

SE Business
HD **Faltering economy hits China coal**
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It deals a further blow to struggling Australian **coal** exporters and delivers 11th-hour complications to the bilateral free trade deal, but **China's** abrupt reinstatement of import duties on **coal** - taking effect from Wednesday - is primarily geared at propping up its flagging domestic **coal** sector.

China's faltering **coal** industry threatens entire provincial economies, from state-owned behemoths to the smaller private mines and the intertwining networks of shadow bank financing in between.

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The sector has suffered from slumping prices, heavy debts and an onslaught of new domestic capacity - all while the **Chinese** economy is slowing. More than 70 per cent of **China's** coalminers are losing money, with half delaying or cutting wage payments, the **China Coal** Industry Association said in July.

Tariffs of 3 per cent on coking **coal**, 5 per cent on briquettes and 6 per cent on other coals - the maximum allowable under **China's** World Trade Organisation commitments - reintroduce duties that were scrapped in 2007, when **China's** demand for **energy** was soaring.

It came less than a month after **China** announced it would ban the **sale** and transporting of low-grade "dirty **coal**", another move with ramifications for Australian exports.

Like its steel industry, **China** is suffering the effects of overcapacity among **coal** producers who rushed to capitalise when the booming **Chinese** economy demanded **coal** and **iron ore** at any price.

Unlike with **iron ore**, **China** has no shortage of **coal** and imports only about 10 per cent of its supply, mainly in southern **China** where it works out cheaper to ship it on a barge from Australia than to transport it from the **coal**-rich hubs of Inner Mongolia, Shanxi and Shaanxi. But the sheer size of **China** means that as well as being the world's largest consumer of **coal**, it is the world's largest importer, with Australian **coal** the largest source.

But the fact that imports make up a relatively small amount of **China's** **coal** supply raises the question just how much of a difference the tariffs will make in propping up domestic producers. While lending some price support, it won't solve the fundamental issue of growth in supply outpacing demand, with huge new coalmines stepping up production in northern and far-western **China**.

But much like the pressure the **mining** lobby in Australia can create on governments, the half-a-trillion dollar **Chinese coal** industry and the estimated 5 **million** workers it employs has provided social and political impetus for the **Chinese** government to intervene.

The reintroduction of a blunt measure like tariffs is an indication of how urgent the situation is, and no amount of posturing from the Abbott government is likely to make any difference.

And irrespective of its original intention, the tariffs will supply **China's** seasoned trade negotiators with an extra bargaining chip late in the piece, with an agreement needing to be struck within weeks if one is to be unveiled in time for President Xi Jinping's visit to Australia.

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