



# ANNUAL REPORT

ABRIDGED VERSION

# 2004

## Imported coal market at a glance

		2003	2004
<b>World</b>			
Hard coal production	m t	4.300	4.600
World hard coal trad	m t	670	755
Thereof seaborne hard coal trade	m t	639	685
Coke production	m t	458	485
World coke trade	m t	30	30
<b>European Union (25) from 2004</b>			
Hard coal production	m t	72	180
Hard coal imports/internal trade	m t	184	210
Coke imports	m t	13	13
<b>Germany</b>			
Hard coal consumption	m tce	68.7	66.2
Hard coal production	m t	25.7	25.7
Hard coal imports	m t	35.4	38.9
Hard coal coke imports	m t	5.8	5.0
Sales of imported coal to	m t	41,2	43,9
● Power plants	m t	27.9	30,1
● Iron and steel mills	m t	11.0	11.5
● Heat market	m t	2.3	2.3
<b>Prices</b>			
Steam Coal Marker Price CIF NWE	USD/tce	50	84
Cross border price steam coal	Euro/tce	40	55
Exchange rate	Euro/USD	0.88	0.80

## WORLD

It is almost 30 years since the development of the global economy was last as dynamic as it was in 2004. Global production increased by 5% and the global volume of trade by 9%, which was substantially higher than the annual average of 6% over many years.

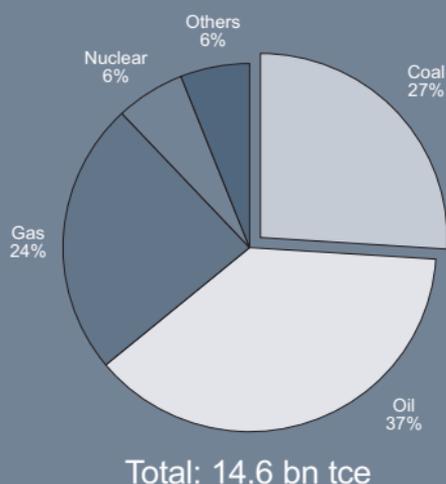
World energy consumption increased by almost 4% or 500 m t coal equivalent (tce) to 14.6 bn tce, which represents an increase of 1.3 bn t over the last 3 years.

The Pacific market saw the highest growth yet again.

From 2001 to 2004, growth of the individual sources of energy contributing to meeting the worldwide demand for energy consumption was as follows:

coal:	760 m tce
natural gas:	250 m tce
mineral oil:	290 m tce
other:	<u>40 m tce</u>
	1,340 m tce

### World - Energy Consumption 2004



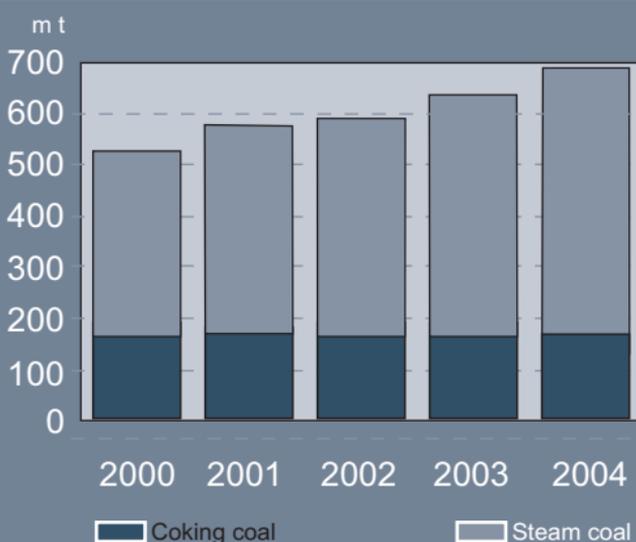
As in 2003, the strong growth shown for coal is primarily attributable to China. However, there was an increase in production by many other countries operating on the global market.

The growth for coal in 2004 amounted to 250 m tce in 2004. The increase in consumption of coal was primarily due to the rise in the use of hard coal, above all in China and the other countries of southern Asia for the generation of electricity. Production of steel and pig iron also saw strong growth and consumption increased.

Worldwide production of hard coal saw a further increase of over 300 m t in 2004, from 4.3 bn t to around 4.6 bn t. The estimated breakdown was 0.6 bn t of coking coal and 4.0 bn t of steam coal. Again, this was primarily attributable to China, which saw a substantial increase in production. The volume produced by small Chinese mines is very uncertain, as the Chinese production data relates to run-of-mine coal. New projects are being examined worldwide as a result of high global market prices.

The global hard coal market saw strong growth again in 2004, against a background of a prospering, broadly-based world economy. World trade saw a further increase of around 50 m t, reaching a volume of 755 m t, of which 70 m t was attributable to inland trade and 685 mt to seaborne trade.

### Seaborne hard coal trade



The proportion of total global trade represented by production is 16% and of overseas trade 15%.

The market for steam coal consists of the Pacific and Atlantic sub-markets, which are characterised by different supplier structures. The volume exchanged between the sub-markets amounts to around 7% (= 33 m t) of the total market.

On the other hand, the market for coking coal is a uniform world market, due to the low number of supplier countries on one hand and the worldwide distribution of demand on the other. Around 30% of worldwide coking coal production is destined for overseas trade, which is a far higher proportion than for steam coal.

In the Atlantic region, demand for steam coal increased by 6 m t from 202 m t in 2003 to 208 m t in 2004.

Sales to the USA and many EU states, Mediterranean countries and Central and South America increased. Iskenderum power station in Turkey had its first full year of operation.

As a result of the increase in use for the generation of electricity in many countries, some stocks had to be replenished, primarily in Europe, and production losses evened out (UK).

Russia and Columbia were the main beneficiaries of the increase in demand. South Africa failed significantly to reach its export potential because of its problems with the rail link to Richards Bay and missed its target by 5 m t. The USA also increased its export volume. Due to the high prices on the world market, which covered the costs of its production, Poland maintained its export volume at the 2003 level.

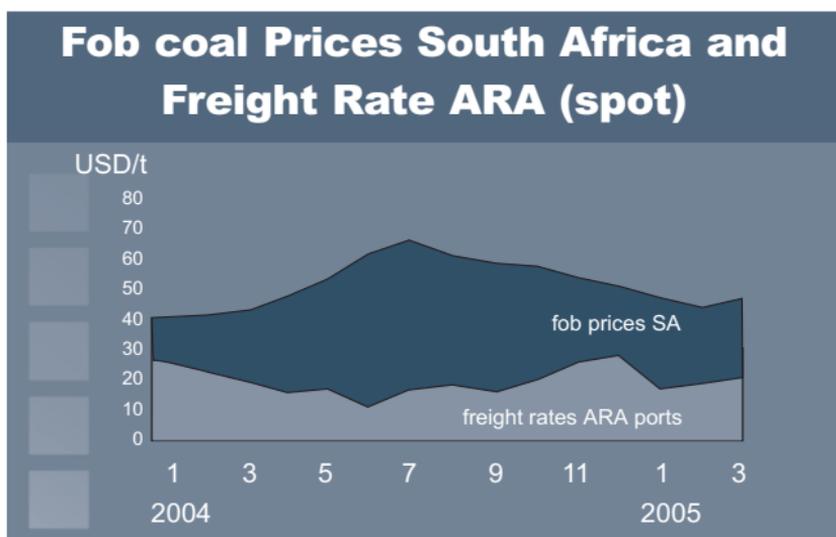
Over the coming years, growth is anticipated above all in North, Central and South America and in the Mediterranean region.

The Pacific rim also saw a strong increase in demand in 2004, rising by around 4 m t from 263 m t to 297 m t.

Sales increased to all major importing countries in the South Asian region.

On the supplier side Indonesia experienced the strongest growth, with a 16 m t increase in exports, but Australia also increased its exports by 4 m t. China's exports were static, but Russia and Vietnam were able to increase their volume to meet the demand of the Pacific market. The market for steam coal in Asia is also expected to increase over the coming years.

## World market prices



The price of steam coal "cif" ARA Amsterdam-Rotterdam-Antwerp (6,000 kcal/kg NAR net as received) for South African spot coal remained at a high level all year. Conversion to 7,000 kcal/kg produced an average price of around 84 US\$/tce.

The "cif" price was characterised by different trends for the two main elements of "fob" prices and sea freight. Sea freight for Capesize vessels fluctuated at the beginning of the year from almost 30 US\$/t to 12 US\$/t in the middle of 2004 and then rose again to over 30 US\$/t by the end of the year.

The "fob" prices Richards Bay increased from over 40 US\$/t to 70 US\$/t at their peak in the summer and fell to 50 - 53 US\$/t at the end of the year. At the beginning of 2005, "fob" prices and sea freight declined in parallel. The Atlantic and Pacific steam coal prices followed a similar trend, although there was a certain period of delay.

## Sea freight rate for steam coal/ARA



### Coking coal market:

According to the IISI (International Iron and Steel Institute), crude steel production passed the billion tonne level in 2004, reaching 1,025 m t. Pig iron production totalled 700 m t.

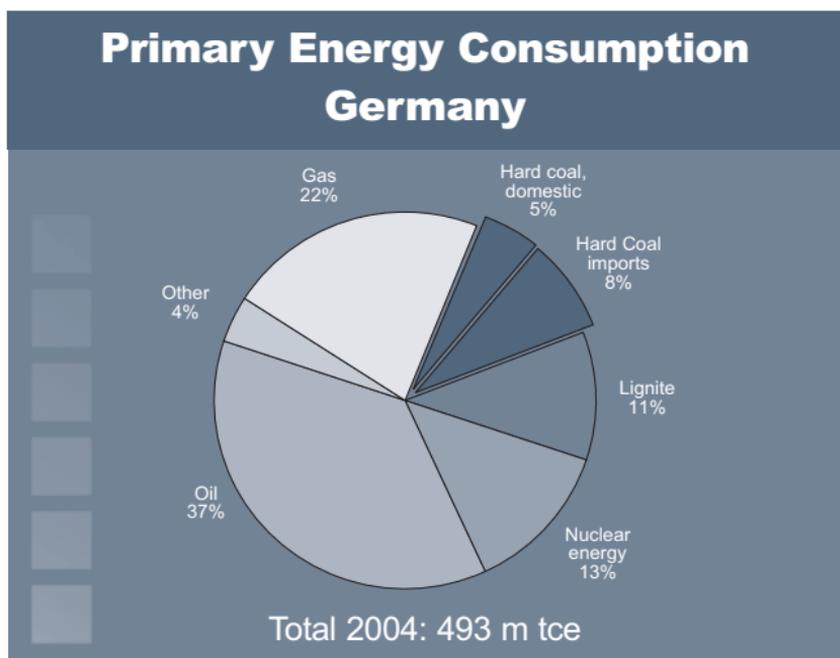
The demand for coking coal continued to increase in 2004. The world market for coking coal increased by 7 m t to 180 m t. On balance, China became an importer and, for the first time, purchased coking coal from Mongolia, a country which had not previously acted as a supplier of coking coal.

Coking coal remained scarce, due to high demand, tight freight markets and logistical bottlenecks. Producers therefore demanded huge price increases at the end of the year, which were also accepted by the steel producers. These price increases amounted to 100%.

Prices of coke fell from their peak in 2003 to an average of +/-230 US\$/t fob China for 10.5% ash products.

## GERMANY

Consumption of primary energy fell slightly in 2004, remaining at the previous year's level of around 493 m tce. Although 2004 was colder than 2003 and economic growth was higher, neither resulted in higher consumption of primary energy.



The consumption of mineral oil fell slightly, but the consumption of natural gas rose, primarily due to increased industrial use. Lignite and nuclear energy were both able to expand their position slightly.

Wind and water energy increased by 1 m tce to 5.6 m tce. This growth primarily had the effect of reducing the use of imported coal in coastal power stations, and generation of cheap, hard coal-based electricity.

Consumption of hard coal as a primary source of energy amounted to 66.2 m tce in 2004, which represented a fall of 2.5 m tce compared to the previous year. The consumption of hard coal has thus been fluctuating within a stable range of 64 - 70 m tce since 1997, depending on the economic situation.

The volume of hard coal in million tce was broken down as follows:

40.5 m tce	imports
26.5 m tce	domestic production
<u>-0.8 m tce</u>	<u>accumulation of stock</u>
66.2 m tce	in total

The energy mix for electricity generation:

### Energy Mix in Power Generation

Source of energy	2003 in Twh	2004 in Twh
Hard coal/lignite	305	297
Nuclear energy	165	167
Natural gas	62	62
Other	14	14
Renewable energy	58	67
<b>Total</b>	<b>604</b>	<b>607</b>

source: VDEW

Sales of hard coal t=t in the sectors as a whole developed as follows:

### Sales of Hard Coal

Use	2003 m of t (t=t)	2004 m of t (t=t)
Power stations	51.6	53.8
Steel industry	14.5	14.8
Heating market	2.4	2.4
<b>Total</b>	<b>68.5</b>	<b>71.0</b>

Imports reached a new peak of 43.9 m t, accounting for around 62% of the hard coal supplied to the German market.

The proportion of imports increased in all sectors. The breakdown of imports by product is as follows:

### Hard Coal Imports

Product in m t	2003	2004
Steam coal	29.4	31.4
Anthracite	0.4	0.3
Coking coal	5.5	7.2
Coke	5.9	5.0
<b>Total</b>	<b>41.2</b>	<b>43.9</b>

The main countries for steam coal were as follows:

- South Africa 9.9 m t
- Poland 7.1 m t
- Russia 5.4 m t
- Colombia 4.7 m t

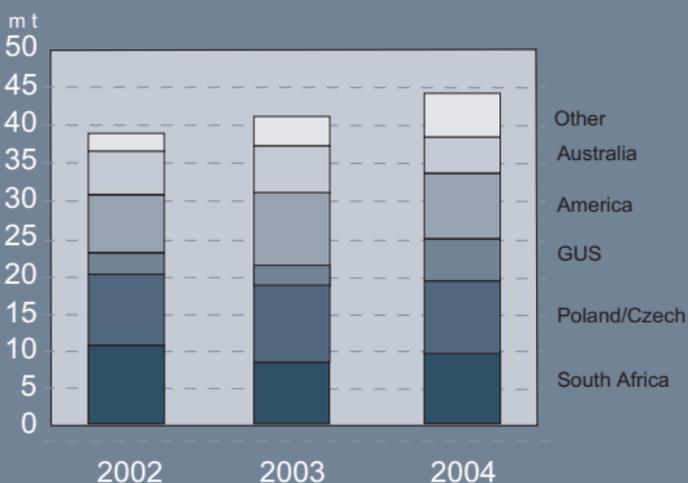
The main suppliers of coking coal were:

- Australia 3.9 m t
- Canada 2.0 m t

and of coke:

- Poland 1.7 m t
- China 1.5 m t

## Hard Coal Imports of Germany

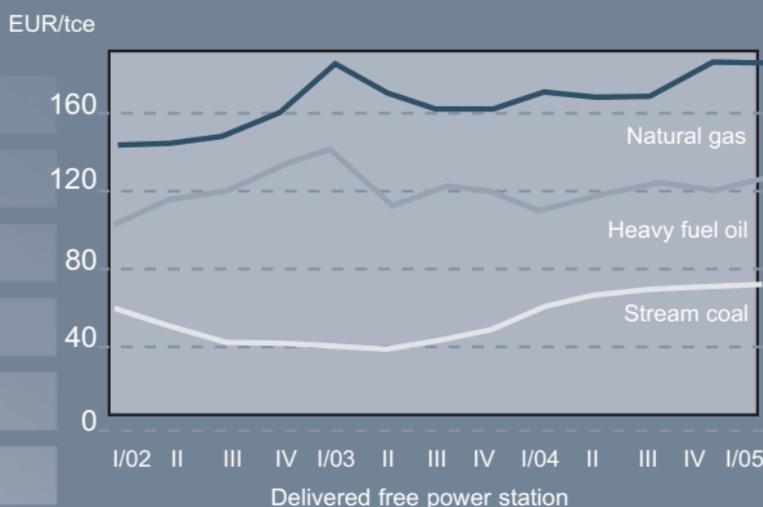


Domestic production still accounts for 38% of the supply to the German market. Expansion of the Prosper coke plant is currently under consideration, due to the high spot prices of coke on the world market. As an alternative, a site in the Rheinschiene [Bonn-Cologne-Düsseldorf-Duisburg] region is under discussion. RAG also initiated consideration of sinking a new coking coal mine under certain circumstances, should "hard coking coal" remain scarce and expensive.

Imported coal enjoyed substantial price advantages compared to oil and gas as sources of energy in 2004, even taking account of the handling advantages of oil and gas.

Heavily subsidised, domestic energy production (coal/wind), whether subsidised by direct grants or by indirect consumer contributions, fell far short of being competitive. The cost price of German hard coal is still 160 Euro/tce. Electricity from wind energy is subsidised to the level of 5 - 6 eurocents/KWh, i.e. 150 - 180 Euro/tce.

## Developments in selected energy prices



The crucial index price for the German market – the cross-border price for steam coal (K-Bogen/BAFA) – increased by around 39% from 2003 to 2004, i.e. by 15 to 55 Euro/tce. This represents a substantial increase. The price was around 61 Euro/tce at the end of 2004. A high price level is also expected for 2005. The BAFA price was consistently below the spot market quotations during 2004.

The continued hardening of the Euro against the US dollar alleviated the price increase in the euro zone.

The cross-border price for coking coal increased relatively moderately by over 10% between 2003 and 2004. As most coking coal is purchased on the basis of annual contracts, this reflects the market situation at the end of 2003/beginning of 2004. However, substantial price rises are to be expected in 2005, and the price level which has risen internationally by 100% will then have an effect on German cross-border prices.

The price of imported coke has risen dramatically. Prices for imports from third countries increased on average from 90 to 245 Euro/t and for imports from EU countries (including Poland and the Czech Republic) from 118 to 180 Euro/t.

## PERSPECTIVES FOR

## THE GLOBAL COAL MARKET

### OUTLOOK FOR

## THE GLOBAL COAL MARKET

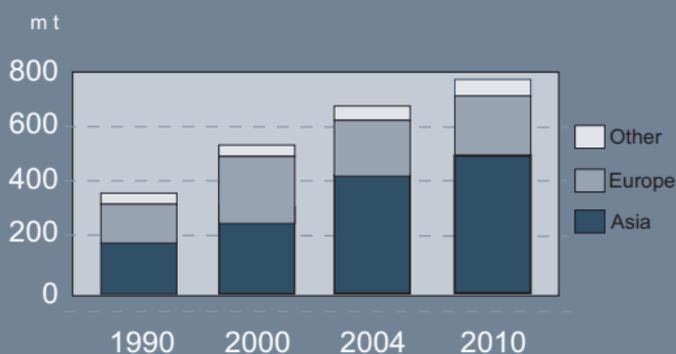
The Pacific Rim remains crucial to growth. After inspecting and recommissioning nuclear power stations, imports of steam coal will tend to be slightly weaker in Japan. However, other economies, including China, have to supply a still rising demand for electricity.

Sustainably high rates of growth are to be anticipated as a result of industrialisation and a growth in population.

The Atlantic region can report sustainably increasing demand in North, Central and South America.

On the other hand, demand in North-West Europe remains stable. Demand in the Mediterranean region/Africa (Israel, Turkey, Morocco and Italy) could increase.

### **Development of Seaborne Hard Coal Trade**



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The Association of Coal Importers, Hamburg, seeks to safeguard the political and commercial interests of its 52 members (utilities, industrial users of coal, traders, and companies engaged in coal logistics). They account for more than 80 % of Germany's total hard coal imports.

Reports are published annually. They outline the current situation on the international, European and German hard coal markets as well as the perspectives for supply and demand. Statistics on German imports and price developments are compiled and published monthly on the internet.

Companies interested in the German coal market are welcomed as members.