



EURACOAL Market Report 1/2010

March 2010

WORLD MARKET

Looking at movements on the Atlantic and Pacific markets over the last two years, the Atlantic market continued to shrink in favour of the Pacific market. This was influenced by further growth in demand from China, partially also India, with growth in supply from Australia and Indonesia. South Africa and Russia are also increasingly diverting supplies from the Atlantic to the Pacific basin. Over 40% of global demand for coal currently comes from China, and small changes in the internal supply and demand can have a major impact on international markets. Japan continued to remain the world's largest coal importer with approximately 185.6 Mt, followed by Korea, 99.6 Mt and Taiwan 66.1 Mt. China, that was until recently a net exporter, was a major net importer since 2009. Australia, with 271 Mt, was the main exporter of coal (with a 32% share of the world market), followed by Indonesia with 215 Mt and Russia with 92 Mt.

Based on first estimates, the seaborne world coal market almost stagnated in 2009. The drop in seaborne coking coal trade was almost compensated by a higher steam coal trade.

	2009 (1-12)	2008 (1-12)	Difference
Mt=t			
Steam coal	641	632	+ 9
Coking coal	195	207	- 12
Total	836	839	- 3

Demand nevertheless shifted further towards the Pacific. Although the world economy still suffered from the crisis, steam coal trade in the Pacific increased further. This positive development of the coal market has to be attributed to the growing role of China, which is further increasing its demand, whilst stopping exports. China was a net coal importer in 2009, with a swing in demand compared to the previous year of about 100 Mt. World prices would likely have collapsed without this net increase in demand from China.

CHINESE COAL TRADE

Chinese coal imports heavily increased and developed as follows:

CHINESE COAL IMPORTS (Mt = t)			
	2009 (1-12)	2008 (1-12)	Difference
Steam coal	82.0	33.2	+ 48.2
Coking coal	34.5	6.9	+ 27.6
Total	116.5	40.1	+ 76.4

With its increased coal demand, China compensated the declining coking coal demand from Europe, Japan and South America and the declining steam coal demand from Europe and Japan.

Chinese coal exports on the other hand were reduced further:

CHINESE COAL EXPORTS (Mt = t)			
	2009 (1-12)	2008 (1-12)	Difference
Steam coal	21.8	42.3	- 20.5
Coking coal	0.7	3.5	- 2.8
Sub-total	22.5	45.8	- 23.3
Coke	0.5	12.1	- 11.6
Total	23.0	57.9	- 34.9

The impact of Chinese coal trade on the World coal market (except coke) was of some 100 Mt within one year only. Imports increased by 76.4 Mt and export decreased by 23.4 Mt. The two exporters who took most advantage of this situation were Australia and Indonesia. But also Russia, South Africa and Vietnam were able to increase exports to China.

1. STEAM COAL (see Table 2)

After the rapid fall in prices in late 2008 and the beginning of 2009, prices were supported by Chinese demand and remained relatively high by historic levels for the remainder of the year whilst showing short term volatility. Decreasing steam coal demand in the USA and Europe had an inevitable effect on Atlantic prices which decreased to below levels in the Pacific. Although the winter was rather cold, gas was relatively cheap and abundant which resulted in extremely high steam coal stocks. Industrial electricity demand in the OECD countries continued to stay low.

b) Pacific Market

The Pacific market increased by 21 Mt with Indonesia (+ 13 Mt), Russia (+ 12 Mt) and Australia (+ 10 Mt) being the major exporters. China decreased exports by 20 Mt.

	2009 (1-12)	2008 (1-12)	Difference
Exporting countries	Mt=t		
Australia	136	126	+ 10
China	22	42	- 20
Indonesia	215	202	+ 13
Russia	30	18	+ 12
Vietnam	25	20	+ 5
Canada	5	4	+ 1
Total	433	412	+ 21

b) Atlantic Market supply

The total Atlantic market shrunk by 12 Mt. Columbia decreased exports by 6 Mt, the USA by 5 Mt and Venezuela by 2 Mt.

	2009 (1-12)	2008 (1-12)	Difference
Exporting countries	Mt=t		
Colombia	63	69	- 6
Poland	3	2	+ 1
Russia	57	57	0
South Africa	63	63	0
Venezuela	4	6	- 2
USA	12	17	- 5
Others	6	6	0
Total	208	220	- 12

2. COKING COAL SUPPLY (see Table 3)

The seaborne coking coal market dropped by -12 Mt. Major decreases were observed in Canada (-4 Mt), the USA (-4 Mt) and China (-3 Mt).

	2009 (1-12)	2008 (1-12)	Difference
Exporting countries	Mt=t		
Australia	135	135	0
Canada	21	25	- 4
China	1	4	- 3
Russia	2	3	- 1
USA	31	35	- 4
Others	5	5	0
Total	195	207	- 12

4. PRICE EVOLUTION (see Table 1)

a) Steam Coal Prices

	March 2008	August 2008	December 2008	March 2009	August 2009	December 2009
US\$/tce	170.00	219.00	90.00	68.00	82.00	90.00
€/tce	110.00	146.00	67.00	52.00	58.00	62.00

b) Coking Coal and Coke Prices

Coking coal prices are tending to rise, on the one hand due to a heavy demand from China but also due to the slowly recovering steel industry worldwide.

5. FREIGHT RATES

Freight rates for bulk carriers have been highly volatile.

EUROPEAN MARKET

In the EU the balance between hard coal and brown coal as well as between imports was relatively stable. Spot prices to North West Europe dropped sharply after the historical peak in the summer of 2008. Compared with historical prices they however remained relatively high. Freight prices from South Africa also dropped after the record prices in the summer of 2008, tending however to increase at the moment. Looking at trends of fob and cif prices last year, the weakness of the European market was clear: occasionally coal shipment from Pacific ports was more expensive than the price delivered in Europe.

Currently coal stocks in European ports, above all in Spain and Great Britain, -as well as stocks at power plants - were high. This partially explained the immobility of the European market.

	2009 (1-12)	2008 (1-12)
	Mt = t	Mt = t
Domestic hard coal production	135.0	149.2
Hard coal imports**	183.2	216.9
Lignite production	406.7	422.7
Total	724.9	788.8

** including coke

2. HARD COAL PRODUCTION

	2009 (1-12)	2008 (1-12)
	Mt = t	Mt = t
Bulgaria	2.0	2.7
Czech Republic	11.0	12.7
Germany	15.0	19.1
Poland	77.5	83.6
Romania	2.2	2.7
Spain	9.4	10.3
United Kingdom	17.9	18.1
Total	135.0	149.2

In **Poland** economic growth in 2009 dropped significantly, and unemployment rose again. In November 2009 the Polish government had adopted its new energy policy till 2030. It strove above all towards the reduction of energy-intensive industry in Poland. In 2020 the share of renewables was to represent about 20% of energy consumption, even if electricity consumption was expected to increase by 55%.

In 2009 some 77.5 Mt hard coal was produced, about 6.1 less than in the previous year. Production of steam coal dropped by only 3.3%, coking coal production however by 36.3%. Sales of hard coal were also lower than the previous year, with coal stocks consequently increasing significantly.

Indigenous steam coal production was severely threatened by cheap coal imports from Siberia; this was a further cause for reduced sales. Furthermore, the coal must be mined deeper, increasing costs and the risk of methane explosions. The Polish government was however ready to continue to support hard coal mining.

In **the UK** in 2009 approx 52 Mt coal were burned, i.e. 6 Mt less than the previous year. 43 Mt went to power plants and 5.8 Mt to the steel industry. While coal maintained its position against gas during the first half of the year, gas prices sank significantly during the second half of the year; this led to a fuel switch to gas. Coal stocks were currently at their highest level in 15 years. During the second half of the year, imports and consumption of coking coal dropped sharply. Beginning January 2010, due to the sudden winter, gas deliveries were disrupted, affecting several hundred companies. This strengthened the argument in favour of coal in the future.

The new UK clean coal policy requires that all new coal-fired power plants must have a share of CCS with a capacity > 400 MW; the remaining sets at any new plants are to be retro-fitted by 2025. It was positive that Powerfuel, the owner of Hatfield Colliery, had received € 180 Million from the European 'Economic Recovery Fund' for its 900 MW IGCC project. The Energy Bill which provides for financial support for four CCS schemes is currently passing through Parliament.

The German hard coal industry again had to accept in 2009 a strong reduction of production, but because of dramatic reductions of production in the steel industry imports of coal also dropped sharply. Indigenous production amounted to 15 Mt in 2009 and coal imports amounted to only 36.1 Mt.

In the **Czech Republic** more than 11 Mt hard coal was produced in 2009. The Czech energy policy foresaw a reduction of production of lignite till 2050; hard coal was to be stopped by 2040 and by 2030 hard coal imports were expected to amount to about 6 Mt. The new draft energy policy foresaw rather favourable conditions for the coal industry, as in the long term the mining limits were to be extended. Nevertheless the Ministry for the Environment was attempting to renew mining law concerning access to resources; this had so far been refused both by the government and also in Parliament.

In **Spain** renewable energies, especially wind and solar energy, were increasingly promoted, and this at the expense of coal. In 2009 production amounted to only 9.4 Mt. Coal-fired power generation therefore dropped sharply and amounted in 2009 to only 14.2% contrary to 2007, when coal-fired power still represented 25.3% of total power. The major challenge for the Spanish coal industry was currently to respect the decline in production stipulated by the government and to thereby reach the reduction of jobs related to it. For this, the Spanish coal industry needed aid to coal to be pursued.

In early March, the **Belgian** government allocated 12 million CO₂ allowances to Arcelor Mittal in order to support the reopening of the blast furnace plant near Liège. The condition to obtain these free allowances would be that Arcelor Mittal engaged itself to modernize the plant, investing some €110 million. A further reopening was announced as well.

3. LIGNITE PRODUCTION

	2009 (1-12)	2008 (1-12)
	Mt = t	Mt = t
Bulgaria	25.1	26.1
Czech Republic	45.6	47.5
Germany	169.9	175.3
Greece	64.8	65.5
Hungary	9.0	9.4
Poland	57.9	59.4
Romania	27.4	32.6
Slovak Republic	2.6	2.4
Slovenia	4.4	4.5
Total	406.7	422.7

In **Germany** lignite production in 2009, after a drop of 2,8%, amounted to 169.9 Mt. Electricity generation on the basis of lignite represented 146.5 TWh (24.6 % of total electricity generation), only slightly less than the previous year. The energy-related CO₂ emissions had since 1990 decreased by about 27 % (the Kyoto objective for the period 2008/12 for Germany was - 21 %), although this decrease was partially due to the effect of closing down a large part of the industry of the former DDR.

In the Rhine basin, the construction of the BoA 2/3 in Neurath had continued as planned. Work on the RWE CCS project in Hürth was suffering from the lack of transposition of the EU CCS Directive into national law. Questions concerning the financing of the planned transport pipeline and the development of storage reservoirs in north Germany remained open. RWE had however started the operation of a pilot plant to scrub CO₂ in the innovation centre for coal in Niederaussem. Next to it,

for about half a year, a circulating bed drier for lignite had been tested on a large scale. In the opencast operations and in the power plants in the Rheinland, development was otherwise generally running according to plan.

In **Poland**, on 17th August the first tonne of lignite was produced at the new Szczercow opencast belonging to the IPGE Belchatow lignite company. The resources of the opencast were estimated at about 620 Mt. The lignite produced would be delivered to the Belchatow power plant. In August 2009 the European Commission released €180 Million from the 'Recovery Fund' for the CCS project in Belchatow.

The entire lignite production for 2009 amounted to 57.9 Mt.

In the **Czech Republic** in 2009 more than 45 Mt lignite was produced (-4%). The lignite company Sokolov reduced its production according to plan in order to prolong the lifespan of the opencast. Otherwise hard coal and lignite production during the last 5 years had remained relatively stable.

Bulgaria based the priority of its energy policy on its geographical location, making the country a transit country for raw materials and also for pipelines and power networks. Bulgaria wanted to become a strong energy centre in the Balkans. The construction of the coal-fired power plant of AES Galabovo increased the country's electricity generation by 11%. Mini Maritza Iztok EAD wanted to modernise and develop its power plants together with ENEL.

84% of the country's global coal production was mined by Mini Maritza Iztok EAD. The geological resources in the Maritza Iztok basin amounted to 2,100 Mt, of which 1,200 Mt were confirmed reserves. In its three thermal power plants the company produced 40% of all Bulgarian electricity. In 2009, 25.1 Mt lignite were produced, in 2010 production was to increase to 26 Mt.

Greece had a relatively balanced network, despite 30.5 TWh of the total 53.8 TWh electricity being lignite-fired. Lignite production however sank slightly in 2009 and reached 64.8 Mt. This was due to the lower consumption of electricity, in connection with the milder weather. Furthermore, the steel, nickel and aluminium industries had declined. Lignite production was expected to drop only slightly in the next 20 years.

The new Greek government took environment protection very much into account, which was why currently no new coal-fired power plants were to be built and the development of renewable sources of energy was to be effectively promoted.

In **Hungary** lignite production in 2009 amounted to 9 Mt, slightly below the previous year. Although there was a slight economic upturn in the second half of the year, electricity production was 10% lower than in 2008. However, Hungary's dependence on electricity imports was still increasing. MVM and Matra were continuing to plan the construction of a new 400 MW lignite-fired power plant in Visonta, for which investors were currently being sought.

The compact bucket wheel excavator that had started operation in June 2009 has in the meantime started regular operations; it contributed to increasing the productivity of the opencast.

In **Slovakia** because of the crisis, a general economic decline was to be reported; unemployment was at 12.5%. During the second half of the year, a new law on renewable sources of energy was adopted; furthermore, the transposition of the Energy Package was also underway. The discovery of a new field of uranium had livened the discussion about amending mining law. As parliamentary elections would take place in June, hardly anything was to be expected till then.

Production of lignite for the whole country in 2009 increased by about 6% and reached 2.6 Mt. HBP's production increased by 4.2%, amounting to 2.2 Mt. HBP and ENEL were further following projects to modernise power plants. HBP's approval for production had been extended till 2020.

STEEL PRODUCTION (SEE TABLE 4)

World crude steel production reached 1,220 million metric tons for the year of 2009. This is a decrease of -8.0% compared to 2008. Steel production declined in nearly all the major steel producing countries and regions including the EU, North America, South America and the CIS in 2009. However, Asia, in particular China and India, and the Middle East showed positive growth in 2009.

Nevertheless, in December 2009, world crude steel output increased by some 30.2% compared to December 2008. Most major-steel producing countries showed two-digit growth in December 2009.

China's crude steel production in 2009 reached 567.8 mmt, an increase of 13.5% on 2008. This is a record annual crude steel production figure for a single country. China's share of world steel production continued to grow in 2009 producing 47% of world total crude steel, an increase of 9 percentage points compared to 2008.

The EU-27, where all major steel producing countries including Germany, Italy and France showed substantial decline, recorded a decrease of -29.7% compared to 2008, producing 139.1 mmt of crude steel in 2009.

World Market Price evolution (Coal, Coke, Freight, Crude Oil)

MCIS Steam Coal Marker Price (7000kcal/kg)

		Jan	Feb	March	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
cif-NW Europe													
Steam Coal	2008	150.38	160.77	170.57	150.56	170.98	201.83	255.92	218.75	222.95	176.28	127.75	90.13
(US\$ / tce)	2009	98.47	89.48	67.61	76.71	68.95	82.31	76.30	82.43	78.34	87.78	88.55	90.10
Steam Coal	2008	102.17	109.00	109.85	95.58	109.91	129.78	162.29	146.08	155.15	132.32	99.65	66.70
(EUR / tce)	2009	74.37	68.79	51.80	58.16	50.51	58.73	54.16	57.78	53.80	55.19	59.37	61.66

Source: VDKI, Mc Closkey

fob-China

Coke (12.5%)

USD / t	2008	445	490	526	569	572	641	694	747	620	480	440	350
	2009	370	433	420	418	389	396	390	385	375	381	391	395

Source: China Coal Report

Freight Rates (USD /t)

R Bay/Rotterdam	2008	29.49	30.70	34.80	38.40	52.19	50.45	41.70	36.75	25.55	11.93	6.45	5.85
(Capesize)	2009	7.39	10.78	7.81	7.42	12.69	20.71	16.89	14.25	11.62	15.13	21.91	18.69
Newcastle/Rotterdam	2008	49.04	51.50	56.60	62.79	59.31	84.45	68.70	61.54	43.54	22.47	12.16	11.63
(Capesize)	2009	12.85	17.73	13.74	13.37	20.51	34.00	29.50	23.35	19.64	23.26	34.13	28.71
Bolivar/Rotterdam	2008	28.76	29.80	33.70	40.70	59.31	53.35	49.75	39.25	24.34	11.38	5.06	5.12
(Capesize)	2009	7.76	11.56	9.60	9.00	13.93	28.45	22.20	16.25	13.55	18.35	24.78	20.59

Source: VDKI

Currency Rates

EUR/USD	2008	0.68	0.68	0.64	0.63	0.64	0.64	0.63	0.67	0.70	0.75	0.78	0.74
	2009	0.76	0.78	0.77	0.77	0.73	0.71	0.71	0.70	0.69	0.67	0.67	0.68
ZAR/USD	2008	6.99	7.66	7.99	7.76	7.61	7.94	7.62	7.67	8.05	9.77	10.10	9.91
	2009	9.92	10.01	9.96	9.01	8.39	8.04	7.95	7.95	7.52	7.49	7.52	7.48
AUD/USD	2008	1.13	1.10	1.08	1.07	1.05	1.05	1.04	1.13	1.22	1.46	1.52	1.49
	2009	1.48	1.54	1.50	1.40	1.31	1.25	1.24	1.20	1.16	1.10	1.09	1.11

Source: Exchange rates download center

Crude Oil (USD/Barrel)

Crude Oil	2008	88.35	90.64	99.03	105.16	119.39	128.33	131.22	112.41	96.85	69.16	49.76	38.60
	2009	41.54	41.41	45.78	50.20	56.98	68.36	64.59	71.35	67.17	72.67	76.29	74.01

Source: OPEC Basket Prices

WORLD SEABORNE COAL TRADE - STEAM COAL			
Exporting Countries	2009 (1-12) Mt	2008 (1-12) Mt	Diff. 2008/09 Mt
PACIFIC			
Australia	136	126	10
China	22	42	- 20
Indonesia	215	202	13
Russia	30	18	12
Vietnam	25	20	5
Canada	5	4	1
SUB-TOTAL	433	412	21
ATLANTIC			
Colombia	63	69	- 6
Poland	3	2	1
Russia	57	57	0
South Africa	63	63	0
Venezuela	4	6	- 2
USA	12	17	- 5
Others	6	6	0
SUB-TOTAL	208	220	-12
TOTAL	641	632	9

incl. Anthracite and PCI-Coal
 Source: VDKI

WORLD SEABORNE COAL TRADE - COKING COAL			(inc. PCI-Coal)
Exporting Countries	2009 (1-12) Mt	2008 (1-12) Mt	Diff. 2008/09 Mt
Australia	135	135	0
Canada	21	25	-4
China	1	4	-3
Russia	2	3	-1
USA	31	35	-4
Others	5	5	0
	195	207	- 12
COKE EXPORTS			
China	0.5	12.1	-11.6
Coke World Market	14	28	-14
Source: VDKI preliminary Figures			

EU CRUDE STEEL PRODUCTION		
COUNTRY	2009 (1-12) Mt	2008 (1-12) Mt
Austria	5.7	7.6
Belgium	5.6	10.7
Bulgaria	0.7	1.3
Czech Republic	4.6	6.4
Finland	3.1	4.4
France	12.8	17.9
Germany	32.7	45.8
Greece	2.1	2.5
Hungary	1.4	2.1
Italy	19.7	30.6
Luxembourg	2.2	2.6
Netherlands	5.2	6.9
Poland	7.2	9.7
Romania	2.7	5.0
Slovakia	3.7	4.5
Slovenia	0.4	0.7
Spain	14.3	18.6
Sweden	2.8	5.2
United Kingdom	10.1	13.5
Others	2.0	2.0
EU-27	139.0	198.0
Turkey	25.3	26.8
TOTAL	164.3	224.8
Source: IISI		

MARKET FIGURES EU-27		
	2009 (1-12)	2008 (1-12)
Crude Steel Production (Mt)	139.0	198.0
Hard Coal Production (Mt)	135.0	149.2
Hard Coal and Coke Imports (Mt)	183.2	216.9
Lignite Production (Mt)	406.7	422.7

Sources: World Steel Org., CEMBureau, EURACOAL Members,

COUNTRY	EU Hard coal production		EU Coke production **	
	1-12 2009 Mt	1-12 2008 Mt	1-12 2009 Mt	1-12 2008 Mt
Bulgaria *	2.0	2.7	0.3	0.6
Czech Republic	11.0	12.7	2.3	3.4
Germany	15.0	19.1	1.5	2.0
Poland	77.5	83.6	9.4	5.4
Romania	2.2	2.7	0.3	1.1
Spain	9.4	10.3	1.6	2.1
United Kingdom	17.9	18.1	3.9	4.7
EU-27	135.0	149.2	19.3	19.3

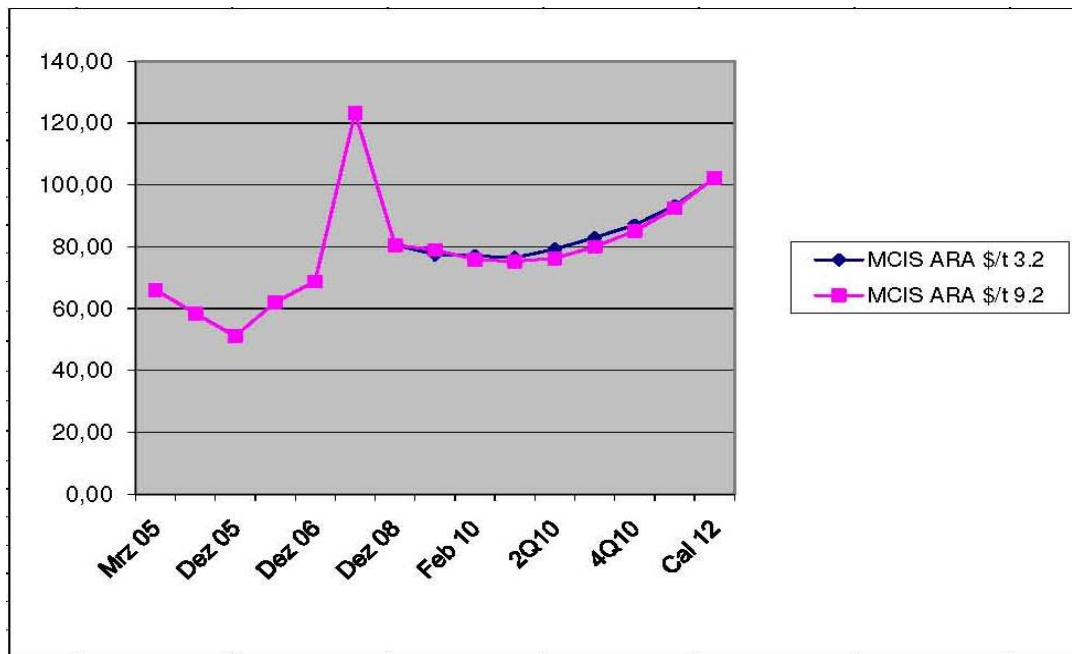
* brown and black coal

** only hard coal producing countries

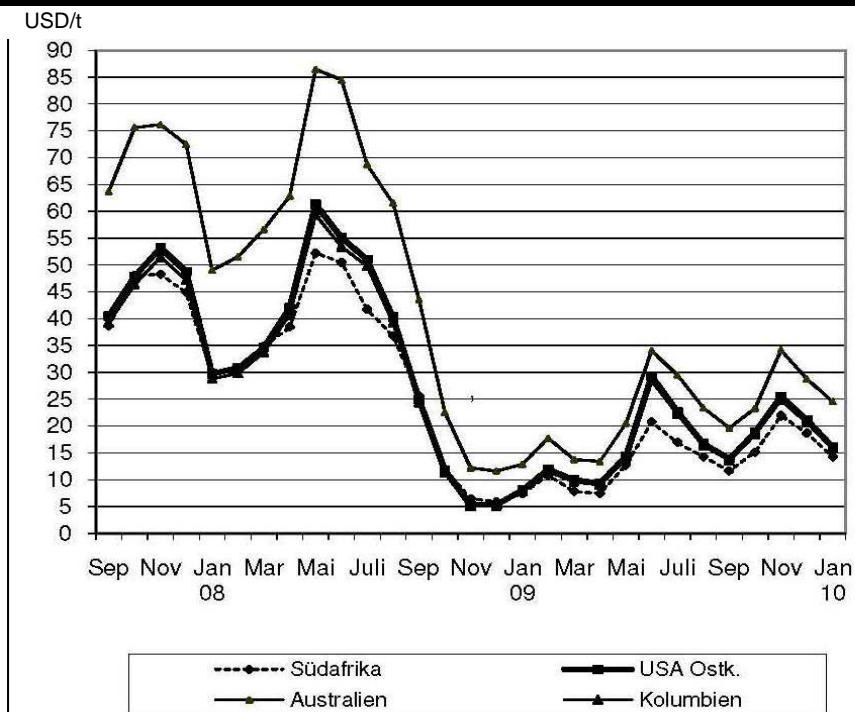
COUNTRY	EU Lignite production		EU Consumpt. Public power plants	
	1-12 2009 Mt	1-12 2008 Mt	1-12 2009 Mt	1-12 2008 Mt
Bulgaria	25.1	26.1	24.9	24.5
Czech Republic	45.6	47.5	36.6	38.9
Germany	169.9	175.3	153.4	159.4
Greece	64.8	65.5	64.8	64.2
Hungary	9.0	9.4	9.0	9.5
Poland	57.9	59.4	57.6	58.5
Romania	27.4	32.6	28.1	32.1
Slovakia	2.6	2.4	2.6	2.4
Slovenia	4.4	4.5	4.3	4.6
EU-27	406.7	422.7	381.3	394.1

COUNTRY	EU Coking coal imports		EU Steam coal imports		EU Total coal imports	
	1-12 2009 Mt	1-12 2008 Mt	1-12 2009 Mt	1-12 2008 Mt	1-12 2009 * Mt	1-12 2008 Mt
Austria					4.0	4.2
Belgium		3.9		2.2	4.1	6.1
Bulgaria	1.4	0.4	1.1	1.7	1.3	2.5
Czech Republic	0.8	1.1	0.9	1.2	1.7	2.3
Denmark					4.4	7.7
Finland					3.2	4.6
France	6.2	8.5	10.0	13.1	16.2	21.6
Germany	6.9	9.3	29.2	33.0	36.1	42.3
Greece					0.4	0.8
Hungary	1.0	1.4	0.4	0.5	1.4	1.9
Ireland					2.3	2.3
Italy	6.2	7.5	15.8	16.7	22.0	24.2
Netherlands					10.8	12.8
Poland	5.0	5.0	5.0	5.1	10.0	10.1
Portugal					3.1	3.8
Romania	0.6	0.8	0.3	0.8	0.9	1.6
Slovakia					3.2	4.9
Spain					17.5	16.5
Sweden	1.6	2.0	0.8	0.9	2.4	2.9
United Kingdom	5.5	6.5	32.7	37.3	38.2	43.8
EU-27					183.2	216.9

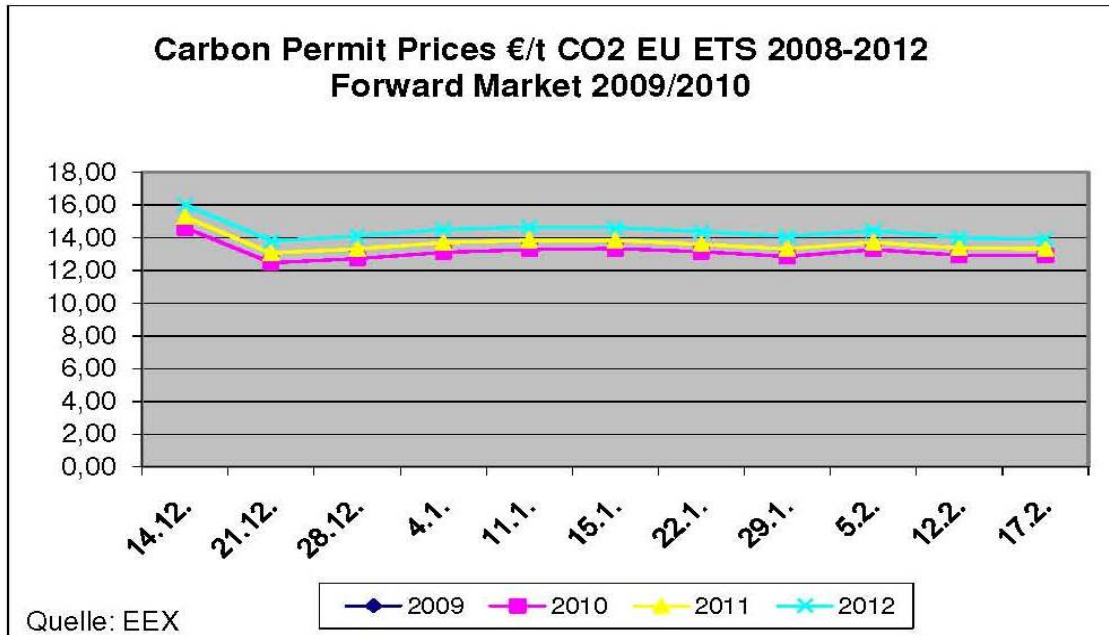
* preliminary figures



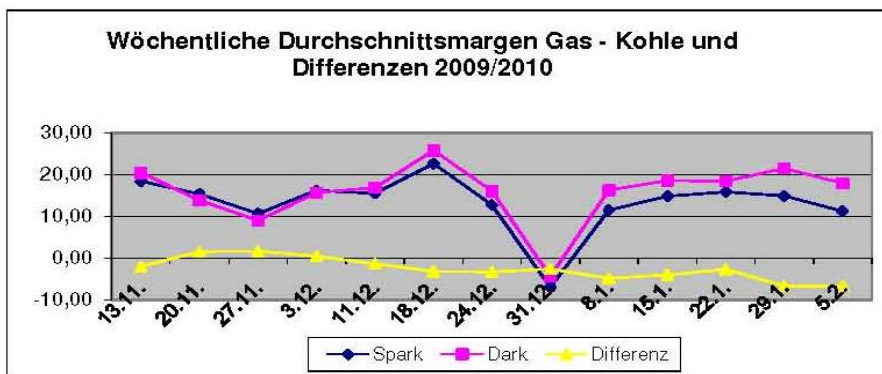
source: VDKI



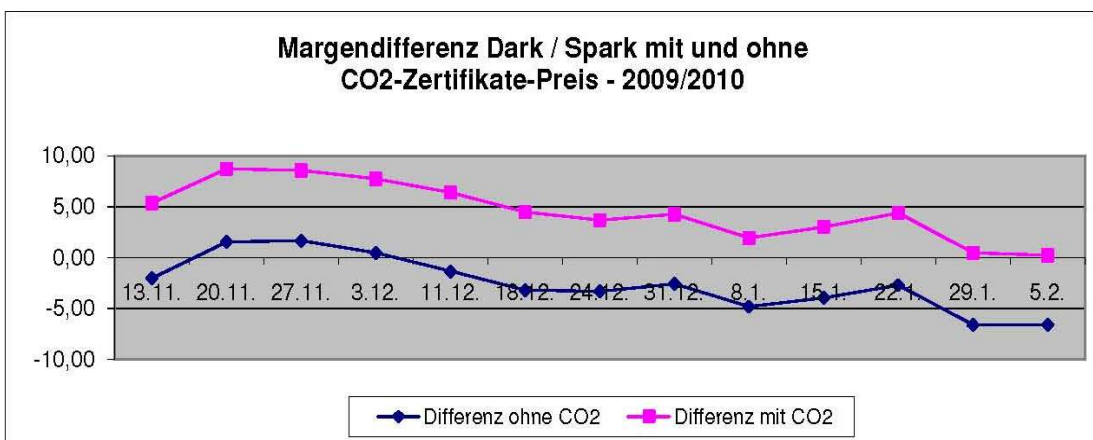
source: Frachtcontor Junge Co., VDKI



source: VDKI



Difference: Spark - Dark; plus difference: advantage for gas/minus difference advantage for coal



Source: VDKI