No signs of a coal rebound in 2013

Coal Market Update: March 2013

This Coal Market Update summarizes general developments from December 2012 to February 2013 that raise the risks 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.

Key points:

- Thermal coal spot prices have remained subdued with an uncertain outlook for 2013.
- A new Greenpeace International report reveals that 14 planned coal, oil and gas extraction projects will increase CO_2 emissions by six gigatonnes a year by 2020, keeping the world on a path towards 5°C to 6°C of warming.
- China included a cap on coal consumption in its 12th Five-Year Energy Plan released at the end of January. Further signals of a coming carbon dioxide tax also emerged.
- Chinese thermal coal imports are expected to fall 15% in 2013, according to a poll of analysts.
- The Indian Cabinet's 'in-principle' approval of price pooling between domestic and international coal has created winners and losers, drawing harsh criticism from some state governments and industry players.
- Water scarcity has led to coal-fired power plants being shut down or run well below capacity in Maharashtra, India.
- Greenpeace Australia Pacific is challenging the approval of the Abbot Point T3 coal terminal in Australia, alleging false information was provided. Separately, approval of the Alpha coal mine is being challenged by the Coast and Country Association of Queensland.
- Queensland Treasury Corporation is estimating coal production won't start at Alpha coal mine until 2019, three years later than GVK.
- New regulations for coal imported to Indian mega plants could impact Adani, with Carmichael coal not making the grade based on current plans.
- Greenpeace Australia Pacific has uncovered Adani's poor track record in India, including a bribery scandal, concealing and falsifying facts in application processes and activity without environmental clearances.
- A new report from the Sightline Institute on Ambre Energy, a key player in two of the three proposed Northwest US coal export projects, has detailed the mounting financial, regulatory, and political challenges facing the company.
- The Chinese market for US coal exports may dry up before major new shipments ever reach its ports, according to a new Greenpeace USA report.
- More than 124,000 public comments have been submitted on the Cherry Point coal export proposal, many expressing strong concern or opposition to the project. A former Montana Governor has called the Cherry Point coal export proposal "dead" and cast doubt on other Pacific Northwest coal projects.
- Protests prevented the CEO of British mining company GCM Resources visiting the site of its proposed export coal mine in Bangladesh. The company's largest shareholder is considering selling.

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International

Companies mentioned include:

Drummond Company (unlisted)

Coal India Limited (CIL) (BSE: 533278, NSE: COALINDIA)

GVK Group (GVK Power & Infrastructure Ltd; BSE: 532708, NSE: GVKPIL)

Adani Enterprises Ltd (BSE: 512599, NSE: ADANIENT)

Hancock Coal (unlisted)

Ambre Energy (unlisted, planning IPO)

Arch Coal Inc (ACI:US)

Peabody Energy Corp (NYSE: BTU)

SSA Marine (unlisted)

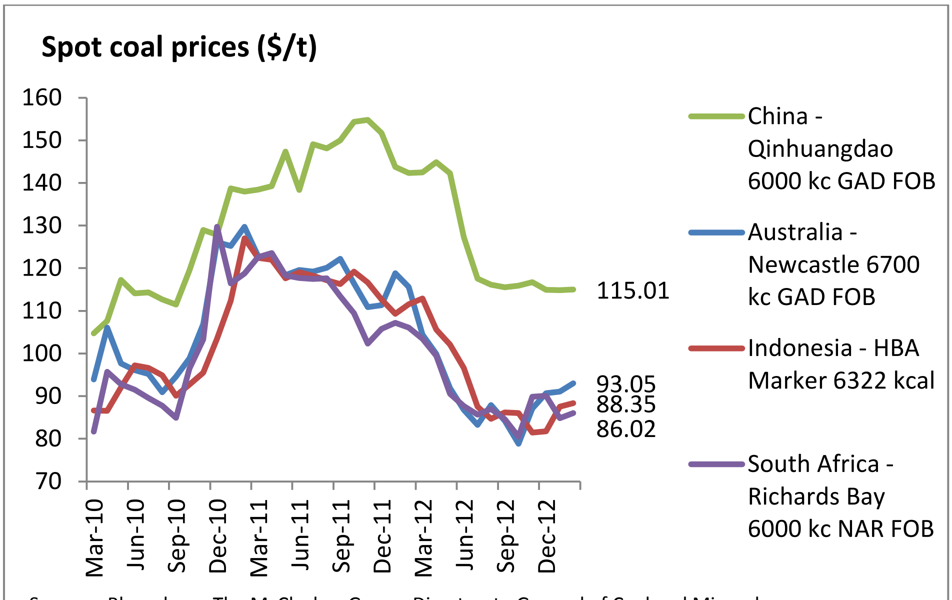
Cloud Peak Energy Inc. (NYSE: CLD)

GCM Resources (AIM: GCM)

Global

Coal prices subdued, outlook - uncertainty

Coal prices continue to hover around levels reached in the second half of 2012. The year ahead is marked with uncertainty amidst poor outlooks for global growth and some domestic and international supply increases. A Reuters market analyst noted it "seems for now the coal market doesn't believe the rising demand from China and India is sustainable". Deutsche Bank has warned China's thermal coal use could peak within a few years and it could become a net exporter by 2017.



Sources: Bloomberg, The McCloskey Group, Directorate General of Coal and Minerals

Mining companies are shedding jobs and cancelling projects amid leadership changes at BHP Billiton and Rio Tinto, with Rio losing US$3 billion on Mozambique coal assets. The Australian resources boom is slowing, with Richard Leupen, CEO of engineering contractor UGL Ltd, saying "The peak is unquestionably behind us".

Colombia's supply trouble following strikes and environmental issues (leading to an export ban on Drummond) failed to have a major impact on European or global prices, highlighting oversupply in the market. Colombia supplies around 9% of global seaborne thermal coal.

A temporary fuel shift from gas to coal has occurred in the EU following relative price changes, increasing coal consumption. This is driven by existing coal plants rather than new builds. Renewable energy increases have more than made up for the drop in nuclear generation following phase-out decisions. EU air pollution regulations will see a wave of coal plant retirements before 2016 and are expected to make the increase in coal use short-lived, particularly if coupled to improvements to the emissions trading scheme.

Point of No Return: Major fossils fuel projects pushing the world past 2°C

A new report from Greenpeace International reveals the alarming threat posed by planned coal, oil and gas projects. Analysis by consultancy Ecofys for the report shows burning the coal, oil and gas from 14 major extraction projects would push emissions over what climate scientists have identified as the "carbon budget", the amount of additional CO_2 that must not be exceeded if we are to avoid the worst impacts of climate change and keep the rise in global temperatures to below 2°C. The crucial period is the time until 2020.

In 2020, the emissions from the 14 projects showcased in this report – if they all were to go ahead – would raise global CO_2 emissions from fossil fuels by 20% and keep the world on a path towards 5°C to 6°C of warming. Therefore, the addition of CO_2 of this magnitude in the next few years would push the climate beyond the point of no return, locking the world into a scenario leading to catastrophic climate change.

The projects highlighted include the coal mining expansions in China's Western provinces, Australia, Indonesia and the US.

China

12th Five-Year Energy Plan includes cap on coal consumption

On Jan 23rd, the China's State Council publicly unveiled its overall 12th Five-Year Energy Plan, which had been approved by policy makers on Oct 25, 2012.

The new 12 FY Energy Plan significantly introduces 2 new indicators both never before mentioned in previous five-year plans. The first is a **cap on primary energy consumption at 4 billion metric tonnes of standard coal by 2015**, implying a compound annual growth rate (CAGR) of 4.3% over the 12th five-year period, compared to 6.6% CAGR over the 11th five-year period. The second was a **total electricity consumption cap** of 6.15 trillion kilowatt-hours in 2015.

The Plan also reiterated 2015 carbon and energy intensity reduction targets (16% and 17% drops respectively). An analysis of the numbers indicates that the government's new energy and electricity consumption caps are in line with previously announced carbon and energy intensity reduction targets. However, it should also be noted that new energy and electricity caps are indicative (预期性), whereas the carbon and energy intensity reduction targets are binding (约束性).

In the context of coal power, the production capacity of which is targeted to increase to 4.1 billion tonnes in 2015 from 3.2 billion in 2010, the Plan also introduced 2 significant and unprecedented environmental policies.

First, **PM2.5** made its debut in the Plan, marking increased environmental and health concerns about air pollution linked to coal consumption. This followed strong public statements by Vice Premier Li Keqiang regarding the need to address air pollution a week earlier. According to the Plan, the emission intensity of small particles generated from energy use should be cut by at least 30% (Section III, Point V. In Chinese: "能源开发利用产生的细颗粒物（PM2.5）排放强度下降 30%以上。"). Greenpeace East Asia believes that this requires emission reduction measures from coal-fired power plants over and above previously mandated SOx and NOx emission control requirements.

Second, **water resource** constraints related to coal power were mentioned for the first time in a five-year plan. In the introductory portion of the Plan, high levels of water overuse and pollution are specifically mentioned as major challenges (Section II. In Chinese: 大量水资源被消耗或污染，煤矸石堆积大量占用和污染土地，酸雨影响面积达 120 万平方公里，主要污染物和温室气体排放总量居世界前列。国内生态环境难以继续承载粗放式发展，国际上应对气候变化的压力日益增大，迫切需要绿色转型发展。).

Following this, the first sentence of the coal portion compels officials to take into account water resource and ecological capacity when considering the development of large-scale coal bases.

(Chapter III, Section II, Point I. In Chinese: 稳步推进大型煤电基地建设，统筹水资源和生态环境承载能力，按照集约化开发模式，采用超超临界、循环流化床、高效节水等先进适用技术，在中西部煤炭资源富集地区，鼓励煤电一体化开发，建设若干大型坑口电站，优先发展煤矸石、煤泥、洗中煤等低热值煤炭资源综合利用发电),

This acknowledgement of water resource constraints comes on the heels of 2 recently announced water policy measures. The first was an unprecedented binding cap on water consumption of 700 billion m3 by 2030 by the State Council on Jan 2nd 2013. The second was a joint announcement on Jan 7th 2013 by the National Development & Reform Commission, the Ministry of Finance, and the Ministry of Water Resources, regarding water price reforms aimed at encouraging the efficient use of water and to discourage water wastage.

On both air pollution and water resources, Greenpeace East Asia is working together with other partners, such as the Chinese Academy of Sciences and Peking University, to provide research into these environmental issues.

It is important to note that neither of these concepts, water constraints and PM 2.5, appeared in draft versions of the 12 FY Energy Plan. In the 12 FY sub-sector plan for coal, water was mentioned, but not PM 2.5. This indicates significant new thinking by policy makers regarding the environmental costs of coal power base development, and signals greater regulatory constraints on both planned and existing coal-fired power plants in China.

Compared to the 11 FY Energy Plan, which was released 16 months into the 11th five-year period (2006 - 2010), the public release of 12 FY Energy Plan took significantly longer, coming out 24 months into the 12th five-year period (2011 - 2015), suggesting that the new plan required greater and deeper rounds of consultations among various stakeholders. Note that this overarching plan is designed to encompass previously released sub-sector industry energy plans for Solar Power (Feb 2012), Coal Power (Mar 2012), Wind Power (Sept 2012) and Emission Reduction & Energy Savings (Aug 2012).

Natural gas, wind and solar companies are expected to be the prime beneficiaries of the new Energy Plan.

China's thermal coal imports expected to fall in 2013

Chinese thermal coal imports are expected to fall 15% in 2013, the first drop since 2005, according to a Reuters poll of 12 analysts.

While monthly thermal coal imports reach a record high in December of 27.5 Mt before falling in January to 23.4 Mt, inventories were relatively high, and with new mine and rail capacity, conditions are improving for domestic over international supply. The median price estimate for spot thermal coal at Qinhuangdao (5,500 kcal/kg NAR) for 2013 was $110/t.

Further details of carbon tax plans emerge

A tax on carbon dioxide emissions should be part of China's response to climate change, according to a senior government official. Jia Chen, head of the Ministry of Finance's tax policy division wrote on the Ministry website that the tax would be collected by local authorities, though details of when the measure would come in and how it would interact with the planned emissions trading scheme pilots is unclear.

India

State governments, industry split over Cabinet decision on price pooling for imported coal

The Indian Cabinet has given an 'in-principle' approval of a proposal to subsidise the cost of imported thermal coal by pooling prices with much cheaper domestic coal produced by Coal India Ltd. It has asked the Ministries of Coal and Power to work out a detailed proposal. The move is expected to lead to a rise in electricity tariffs across the country. Several state governments dependent on domestic coal supplies have voiced their opposition to being asked to subsidise coal imports. Industry too seems split, with criticism that the move is neither feasible nor sustainable. Coal India's independent directors are also opposed to the move, reports Business Standard.

No water for more coal power, says Maharashtra Chief Minister

Maharashtra's Chief Minister, Prithviraj Chauhan, said in January that the "state is unable to start new power plants because of water scarcity". The comment came as a severe water shortage saw the 1130MW Parli power station shut down, and other plants running at significantly reduced capacity.

Coal India Limited (CIL) likely to miss production target again; allotment of new mining blocks delayed

Despite an increase in sales volume, CIL is likely to miss its production target again for FY2013 by at least 12 million tonnes, according to CIL's chairman. Meanwhile, the first allotment of new mining blocks to state-owned enterprises in the wake of 'coalgate' is likely to be further delayed.

Australia

Approvals for Abbot Point T3 coal terminal and Alpha coal mine challenged

Lawyers for Greenpeace Australia Pacific (Greenpeace) have written to the Australian Environment Minister and Hancock Coal alleging that false information was provided by Hancock to secure approval for its T3 coal terminal at Abbot Point. Providing false or misleading information to secure an approval is an offense under Australia's national environmental law. In a letter sent to Environment Minister, Tony Burke and Hancock Coal on 20 February, Greenpeace laid out the substance of their allegation and asked the Minister to suspend or revoke the approval given to Hancock in October 2012.

In July last year, Hancock Coal exhibited an environmental assessment for the coal terminal, but Greenpeace's investigation has shown that this document omitted crucial information about the importance of the Caley Valley Wetlands, which will be partially developed for the project. Greenpeace has ascertained that Hancock was in possession of the information prior to providing the assessment documents, and has given the Minister and the company 14 days to respond to their demands. Failure to remedy the situation could result in court action being taken by Greenpeace.

Meanwhile, the Coast and Country Association of Queensland has challenged the state government's approval of GVK and Hancock's Alpha mine, arguing it will damage the environment and contribute to climate change.

Queensland Treasury estimates low output for GVK's Alpha mine

A "Right to Information" request to the Queensland Government resulted in documents being obtained from the Queensland Treasury Corporation that estimate the first year of production for the Alpha coal mine will be 2019, producing only 1.8 million tonnes in that year, ramping up to 15 million tonnes by 2018-2022. This is in contrast with GVK's statement to investors - that it will be able to have product reaching customers in the second half of 2016.

New regulations for coal imported to Indian mega plants could impact Adani

The Indian Ministry of Environment and Forests has released a new minimum standard for imported coal to be used in the proposed new fleet of "Ultra Mega Power Plants" (UMPPs).

The memorandum defining the standard specifies that environmental approval for imported coal destined for UMPPs must meet certain quality standards (5000 Kcal/Kg minimum gross calorific value, 12% max ash content, 0.8% max sulphur content).

This new standard could affect Adani's plans in Australia. Adani plans to export their coal from the Carmichael mine in Queensland's Galilee Basin, by putting it on rail to Abbot Point and building their own terminal - known as T0. The Environmental Impact Statement (EIS) for T0 was released on 19 February for public comment.

Adani are targeting 25% ash content for the Carmichael mine, according to their own EIS - more than double India's new standard. Adani already have a UMPP inside their Mundra port facility, owned by Tata Power, and are likely to look for more customers proposing UMPPs for the coal they hope to export from Australia.

In an emailed quote to Mint an Adani representative said: "Specifications as mentioned by the ministry of environment will only be available from Indonesia and Russia. It will exclude Australia and South Africa, which will be major exporting countries in the future and from where huge imports are projected to India."

Adani owns the port and special economic zone of Mundra while Tata Power owns the UMPP currently operating there. The first logical customer for Adani's Carmichael coal would have been the additional units planned for the Mundra UMPP. This option may now be closed off to them as will other major power station proposals across India - unless the ash content can be reduced economically for this coal.

Further treatment of the coal exported from the proposed Carmichael mine, back to India (via T0 at Abbot Point) would add more costs to the project and possibly additional water resource needs.

The new standard raises real questions about the economics of Adani exporting Carmichael coal to India for use in the biggest, government-supported, power station proposals.

In addition, the import duty on steam coal was raised from 1% to over 4% in India's Union Budget 2013-14, drawing criticism from Gautam Adani.

Adani's poor track record raises questions

Greenpeace Australia Pacific has uncovered Adani's poor track record in India, including a bribery scandal, illegal ore exports, illegal construction on private land, concealing and falsifying facts in application processes, and activity without environmental clearances. These practices resulted in the flooding of villages, massive losses in tax revenue, and the destruction of critical tiger habitat and mangroves.

United States

New report digs into Ambre Energy's shaky finances

A new report from the Sightline Institute on Ambre Energy, a key player in two of the three proposed Northwest coal export projects, has detailed the mounting financial, regulatory, and political challenges facing the Australian coal start-up. For the communities and investors weighing Ambre's promises, the results are not pretty.

Ambre has accumulated $124 million in losses, while collecting only $6.6 million in revenues over the last 7 years. An earlier coal project in Australia collapsed in the face of opposition costing Ambre $10.9 million in the process. In the Pacific Northwest it has faced legal challenges and public resistance.

These setbacks are not limited to small companies like Ambre. The big, well-established US coal mining companies are also shedding value. In just the fourth quarter of 2012, Arch Coal posted a $295 million loss, while Peabody lost a staggering $1 billion.

The Myth of China's Endless Coal Demand: A missing market for US exports

The Chinese market for US coal exports may dry up before major new US coal shipments ever reach its ports, according to a new Greenpeace USA report released on 27 February. The report identifies several factors that cast doubt on the future of Chinese demand for US coal, including new national and local policies in China aimed at reducing air pollution and capping coal use, slowing economic growth, surging renewable energy growth, and increased public concern about air pollution.

The report also details earlier coal export proposals that failed in part because of unstable Asian demand, and argues that the current push to export US coal by companies like Arch Coal, Cloud Peak Energy, and Australian start-up Ambre Energy are motivated by a desperate industry, not sound economics.

124,000 public comments on Cherry Point coal terminal

Earlier this year, the public comment period closed on the scope of the Environmental Impacts Statement for the Cherry Point coal export terminal proposed by Pacific International Terminals, a subsidiary of SSA Marine. According to the WA state Department of Ecology, more than 124,000 comments were submitted, many expressing strong concern or opposition to the project.

Greenpeace USA's new anti-coal exports campaign video has been viewed over 230,000 times on YouTube.

Former Montana Governor calls coal export proposal "dead"

As Governor of Montana, Brian Schweitzer was a strong supporter of coal mining and infrastructure projects. However, in a recent interview with SNL energy, he took a critical look at coal export plans in the Pacific NW. Key excerpts below:

"Ambre Energy Ltd. has an active interest … But plans? You call those plans? I don't see the plan that's getting built. A plan is when you put it on a piece of paper and pay somebody to start pouring concrete. I've been out there looking at these things. I think Cherry Point is dead."

"The Millennium project in Cowlitz County there that Ambre has proposed, that is far out into the distance. Ambre has also got a plan that they hope to get built along the Columbia River on the Oregon side. But I think that Oregon has poked a big hole in that balloon. So the only export terminal that we really have is in Vancouver, and now they've got their locals up in arms when Westshore has proposed to increase from about 27 [million] to about 30 million tons."

Bangladesh

Protests prevent British mining company GCM visiting mine site in Bangladesh

Massive protests prevented the CEO of British mining company GCM Resources visiting the site of its proposed open-pit coal mine in Bangladesh in late January.

The British mining company has faced sustained opposition to its planned mine. Three people were killed and around 200 injured when paramilitary officers opened fire on protestors in 2006. The mine in the northwest of Bangladesh is projected to extract 572 million tons of coal over at least 36 years. Eighty per cent of the coal would be exported. As well as displacing up to 220,000 people, it threatens to destroy a major food-producing agricultural region, and pollute the world's largest remaining mangrove forest, the Sundarban Reserve Forest, a UNESCO-protected World Heritage site.

The company's largest shareholder, Polo Resources, has said that it is considering selling its 29.8% stake in the company.

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