ISSN: 2456–5474 RNI No.UPBIL/2016/68367 Vol-1* Issue-8* September-2016
Innovation The Research Concept

# Coal Marketing Strategy Depends Upon New Distribution Policy of Coal in India – A Road Map

**Abstract**

The distribution policy is the marketing tools that link production to end user consumer. For the promotion of Distribution policy of coal the important thing which is to be kept in mind i.e. 4ps of Marketing Price, Place, product, promotion which are element of marketing strategy. New Marketing strategy of coal in India depends upon new distribution policy of coal through various parameter like FSA, MOU, E-auction to there customer. In this distribution policy Indian govt pleased to approve the new coal distribution policy for core and non core sector and other instructions issued from time to time. A corporate policy outlining how messages and data can be shared and distributed throughout the various divisions and departments of the company. A company's distribution policy can also affect how documents are filed.

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**Keywords:** Distribution policy, FSA, MOU,E-Auction, Marketing Strategy

**Introduction**

**An overview- New Coal Distribution Policy**

New Coal Distribution Policy (NCDP) of Gov't of India specifies the policy for distribution of Coal. Depending upon the category of the consumer and requirement of Coal, the policy provides for appropriate procedure for obtaining Coal.

New Marketing strategy of Coal India Ltd and its subsidies BCCL depend new coal distribution policy of coal through FSA, MOU and e- auction to there customer. Coal is important natural resources which should be used judicially, for that marketing strategy is very important. Coal Marketing strategy is define as a process that can allow an organisation to concentrate its limited resources on greatest opportunities to increase sales and achieve a sustainable competitive advantage.

**Objective of the Study**

1. To aware people about coal marketing strategy that restricted on new coal distribution policy of India which is followed by Maharatna Company Coal India ltd.(CIL)
2. To focus on various method of new coal distribution policy follows by Indian Marketing Strategy of Coal.

**Objectives of the New Coal Distribution Policy**

1. This new policy aims to prevent the supply of coal to the hoax consumers in the Small and Medium Enterprises (SME) sector and bring in greater transparency in the system.
2. The objective of formulating the new policy is also to ensure the distribution of coal to the consumers in a fair and equitable manner.

**Importance of Distribution Policy**

Distribution policy is important marketing tools that links producer with consume distribution channels and make marketing easy. In the filed of marketing, channels of distribution indicates route through which goods and service flow, or more from producers to consumers. The definition of this policy will allow determining the way we are going to make the product arrive at the final consumer, which will depend on the distribution chain link we are at (producer, intermediary or retailer)

The decisions we will have to make are the following:

1. Choose the distribution system or strategy
2. Choose the distribution channels

From all of them, the most delicate will be the choice of the distribution system. Nevertheless, the use of different alternative distribution systems is increasingly common. Coal distribution is done through FSA, MOU,e-auction. 10% of annual production of CIL is marked for e-auction.NNUF Any buyer can participate in spot e-auction and only actual consumer can participate in forward e-auction. The procedure for participation in e-auction is specified in the scheme for spot e-auction and scheme for forward e-auction.

**Various Method of New Coal Distribution Policy in India**

**Classification of Consumers**

The existing classification of consumers into Core- Non core has been reviewed and it has been decided to dispense with the same. Instead ,each sector would be treated on merit keeping in view, inter-alia, the regulatory provisions applicaple there and other relevant factors.

**Distribution and Pricing of Coal to different sectors**

Any requirement of defence sector and Railways will be met in full at notified price,as at present.

**Power utlities including independent Power Producers (captive plants) and Fertilizer sector**

100% of the quantity of coal as per normative requirement of the consumers would be considered for supply of coal, through Fuel supply agreement (FSA) by Coal India Ltd at fixed prices to be notified by CIL.The units/power plants, which are yet to be commissioned but whose coal requirements has already been assessed and accepted by ministry of coal and linkage/letter of Assurance(LOA) approved as well as future commitments would be covered accordingly.

**Other Consumers**

75% of the quantity of coal as per the normative requirement of the consumers would be considered for supply of coal through FSA by CIL at notified prices to be fixed and declared by CIL. The balance 25% of coal requirement of the units will be sourced by them through e-auction.The units which are yet to be commissioned but whose coal requirement has already been assessed and accepted by ministry of coal and linkage/LOA approved as well as future commitment finally made would also be covered accordingly.

All the existing linkage holders of core and non core sector and not having FSAs would be required to enter into FSA with coal companies. At present small and tiny consumers in non core sector, whose annual consumption is less than 500 metric tonnes are eligible to get coal through state nominated agencies. The scope of coverage through state nominated agencies is now being increased upto 4200 metric tonnes per annum. It depicts that now the distribution of coal to units whose requirement is upto 4200 tonnes per annum will be done through the agencies nominated by state government. Units whose requirement is more than 4200 tonnes per annum will take coal directly from Coal India Limited/subsidiary companies through FSAs. As far as the linked consumers of non core sectors, whose annual requirement is less than 4200 tonnes are concerned, they would be given the option to either entering into FSA with the coal company as per the terms and conditions, including satisfaction level applicable to the other consumers or they may opt out of FSA regime and access their coal requirement through agencies nominated by state government.

**Consumers in small and medium sector**

The state governments are requested to work out genuine requirement of such units.

In small and medium sectors like smokeless fuel, brick kiln, coke oven units etc. on a transparent and scientific basis and distribute coal to them accordingly.The state governments may take appropriate steps to evaluate the genuine consumption and monitor use of coal. The present cap is also enhanced to 4200 tonnes per annum for the targeted consumers under this category. In order to meet the enhanced cap fixed for such consumers, the quantity earmarked for distribution to these agencies would also be increased to 8 million tonnes annually, to start with.This quantity would be allocated for distribution to those units/consumers in small and medium sector across the country whose requirement is less than 4200 tonnes per annum and are otherwise not having any access to purchase coal or conclude Fuel supply Agreement(FSA) for coal supply with coal companies. The embarked quantity would be distributed through agencies notified by the state governments. These agencies could be state govt agencies/central govt agencies i.e National Co-operative consumer Federation (NCCF)/ National Small Industries corporation (NSIC) or industries associations, as the state govt may deemed appropriate. The agency so notified will continue to distribute coal until the state govt chooses to denotify it.

The agency so notify by the state govts,would be required to enter FSA with coal company to be designated by the coal India limited.The FSA will continue to remain in force till either the state govt, denotifies the agency or CIL shifts the obligation to some other coal company due to production,transportation logistics etc. In the latter case , a fresh FSA would be signed with the new coal company. The FSA would be based on firm commitment and compensation for default in performance on either side. These state government/central govt agencies would be free to devise their own distribution mechanism.However,the said mechanism should inspire public confidence and should result in distribution of coal in a transparent manner.

The price charge to such agencies would be same notified price as applicable to other consumers entering into FSA.The agency would be entitled to charge actual freight and upto 5% margin as service charge, over and above the basic price charged by the coal company, from their consumers. The concerned state governments and central govt, department having administrative control over the agencies would be responsible to ensure that coal allotted for targeted consumer is distributed in a fair and transparent manner and appropriate action taken to prevent its misuse.The quantity would be allocated to this sector may be reviewed on the basis of their performance in the beginning of every year. Allocation of this quantity amongst the states would be done on the basis of their consumption pattern in past.

**Replacement of linkage system by fuel supply agreement (FSAs)**

The linkage system will be replaced with a more transparent bilateral commercial arrangement of enforceable FSAs. All the existing valid linked consumers whose linkage during the year 2006-07 was 4200 tonnes or more would have to enter into FSAs with coal companies not latter than six months from a date to be notified by CIL. The other valid linked consumers will have the option to opt out of FSA regime or enter into FSA within six months. On opting out they, may access their coal requirement through various channels like e-auction, distribution network of state nominated agencies etc. Failure to enter into FSA will result in discontinuation of supplies at fixed prices .All existing FSAs, as prevailing on the date of introduction of this policy, will continue. However, they would need to be modified in view of the new provisions.

**Policy for New consumers**

The letter of Assurance (LOA) to be issued now pursuant to the new policy will have a validity of 24 months for consumers of power utilities, CPPs &IPPs and 12 months for other consumers. Instead 30 month as earlier.The allottee of LOAs would be required to fulfil certain stipulated conditions and meet the milestones within this period and there upon approach coal companies for entering FSA.Such FSA would be completed within three months. Further, with a view to ensure that only serious and committed consumers approach for LOA, they would be required to furnish an Earnest Money Deposit(EMD).EMD can be in the form of Bank Guarantee and would stand discharged once FSA is concluded within the stipulated period .However,on failure the EMD will be forfeited. The amount of EMD could be initially kept at 5% of the value of Annual coal requirement. However , CIL may decide a different level, based on various relevant facts, with the approval of Board of Directors of Coal India Limited. For a new commitments including short term tapering commitment to consumers having captive coal block, Power Utilities, CPPS, IPPS, Fertilizer units, and others would be issued an enforceable Letter of assurance for supply of coal and thereafter they would entitled to enter into FSA within a stipulate time subject to fulfilment of certain conditions to be stipulated therein .For Power Utilities including Independent Power Producers (IPPs) and Captive Power Plants (CPPs), cement sector and sponge iron sector, the present system of linkage committee at the level of government would continue. CIL will issue LOA after approval of applications by standing linkage Committee (long term).However in other sector the task of issuing letter of assurance will be responsibility of CIL.

In order to meet the domestic requirement of coal, CIL may have to import coal as may be required from time to time, if feasible. CIL may adjust its overall price accordingly. Thus, it will be the responsibility of CIL/Coal Companies to meet full requirement of coal under FSAs even by resorting to imports, if necessary.

**Letter of Assurance for New consumers**

1. New consumers from State/Central power Utilities, CPPs, independent power producer (IPPs), Fertilizer, cement and sponge iron units may be issued LOA, based on prevailing norms and recommendation of Administrative ministry, which may inter alia have regard to LOA/Linkage already granted to the consumer of specific sector, existing capacity, requirement for capacity addition during a plan period etc.
2. All other consumers may be issued LOA by CIL, based on prevailing norms and on the recommendation of the administrative ministry. CIL may also engage an independent govt or recognized agency, if required, for the purpose of processing/certificate of coal requirement of individual consumers, if there is no prevailing norm for such category of consumers/sector.
3. LOA will be issued by the CIL to applicant consumers consequent upon payment of EMD to the coal company. The amount of EMD could be initially kept at 5% of the value of annual coal requirement. However, CIL may decide a different level based on the various facts, with the approval of Boards of Directors of Coal India Ltd.
4. LOA will be valid for a period of 12/24 months as applicable,during which the applicant consumer will be required to achieve the milestones pertaining to his projects/plants as stipulated in the LOA,failing which LOA will stand terminated automatically and the EMD would be forfeited.

**FSA with New Consumers**

On successfully achieving the milestones stipulated in LOA coal companies would execute FSA with the applicant consumer covering commercial arrangement for supply of coal.FSA would be inter-alia based on" Take or Pay principle."

The FSAs would cover 100% of normative coal requirements of the power Utilities, including Independent Power Procedures (IPPs) an captive power plants(CPPs), Fertilizer units and 75% of normative coal requirement of other consumers. When Fuel supply Agreements come into existence, both parties viz coal companies and consumers would endeavour to enter into Fuel Supply and transport Agreement (FSTA) which would be a tripartite agreement involving the coal supplier, the coal consumer and the logistic provider i.e railways.TheFSTA may firstly be made applicable to major consumers like power, cement and steel and could be extended to other consumers in a phased manner.

**Role of standing Linkage Committee**

The existing SLC will continue to recommended issuing of LOA in respect of Power Utilities including CPPs and IPPs, Cement and sponge iron including steel, as is being done by at present.It may also perform other functions as per its terms of reference for coal sector as a whole.The issuance of LOA to consumers of other sectors will be directly dealt with by CIL on the basis of recommendation of nodal ministry.

**Discipline and Economy in Coal Use**

Coal is no longer an essential commodity but still considered as scare fuel and hence it must be used efficiently and economically. The consumers getting coal through FSA would be expected to use it efficiently so as not to waste this scare resource and hence norms and efficiency compliance should be carried out diligently by the concerned designated authority. This would also require that coal supplied should not be misused or diverted by FSA holder to others. The existing norms, wherever being made applicable for deciding linkage quantity etc, would be reviewed in consultation with the nodal ministry concerned, and revised norms would be made applicable for working out the satisfaction level, wherever applicable.

**E-auction of Coal**

Coal distribution through e auction was introduced with a view to provide access to coal for such consumers who are not able to source coal through the available institutional mechanisms for reason like the seasonality of coal requirement, limited requirement of coal not warranting long term linkages etc. In the long run, it is expected that e-auction may help in creating spot as well as future market of coal in the country. Thus a fresh screen of e auction will be introduced subject to interalia following conditions-

1. Any buyer will be entitled to buy coal under e-auction.
2. There shall not be any Floor Price in e-auction.However, coal companies may be allowed to fix an undisclosed Reserve price not below the notified price.
3. Programme of e auction should be announced well in advance and be given wide publicity to all consumers who intend to participate.
4. At the beginning of the financial year, CIL shall declare a programme on sale of coal through e auction indicating the quantity and quality of coal to be made available through auction during all the four quarters from different coal companies.
5. In order to address the concerns of such industrial consumers who wish to have an assured supply over a long period, say one year, under e-auction so as to plan their annual production etc.CIL will earmark a fixed quantity which will be provided to highest bidder as per bidders requirement over the period of the bid.

Based upon above guidelines and modalities, a revised e auction scheme would be introduced by CIL within one month.Around 10% of estimated annual production of CIL would initially be offered under e auction and the quantity to be offered under e-auction would be reviewed from time to time by ministry of coal.

**Conclusion**

The new coal distribution policy visualizes implementation of revised distribution policy in which there will be departure from the existing policy of distribution based on inter alia norms, FSAs, price, distribution mechanisms, administrative allocation etc. As these modalities will have tailor made accordingly to the new distribution policy and to avoid any disruption in coal distribution to various categories of consumer. The whole policy is designed customised for the fulfilment of consumer business through FSA, MOU and e auction which leads to fast transaction easy for both the parties to formulating the new policy is also to ensure the distribution of coal to the consumers in a fair and equitable manner.

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