

EURACOAL Market Report 3/2007

December 2007

WORLD MARKET

The following comments and figures only apply to the seaborne World Coal Market. They are partly preliminary.

World Market Coal

	1 - 9 2007	1 - 9 2006	Difference
Mio t=t			
Steam coal	437	420	+17
Coking coal	147	135	+12
Total	584	555	+29

The total seaborne coal market increased in the period 1 - 9 2007 by 29 Mio. t. For the whole year an increase of 40 to 45 Mio. t is estimated. The growth rate is about 5%.

Steam Coal (see Table 2)

The Steam Coal market is divided into a Pacific and an Atlantic market. Tonnage exchanges between the two markets are of minor importance, the quantity represents about 7 – 8 % of the seaborne traded steam coals. The major exporter into the Atlantic market is still Indonesia (from the Pacific side).

For the whole year an increase of 30 Mio. t is expected.

a) Pacific Market supply

The Pacific supply in the first nine months 2007 developed as follows:

	1 - 9 2007	1 - 9 2006	Difference
Mio t=t			
Exporting countries			
Australia	84	84	-
China ¹	36	45	-9
Indonesia	119	106	+13
Russia	9	9	-
Vietnam	24	20	+4
Total	272	264	+8

1 incl. Anthracite

In the first nine months China imported 34 Mio. t against 27 Mio. t in the same period in 2006; that means an increase of 7 Mio. t.

The exports from China in the first nine months were 36 Mio. t against 44 Mio. t. This means a reduction of 8 Mio. t. China demanded for 1-9 2007 15 Mio. t more from the World market. Because of the China-effect 23 Mio. t of coal on the World market had to be supplied by other countries.

Indonesia and Vietnam pushed their exports further. Small tonnages of Canadian steam coal were supplied to the Pacific market.

Australia is favouring the high-price coking coal exports against steam coal because of limited export capacities in Australian ports.

b) Atlantic Market supply

	1 – 9 2007	1 - 9 2006	Difference
Exporting countries	Mio t=t		
Colombia	49	42	+7
Poland	4	8	-4
Russia	44	44	-
South Africa	49	49	-
Venezuela	6	6	-
USA	7	3	+4
Others	6	4	+2
Total	165	156	+9

The supply side in the Atlantic market was rising in total. While Poland reduced its exports, Columbia and the USA increased exports. The high prices in the World market are attracting additional tonnages from US exporters.

Russia, South Africa and Venezuela kept their exports stable. India was demanding more coal from South Africa than in previous years and imported in the first nine months 5 Mio. t more than in the same period 2006.

c) Coking coal supply (see Table 3)

	1 – 9 2007	1 - 9 2006	Difference
Exporting countries	Mio t=t		
Australia	103	94	+9
China	2	3	-1
Canada	18	17	+1
Russia	4	4	-
USA	19	15	+4
Others	1	2	-1
Total	147	135	+12

In total coking coal seaborne exports increased in the months 1 - 9 2007 by 12 Mio t. The outlook for 2007 is an increase of 15 to 17 Mio. t. This is the highest growth since years.

d) Price evolution (see Table 1)

Steam coal

The strong additional demand from the Pacific market (China and India) has pushed the fob-prices to historical levels:

	US\$/t	€/t
Fob Richards Bay	84	57
Fob Bolivar	85	57

Only the strong Euro is bringing the prices down for European customers.

Coking coal / Coke

The prices for coking coal are also tending to high increases for the next contract period. The coal imports are estimated for hard coking coal to rise from 95-98 US\$/ t fob to 125-130 US\$/t fob for the year 2008.

Also World market prices for coke are rising. But the World market for coke is supplying only 6% of the needs of steel-mills worldwide.

Freight rates

Freight rates as well are showing historical top prices and are contributing to an overheated coal market.

The benchmark freight Richards Bay – ARA was at around 50 US\$/t for capesize-vessels in November. The average rate 1-11 was around 30 US\$/t.

EUROPEAN MARKET (EU-27)

General economic trends

The past two years have seen a renewed acceleration of productivity growth in the European Union. The past decline in productivity growth appears to have come to a halt, and indeed actual data even show a significant pick-up in labour productivity growth since mid-2005, alongside fast and accelerating employment growth.

In 2006, productivity growth increased to 1.5% in the EU (1.4% in the euro area) and is expected to stay favourable in 2007-8 although at somewhat lower rates.

In 2006, EU growth reached its highest level since 2000 at 3.0% of GDP (2.8% in the euro area), well above what is generally considered to be the potential growth rate of the region.

European Coal industry

Total coal consumption EU-27 is slightly decreasing.

	2007 (1-6)	2006 (1-6)
	Mio t (t = t)	
Domestic hard coal	82.4	87.7
Hard coal imports**	105.8	116.4
Lignite	210.2	213.0
Total	398.4	417.1

** including coke

Hard coal

After a unique increase in coal demand in 2006 in the **United Kingdom** the demand drastically dropped in the first half year 2007. For the entire year 2007 the output is estimated at 16.5 Mio. t. Coal is essentially used for power generation, which is a very sensitive market to prices in the UK as there is a gas capacity with significantly lower prices and power stations can switch from coal to gas. Imported coal dominates indigenous coal, steam coal is mostly imported from Russia (58%) and South Africa, coking coal from Australia. Russian coal is very interesting for the UK as it has a low sulphur content which is best adapted to UK power stations which do not have sufficient desulphurization equipments. In addition, Russian coal is transported by small boats which can enter smaller ports. Smaller ports are more and more used for imports by small Baltic boats (having some 20.000 tons capacity).

In 2008 output could increase to 18.5 Mio. t as there will be new capacities available from new mines.

In the **Czech Republic** CEZ announced recently the construction of a new coal-fired power plant and the modernization of old coal and lignite fired power plants. For the first half of 2007 production figures for coal decreased very slightly compared to the previous year. A new hard coal mine is planned to be opened in the Silesian basin, but considering the difficulties to obtain permits, construction will not start in the near future.

In **Germany**, hard coal production in the first 6 months reached 12.1 Mio. t. Sales to power stations stayed stable, sales to the iron and steel industry increased.

An agreement on the phasing out of German hard coal mining and its financing could recently be adopted in the German Parliament. The last closure is planned for 2018, a review of this plan is nevertheless foreseen by 2012.

Evonik Industries is the new name for the non-coal activities of the RAG group, including coal-fired power generator Steag, the chemical company Degussa and real estate agency RAG Immobilien. These have been separated from the RAG coal mining sector to create a new conglomerate that will go on the stock exchange. The RAG Foundation, which was created to cover future long-term coal liabilities, as well as the coal mining activities, will remain. RAG Trading and RAG Verkauf remain in the business area energy of Evonik Industries.

Belgium has no relevant news to announce except that we received the final figures for 2006 some days before the meeting.

Net hard coal imports into **France** amounted to 8.5 Mio. t for the first 6 months 2007 (compared with 10.8 mill. Mio. t for the same period in 2006) which can be explained by the mild weather but also by the new stock policy of electricity utilities.

A tax on coal consumption has been applied in France since 1st July 2007 which is fixed at 1.19 €/MWh. According to the EU-Directive (2003/96/CE), electricity generators and the steel industry are exempted from this tax.

In **Romania** hard coal production reached 1.3 Mio. t in the first half year 2007. Currently there is a discussion about mining closures: until 2012 it is foreseen to close down 8 unprofitable hard coal mines. Nevertheless hard coal production shall increase.

Despite major reduction measures, hard coal production in **Poland** could be maintained at the same level as in previous years. According to the Polish energy strategy this level shall be maintained even for the years to come. The reduction of hard coal production has strong effects on Polish exports, Weglokoks foresees to close exports in 2007 at 4 Mio. t, compared with 7 Mio. t in 2006. In 2008 exports shall stay at this year's level.

Meanwhile imports, particularly coking coal, are rising rapidly and should reach 5 Mio. t (3 Mio. t in 2006) coming from the US, Czech Republic and Columbia, primarily to serve Mittal.

There is no real news from the **Netherlands**, the 5 CCS projects (totalling 5000 MW) which were announced during the last meeting are still under discussion. These 5000 MW of new capacities would require a supplement of 10 Mio. t of coal imports. Environmental lobbies are of course against these projects, but the public is becoming aware of the fact that the world is changing and that electricity will be needed in future, so CCS is more and more being seen as a part of the solution.

Sweden has rather stable coal imports. In 2006 steam coal imports totalled 1 Mio. t and coking coal 2.1 Mio. t. There are big investments foreseen in iron ore mines, which will inevitably increase coal needs in the years to come. Therefore there is a very big interest in CCS projects and recently a first meeting was organized to bring together all industry sectors in order to discuss common CCS projects. One major CCS project is financed by Alstom.

The structure of **Bulgarian** energy carriers in 2006 was the following: nuclear had the largest share for power generation with 42%, followed by indigenous coal (40%). Imported coal had a share of 10%. Compared to the data on the half of 2006, the biggest increase in 2007 is observed in liquid fuel consumption (56%), the consumption of indigenous coal increased by 14%, imported coal decreased by 20%.

	2007 (1-6)	2006 (1-6)
	Mio t = t	
Bulgaria	1.3	1.3
Czech Republic	6.5	7.2
Germany	12.1	11.3
Poland	47.0	50.0
Romania	1.3	1.4
Spain	5.8	6.0
United Kingdom	8.4	10.5
Total	82.4	87.7

Lignite production

During the first half year 2007 European lignite production slightly decreased compared to the same period in 2006.

In **Germany**, Lignite output for the first 6 months reached 88 Mio. t (+2.5%). Over 90% of German lignite was used for power generation (+2.8%) and the output of processed products stayed stable.

Power generators seem to show increasing interest in cheap and reliable energy carriers, explaining why lignite demands are expected to increase in the years to come. It is expected that the total share of lignite for German primary energy consumption will reach 55 Mio. tce for the entire year 2007.

In the **Czech Republic** for the first half of 2007 production figures for lignite increased by 2.3 Mio. t and reached 24.3 Mio. t.

In the first half year 2007 the **Polish** lignite output sank by some 3 Mio. t compared to the previous year. In 2008 a new opencast mine will start production. The full production capacity of 33 Mio. t will be reached in 2012. Another project to realize an opencast mine is currently under discussion.

In **Bulgaria** during the first half of 2007 the largest relative share in the total amount of generated power according to the type of energy carriers in GWh was held by nuclear (40%) and indigenous coal (35%). 7342 GWh of electricity were generated from indigenous coal.

During the first half of 2007 coal sales increased by 12% compared with the same period of 2006, the sales of coal for power generation rose by 14% or 12.1 Mio. t. There is a drop in the sales of coal for the production of briquettes, for heating purposes and for households.

During the first half of 2007 10,8 Mio. t of lignite were produced, of which 1,5 Mio. t were used for briquetting purposes. It is foreseen that Mini Maritsa Iztok EAD will produce and sell 23 Mio. t of lignite in 2007, which is an increase of 1,7 Mio. t.

The construction of new capacities, as well as the refurbishment of the power plants in the Complex, will inevitably lead to an increase in coal consumption. It is estimated that production will increase to 30 Mio. t by 2009, and after that even to 35 Mio. t.

In **Hungary** there are no changes to observe. The future of domestic lignite production depends on the political and legal framework for power generation, which is currently being discussed.

In **Greece** the output for the first half year 2007 reached 31.7 Mio. t. Since last year a new opencast mine has been built in Dimitrios Ypsilantis. The construction of the opencast mine in ‚Klidi‘ is almost finished.

	2007 (1-6)	2006 (1-6)
	Mio t=t	
Bulgaria	10.8	11.5
Czech Republic	24.3	22.0
Germany	88.0	89.2
Greece	31.7	32.2
Hungary	3.9	4.5
Poland	27.6	30.8
Romania	16.3	15.7
Slovak Republic	2.3	1.1
Slovenia	2.3	2.4
Spain	3.0	3.6
Total	210.2	213.0

Carbon prices

European utilities seem to realize that they will be considerably short in emissions allowances in 2008 and prices for carbon allowances for the second trading period start to rise. They are floating between 20 – 25 Euro/t CO₂.

Prices for carbon allowances for the first phase continued to be just above zero.

Dark / Spark spreads in the UK and Germany

At the end of the summer when the weather became colder, gas prices in the UK rose sharply and power prices followed. For power generators this again means, that burning coal is cheaper than burning gas and this will remain as long as carbon permits will stay as low as at the present.

German power prices also rose responding to the colder weather. The dark spread has risen whilst the spark fell. On a carbon inclusive basis, coal has an advantage over gas.

Outlook

Imports into EU-27 will stay more or less the same as in 2006. Some more imports of coking coal are expected and a slight fall in steam coal imports could occur.

EURACOAL		World Market Price evolution (Coal, Coke, Freight, Crude Oil)										TABLE 1	
MCIS Steam Coal Marker Price (7000kcal/kg)													
		Jan	Feb	March	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
cif-NW Europe													
Steam Coal	2006	61.89	70.30	72.45	74.49	71.87	72.21	71.98	81.38	80.56	75.48	79.33	81.03
(US\$ / tce)	2007	77.83	81.69	81.18	85.86	84.00	86.68	89.08	97.88	107.68	120.52		
Steam Coal	2006	51.13	58.89	60.27	60.70	56.28	57.08	56.75	63.53	63.30	59.86	61.59	61.33
(EUR / tce)	2007	59.87	62.48	61.29	63.52	62.16	64.59	64.94	71.85	77.49			
Source: VDKI, Mc Closkey													
fob-China		Coke (12.5%)											
USD / t	2006	124	132	134	134	137	165	187	178	155	156	174	174
	2007	172	175	182	208	233	276	272	265	294	341	387	
Source: Coal Americas													
Freight Rates (USD / t)													
R Bay/Rotterdam	2006	11.20	12.70	14.25	12.80	11.77	12.88	14.69	17.66	18.01	21.08	23.20	21.00
(Capesize)	2007	22.85	22.56	23.36	28.10	31.18	23.50	25.85	30.85	38.58	48.00		
Newcastle/Rotterdam	2006	16.65	17.60	19.85	18.10	19.18	20.23	22.41	26.36	27.74	31.25	35.05	34.42
(Capesize)	2007	35.76	35.56	38.05	45.23	48.89	39.44	43.20	47.31	63.64	75.58		
Bolivar/Rotterdam	2006	10.90	12.80	13.64	12.55	11.67	12.38	14.39	18.10	18.19	17.18	17.62	19.25
(Capesize)	2007	21.06	22.90	26.76	29.19	29.94	25.88	29.29	33.44	39.20	46.30		
Source: VDKI													
Currency Rates													
EUR/USD	2006	0.83	0.84	0.83	0.82	0.78	0.79	0.79	0.78	0.79	0.8	0.78	0.76
	2007	0.77	0.76	0.75	0.74	0.74	0.75	0.73	0.73	0.72	0.70	0.70	
ZAR/USD	2006	6.09	6.12	6.24	6.08	6.32	7.0	7.1	6.95	7.45	7.64	7.24	7.0
	2007	7.18	7.18	7.35	7.1	7.02	7.15	6.98	7.22	7.10	6.76	6.56	
AUD/USD	2006	1.33	1.35	1.38	1.36	1.31	1.35	1.33	1.31	1.32	1.33	1.29	1.27
	2007	1.28	1.28	1.26	1.21	1.21	1.19	1.16	1.21	1.18	1.11	1.09	
Source: Exchange rates download center													
Crude Oil (USD/Barrel)													
Crude Oil	2006	58.48	56.62	57.87	64.44	65.11	64.60	68.89	68.81	59.34	54.97	54.25	57.95
	2007	50.73	54.45	58.47	63.39	64.36	66.77	71.89	68.71	74.18	79.36	88.11	
Source: OPEC Basket Prices													

EURACOAL	WORLD SEABORNE COAL TRADE - STEAM COAL			TABLE 2
Exporting Countries	Period in 2007 (1-9) mill t	Period in 2006 (1-9) mill t	Diff. 2006/07 mill t	
PACIFIC				
Australia	84	84	—	
China	36	45	— 9	
Indonesia	119	106	13	
Russia	9	3	—	
Vietnam	24	20	4	
SUB-TOTAL	272	264	8	
ATLANTIC				
Colombia	49	42	8	
Poland	4	8	7	
Russia exc. CIS	44	44	— 4	
South Africa	49	49	—	
Venezuela	6	6	—	
USA	7	3	4	
Others	6	4	2	
SUB-TOTAL	165	156	9	
TOTAL	437	420	17	
incl. Anthracite and PCI-Coal				
Source: VDKI * preliminary figures				

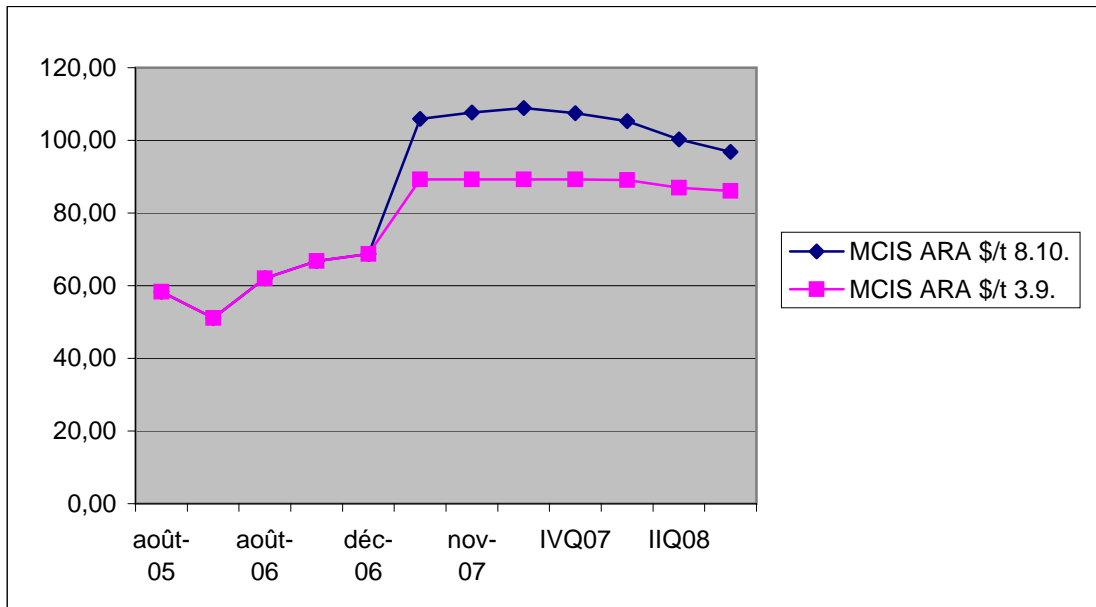
EURACOAL	WORLD SEABORNE COAL TRADE - COKING COAL (inc. PCI-Coal)			TABLE 3
	Exporting Countries	Period in 2007 (1-9) mill t	Period in 2006 (1-9) mill t	Diff. 2006/07 mill t
	Australia	103	94	9
	Canada	18	17	1
	China	2	3	- 1
	Russia excl. CIS	4	4	-
	USA	19	15	4
	Others	1	2	- 1
	TOTAL	147	135	12
	Source: VDKI provis. Figures			
	COKE EXPORTS			
	China	12	11	1
	Coke World Market	24	22	2
	* preliminary figures Source: VDKI			

EURACOAL	CRUDE STEEL PRODUCTION IN EU-27 (in mill.t)		TABLE 4
	COUNTRY	2007 (1-9)	2006 (1-9)
	Austria	5.7	5.3
	Belgium	7.8	8.5
	Czech Republic	5.3	6.4
	Finland	3.3	3.7
	France	15.0	15.1
	Germany	33.0	35.2
	Greece	1.9	1.8
	Hungary	2.1	1.6
	Italy	23.2	23.0
	Luxembourg	2.3	2.0
	Netherlands	5.7	5.2
	Poland	8.2	7.6
	Romania	4.7	4.5
	Slovakia	3.8	3.8
	Slovenia	0.5	0.5
	Spain	14.2	13.8
	Sweden	4.2	3.9
	United Kingdom	11.0	10.6
	Others	2.8	1.4
	EU-27	154.7	153.9
	Turkey	19.0	17.3
	TOTAL	173.7	171.2
	Source: IISI		

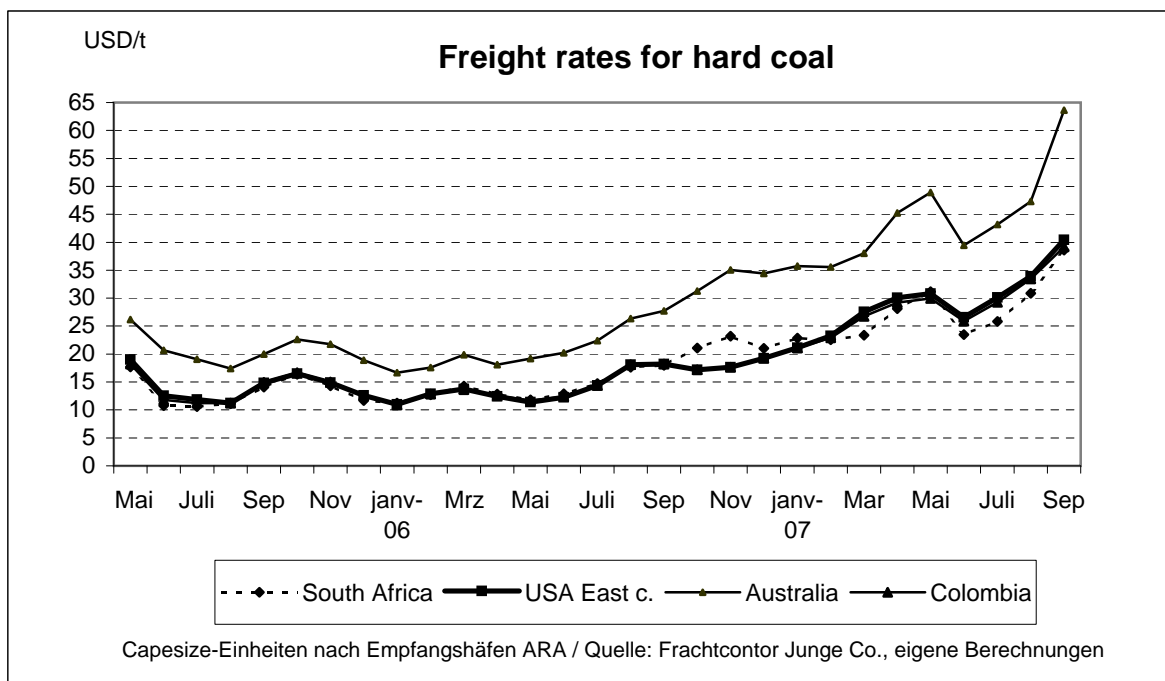
EURACOAL	MARKET FIGURES EU-27			TABLE 4A
		2007 (1-6)	2006 (1-6)	
	Crude Steel Production (Mt)	107.9	103.2	
	Hard Coal Production (Mt)	82.4	87.7	
	Hard Coal and Coke Imports (Mt)	105.8	116.4	
	Lignite Production (Mt)	210.2	213.0	
	Sources: World Steel Org., CEMBureau, EURACOAL Members,			

EURACOAL	COAL BALANCE EU-27 (mill. t)						TABLE 5
COUNTRY	2007 (1-6)			2006 (1-6)			
	H. C. Prod.	Lign. Prod.	H.C. Imports	H. C. Prod.	Lign. Prod.	H.C. Imports	
Austria	–	–	1.9	–	–	1.5	
Belgium	–	–	3.4	–	–	3.6	
Bulgaria	1.3	10.8	1.0	1.3	11.5	1.0	
Czech Republic	6.5	24.3	1.1	7.2	22.0	1.3	
Denmark	–	–	3.0	–	–	3.4	
Finland	–	–	3.0	–	–	4.1	
France	–	–	8.5	–	–	10.8	
Germany	12.1	88.0	20.0	11.3	89.2	21.1	
Greece	–	31.7	0.4	–	32.2	0.2	
Hungary	–	3.9	1.1	–	4.5	0.9	
Ireland	–	–	2.0	–	–	1.7	
Italy	–	–	13.5	–	–	13.6	
Netherlands	–	–	6.5	–	–	6.4	
Poland	47.0	27.6	3.0	50.0	30.8	1.0	
Portugal	–	–	2.0	–	–	2.3	
Romania	1.3	16.3	0.2	1.4	15.7	1.4	
Slovakia	–	2.3	2.5	–	1.1	2.5	
Slovenia	–	2.3	–	–	2.4	–	
Spain	5.8	3.0	9.6	6.0	3.6	9.2	
Sweden	–	–	1.1	–	–	1.8	
United Kingdom	8.4	–	22.0	10.5	–	24.6	
Others	–	–	–	–	–	4.0	
EU-27	82.4	210.2	105.8	87.7	213.0	116.4	

Sources: EURACOAL Members
* preliminary figures



source: VDKI



source: VDKI

