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Coal 2014: again the world's fastest-growing primary energy source and an indispensable asset for the success of the energy turnaround.

In 2014, coal was again the fastest-growing fossil primary energy source in the world. According to the BP Statistical Review 2014, it satisfied around 30% of the world's demand for primary energy, which totalled 18.2bn TCE.

Global hard coal consumption rises by 2.1%

According to initial estimates by BP in its Statistical Review 2014, global energy consumption increased by 2.1% in 2013 to 18.2bn TCE, compared to 17.8bn TCE in 2012. The backdrop to this development is provided by stronger economic growth in India, Europe, the USA and a number of emerging countries, which were able to more than compensate for the rather lower growth rate in China. PEC in the EU-27/28 for 2013 (the most recent available data), on the other hand, showed a slight decline of 0.3%.

In global terms, coal consumption again posted the strongest growth among the fossil energy sources. Its growth rate in comparison with 2013 was 2.1%, compared with increases of 1.2% for both oil and gas consumption. In the USA, the proportion of coal-fired power generation increased from 37% to 39%. In China, however, the proportion of coal-fired power generation decreased for the first time by 0.3%. With average rates of increase amounting to 2-3% per year over the past five years, coal remains the Number 1 source of primary energy in the 21st century and has been the second-most important source of primary energy in the world since 2012, surpassed only by oil.

Estimates by the European Commission indicate that total primary energy consumption in **Europe** in 2013 declined by 0.6%, or 25m TCE, to around 2.4bn TCE.
According to initial estimates by Eurostat, the primary energy source mix for power generation in the EU-28 has shifted slightly in favour of renewable energies. Of the 3,100 TWh generated in 2014, which was almost 3% below the previous year's level, 24% (around 1% more) was accounted for by renewable energies, 28% by nuclear energy and some 48% (around 2% less) by conventional power generation with coal, gas and oil. In Europe, hard coal production declined as well – by 7m tonnes to 108m tonnes, while hard coal imports were down by 9m tonnes (- 4.4%) to 205m tonnes.

Seaborne world trade in steam coal grows by 3%

In 2014, global trade with hard coal, at 1,272m tonnes, increased by 35m tonnes or 3% in comparison with the previous year. Seaborne and domestic trade developed as follows: in 2014, seaborne trade increased by 45m tonnes, or around 4%, to 1,187m tonnes, while domestic trade declined by 10m tonnes, or 12%, to 85m tonnes. The steam coal market grew by a modest 1.7% or 15m tonnes to a total of 878 m tonnes.

According to estimates by the IEA, global demand for coal in the next few years is going to increase by an average of 2.1% per year. Our calculations for the first three months of 2015 indicate that the global seaborne market for hard coal has grown by just under 3%, or 8m tonnes, compared with the same period last year. Reality and the forecast, then, are close to each other in this instance.

Coking coal market grows by 11%

In 2014, global production of crude steel reached a new all-time high of 1,661m tonnes. The increase, which took place mainly in the Middle East (+ 7.7%) and in Asia (+ 1.4%), was relatively small compared with 2013 at 1.9% or 19m tonnes. Production in Europe and North America, though, stagnated while in Russia, South America and Australia it even declined. The pig iron production decisive for the consumption of coking coal, PCI coal and coke increased by slightly by 13m tonnes, or 1%, to 1,181m tonnes. The coking coal market grew correspondingly by 30m tonnes, or 11%, to 309m tonnes.
The supplier structure has not changed fundamentally. Although Australia's market share underwent a relative decline of one percentage point to 60%, in absolute terms the

country increased its exports by 15m tonnes. The USA and Canada, on the other hand, lost market shares and now have a joint market share of 27%.

Hard coal and coke imports to Germany reach new all-time high of 56.2m tonnes

In 2014, demand for German and imported hard coal fell by almost 8%, or 4.8m TCE, to 56.2m TCE. This was caused mainly by the overall decline of 3% in power generation and the overall downward trend of 4.7% in primary energy demand, which accordingly also had an impact on hard coal. Another factor was the growing proportions accounted for by renewable energies. As in the previous year, demand for hard coal was satisfied by imports in the amount of some 86% and by domestic coal in the amount of 14%. Total imports of hard coal and coke reached a new all-time high of 56.2m tonnes in 2014, an increase of 3.4m tonnes, or 6%, in comparison with 2013.

The focal point of hard coal sales comprises power plants, which dominate demand with 69% (previous year: 71%) and the iron and steel industry with 28% (previous year: 26%). The heating market plays only a subordinate role with 3%. As regards steam coal, Russia, the USA and Colombia largely satisfied the import needs, while coking coal demand was covered by Australia with a 45% market share, the USA with 29% and Canada with 13% as the main supplier countries.

Clear downward trends are discernible in power generation from hard coal-fired power plants in 2014. The hard coal-fired power plants delivered 109 TWh, some 10% less power than in the previous year. This left hard coal with a share of just under 18% in the energy mix for 2014. But the other conventional types of power generation , too, had negative year-on-year results: lignite -3.2%, nuclear energy -0.2%, natural gas -13.7% and oil - 6.6%.

The balance in the power exchange (the total of exports less imports) came to around 36 TWh in 2014. This corresponds to an increase of 5% in comparison with 2013. The price advantage of coal compared with gas (the difference between the so-called "clean dark spread" less the "clean spark spread") fluctuated between 6 and 37 €/MWh last year. This favourable result for hard coal should not, however, blind one to the reality that almost all gas-fired and very many coal-fired power plants are now making losses and that power revenues are often insufficient to cover the fuel costs.

The VDKi takes a differentiated view of the statement in the white paper. The following should continue to be designated as the basis for market's further development into the energy market 2.0:

- security of supply
- cost efficiency
- innovation and sustainability.

These criteria have been satisfied by power generation from hard coal in the past and the present and will continue to be satisfied in the future. This makes the discrimination against hard coal, which could not have been made more obvious than in the new CHP regulations, impossible to comprehend. In addition to the fact that the expansion target of 25% is being subverted by a radical change in the basis, it is intended that only gas-fired CHP plants should be subsidised in the future. This is discriminatory and a deliberate damnification of highly efficient CHP from existing coal-fired power plants that contribute substantially to the reduction in CO_2 emissions and fulfil the key requirements of the power market.

This has prompted Dr Wolfgang Cieslik, VDKi CEO, to call on politicians for action:

"We need a general framework that opens up a sustainable commercial perspective for hard coal for as long as hard coal continues to be allocated a central role for the safeguarding of renewable power generation, and therefore the success of the energy turnaround, for many years to come."

Despite the increase of 21% in steam coal imports in Q1 2015, the VDKi estimates that only 38m tonnes of steam coal and 53m tonnes of hard coal and coke in total, i.e. 5% less, will be imported during the whole of 2015.

Price developments: supply still exceeds demand

In 2014, the trend towards a collision course between a global oversupply of coal and insufficiently robust growth in demand, which has been discernible since 2011, continued. Consequently, pressure on prices prevailed again in 2014. In the period from January 2014 to the present day (beginning of July 2015) alone, the prices for steam coal CIF ARA declined from 83 US$/t to 58 US$/t, i.e. by around 30%. The same trend is evident for coking coal prices. Both coking coal and coke prices again fell in 2014 thanks to a predominantly downward trend in demand accompanied by overcapacities in production.

While prices of between 127 and 132 US$/t were still being paid for coking coal at the beginning of 2014, the price had fallen to 110-113 US$/t by the end of 2014. This development is apparently continuing in 2015: up until March 2015, spot prices for HCC quality fell to around 100 US$/t.

About the German Coal Importer Association

The Verein der Kohlenimporteure e.V.(VDKi) is the lobby organisation for the hard coal import market in Germany. Its German and other European members come from the power generation, industry, trading and logistics sectors. The Association currently has 73 members, who in their plants and facilities consume around 60 - 70% of Germany's hard coal demand – which for its part amounts to some 65m tonnes. This means that the VDKi represents a very sizeable majority of the hard coal market (German and imported hard coal) in Germany.

Further information at www.kohlenimporteure.de or ask at info@kohlenimporteure.de or erich.schmitz@kohlenimporteure.de

Activities: The VDKi regularly examines the significance of imported coal for the international, European and German hard coal markets, describes prospects for future import development and regularly publishes statistics about German hard coal imports and prices.

Publications: Annual reports describing the inclusion of imported coal in the international, European and German hard coal markets and prospects for further developments in imports.

Statistics about German hard coal imports and prices are published monthly on the internet.

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