



EURACOAL Market Report 2/2010

July 2010

WORLD MARKET

The BP Statistical Review 2010 announced recently that global primary energy consumption in 2009 fell by 1.1%. Coal's share of total energy consumption totalled 29.4%, reaching the highest level since 1970. Global coal consumption slightly decreased by 0.2%, oil decreased by 1.7 % and gas by 2.1%.

First estimates for the first quarter 2010 show an increase in both steam coal (+10 Mt) and coking coal (+11 Mt) trade. However, it should be noted in analysing these trends that the first quarter 2009 figures were unusually low.

	2010 (1-3)	2009 (1-3)	Difference
Mt=t			
Steam coal	152	142	+ 10
Coking coal	45	34	+ 11
Total	197	176	+ 21

1. STEAM COAL (see Table 2)

b) Pacific Market

In the Pacific market steam coal exports increased by 8 Mt. A major increase was observed from Indonesia (+12 Mt), whilst Australia and China both decreased exports by 2 Mt.

	2010 (1-3)	2009 (1-3)	Difference
Exporting countries			
Mt=t			
Australia	31	33	- 2
China	7	9	- 2
Indonesia	48	36	+ 12
Vietnam	6	6	0
Others	2	2	0
Total	94	86	+ 8

b) Atlantic Market supply

In the Atlantic market steam coal exports increased by 2 Mt, with the increase met entirely by South Africa. All other countries kept the same level of exports as in the previous year.

	2010 (1-3)	2009 (1-3)	Difference
Exporting countries	Mt=t		
Colombia	16	16	0
Russia	19	19	0
South Africa	17	15	+ 2
Venezuela	1	1	0
USA	3	3	0
Others	2	2	0
Total	58	56	+ 2

2. COKING COAL SUPPLY (see Table 3)

Major export increases on the coking coal market were observed from the USA (+5 Mt), Australia (+3 Mt), Canada (+2 Mt) and Russia (+1 Mt).

	2010 (1-3)	2009 (1-3)	Difference
Exporting countries	Mt=t		
Australia	27	24	+ 3
USA	12	7	+ 5
Canada	4	2	+ 2
Russia	2	1	+ 1
Total	45	34	+ 11

4. PRICE EVOLUTION (see Table 1)

a) Steam Coal Prices

	August 2008	December 2008	March 2009	August 2009	December 2009	March 2010
US\$/tce	219.00	90.00	68.00	82.00	90.00	87.00
€/tce	146.00	67.00	52.00	58.00	62.00	61.00

After a short-lived price spike at the beginning of the year, prices subsided closer to last year's levels, but have showed an upturn in May and June, rising above \$90/tonne. The discount to Asian prices has also narrowed, and delivered prices to Europe have risen just above loaded prices in South Africa.

5. FREIGHT RATES

Freight rate development is given in Table 1, where it can be seen that average rates for Richards Bay to Rotterdam have averaged around \$12/tonne in recent months, although weekly figures have remained quite volatile around these levels.

EUROPEAN MARKET

With both hard coal production and imports falling across Europe this year, the share of indigenous hard coal and lignite still represents two thirds.

	2010 (1-3)	2009 (1-3)
	Mt = t	Mt = t
Domestic hard coal production	33.0	34.6
Hard coal imports**	44.3	51.5
Lignite production	102.2	107.0
Total	179.5	193.1

** including coke

2. HARD COAL PRODUCTION

	2010 (1-3)	2009 (1-13)
	Mt = t	Mt = t
Bulgaria	0.7	0.6
Czech Republic	2.7	3.2
Germany	3.4	3.7
Poland	19.8	20.0
Romania	0.6	0.5
Spain	2.2	2.5
United Kingdom	3.6	4.1
Total	33.0	34.6

In November last year, the **Polish** Government adopted a new Energy Policy up to 2030, regulating the future exploitation of new coal and lignite basins. Until 2030 indigenous coal production will decrease by 16.5 % (and will only cover some 31 % of primary energy needs) and the lignite extraction will be down by 23 % (to cover 8.2 % of primary energy needs). This downturn of the Polish mining industry will heavily affect the Polish mining regions.

In the first quarter 2010 indigenous hard coal production was 19.8 Mt (compared to 20 Mt in the previous year). Coal imports are estimated to reach 7-8 Mt for the entire year, from which 4-5 Mt will be steam coal and 3 Mt coking coal. Russia on the other hand intends to import Polish coking coal, to fill up a gap which occurred after the temporary mine closure in Rapsadskaya due to a major accident.

German hard coal output totalled 3.4 Mt for the first quarter 2010, 10% less than in the previous year. Imports totalled some 11 Mt. Total coal consumption in the first quarter of 2010 increased by almost 18% and reached 16.5 Mt, mainly due to rising demand from the steel industry. After the global recession and the “steel crisis”, German steel production increased in the first quarter of 2010 by almost 50% totalling 10.9 Mt. German pig iron production increased by almost 67%. The short-term outlook for 2010 imports estimates an increase of some 5.8%. Coke was mainly imported from Poland. Imported hard coal will certainly maintain its role in the German energy mix; several hard coal-fired power plants are currently under construction (7547 MW) or waiting for approval (5360 MW).

The hard coal industry still operates 6 mines in Germany, but further mine closures are planned. Hard coal extraction in 2010 should not exceed 13 Mt. Coke production in the first quarter 2010 increased by 20 % and reached its full capacity.

After recent elections, the **United Kingdom** now has a coalition Government which set a number of energy policies: the establishment of an emissions performance standard that will strengthen the existing policy preventing coal-fired power stations being built unless they are equipped with (sufficient) CCS. Further on, the Government wants to establish a provision of a floor price for carbon, as well as efforts to persuade the EU to move towards full auctioning of ETS permits. Furthermore the continuation of the previous Government’s proposals for public sector investment in CCS technology for four coal-fired power stations but no public support for new nuclear stations. The UK Government continues to push the EU in demonstrating leadership in tackling international climate change, including the increase of the CO₂ reduction target to 30% by 2020.

Domestic coal production for the first quarter of 2010 slightly fell from 4.1 Mt to 3.6 Mt. The outlook for domestic coal production for the entire year is positive; especially Hatfield predicts a good year. Coking coal imports stayed stable at 1.4 Mt, but steam coal imports fell from 11 Mt down to 5.1 Mt. This reduction affected all international suppliers including the largest, Russia which halved its exports to the UK. Coal burn in power plants showed a lesser decrease compared to this reduction in supply, as significant de-stocking took place.

The **Czech Republic** is, together with France, the only EU country that is self-sufficient in electricity production and is a net electricity exporter to the neighbouring countries. In the first quarter of 2010 hard coal was extracted by one company, OKD, totalling 2.7 Mt, against 3.2 Mt in the same period last year.

Romania as well suffers from the consequences of the economic crisis. In order to lower the growing public debt the Government took the initiative to lower the state expenses but also to lower certain salaries and social subsidies.

The Government further announced that the state owned energy company shall be restructured and split into two holdings. The first holding shall operate the nuclear power plant in Cernavoda as well

as all lignite mines and power plants. The second holding shall operate all hydro power plants as well as all hard coal mines and power plants. A new lignite-fired power plant shall additionally be constructed at Rovinari.

Belgian coal figures are still very unreliable, due to lacking statistical contributions, but it is certain that coal imports to Belgium are decreasing. E.ON and Electrabel are steadily decreasing steam coal supply; only coking coal is further being supplied on a regular basis. Major players here are Arcelor-Mittal who recently reopened its blast-furnace in Ougrée near Liège and Sidmar in Ghent, also belonging to the Arcelor-Mittal group. The new owner of Carsid-Duferco did not yet present its future plans for the individual locations in Belgium.

The Netherlands imported some 3 Mt of coal in the first quarter of 2010, of which 2.2 Mt steam coal and 0.8 Mt coking coal. Similar to the UK, the Netherlands have a rather advanced legal framework and roadmap for CCS, which helps to plan demonstration projects. Main projects are currently planned by Nuon/Vattenfall and RWE, combined with Gasunie and a storage company.

In **Italy** all announced projects are being developed further. Assocarboni was recently commenting in a Press Release on a Spanish study analysing the risks from government policy promoting green jobs. As a matter of fact, out of four new jobs, nine traditional ones get lost because of the high cost of renewable sources which are actually less convenient, according to Assocarboni (the study will be annexed to the Minutes by email).

In **Finland** as well the economic crisis influences the electricity industry and the energy-intensive industries. Electricity is mostly generated from water and nuclear. There are nevertheless several combined heat and power plants which are co-fired with coal. The current share of renewables is some 29 % and it will be very difficult to reach the country's target of 38 %.

The Government is currently analysing three applications to built new nuclear power plants, only two of them should get the permits. There are further huge investments planned into new wind capacities. It is nevertheless possible, that these investments won't take place as the expenses would be too heavy for the country. Coal-based electricity will continue to be produced but there are no new coal-fired power plants to be built in future.

Austria is regularly importing some 4 Mt of coal, in 2010 coal imports are expected to fall to 3 Mt, due to the very rainy weather, which lead to a significant hydro-power generation increase.

3. LIGNITE PRODUCTION

	2010 (1-3)	2009 (1-13)
	Mt = t	Mt = t
Bulgaria	7.8	6.9
Czech Republic	11.5	12.6
Germany	44.3	44.8
Greece	12.9	16.2
Hungary	2.4	2.2
Poland	14.9	15.2
Romania	6.5	7.1
Slovak Republic	0.6	0.6
Slovenia	1.3	1.4
Total	102.2	107.0

The **Polish** Government announced the privatisation of several state-owned companies during this year, including the Konin and Adamow lignite opencast mines. PGE Turow went into operation and Adamow obtained a permit to investigate in the Grochowy-Siaszyce basin. The new lignite opencast mine Szczercow near Belchatow was able to go into operation with a production capacity of 36 Mt/a and reserves of some 620 Mt.

The PGE Belchatow power plant continues the construction of its CCS project (> 250 MW) which will be equipped with an abatement installation (> 80 %). Transport and storage (some 1.8 Mt/a) will also be demonstrated.

After a significant economic downturn in 2009, **Germany** seems to recover slowly. Due to the cold winter and the slightly better economic situation, primary energy consumption increased in the first quarter 2010.

Lignite extraction in the first 5 months of 2010 stayed almost stable, totalling 71.6 Mt. Deliveries to power stations reached the previous year's level of 64.9 Mt whilst briquette production slightly increased to 1.6 Mt against 1.3 Mt in the previous year.

Greece has a strongly lignite-based electricity production (58%) and even if gas imports from Russia and Algeria are increasing, indigenous lignite remains a major contributor. During the summer months, Greece also imports electricity from the Former Yugoslav Republic of Macedonia to complete the peak load.

The new Greek Government supports green energy policies and green energy and has therefore cancelled two new hard coal-fired power plant projects. The two lignite-fired power plant projects are nevertheless being constructed. The Government set a very ambitious target to reach a share of 40% electricity production by hydro and other renewables by 2020.

For 2010 the Government announced the revision of the Strategic Energy Plan, which more and more considers environmental factors. The lignite industry could be heavily affected by this revision which already announced that the Greek energy mix shall be composed by 40 % of gas and renewables by 2020 (currently 5 %).

In the **Czech Republic**, lignite was produced by three companies; the North Bohemian Coal Mines, the Czech Coal Group and the Sokolov Coal Company. Lignite extraction in the first quarter of 2010 totalled 11.5 Mt, some 9% less than in the first quarter 2009.

Major announcements from the industry are:

- the modernisation of the Tusemice II power plant, where two already modernised blocks are on trial run and two further wait for modernisation
- the construction of a new lignite block at the power plant Ledvice with an efficiency rate of 42 %.
- The closure of the last briquetting plant in the country, belonging to Sokolovska uhelna a.s. by the end of the year

A new Government was constituted in **Hungary**, showing a rather green tendency and which now will have to restructure the Hungarian energy market.

The state-owned power generator MVM Zrt. and Matra G.AG plan to build a new lignite block at the Visonta power plant provided the new Government delivers the permit.

In the first quarter 2010 lignite extraction totalled 2.36 Mt, 9.5 % more than in the previous year.

The **Slovakian** economy seems slowly to recover, the GDP increased by 4.8 % in the first quarter 2010.

ENEL continues to build the two nuclear blocs of 440 MW each. HBP and ENEL further signed a common intention to modernise the ENO lignite-fired power plant. E.on and EdF announced a joint project to construct a 400 MW gas-fired power plant.

Lignite extraction will total some 2.1 Mt in 2010. A production increase could be reached due to a mine opening in the Novaky basin.

STEEL PRODUCTION (SEE TABLE 4)

In the first three months of 2010 Asia produced 219 Mt of crude steel, an increase of 27 % over the first quarter of 2009. The EU produced 42 Mt of crude steel in the first quarter of 2010, up by 37 % compared to the same quarter of 2009. North America showed an increase of 53.8 %, producing 27 Mt of crude steel during the first three months of 2010.

The world crude steel capacity utilisation ratio of the 66 reporting countries to the World Steel Association in March 2010 was 80.2 %, no change from February 2010. Compared to March 2009, the utilisation ratio in March 2010 increased by 15.3 %.

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	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
(US\$ / tce)	2010	109.90	91.23	86.80	87.97								
Steam Coal	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
(EUR / tce)	2010	77.01	66.66	60.82	65.62								

Source: VDKI, Mc Closkey

fob-China **Coke (12.5%)**

USD / t	2009	370	433	420	418	389	396	390	385	375	381	391	395
	2010	395	418	435	459								

Source: China Coal Report

Freight Rates (USD /t)

R Bay/Rotterdam	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
(Capesize)	2010	14.24	12.20	12.28	12.41								
Newcastle/Rotterdam	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
(Capesize)	2010	24.53	21.91	22.39	22.23								
Bolivar/Rotterdam	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
(Capesize)	2010	15.78	14.61	14.66	13.54								

Source: VDKI

Currency Rates

EUR/USD	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
	2010	0.70	0.73	0.74	0.75	0.79							
ZAR/USD	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
	2010	7.46	7.67	7.41	7.36	7.65							
AUD/USD	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
	2010	1.09	1.13	1.10	1.08	1.15							

Source: Exchange rates download center

Crude Oil (USD/Barrel)

Crude Oil	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
	2010	76.01	72.99	77.21	82.33	74.48							

Source: OPEC Basket Prices

WORLD SEABORNE COAL TRADE - STEAM COAL			
Exporting Countries	2010 (1-3) Mt	2009 (1-3) Mt	Diff. 2009/10 Mt
PACIFIC			
Australia	31	33	-2
China	7	9	-2
Indonesia	48	36	12
Vietnam	6	6	-
Others	2	2	-
SUB-TOTAL	94	86	8
ATLANTIC			
Colombia	16	16	-
Russia	19	19	-
South Africa	17	15	2
Venezuela	1	1	-
USA	3	3	-
Others	2	2	-
SUB-TOTAL	58	56	2
TOTAL	152	142	10
incl. Anthracite and PCI-Coal			
Source: VDKI			

WORLD SEABORNE COAL TRADE - COKING COAL			(inc. PCI-Coal)
Exporting Countries	2010 (1-3) Mt	2009 (1-3) Mt	Diff. 2009/10 Mt
Australia	27	24	3
USA	12	7	5
Canada	4	2	2
Russia	2	1	1
TOTAL	45	34	11
Source: VDKI provis. Figures			

EU CRUDE STEEL PRODUCTION			
COUNTRY	2010 (1-3) Mt	2009 (1-3) Mt	Change in %
Austria	1.62	1.13	43.8
Belgium	1.76	1.24	42.1
Bulgaria	0.19	0.17	12.0
Czech Republic	1.32	1.00	27.6
Finland	1.03	0.57	79.6
France	3.74	2.94	27.4
Germany	10.85	7.28	49.2
Greece	0.38	0.53	- 29.4
Hungary	0.38	0.28	37.4
Italy	6.42	4.94	29.8
Luxembourg	0.69	0.49	39.6
Netherlands	1.55	0.95	63.2
Poland	1.74	1.45	20.1
Romania	0.76	0.53	43.8
Slovakia	1.15	0.77	49.2
Slovenia	0.15	0.11	28.0
Spain	4.27	3.19	37.3
Sweden	1.20	0.72	65.9
United Kingdom	2.54	2.10	21.0
Others	0.41	0.42	- 3.2
EU-27	42.15	30.81	37.0
Source: IISI			

COUNTRY	EU Hard coal production		EU Hard coal sales		EU Coke production **	
	1-3 2010 Mt	1-3 2009 Mt	1-3 2010 Mt	1-3 2009 Mt	1-3 2010 Mt	1-3 2009 Mt
Bulgaria *	0.71	0.60	0.71	0.60	n.a.	n.a.
Czech Republic	2.74	3.24	2.87	2.30	0.60	0.60
Germany	3.41	3.67	3.58	3.20	0.49	0.41
Hungary	0	0	0.19	0.38	0.24	0.15
Poland	19.77	19.96	18.46	17.78	2.40	2.34
Romania	0.57	0.54	0.50	0.47	0.20	0.19
Spain	2.24	2.52	2.01	2.21	0.36	0.48
United Kingdom	3.59	4.10	3.09	3.90	0.93	1.00
EU-27	33.0	34.63	31.41	30.84	5.42	5.42

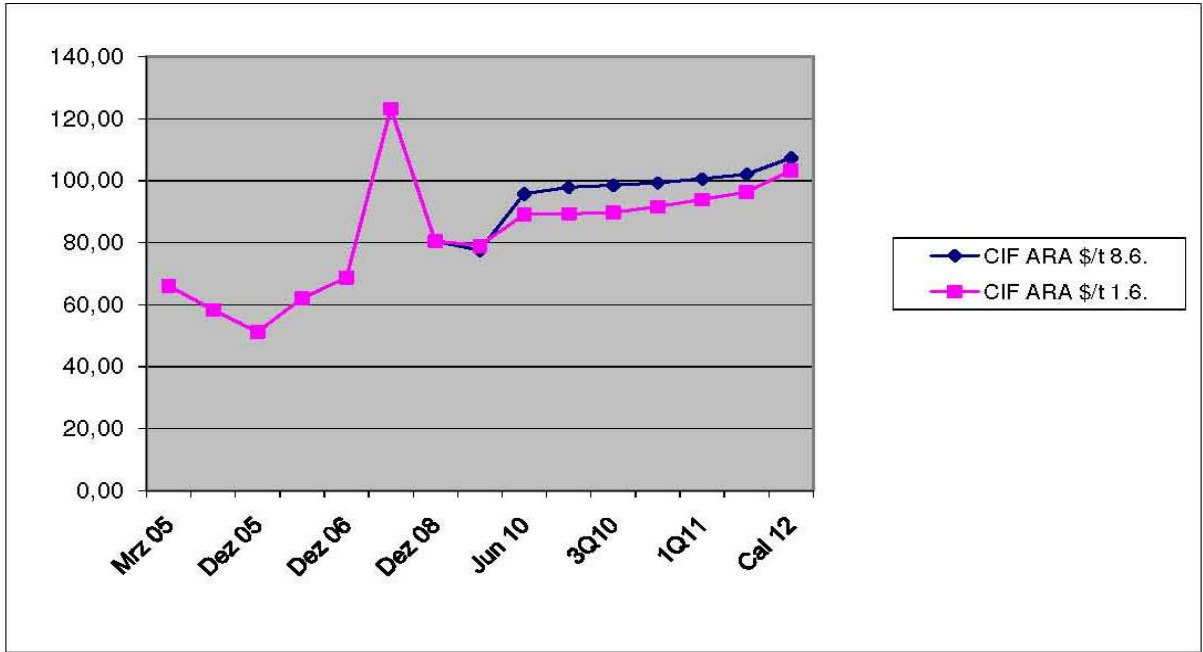
* brown and black coal

** only hard coal producing countries

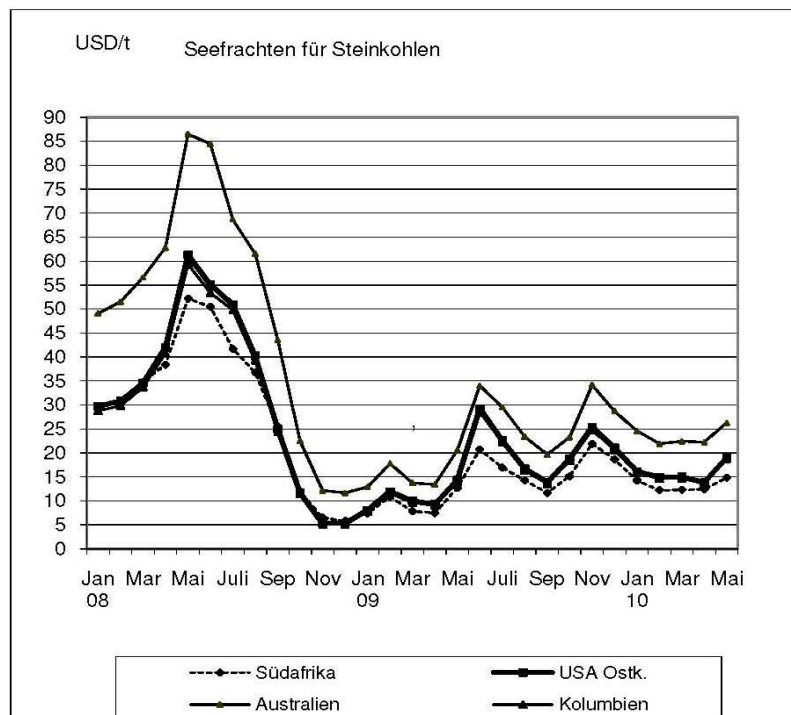
COUNTRY	EU Lignite production		EU Consumpt. Public power plants	
	1-3 2010 Mt	1-3 2009 Mt	1-3 2010 Mt	1-3 2009 Mt
Bulgaria	7.77	6.93	7.39	6.65
Czech Republic	11.52	12.63	9.56	10.49
Germany	44.34	44.76	40.28	41.06
Greece	12.92	16.22	13.77	16.40
Hungary	2.36	2.16	2.25	2.26
Poland	14.89	15.25	14.73	14.96
Romania	6.50	7.09	6.50	7.09
Slovakia	0.63	0.64	0.63	0.64
Slovenia	1.31	1.36	1.17	1.25
EU-27	102.24	107.04	96.28	100.80
Serbia	10.54	10.39	9.56	8.11

COUNTRY	EU Coking coal imports		EU Steam coal imports		EU Total imports	
	1-3 2010 Mt	1-3 2009 Mt	1-3 2010 Mt	1-3 2009 Mt	1-3 2010 * Mt	1-3 2009 Mt
Austria	0	0	0.70	1.10	0.70	1.10
Belgium					1.00	1.50
Bulgaria					0.40	0.40
Czech Republic	0.18	0.18	0.11	0.30	0.29	0.48
Denmark	0		0.99		0.99	0.80
Finland	0.11		0.85		0.96	0.80
France	1.26		3.00		4.26	3.00
Germany	2.04	2.10	8.64	9.02	10.68	11.12
Greece	0	0	0	0	0	0
Hungary	0.43	0.18	0.01	0.09	0.44	0.27
Ireland					0.49	0.40
Italy	1.70		3.40		5.10	4.50
Netherlands	0.80	0.65	2.20	2.20	3.00	2.85
Poland	0.90	0.94	2.53	2.55	3.43	3.49
Portugal			1.09		1.09	1.00
Romania					1.00	1.00
Slovakia					1.06	1.16
Slovenia	1.11	0.12	0.09	0.10	0.20	0.22
Spain	0.58	0.48	1.08	4.19	2.16	4.67
Sweden					0.50	0.30
United Kingdom	1.44	1.72	5.11	10.68	6.55	12.40
EU-27					44.30	51.46

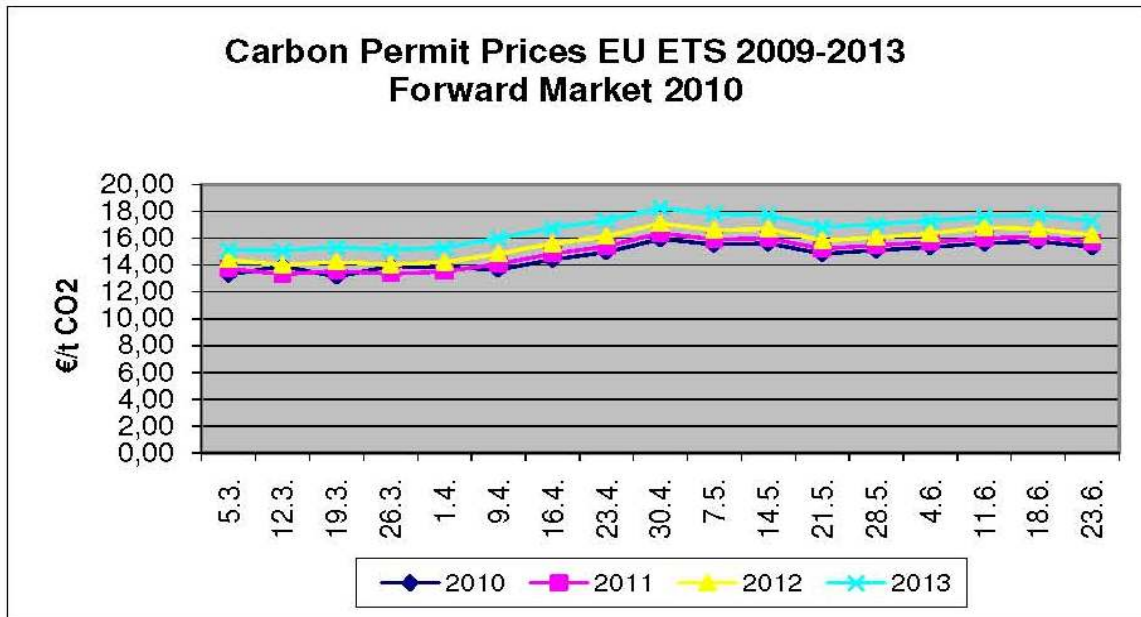
* preliminary figures



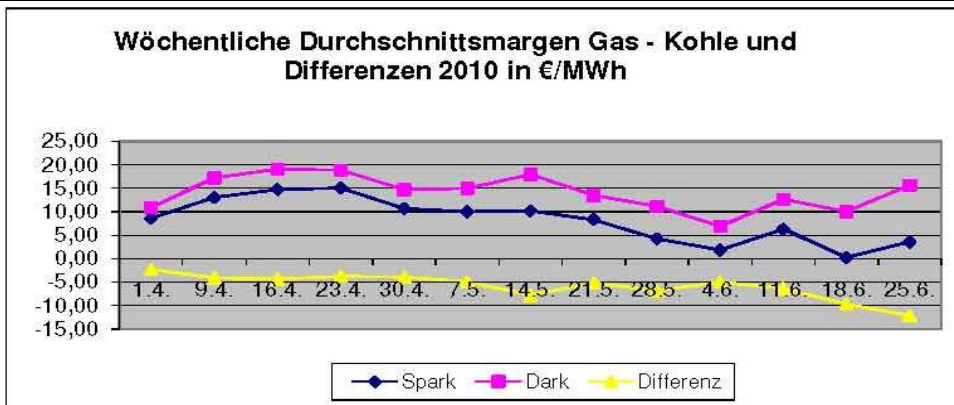
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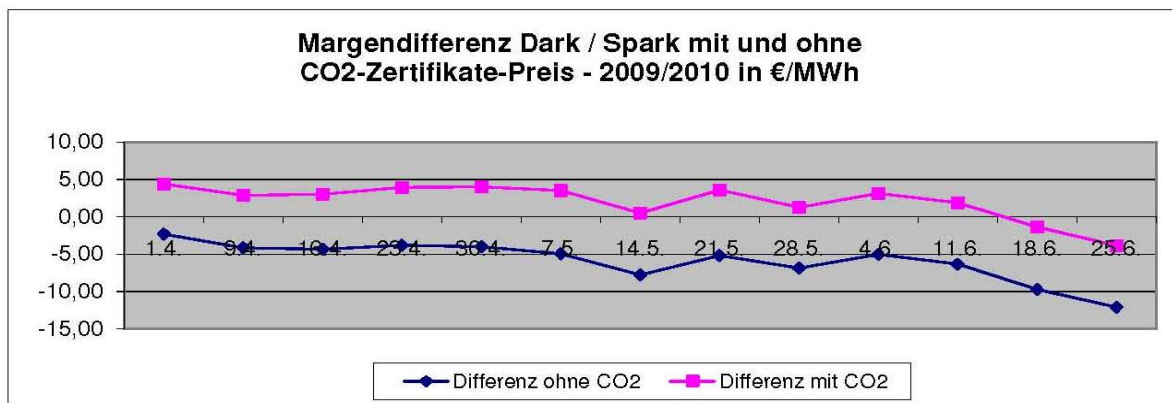
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source: VDKI



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



Source: VDKI