

Another chapter of Beijing air pollution saga; coal protests continue in India and Australia

This Coal Market Update summarizes 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:

- Two more severe 'airpocalypse' episodes occurred in Beijing in February, with some questioning the effectiveness of the government emergency alert system.
- China coal consumption growth is the slowest in a decade.
- China's bank regulator said to have issued alert on coal loans.
- Cash-strapped Tata Power has sold its stake in Indonesian coal miner, PT Arutmin, for \$500m.
- Essar Group has sued Greenpeace for damages over Mahan forest protest.
- Adani Enterprises net profit plunged in December quarter.
- Protests are continuing at Whitehaven Coal's controversial Maules Creek mine.
- Joint venture partner, Lend Lease, pulls out of Abbot Point terminal expansion.
- Duke Energy is facing federal and state investigations for a major coal ash spill in North Carolina.
- US coal leasing program has undervalued leases, says a report by the US Government Accountability Office.
- A Goldman Sachs subsidiary has sold its stake in the Bellingham Port development.
- The Indonesian government seeks to cap 2014 coal production at 400 million tonnes.

Companies mentioned include:

Tata Power (NSE:TPWR)
Essar Energy PLC (LSE:ESSR)
Whitehaven Coal (ASX:WHC)
Adani Enterprises Ltd (BSE:512599, NSE:ADANIENT)
Duke Energy (NYSE:DUK)
Goldman Sachs (NYSE:GS)

Global

Slow start to 2014, while companies seek diversification

After prices recovered slightly in the final couple of months of last year, coal markets have started slowly in 2014. [Platts](#) noted that most global indices have been down this year, including FOB Kalimantan and Newcastle prices, as well as delivered Chinese and international prices, citing muted Chinese and Indian demand.

Utilities and mining companies continue to divest coal assets or diversify their portfolios. [Tata Power](#) announced that it would continue its annual investment of Rs. 1500 cr (\$240m) in renewables despite the company's flagging coal business. [BHP Billiton](#) has been reported to want to sell off its thermal coal business in South Africa, while [slashing 230 more jobs](#) at its jointly owned Saraji coal-mine in Australia.

Institutional investors are also waking up to the need to factor in climate change issues and the risk of stranded assets. [Storebrand](#), a Norwegian pension fund and insurance company, has excluded ten utilities which use coal for the highest share of their power generation from its investment portfolio. Storebrand has excluded a total of 23 companies from the energy and utilities sector based on their coal interests, and is now reviewing companies in the materials sector.

China

Beijing air pollution emergency response alert questioned, as more comprehensive air pollution reduction measures introduced

Beijing experienced two more 'airpocalypse' episodes during February. Air Quality Index (AQI) levels in the capital soared above 300 during 14-16 February and again during 24-26 February, over 10 times the level considered safe by the [World Health Organisation](#). Authorities issued an "orange" alert (the second highest of a four-tiered emergency warning system). However, the unwillingness to issue the highest level "red" alert - an alert which would have effectively pulled half the cars off Beijing roads - in light of the high AQI levels drew [criticism](#) from some quarters.

Meanwhile, the Ministry of Environment continues to work to address China's air pollution problems. In January, it imposed [air pollution targets on all of China's 31 provinces](#), greatly extending the coverage area from an initial set of 10 provinces and municipalities. The announcement takes its lead from the State Council's September 2013 Air Pollution Plan, which requires every Chinese province to deliver measurable declines in PM 2.5 or PM 10 by 2017. Of particular note is a dramatic turnaround in the western Chinese province of [Shaanxi](#), which announced an ambitious plan to cut coal consumption to 138 million tonnes by 2017. The province burned 162 million tonnes in 2011, having experienced rapid growth in coal consumption of 13% per year since 2006. The province said it would focus on developing wind, solar, geothermal and natural gas.

China coal consumption growth slowest in a decade

The [National Energy Administration](#) has estimated that increasing energy efficiency, renewables and gas-fired plants will limit the increase in Chinese coal consumption to 1.6% in 2014 compared to 2.6% in 2013 – the slowest growth in the past decade.

China's bank regulator said to issue alert on coal loans

The [China Banking Regulatory Commission](#) has reportedly directed its regional offices to increase scrutiny of credit risks in the coal-mining sector. Rainy Yuan, an analyst at Masterlink Securities Corporation in Shanghai, said that the market was "quite worried" about the coal industry, in light of concerns that a 3 billion yuan (\$496 million) trust product distributed by Industrial & Commercial Bank of China Ltd. may default after the coal miner that borrowed the funds collapsed.

India

Cash-strapped Tata Power sells stake in Indonesian coal miner

Facing mounting losses from its Mundra power project, [Tata Power](#) has sold its 30% stake in Indonesian coal miner, PT Arutmin, for Rs. 3,135 crore (\$500 million). "The current coal price scenario has presented a challenge to the entire coal mining sector. The proceeds from the sale of Arutmin will provide cash to meet the company's current challenges," said Anil Sardana, managing director of Tata Power. Arutmin's mines supply coal to the 4,000-Mw imported coal-based Mundra power project in Gujarat, and were originally acquired by Tata to help control the costs of feedstock fuel. However, in 2011, the Indonesian government mandated the benchmarking of coal export prices to international indices, toppling the financials of the project. The Indian central power regulator, CERC, which has constituted a committee to look into increasing the sale price of power, is yet to expedite the process and the asset continues to stress the company's balance sheet.

Essar sues Greenpeace for damages over Mahan forest protest

[Essar Group](#), the energy conglomerate, has sued Greenpeace India for Rs. 500 cr (\$80 million) in a defamation suit. The company filed the legal suit in the Bombay High court against Greenpeace India and Mahan Sangharsh Samiti (MSS), an organisation set up to defend the rights of those who derive their livelihood from the Mahan forests. "These are bullying tactics, plain and simple. Essar is trying to sue us for an amount that is multiple times more than our annual income, which comes from our committed individual supporters," said Samit Aich, Executive Director of Greenpeace India. "Our protest at Essar's headquarters last week was simply to draw people's attention towards Essar's plans for rampant destruction of the environment, forest, human and wildlife by coal mining, in the biodiversity rich forest of Mahan. We believe it's a matter concerning larger public interest". [Protests](#) against the forest clearance given to the Essar/Hindalco joint venture in Mahan are continuing.

Adani net profit plunges in December quarter

[Adani Enterprises Ltd.](#), the flagship company of Adani Group, has reported a decline of about 84% in consolidated net profit to Rs68.20 crore for the October-December quarter. The firm, which had reported a net profit of Rs416.11 crore in the same quarter last year, blamed non-availability of domestic coal and delay in compensatory tariff in its power business as the main reasons for the fall in net profit.

Australia

Protests continue at Maules Creek mine

[Protests](#) are continuing over Whitehaven Coal's controversial Maules Creek mine. More than 100 protesters have helped to block access roads for construction work crews. The company was given federal government approval in February 2013 to clear large tracts of the Leard State Forest to establish its open-cut coal operation near Boggabri in New South Wales. The mine has been heavily criticised for the impact it would have on biodiversity, water availability for local farmers, the rights of the Gomeri traditional owners, and the contribution to climate change.

Joint venture partner pulls out of Abbot Point expansion

Lend Lease Australia, a major property developer, has [withdrawn from a consortium](#) proposing a new coal export terminal at Abbot Point. Lend Lease held a 25% stake in the project, with transport company Aurizon holding the other 75%. Two other new terminals – which have been proposed by the GVK Group and Adani – remain under active consideration. The Australian Youth Climate Coalition, representing 90,000 young people, had specifically pressed Lend Lease to abide by its environmental policies and withdraw from the project.

United States

Duke Energy major coal ash spill in North Carolina

A major coal ash spill has occurred at a [Duke Energy coal facility](#) in North Carolina. Latest reports estimate that the Duke plant spewed enough toxic sludge into the Dan River to fill 73 Olympic-sized swimming pools. It took Duke nearly one week to stem the spill. Stories are now emerging also pointing the finger at North Carolina regulators, who have been accused of shielding Duke Energy from tighter environmental controls. Over the last year, environmental groups have tried three times to use the federal Clean Water Act to force Duke Energy to clear out similar coal ash dumps. However, they say their efforts have been stymied by the N.C. Department of Environment and Natural Resources, [which blocked the citizen lawsuits](#) by asserting its own authority to take enforcement action. Negotiated settlements resulted in modest fines without a requirement to clean up the ponds. Environmental groups say that such protections have been even more overt since the current governor of North Carolina, Pat McCrory, who worked at Duke Energy for 28 years, was inaugurated in January 2013.

Federal prosecutors have begun a [criminal investigation](#) into the spill and the relations between Duke and regulators at the environmental agency. North Carolina regulators issued [two formal notices](#) to Duke Energy last week that the company will be cited for violating environmental standards.

Coal leases undervalued, says US Government Accountability Office

A [new report by the US Government Accountability Office](#) has criticised the federal coal-leasing program run by the Bureau of Land Management as being operated without sufficient oversight and safeguards to ensure that fair prices are paid for the leases. Focusing largely on the Mountain West, where coal companies have leased land from the federal government for decades, it noted that most coal lease sales since 1990 had only one bidder, and said that the bureau did not always adequately assess the market value of the leases or document reasons for accepting bids below that value.

Senator Edward J. Markey called for a temporary suspension of new coal leases in light of the report. Mr. Markey said that based on an examination of the report, as well as coal-leasing documents that have not been made public, recent leases could potentially have yielded an additional \$200 million in revenue.

Goldman Sachs subsidiary sells out of Bellingham Port

[Goldman Sachs Infrastructure Partners](#) sold off its remaining equity investment in Carrix, the parent company of Pacific International Terminals and SSA Marine that are behind a colossal coal export terminal proposal near Bellingham, Washington. The move comes after coal companies and their proponents have tabled or dropped three out of six proposed coal export terminals in the Pacific Northwest in the last two years.

Indonesia

Indonesian government seeks to cap 2014 coal production at 400 million tonnes

The Indonesian government is aiming to [cap coal output at about 400 million metric tons](#) this year, a 5% drop from 2013 output, in order to provide some support for waning coal prices. The country will seek to enforce sanctions against companies that mine more coal than approved, according to Edi Prasodjo, Coal Business Director at the Energy and Mineral Resources Ministry. Penalties include suspensions and cuts in production allocations for the coming year.