

EURACOAL Market Report 2/2008

July 2008

WORLD MARKET

Some figures are preliminary. Nevertheless, the general tendencies described are correct. The world market for hard coal started the year 2008 under extreme tensions.

World Market Coal

	1 - 3 2008	1 - 3 2007	Difference
Mio t=t			
Steam coal	140	146	- 6
Coking coal	45	45	0
Total	185	192	- 6

The world seaborne coal market shrank by 6 Mio. t compared with the first quarter 2007. This was not a matter of demand but of lacking supply.

1. Steam Coal (see table 2)

a) Pacific Market supply

The supply side was weak in the first quarter of 2008. Australia could not increase its steam coal exports, Indonesia failed to achieve its export targets for the first quarter because of heavy rainfalls. Vietnam stopped the illegal export of coal to China. The amount of this trade is estimated at 6-8 Mio. t/a.

On the demand side, Japan and South Korea were demanding more coal than in 2007. The supply / demand balance is very tight in Asia and is pushing up the prices worldwide.

	1 - 3 2008	1 - 3 2007	Difference
Exporting countries	Mio t=t		
Australia	29	29	0
China ¹	10	10	0
Indonesia	36	41	- 5
Russia	4	4	0
Vietnam	6	8	- 2
Total	85	92	- 7

1 incl. Anthracite

b) Atlantic Market supply

The Atlantic supply side is also weak. South Africa, Poland and Venezuela exported less coal - Colombia, the USA and Russia balanced the supply side by increasing their exports.

The demand side in Europe is weak and less coal is being demanded than in 2007.

	1 – 3 2008	1 - 3 2007	Difference
Exporting countries	Mio t=t		
Colombia	18	17	+ 1
Poland	1	1	0
Russia	17	16	+ 1
South Africa	13	15	- 2
Venezuela	1	2	- 1
USA/Canada	4	2	+ 2
Norway	1	1	0
Total	55	54	+ 1

2. Coking coal supply (see Table 3)

Coking coal supply went to a situation of extreme shortage. Australian production was heavily affected by massive flooding, port quotas and delayed rail improvements.

The Australian exports decreased by 3 Mio. t in the first quarter instead of increasing. Ukraine and India were showing strong demand for additional coking coal from the world market. The USA and Canada exported more coking coal but exported not enough, to bring the market in balance.

The worldwide steel demand also stays high.

	1 – 3 2008	1 - 3 2007	Difference
Exporting countries	Mio t=t		
Australia	30	33	- 3
China	1	1	0
Canada	7	6	+ 1
Russia	1	1	0
USA	8	6	+ 2
Others	2	2	0
Total	49	49	0

3. Price evolution (see Table 1)

a) Steam Coal Prices

The cif ARA spot price for South African steam coal (6000 kcal/kg NAR) exploded in the first quarter of the year. From August 2007 onwards, a steep increase occurred. In terms of tce (7000 kcal/kg), the prices developed as follows:

	August 2007	December 2007	March 2008
US\$/tce	98.00	149.00	170.00
€/tce	72.00	102.00	110.00

The low investment activities in the steam coal sector as well as in exports infrastructure has led to bottlenecks in many parts of the coal supply chain, which will continue in 2008/2009. We had to expect a very volatile market in these years. End of June the price climbed to 145 €/tce.

b) Coking Coal and Coke Prices

Most experts expect coking coal prices to increase dramatically in the period 2008/2009 (hard coking coal):

2005 / 2006	125 US\$/t fob
2006 / 2007	115 US\$/t fob
2007 / 2008	95 US\$/t fob
2008 / 2009	300 US\$/t fob

Semi-soft coking coal and PCI-coal prices will rise at the same rate and will of course be much higher-priced than steam coal.

Coke prices (12.5% ash content) are close to new record levels close to 600 US\$/t fob China.

3. Freight rates

The freight rates are also at extremely high levels. Despite big increases in the bulk-carrier fleet and nearly no scrapping, the prices for freight remained high. Longer distances per ton, demurrage situations and higher fuel-prices pushed the freight rates up.

The volatility of the freight rates is growing. For example the benchmark freight rate Richards Bay decreased from 64 US\$/t beginning June to 35 US\$/t end of June.

EUROPEAN MARKET (EU-27)

European Coal industry

	2008 (1-3)	2007 (1-3)
	Mio t (t = t)	
Domestic hard coal	38.2	41.2
Hard coal imports**	54.2	56.1
Lignite	103.7	106.4
Total	196.1	203.7

** including coke

Hard coal

	2008 (1-3)	2007 (1-3)
	Mio t = t	
Bulgaria	0.8	0.6
Czech Republic	3.7	3.3
Germany	5.5	6.3
Poland	21.2	23.5
Romania	0.7	0.7
Spain	2.5	2.8
United Kingdom	3.8	4.0
Total	38.2	41.2

POLAND

Hard coal production during the 1st quarter of 2008 fell by 12 %, but in April it could again improve slightly: the decrease in April amounted to 8 % compared with the previous year. Together with a drop in production, exports also decreased.

It is positive that in the East of the country, an independent mine could go to the Stock Exchange, bringing the enterprise money, and thereby making new investments possible. Katowice Coal Holding also wants to go to the Stock Exchange at the beginning of next year.

After mines being closed in Poland for years, the trend is now is to re-open closed mines, not at least because foreign investors are showing strong interest in the closed pits. Kompania Weglowa recently sold a mine to a foreign investor and a project exists for a new coal-fired power plant of 800 MW to be constructed together with RWE. Kompania Weglowa has also picked up its coal liquefaction project.

GERMANY

The German economy has experienced a new thrust not least because of the World Football Championship. This had a lot of influence on unemployment. Primary energy consumption compared with the previous year increase by about 3 %, with heating oil increasing most, by 25 %. Coal and nuclear fell slightly during the 1st quarter. Hard coal deliveries dropped by 1 %. Lignite consumption dropped by 4.3 % because of fewer deliveries to power plants.

Sales of German hard coal January to March 2008 decreased slightly and amounted to 5.5 Mio. t. This decrease is due essentially to disturbances in production at the Saar mine. The number of employees of the German hard coal industry fell during the 1st quarter of 2008 to approx 29 000.

The events in the Saar mine revive a debate in the Saar region against coal production, unfortunately also supported by the media. In the end a compromise could be found with the population, so that mining can continue until the closure of the mine.

UK

The UK witnessed general economic growth in 2007, unemployment and inflation also dropped. The 1st quarter of 2008 on the contrary was less positive. Coal consumption decreased further and gas is gaining always more importance. Some of the coal-fired power stations switched over to gas. For the 3rd Emissions Trading phase, the British government will aim at 100 % auctioning for the electricity sector, and it is already known that these revenues will go to the general state budget.

Coal production during the 1st quarter of 2008 dropped significantly, with geological problems underground and in addition, Tower Colliery will be closed end of 2007. It is positive that Hatfield Colliery began production again beginning of 2008 and that re-opening Harworth Colliery is being discussed.

CZECH REPUBLIC

In the Czech Republic, hard coal production amounted to approx 7 Mio. t during the first half of 2008, i.e. 6 % more than the year before. Since May, the hard coal enterprise OKD successfully went to the Stock Exchange in Prague, London and Warsaw. The enterprise wants to increase its capital in order to make new investments.

ROMANIA

Romania boasts many mineral resources of which 63 % fossil fuels. Since acceding the EU in 2007 the government is endeavouring to set up an efficient electricity industry, developed in a national strategy.

3 Mio. t hard coal were mined in the Jiu Valley. The coal was delivered to the near-by coal-fired power station.

SWEDEN

In Sweden, economic growth during the 1st Quarter of 2008 slightly slowed down compared with 2007 (- 2 %) even if the economic situation in Sweden is very positive. Primary energy consumption nevertheless dropped, because of the mild weather. Furthermore, efficiency improvements are constantly taking place also leading to energy savings. The Swedish government recently announced that the use of renewable energy sources should be further increased, even if their share currently amounts to 40 % and is therefore the highest in the whole EU.

Coal imports remained at a level of 3 Mio. t, steam coal imports dropping slightly and coking coal imports increasing.

Lignite production

	2008 (1-3)	2007 (1-3)
	Mio t=t	
Bulgaria	6.7	5.9
Czech Republic	12.2	12.1
Germany	43.3	45.3
Greece	14.1	15.9
Hungary	2.2	2.6
Poland	14.3	13.8
Romania	7.4	7.0
Slovak Republic	0.6	0.8
Slovenia	1.3	1.1
Spain	1.6	1.9
Total	103.7	106.4

POLAND

In Poland, lignite production compared with the previous year dropped slightly, demand from lignite-fired power plants also decreased slightly. In Belchatow the new open cast mine "Szczercow" was built, belonging to BOT. The annual production capacity will amount to approx 36 Mio t. The lignite will be delivered to the near-by power plant, where a new power plant block with a capacity of 833 MW is currently being built. The whole power plant will then have a capacity of 5 300 MW. Production is to start mid 2009.

In the Konin region, studies are being undertaken on the operation of two further open casts. Production could start 2010/2011. There is also a new project in Legnica to open an open cast that could produce approx 30-35 Mio. t lignite a year.

GERMANY

In Germany the NAP II 2008 to 2012 brought about amendments to Emissions Trading. This was initially disadvantageous for lignite, because no lignite-specific benchmark exists and furthermore, because of an under-allocation due to the auctioning of 10 % of all certificates as from 2008. Both effects together result, even for the most efficient and modern power plants, to an under allocation in the range of approx 1/3; for old installations, about 1/2.

Because of the sharp price increase also for imported coal, the competitive position of lignite in Germany at the moment is nevertheless very good; the issue of the price for CO₂ is nevertheless essential. Here all measures are important, leading to CO₂ prices not increasing too much. The issue is to reduce as much as possible the demand of certificates and to increase supply. A measure to increase supply consists in widely including JI and CDM in the European System. A new regulation for installations that would favour efficient and new power plants would also contribute positively.

CZECH REPUBLIC

In the Czech Republic, lignite production dropped to 24.3 Mio. t, 1.6 % less than during the first half of 2007. For the first time in June, Czech Coal started auctioning coal that had not been sold on contract. 5.76 Mio. t coal are to be auctioned between 2013 and 2020 at the Czech Moravian Commodity Exchange in Kladno and in fact 720 000 Mio. t a year.

A hot topic in the Czech Republic remains the discussion of mining limits that are currently being checked by independent experts. The latest news is that experts do not want to do away with mining limits, but rather suggest adapting them to the current situation concerning security of energy supply. This would support the plans of the enterprise SD. SD wishes to continue its further production activities in the region of Libkovice outside of the mining limits and not as planned within the former limits, in order to avoid more relocation procedures.

The CSA open cast belonging to the MUS company will reach the mining limits this year. Production after 2012 will only amount to 2.5 Mio. t and will stop after 2012 despite Czech Coal being ready to invest 22 billion CZK in further lignite mining outside the mining limits.

The Czech energy policy has set itself new challenges: the Minister for the Environment wants to hinder the construction of new nuclear power plants and the expansion of mining limits. The Minister for Industry and Trade is committed to supporting energy savings and advocates the adoption of mining limits in order to guarantee an optimal energy mix. Nuclear would also continue to have its place in this energy mix. An independent Energy Consultant will now examine these contradictory demands.

BULGARIA

Bulgaria's economy is only marginally influenced by the sharp increases in the cost of living. Statistics show an increase in production of 14 %. Since joining the EU, the country wants to develop a new energy strategy that already had an impact on the energy sector the previous year: numerous power plants had to be closed, pushing up the prices for electricity. Emissions Trading after 2012 will have further consequences on electricity prices. The Bulgarian government therefore approved the construction of a new nuclear power plant in Belene and of a thermal power plant in the Maritsa Iztok complex.

In 2007 total coal production increased to 28.4 Mio. t and this is expected to continue in 2008. 25.4 Mio. t of this were brown coal and lignite. Mini Maritsa Iztok increased its production by 11 %, because of the increased demand from the nuclear sector. Maritsa Iztok's lignite production depends very much on demand. The construction of a new 670 MW thermal power plant and of another 800 MW nuclear power plant is expected to increase lignite production in the coming years to 35 Mio. t.

HUNGARY

Hungary is at the moment in the midst of a political crisis. After the coalition government collapsed, the country is now governed by a political minority. New elections are expected at the latest beginning of 2009.

Lignite production amounted in 2007 approx 10 Mio. t as planned and is expected to remain at the same level this year. Production during the half of the year amounted to approx 5 Mio. t as planned. Matra is planning to increase production in the future, a new, ultramodern excavator will be acquired.

The National Allocation Plan for the second trading phase has still not been approved, it seems however that 75 % of not free-of-charge CO₂ certificates will have to be taken by coal. Old power plants will therefore probably be replaced by gas-fired power plants despite the high prices for gas.

SLOVAKIA

The economic situation in Slovakia is extremely good. GDP in 2007 compared with 2006 increased significantly and the exchange rate with the € is very positive, with Slovakia going to introduce the € in 2009. The government will draft a strategic document on Slovakia's security of supply before the end of the year. Furthermore, a law on the regulation of grid operators will be adopted, that does not however concern the coal industry. A minor amendment will also be made to the mining legislation, amending access to deposits in mining regions.

Production of lignite in Slovakia compared with 2006 dropped by 5.3 % but is expected to increase this year by about 10 %. Bana Dolina was to be closed in 2006 but now production will nevertheless continue till 2009

Carbon prices

European utilities seem to realize that they will be considerably short in emissions allowances in 2008 and prices for carbon allowances for the second trading period start to rise. They are floating between 25 – 28 Euro/t CO₂.

Outlook

Imports into EU-27 will be less than in 2007. Coking coal imports are expected to be stable and steam coal imports will fall. The import side is stabilised by further reductions of domestic production in the UK, Poland and Germany. The steel production should remain high in 2008.

EURACOAL		World Market Price evolution (Coal, Coke, Freight, Crude Oil)										TABLE 1	
MCIS Steam Coal Marker Price (7000kcal/kg)													
		Jan	Feb	March	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
cif-NW Europe													
Steam Coal	2007	77.83	81.69	81.18	85.86	84.00	86.68	89.08	97.88	107.68	120.52	151.38	148.63
(US\$ / tce)	2008	150.38	160.77	170.57	150.56	170.98	201.83						
Steam Coal	2007	59.87	62.48	61.29	63.52	62.16	64.59	64.94	71.85	77.49	84.70	103.09	102.00
(EUR / tce)	2008	102.17	109.00	109.85	95.58	109.91	129.67						
Source: VDKI, Mc Closkey													
fob-China		Coke (12.5%)											
USD / t	2007	172	175	182	208	233	276	272	265	294	341	387	392
	2008	445	490	526	569	572							
Source: China Coal Report													
Freight Rates (USD / t)													
R Bay/Rotterdam	2007	22.85	22.56	23.36	28.10	31.18	23.50	25.85	30.85	38.58	48.00	48.25	44.83
(Capesize)	2008	29.49	30.70	34.80	38.40	52.19	50.45						
Newcastle/Rotterdam	2007	35.76	35.56	38.05	45.23	48.89	39.44	43.20	47.31	63.64	75.58	76.15	72.43
(Capesize)	2008	49.04	51.50	56.60	62.79	59.31	84.45						
Bolivar/Rotterdam	2007	21.06	22.90	26.76	29.19	29.94	25.88	29.29	33.44	39.20	46.30	51.45	47.17
(Capesize)	2008	28.76	29.80	33.70	40.70	59.31	53.35						
Source: VDKI													
Currency Rates													
EUR/USD	2007	0.77	0.76	0.75	0.74	0.74	0.75	0.73	0.73	0.72	0.70	0.68	0.69
	2008	0.68	0.68	0.64	0.63	0.64	0.64						
ZAR/USD	2007	7.18	7.18	7.35	7.1	7.02	7.15	6.98	7.22	7.10	6.76	6.70	6.84
	2008	6.99	7.66	7.99	7.76	7.61	7.94						
AUD/USD	2007	1.28	1.28	1.26	1.21	1.21	1.19	1.16	1.21	1.18	1.11	1.11	1.15
	2008	1.13	1.10	1.08	1.07	1.05	1.05						
Source: Exchange rates download center													
Crude Oil (USD/Barrel)													
Crude Oil	2007	50.73	54.45	58.47	63.39	64.36	66.77	71.89	68.71	74.18	79.36	88.99	87.19
	2008	88.35	90.64	99.03	105.16	119.39	128.34						
Source: OPEC Basket Prices													

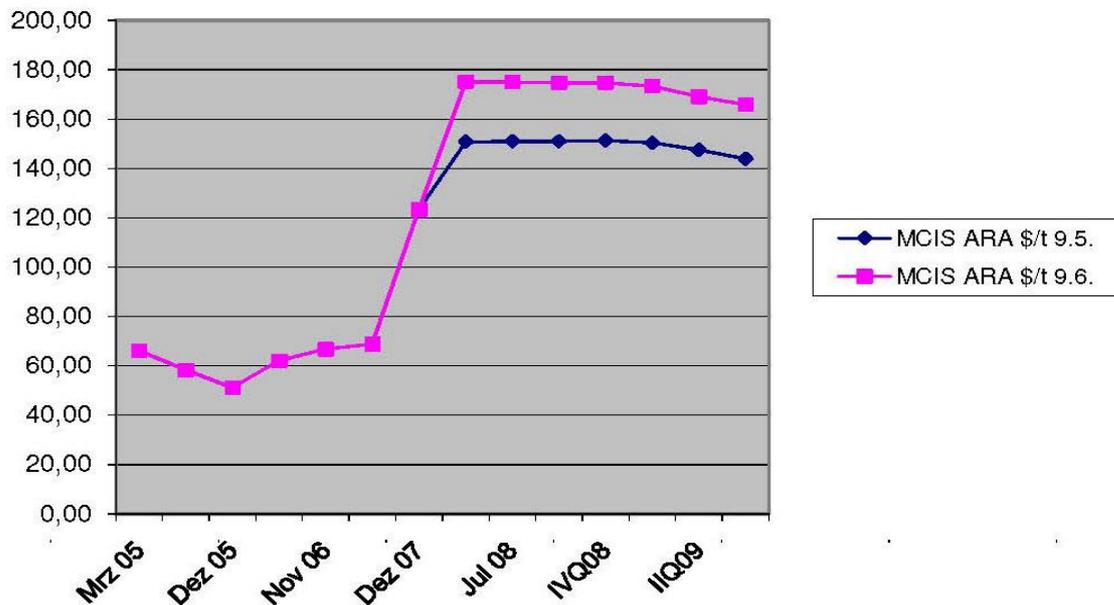
EURACOAL	WORLD SEABORNE COAL TRADE - STEAM COAL			TABLE 2
Exporting Countries	Period in 2008 (1-3) mill t	Period in 2007 (1-3) mill t	Diff. 2007/08 mill t	
PACIFIC				
Australia	29	29	0	
China	10	10	0	
Indonesia	36	41	-5	
Russia	4	4	0	
Vietnam	6	8	-2	
SUB-TOTAL	85	92	-7	
ATLANTIC				
Colombia	18	17	1	
Poland	1	1	0	
Russia exc. CIS	17	16	1	
South Africa	13	15	-2	
Venezuela	1	2	-1	
USA	4	2	2	
Norway	1	1	0	
SUB-TOTAL	55	54	1	
TOTAL	140	146	-6	
incl. Anthracite and PCI-Coal				
Source: VDKI				

EURACOAL	WORLD SEABORNE COAL TRADE - COKING COAL (inc. PCI-Coal)			TABLE 3
	Exporting Countries	Period in 2008 (1-3) mill t	Period in 2007 (1-3) mill t	Diff. 2007/08 mill t
	Australia	30	33	-3
	Canada	7	6	1
	China	1	1	0
	Russia excl. CIS	1	1	0
	USA	8	6	2
	Others	2	2	0
	TOTAL	49	49	0
	Source: VDKI provis. Figures			
	COKE EXPORTS			
	China	3	4	-1
	Coke World Market	7	8	-1
	* preliminary figures Source: VDKI			

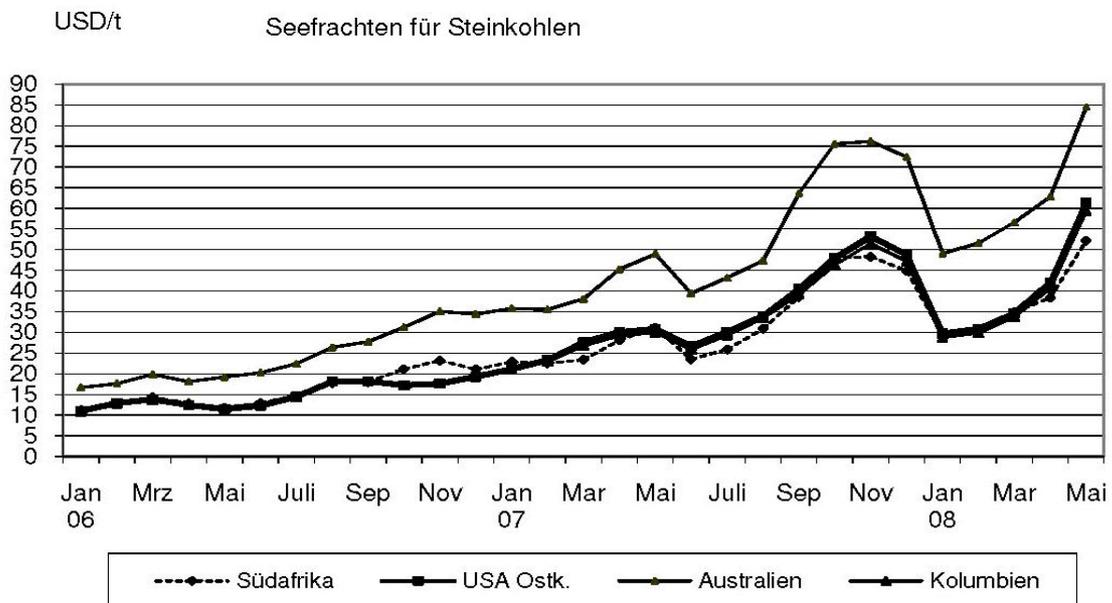
EURACOAL	CRUDE STEEL PRODUCTION IN EU-27 (in mill.t)		TABLE 4
	COUNTRY	2008 (1-3)	2007 (1-3)
	Austria	2.0	1.9
	Belgium	2.9	2.9
	Bulgaria	0.3	0.5
	Czech Republic	1.8	1.8
	Finland	1.2	1.3
	France	4.9	5.3
	Germany	12.1	12.3
	Greece	0.7	0.7
	Hungary	0.5	0.5
	Italy	8.5	8.3
	Luxembourg	0.8	0.7
	Netherlands	1.9	1.8
	Poland	2.7	2.7
	Romania	1.6	1.6
	Slovakia	1.3	1.3
	Slovenia	0.2	0.2
	Spain	4.6	4.8
	Sweden	1.5	1.5
	United Kingdom	3.6	3.6
	Others	0.5	1.0
	EU-27	53.6	54.2
	Turkey	6.9	6.1
	TOTAL	60.5	60.3
	Source: IISI		

EURACOAL	MARKET FIGURES EU-27			TABLE 4A
		2008 (1-3)	2007 (1-3)	
	Crude Steel Production (Mt)	53.6	54.2	
	Hard Coal Production (Mt)	38.2	41.2	
	Hard Coal and Coke Imports (Mt)	54.2	56.1	
	Lignite Production (Mt)	103.7	106.4	
	Sources: World Steel Org., CEMBureau, EURACOAL Members,			

EURACOAL	COAL BALANCE EU-27 (mill. t)						TABLE 5
COUNTRY	2008 (1-3)			2007 (1-3)			
	H. C. Prod.	Lign. Prod.	H.C. Imports	H. C. Prod.	Lign. Prod.	H.C. Imports	
Austria	–	–	1.0	–	–	1.0	
Belgium	–	–	2.0	–	–	2.0	
Bulgaria	0.8	6.7	0.4	0.6	5.9	0.3	
Czech Republic	3.7	12.2	0.6	3.3	12.1	0.6	
Denmark	–	–	1.0	–	–	1.5	
Finland	–	–	1.0	–	–	1.5	
France	–	–	4.0	–	–	4.5	
Germany	5.5	43.3	12.5	6.3	45.3	10.5	
Greece	–	14.1	–	–	15.9	–	
Hungary	–	2.2	0.5	–	2.6	0.5	
Ireland	–	–	0.5	–	–	0.5	
Italy	–	–	5.5	–	–	6.0	
Netherlands	–	–	3.0	–	–	3.0	
Poland	21.2	14.3	2.5	23.5	13.8	3.0	
Portugal	–	–	1.0	–	–	1.0	
Romania	0.7	7.4	1.0	0.7	7.0	0.7	
Slovakia	–	0.6	1.0	–	0.8	1.2	
Slovenia (estim.)	–	1.3	–	–	1.1	–	
Spain	2.5	1.6	5.0	2.8	1.9	6.0	
Sweden	–	–	0.5	–	–	0.5	
United Kingdom	3.8	–	11.2	4.0	–	11.8	
EU-27	38.2	103.7	54.2	41.2	106.4	56.1	
Source: EURACOAL Members, VDKI; Import figures still preliminary							



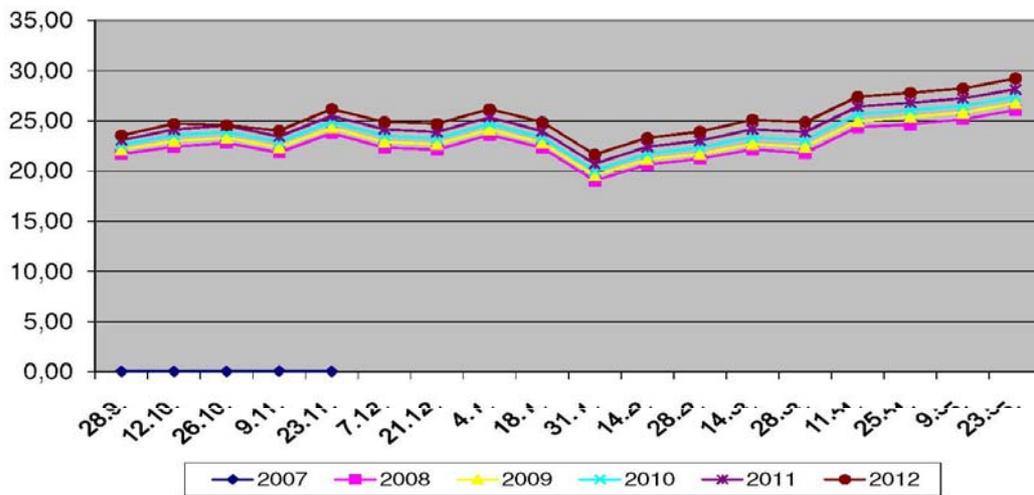
source: VDKI



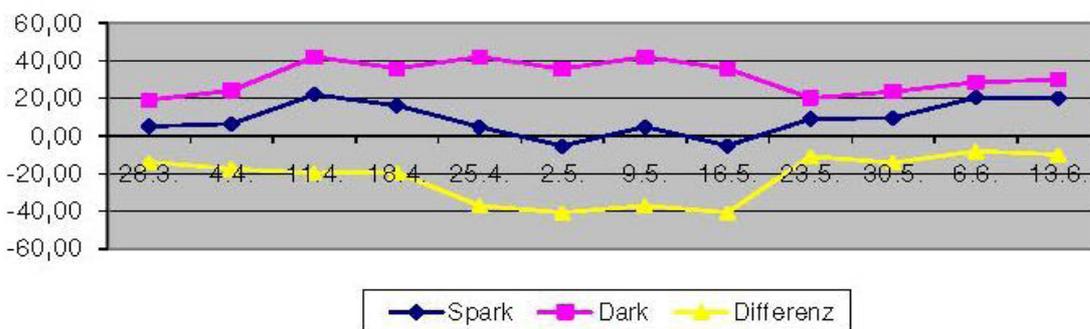
Capesize-Einheiten nach Empfangshäfen ARA / Quelle: Frachtcontor Junge Co., eigene Berechnungen 2004

source: VDKI

Carbon Permit Prices - EU ETS 2007-2012
Forward Market 2007/2008



Wöchentliche Durchschnittsmargen Gas - Kohle und Differenzen 2008



Differenz: Spark - Dark: plus Differenz = Vorteil Gas / minus Differenz = Vorteil Steinkohle

Margendifferenz Dark / Spark mit und ohne CO2-Zertifikate-Preis - 2008

