

Press Release 4/2014

World hard coal market 2014: production and trade stagnating, imports to Germany and Europe on the decline

VDKi criticises regulations ordering reduction of CO₂ emissions from coal-fired power plants as the wrong signal in terms of regulatory policy, ineffective in terms of climate policy and questionable in terms of constitutional law.

The Verein der Kohlenimporteure e.V. (VDKi) has presented the initial estimates for the global hard coal market and for the European and German import hard coal market for the entire year 2014 on the basis of analyses of data to the end of October 2014.

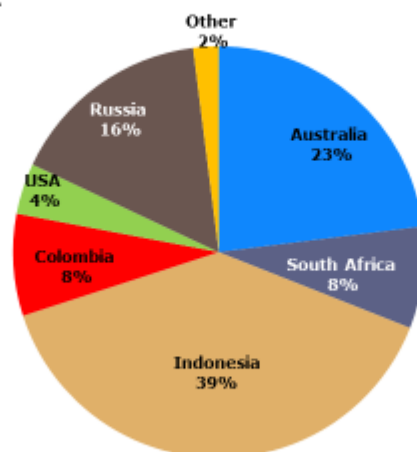
Growth in the **mining** of hard coal (coking coal and steam coal) has come to a standstill and could even fall below the level of 2013 with around 7.2 bn t worldwide by the end of the year. China in particular has throttled its output of hard coal and ordered the curtailment of output volume by 150 million tonnes for 2014.

Australia and India, on the other hand, have been able to expand the production of steam coal significantly, especially in the first nine months. Indonesia, in contrast, has not been able to increase the production of steam coal at the same rate as in previous years for a number of different reasons.

Global seaborne steam coal trade - supply side – 2014 (forecast)



Total abt. 860 mn MT
(previous year 863)



Source: VDKi – extrapolation on basis of figures 1-9/2014

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The **seaborne trade in hard coal** (steam coal only) will reach about 860 million tonnes, according to calculations by the VDKi, falling just short of the record mark of 2013. China bears the greatest responsibility for the stagnation; this country reduced its imports by a total of 15 million tonnes (7%) in the first nine months as a support measure for its own

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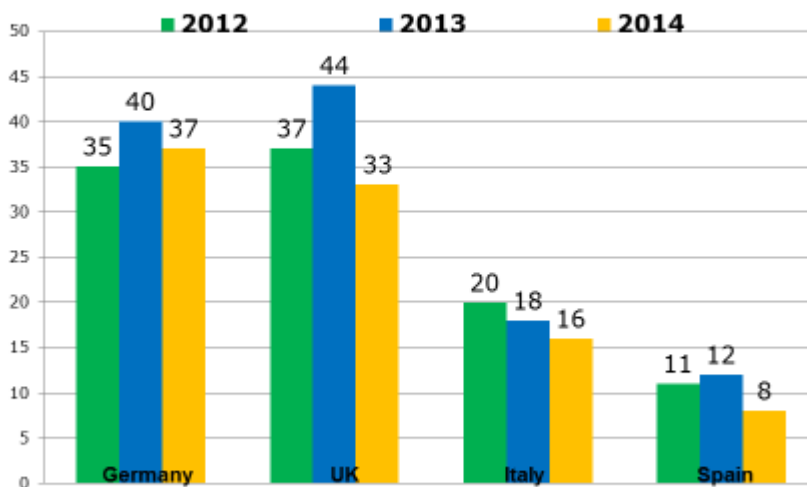
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coal mining industry. Moreover, an import duty of 6% has been levied on steam coal since October 2014 and has presumably had an especially strong impact on production in Australia. The VDKi assumes that China's steam coal imports by the end of 2014 will ultimately be 8% to 10% below the previous year's level.

Significant shifts are also becoming apparent within the exporting countries. Australia was able to increase its exports of steam- and coking coal by about +24 million tonnes (around 8%) to approx. 284 million tonnes, thereof steam coal by about +10 million tonnes (8%) to approx. 148 million tonnes in the first three quarters, and Russia saw a rise in steam coal exports of 16 million tonnes (17%) to 102 million tonnes.

This was contrasted (according to provisional figures from the VDKi) by Indonesia not being able to increase its exports over the approximately 335 million tonnes of 2013 and Colombia and South Africa not being able to exceed their volumes of the previous year (73 million tonnes each). Exports of steam coal from the USA to Europe will shrink once again by more than 20% to a mere 35 million tonnes because of the price levels in 2014, which are too low for many mines.

The four largest steam coal import countries of EU-27/28 – 2012-2014 in mn MT (figures provisional)



Source: VDKi – extrapolation on basis figures 1-9/2014

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Europe and Germany

The **European Union** has seen a decline in coal imports in comparison with 2013 throughout the Community. Imports to the United Kingdom fell especially strongly (-25%). But Italy, Spain and Germany will presumably also reduce imports of hard coal by between 2 and 4 million tonnes as of the end of the year.

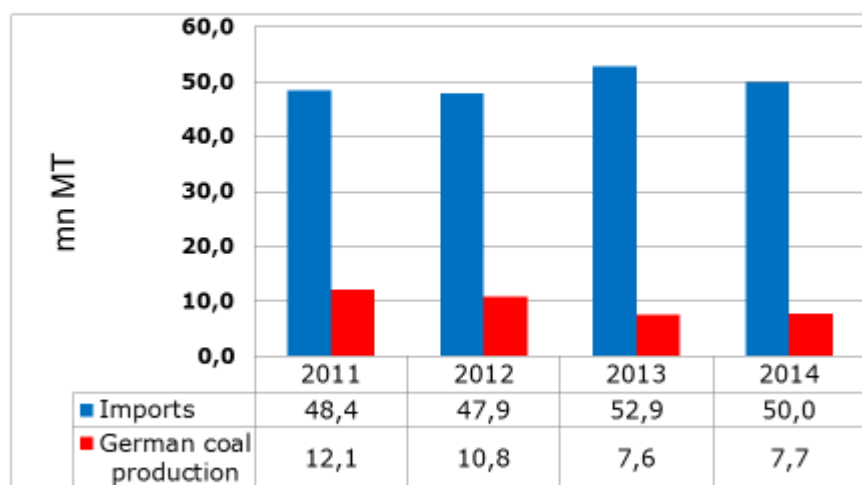
Increased power generation from renewable energies and the weak economy will cause the import of steam coal in the aforementioned countries to fall by a total of about 20 million tonnes (17%).

The favourable clean dark spread (costs for coal, freight and CO₂ certificates), which has been lower than the clean spark spread (costs for gas, transport and CO₂ certificates) for some time, encourages coal-fired power generation, which is replacing gas-fired power generation in Europe. The generated power is frequently exported to countries emphasising gas for power generation such as the United Kingdom or the Netherlands or to countries which do not have sufficient power plant capacities available on the grid such as Belgium. Consequently, the Federal Association of the Energy and Water Industry (BDEW) estimates gross power generation in Germany for the first three quarters of 2014 at 424 TWh (previous year 440 TWh). About 67% of this power comes from conventional energy sources (previous year 63%).

German power exports to neighbouring countries remained at the same high level as in 2013 during Q1 to Q3 2014. The bottom line (exports minus imports) shows a rise in exports to 21.5 million kilowatt-hours, just under 2% more than in the comparable period of the previous year (21.1 TWh).

All of this has happened against the backdrop of the growing share of renewable energies; their share of gross power generation for Q1 to Q3 2014 rose from 26% to 28%.

Steam coal imports into Germany and domestic production 2011 – 2014 (prov.)



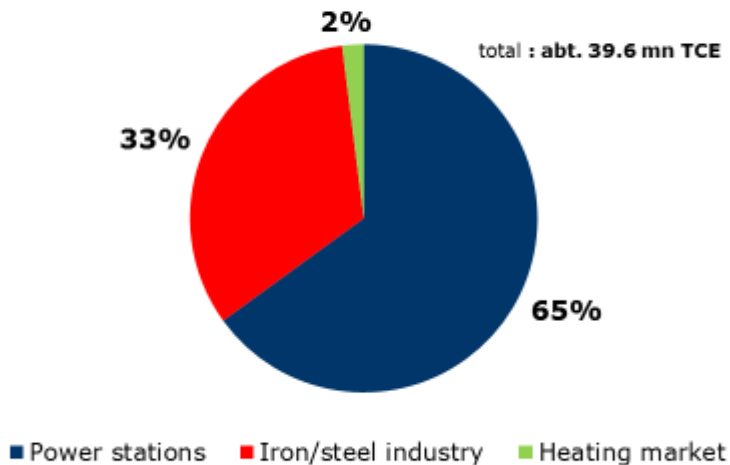
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The VDKi estimates **hard coal imports** for Germany in 2014 will be as follows:

Total **hard coal imports** into Germany increased by 1.1 million tonnes (almost 3%) to 39.5 million tonnes during the first nine months. Extrapolating this value for 2014 would mean that about 50 million tonnes of hard coal will be imported into Germany this year: 37.5 million tonnes for power plants, 10 million tonnes for the iron and steel industry and 2.5 million tonnes of coke. This would be close to the highest mark of last year and confirms the projection of the VDKi from the middle of the year. In Q3, about 7.9 million tonnes of steam coal were imported into Germany, only slightly less than in the comparable period of the previous year.

Consumption structure of steam coal in
Germany (imports and domestic hard coal)
1-9/2014



Source: GYSt/AGEB

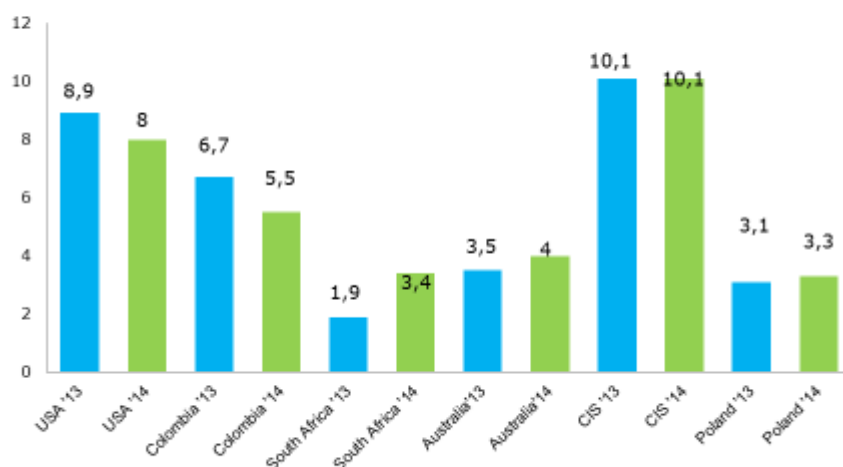
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The AGEB quantifies the **consumption** of hard coal in 2014 in the first 9 months in comparison with the previous year as shown below:

- Hard coal consumption for power generation declined by 15.4% to 25.5 million TCE.
- Hard coal consumption for the steel industry rose during the first half of 2014 by 5.3% to 13.2 million TCE because of a slightly improved economic situation.
- Hard coal consumption for heating declined by 10.0% to 0.9 million TCE because of mild weather conditions.

Steam coal imports into Germany by origin:
1-9/2014 : 1-9/2013



Source: VDK – extrapolation on basis figures 1-9/2014

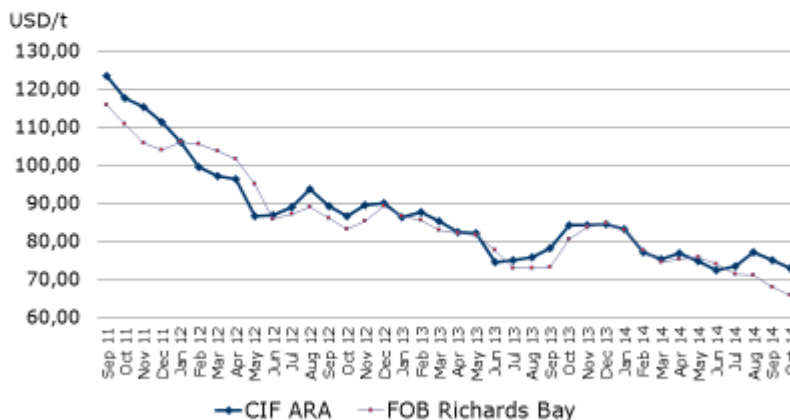
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South Africa, Australia and Poland increased their exports to Germany slightly while Russia reached the level of the previous year during the first 3 quarters. Exports from the USA and Colombia to Germany will presumably decline in 2014. Moreover, Russia might in 2014 repeat its position as the most important coal exporter.

With the exception of a short interruption in the trend in the middle of the year, world market prices continue to be mostly on a descent. They reached their lowest point for the moment in the middle of the year, posting a price a little over US\$72 per tonne CIF ARA. After a minor recovery, prices have been observed giving way again since September. As of the end of November 2014, a tonne of hard coal CIF ARA cost about US\$75, a figure which was still US\$9 below the comparable figure of the previous year (US\$84). A weaker euro in comparison with the US dollar led to price disadvantages in the euro zone. The average price free German border (BAFA price) in Q3 2014 came to €71.21 per TCE (€61.03 per tonne).

**Steam coal prices North-West Europe and South Africa – monthly average prices (6000 kcal/kg)
Sep 2011 – Oct 2014**



Source: IHS McGray, Monthly average prices for coal: calorific value 6000 kcal / NAR

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VDKi criticises the decision of the German government to push through regulations lowering CO₂ emissions by reducing coal-fired generation of electric power in Germany as a means of achieving the target reduction of 40% in relation to 1990 by 2020 which it has set for itself.

In the view of the VDKi, there is absolutely no reason to take this step. According to information from the AGEB, the CO₂ in 2014 will be lower than in the previous year, and the European Environmental Bureau writes in its annual report 2013 that the latest estimates indicate that CO₂ emissions in the past year reached the lowest level since 1990.

Dr Erich Schmitz, managing director of the Association, has this to say: *“The Economics Minister has correctly pointed out anyone shutting down nuclear power plants cannot simultaneously shut down coal-fired power generation without gravely endangering the*

security of power supplies and causing prices for electricity to explode yet again. This makes it all the more difficult to understand his position of charging coal-fired power plant operators to reduce CO₂ by 22 million tonnes in 5 years – only because of a target set down in the coalition agreement to lower CO₂ emissions to 40% below the level of 1990 by 2020.

This is again an intervention by regulatory policies into the emission trading system which was implemented all across Europe on the basis of free market principles as the sole means of steering developments. The industry's trust in pan-European systems of this type will fade more and more if the government bypasses the market nationally. And in any case, if there really are overcapacities in Germany – as claimed by politicians – these capacities will disappear from the market on their own because they cost money. The tonnes of CO₂ which are cut in Germany will moreover presumably be overcompensated because the certificates which become available as a consequence will be used to generate power in even older, less efficient coal-fired power plants in neighbouring countries such as Poland or the Czech Republic for export to Germany. The plan in the Action Alliance Climate Protection will at best have zero effect in terms of climate policy, but lead to a permanent loss of trust among power plant operators and their employees. In addition, a measure of this type is questionable in terms of constitutional law because it intervenes in the freedom of ownership of property and commercial operation.”

However, this type of reduction will most likely not have any major impact on coal imports. In consideration of the fact that both lignite and hard coal-fired power plants will be affected, the VDKi is assuming a magnitude of 1 to 1.5 million tonnes of hard coal.

Hamburg, 04/12/2014

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