

Press Release
Talabira Coal Block Allocation Matter

There has been extensive media coverage recently of the matter relating to the allocation of Talabira-II and III coal blocks in Odisha to Mahanadi Coalfields Ltd, Neyveli Lignite Corporation and HINDALCO.

2. Coal block allocations, including this one, are the subject of a CBI inquiry which is being monitored by the Supreme Court. However, the Talabira coal block allocation is a case where the final decision differed from the earlier recommendation of the Screening Committee, and this was done following a representation received in the Prime Minister's Office from one of the parties, which was referred to the Ministry of Coal.

3. The Prime Minister is satisfied that the final decision taken in this regard was entirely appropriate and is based on the merits of the case placed before him. The details of the processing at different stages of the decision making are summarized in the Annexure to clarify the position.

5. It is recognized that this allocation is subject to an ongoing investigation. No impediment is being placed on the CBI to continue the investigation and seek fresh information which may have a bearing on the case.

6. The investigation on this and other matters must take their normal course under the law.

Annexure

1. The Prime Minister received a letter dated 7.5.2005 from Shri Kumar Mangalam Birla requesting allocation of Talabira-II and III coal blocks in Odisha to HINDALCO for its 650 MW captive power plant in its Integrated Aluminium Project in Sambalpur District, Odisha and for a 100 MW captive plant for the expansion of its Hirakud Aluminium plant in Odisha. The letter was acknowledged by the Prime Minister who noted on the letter—*“Please get a report from Coal Ministry”*.
2. The Prime Minister’s Office forwarded the letter to the Ministry of Coal on 25.5.2005 requesting it to look into the matter and send a report.
3. Shri Kumar Mangalam Birla submitted another letter to the Prime Minister on 17.6.2005 repeating the request. This letter was linked to the earlier reference and sent to the Ministry of Coal with a request to send their report on the matter.
4. In August 2005, Ministry of Coal sent its file on the matter to the Prime Minister. In the file, it was mentioned that the Screening Committee had considered three major contenders for allocation of Talabira-II and decided to allocate this block to Neyveli Lignite Corporation (NLC) as:
 - (i) adequate coal linkages had been provided to HINDALCO from Mahanadi Coalfields Ltd. (MCL) a long time back and HINDALCO had not used the coal,
 - (ii) Talabira-II & III blocks needed to be developed together to extract an additional 30 million tonnes of coal which would have gone waste otherwise at the boundaries of each block, *(Talabira-III is a coal block which had been separately allocated to Mahanadi Coalfields Ltd.)* and
 - (iii) NLC & Mahanadi Coalfields Ltd. can develop the two blocks together as one large mine through a Joint Venture (JV).

Shri Kumar Mangalam Birla had requested for allocation of Talabira-II to HINDALCO as:

- (i) HINDALCO was the first applicant for it as long back as 1996,
- (ii) the coal linkage granted earlier was not used as a bauxite mine lease relating to the aluminium plant had not materialized,
- (iii) in view of the current shortage of coal, Mahanadi Coalfields Ltd. will not be able to supply coal as per the earlier linkage, and
- (iv) the Government of Odisha favoured allocation of Talabira-II to HINDALCO in preference to NLC.

5. While the file was being processed in PMO, the Prime Minister received a letter dated 17.8.2005 from the Chief Minister of Odisha on the allotment of Talabira-II to HINDALCO. The CM's letter mentioned that the State Government had assigned topmost priority to the allocation of Talabira-II to HINDALCO and had strongly supported the case in the Steering Committee meeting. The letter mentioned that aluminium plants should get higher priority over independent power plants as they generate more employment, create more wealth for the country and add to the growth of the manufacturing sector directly. Further, it stated that it is equitable to accord higher priority to units adding more value through manufacturing within the state where the coal mine is located. The letter urged that these special considerations be kept in mind and the matter examined expeditiously.

6. On 29.8.2005, the Ministry of Coal file on the matter was returned with the comment that while the file was being processed, a letter was received from Chief Minister, Odisha and the Ministry of Coal may please take this letter of CM, Odisha on record, re-examine the matter in light thereof and resubmit the file.

7. Ministry of Coal resubmitted the file on 16.9.2005 with the proposal that

- i) Talabira II & III be mined as a single mine with the mining done by a JV formed between MCL, NLC & HINDALCO.
- ii) The shareholding of the JV between MCL:NLC:HINDALCO to be 70:15:15.
- iii) Mahanadi Coalfields Ltd's equity shareholding of 70% would approximately equal Talabira-III's extractable reserves as a proportion of the total of the two blocks. Under the sharing arrangement, 70% of the total annual production will be handed over to Mahanadi Coalfields Ltd.
- iv) The remaining 30% of the annual production will be shared equally between HINDALCO and NLC with each getting 15%.
- v) The satisfaction level of NLC would be 29% of its total requirement and of HINDALCO, 81.5%.

8. The reasoning given by the Ministry of Coal was that:

- i) Talabira-II & III combined have reserves of 553 million tonnes.
- ii) The total requirement of coal from these blocks from the three main contenders is 503 million tonnes, with NLC seeking 280 million tonnes, HINDALCO seeking 100 million tonnes and Orissa Sponge Iron Ltd (OSIL) seeking 123 million tonnes.
- iii) Allocating the blocks to these three would leave little coal for Mahanadi Coalfields Ltd.
- iv) NLC may not be dropped as it is a Central PSU already recommended by the Screening Committee. HINDALCO's case for allocation has been strongly

recommended by the State Government and it has also been an early applicant. OSIL can be accommodated elsewhere.

- v) It was further brought out that the Government of Odisha have indicated a clear preference for allotment of the block to HINDALCO in the interest of creating more employment and growth of the manufacturing sector in the state.
- vi) It was also pointed out that while both HINDALCO and NLC get the same amount of coal, HINDALCO's satisfaction level is about 80%, whereas NLC's is much lower.. However, as NLC and Mahanadi Coalfields Ltd. are proposing to set up a JV power plant from the coal available from Talabira-II & III, NLC's full requirements could be met from Mahanadi Coalfields Ltd's reserves in Talabira-III. *This would fully meet the coal requirement of the two CPSUs to set up their power project and protect the interests of the CPSUs.*

9. While processing this proposal in PMO, it was noted that the ownership ratio in the JV ownership was not in congruence with the guidelines approved by PM on 09.06.2005 which required this ratio to be in proportion to the assessed requirement of coal of each allocatee. As per this guideline, the NLC:HINDALCO ratio in their 30% share should be 22.5:7.5 and not 15:15 as was proposed.

10. While recommending the case to the Prime Minister, it was clearly brought out that:

- i) The State Government of Odisha has strongly recommended allocation of Talabira-II to HINDALCO and supported it in the Screening Committee. Chief Minister, Odisha had reiterated this position assigning topmost priority to the allocation of Talabira-II in favour of HINDALCO.
- ii) Under the MMDR Act, the mining lease for coal is granted by the State Government with the previous approval of the Central Government. Thus, under the federal framework of sharing mining rights as provided under the Act, both the Central and State Governments need to concur before an allocatee can be granted a mining lease. Accordingly, the strong recommendation of the Government of Odisha is important and has to be given due consideration while taking a decision in the matter.
- iii) The Ministry's suggestion for allocation of 30% share of production in the JV for Talabira-II & III combined to NLC & HINDALCO, with the remaining 70% of the total production taken by MCL has merit and may therefore be considered for acceptance.
- iv) As for the NLC:HINDALCO equity ratio in the JV, this would require relaxation of guidelines that were approved by PM earlier, but this could be considered as NLC

and Mahanadi Coalfields Ltd. are sister PSUs and NLC's requirements of coal could be met from Mahanadi Coalfields Ltd's 70% share of production. *This would fully meet the coal requirement of the two CPSUs to set up their power project and protect the interests of the CPSUs.*

11. Based on these arguments, and also on the reasoning of the Ministry, it was proposed that Prime Minister may approve:

- i) Allocation of Talabira-II & III to a JV owned jointly by MCL:NLC:HINDALCO in the ratio 70:15:15 with the other aspects as proposed by the Ministry.
- ii) The existing long term coal linkage of HINDALCO may be reviewed and suitably reduced after taking into account HINDALCO's requirement of coal for the project and the share of HINDALCO in the coal mined by the JV in Talabira-II & III.

12. The Prime Minister approved the proposal on 1.10.2005.

