

SE SNL Extra

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

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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.

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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

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