



HD Debate on whether new Chinese coal rules will hurt Australian exports

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While national restrictions are relatively loose, **China** is imposing tighter standards for several of its large coastal cities.

The Federal Government says Australian producers will benefit from the ban, but Macquarie and ANZ analysts warn tens of **millions** of tonnes of Australian thermal **coal** exports - used for generating power - could be hit.

The Australian **coal** industry and the Federal Government have disputed predictions that **coal** exports will be hurt by a crack down on pollution in **China**.

The **Chinese** Government plans to impose restrictions on local production and imports of dirty **coal** which have high levels of ash, sulphur and other chemicals.

The Federal Government says Australian producers will benefit from the ban, but Macquarie analysts estimate that some Australian thermal **coal** exports - used for generating power - could be hit.

China's National Development and Reform Commission has released draft restrictions on **coal** imports which have already hit the price of thermal **coal**.

China will ban the **mining** and **sale** of **coal** which has an ash content of more than 40 per cent and a sulphur level of more than 3 per cent.

The bans would take place from January next year, and there are fears the anti pollution measures in **China's** coastal cities could hurt Australian miners.

There are tighter restrictions in the northern regions of Beijing, Tianjin & Hebei, the Yangtze River Delta (which includes Shanghai in the east) and the Pearl River Delta in Guangdong in southern **China**.

These areas will be banned from burning **coal** with more than 16 per cent ash and 1 per cent sulphur content.

These are the three largest economic regions in **China**.

Regulations 'far milder than feared'

In a research note, analysts from investment bank Macquarie observed that prices for **coal** out of the port of Newcastle rose on the news because the nationwide controls were not particularly restrictive, but there is concern about the crackdown in big cities.

"The stricter local controls remain a concern, as it supplants the looser national limits for those important regions," the note said.

Investment house Citi forecast in a research note that domestic **Chinese** producers would be hit more than imports.

"The regulations are far milder for **coal** imports than the market had feared," Citi analyst Ivan Szpakowski said.

"In fact, they are likely to have a greater impact on domestic supply, supporting **Chinese** prices."

In a note before the regulations were released, Macquarie analyst Stefan Ljubisavljevic forecast that the greatest impact of a blanket ban prohibiting all **coal** imports with an ash level above 15 per cent would "undoubtedly be on the Australian **coal** industry."

"We estimate that almost all of the thermal **coal** Australia ships to **China** does not fit the cut-off," he said.

In a note published after the regulations were released, ANZ estimates that restrictions on burning high polluting **coal** in **Chinese** coastal cities could potentially affect as much as 30 **million** tonnes of Australian **coal** exports.

However, Greg Evans from the Minerals Council of Australia says he does not think Australian producers will be affected.

"The industry is confident it can meet the requirements as specified in the information from **China**," he said.

"Australia is very fortunate to have some of the highest quality **coal** in the world."

Federal Industry Minister Ian Macfarlane believes the **Chinese** restrictions could help Australian producers.

"We have some of the best **coal** in the world in terms of low ash, particularly low sulphur," he told reporters.

"In the longer term, I think the value of Australian **coal** compared to some of our competitors, will actually see

Australian **coal** reap a premium."

Hunter Valley and Galilee will be hurt: analyst

However, Tim Buckley from the Institute for **Energy** Economics and Financial Analysis says mines in the Hunter Valley in New South Wales and Queensland's Galilee Basin will be hit.

"Australian exports of thermal **coal** to **China** are definitely going to be materially affected, far more so than many of our international competitors such as Indonesia," he told the ABC in an interview.

"80 per cent of the exports from the Hunter Valley are thermal **coal** rather than coking **coal**."

Mr Buckley says **coal** from the Galilee Basin has a high ash content.

BHP Billiton's Mt Arthur mine is in the Hunter Valley and Rio Tinto also has mines in the Hunter Valley.

In a statement, BHP Billiton's head of **coal** Dean Dalla Valle says the **company** expects to be able to meet the **Chinese** regulations.

"We support efforts to improve environmental standards," he said.

"We expect to be capable of meeting the proposed NDRC regulations, which stipulate a range of quality limits for both domestic and imported **coal**, should they be finalised and implemented, and do not anticipate a material impact to our business."

Rio Tinto also says the new regulations will have "little to no impact" on the **company**.

Tim Buckley says local producers could limit the impact of the pollution restrictions.

"Individual mines can address this issue by putting in a wash plant, a **coal** handling wash plant," he explained.

"If the **coal** mine doesn't currently wash their **coal** that will be a serious impediment."

Australia was the second biggest importer of thermal **coal** into **China** behind Indonesia from January to July this year.

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