MARKET INSIGHTS

How China's New Silk Road is Impacting Maritime Coal Transport

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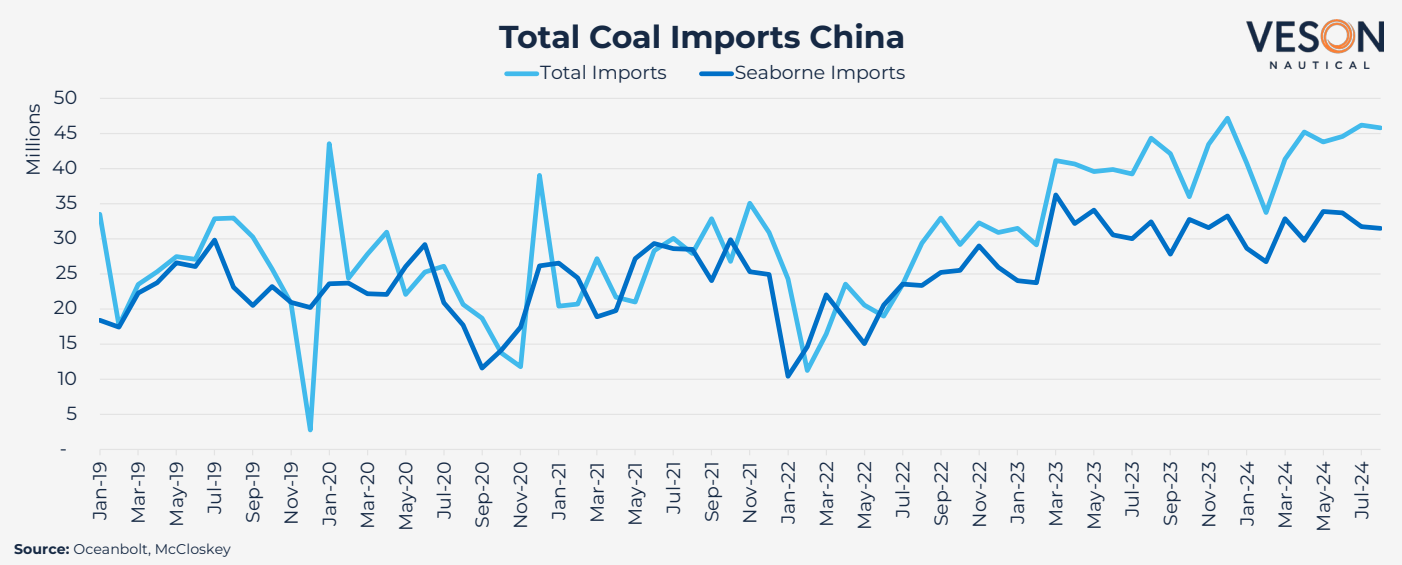
VESON NAUTICAL

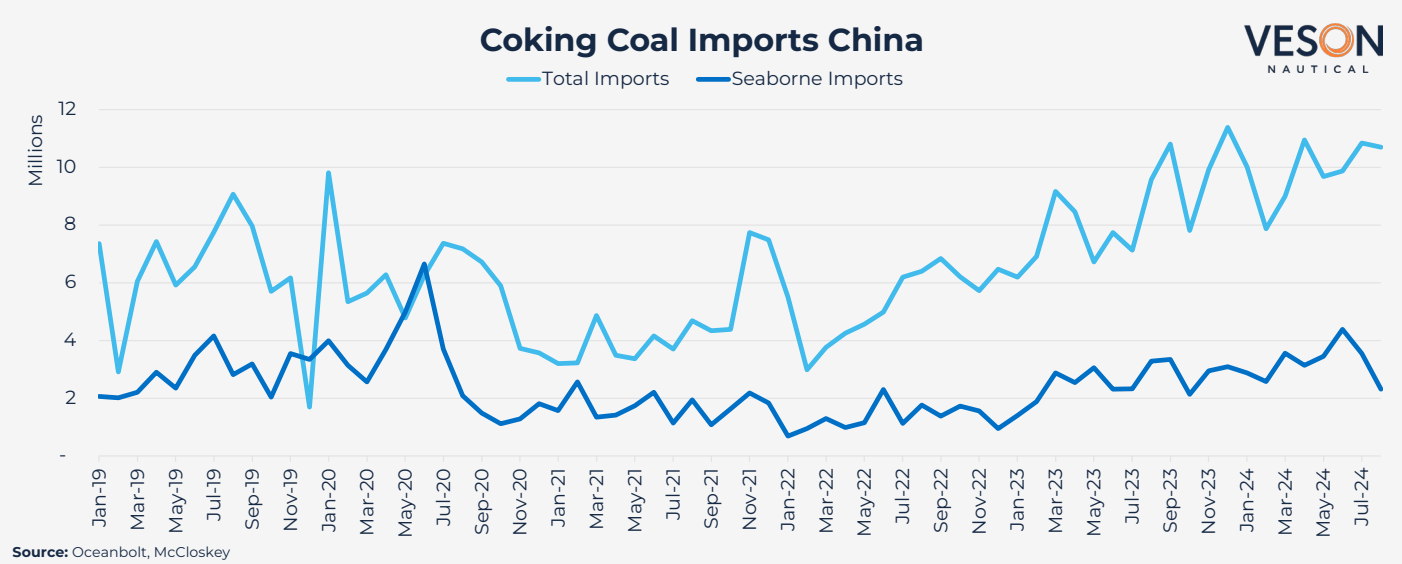
China's coal imports have surged in recent years, driven by a combination of reduced hydropower output and domestic coal mine accidents that have constrained local supply.

In 2023, total coal imports soared by 62%, reaching 474.3 million tonnes. Of this, 79% was steam coal, primarily used for energy generation, while the remaining 21% was coking coal, essential for steel production.

This upward trend has continued into 2024, with coal imports rising an additional 8% year-to-date. The spike in coal imports has been positive for the dry bulk market, with the coal trade accounting for approximately 20% of total dry bulk ton-mile demand. However, an analysis comparing AIS-based tracking data from Veson Nautical's Oceanbolt solution, with official customs figures provided by commodity data analysts, McCloskey reveals some disparities. In this paper, we will look at these in more detail and investigate whether maritime dry bulk is fully capitalizing on the recent growth in China's coal trade.



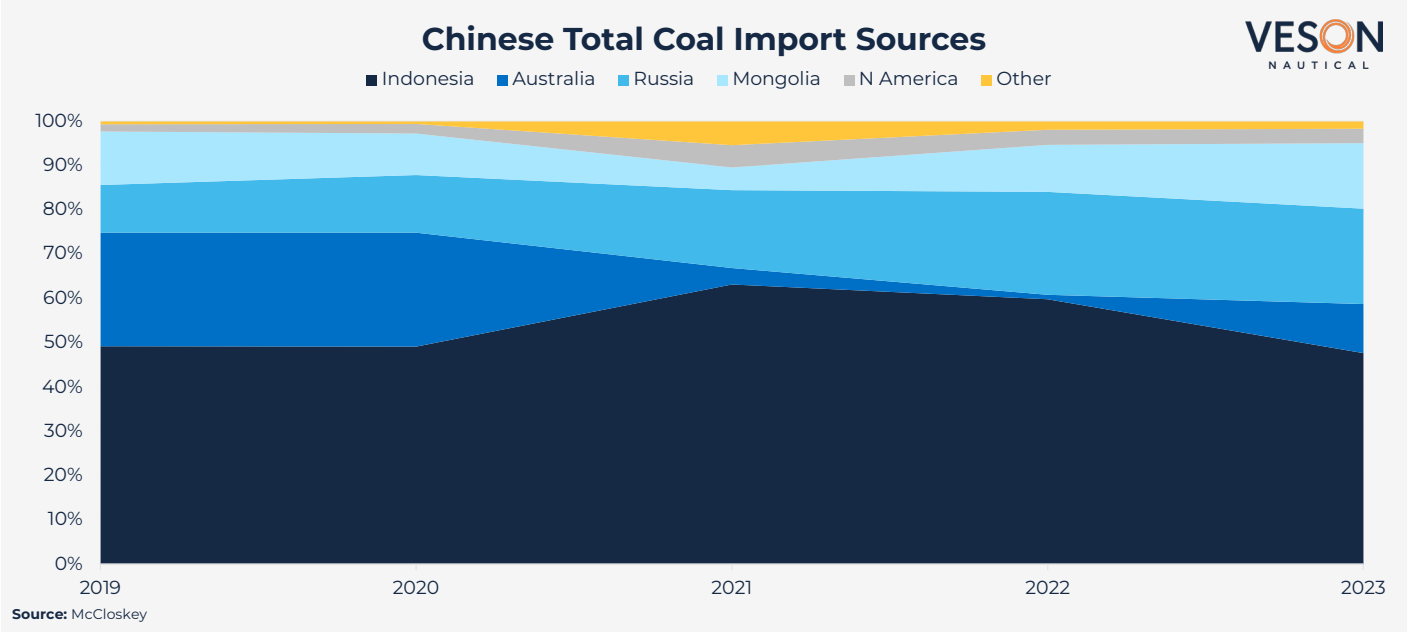
Source: Oceanbolt, McCloskey



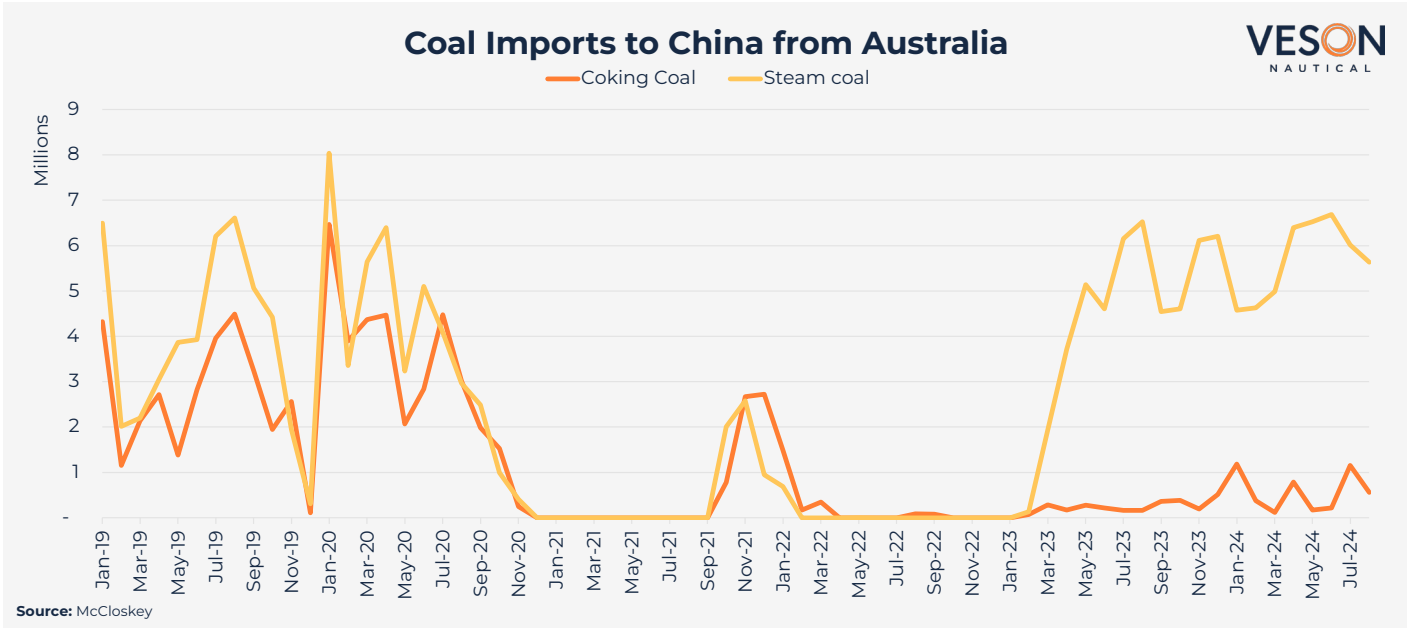
Source: Oceanbolt, McCloskey

China's growing coal imports highlight shift from sea to land routes

A comparison between Chinese customs data, which includes land-transported coal imports, with Oceanbolt's seaborne data, reveals a widening gap between the two. Between 2015 and 2022, 93% of China's total coal imports arrived by sea. However, in 2023 and 2024, this share dropped to 76%. Although China's total coal imports grew by 62% in 2023 and an additional 12% so far in 2024, seaborne imports increased by only 45% and 2%, respectively, over the same period. This trend is evident in both steam coal and coking coal, though the discrepancy is more pronounced in coking coal. To better understand this shift, it is essential to examine the dynamics of China's coal suppliers.



Source: McCloskey



Source: McCloskey

Australia losing market share

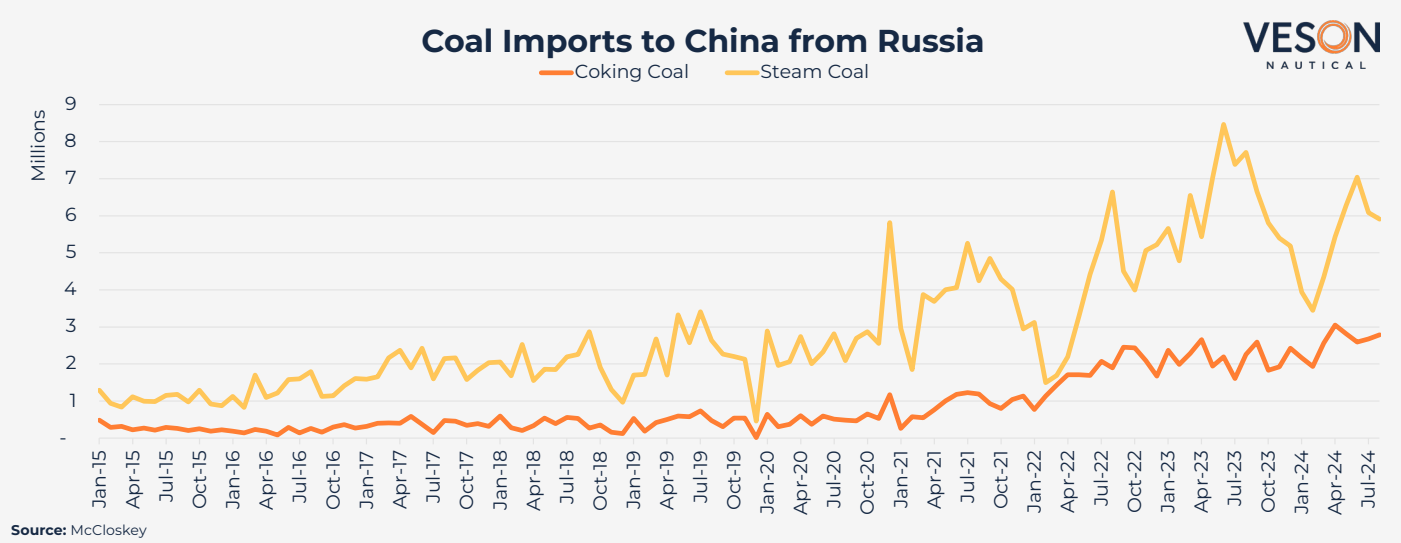
When examining the total coal trade, including both steam and coking coal, Indonesia stands out as China's largest supplier. In 2019, 49% of China's coal imports came from Indonesia, a figure that remained steady at 48% in 2023, indicating that Indonesia maintained its dominant market share. In contrast, Australia's share of China's coal imports fell sharply, from 26% in 2019 to just 11% in 2023. Since all Australian coal exports to China are seaborne, this decline largely explains the recent drop in seaborne coal volumes.

To better understand this shift, it's crucial to consider the state of Australia-China trade relations. In 2020, following the emergence of COVID-19 in China, Australia called for an international investigation into the origins of the virus. This move angered the Chinese government, leading to an unofficial ban on Australian coal imports, which persisted from 2020 through 2022. Although trade resumed in 2023, volumes have not returned to pre-ban levels. The steam coal trade has recovered, with China importing 49.6 million tonnes of Australian steam coal in 2023—a 7.7% increase compared to pre-ban levels. However, the coking coal trade remains significantly affected; in 2023, China imported just 2.8 million tonnes of Australian coking coal, a staggering 91% decline from pre-ban levels. This demonstrates that China is now sourcing substantial volumes of coal from suppliers other than Australia.

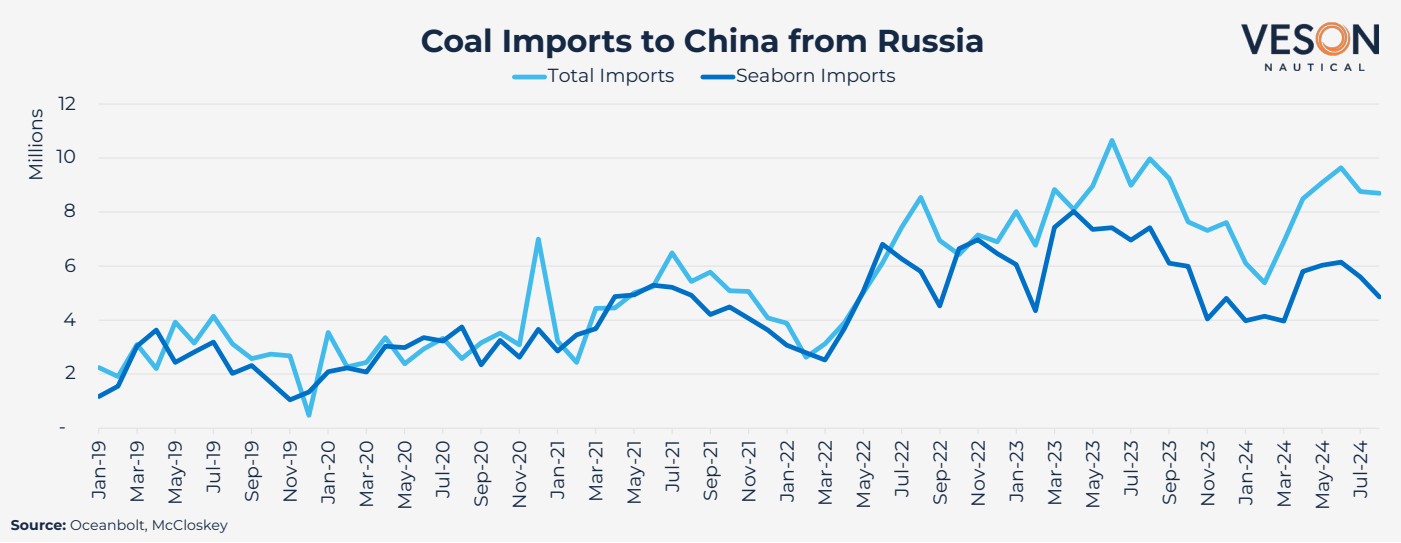
China sourcing more coal from Russia

Correlating with the decline in Australian coal volumes, Russia has emerged as a growing supplier of coal to China. Russia's share of Chinese coal imports grew from 11% in 2019 to 22% in 2023. This shift could be linked with the war in Ukraine and the subsequent sanctions imposed on Russia by Western nations. These sanctions effectively halted Russian coal exports to the EU and other Western allies, forcing Russia to seek alternative markets. With reduced global demand and limited buyers, China has capitalized on the opportunity to purchase Russian coal at discounted prices. As a result, the Russia-China coal trade surged, increasing by 20% in 2022 and a further 50% in 2023, reaching 102 million tonnes.

A closer look at the trade data, comparing Oceanbolt's AIS tracking with official customs figures, reveals a growing share of land borne coal shipments. From 2015 to 2022, an estimated 87% of Russian coal exports to China were seaborne.



Source: McCloskey

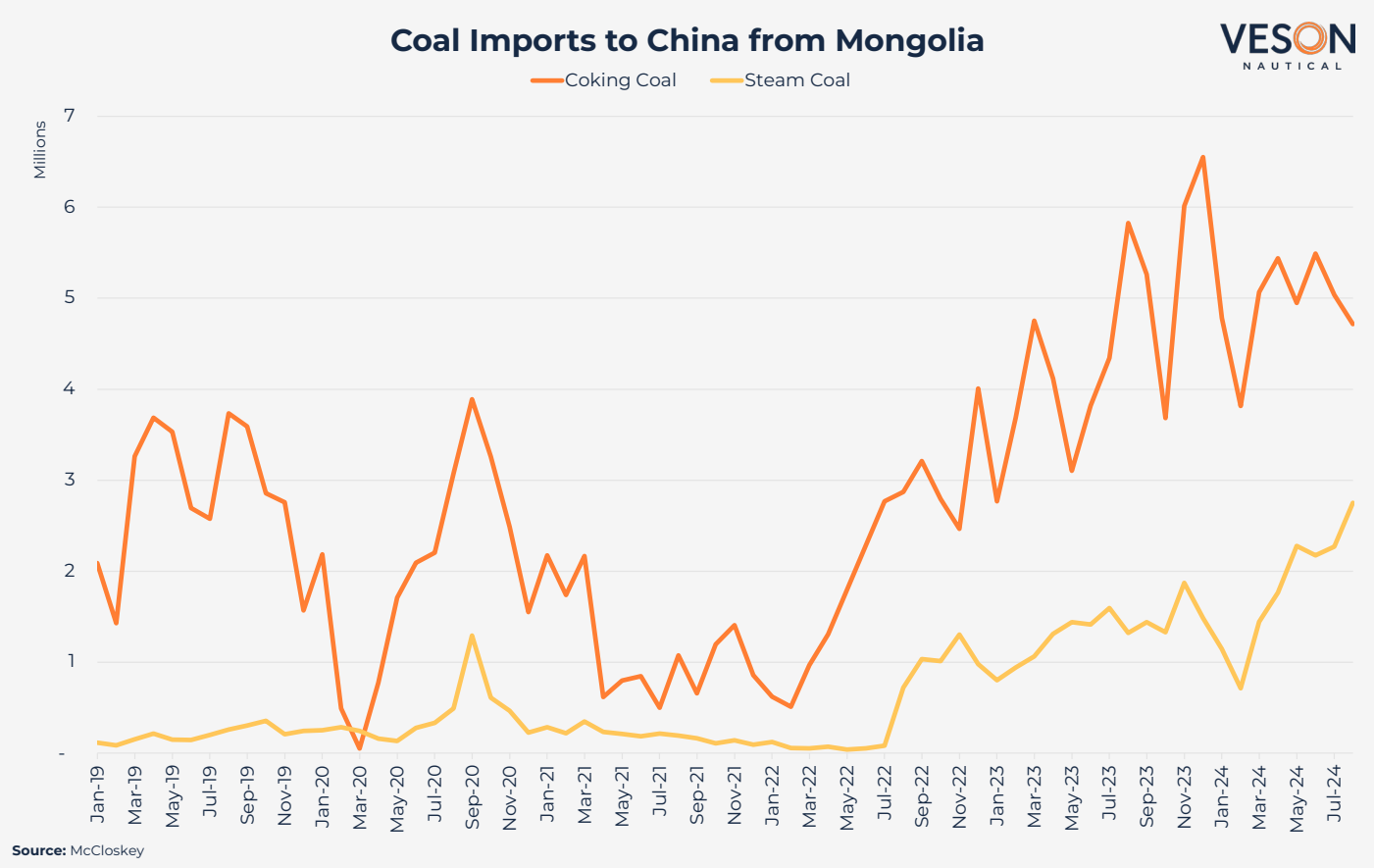


Source: Oceanbolt, McCloskey

However, by 2023, this figure had dropped to 74%, reflecting a rise in land borne volumes. Between 2022 and 2023, Russian coal exports to China grew by 34 million tonnes, but only 18.7 million tonnes of this increase were transported by sea, suggesting that 15.3 million tonnes were shipped via land. Despite the growing volume of Russian coal imports, this does not fully offset the decline in seaborne coal trade. Additionally, coal trade between Russia and China has decreased by 10% so far in 2024, driven by Chinese import duties and sanctions-related payment challenges. So, to fully understand the changes in China's coal trade dynamics, it is necessary to examine its trade relationships with other neighbouring countries.

Mongolia's coal exports to China soar as infrastructure improves

Mongolia is rapidly emerging as a major coal producer, with around 90% of its output destined for export to China due to limited domestic demand. According to the Mongolian Coal Association, the country has the potential to produce up to 100 million tonnes annually.

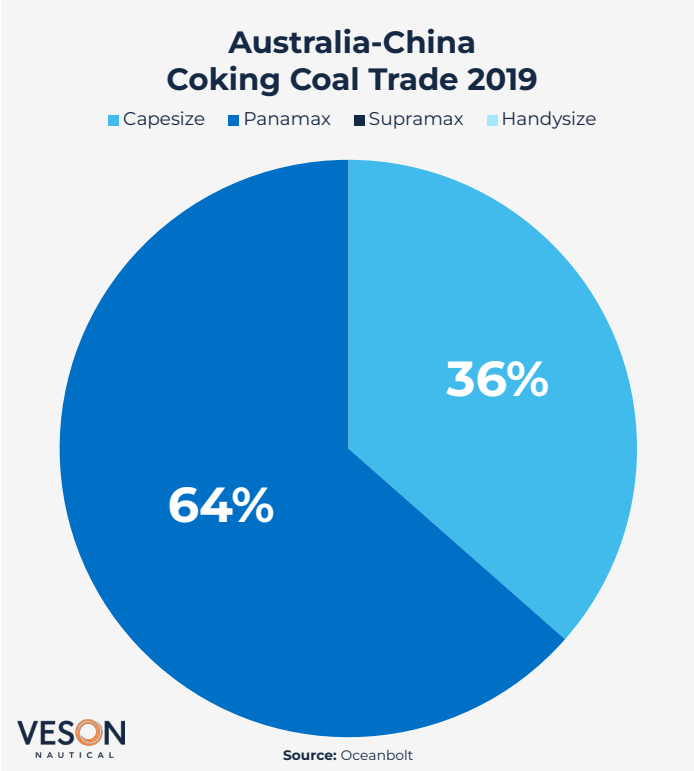


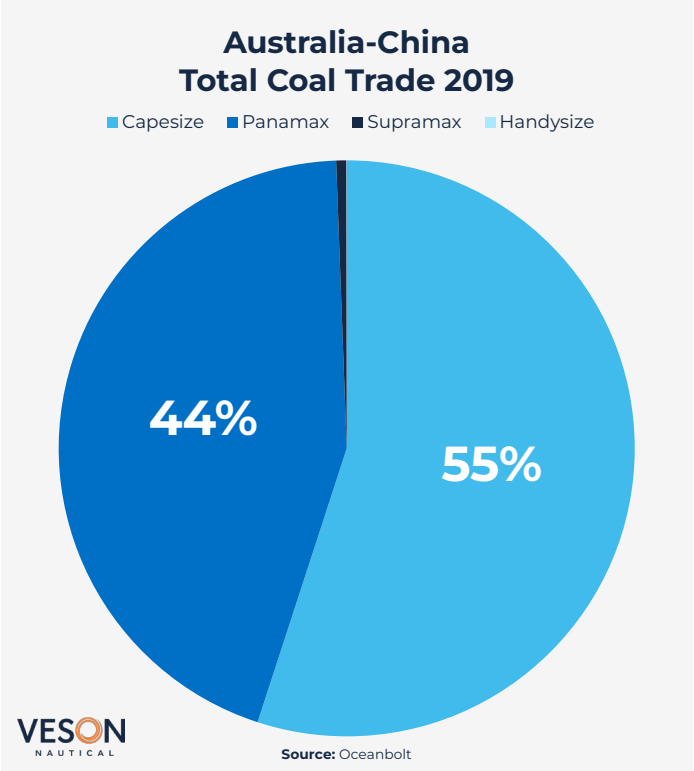
Source: McCloskey

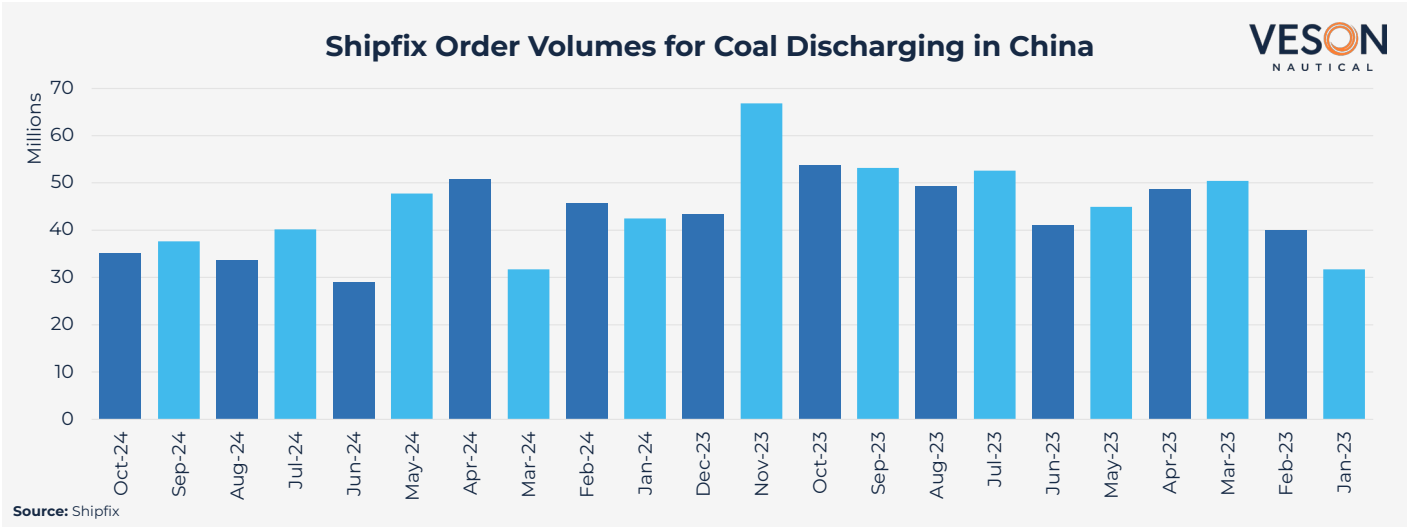
However, this capacity is constrained by border infrastructure and customs processes. In 2023, Mongolia took significant steps to enhance its coal export capabilities, including the inauguration of a new railway line connecting its coal mines to the Chinese border. This railway has an annual capacity of 30 to 50 million tonnes. Additionally, in 2023 the Chinese border town of Ganqimadou invested $5.6 million in infrastructure improvements to accommodate more truck arrivals from Mongolia. These developments contributed to a sharp rise in Mongolia's coal production, which totalled 81.2 million tonnes in 2023—more than double the previous year's output. Consequently, Mongolia's coal exports to China surged by 125% in 2023, reaching 70 million tonnes, and have grown another 27% so far in 2024. Approximately 75% of these exports are coking coal, making Mongolia China's largest supplier of this resource. In 2023, Mongolia accounted for 53% of China's total coking coal imports. As a landlocked country, all of Mongolia's coal exports are transported overland, which means that it is effectively replacing the seaborne coking coal volumes previously sourced from Australia.

Land borne coal trade to China dampens dry bulk demand growth

Between 2022 and 2023, Mongolia's coal exports to China increased by 38.8 million tonnes. Over the same period, a comparison of Oceanbolt data with official customs figures reveals that land borne coal volumes from Russia to China grew by 15.3 million tonnes. Combined, these figures suggest a total increase of approximately 54.1 million tonnes in land borne coal shipments to China in 2023. To assess the impact on the shipping industry, we can estimate how these incremental volumes would have affected ton-mile demand if they had been sourced from Australia instead. Using an average sailing distance of 4,521 nautical miles from Australia to China, the diverted land borne volumes represent a potential loss of 1% in total ton-mile demand for 2023. This shift has dampened the growth of dry bulk demand, which in turn has exerted downward pressure on the dry bulk freight market.







China's shift to land-borne coal weighs on Capesizes and Panamaxes

One of the segments most impacted by subdued Australian coal volumes are Capesizes. According to Oceanbolt data, in 2019—the last full year before China's unofficial import ban on Australian coal—Capesize vessels handled 55% of the Australia-China coal trade. As a result, the shift in trade flows has had a significant negative impact on Capesize demand. However, given that the growth in land-borne volumes has been more pronounced in the coking coal trade, it's also important to closer examine the Australia-China coking coal trade from 2019. In this trade, Panamax vessels dominated, with a 64% market share. Consequently, Panamaxes have lost out on a substantial share of coking coal volumes, which helps explain some of the recent weakness in the Panamax market. Panamax vessels underperformed Supramaxes in Q3, with current spot rates trailing behind both Supramaxes and Handysizes.

Shipfix data, which uses cargo volumes circulated in the market to forecast short-term trends, suggests that this underperformance may persist. In October 2024, the amount of coal cargoes circulated with discharge in China was 35% lower than in October 2023. This decline indicates a potential drop in seaborne coal arrivals over the coming months. Typically, October marks the start of the coal import season for Chinese utility companies as they stock up ahead of winter. However, the rise of China's inland coal trade may dampen the usual seasonal boost in seaborne coal imports this year, further weighing on the dry bulk freight market.

Conclusion: Geopolitical shifts could further increase land borne coal

China has significantly increased its total coal imports in recent years, but the shipping industry has not fully benefited from this growth. Geopolitical tensions have driven China to strengthen trade ties with Mongolia and Russia—countries outside the Western sphere of influence. This shift has come at the expense of Australia, resulting in a smaller share of Chinese coal imports being transported by sea. With a change in United States presidential administration, the market could expect heightened tariffs, trade wars, and a more strained global trade environment. In response, China is likely to further expand its reliance on Russian and Mongolian coal to reduce its dependence on Western-aligned suppliers. As a result, seaborne coal imports to China are expected to face continued constraints, which will likely exert downward pressure on freight rates in the coming years.

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Or, to learn more about our AI-driven collaborative data platform, **Shipfix**, and find out how it enhances pre- to post-fixture workflows for chartering and operations, **click here.**

About the Author

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Mikkel is head of dry bulk market analysis for Veson Nautical. He holds a BSc degree in Business Management and Technologies from Universitat Ramon Llull, La salle in Barcelona, and a MSc degree in Shipping, Trade and Finance from Bayes (formerly Cass) Business School in London.

Before joining Veson Nautical, by way of ViaMar, Mikkel worked as a dry cargo shipbroker for 4 years for Lightship Chartering.

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