

Coal Market Update

December 2014

Spinning off risky coal assets increasing in momentum

This Coal Market Update summarises general developments in the last two months that raise the risk of investing in the global coal industry. This is not investment advice. Greenpeace International tracks coal market developments worldwide through specialists located in the 28 national and regional offices, including the United States, China, India, Australia, South Africa and Indonesia. This update is prepared in collaboration with BankTrack. All prices are in USD unless noted.

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Key points:

- Companies around the world begin to respond to increasing regulatory and financial pressure by spinning off coal assets.
- E.ON spins off risky conventional power and upstream to focus on distribution and renewables.
- Germany pledges to end development finance of new coal-fired power generation.
- Germany's cabinet agrees on package, which will push more coal plant into closing.
- Norway's KLP pension fund drops coal miners from portfolio.
- Itochu and Sumitomo to sell stakes in Australian coal mines.
- BHP spins off NSW coal assets.
- Societe Generale withdraws from involvement in Galilee coal projects.
- Anglo-American looks to sell stakes in Australian and South African mines.
- Consol Energy to spin off its coal assets.

Companies mentioned include:

E.ON SE (EOAN:GR)
BHP Billiton Plc (BLT:LN)
ITOCHU Corp (8001:JP)
Sumitomo Corp (8053:Tokyo)
Anglo American Plc (AAL:LN)
Consol Energy Inc. (CNX:US)

Global

Companies spin off risky conventional power as others feel divestment pressure

As international public finance for coal projects¹ come under increasing pressure from divestment campaigns, governments have pledged to reduce their support for the fossil fuel industry. The result? Companies around the world are looking to sell their stakes and exit from risky coal assets.

In 'an extremely brave but progressive move by E.ON'², Germany's largest utilities, the company has moved to spin off its conventional electricity generation business of coal, nuclear and natural gas power plants to focus on renewable energy and distribution businesses. Analysts noted that E.ON is putting its riskier businesses in a new unit while keeping the company's steady earners.

¹ http://www.huffingtonpost.com/justin-guay/falling-like-dominoes-sup_b_4309590.html

² <http://dealbook.nytimes.com/2014/12/01/german-utility-e-on-to-focus-on-renewable-energy/>

Germany

E.ON spin off risky conventional power and upstream to focus on distribution and renewables

On 30 November E.ON, one of the world's largest utilities and Germany's biggest by market capitalisation, announced its new corporate strategy³ to focus on renewables, distribution networks and spin off majority of its power generation, exploration and production. A Bernstein analyst notes that this marks a clear indication that the European and German policies focused on reducing carbon emissions is making conventional energy a 'risky business'⁴ and the move may be a template for other utilities.⁵ The new Vattenfall CEO Magnus Hall stated, 'what is true for EON is pretty much true for us'.⁶

Germany to end development funding of new coal plants

The German government has pledged to end development financing⁷ for new coal-fired power plants, Germany's Environment Minister announced at the UN Climate Change Summit. This follows a wider trend since last summer when the World Bank, European Investment Bank, European Bank for Reconstruction and Development and the US Export-Import Bank all implementing restrictions on coal financing, putting further pressure on the industry's ability to expand. Recently France also announced that it will eliminate export credits for energy projects in developing countries which involve coal.⁸

Germany's Cabinet agrees on package which will push to close down coal-fired power stations

The package,⁹ which includes coal plant operators to reduce emissions by at least 22 million tonnes, equivalent to shutting down eight plants, will help make up over a quarter of the 78 million tonne reduction planned by 2020.

Norway

Norway's largest pension fund to drop coal miners from portfolio

The Nkr470bn (\$US 70bn) KLP pension scheme will black list companies¹⁰ that derive more than 50 percent of their revenues from coal-based activities. KLP's decision to drop coal companies follow similar moves from other European pension funds, such as the Swedish national pension fund, AP2 and the Rockefeller Foundation.¹¹

Australia

Itochu and Sumitomo seeking to sell stake in Australian coal Projects

Itochu and Sumitomo¹² have been seeking to sell their stake in Australian coal projects, following the trend for overseas investors in scaling back mining investments following deep downturn in commodity prices.

BHP Billiton spins off NSW coal mines

The mining giant has included its coal assets in Australia, South Africa, Brazil and Colombia in its 'non-core' group to be spun off.¹³ The new company will be named South32, though some notably suggestions for the company were 'Detritus PLC' or 'Rubbish Co', referencing the fact that premium assets will remain with BHP Billiton.

³ <https://www.eon.com/en/media/news/press-releases/2014/11/30/new-corporate-strategy-eon-to-focus-on-renewables-distribution-networks-and-customer-solutions-and-to-spin-off-the-majority-of-a-new-publicly-listed-company-specializing-in-power-generation-global-energy-trading-and-exploration-and-production.html>

⁴ <http://dealbook.nytimes.com/2014/12/01/german-utility-e-on-to-focus-on-renewable-energy/>

⁵ <http://www.ft.com/intl/cms/s/0/e15f7f32-7a34-11e4-9b34-00144feabdc0.html#axzz3LYezcUDq>

⁶ <http://www.energypost.eu/vattenfalls-new-ceo-magnus-hall-true-e-pretty-much-true-us/>

⁷ <http://www.theguardian.com/environment/blog/live/2014/sep/23/un-climate-change-summit-in-new-york-live-coverage>

⁸ <http://www.reuters.com/article/2014/11/27/us-france-energy-coal-idUSKCN0JB17J20141127>

⁹ <http://www.reuters.com/article/2014/12/03/us-germany-climatechange-cabinet-idUSKCN0JH0RZ20141203>

¹⁰ <http://www.ft.com/intl/cms/s/0/ab7b785e-716e-11e4-b178-00144feabdc0.html#axzz3LYezcUDq>

¹¹ <http://www.ft.com/cms/s/0/c201f2e8-4279-11e4-847d-00144feabdc0.html?siteedition=uk>

¹² <http://www.theaustralian.com.au/business/latest/japanese-investors-seek-glencore-stake-sale/story-e6frg90f-1226997967788>

¹³ <http://www.abc.net.au/news/2014-12-09/south32-bhp-reveals-name-of-spin-off/5953492>

Societe Generale withdraws from Alpha coal mine

French bank Societe Generale has withdrawn¹⁴ from its advisory mandate in raising finance for the GVK-Hancock Alpha coal mine development in the Galilee Basin. The latest in nine global banks including Deutsche Bank, HSBC, Royal Bank of Scotland and Barclays to move away from financing the Galilee Basin projects, which have been criticised for being 'commercially unviable and financially unbankable'.¹⁵

US

Anglo-American to sell stakes in coal assets

Anglo-American Plc plans to sell stakes¹⁶ of its South African and American thermal coal operations. The company after a review of their operations from Australia to Chile is also considering writing down¹⁷ the value of its iron ore and coking coal assets, and cut its capital expenditure forecast by \$500 million.

Consol Energy to spin-off coal assets

Consol Energy Inc. plans to spin off its Pennsylvania coal mine operations into a separate investment vehicle and possibly establish a subsidiary to run its metallurgical coal mine in Virginia while it focus on gas and drilling.¹⁸

¹⁴ <http://www.theaustralian.com.au/business/latest/societe-generale-exits-galilee-coal-project/story-e6frg90f-1227148417588>

¹⁵ <http://www.ieefa.org/gvks-10bn-alpha-coal-project-financially-unviable-report/>

¹⁶ <http://www.businessweek.com/news/2014-12-09/anglo-seeks-to-sell-stakes-or-exit-domestic-thermal-coal-assets>

¹⁷ <http://www.businessweek.com/news/2014-12-09/anglo-considers-writing-down-value-of-flagship-minas-rio-mine>

¹⁸ <http://triblive.com/business/headlines/7349286-74/consol-coal-gas#axzz3LcyX4KSO>