

Press Release 2/2016

VDKi announces preliminary assessments of world trade, consumption and imports of hard coal in 2015

World hard coal production and consumption decline in 2015 for the first time in over a decade

As the VDKi indicated as early as last summer, figures from the German Coal Importer Association (VDKi) reveal that the **production** of hard coal (coking coal and steam coal), reported as steady for more than a decade, has presumably not only come to a standstill, but is in fact declining for the first time. The VDKi estimates that worldwide production decreased by about 150 million to 200 million tonnes to 7 billion tonnes and that the seaborne hard coal trade fell by 50 million tonnes to 1.12 billion tonnes. Details of the VDKi assessment:

- Output fell by 110 million tonnes in China and by 70 million tonnes in the USA.
- Australia and India were able to maintain respectively even increase significantly the level of production of steam coal.
- Indonesia was unable, for many different reasons, to continue the increase in the production of steam coal of previous years; instead, the output of hard coal and lignite was reduced by 11% to 408 million tonnes.

Seaborne hard coal trade and the changes in this area were decisively affected by China and India. China bears the greatest responsibility for the decline; it reduced its coal imports by 73 million tonnes (over 30%) in support of its own coal mining industry. When the import duty of 6% on steam coal comes to an end in February 2016 because of the entry into force of the trade treaty with China, however, the export situation might brighten, at least for Australia.

Significant shifts are also becoming apparent within the exporting countries:

- Australia was able to maintain its exports of 386 million tonnes at a level comparable to the previous year while South Africa stayed at 76 million tonnes in exports. Russia raised its exports by 7 million tonnes (5%) to 150 million tonnes, and Colombia increased its exports by 2.5 million tonnes to 79 million tonnes. The devaluation of the Russian ruble and the Colombian peso played a supportive role here.
- On the other hand, preliminary figures of the VDKi showed that Indonesia reduced exports by 32 million tonnes to 325 million tonnes and the USA lowered its exports by 17 million tonnes (20%) to about 65 million tonnes.

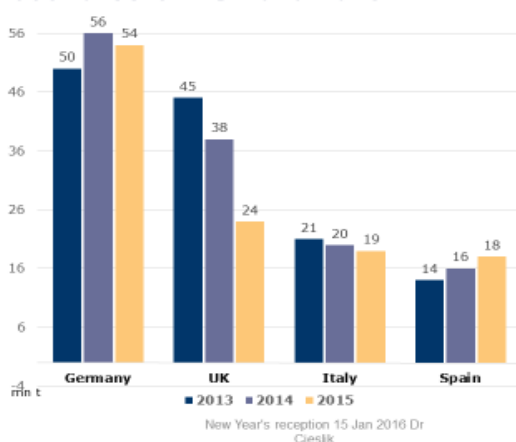
With the exception of a short period of relief, **world market prices** for hard coal continued their slide of the last five years. Their high point of the last year was in February 2015, when prices for steam coal posted a little over US\$63 per tonne CIF ARA, and the low point (for the moment) was in December (just under US\$50). In the middle of December one year before, a tonne of steam coal cost US\$72, about 30% more than today. The downward trend has continued in this year. Prices for deliveries in February and March 2016 are already under US\$50.

What are the prospects for coal in light of the Paris climate agreement? This depends – says the VDKi – to a very great extent on who you want to believe more, the United Nations or the International Energy Agency – or, in other words, a politically motivated result or a forecast that has at least not completely lost touch with reality.

The International Energy Agency (IEA) has issued a forecast covering the period up to 2040 in its World Energy Outlook (WEO) 2015; it is based on the scenario of the new policies regarding the reduction of greenhouse gases. The so-called New Policies Scenario includes all of the reduction measures that have been adopted politically, but not yet implemented. According to the forecast, renewable energies will in 2040 have a total share of one-third of power generation and will have overtaken fossil energy sources, and the share of coal in power generation worldwide will have declined from 41% today to 30% in 2040. At the same time, however, power demand will have grown by 40% by that time, and even in a quarter of a century, 67% of the world's power will be generated by the use of coal, gas, oil and nuclear – a figure that the national as well as international climate politicians would have been well advised to take into account before the negotiations in Paris. Instead, an estimate was presented in Paris showing that in 2040 coal will contribute only 2% and natural gas only 7% to worldwide primary energy demand and not only to power generation, contrasting with 57% from renewable energies. The IEA estimates, on the other hand, show that renewable energies will cover only 5% of global primary energy demand. These scenarios are diametrically opposed. If the IEA forecast is taken as the basis, the only conclusion is that the fundamental assumption (more precisely, the faith) embodied in the Paris Climate Agreement that the world could change over completely from fossil to renewable energies and in this way achieve significant reductions in greenhouse gas emissions is not realistic.

Europe and Germany

The four largest coal importing countries of EU 2013-2015

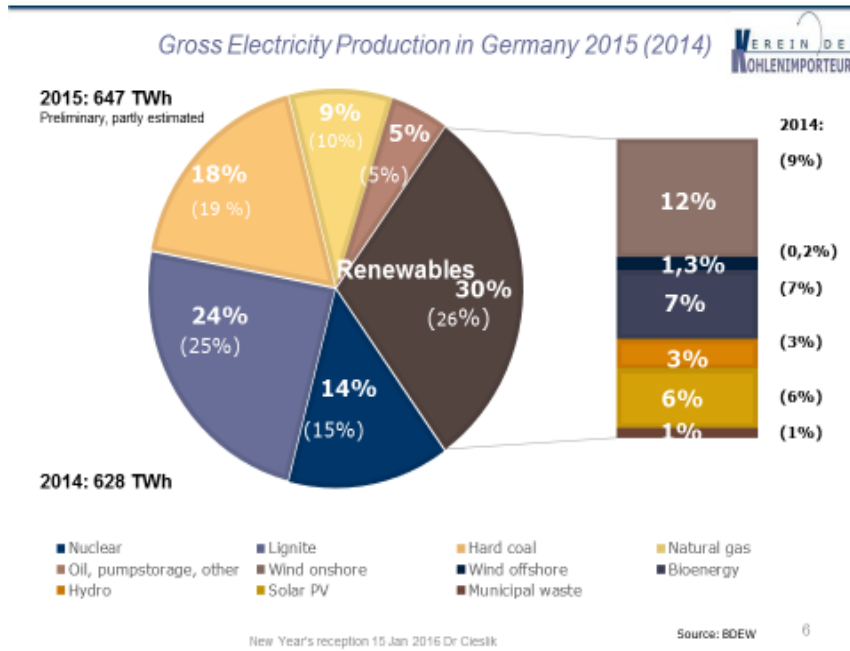


VEREIN DER
KOHLEIMPORTEURE

The **European Union** saw primarily a decline in coal imports in comparison with 2014. Imports to the United Kingdom fell especially strongly (-37%). Italy and Germany will presumably have imported as much hard coal by the end of last year as in the previous year. Spain increased its imports by 2 million tonnes to 18 million tonnes. The rise in power generation from renewable energy sources and the lack of overall sustainable economic growth in the EU will presumably limit the import of steam coal into the EU in 2016 as well.

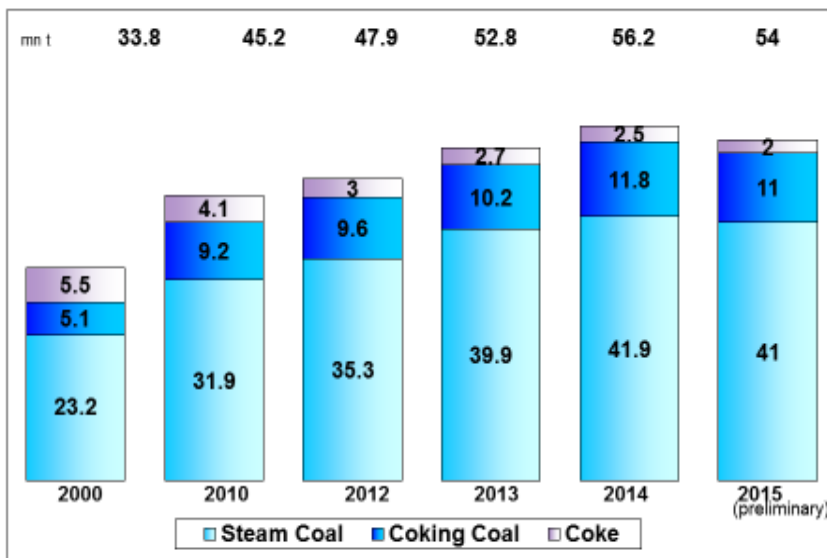
One positive aspect in the view of the VDKi is the continuing advantage of the clean dark spread (costs for coal, freight and CO₂ certificates) over the clean spark spread (costs for gas, transport and CO₂ certificates) in 2015 despite substantial pressure on volumes and prices of gas. This factor has favoured coal-fired power generation in the “race to cover the load” remaining after the priority feed-in of renewable energies and has pushed gas-fired power generation in Europe even further aside. Power was frequently exported to countries that depend heavily on natural gas for power generation such as the United Kingdom or the Netherlands. In addition, electricity was exported to countries that lacked availability of adequate power plant capacities to the network because of the dry summer in 2015, e.g. France or Austria.

Use of hard coal in Germany at high level in 2015



While the use of hard coal in Germany in 2015 fell in total by only 0.7% to 57.7 million TCE, use of coal in the steel industry remained unchanged at 17.8 million tonnes. The use of hard coal for power generation fell moderately by 0.8% to 38.0 million TCE and for heat generation minimally by 0.1 million TCE. Overall, about two-thirds of the total consumption of hard coal in Germany are attributed to power generation.

Hard coal imports into Germany (steam coal incl. anthracite)



Hard coal imports to Germany last year were noteworthy in view of the general situation of climate policies. According to preliminary calculations of the VDKi, imports declined by a mere 4% to about 54 million tonnes.

Eighty-nine percent of the total sales of hard coal in Germany of 57.7 million TCE (preliminary) in 2015 were covered by imports, 11% by domestic hard coal.

Hamburg, 20/01/2016

Responsible pursuant to the German Press Act: Verein der Kohlenimporteure e.V.,
Dr Franz-Josef Wodopia, Managing Director

3 pages, 128 lines, 1,245 words; 7,388 characters