

Coal Market Update

September 2013

Governments and international financial institutions waking up to the dangers of coal investments

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:

- The World Bank, European Investment Bank as well as the United States and several other national governments have taken measures to cut financing to coal investments.
- The Chinese government continues to unveil new plans to reduce air pollution, and four major coal-burning provinces commit to cut absolute coal consumption by 83 million tonnes on 2012 levels by 2017.
- Greenpeace has exposed a 'water-grab' occurring at a Shenhua coal-chemical project in Inner Mongolia.
- Chinese authorities have scrapped a 2000MW coal plant in Shenzhen over environmental and air pollution concerns.
- Indian buyers are seeking to delay coal imports due to a slump in the value of the rupee.
- Campaigners have condemned Bank of America and other banks involved in Coal India's upcoming share offering.
- The opening up of Australia's Galilee coal basin has been delayed until at least 2017.
- Glencore Xstrata has shelved its \$7 billion Wandoan thermal coal project, with the CEO "fearful" of greenfield projects.
- Moody's has downgraded Peabody Energy to Ba2.
- Coal leasing in the Powder River Basin has hit some further stumbling blocks as two sales fall over in Wyoming.
- Australia's securities regulator has rejected Ambre Energy's request to defer its AGM.
- The Indonesian Coal Industry Association has sought a deferral of a proposed royalty increase, which the industry claims the change could cut coal exports by 40%.
- Eskom has announced plans for a third mega power plant, despite delays and cost overruns on its first two major plants.

Companies mentioned include:

China Shenhua Energy Co. (HKG: 1088)

Shenzhen Energy Group Co. (SZ: 000027)

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

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

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

Hancock Coal (unlisted)
Glencore Xstrata (LSE: GLEN)
Peabody Energy Corp (NYSE: BTU)
Ambre Energy (unlisted)
Cloud Peak Energy Inc. (NYSE: CLD)
Eskom (unlisted)

Global

National governments, World Bank, EIB and EBRD among those waking up to the dangers of fossil investments

National governments and international financial institutions (IFIs) are finally beginning to enact policies to move away from coal. Governments and investors have long-struggled to deal with the inherent contradiction between promising to address climate change while simultaneously feeding and financing the growth of the fossil industry.

Over the last couple of months, the [World Bank](#) and the national governments of [Denmark, Finland, Iceland, Norway, Sweden and the United States](#) have vowed to end public financing for coal, except in "rare circumstances". The [European Investment Bank](#) has also introduced an Emissions Performance Standard of 550g CO₂/kWh to its set of lending criteria, which is likely to affect [new coal and lignite investments](#). The latest move comes from the European Bank for Reconstruction and Development, which announced on 6 September that it had [withdrawn from financing the 750 MW Kolubara B lignite power plant](#) project near Belgrade in Serbia.

Beyond immediate ethical issues, there is also increasing recognition among both political and financial circles that coal investments will deliver poor long-term financial returns in a carbon-constrained world. The Swedish Centre Party recently called on all of the country's [national pension funds to divest their fossil fuel holdings](#) in order to "climate proof" and mitigate the financial risks associated with investing in carbon-intensive investments. This latest call follows earlier [commitments to stop financing fossil fuel development made by Norwegian pension fund Storebrand and Dutch bank Rabobank](#). Storebrand, which has NOK 450 billion (\$74 billion) under management, committed to divest shareholdings in 13 coal companies and six oil sands companies, while Rabobank declared that it would not lend to unconventional extraction projects (typically shale gas and tar sands projects).

China

Air pollution action plans: three major coal-burning provinces to cut absolute coal consumption

China continues to unveil new initiatives to cut fine particle PM_{2.5} pollution after 18 months of fierce public debate over air pollution and its sources. A national action plan announced on 12 September includes a ban on approving new coal-fired power plants in key economic regions that currently contain 30% of the country's coal-fired power generation capacity.

The action plan also requires the country's most polluted provinces to "strive to achieve a negative coal increase" in five years. Four provinces, Beijing, Tianjin, Hebei and Shandong, have already pledged to [reduce](#)

[coal consumption by 83 million tonnes on 2012 levels by 2017](#). The four provinces consumed more coal in 2011 than all of the European Union. Shandong is the largest coal consumer among Chinese provinces and Hebei is the fourth largest. The provinces have seen coal consumption grow at 6% a year, so the absolute reduction targets require a rapid and dramatic reversal of the coal consumption trend. More coastal provinces are expected to make announcements.

Further measures to tackle air pollution cover major coal-using industries. Beijing, Tianjin, Hebei and surrounding areas, for example, are also [banned from approving new projects](#) in steel, aluminium, cement, glass-making, ship-building and other industries suffering from overcapacity. Shandong, Shanxi and Hebei province will also [shut 89.3 million tonnes of outdated steel capacity](#) by 2017 at the latest.

Greenpeace exposes 'water-grab' at Shenhua coal-chemical project in Inner Mongolia

A new Greenpeace report shows the [disastrous environmental impacts of Chinese coal giant Shenhua's coal-to-liquid fuel project in Inner Mongolia](#). This case is a prime example of the dash for scarce water resources in the heartland of China's coal industry.

The project is estimated to extract 14.4 million tonnes of water annually (50 million tonnes to date) pillaging the local ground-water resources in the already water-scarce Haolebaoji region, leaving a trail of ecological and social damage. In just 10 years, groundwater levels in the region have dropped by approximately 100 meters.

The report also found that Shenhua had illegally discharged industrial waste-water in at least three locations in surrounding areas. This report follows Greenpeace's earlier ["Thirsty Coal" report](#) in 2012, which first shed light on the growing conflict between China's scarce water resources and the government's plans to establish 14 new large-scale coal power bases in northern and western China.

Chinese authorities scrap 2000MW coal plant in Shenzhen

Chinese authorities have [scrapped](#) a huge proposed coal plant over environmental and air pollution concerns. Authorities in Baguang, eastern Shenzhen, China asked Shenzhen Energy Group to stop preparatory work for the construction a new 2000-megawatt coal-fired power plant. Furthermore, the city will not put forward any new plans to build coal power plants in the future, according to decisions made at an executive meeting of the municipal government on 1 August 2013. Shenzhen Energy Group said it would choose a suitable site outside of Shenzhen for the construction of the new power plant.

India

Indian buyers seeking to delay coal imports due to rupee slump

Indian coal buyers are seeking to delay shipments of Indonesian thermal coal [as the falling value of the rupee](#) has made them more expensive. Indonesian sellers have been offering low-grade 3600kcal/kg coal at \$37 to \$38 per tonne while Indian buyers were bidding at around \$35 per tonne, according to the CFO of PT Kaltim Prima Coal, a unit of PT Bumi Resources. Critics including Greenpeace have noted that coal has contributed significantly to India's record high current account deficit and the weakening of the rupee through [large coal imports and overseas coal-related investments](#).

Campaigners condemn banks in Coal India share offering

Both Greenpeace and the Rainforest Action Network have [called for](#) Bank of America and other U.S. and European banks to withdraw from involvement in an [upcoming share offering](#) by Coal India Limited (CIL).

Credit Suisse, Deutsche Bank, Goldman Sachs, and three Indian banks were also selected to manage the share offering. The NGOs pointed to Coal India's [social and environmental track record](#) of deforestation, human rights abuses and legal violations, calling on the banks to live up to their own ESG standards.

Australia

Opening up of Galilee coal basin delayed until at least 2017

Development of the Galilee Basin coal precinct has been delayed yet again with the most advanced project in the region, GVK Hancock Coal's Alpha project, [pushing back its starting date for coal export to 2017](#). GVK Hancock managing director Paul Mulder said that objections to the project's mining lease by the Environmental Defenders Office would prevent the start of construction until next year with first coal now not expected until the first quarter of 2017.

Glencore Xstrata shelves \$7 billion Wandoan thermal coal project

Glencore Xstrata has confirmed it has shelved its \$7 billion Wandoan thermal coal project in Queensland and flagged it will stay away from greenfield projects in future. It has been [further reported](#) that Wandoan is one of 10 greenfield projects that had been "deprioritised". Speaking at a London investor briefing, CEO Ivan Glasenberg said that the company was "fearful of greenfield projects", adding that studies had shown an average 35% cost overrun in major resources projects.

United States

Moody's downgrades Peabody to Ba2

Financial ratings firm Moody's has [downgraded](#) Peabody's credit rating due to "prolonged weak industry conditions for metallurgical and thermal coal".

Moody's expects revenue from Peabody's Powder River Basin mines in the US to decline further "as higher-priced" contracts with power utilities expire. Moody's also anticipates that "persistently weak demand from the global steel industry" will "challenge Peabody's Australian mines." Peabody operates 28 mines in the US and Australia and sold 249 million tonnes of thermal and metallurgical coal in 2012.

Declining interest in PRB coal leases as two sales fall over in Wyoming

The US Bureau of Land Management (BLM) has rejected a bid by Kiewit Mining Properties for the Hay Creek II coal tract in Wyoming - the second time in the last month that a federal coal lease auction has concluded without a sale.

The BLM said Kiewit's bid of just more than \$35 million for 167 million tonnes of minable coal did not meet the agency's undisclosed fair market value. Kiewit's lone bid of 21 cents per tonne was the lowest bid per tonne for a coal tract since 1998, according to [SNL](#).

Earlier in August, the BLM [received no bids for the Maysdorf II North tract](#), also in Wyoming, which was estimated to contain 148 million tonnes of thermal coal. Cloud Peak Energy, which operates an adjoining mine, stated that current market conditions made the deposit uneconomic.

ASIC rejects Ambre Energy's request to defer AGM

The Australian Securities & Investments Commission has rejected an application by U.S. coal export hopeful Ambre Energy to postpone holding its annual general meeting and publishing its results - the company's third such request in as many years. Ambre, which is understood to be facing financial pressure, had applied to ASIC for approval to postpone holding its AGM for the 31 December full year to 31 July, two months after it was required to do so under corporations law, according to an article in [The Australian](#).

This news is the latest in a string of bad news for the company, including a major dispute with joint-venture partner, Cloud Peak Energy. After [failing to buy the remaining 50% of the Decker mine](#) it did not own and replace [\\$70.7 million of Cloud Peak's outstanding reclamation and lease bonds](#) for the mine, a settlement is understood to have finally been reached - the financial impacts of which remain unknown.

Indonesia

Coal Industry Association seeks deferral of royalty increase

The Indonesian Coal Mining Association [has called for an increase of royalties by 6.5 to 7 percent to be deferred](#) until international coal prices increase from the current \$77 to over \$100. While the increase would only apply mainly to newer and smaller mines, the industry claims the change could cut coal exports by 40%. One rumoured alternative to the royalty increase is that the government will [impose a new tax on coal exports](#) from next year.

South Africa

Eskom announces plans for a third mega power plant

The South African Cabinet has approved a third mega coal-fired power station to be built by Eskom. Currently known as 'coal 3', it is the third in the line of 'mega' coal-fired power stations currently being built by the utility.

The announcement has been highly controversial as the company faces significant financial challenges. Critics have [questioned its ability to finance its enormous capital programme](#), as both of the first two plants, Medupi and Kusile, have suffered delays and costs have continued to escalate.

Delays have added \$1.4 billion to the cost of Medupi. Others have raised the issue of [the utility's operating costs, especially the increasing cost of coal](#). According to the company, the cost of coal burnt in Eskom's power stations rose by 24.2% in FY 2012-13 alone. Eskom's credit rating has recently been downgraded by Moody's (making investments in Eskom riskier than investments in South Africa), and the utility is already highly indebted with \$20 billion debt on its books. A third massive coal-fired power station would likely throw the company much further into debt.