Chinese

Michael Forrest reviews the world's largest coal industry.

Although China is attributed with demanding the world's metals and driving up prices, its coal industry has risen to the challenge of powering what is predicted to become the world's largest economy.

According to Ou Xinqian, Vice Director of the Beijing-based National Development and Reform Commission, total production of coal for 2007 is predicted to have reached 2,620Mt (final figures are not yet available), an increase of 220,000t on 2006. In 2008, demand is slated to be 2,930Mt. However, other analysts forecast that production will fall short of this by 60Mt.

Many factors impact upon the sector. These result from its unique structure, with conflict between large state-owned mines and a myriad of small mines that are operated on a local authority or private basis, and whose objectives do not necessarily match those of the state. Rising demand in non-mining areas, especially in the southern provinces, and the desire by the Government to cap electricity prices, reduce exports, focus coal to the domestic industries and to keep coal prices under control, are factors. While, private industry wishes to maximise income, undertake mergers and acquisitions (a process the Government is also following in the larger state-owned companies), as well as diversify its activities to ameliorate their dependence on one commodity.

In October 2007, coal mining reached a monthly record of 221.5Mt, an increase of 16.7Mt over the previous year and the fifth month in a row that production was over 200Mt. October production was a nine per cent rise on September 2007, when output was kept low because officials were closely monitoring mine safety issues ahead of the 17th Communist Party Congress in October.

Coal mine tower
Images: The McCloskey Group, Petersfield, UK

In the year to October 2007, state-owned mines produced 1,020Mt (52.6% of total production). Smaller local state-owned mines produced 13.3% of the total while township mines accounted for 34.1%, equivalent to 660Mt.

Although mining was at new levels, demand was particularly strong prior to the domestic winter heating season, and stocks at mines were one million tonnes down from September inventories. Most stock, however, was at ports for internal shipping (18.05Mt) and with power generators, who had 31.27Mt at the end of the month. In other locations, such as steel and cement works, stocks were slightly down on the previous month at 70Mt.

Controlled exports

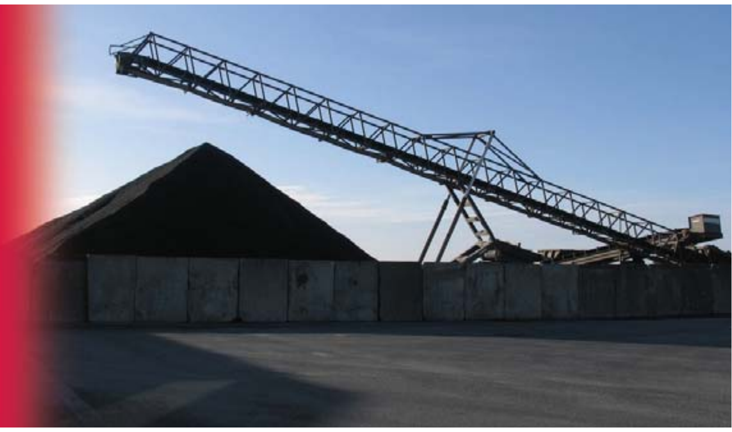
Chinese government policy is to reduce the amount of exports, especially of higher quality coals. The Ministry of Communications pegs exports at 4.19Mt/month, although for October 2007, some 5.25Mt was reported by customs for unspecified reasons. Beijing-based China Coal placed its October exports at 1.54Mt, 35% down on October 2006. The company says it is focusing on the domestic market and consequently has reduced export staff by 50% and closed offices in Australia, the USA, Europe and South Africa.

Other producers such as Shenhua Group Corporation, Beijing, and Shanxi Coal Import and Export, Datong, have increased sales, especially to Japan. Overall exports are expect to total 52Mt for the year, less than two per cent of production.

Imports for 2007 are estimated at 50Mt, some 10Mt below those of 2006. For October 2007, imports fell to 3.73Mt, the sixth month in succession when imports were below four million tonnes. Declining imports are due to the increase in price of coal and sea freight globally. These have caused non-renewal of many contracts with Indonesian suppliers, a contrast to last year when competition to sign new deals began well before year end.

The principal exporter to China is Vietnam, which in the first nine months of 2007 delivered just over 38Mt of coal, accounting for 49% of imported coal.

burn



Indonesia (25%) and Australia (10%) were the other major exporters to China. It is expected that imports will remain at these low levels through 2008 as high freight on board costs and freight charges make Australian coal uneconomic, and there is a shortage of high calorific value (CV) coal from Indonesia.

Powerful problems

One of the major problems for the Chinese coal industry is rail transport. Its capacity continues to fall behind growing demand. The most important coal mining areas are in the north-central part of the country where 40% of production is based. In the first 10 months of 2007, China's railways moved 1,016Mt of coal, an increase of 9.6% on the same period in 2006. However, October 2007's statistics showed only a 5.4% increase on the previous year.

Growth rates of the key consumers were far greater. Thermal power generation in the first three quarters was up 284blnKWh (16.7%), crude steel 54.3Mt (17.6%) and cement 9,984Mt (15%). This has led officials to predict transport shortages and bottlenecks in the industry. The Daquin line (in the far north of China) is the only major rail link with planned increased capacity, up 10% to 330Mt/y.

The National Development and Reform Commission announced in November 2007 that 785Mt of rail capacity will be allocated to coal movements in 2008, only 6.4% up on the previous year. In 2008, all producers whose capacity, exceeds 300,000t/y will be eligible to bid for increased rail capacity, although, as in 2006, contract prices may not be included in the bidding.

Another constraint on coal companies is price – the Government has consistently refused to raise electricity prices. The China Electricity Council demanded, in November 2007, a price rise on the basis that generator fuel costs had risen by 8.9%, satisfying a Government requirement for a price rise application. This is the third time an application has been made following electricity price rises in 2005 and 2006 to the current level of CNY0.6/KWh (equivalent to US$0.08/KWh). It is widely believed that the Government will resist demands for price increases for fear of exacerbating inflation. In response, the generators complain that they will lose money if coal prices are maintained.

Late last year, coal prices in China reflected the wide range of coals found in the mining regions. The table below gives an indication of internal coal prices.

To address these problems, the Government is attempting to liberalise the sector with the merger of the top three state coal research institutes that explore and research mining and processing methods, and design and engineer coal equipment. The Government wants to reduce the number of state-owned coal enterprises from 150 to under 100 by 2010.

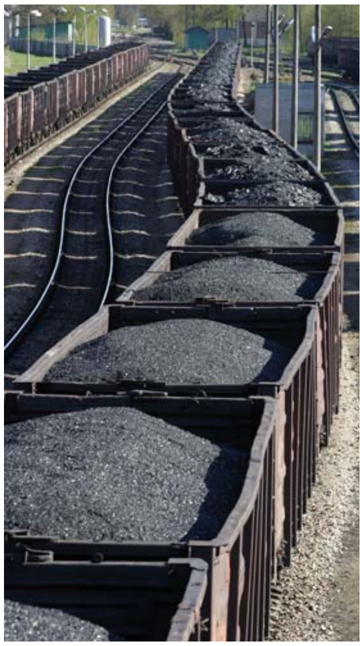
In addition, Chinese producers will be banned from opening new small mines, and coal chemical projects, such as coke making and coal liquefaction in areas of scarce water and/or heavy pollution, will be prohibited. In most provinces, projects under 300,000t/y will be banned while those in major coal-producing areas, such as Shanxi and Inner Mongolia, and mines under 1.2Mt/y, will also be outlawed. This policy is to run to at least 2010, along with a coal environment tax of RMB10/t that is being trialled in the Shanxi province.

By these measures the Government hopes to modernise the sector and raise production, while the industry response may be to diversify and develop alternative coal technologies.

Region	Thermal value, Kc NAR	RMB price	US$ price/t
Beijing	5,800	483	66.2
Nanjing	6,700	642	87.9
Nanning	5,500	335	45.9
Ningbo	5,800	567	77.7
Hangzhou	6,200	475	65.1
Wuhan	5,600	496	67.9

Further information

This article is based on *China Coal Monthly* from The McCloskey Group and Ixinhua Info Link. For further information, visit: www.mccloskeycoal.com.



Main image: Conveyor belt. Above: Coal wagons on railway tracks