

SE Exclusive
HD Global thermal **coal** exports down in H1'14, but met **coal** shipments up
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Thermal **coal** exports from major countries during the first half of 2014 were down 3% year over year, versus a 5% increase in metallurgical **coal** shipments in the same period even though met **coal** mine closures have been more prevalent than those for thermal mines in terms of both aggregate tonnage and proportion of the seaborne trade, data from UBS Securities Australia Ltd. showed.

U.S. **coal** giant Peabody **Energy** Corp. recently cut 1.5 **million** tonnes of annual met **coal** output at the Burton mine in Queensland, Australia, joining a long list of U.S. and global miners that have reduced production amid depressed prices.

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However, in the first half of 2014, met **coal** exports from major countries Australia, the U.S. and Canada totaled 134 **million** tonnes, up from 127.4 **million** tonnes in the same period of 2013, according to the UBS data. On the other hand, thermal **coal** exports made by Australia, the U.S., Indonesia, South Africa and Colombia touched 388 **million** tonnes in the same period, down from 398.4 **million** tonnes in 2013.

Data from various sources obtained by SNL **Energy** showed that in the first six months of 2014 **coal** shipments from seven major exporting countries accounted for 48.2% of the total **coal** export targets estimated for these nations for the 2014 full year.

Total traded seaborne thermal **coal** demand is expected to grow 1.5% year over year in 2014, reaching 968 **million** tonnes, according to UBS. Total traded met **coal** demand is expected to be 307 **million** tonnes in 2014, down 3.9% year over year from 2013.

As Australia and Indonesia continue to push **coal** into the already oversupplied market, which is subsequently pushing down global **coal** prices, the focus has been on the world's largest **coal** consumer, **China**.

China in 2014 has taken unprecedented initiatives to restrict **coal** use, with the government employing a new **coal** policy that is expected to result in a 10% industrywide production cut in the country. **China**, a net **coal** importer, has seen the majority of its **coal** companies lose money due to weaker prices. The government initiative is specially designed to boost domestic **coal** sector profitability, and it may also include a cut to the export tariff or the application of a tariff to imports, UBS said.

Despite **China**'s plans to limit **coal** consumption, the country will continue to play an important role in the global seaborne **coal** market, Helen Lau, senior analyst at UOB Kay Hian Ltd., told SNL **Energy**. **China** remains a heavy-hitter in the global seaborne market, importing roughly 300 **million** tonnes of **coal** each year, Lau said.

China imported 25.1 **million** tonnes of **coal** in June, according to MarketRealist. UBS data showed that **China**'s net thermal **coal** imports were expected to reach 186.8 **million** tonnes in 2014, while met **coal** imports may total 60 **million** tonnes.

Another country that is emerging as significant in the international **coal** market is India, where massive growth in electricity demand is leading to a perennial **coal** shortage. According to Morgan Stanley, India has the potential to become one of the largest **coal**-importing countries in the medium to long term, given its structural need to import.

Indian companies have set their sights on overseas **coal** assets for the purpose of shipping **coal** back to India. Adani Group's huge **coal** mine in Australia has received regulatory approval, while Tata Steel Ltd. and Steel Authority of India Ltd.'s joint venture invited interest for coking **coal** assets, preferably in Australia. Indian conglomerate International **Coal** Ventures Pvt. Ltd., a **firm** solely created to acquire overseas **coal** assets, recently agreed to acquire a **coal** property from Rio Tinto in Mozambique.

With India's Supreme Court recently declaring more than 200 **coal mining** licenses illegal, traders expect the move could spur **coal** imports into the country. India imported 17.7 **million** tonnes of **coal** in June, up from 15.6 **million** tonnes in May, according to a Reuters report. UBS expects India's total thermal **coal** imports to touch 159.2 **million** tonnes in 2014.

Australian shipments still going strong

Coal producers in Australia, one of the largest **coal**-exporting countries in the world, have not scaled back their shipments, largely because they are bound via the take-or-pay contracts with logistics providers, under which miners are required to pay for transportation even when they do not ship the **coal**.

"While several companies have said they're not willing to reduce output, behind the scenes there are lots of negotiations going on [for the take-or-pay contracts]," Roderick Campbell, an economist at The Australia Institute, told SNL **Energy**. "The market seems to think this will take another year or two, and that seems reasonable to me."

Though some Australian producers are negotiating to reduce production, others — including India's Adani — are still looking to pump more **coal** into the market. "With so many players looking to reduce capacity, you've got heavily leveraged Adani trying to put huge volumes onto the seaborne market," Campbell said. Adani is developing the 60-**million**-tonne-per-year Carmichael **coal** and rail project, which will ship **coal** to India.

"Everyone is wondering about India, but many think that Australian **coal** will struggle to compete on price delivered into India, regardless of the volumes they might be able to dig out of the Galilee [Basin]," Campbell said. Campbell noted that Japan, South Korea and Taiwan will remain big buyers of Australian **coal**.

Coal shipments out of major ports in Australia totaled 28.2 **million** tonnes of **coal** in June, up from 18.3 **million** tonnes in the previous month.

Japan, the largest buyer of Australian **coal**, imported 15.8 **million** tonnes of **coal** in June, compared to 13.5 **million** tonnes in May, according to data from Trade Statistics of Japan. The country is estimated to import 139.7 **million** tonnes of thermal **coal** and 45 **million** tonnes of met **coal** in 2014, according to UBS.

Japan has been looking to rely on **coal** as an **energy** source ever since the nuclear disaster that occurred in 2011. Japan's Chugoku Electric Power Co. Inc. recently agreed to acquire a 10% **stake** in a **coal** mine in New South Wales, Australia.

A prominent **coal** buyer in Asia, South Korea is expected to import 98 **million** tonnes of **coal** in 2014. In June, South Korea imported 10.5 **million** tonnes of **coal**, up from 10 **million** tonnes in May, data from the Korea International Trade Association showed. The country imported 61.1 **million** tonnes of **coal** in the January-to-June period.

Indonesia, the world's largest **coal** exporter, shipped out 32.9 **million** tonnes of **coal** in June, according to data from Oreteam, a research group based in India. While the country has adopted a new policy that requires **coal** exporters to have a national license, Morgan Stanley believes the move will not have a significant impact on export volumes out of the country.

The policy is to ensure that companies pay royalties on every tonne of **coal** produced. However, Indonesia's national **coal** association has voiced its concerns about the upfront payment of royalties, saying the policy will "drive firms into the ground" in addition to limiting **coal** exports.

Indonesia is already mulling the cancellation of the contracts of 17 **coal** miners that owe royalties to the government.

Coal exports from Colombia have been underperforming due to a series of "one-off" incidents, UBS said. Alabama-based Drummond Co. Inc., Colombia's second-largest producer, was forced to stop **coal** exports from its Colombian **operations** due to a new regulation. In June, Colombia's **coal** exports dropped 45.6% to 6.8 **million** tonnes from 12.5 **million** tonnes in May, according to Colombia's statistics agency DANE.

Colombia primarily ships **coal** to Europe. Carbones del Cerrejón, Colombia's largest **coal** producer, is looking to boost its **coal** shipments abroad despite tightened regulations on carbon emissions in Europe, a **company** official previously told SNL **Energy**. Cerrejón's **coal** exports in 2014 are expected to surpass the volumes it shipped in 2013, totaling 33 **million** tonnes.

Russia's **coal** exports in June touched 13.1 **million** tonnes, down from 13.6 **million** tonnes in May, according to Port News. Major Russian miner Mechel OAO has received permission to access a rail branch that will give **coal** from its Elga deposit a direct link with ports in the Russian Far East, which can serve customers in the Asia-Pacific region.

Russia exported 75.1 **million** tonnes of **coal** in the first half of 2014, up 15% from the year-ago period, Port News said. The country is expected to export 106 **million** tonnes of **coal** in 2014, a target that looks highly achievable.

Canada exported 3.3 **million** tonnes of **coal** in June, down from 3.5 **million** tonnes in April, according to data from Statistics Canada, a government statistics agency. UBS said Canadian **coal** exports in the first half were 6% lower year over year. **China** was the largest buyer of Canadian bituminous **coal** at 907,094 tonnes, followed by Japan and South Korea. India and Romania complete the top five destinations for Canadian **coal**.

Canada's Fraser Surrey Docks LP received approval from Port Metro Vancouver on Aug. 21 to construct a controversial new **coal** export facility in British Columbia to serve Powder River Basin **coal** producers, with **operations** scheduled to begin in the fall of 2015.

South Africa shipped out 4.9 **million** tonnes of **coal** from its Richards Bay **coal** terminal, the country's largest, according to data from the port. The data showed that 77.6% of the **coal** went to Asia, while Europe accounted for 16.7% of the shipments. UBS said **coal** exports from South Africa were on track to be 5% lower year over year in 2014. According to BREE, the African country could ship 76 **million** tonnes of **coal** in 2014.

CO pbdy : Peabody Energy Corp | ubs : UBS AG

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