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CBM Policy 1997: A Track for CBM Production in India

PRATEEK¹

ABSTRACT

CBM in India is included in the list of those grey areas of which almost everyone is unaware, even the full form of CBM is not known to most of the people. But, it is one of the most useful conventional source of natural gas found in coal deposits or coal seams. It is a purely unexplored sector which has the potential to expand in the near future. This blog is just an initiative to introduce this sector and explain the CBM Policy of 1997 in a detailed manner. This blog also tries to answer almost every query related to CBM Policy 1997. Various provisions and features of the policy is also discussed. In our country, this sector faces a lot of challenges which are also discussed in the latter part of this blog. So, in short this blog tries to present a detailed analysis of CBM Policy 1997.

Keywords: CBM, Directorate general of hydrocarbons, MOPNG.

I. INTRODUCTION

Coalbed Methane (CBM) is an unconventional source of natural gas found in coal deposits or coal seams. It is formed during the process of coalification (transformation of plant material into coal). India has the 4th largest coal reserves and is also the 3rd largest coal producer in the world² and thus it enables us to hold significant prospects for exploitation and exploration of CBM. Gas contained in Coalbed Methane is mainly methane but the quantities of nitrogen, ethane, carbon dioxide, and of few other gases can also be traced in it. CBM is also known as Coal Seam Methane (CSM), Coal Seam Gas (CSG), and Coal Seam Natural Gas (CSNG). India holds CBM resource of an estimated 92 TCF (2600 BCM) in 12 states³. Capturing methane from the coal and utilizing has three benefits:

1. Reduction of greenhouse gas emission
2. Mine safety (because the gas is the cause of numerous explosions in underground mines)

¹ Author is a student at Hidayatullah National law University Raipur, India.

² India should aim to become world's largest coal exporter/ <https://www.outlookindia.com/newsscroll/india-should-aim-to-become-worlds-largest-coal-exporter-pm-at-launch-of-commercial-coal-mining/1869872>

³ Coal Bed Methane (CBM)/ <http://www.dghindia.org/index.php?page?pageId=38#:~:text=India%20has%20the%20fifth%20largest,In%2012%20states%20of%20India.>

3. Availability of additional energy source

In the late 90s, the Government of India understood the importance of CBM as an energy source and introduced the CBM Policy, 1997.

II. WHY WAS THE POLICY INTRODUCED?

The aim of formulating CBM Policy, 1997 was to harness CBM potential in the country and to explore and exploit CBM under the provisions of Oil Fields (Regulation and Development) Act, 1948 and Petroleum and Natural Gas Rules, 1959 administered by Ministry of Petroleum and Natural Gas. The main aim of this policy was to allocate the blocks for the exploitation of CBM through an open competitive bidding system and to set the fiscal and broad contract terms for the blocks to be offered for CBM exploitation and exploration.

III. SALIENT FEATURES

The main features of CBM Policy, 1997 includes:

1. **International Competitive Bidding System** – According to this Policy, the blocks for the exploitation and exploration of Coalbed Methane would be awarded through Open international Competitive Bidding System and the duration of the contract would be of 38 years for the blocks located in a normal area and if the block is located in a frontier area then the duration of the contract would be 40 years.
2. **No participating Interest of the Government** – Point (ix) of the Broad Contract Terms mentioned under CBM Policy, 1997 specifically declares that there would be no participating interest of the Government under the contract and the contractor would have 100% participating interest.
3. **Exemption from the payment of custom duty on imports required for CBM operation** – It is clearly mentioned in the point (iv) of the Fiscal Regime under this policy that the contractor would be exempted from custom duty on import of goods and materials required for exploitation and exploration of Coalbed Methane.
4. **Freedom to sale in the domestic market** – Point (x) of Broad Contract Terms specifically mentions that the contractor would have all the rights to market the gas in the domestic market

Some more features of CBM Policy, 1997 includes no upfront payments, no signature bonus, and a seven years tax holiday to the contractors.

IV. MAIN PROVISIONS

The CBM Policy, 1997 is enriched with various provisions, some of them are:

- The contractors would be required to pay license/lease fees and charges including surface rentals, land acquisition charges, etc. as per the P&NG rules or as required under any other provisions.
- As per the Income Tax Act, the contractor would be required to pay corporate income tax.
- Ministry of Petroleum and Natural Gas would determine the size of the blocks, keeping in view the productivity of coal seams and the reserves-in-place and other relevant factors such as commercial viability, logistics, etc.
- The duration of the contract for the blocks will be:
For blocks located in the normal area – 38 years
For blocks located in the frontier area – 40 years (Ministry will declare an area as frontier area after keeping in view the technical complexities, lack of infrastructure in that area, etc.)
- The duration of the contract would be divided into 4 phases:
Phase-I : 3 years. (Exploration phase)
Phase-II: 5-7 years. (Pilot assessment for the commerciality of production and market identification)
Phase-III: 5 years. (Development phase)
Phase-IV : 25 years. (Production phase)
And at the end of phase-I and phase-II, the companies would have an option of walk-out.
- The Contractor would be required to give preference to the employment of qualified Indian nationals and shall undertake training programs for them. The Contractor would also be required to give preference to the use of Indian goods and service subject to timely availability, quality, and competitive price.
- Contract in general and arbitration proceedings will be governed by Indian Law.

V. PROGRESS MADE UNDER IT

The CBM development in India gained pace with the announcement of Coalbed Methane Policy, 1997 which laid the foundation of commercial exploitation of CBM in India. According to this, policy Directorate General of Hydrocarbons (DGH) became the nodal agency for the development of CBM in the country, and the Ministry of Petroleum and Natural Gas became the administrative ministry. The policy specifies the modality for identification and allocation of blocks, the modality for taking up commercial development of CBM, fiscal incentives/provisions and in a subsequent MOU entered between MOPNG and MOC specifies

that the right of exploitation of Coal Mine Methane (CMM) from coal mining areas will be with coal mine operator.

This Policy provided a track to the production of CBM in the country and because of this only the Commercial CBM production started in July 2007 (after 10 years of this Policy) in Raniganj South Block and was operated by GEECL.

The total CBM production for the previous 5 years till February 2020 was 2999.77 MMSCM out of which 17.11 MMSCM was produced in Jharkhand, 579.42 MMSCM in Madhya Pradesh and the remaining 2103.24 MMSCM in West Bengal which is also the largest CBM producing state in India.⁴

VI. CRITICAL ANALYSIS

In the present era, India's CBM industry is expanding at a good rate but still, it needs some more time and effort to reach at its maximum. There are various problems in front of CBM industry that need to be solved if our nation wants to explore more in this field. These problems include production technologies, difficulties in utilization, insufficient subsidies, and difficulties in attracting private capital which leads to high CBM production cost and ultimately results in low returns. Apart from these challenges, there are various other challenges in front of CBM industry at present which include:

- **Environmental Challenges** – It is related to a higher requirement of land and disposal of water. Proppant flow back is also a problem because the depths of the coal seam are shallow.
- **Infrastructure Challenges** – CBM projects need to drill a large number of wells at low cost in a short time but the availability of hydraulic fracturing units, drilling rigs, and completion equipment became difficult. Lack of proper water supply and limited sand availability is also a concern.
- **Technical Challenges** – The major Technical problem faced by CBM industry in India is geological complexity of coal basin

VII. CONCLUSION

CBM is a primary clean energy source of natural gas. It benefits us in two ways – first by acting as a clean-burning fuel for industrial and domestic uses and second, the extraction of CNG also reduces explosion hazards in underground coal mines. So, there is no doubt about the usefulness of CBM and its utilization and development are of great economic and social

⁴ Coal Bed Methane Policy/<https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1606877>

benefit. It is like an unexplored sector with various opportunities and that's why CBM Policy, 1997 was introduced which provided a track for the production of CBM in our country. This policy made the process of allotment soothing and because of this a development with a good pace was observed in this sector. But, still, there are some challenges in front of this sector and there is a need to curb them. So, last we can say that CBM industry is a new industry in our country and like any other new industries it has some challenges in front which will be overcome sooner or later.
