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Initial figures on the world hard coal market at the VDKi New Year's Reception 2014 – VDKi regards hard coal as the guarantee, internationally and domestically, for secure and competitive power generation and as partner for the energy turnaround in Germany

During the New Year's Reception in Hamburg attended by more than 170 guests, the Verein der Kohlenimporteure e.V. (VDKi) presented the initial figures on the world hard coal market and on the German import hard coal market for the whole of 2013 and stated its positions on current issues of energy policy.

Global growth in the **production** of hard coal (coking coal and steam coal) has slowed down in its pace and will have grown only slightly by 2% to 3% (at best) to about 7.1 billion tonnes as of the end of 2013. China in particular throttled the production of hard coal, while the levels of production of coking coal in Australia and of production of steam coal in Indonesia and Russia were substantially increased.

Seaborne world trade in coal in total exceeded the level of the previous year by 4% to 5% (260 million to 270 million tonnes) despite the slowdown in the steel industry in some areas. Provisional estimates indicate a rise of 3% to 850 million tonnes in the volume of steam coal. This increase is attributed above all to China, which increased its imports from Australia and Indonesia in 2013 because of the low world market prices.

The long winter period in Europe at the beginning of 2013 (and the simultaneous relatively low feed-in of solar and wind power) as well as the clean dark spread (difference between power price and costs for coal, freight and CO₂ certificates), which has long been positive for coal-fired power generation in comparison with the negative clean spark spread (difference between power price and costs for gas, transport and CO₂ certificates), favoured hard coal-fired power generation in Europe, according to the VDKi. Electricity is frequently exported to countries strongly dependent on gas such as the United Kingdom or the Netherlands. As a consequence, the German Federal Association of the Energy and Water Industry (BDEW) estimates the gross power generation in Germany in 2013 at 629 TWh despite declining power consumption so that it remained at the same level as 2012, i.e. 61.4% from conventional fuels coal, gas and oil (previous year 61.2%). In contrast, the BDEW notes that power exports increased by 6.8% to 71.8 TWh.

Nevertheless, the VDKi CEO, Dr Wolfgang Cieslik, does not see any reason for optimism here, *“because,”* says Cieslik, *“even if it is said that the clean dark spread currently favours hard coal-fired power generation, this does not in any sense mean that coal-fired power plants are earning enough to cover their costs, much less operate profitably. In the interests of our members, we would be delighted if this were the case, but reality is completely different. The costs for a hard coal-fired power plant run about €50/MWh, depending on its degree of efficiency and the costs for purchasing coal. In contrast, the wholesale power prices and futures on the EEX in calendar year 2014 are moving in a range of between €35 and €45/MWh for base load and between €40 and €50/MWh for*

peak load. This is obviously not a viable business model which can ensure the steady supply of power and heat in Germany.”

According to figures from the VDKi, the imports of hard coal developed in a positive direction because of the declining output of German hard coal mining and the cold spring in 2013. The increase in hard coal consumption of 60.7 million TCE (4.1%) determined by the *Arbeitsgemeinschaft Energiebilanzen* was covered by

- 50.3 million TCE from imports, corresponding to growth of 12.5%, and
- 7.7 million TCE from domestic production, corresponding to a decline of 31.3%
- and otherwise by inventories.

In general, the world market prices remained on a downward curve in 2013. Prices for steam coal reached their lowest point for the moment in the middle of the year, posting a price a little over US\$73 per tonne CIF ARA. A slight recovery in prices has been noted since September. As of the end of November 2013, a tonne of hard coal CIF ARA cost about US\$84, a figure which was still 6% below the comparable figure of the previous year (US\$89.53). A stronger euro in comparison with the US dollar led to further price advantages in the euro zone.

Coking coal posted prices in excess of US\$250 per tonne at times in 2012, but as the economy and demand have weakened, prices have fallen more or less continuously since the second half of 2012 and are now hovering around the point of US\$150 per tonne (contract price HCC for Q4 2013).

Freight rates (with the exception of a very few limited-term contracts) moved in a range of US\$7–US\$12/tonne for the benchmark route Richards Bay–Rotterdam during 2013. It was not until September that freight rates were seen to stabilise, and they have settled around US\$15 per tonne for the route Richards Bay – ARA since the end of last year. The market appears to have found the bottom here.

Referring to current energy policy, CEO Dr Cieslik states: *“The true scope of the problems resulting from the energy turnaround which must be solved, the risks for our supply security, the dangers from price increases for the economy and jobs and the burdens which conventional power plants must bear because of the low wholesale power prices are still not being taken serious enough by politicians, who are too reluctant to implement the needed solutions. We urgently need fast and structured action on the part of the political establishment.”*

The coalition agreement contains positive aspects such as the planned legal implementation of a corridor for the further expansion of renewable energies, which will provide a certain security for conventional power plants when planning for the future. *“At least we now have it in writing from the German government that 45% to 50% of the electricity in Germany will still be generated by conventional coal- and gas-fired power plants even in 2035,”* according to Cieslik. *“The VDKi believes it is absolutely essential that the subject of market design, capacity markets and capacity bonuses be placed at the top of the German government’s agenda immediately after the reform of the EEG [German Renewable Energies Act]. In view of the fact that power plants are operating in the red even today, it would be irresponsible to wait any longer. We can expect additional applications for the shut-down of plants to be submitted to the German Federal Network*

Agency in the coming months, and this could ultimately represent a serious threat to the security of our power supply. The problem cannot be taken care of in the long term on the basis of the German Reserve Power Plant Regulation,” stated the CEO. Moreover, the expansion of the grid system in Germany must be accelerated so that the demand all over Germany can be covered at all times with energy from renewable and reliable conventional energy sources according to market results.

Responsible pursuant to the German Press Act: Verein der Kohlenimporteure e.V.,
Dr Erich Schmitz, Managing Director