

Coal Market Update

September 2014

Uncertain Markets as Corruption Stories Break Around the World

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.

Key points:

- Stories of corrupt dealings by the coal [mining industry around the world](#) have culminated in judicial decisions and governmental inquiries.
- [China's anti-graft campaign](#) has moved into northern China's Shanxi Province, rich in coal and opportunities for corruption.
- China Resources Holdings' president, Wang Yujun, [has been put under investigation and suspended](#).
- India's Supreme Court finds [all coal allocation since 1993 illegal](#).
- Supreme Court decision [sends shares down](#) for Jindal, Hindalco and Sesa.
- Whitehaven Coal [further implicated in corruption investigation](#) by NSW Independent Commission Against Corruption ('ICAC').
- [Leighton Holdings shares slump](#) following leaked emails show corrupt conduct.
- Election rigging in Africa [linked to mining resource industry](#).
- Energy Minister of Indonesia named in [national anti-graft investigations](#).
- Indonesia may [revoke contracts](#) of Bumi Resources.

Companies mentioned include:

China Resources Power Holdings (836 HK)
Jindal Steel and Power Ltd (JSP:IN)
Hindalco Industries Ltd (HNDL:IN)
Sesa Sterlite Ltd (SESA:NS)
Whitehaven Coal (WHC:ASX)
Leighton Holdings (LEI:ASX)
BSG Resources (-)
PT Bumi Resources Tbk (BUMI:IDX)

Global

Uncertain markets as corruption stories break around the world

Stories of corrupt dealings by the coal mining industry around the world have culminated during the last month in landmark judicial decisions and high impact governmental inquiries, creating considerable uncertainty for investors and markets alike. The corruptive power of the coal industry as a global phenomenon will be the focus of this Newsletter, drawing together stories from India, Australia, China, Indonesia and Africa.

The financial cost of bribery and corruption ranges from loss of reputation to serious devaluation of a company's share price, and must take into account costly internal investigations, shareholder litigation and ensuing regulatory intervention. For example, early this year, the European Union in their [first report on graft](#), found that corruption costs Europe \$120 billion euros a year.

China

Anti-graft campaign expands to coal

China's anti-graft campaign has moved into northern China's Shanxi Province, rich in coal and opportunities for corruption. Over thirty former or current members of the Shanxi party's Standing Committee have been investigated on suspicion of corruption or other abuses of power, where the inquiry has noted ['it has coal; coal brought money; that brought corruption'](#).

China Resources Power Holdings embroiled in suspicious deals

Chinese state-owned conglomerate's president, Wang Yujun, [has been put under investigation and suspended](#). Chinese Resources Holdings in Zhongshe mine and two others in the Shanxi Province in northern China has been at the centre of unusually public accusations of mismanagement and corruption since last year, where [critics have claimed that a \\$1.6 billion purchase](#) of three coal mines was vastly overpriced and illegally diverted.

India

Indian Supreme Court finds all coal allocation since 1993 illegal

The apex court of India has declared all governmental allocation of coal blocks since 1993 to steel, cement and power companies that has been at the centre of the 'Coalgate' scandal, [illegal](#). The Auditor report previously noted that the underpriced sales had cost the exchequer as much as \$33 billion. In a landmark Supreme Court decision, the court criticised the lack of transparency and procedural fairness in the way in which allocation was conducted. The Court has [reserved its verdict on the fate of 218 coal blocks](#) indefinitely, causing considerable uncertainty in the market.

Supreme Court decision sends shares down

The Supreme Court decision on illegal coal allocations sent the shares of Jindal Steel and Power Ltd, Hindalco Industries and Sesa Sterlite Ltd down by [more than 10 percent](#). Additionally, companies risk losing coal permits for projects worth [a combined \\$7.1 billion](#) if the court accepts a government proposal to annul licenses for mines that haven't started production.

Australia

Founder of Whitehaven linked to further corruption charges

Investigation by the NSW Independent Corruption against Corruption ('ICAC') have [reviewed further questionable dealings between the founder of Whitehaven Coal](#) and the state government. The Election Funding Authority shows a trail of political donations through building companies to the NSW minister that blur the line [between illegal and improper](#).

Leighton Holdings shares slump following ongoing allegations of bribery and corruption

The rail operator of Whitehaven Coal's Maules Creek project saw its shares slump following revelations of leaked emails relating to ongoing allegations of bribery and corruption within the business. [A series of leaked emails detail](#) a 'disgusting history of incompetence and misbehaviour' as well as 'rewards, special bonuses, travel rorts' as a part of its overseas operations. Separately, the Australian Federal Police are finalising a brief of evidence for prosecutors regarding alleged bribery in Leighton's offshore units.

Africa

Steinmetz claims dozens aware of election rigging

Beny Steinmetz's BSG Resource Ltd has claimed hedge fund Och-Ziff Capital Management Group and leading South African government officials are among dozens who [knew of 'corrupt rigging'](#) of an African election that led to the loss of valuable mineral assets. This follows the publication of a Guinea government report alleging that BSG Resources had [obtained mining rights for iron-ore deposits through corruption](#).

Indonesia

Indonesian Energy and Mineral Resource Minister named as anti-corruption suspect

[Energy minister Jero Wacik has been named](#) by the country's anti-corruption commission as a suspect in a graft case, where investigations showed funds that may have been led to misuse of his position as a state official.

Indonesia may revoke contracts of 17 coal miners

[Indonesia may revoke 17 miners](#) contracts due to owed and unpaid royalties, including a unit of PT Bumi Resources Tbk. Bumi's shares fell [2 percent after the news](#), after losing about 36 percent so far this year against a 20 percent rise from the Jakarta stock exchange. The potential termination of Arutmin's contract is likely to hurt Bumi, which has been struggling to repay its debt and generate cashflow, and its recent debt-to-equity swap with [Chinese Investment Corporation has been called into question](#) by chinese media.