

Fourteenth Loksabha

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Participants : [Acharia Shri Basudeb](#), [Rao Dr. Dasari Narayan](#), [Rao Dr. Dasari Narayan](#), [Tripathy Shri Braja Kishore](#), [Acharya Shri Prasanna](#), [Chidambaram Shri P.](#)

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Title: Shri Braja Kishore Tripathy called the attention of Minister of Coal to the situation arising out of non-revision of royalty on coal and other minerals and steps taken by the Government in this regard.

SHRI BRAJA KISHORE TRIPATHY (PURI): Sir, I call the attention of the Minister of Coal to the following matter of urgent public importance and request that he may make a statement thereon:

“The situation arising out of non-revision of royalty on coal and other minerals and steps taken by the Government in this regard ”

MR. SPEAKER: Hon. Minister, you can lay your statement on the Table.

THE MINISTER OF STATE IN THE MINISTRY OF COAL (DR. DASARI NARAYAN RAO):
Sir, I lay my Statement.

*Sir, I wish to inform the august House that Section 9(3) of the Mines and Minerals (Regulation & Development) Act, 1957 empowers the Central Government to enhance or reduce the royalty rates in respect of coal and lignite. The proviso to the aforesaid Section prevents the Central Government from enhancing the rate of royalty on coal and lignite more than once during any period of three years. Thus, it may be seen that it is not stipulated under law to revise the rate of royalty on coal and lignite after every three years. However, the rates of royalty are revised after taking into consideration the interests of all stake holders and the overall economic scenario of the Country.

2. The Central Government recognizes the fact that royalty from coal and other minerals constitutes an important source of revenue for the concerned State Governments. A mineral is a non-replenishable resource and once it is extracted and consumed, its economic value gets extinguished forever. Therefore, the States demand to be compensated adequately by way of royalty.

*Laid on the Table and also placed in Library. See No.L.T.5184/06.

3. The royalty rates on coal and lignite were last revised on 16.08.2002 and 15.03.2001 respectively. Royalty on lignite was fixed at Rs. 501/- per tonne and the

rates fixed on coal ranged from Rs. 65/- to Rs. 2501/- per tonne, depending on the grade of coal. At the time of last revision of royalty rates in respect of coal, the rates were about 16% of the average price of coal. Thus, the rates fixed were quite reasonable and compared quite favourably with the international trends in regard to royalty on coal.

4. The Twelfth Finance Commission (2005) recommended that 'since royalty is an important source of revenue for some of the states, the rates of royalty should be fixed on an ad valorem basis.'
5. While appreciating the suggestions made by various coal producing States as well as: by' many Hon'ble Members of Parliament for early revision of royalty rates on coal and lignite, Ministry of Coal constituted a Committee under the Chairmanship of the Additional Secretary, Ministry of Coal on 02.06.2005 to examine the issue of revision of royalty rates on coal and lignite. The Committee held extensive deliberations on the issues involved and also held consultations with all the stakeholders, which included both coal producing as well as consuming States, the concerned Ministries! Departments! Organisations of the Central Government, the major industry associations such as FICCI, Cement Manufacturers Association, Federation of Indian Mining Industries (FIMI) etc. and the coal companies.
6. In view of the complexities involved, the Government decided that the issue of payment of royalty on coal on ad valorem basis vs. tonnage basis may be examined by the Economic Advisory Council to the Prime Minister (EAC to PM). The EAC to PM has recommended that the royalty may be shifted from specific levy to a combination of specific and ad valorem levies. EAC felt that this arrangement will provide a certain minimum royalty under the specific component plus a share in the price as a variable component. The royalty on coal has to be determined so as to take care in a balanced way of the interests of both the producers and the consumers. EAC further observed that our royalty rates are already high relative to those in other countries. This should be kept in view in fixing the royalty rates. Any revision in royalty should not be made applicable automatically to states which levy own cesses. The royalty to be allowed to such states should be adjusted for the local cesses so as to limit the overall revenue to the formula based yield.
7. The Committee constituted by the Ministry of Coal submitted its report on 14.07.2006 after having detailed deliberations with all stake holders. The recommendations made by the Committee are at an advanced stage of consideration in the Government.
8. It is observed that in the wake of the judgment passed by the Constitutional Bench of the Supreme Court in Kesoram Industries Ltd. Vs Government of West Bengal upholding the legislative competence of the State legislatures to levy cess on mineral bearing lands, a number of States have reintroduced cess or other statutory levies on mineral bearing lands. The rates vary from RS.20 per tonne in Andhra Pradesh to 25% ad valorem in West Bengal. Incidence of cess levied by State Governments together with the enhanced royalty rates would have a cascading effect on the coal consuming sector and this would cause disparities across the States.
9. This issue was further discussed in a meeting under the Chairmanship of Secretary (Coal) held on 10.10.2006 with the representatives of the coal producing States. The views of the State Governments on the matter have been obtained.

10. Based on the report of the Committee on royalty and the consultation held with the State Governments, the matter would soon be placed before the Cabinet Committee on Economic Affairs for a decision. May I assure the hon. Members that interests of all the stakeholders would be taken into account while deciding on the revision: of royalty rates in respect of coal and lignite.

11. In so far as other minerals are concerned, the rates of royalty of minerals other than fuel and minor minerals were last revised on 14.10.2004 and no revision of royalty rates would be possible before 13,10.2007 for these minerals. At present, ad valorem regime has been adopted in respect of as many as 39 minerals.

12. Ministry of Mines has already constituted a Study Group under the chairmanship of Additional Secretary, Ministry of Mines for next revision of royalty rates on major minerals (other than coal, lignite and sand for stowing).

SHRI BRAJA KISHORE TRIPATHY : Sir, the hon. Minister's statement is most disappointing and mostly evasive. He has not gone into the problems and the demands of the State. This is one of the examples of this Government how they are neglecting the poor States... (*Interruptions*)

MR. SPEAKER: Please keep silence in the House. Otherwise, I will adjourn the House and go home. Let the people of this country see what is happening.

SHRI BRAJA KISHORE TRIPATHY : Despite Orissa and other mineral producing States being the owner of the mineral resources falling within their jurisdiction, the revenue receipts from the royalty are too meager to undertake developmental activities in the mineral areas.

Section 9(3) of the Mines and Minerals (Development and Regulation) Act, 1957 stipulates that the Central Government, shall revise the rate of royalty and shall specify in the notification... (*Interruptions*)

MR. SPEAKER: Who wish to talk amongst themselves, please go out in the Inner Lobby or Outer Lobby or Central Hall or wherever they like to.

SHRI BRAJA KISHORE TRIPATHY : The Central Government has not yet taken any steps to revise the rate of royalty on coal and other minerals for which State Governments are losing substantial amount of revenue.

Due to delay in revision and discrimination in the rate of revision of royalty on coal alone, the loss sustained by the State of Orissa from 11.10.97 to 15.8.2002 is estimated at Rs.750 crore. The other States also have accrued substantial losses.

Although the revision of royalty on coal is required to be revised in every three years, Government of India is not revising it regularly on time and thus depriving the coal producing States of its dues.

For example, it was revised on 12.2.1981 after seven years, then on 1.8.1991 after seven years, then on 11.10.94 after two months and lastly on 16.8.2002 after nearly five years. Now even after four years it is not yet revised.

The mineral producing States are also losing their revenues to a great extent, because of non-revision of royalty on iron ore and other major minerals. The royalty rates on iron ore are ridiculously low in comparison to the market price of iron ore and profits accruing to the industries and mining companies.

For example, the State is getting only Rs.27, Rs.16 and Rs.11 as royalty with 65 per cent FE content with 62 per cent FE content and less than 62 per cent FE content respectively for iron ore lumps per tonne. The mining operational cost is total about Rs.300 per tonne. But the market price per tonne of lumps of iron ore is Rs.1800 and Rs.2000 and more. It has reached to Rs.3000 in the past. The mine owners and industrialists are only investing Rs.300 and Rs.350 but they are getting profit per tonne of iron ore about Rs. 1500 to Rs.2000. So, you could see how profit they are earning.[\[R11\]](#)

But the States are not getting royalty accordingly. The royalty rates are not enhanced. The Sarkaria Commission has also recommended to amend the provisions of Section 9 of the MMDR Act to reduce the period specified therein for revision of royalty rates to two years. The Eleventh Finance Commission has also recommended that the revision of royalty should take place regularly and in case such a revision does not take place, the State should be fully compensated. Both the Planning Commission and the Twelfth Finance Commission have recommended categorically to switch over to the *ad-valorem* basis for royalty. This was also raised by the State Governments in the meeting of the Eastern Zonal Council and found unequivocal support to switch over to *ad-valorem* basis and to revise the royalty rates. The Chief Minister of Orissa has also requested the hon. Prime Minister in his two D.O. letters dated 24.6.2005 and 12.6.2006 for early revision of the rate of royalty on coal and to fix the rate on *ad-valorem* basis. Although the Cabinet Committee on Economic Affairs have approved the revised rate of royalty on minerals including the rate of coal, Government is not notifying it for obvious reasons.

The Mines and Minerals (Development and Regulation) Act, 1957 is a central legislation against the interests of the people of the mineral based States. Under the provisions of the Constitution, the land belongs to the State but the mineral resources under the earth belong to the Central Government.

MR. SPEAKER: That is what the Constitution says.

SHRI BRAJA KISHORE TRIPATHY : This legislation was enacted for proper distribution, conservation and preservation of mineral resources. This was the intention at that time. But it is not the intention now. Our experience says that the mineral-based States are the poorest of the poor States in the country. The States which are having mineral resources are losing their entire revenue. They are not getting appropriate revenue. They are not getting the attention of the Planning Commission because they are not in a position to generate additional resources and to raise their revenue. Their main revenue has been stopped by the Central Government as they are not revising

the royalty rates. The main source of income of such States is royalty. That is why, we are witnessing more naxal problems in these areas. I am attracting the attention of the hon. Minister to all these points. This tantamounts to transfer of sources from mineral producing States without any compensation for the huge negative externality.

I would like to know from the hon. Minister as to when the revision on royalty on coal and other major minerals including iron ore will be notified. When is the Government going to amend the provision of Section 9 of MMDR Act to make it mandatory to revise the royalty in every two years as per the recommendations of the Sarkaria Commission.? When will the Government fix the rate of royalty on *ad-valorem* basis as per the recommendation of Planning Commission and Twelfth Finance Commission?

MR. SPEAKER: Shri Prasanna Acharya, your leader has taken a lot of time. Please put only questions.

SHRI PRASANNA ACHARYA (SAMBALPUR): Sir, the reply of the hon. Minister is really not based on facts. He has said that it is not stipulated under law to revise the rate of royalty of coal and lignite after every three years. I do not know from which law is the hon. Minister quoting. The Eleventh Finance Commission has already recommended that revision should be made in every three years and the Government of India has long back accepted the recommendations of the Eleventh Finance Commission. How is the Government coming out with a reply that it is not under compulsion to revise the royalty rate of coal and other minerals after every three years? Therefore, his reply is misleading and I am sorry to say this. The minerals are non-replenishable resources and once they are dug from the earth, they are gone for ever.

My pertinent question to the hon. Minister is this. The Government has appointed a Committee headed by the Additional Secretary (Coal) to go into the revision of royalty rates.

The Committee has already given its recommendations. So, I would like to know one thing from the hon. Minister. Will the hon. Minister fix a particular deadline and when will the Government take a final decision in respect of revision of coal royalty and particularly to revise upwards the royalty on coal?

Secondly, regarding the *ad valorem* system of applying royalty, the Committee, as is known, has come out with a *via media* system between the tonnage system per tonne royalty and the *ad valorem* system and the Committee has decided to go in between. I do not think that this is a practical suggestion. Almost all the coal-bearing States have been urging the Central Government to adopt the *ad valorem* system so far as royalty is concerned. So, I would particularly like to know from the hon. Minister whether the *ad valorem* system will be accepted by the Government of India and the requests of the State Governments will be adhered to. ... (*Interruptions*)

MR. SPEAKER: The whole concept of Calling Attention is changing.

... (*Interruptions*)

SHRI PRASANNA ACHARYA : I am just putting some questions. ... (*Interruptions*)

MR. SPEAKER: Just put only one question and 'not questions'. You have to put only one question.

... (*Interruptions*)

SHRI PRASANNA ACHARYA : I am raising another connected matter. All other points have been raised by Shri Braja Kishore Tripathy. All the coal fields are earning a lot. The Government's argument is that if they go on increasing royalty to be collected by the State Governments, it will have an indirect impact on the prices of coal. I would like to know from the hon. Minister what is the percentage of rise in prices of coal in the market during the last five years and in comparison with the rise in prices, what is the rate of royalty that has been increased or what is the amount the State Governments have got out of this. I hope the hon. Minister would kindly reply to this question. ... (*Interruptions*) Sir, I have two or three other questions. ... (*Interruptions*) It is all right. Let the hon. Minister come out with a concrete reply.

Now, I am raising my last question. The hon. Minister has replied that the Government is in the process of taking a decision. I would like to know from the hon. Minister ... (*Interruptions*)

अध्यक्ष महोदय:हो गया, बहुत हो गया। You have started with that question. I believe that is already in the record.

... (*Interruptions*)

SHRI PRASANNA ACHARYA : For how long the Union Government will continue deliberations? This is my question.

MR. SPEAKER: Shri Basu Deb Acharia. You can ask only clarifications. The rule says that you can ask only clarifications.

... (*Interruptions*)

SHRI BASU DEB ACHARIA (BANKURA): Sir, I am having only one point. I will be very brief.

Since 1987 the royalty on coal has been revised four times but the revised rate of royalty on coal has not been made available for the State of West Bengal. ... (*Interruptions*) The hon. Minister has mentioned in his statement that the Supreme Court of India has upheld the right of the State to levy cess. ... (*Interruptions*)

अध्यक्ष महोदय:आप तो अनुभवी मैम्बर हैं।

SHRI BASU DEB ACHARIA : In spite of that, the Government of India has not made available the revised rate of royalty to the State of West Bengal and because of that the notional loss for the State of West Bengal is Rs. 3,500 crore. The State Government is losing Rs. 300 crore every year. The Chief Minister has also written to the hon. Prime Minister to make the revised rate of royalty available to the State of West Bengal. ... (*Interruptions*) Sir, please give me one more minute. I have not asked the question. I am yet to ask the question.... (*Interruptions*)

MR. SPEAKER: Therefore, I am not allowing. Please ask the question.

... (*Interruptions*)

SHRI BASU DEB ACHARIA : The Chief Minister has agreed to reduce the rate of cess so that there may not be any cascading effect on the price of coal as has been stated by the hon. Minister of Coal.

So, may I know from the hon. Minister of Coal whether the Government of India will consider the demand of the State of West Bengal that the revised rate of royalty be made available for the State of West Bengal so that the Government of West Bengal may not lose the amount which the Government of West Bengal should get?[\[a12\]](#)

MR. SPEAKER: Hon. Members desired that the Finance Minister should also be present. He has responded to our request. I am thankful to him. It is for them to decide who will speak.

DR. DASARI NARAYAN RAO: Mr. Speaker, Sir, under Section 9 (3) of the Mines and Minerals Regulation Act, the Central Government can enhance or reduce the royalty in respect of coal and lignite. This is the rule.

Sir, this Government has set an example of taking seriously the demand for *ad valorem* rates. The NDA Government, of which Shri Braja Kishore Tripathy was a Member, did not take any action during their tenure and no such revision has taken place during their tenure of six years. But when this Government came to power, we have immediately taken steps in this regard. We constituted a Study Group with the Additional Secretary as the Chairman in 2005. That Study Group submitted its Report on 14th July this year. Then, the Coal Secretary has met the representatives of all the States which are having coal-bearing areas on 10th October, 2006. Now, the discussion is going on regarding royalty and other issues and within one week we are going to circulate the Cabinet Note. It will go to the Cabinet and it is going to be considered. So, actually from day one we are at it.

Regarding *ad valorem* duty, there is a issue and the Committee has suggested that the *ad valorem* duty should be introduced partly. So, now we are going ahead to consider an experiment of *ad valorem* plus fixed rate of royalty. Both the things will be considered and we are going to take the approval of the Cabinet for this.

Sir, the hon. Member raised a matter regarding the State of West Bengal. As you are aware, they were imposing a cess of 45 per cent. It is true that they are not getting revised royalty since 1981, as they are imposing a cess. They reduced the cess recently to 25 per cent. So, when this cess is being imposed, it is very difficult for the players like the power sector to get affordable coal. Out of the total production of coal in our country, 85 per cent of coal is given for power generation and so this imposition of cess should not come in the way of power generation because power in India is already very costly and it is going to cost more. I think a discussion has taken place between the Coal Secretary and the official of West Bengal. In 2005-06, the Government of West Bengal generated a revenue of Rs. 615 crore. In the last 10 years, nearly Rs. 5,000 crore was the revenue

which the Government of West Bengal got and it is higher than many other States in India has got.
... (*Interruptions*)

SHRI BASU DEB ACHARIA : Sir, how can he deny the State? ... (*Interruptions*)

DR. DASARI NARAYAN RAO: Sir, we are not denying it.

MR. SPEAKER: He is not questioning your right.

DR. DASARI NARAYAN RAO: Sir, I am not questioning the right of the State.

As far as coal price is concerned, since February, 2001, when decontrol has come into effect, we have increased coal price only twice. In the last six years, coal price has been increased only twice, not more. Now, the Government is very much committed to revision. I cannot say the exact date, but within a very short time, I think within nearly three or four months, we are going to take a decision on this.[\[R13\]](#)

SHRI BASU DEB ACHARIA : Sir, he has not replied to my question. My question was very specific because with regard to reduction of cess... (*Interruptions*)

MR. SPEAKER: He has dealt with it. He said the matter is under discussion and it is going to the Cabinet.

... (*Interruptions*)

SHRI BASU DEB ACHARIA : He has not replied to my question... (*Interruptions*)

MR. SPEAKER: The House will now take up urgent matters. Shri Mohan Singh.

... (*Interruptions*)

SHRI BASU DEB ACHARIA : Sir, the hon. Minister wants to reply... (*Interruptions*)

MR. SPEAKER: He has said that your Government has taken Rs.5,000 in ten years. Now, only Shri Mohan Singh's observation will be recorded.

(*Interruptions*) ...*

SHRI BASU DEB ACHARIA : Sir, the hon. Minister wants to reply to my question... (*Interruptions*)

MR. SPEAKER: Do you want to reply further, Mr. Minister?

DR. DASARI NARYAN RAO: Yes, only with regard to West Bengal. Sir, so far as West Bengal is concerned, if they reconsider the cess, the discussion will take place and the royalty will be given.

MR. SPEAKER: All right. Now, Shri Mohan Singh.

SHRI BRAJA KISHORE TRIPATHY : Sir, the hon. Finance Minister wants to say something...
(Interruptions)

MR. SPEAKER: Mr. Finance Minister, do you wish to add anything?

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM): Yes Sir.

MR. SPEAKER: Very well.

... (Interruptions)

MR. SPEAKER: Your State's case is very ably put by Shri Tripathy and Shri Acharia.

SHRI KHARABELA SWAIN (BALASORE): Sir, I am giving a suggestion only. Will he advise the State Government of Orissa to impose a cess?... (Interruptions)

MR. SPEAKER: No cross talks, please.

... (Interruptions)

MR. SPEAKER: Do not record anything.

(Interruptions) ...*

यह क्या बात है? क्या आपके बीच आपस में बातें चलेंगी?:अध्यक्ष महोदय

...(व्यवधान)

MR. SPEAKER: Mr. Acharia, silence please.

* Not recorded

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM): Sir, my distinguished colleague has ably answered practically all the questions put by hon. Members. The question now is when will the revision take place. He said that the paper is under preparation. It will come to the CCEA. We will take a decision as early as possible. The decision will be taken.

The question now is about cess. What did the Economic Advisory Council to the Prime Minister recommend? The Economic Advisory Council is chaired by Dr. C. Rangarajan, who also chaired the Twelfth Finance Commission. It is not as if he is unaware of the recommendations of the Twelfth Finance Commission. That Committee recommended that the royalty on coal has to be determined so as to take care in a balanced way the interest of both the producers and the consumers. In this case, the principal consumer is the power sector and within the power sector it is the NTPC which cannot ignore the interest of consumers of coal because the price of coal will determine eventually the price of power which you and I will pay.

Secondly, the Committee has recommended, having regard to all the factors, that perhaps there could be a mixture of a tonnage rate of royalty plus ad valorem rate. The Cabinet will take a decision after keeping in mind all the suggestions made by the hon. Members.

On the question of cess, the Committee recommended, any revision in royalty should not be made applicable automatically – that is the crucial word – to States which levy their own cesses. The royalty to be allowed to such States should be adjusted for the local cesses so as to limit the overall revenue to the formula based yield. As Shri Acharia said, West Bengal has now agreed, it will revise or reconsider the cess.

SHRI BASU DEB ACHARIA : The Chief Minister has already said that... (*Interruptions*)

SHRI P. CHIDAMBARAM: I know that. We will keep that in mind when we take a decision. Once the decision is taken, it will apply uniformly to all the States.

SHRI BRAJA KISHORE TRIPATHY : Sir, the hon. Finance Minister has said that the electricity dues are collected from the consumer States. Can you just allow an amendment to this Act?... (*Interruptions*)

MR. SPEAKER: This is not a matter relating to this. This is another matter. Sorry. It is an unconnected matter.

SHRI BRAJA KISHORE TRIPATHY : Sir, the Government of India should compensate it... (*Interruptions*)

MR. SPEAKER: He serves good tea. Go to him and have a meeting with him.

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