

تحليل اسبتي

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COAL: THE MAIN SOURCE OF THE NATIONAL REVENUE OF AFGHANISTAN



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Center for Strategic and Regional Studies (CSRS)



COAL: THE MAIN SOURCE OF THE NATIONAL REVENUE OF AFGHANISTAN

INTRODUCTION

Recently there is huge attention paid to the export and rising prices of coal in internal markets. The topic of export of Afghan Coal to Pakistan gained hot attention after the statement of the Prime Minister of Pakistan, Shahbaz Sharif, which caused hot discussions of Afghans in social media. It is in such a condition that yet Afghan Government does not have any contract regarding coal export with any other country, instead it is sold out to internal companies in Afghani currency and then the aforementioned companies export it to Pakistan.

As, since August 2021 Afghanistan has faced international restrictions and the international donations since last two decades are also declined, so Afghanistan faced massive economic crises. Therefore, after the country got secure, the Islamic Emirate of Afghanistan paid full attention to the extraction of mines, particularly coal mines, and the national income has increased with the elimination of administrative corruption. Yet there are questions about mining, especially coal mining, to be answered.

Due to the high quality and huge amount of the coal sources with its impacts in the country's economy, this topic needs more discussions and research. In this article, you will read about the overview of the global coal consumption, resources of coal in Afghanistan, recent rising prices of the coal and role of the coal in the national economy of Afghanistan. At the end, it is discussed that what should be done regarding the coal extraction and export.

OVERVIEW OF GLOBAL COAL CONSUMPTION

The value and consumption of coal has increased with the industrial revolution and invention of the steam engine. So, in addition to smelting steel and iron, there are many large factories run on coal as it is also used for electricity production. Based on the statistics of 2020, about one third or 35 % of the global electricity is produced by coal, which shows that its contribution to the production of electricity is greater than all other electricity production sources. Most of the required electricity in China, India, South Africa and Australia is produced from coal. For example, China produces 56 % and India 44 % of their required electricity from coal.



In addition to the most coal consuming countries, China and India are also the most coal productive countries. China produces about half of the needed coal of the world, and it is also the most coal consuming country around the world. Australia is the first most coal **exporting** country, which exports one third of the coal of the world. Indonesia and Russia are the second and third coal exporting countries. The five most coal **importing** countries are namely: India, Japan, China, South Korea and Taiwan.

Besides the high value of coal in energy production, it is also harmful for health. Carbon dioxide gas that is produced by the usage of coal causes climate changes, while the biggest and long term global challenge is also production of this gas. Furthermore, coal consumption is one of the main sources of air pollution, which is one of the challenges to human health that **causes** lung and heart diseases, cancer, and child birth diseases.

Many countries and international organizations are attempting to find substitution for the usage of coal due to its harm to the climate change and harm to human health. Therefore, the UN Secretary General Antonio Guterres **called** all the countries to stop establishing coal-running factories. Meanwhile, the Paris Agreement also asked all the countries to decrease global consumption of coal to 50% up to 2030 for decreasing global warming. In 2021, UN Climate Change Conference (COP26) also **asked** 120 member countries to gradually decrease consumption of coal and eliminate it.

COAL RESOURCES IN AFGHANISTAN

Though there are not yet specific mines and minerals surveys done in Afghanistan; yet the basic studies show that the country has huge amount of mines and minerals, including coal. Basic studies show that there is a 750 kilometer underground coal line from eastern Badakhshan Province to the western Herat Province. Some **statistics** show that there are 100 to 400 millions tons or 3 billion cubic meters coal in Afghanistan.

Therefore, Afghanistan is the first country that has enough high quality coal that is not yet extracted. Long internal wars, political and security instability, lack of standard transportation and lack of proper roads to the coal mines are some of the reasons that the coal mines are not yet legally and professionally extracted. Instead, it is extracted illegally and unprofessionally.

Based on statistics, there are 80 coal mines in 12 provinces of the country, among which there are coals extracted from 17 mines that are used inside the country and also exported abroad.



RISING COAL PRICES

Since last few months, particularly while Russia attacked Ukraine, the prices of oil increased globally, with which the prices of coal also increased. One of the main reasons of the coal rising prices was that the most coal exporting country, Indonesia, suddenly declined coal exports. In international market the prices of coal has tripled since the beginning of 2022. On 3rd January 2022 one ton coal was sold for 157\$ in [international market](#), while in 8th September 2022 the price has reached 439\$. Due to the mentioned reason, a few months ago the Pakistani Prime Minister, Shahbaz Sharif, ordered increase in importing coal from Afghanistan and stated that Pakistan will annually save 2.2 billions US Dollars from it, which has raised huge reactions in Afghanistan and caused the Afghan Ministry of Finance to revise coal prices.

The rising coal prices in international market, the increase in coal exports and tariffs, the rising oil prices, and the damages and blockages of the routes because of floods caused rising coal prices in internal market. Based on the information of the Ministry of Finance, since 1397 the price of one ton of exporting coal was 90\$ with 20\$ tax; but due to the aforementioned reasons lately, the price including its transportation increased to 200\$ and then to 280\$ and taxes increased from 20\$ to 30\$. The export [tariff](#) also increased from 27\$ to 60\$.

In national level, one ton coal costs 15,000 Afghani up to Kabul. For [example](#), one ton coal is sold for 6,000 Afghani in Bamyan Province, there is 3,600 Afghani tax on it and the rest is the transportation cost. Therefore, the price of one ton coal in Kabul has [raised](#) up to 15,500 Afghani, while last year at this season, the price of one ton coal was averagely 9,600 Afghani.

ROLE OF COAL IN THE ECONOMY OF THE COUNTRY

Coal has many roles in the economy of countries. On the one hand, it decline unemployment rate; on the other hand, it has value due to energy production, and also national revenue increases by exporting coal to other countries. For example, in 2018 Australia was the most coal exporting country, employed 200,000 people in this sector and added 20 billion dollars to its national revenue. Statistics also show that there are about 3 million Chinese and 300,000 Indian workers [working](#) in coal sector.

In Afghanistan, coal mining started during King Mohammad Zahir Shah's regime and its revenue was added to the national treasury of the country. Later on, due to the weakness of the central government and instability, the government lost its control over coal mines and in most of the areas the local warlords got control of the coal extraction and the revenue of the government declined. Based on the political and security instability in various regimes, illegal and unprofessional coal mining increased and continued for last few decades.



Since last year, the Islamic Emirate of Afghanistan paid considerable attention to the internal sources of the national revenue. The latest statistics published by the governmental institutions show that national revenue this year has considerably increased compared to last year and for the first time the national budget was fully funded by domestic revenues. Mining Sector, specially coal mines, has played crucial role in the national revenue of the country. In the past years, the revenue was gone to mafia due to widespread corruption in this sector. For example, on 15th December 2015, Integrity Watch Afghanistan has released its research based [report](#) about five mines that the Ministry of Mine and Petroleum has given on contract to various private companies. Based on the report, political influence, favoritism or nepotism had important role in the process of awarding mining contracts. It was also stated in the report that the MPs and high-ranking governmental officials are keeping or using most of the mines for the interests of themselves, their relatives or other power holders.

Currently coal is playing crucial role in the national revenue of the country and every week there are more than 200 million Afghani revenue added to the treasure of the government from coal extraction. Based on the statistics of the Ministry of Finance, in 7 months, since September of 2021 up to March 2022, collectively there is about 1,8 million tons coal exported to other countries, specially to Pakistan, that its customs based value is over 16 billion Afghani and there is 3,9 billion Afghani revenue gained from it. It is in such a condition that last year at the same time, since September 2019 to March 2020, the exported coal value was just one billion Afghani and it had only 244 million Afghani [revenue](#) for the government.

Meantime, based on the information of the officials of the Ministry of Mine and Petroleum, currently there are around 100,000 people working in coal's extraction that plays an important role in declining unemployment rate, and if this sector is managed properly, it will have positive impacts for employment opportunities in the country.

WHAT SHOULD BE DONE?

For more efficiency and development of the coal sector, there should be some actions, including the below ones, taken:

- If there are actions taken for professionalizing coal mining, modern machinery is brought for it, the roads to the mines are constructed and there are professional teams hired for extraction, it will have positive economic impact on the country and both the government and the nation will gain more profit from it. Up to now the coal are extracted [illegally](#) and unprofessionally that not only causes casualty for extracting labors, but also causes wastage of coal while extraction.



- Transit and trade with other countries have direct link with the security condition of the country, because of which currently our transit and trade has increased. This opportunity also has vital role in the coal sector exports and the Afghan Government should try to find international market(s) for its coal. Currently Afghan Coal are exported to Pakistan. Pakistan is purchasing Afghan Coal for two huge electricity production factories Sahiwal (Punjab) and Hub (Baluchistan), which is 15,000 tones coal per day. But Pakistan is importing 70% of its needed coal from South Africa that costs it so high. Meanwhile the most coal consuming country in the world, China, is our neighboring country. Lately, India and China has shown **interests** for purchasing Afghan Coal. So, if there is considerable attention paid to the management of the coal export, and in addition to Pakistan, there are other international markets found, as the result the national revenue will increase.
- Afghanistan is currently importing about 78% of its needed electricity from the neighboring countries, which requires a huge amount of budget and sometimes faces technical issues, and cuts the importing electricity from the neighboring countries. If there is attention paid for production of electricity from coal inside the country, so our dependency on the electricity of the neighboring countries will also decline gradually; because industrial development is impossible without electricity and currently one of the challenging issue for industries in the country is shortage of enough electricity, as the result of which most of the factories are closed and some of them are forced to take their investments abroad.
- Although, currently the corruption in mining sector is banned, yet there are fundamental actions needed to be taken for preventing corruption. The Ministry of Mine and Petroleum must amend the Mining Law because there is nothing in it about mining corruption. Meanwhile the mines that were specified earlier to be given on contract by the provincial directorates should be centralized again, so warlords and mafia would not be able to gain control over those mines. In addition, the bidding process of mining should be competitive and open, so everyone will know that based on which conditions they have gained the contract and based on which conditions they were not able to win it. Furthermore, all the contracts that the Ministry of Mines and Petroleum has given out should be publicly shared.
- Finally yet importantly, another issue is raising prices of coal in internal markets of the country. As winter is coming, the public is suffering from poverty, so there is demand that the government should work on a plan for decreasing the prices of coal in internal markets so the public will be able to afford purchasing coal. Therefore, the government



should provide subsidy for public and factories in purchasing coal. For example, during King Mohammad Zahir Shah's regime the government was giving one ton coal with special discount to teachers and governmental officials. Selling out coal in internal markets with lower price by the government will provide employment for more people. In contrast, the coal should be exported to other countries with the international prices.

The End

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