefit at the expense of those plants located at non-coal bearing states like Gujarat,” VK Arora, chairman of mining and construction division of Confederation of Indian Industry, told dna.

With adoption of market-based mechanism for pricing of coal, quality of coal supplied is also required to be ensured by Coal India, users have told SBI Caps.

“Members of industry bodies pointed out that currently there are capacity constraints for movement of coal by rail. Logistic issues needs to be resolved to ensure regular supply of coal to end-users”.

Government so far has been granting coal linkages, assuring supplies from Coal India on an adhoc basis much like the way it did for allocating blocks. But after Supreme Court ruling that cancelled all such adhoc block allocations, coal ministry has now started mulling e-auction of existing as well as future coal linkages.

But it's logically wrong to equate coal block allocation with coal linkages, Arora claimed.

“While blocks were given out in the past in an adhoc and opaque manner, coal linkages have always been decided in a transparent manner depending upon the normative requirement of plants, which were checked out by Coal India,” Arora said.

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