

EURACOAL Press Release

IEA medium-term coal market report 2011 shows coal was king over last decade

Brussels (25 January 2012) – Coal will remain a pillar of global energy supply over the next five years, with Chinese and Indian demand shaping global trade patterns and prices – that’s according to a new annual report from the IEA.

Mr. Didier HOUSSIN, Director of Energy Markets and Security, presented today the International Energy Agency’s latest assessment of coal market trends, alongside an outlook to 2016. He showed that the growth in coal use from 2000 to 2010 almost matched the growth of all other energy sources combined (oil, gas, renewables and nuclear). Coal’s 4.4% annual growth has underpinned electrification and economic growth in developing countries, but has put pressure on supply chains and pushed up costs. Nevertheless, with mine-mouth costs below \$30/tonne in most major coal-exporting regions, coal remains a cheap fuel. The economic crisis saw shipping costs fall dramatically and coal importers enjoyed prices well below the pre-crisis highs, although delivered prices have crept back up since 2009 after China became a net coal importer. Historically a price follower, China now sets international coal prices, which has a knock-on impact on coal flows. The Pacific or Asian market now looks more attractive than the Atlantic market – especially with today’s low freight rates which reflect a surplus of bulk shipping capacity that is set to grow over the next couple of years as more new vessels are delivered.

Economic uncertainties make it difficult to predict coal demand over the medium term, but Mr. Houssin is certain that, “growth in China will continue to dominate – its demand being more than 3x total global coal trade”. He highlighted China’s production weight, “its share of coal supply is 4x Saudi Arabia’s share of oil supply”. Despite the country’s aim to diversify its energy supply and become more energy efficient, the IEA forecasts that Chinese coal demand will soon grow to over half of the global total. Overall, global growth is expected to slow to 2.8% – another 600 000 tonnes every day – yet coal’s share in the energy mix will grow. China’s erratic coal trade and weather-related supply disruptions, such as those caused by the January 2011 floods in Australia, mean no end to the coal price volatility seen since 2004 and hence no certainty for investors in the coal sector. However, the IEA recently sent a report to G20 leaders saying that, over the medium term, coal prices reflected market fundamentals and not speculation or geopolitics. Mr. Houssin welcomed the fast-developing coal paper market which could increasingly be used to hedge risk. He noted the special situation of coking coal which is relatively scarce; China depends heavily on production from Queensland where half of world coking coal exports are mined.

On international coal trade, which accounts for around 15% of supply, **Mr. Carlos FERNANDEZ ALVAREZ**, Coal Analyst at the IEA, showed that this would increase by over 20% to almost 1 200 million tonnes by 2016. Lower growth would result under a scenario where China takes the political decision to rely on its own production from western China, even though this would be more costly because of long transport distances. He added that Indonesia and Australia would continue to be the main coal exporters, with the US acting as a high-cost swing supplier and some new tonnage from Mongolia and Mozambique. In its report, the IEA identifies sufficient new mine and port capacity to meet this growth in coal trade.

Prof. Samuele FURFARI of the European Commission welcomed the report as a timely reminder to policy makers of coal’s importance in energy supply, including for power generation in Europe. Responding to a question from **Mr. Steivan DEFILLA**, Director for Trade and Transit at the Energy Charter Secretariat, Mr. Houssin agreed that the unprecedented price differential between

coal and oil over a long period meant that conversion of coal to liquid fuels looked economically attractive at locations with abundant and cheap coal. However environmental concerns augured against new coal-to-liquid projects. Looking to the longer term, he saw an important role for CO₂ capture and storage to secure the competitive benefits of coal whilst reducing emissions.

EURACOAL Secretary General, **Mr. Brian RICKETTS** congratulated the IEA on producing such a comprehensive report on coal, welcoming it as a valuable contribution to the energy policy debate in Brussels and to coal market transparency. He observed that all eyes must now be on China and India, since these countries would determine not only the future price of coal, and hence its competitive position in the European energy mix, but also the effectiveness of any future agreements on climate protection.



Mr. Didier Houssin, Director of Energy Markets and Security at the International Energy Agency (left) presents the IEA *Medium-Term Coal Market Report 2011* to Mr. Brian Ricketts, Secretary-General of EURACOAL in Brussels on 25 January 2012.

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Notes for editors:

- The new annual IEA publication, *Medium-Term Coal Market Report 2011*, presents a comprehensive analysis of recent trends in coal demand, supply and trade, as well as an IEA outlook for coal market fundamentals for the coming five years (www.iea.org).
- The European Association for Coal and Lignite (EURACOAL) represents the interests of coal producers, coal importers and coal users in Brussels. The Association recently published *Coal industry across Europe 2011*, a detailed review of the European coal industry with sections on the world coal market and climate policy (www.euracoal.org).
- Coal meets over one quarter of world energy demand (27%), second only to crude oil (33%).
- The EU consumes around 720 million tonnes of coal each year, 10% of the world total of 7 230 million tonnes. China is the largest consumer (3 320 million tonnes) followed by the USA (960 million tonnes).

- 27% of the EU electricity demand is met by coal, compared with 41% globally.
- Indigenous coal production of 530 million tonnes brings security of supply benefits and added value to the EU economy. The vast majority of EU coal production is fully competitive. State aid totalling an estimated €1.7 billion was paid in 2010 to cover production costs at mines producing less than 25 million tonnes of coal.
- 255 000 people are directly employed in the EU coal industry.
- EU legislation ensures that some of the world's cleanest and most efficient coal-fired power plants are found in Europe. For example, the Nordjyllandsværket power plant in Denmark where half of the country's electricity comes from coal, all imported from a competitive global market.
- Investing in new more efficient coal-fired power plants reduces CO₂ emissions by one quarter or more at a much lower cost and with greater certainty than any alternative.
- Planning for a low-emission future means that new coal- and gas-fired power plants must be built with enough space for CO₂ capture to be retrofitted and a potential route to CO₂ storage identified.
- At a European Council meeting on 4 February 2011, energy ministers reaffirmed their commitment to the EU's 20-20-20 targets by 2020: 20% reduction in greenhouse gas emissions (*c.f.* a 1990 baseline); 20% renewables in the primary energy mix; and 20% energy saving (*c.f.* a business-as-usual forecast).
- In March 2011, DG Climate Action launched its Roadmap for *Moving to a Competitive Low-Carbon Economy in 2050*. This includes very ambitious CO₂ reduction targets for 2030 and 2050. To achieve an overall 80% CO₂ reduction in 2050, without international offset credits, will require the complete de-carbonisation of the electricity sector. Even by 2030, emissions from the power sector must be cut by a massive 60% or thereabouts.
- In December 2011, DG Energy launched its *Energy Roadmap 2050*. Five future scenarios are presented, demonstrating that the energy system can be decarbonised in a number of ways. The Commission's approach to energy supply will therefore be technology neutral and the choice of energy mix largely determined by Member States, providing EU targets are met. On coal, the roadmap says that, "*Coal in the EU adds to a diversified energy portfolio and contributes to security of supply. With the development of CCS and other emerging clean technologies, coal could continue to play an important role in a sustainable and secure supply in the future.*"

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