

### Coal market continues to underperform

*This Coal Market Update summarizes general developments in March 2013 and April 2013 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:

- Coal markets remain tepid with weak Chinese demand and low prices causing some high cost producers to cut production or seek to offload assets.
- New study by LSE's Grantham Institute and Carbontracker finds that up to £674 billion a year in wasted capital goes to develop potentially stranded assets.
- Chinese economy continues to slow down, as official Q1 2013 electricity consumption growth figures show 2.5% drop on Q1 2012.
- The "Big Five" Chinese state-owned power enterprises (Huaneng, Datang, CPIC, Huadian and Guodian) are highly exposed to disruption in their 500GW of plants from water scarcity, argues a new Bloomberg New Energy Finance study.
- China's State Grid issues new guideline expanding the scope of its support to wind, gas, biomass and geothermal generators, which could boost the development of China's renewable industries.
- Business Standard recommends that investors avoid exposure to the conventional power sector given severe problems with fossil fuels supply. Coal India missed its annual production target again.
- Approvals for Abbot Point T3 coal terminal and Alpha coal mine are under investigation by Australian Federal Government.
- Court rejects Rio Tinto subsidiary's Warkworth mine expansion plan.
- Two more U.S. coal export terminals shelved: St. Helens and Coos Bay.
- Governors Kitzhaber and Inslee call for examination of climate impacts of new coal export proposal.
- Ambre Energy faces a five-month delay on Dept of State Lands permit in Oregon.
- Japanese Agency for Natural Resources and Energy data shows that power sector coal consumption has remained flat in the two years since the Fukushima disaster.

#### Companies mentioned include:

Rio Tinto Ltd (ASX: RIO)  
China Huaneng Corporation (unlisted)  
China Datang Corporation (unlisted)  
China Power Investment Corporation (unlisted)  
China Huadian Corporation (unlisted)  
China Guodian Corporation (unlisted)  
State Grid Corporation of China (unlisted)  
Coal India Limited (CIL) (BSE: 533278, NSE: COALINDIA)  
NTPC Ltd. (NSE: NTPC)  
Adani Enterprises Ltd (BSE: 512599, NSE: ADANIENT)  
Tata Power Company Limited (NSE: TATAPOWER)  
GVK Group (GVK Power & Infrastructure Ltd; BSE: 532708, NSE: GVKPIL)  
Hancock Coal (unlisted)  
Ambre Energy (unlisted, planning IPO)  
Burlington Northern Santa Fe Railway (unlisted)

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## Global

### Coal outlook continues to be uncertain

The international coal market remains tepid. Weak global demand continues to place downward pressure on prices reducing the attractiveness of coal investments. Abundant supply and large stockpiles have caused Chinese domestic prices to plummet to three-year lows with the Qinhuangdao 5500 kcal/kg FOB price hovering around RMB 610 per ton, down from almost RMB 900 per ton in late 2011. Further, [Goldman Sachs](#) says 2013 will be a "watershed year for the seaborne market" as it expects Chinese year-on-year import volumes to contract for the first time since the global financial crisis in 2007-08. Some mining majors are already moving to reduce their exposure. For example, Australian giant Rio Tinto is starting the process of [offloading parts of its Queensland and NSW thermal coal operations, even at a significant loss](#).

On the long-term outlook, [new research](#) by the London School of Economics' (LSE) Grantham Institute and CarbonTracker has calculated that in a carbon-constrained world (i.e. where internationally agreed targets are achieved to limit global warming to 2°C), only 20-40% of the world's current indicated fossil reserves can be burnt. The majority of current share price valuations for fossil fuel companies, most of which fail to account for this 'unburnable carbon', are consequently far too high. The study concluded that there is up to £674 billion a year in wasted capital going to develop potentially stranded assets.

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## China

### New Q1 2013 electricity consumption figures indicate slowing Chinese economy

According to official data from China's [National Energy Administration](#), Chinese electricity consumption grew by 4.3% in Q1 2013, a 2.5% slow down compared to the same period last year. The electricity consumption growth rate for March was just under 2%, the second lowest in the past 46 months.

### China's "Big Five" utilities exposed to water disruption, says BNEF

All of China's "Big Five" state-owned power enterprises (Huaneng, Datang, CPIC, Huadian and Guodian) are highly exposed to disruption in their 500GW of plants from water scarcity. According to a [new study by Bloomberg New Energy Finance](#), Huaneng and Datang are currently the most vulnerable, with both companies having 84% of their generation capacity committed to thermal power assets located in moderately to severely water-scarce regions. Investment to reduce the risk of disruption could total \$20bn and remove 10GW of capacity from the system.

### State Grid expands support to small-scale renewable generation

China's State Grid has strengthened its landmark commitment in October 2012 to provide grid connection concessions for distributed solar PV producers. The agency issued a new guideline [expanding the scope of its support to wind, gas, biomass and geothermal generators](#). Grid connectivity has been a long-standing barrier for the development of renewable industries in China, and it is expected that this will provide a boost to the Chinese wind sector in particular.

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## India

### Avoid exposure to power stocks, reports Business Standard

Citing severe problems in the supply of fossil fuels, primarily coal, Business Standard has recommended that investors [avoid exposure to the conventional power sector](#). This warning comes after the government abandoned an attempt to pool the prices of domestic and imported coal, and Coal India missed its production target yet again. The Hindu [reports](#) that at least 24GW of power plants currently have no guarantee of coal supplies, and plant load factors at many others are low due to the shortage in coal supplies.

### Coal India Ltd. misses production target again

Claims by India's Coal Ministry and Coal India's top brass as late as September 2012 that the company was on track to achieve its production target of 464 million tonnes of coal have proven [unfounded](#). The 90% state owned monopoly was able to produce only 452 million tonnes, a growth rate of 3.8% over 2011, against a targeted 7% growth rate. This is the fourth successive year that CIL has missed its production targets, putting into serious question the company's actual extractable reserves and its ability to ramp up production to feed the slew of coal-fired power plants built in India in the last five years.

### NTPC refuses to sign coal supply agreements with Coal India, citing poor quality of coal

NTPC, India's largest thermal power generator, has [refused to sign Fuel Supply Agreements with Coal India](#) unless the CIL provides guarantees on the quality of its coal. The Economic Times reports that [NTPC claims an annual loss of \\$2 billion](#) due to the presence of stones and rocks in the coal it receives from CIL. NTPC has been asking for third party verification of coal quality, which CIL has so far refused to agree to.

### Adani, Jindal among 11 companies hit by denial of coal linkage as India's coal production falters

Struggling to meet existing coal supply commitments, India's coal ministry has [refused to provide coal to an additional 11](#)

[private sector power projects with a capacity of 18,000 MW](#). The Economic Times reports that these projects now face the threat of loan defaults, as public and private sector banks have an exposure of over \$2.8 billion in these projects.

#### **Adani's obtains temporary compensatory relief on Mundra tariffs**

In a case that will have implications for Tata Power and Reliance, the Central Electricity Regulatory Authority has given "temporary" relief to Adani Power in its dispute with the governments of two Indian states over the tariff it can charge for its power. However, the CERC concluded that there is no case for "force majeure" and a "change in law" as claimed by Adani's petition, according to [analysis](#) in the Business Standard. The dispute arises from an increase in the price of Indonesian coal, which Adani claims has affected the viability of their Mundra project. The CERC directed a committee comprised of Adani Power, the two states (Haryana and Gujarat), the distribution companies involved and an independent financial analyst and banker to decide on the "compensatory tariff" that should be levied. Tata, Reliance and other power companies dependent on Indonesian coal have also asked for tariff increases and are in the midst of legal disputes with power purchasers. The CERC case also saw a minority dissenting opinion from one of the judges, which stated that the petition is a "misuse of the process of law".

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## **Australia**

#### **Approvals for Abbot Point T3 coal terminal and Alpha coal mine under investigation**

The Australian federal government is investigating whether [GVK Hancock misled it by providing false information](#) to obtain approval for expansion of its T3 coal terminal at Abbot Point, following issues raised by Greenpeace lawyers. Under Australia's national environmental law providing false or misleading information to secure an approval is an offence. Since their inception, GVK Hancock's plans have faced widespread community resistance. Greenpeace has stepped up its campaign against these and other proposals to expand coal exports in the Great Barrier Reef region, with its activists recently [boarding a ship carrying coal from Abbot Point](#) as part of non-violent protests.

#### **Adani among companies accused of dodging Indian coal import duty**

The Indian Directorate of Revenue Intelligence (DRI) has accused several prominent companies, including Adani Power, Tata Power and Essar Power, of [using legal loopholes to avoid coal import duties](#) totaling approximately Rs 2,500 crore (~\$450 million).

#### **Court denies mine expansion plan for Rio Tinto subsidiary; questions company's job creation claim**

The New South Wales Land and Environment Court has [overturned](#) state government approval for the proposed expansion of Rio Tinto subsidiary Coal & Allied's Mount Thorley Warkworth mine in the Hunter Valley. In particular, the judge [cast doubt on Rio's claim](#) that the expansion would create 44,600 additional jobs in the region. The expansion plan was intended to lift production capacity from approximately 10 mtpa to 12 mtpa for the next 20 years. The company has appealed the decision.

#### **New Kooragang terminal in doubt as coal contract tonnages cut**

Port Waratah Coal Services (PWCS) has agreed to [cut contract tonnages](#) for Hunter Valley coal miners, throwing its plans for a new \$5 billion AU coal export terminal at Kooragang into jeopardy. Coal producers had advised PWCS that several factors caused the reduction in demand for coal handling and loading services including lower-than-forecast production growth resulting from lower thermal coal export prices and higher production costs, as well as mine project approvals taking longer and becoming more uncertain.

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## **United States**

#### **Kinder Morgan drops \$150 million St. Helens coal export terminal**

Kinder Morgan has [walked away from its plans](#) to build a large coal export terminal near Clatskanie, Oregon, citing site logistics issues. In particular, Portland General Electric declined to allow coal storage piles near its Port Westward natural-gas-fired power plants for fear that coal dust would foul operations. The terminal would have exported up to 30 million tonnes of coal a year to Asia.

#### **Coos Bay export terminal derailed**

The proposed Project Mainstay coal export terminal at Coos Bay, Oregon is likely dead. On 12 March, terminal backers Mitsui and Korean Electric Power Corporation withdrew their interest in the project. Soon after, on 29 March, [Metro Ports, the final private investor, allowed its exclusive negotiating contract with the port to expire](#). The Coos Bay proposal faced financial and political hurdles, including outspoken opposition from the Mayors of Eugene and Milwaukie (cities along the rail line), lawsuits, \$180 million in required rail infrastructure upgrades, and the risks of a soft Pacific coal market. Along with Kinder Morgan's recent decision not to proceed with its St. Helens terminal and Rail America's 2012 [abandonment](#) of its Grays Harbor terminal, three of the six coal export terminals originally proposed in Oregon and Washington have now fallen by the wayside.

#### **Washington and Oregon Governors call for examination of climate impacts of new coal export proposals**

On 25 March, [Governors Kitzhaber \(Oregon\) and Inslee \(Washington\) wrote a letter to the White House](#) urging "the CEQ in the strongest possible terms to undertake and complete a thorough examination of the greenhouse gas and other air quality

effects of continued coal leasing and export before the U.S. and its partners make irretrievable long-term investments in expanding this trade.” The Council on Environmental Quality is finalising guidance under the National Environmental Policy Act, for how federal agencies should consider greenhouse gas emissions in permitting decisions. A thorough analysis of the climate impacts of new coal terminals would create costly delays for industry, while raising serious questions about how these projects align with the Obama Administration's stated commitment to address climate change.

#### **Ambre Energy faces a five-month delay on Dept. of State Lands permit in Oregon, plans new boondoggle**

On 14 March, Ambre Energy was issued a five-month delay for a permit decision from Oregon's Department of State Lands (DSL) on its proposed Morrow Pacific coal export terminal. After [balking at the state's request for more information on potential impacts](#), Ambre realised it was playing a losing hand. As Ambre's lawyers state in a [13 March letter](#):

*“Because DSL has made its intent to deny the Coyote Island Terminal permit application known we will comply with DSL's directive and provide the requested information.”*

Ambre has until 1 September to consult with relevant parties and fully disclose the impacts of its proposed export terminal. See more in [this blog](#) from Climate and Energy Campaigner Kelly Mitchell

Facing major setbacks in Oregon, Ambre announced plans to build a coal-to-liquids (CTL) facility near Rock Springs, Wyoming. This is not a serious proposal, and investors should watch it with caution. Ambre has a losing track record in bringing CTL plants into operation. There are no commercial-scale, coal-to-motor liquids plants in the US, due to the high cost, water-use requirements, and climate impact. See [this blog](#) for deeper analysis.

#### **Sierra Club and Northwest organizations send letter of intent to sue railroads over coal dust**

On 3 April, the Sierra Club and its partners sent a 60-day notice of intent to sue to Burlington Northern Santa Fe Railway (BNSF) and several coal companies for violations of the federal Clean Water Act. The Sierra Club, Puget Soundkeeper, Columbia Riverkeeper, RE Sources for Sustainable Communities and Friends of the Columbia Gorge have found [evidence that the companies are responsible for emitting coal into waterways](#) in many locations across Washington.

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## Japan

### **Fukushima two years on: a coal renaissance?**

March 11th marked the 2nd anniversary of Japan's Fukushima disaster. Media coverage, such as [this](#) article, has noted that the disaster has prompted a renaissance in coal-fired generation. However, data from the Japanese Agency for Natural Resources and Energy shows that [power sector coal consumption has remained flat in the past two years since the disaster](#), falling roughly 6% in 2011 and growing only 0.2% in 2012. Further, according to the World Resources Institute, Japan only has plans to build four new plants totaling [3.2GW](#). 50% of this capacity is scheduled for commissioning soon, but the other half (1.6GW) is not expected to be commissioned until the next decade.

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