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2014: A YEAR OF CONSOLIDATION Dr Lars Schernikau, IchorCoal and HMS Bergbau, Germany and Singapore

Let's face it: 2013 was a disappointing year for much of the global coal industry. Contrary to expectations, the downward trend in prices that began in mid-2011 continued and, in summer, bottomed out around US\$ 72 FOB for South African thermal coal. Since then, prices have at least stabilised, even recovering slightly toward the end of the year. The reason for the price pressure of the past years in my opinion is not weaker global demand. Quite the opposite, for example demand for imported coal in China is continuing to rise (15% year-to-date by October), as is the case in South Korea, Japan and – above all – India (20% year-to-date by October).

2013 was disappointing: lack of producer discipline

After the shale gas revolution shook up the US and resulted in increased coal exports from North America, the real reason for the price pressure seems excessively rapid growth on the coal supply side. Supply growth exceeded demand growth and thus brought prices under pressure around the globe. This pressure was triggered by Indonesia, the fourth largest coal producer in the world and the largest exporter of thermal coal, but also Australia. In many countries, coal producers cannot afford to cut production because of financial pressure and debt funding. Altogether, exports from Indonesia rose by over 10% in 2013, while Australia shows a similar trend. This lack of producer discipline was certainly one of the main reasons for the weak market.

2014 will be range bound with positive tendencies

The big question now is what the trend will be in 2014. I will not make the mistake of quoting a price per tonne for the end of the year 2014, but I am sure that we have reached the trough in terms of prices. For 2014, I foresee continued producer consolidation and I have a neutral to cautiously optimistic outlook on prices with both upside and downside being limited. Continued low freight rates will fuel global competition and thus keep the pressure on all exporting countries. The reason for this forecast and the cautious optimism for 2014, but more importantly for the long term, is to be found in the unchanged global developments that will inevitably lead to significantly greater

coal consumption and imports in the coming decades. The main driver of this trend is the constantly rising demand for electricity. India alone has, as recently as in November 2013, announced it will increase electricity production from about 10 GW to 25 GW within 8 years.

The world is far too unaware that some 3.6 billion people on this planet have either inadequate or no access to electricity. Power is and will remain the basis for civilisation and progress. To quote the World Bank: a tenfold increase in power consumption in a developing country would extend the life expectancy of every inhabitant by ten years. Clean water, healthy food, good hygiene, medical care – all of this is impossible without a reliable, nationwide energy supply.

“THE WEST SHOULD EMBRACE COAL AND INVEST IN IT FOR THE SAKE OF THE ENVIRONMENT.”

Coal will remain the most reliable source of power for decades to come

The cheapest, most accessible and most reliable source of power is and will remain coal for decades to come. The West has been far too prone to taking a distorted view: discussing renewable energy and financing wind mills for power, while forgetting coal, considering it an antiquated source of energy. In 2013, no more than 1 GW of new coal-fired power plant capacity went online in the US. For comparison, the current global coal-fired power plant park reaches about 120 GW. Power plants for an estimated 280 GW are under construction and an additional 190 GW are planned, all by 2017. Even if some of these power plants will replace existing capacities, we can assume that coal consumption will increase by 1.4 billion t in the coming years.

The greatest increase will be in India and China where, by 2017, power plants with approximately 210 GW will become

operational. Neither of these countries can fuel these facilities with domestic resources alone, so it is inevitable that global demand will rise. In 2003, India imported 20 million t of thermal coal, while China exported a net total of 63 million t. In 2012, by comparison, India imported 133 million t (nearly seven times as much as nine years before), while China imported 233 million t. This trend will continue, albeit that import growth is expected to slow in China. In the next four years alone, worldwide demand for coal will increase to over 9 billion t from current 7.7 billion t in 2012.

One factor in this development is the increasing urbanisation of the world. My former colleagues at Boston Consulting Group have calculated that by the year 2025 the number of megacities (cities with more than ten million inhabitants) will increase from the current 23 to 37. To keep these cities alive, what is needed most is electricity. This will be generated primarily by coal. Coal will therefore replace oil as the most important source of energy, although oil will retain its pre-eminence in transportation.

While we in the West argue about reducing CO₂ emissions by subsidising rooftop solar panels, completely new energy systems are being created in other parts of the world. How deep the divide is here was clearly demonstrated at the climate conference in mid-November in Warsaw – environmentalists from Western Europe and policymakers from Asia were constantly talking at cross purposes.

How should we respond to this alarming situation? I believe that the West should not demonise coal as a source of energy but instead embrace coal: for the sake of the environment. This would reduce energy costs, increase efficiencies and, as a result, reduce emissions worldwide. The goal should be to reduce global CO₂ intensity rather than Germany's alone (which is small on a global scale). If the West then exported this technology, it could improve its economic strength and – even more importantly – do more for climate protection than talk at cross purposes at conferences. **The renaissance of coal has only just begun: deal with it responsibly and don't fight it.**