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METALS & MINERALS|WEEKLY NEWS IN REVIEW

# Coal India to lose monopoly

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*Recent news that India will allow private companies to bid for coal mines spells big change for the domestic industry and the broader market*

The near-monopoly that Coal India Ltd (CIL) has held in India’s coal mining industry is coming to an end after more than 40 years. Under a new government framework opening the sector to commercial miners, private and foreign companies will be allowed to bid for mines without restrictions surrounding price or end-use.

The burning of coal in thermal power plants accounts for more than 75pc of India’s generating capacity. Demand is also driven by manufacturers of materials including steel, cement and fertilisers. India has considerable coal reserves of around 310bn t, but CIL’s annual production – at around 80pc of national consumption – has not been enough to feed the industries that burn it.

Stalled power generation projects account for almost 50GW of India’s generating capacity, or around 15pc of the country’s total of more than 300GW. An influx of foreign investment in coal mines and distribution infrastructure is expected to ease the supply bottlenecks seen in recent years, with those anticipated to enter the market including Rio Tinto, BHP Billiton, Glencore, Anglo American and Vedanta.

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The commercialisation of India’s coal sector should raise domestic supply as private investors develop mines. This is likely to reduce reliance on imported coal, but such an effect is unlikely to be felt for some time, as mines or blocks have yet to be offered for sale. As and when domestic coal production rises because of increased investment, India is likely to import less coal from miners in countries including Indonesia. Imports of higher-grade coals from countries including South Africa and the US will continue in line with activity in industry segments that require – for instance – coal with a higher energy content.

Increased mine investment is likely to raise India’s coal consumption. The country’s growing fleet of thermal plants runs at less than 60pc of installed capacity – largely because of supply constraints – and electricity demand continues to rise. Before news of CIL losing its monopoly came to light, the International Energy Agency forecast coal-fired power generation in India to grow at 4pc annually through 2022, but some commentators are now forecasting an annual growth rate of closer to 7pc.

The Indian government opening the door for private companies to enter the coal industry might be expected to raise demand for talent among the big miners, but we think that there is more likely to be a displacement of people from bigger companies to smaller ones. The big players are already well resourced, and many are unlikely to invest in coal teams given recent market conditions, leaving the opportunity to newcomers that are ready to take advantage of the situation.