A looming coal crisis

Gas-starved Europe's revival of coal plants spells bad news for India, which is a rising net importer

SUBHOMOY BHATTACHARJEE
New Delhi, 16 September

This week, the chief of the Indonesian Coal Mining Association said Indonesian coal miners were expecting Germany to be their third-largest importer by 2023, just behind China and India. The over 150 per cent rise in prices of the fuel across Europe since January this year — a fallout of the gas supply crisis after Russia invaded Ukraine, has made this seemingly absurd ranking possible. More to the point, it has implications for India, which has been a net importer of coal in recent years.

The huge price rise in Europe has made coal mines nearer the continent, such as South Africa, pivot even more to those markets. As demand from China also shoots up — a result of climate change drying up hydel-power-producing rivers — Indian imports could be impacted. One reason India has narrowly escaped being singed this season is that production from state-run Coal India Ltd (CIL) has risen sharply this year. It was 22.74 per cent up, year on year, between April and August 2022. The other reason is that better management of CIL supplies by the Railways ensured the annual monsoon crisis at power plants did not occur this year.

But as no Indian government agency makes even a yearly forecast for demand and supply of energy fuels, including coal, it is pure guesswork how imports, which account for close to a third of India's total consumption of coal in the pre-Covid years, and the global supply shortage will pan out for the economy.

One easy guess is that the coal balance for the months ahead will not be comfortable. Unlike oil, whose demand tracks the global ups and downs in GDP of key nations, coal demand is more rigid. It lights up power plants to provide electricity in the winter for the homes in Europe and China. Those heating demands will not come down much, even if there is a recession.

Already, inventory at China's Qinhuangdao port, the world's largest coal terminal, was down 16 per cent in August, sequentially. Coal loading for exports at Australia's Newcastle port has been affected by a shutdown and floods in the mining areas. Disruptions are afflicting major ports in many countries as they try to handle the massive surge in demand for coal, according to reports by market intelligence firm CoalMint.

Essentially, the market for coal has become extremely tight. The chief reasons are the European gas crisis, which has sent demand soaring for every possible tonne of coal. Germany's largest power producer Uniper has revived coal-based power production after stopping in 2020. It is the same story across the border in Poland. Polish bank Pekao has reversed its policy to permit the financing of coal trade. Demand for coal is also soaring in China as it prepares for winter. To compensate for the sharp fall in production of hydro-electricity, Beijing is stocking up on coal, madly. July data shows China imported 15 per cent more coal from Russia than the previous year. That makes it the highest import level in five years.

Those imports are welcome news for Russia, blocked out of the European market, to which it used to sell almost half of its production. India has also begun to import some Russian coal. But the long sea voyage adds to the costs. So whichever source New Delhi might look at, all have become costly.

Coal consumers in India are taking evasive action to save their balance sheets. They have begun to prepare cocktails of coal imports from different sources. Sponge iron manufacturers in eastern India, whose output prices vary with every swing in prices of coal, are now blending costlier Australian coal with South African cheaper products, sometimes even on the high seas.

The other coping mechanisms are not very good news. Coking coal imports from Australia to India in August have fallen to a two-year low. Coking coal is mostly used to manufacture steel. Since India's domestic production of domestic coking coal has been flat for decades, it is chiefly Australian imports that have fed the Indian furnaces. Indonesian and South African coal is mostly of the non-coking variety, useful for feeding power plants. The lower Australian imports essentially mean the weaker steel producers are easing off their production lines due to the costs. This has major implications when India is undertaking a huge expansion of infrastructure investments.

The data is not showing up now but will certainly do so in the subsequent months. In July, steel production increased 5.7 per cent, year on year. The cumulative index for the metal has increased by 6.5 per cent in this financial year.

Matters could have been slightly better if the commodity exchange for coal had been rolled out by now. It has been given in-principle approval in 2021 but is taking time to become operational. The market could have offered pointers to businesses on the demand side on how the price of coal and its supply would pan out. The e-auction mechanism for domestic coal offers a measure of supply and demand for only domestic production. A larger coal market would allow Indian importers to send out stronger price signals.

As of now, without a government forecast and no commodity market, it is extremely difficult for the consumers to plan ahead. Finance Minister Nirmala Sitharaman had this week berated the domestic industry about not increasing investments. But without price signals for the coal-dependent sectors, there is a big problem in adding capacity.

For instance, the global coal shortage should have spiked interest to bid for coal mines in the ongoing auctions. Shares of Adani Enterprises, which handles coal imports for the conglomerate, have risen 118 per cent since January this year. But in the fifth round of auctions in September, bids came in for only 15 coal blocks against a pool of 100 blocks on offer. Finally, only eight bidders stayed in the race to pick up stakes close to the reserve prices. The only exception was Vedanta, which paid a premium to pick up a mine adjacent to its existing coal blocks in Ib Valley in Odisha.

Despite all the noise from climate change activists, the prices of coal, the quintessential dirty fuel, will continue to make headlines through a good part of this decade.

MINE GAMES

Annual change in exports* (In Million tonnes)

	2020	2021	2022#	
South Africa	−9	−9	0	Exports to Europe have risen 700%
Indonesia	27	15	3	
Russia	6	−15	0	August exports to India 1.8 MT from 300,000 (2021)
United States	12	2	−4	Affects Europe
Colombia	4	3	2	Coal sales concentrated in Asian market
Australia	0.1	−3	2	More exports to Asia
Rest of world	3	4	NA	

TOTAL EXPORTS

2020	2021	2022#
1,070	1,047	1,044

*Minus means decline; #Mid calendar year estimates
Source: IEA and ors

Kerala in talks with Airtel, Jio to monetise internet firm's assets

Kfon, after three years, may have to raise ₹250 crore annually to repay its debt and for maintenance and expansion

SHINE JACOB
Chennai, 16 September

Kerala will monetise its state-owned internet firm's assets. It is in talks with private companies Bharti Airtel and Reliance Jio as it seeks funds to bring digital services to the poor.

Kerala Fibre Optic Network (Kfon) is expanding its footprint to around 30,000 offices and has provided free internet to two million economically backward households. After three years, it may have to raise ₹250 crore annually by monetising assets to repay debt and for maintenance and expansion. Airtel and Jio did not respond to questions from *Business Standard* about taking part in Kfon's monetisation of dark fibre (unused fibre).

Santhosh Babu, Kfon's managing director, said Airtel has written his company a letter expressing interest in some of its areas.

"We are awaiting a government order regarding asset monetisation. It is likely to come very soon. Moreover, we will have to go for price discovery or per kilometre cost. We are in talks with several players including Jio and Airtel," he said.

Kfon has laid fibre cable for about 30,000 km, while Jio has about 10,000 km. Kfon aims to lease out around 50 per cent of the fibre to telecom service providers and cable networks. The major sources of revenue through asset monetisation are expected to be dark fibre, leased lines, and network centres.

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Kfon is a special purpose vehicle between Kerala State Electricity Board (KSEB) and Kerala State IT Infrastructure Ltd (KSITIL). KSITIL is soon expected to get charge of setting up 5G infrastructure in parts of the state. Babu said that within the next three years Kfon will have to pay annually around ₹100 crore as payment for ₹1,100 crore raised from Kerala Infrastructure Investment Fund Board.

"In addition, our operations and maintenance will require ₹4-5 crore a month, electricity bills will be around ₹15 crore a year and we will have to pay certain charges to the government of India too. We may require around ₹250 crore in total per year and will have to meet a good share of this through asset monetisation," he said.

The total investment for the project is expected to be in the range of ₹1,600 crore. According to Kfon, around 85 per cent of its infrastructure work is complete.

Of the 30,000 Kfon offices planned, infrastructure is installed in 24,357 and in 8,300 of them have started services. Around 14,000 families in 140 assembly constituencies are yet to be selected by the local self-government for Kfon services.

Prison resources remain scarce despite jump in budget allocation

SAMREEN WANI
New Delhi, 16 September

India's expenditure on prison inmates has increased by 24.3 per cent in the past five years — from ₹1,694.32 crore in 2017 to ₹2,106.86 crore in 2021 — according to the latest Prison Statistics in India report (*see chart 1*).

The states with the highest annual expenditure per inmate in 2021 were Andhra Pradesh (₹2.1 lakh), Haryana (₹1.4 lakh) and Delhi (₹1.1 lakh). Prison occupancy, too, increased to 130 per cent in 2021 from 115.1 per cent in 2017 (*see chart 2*).

"The overcrowding shouldn't have increased since these were the Covid-affected years," said Valay Singh, project lead on the India Justice Report, an independent collective of seven organisations that ranks Indian states based on their capacity to deliver justice.

According to government data, occupancy in the district jails of Aligarh, Uttar Pradesh, is 411 per cent; in Jamui, Bihar, it is 447 per cent; and in Anuppur, Maharashtra, 310 per cent.

A *Business Standard* analysis found that while the number of prisoners has increased by 23 per cent from 450,696 in 2017, the number of prisons has reduced by 3 per cent from 1,361 in the past five years. Undertrials made up a majority of prison inmates. As many as 77.1 per cent of the 554,034 inmates — roughly eight out of 10 — are awaiting a verdict.

"Each inmate costs money. There are now three times the number of undertrials than there are convicts. This adds to huge overcrowding and all the consequent ills," said Maja Daruwala, convener and chief editor, India Justice Report.

Of the ₹2,106.86 crore spent on inmates in 2021, ₹1,624.4 crore was on undertrials alone. The government's average expenditure per prisoner in five years was ₹39,571.9 (₹108.4 per day), which is roughly one-third of India's per capita income.

"This isn't enough. According to the FAO (State of Food Security and Nutrition in the World Report 2020), for any person to have adequate nutrition and diet in South Asia, a person needs \$2.12 per day (roughly ₹170/day)," Singh said.

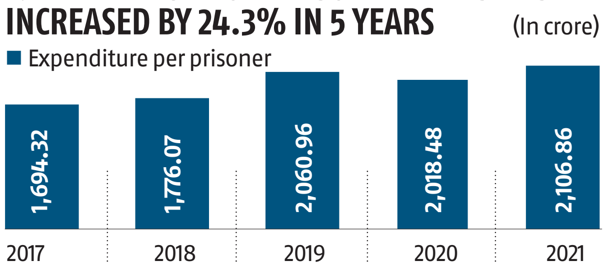
But, as Singh explained, it would be difficult to come up with national figures for a benchmark spending per prisoner as "the cost of living varies from state to state, from one city to another and from tier to tier".

"The PSI (Prison Statistics Report) states that 54 per cent is spent on food and 5 per cent on medical matters. There is a lot of illness in prisons — sudden, serious ones and chronic infections. Plus, those brought about by the mental stress of being there," said Daruwala.

Further analysis of the report found that even though medical expenditures have increased by 54 per cent from 2017 to 2021, there is still a lack of medical personnel in prisons. The increase in budget has not necessarily meant an improvement in the availability of human resources. In 2021, 40 per cent of the 3,497 sanctioned posts for medical staff were lying vacant. The staff-to-prisoner availability has decreased from 4.4 medical staff for 1,000 prisoners in 2017 to 3.7 medical staff in 2021 (*see chart 3*).

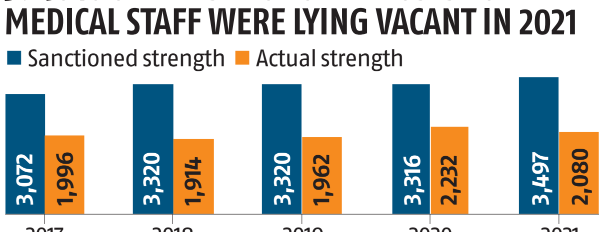
"The years of continuous medical officer shortages suggest that prisons must create their paramedics and barefoot doctors from amongst convicts," said Daruwala.

1. EXPENDITURE ON PRISON INMATES HAS INCREASED BY 24.3% IN 5 YEARS (In crore)



Source: Prison Statistics Report

3. 40% OF THE SANCTIONED POSTS FOR MEDICAL STAFF WERE LYING VACANT IN 2021



Note: Medical staff includes doctors, lab technicians, compounders and pharmacists
Source: Prison Statistics Report

2. IN 16 STATES, PER PRISONER SPENDING MORE THAN 5-YR AVG

	Expenditure (₹ cr) Per inmate	Per day
Andhra Pradesh	2,11,157.2	578.51
Arunachal Pradesh	90,836.7	248.87
Assam	20,121.0	55.13
Bihar	33,460.4	91.67
Chhattisgarh	36,518.6	100.05
Goa	25,045.4	68.62
Gujarat	20,961.6	57.43
Haryana	1,45,007.9	397.28
Himachal Pradesh	13,977.7	38.3
Jharkhand	51,211.4	140.31
Karnataka	38,454.1	105.35
Kerala	58,191.5	159.43
Madhya Pradesh	2,80,35.8	76.81
Maharashtra	17,187.2	47.09
Manipur	54,173.5	148.42
Meghalaya	41,689.6	114.22
Mizoram	32,347.7	88.62
Nagaland	64,600.0	176.99
Odisha	22,779.3	62.41
Punjab	17,115.4	46.89
Rajasthan	17,734.8	48.59
Sikkim	46,543.8	127.52
Tamil Nadu	37,474.3	102.67
Telangana	36,249.3	99.31
Tripura	32,429.8	88.85
Uttar Pradesh	18,550.1	50.82
Uttarakhand	6,111.8	16.74
West Bengal	34,813.1	95.38
A&N	51,685.4	141.6
Chandigarh	1,06,243	291.08
DNH & DND	82,702.7	226.58
Delhi	1,18,737.4	325.31
J&K	60,201.2	164.93
Ladakh	70,000.0	191.78
Lakshadweep	60,000.0	164.38
Puducherry	23,278.7	63.78

Source: Prison Statistics Report