SE SNL Extra

HD **China's coal import ban evokes mixed reactions among industry, analysts**

BY Rohan Somwanshi

WC 590 words

PD 22 September 2014

SN SNL Coal Report

SC COAL

VOL Issue: 82260

LA English

LP

China's ban on imports and domestic sale of certain low-grade coal from Jan. 1, 2015, has sparked mixed reactions among coal analysts and experts, with some believing that the policy is not strict enough to suppress the country's coal demand, but could still impact thermal coal shipments from Australia to China.

The Chinese government has restricted companies from importing coal with more than 16% ash and 1% sulfur content, as part of its plan to control air pollution.

TD

A research report from Nomura Holdings Inc. said about 50% of thermal coal exports heading from Australia to China could be affected by the ban. According to Wood Mackenzie, China's thermal coal imports are expected to rise only 1.7% year-over-year in 2014. Australia supplies roughly 49 million tonnes of thermal coal to China, according to The Sydney Morning Herald.

From a U.S. perspective, Nomura analysts said China's efforts to reduce coal consumption would be bearish in the medium term, especially for Peabody Energy Corp.'s Australian thermal coal platform. According to the research report, Nomura estimates that 3 million tonnes of Peabody's thermal coal from Australia exceed the 16% maximum ash threshold set by China. Thermal coal sales represent roughly 10% to 15% of Peabody's coal exports into China.

SNL Energy's questions to Peabody on the ban's material impact on the company's coal exports from its Australian units to China went unanswered.

Peabody's thermal coal mines in Australia include Wilpinjong, Wambo, Wambo North and Burton, according to data from Nomura.

Australia has been shipping more thermal coal to Europe rather than China, in search of new markets as shipping costs have become economical. Earlier, Australia had a freight advantage over its competitors in supplying to Asian markets, but since coal prices came crashing down, the situation has changed.

Meanwhile, the Minerals Council of Australia said that reports on the ban's impact on Australian coal exports was "misleading and unnecessarily alarmist," the Australian Associated Press reported. The council's executive director Greg Evans said the ban would only affect brown or lignite coal, which Australia does not ship, and low-quality black coal.

"Australia is fortunate to have reserves of high-quality black coal, which will continue to be in strong demand from established and emerging markets, including China," Evans was quoted as saying by the Herald.

In related news, Brean Capital said in a research report that China's restrictions on coal "could have at most a minor impact in keeping more import coal out of China," as few import shipments are transported 600 kilometers or beyond their target users in China. Transporting coal shipments beyond 600 kilometers results in stringent restrictions from China.

The Chinese government is prohibiting domestic mining, sale, transportation and imports of coal with ash and sulfur content exceeding 40% and 3%, respectively. For lignite coal, the ash and sulfur content should not exceed 30% and 1.5%, respectively.

"We believe that most imported coal will remain unaffected by the overarching sulfur cap of 1.5% for lignite and 3.0% for other coals," Brean Capital said, adding that the tightened measures are being implemented to provide support to struggling domestic Chinese coal producers in the weak pricing environment.

More than 70% of China's coal producers have reported losses, forcing them to delay wage payments and struggle to pay off loans, according to an earlier report.

CO pbdy : Peabody Energy Corp

IN i1 : Energy | i111 : Coal Mining | ibasicm : Basic Materials/Resources | imet : Mining/Quarrying

NS c312 : External Markets | gtrade : Tariffs/Trade Barriers | c31 : Marketing/Markets | ccat : Corporate/Industrial News | e51 : Trade/External Payments | ecat : Economic News | gcat : Political/General News | gdip : International Relations | gpir : Politics/International Relations | ncat : Content Types | nfact : Factiva Filters | nfcpin : C&E Industry News Filter

RE austr : Australia | china : China | apacz : Asia Pacific | asiaz : Asia | ausnz : Australia/Oceania | bric : BRICS Countries | chinaz : Greater China | devgcoz : Emerging Market Countries | dvpcoz : Developing Economies | easiaz : Eastern Asia

IPD Mining and Supply

PUB SNL Financial LC

AN Document COAL000020140925ea9m0000z

