

Press release 5/2013

## World Hard Coal Market 2013: volumes possibly at record-breaking high, prices possibly at a record-breaking low. German and UK imports are up. The VDKi welcomes the coalition agreement on the energy turnaround as a step in the right direction.

Verein der Kohlenimporteure e.V. (VDKi) has submitted its initial estimates for the world hard coal market and the German and European hard coal import market for the whole of 2013, based on a data analysis up to the end of October 2013.

## World economic growth has slowed in 2013, but trading in coal has continued to increase

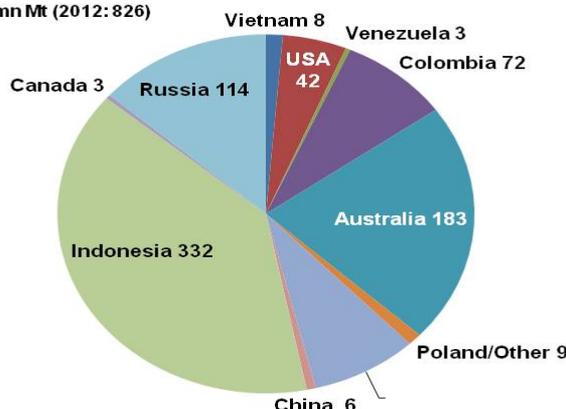
Year-on-year world economic growth has slowed down again. According to the latest announcements by the International Monetary Fund (IMF), the economy has grown year-on-year by 2.9% in real terms. This is 0.3% less than in the previous year. In the euro zone, growth in gross domestic product (GDP) fell in the same period from 2.8% to 1.6%. The industrialised countries of Germany and France accounting positively for 0.5% and the latter for 0.2% of increase, whilst Italian, Dutch and Spanish GDP growth fell by 1.8% and 1.3% respectively.

The growth in hard coal **output** (coking coal and steam coal) has lost impetus and will not increase by more than 2–3% worldwide by the end of the year. China in particular has reduced hard coal output, whilst coking coal production in Australia and steam coal production in Indonesia and Russia have expanded, sometimes considerably.

### Seaborne Steam Coal Trade - Supply Side – 2013 (Forecast)



Total approx. 850 mn Mt (2012: 826)



Quelle: VDKi – Hochrechnung auf Basis Zahlen 1-9/2013

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Verein der Kohlenimporteure e.V. · Ferdinandstrasse 35 · 20095 Hamburg  
Phone +49 (0)40 32 74 84 · Fax +49 (0)40 32 67 72

Internet: <http://www.kohlenimporteure.de> · E-mail: [Verein-Kohlenimporteure@t-online.de](mailto:Verein-Kohlenimporteure@t-online.de)

HypoVereinsbank AG, Hamburg (Sort code 200 300 00) Account No. 408468 · Registration: Hamburg District Court, VR7021  
Managing Director: Dr Erich Schmitz, Attorney, Chairman of the Executive Board Dr. Wolfgang Cieslik

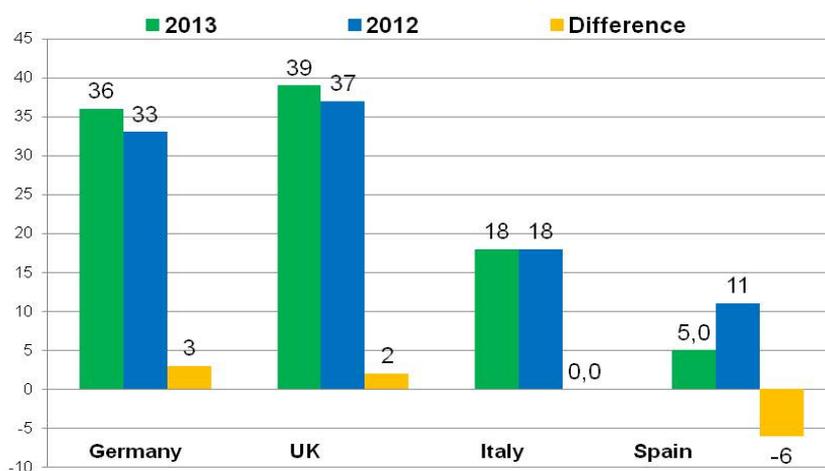
The **seaborne hard coal trade** (steam coal only) will peak at around 850 million tonnes, according to VDKi calculations, thus increasing by just 3% and reaching a new high overall. China is primarily responsible for the rise, as it increased its imports from Australia and Indonesia in the first half of the year, due to the favourable prices on the world market. Its imports during the first six months were thus up 10% year-on-year. However, economic growth slowed in the second half of the year and an import tax was imposed on low-calorific brown coal. The effect of this cannot yet be estimated, but the VDKi is assuming that China's steam coal imports will exceed the previous year's level in 2013.

However, there were major shifts among exporting nations. In all likelihood, the following countries will be able to increase their exports as follows:

- Indonesia by +30 million tonnes or about 12%, to a total of 330–340 million tonnes;
- Australia by about +20 million tonnes or 11% to 180–190 million tonnes, and;
- Russia by 5 million tonnes or about 5% to 114 million tonnes.

In contrast, exports of steam coal from Columbia will fall by 5 million tonnes, due to strikes at various mines and logistical restrictions at the beginning of the year, from South Africa by 3 million tonnes and from the USA by 4 million tonnes.

**The Four Largest Hard Coal Importing Countries in EU-27 2013 in mn Mt** (Figures Preliminary)



Quelle: VDKI – Hochrechnung auf Basis Zahlen 1-9/2013

## Europe and Germany

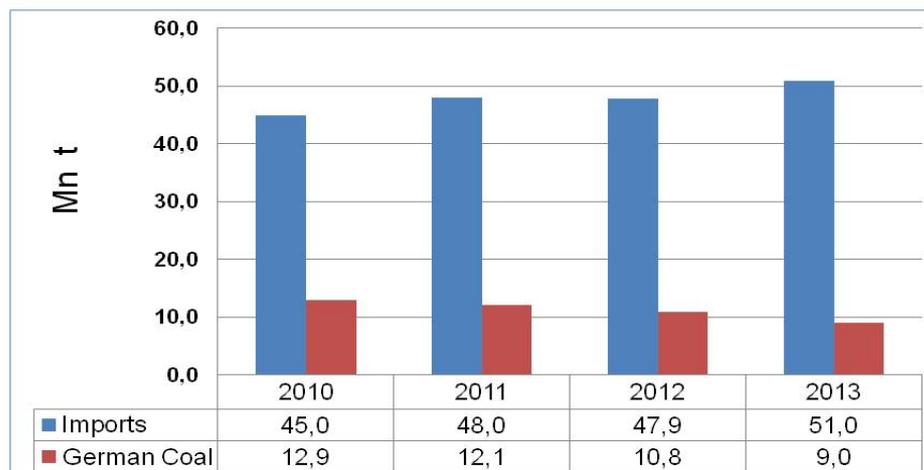
A slight increase in coal imports in the **EU** has been perceptible in the last two years, particularly in the UK, Italy, Spain and Germany. Falling hard coal production in Germany, Spain and England has been compensated by an increase in imports. Spain will import about 6 million tonnes less steam coal in 2013, due to increased electricity generation from renewables and the weak economy. Italy will return to the 2012 level.

The long winter in Europe and the lower clean dark spread (costs of coal, freight and CO<sub>2</sub> certificates), which has long worked in favour of power generation from coal to a greater or lesser extent, in comparison with the clean spark spread (costs for gas, transport and CO<sub>2</sub> certificates) encourages power generation from coal in Europe. Electricity is then frequently exported to highly gas-dependent countries such as the UK or the Netherlands. The Bundesverband der Energie- und Wasserwirtschaft (BDEW) correspondingly estimates gross electricity generation in Germany at 635 TWh in 2013 (2012: 628 TWh), with 61.8% coming from conventional sources (previous year 61.5%).

Germany's electricity exports to its immediate neighbours rose significantly in the first three quarters of 2013. On balance (exports minus imports), 43% more electricity (19.9 million kWh) was exported than in the same period in 2012 (13.9 TWh).

All this took place against a background of a growing proportion of power from renewable sources, which grew from 22.7% to 25.9% during the first three quarters of 2013.

### Steam Coal Imports to Germany and Domestic Production 2010 – 2013 (prel.)



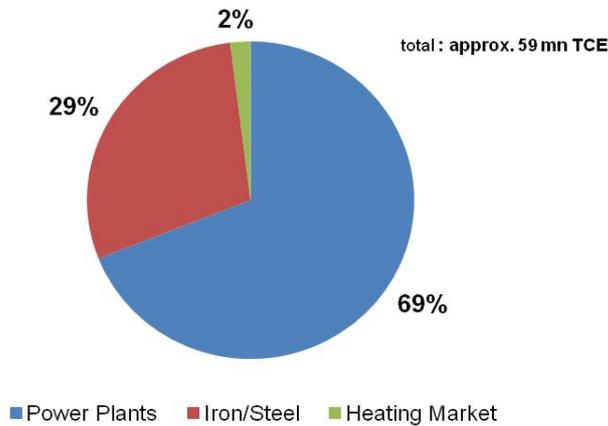
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The VDKi estimates **hard coal imports** into Germany as follows in 2013:

**Hard coal imports** into Germany rose by 16% or 5.5 million tonnes to 38.4 million tonnes in the first nine months. Extrapolating this figure for 2013 means that Germany will import more than 50 million tonnes of hard coal this year, with 38 million tonnes destined for power stations, 10 million tonnes for the iron and steel industry and 3 million tonnes for coke. This would be a new record and would confirm the VDKi's mid-year forecast. Germany imported about 8 million tonnes of steam coal in the third quarter.

Consumption Structure of Germany (Hard Coal Imports and Domestic coal) 2013



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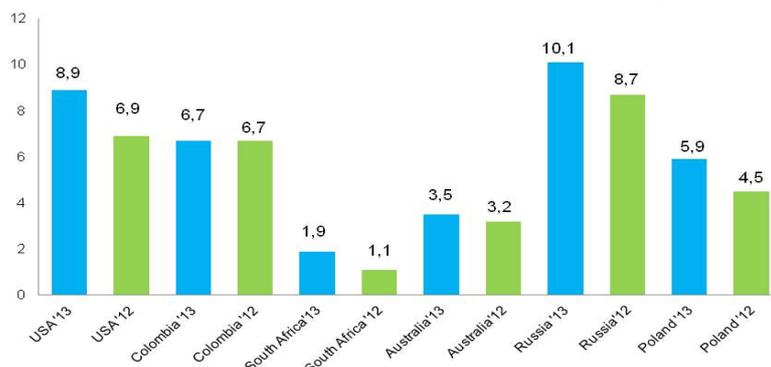
The Energy Balance Working Party (AGEB) estimates hard coal **consumption** in 2013 as follows:

- A rise of 8.2% in hard coal consumption for electricity generation to 30.5 million TCE;
- A reduction of 5.6% in hard coal consumption by the steel industry, due to the modest economic situation.

Managing Director Dr Erich Schmitz commented:

*"The figures prove that modern, highly-efficient hard coal-fired power stations are indispensable for the security of supply within the scope of the energy turnaround and must have a firm place in the future too. However, their cost-effectiveness is under serious threat from the unrelenting expansion of renewables and the resultant distortions on the German wholesale electricity market. The new federal government must find a remedy, if a serious number of power station closures are to be avoided."*

Hard Coal Imports to Germany by Origin



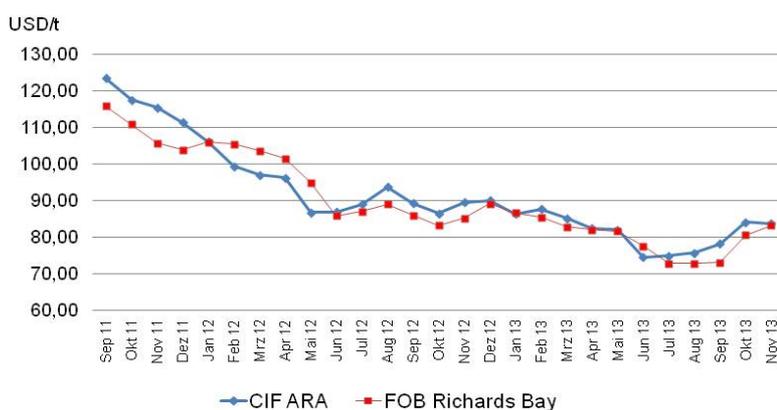
Quelle: VDKI – Hochrechnung auf Basis Zahlen 1-9/2013

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The USA, Russia, Poland and South Africa have increased their exports to Germany. The USA will probably displace Columbia as the second-largest coal exporter after Russia in 2013.

### Steam Coal North West Europe und South Africa Monthly Average Price Sept 2011 – Nov 2013



Quelle: IHS McCloskey Monatsdurchschnittspreise für Kohle mit einem Heizwert von orthly 6000 Kcal/NAR

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World market prices generally continued to fall. They reached their current record low of just over US\$73/t cif ARA in the middle of the year. A slight price recovery has been evident since September. At the end of November 2013, hard coal price reached about US\$84/t cif ARA, but was still 6% below the previous year's price (US\$89.53). The strengthening of the euro against the US dollar produced further pricing advantages in the euro zone. The average price free German frontier (BAFA price) was thus €75.64 TCE or €64.83/t in the third quarter of 2013.

### The VDKi regards the power station section of the coalition agreement as a step in the right direction.

Part of the section dealing with energy makes extensive reference to the “new role for conventional power stations”. Hard coal-fired power stations are regarded as an “indispensable part of the energy mix for the foreseeable future”. The VDKi strongly supports the basic heads of agreement under which the market is to retain the necessary capacity in the long term. This includes the development of a capacity mechanism, alongside the further development of a generation reserve using tendering strategies or the short-notice availability of reserve generation capacity under the Reserve Power Station Order. The explicit inclusion of the capacity market in the coalition agreement, to be developed in the medium term, repeatedly demanded by the VDKi, to be configured in accordance with European law, open to technology and not discriminate against any primary energy resource, is a matter of energy industry necessity and places the necessary emphasis on security in the target constellation of a secure, affordable, environmentally- and climate-friendly energy supply.

However, from the point of view of the VDKi, these fundamental positions must now be translated into specific legislative proposals very quickly. The VDKi has done essential research work with its Prognos report and will make a constructive contribution to further discussions about the configuration of capacity markets.

Hamburg, 10 December 2013

Responsible within the meaning of German press law: Verein der Kohlenimporteure e.V.,  
Dr Erich Schmitz, Managing Director