



UK COAL MINING LTD

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Response by UK COAL Mining Limited Consultation paper on the aftermath of the expiry of Regulation (EC) No 1407/2002 on State aid to the coal industry

1. UK COAL Mining Limited (UKC) is the UK's largest coal producer, employing around 3,100 personnel. In 2008 UKC produced 8mt from 4 deep mines and 5 surface mines, located in Central and Northern England. This included a national UK record production at our Daw Mill Colliery of 3.2mt.
2. UKC has reserves and resources of over 100 million tonnes at its deep mines. Total surface mining reserves and resources, subject to planning, are estimated at approximately 55 million tonnes. In addition the company continues to explore the viability and funding of reopening our Harworth deep mine with 54 million tonnes of reserves and mineral potential.
3. UK producers have received aid for initial investment under Article 5(2) of the present Coal Regulations. In 2003 the UK Government announced that a budget of £60m would be available which had to be spent by the 31st December 2008. In total £58.3m was allocated of which £51.5m was awarded to UKC projects. No UK producers receive production aid under Article 5(3).
4. Coal production in the UK has been falling for many years. There was extensive rationalisation of the nationalised industry before privatisation in December 1994. More recently production has fallen more rapidly than the market, as deep mine collieries have reached the end of their economic lives and surface mines have found difficulty in obtaining planning permission. In 2008, UK production was 17.9mt.
5. Coal is a major energy source within the UK, accounting for around one third of electricity generated in 2008. In 2008 electricity generators consumed 47.8Mt and this sector accounts for over 80% of UK coal demand. Demand for coal for electricity generation is far greater than can be met from indigenous production with the consequence that high levels of imports are required to satisfy the market.

UK Coal Statistics (Million Tonnes)

| Cal. Year | UK Production* | Surface Mine Production | Imports | Total Stock @ December | Electricity Generation Consumption | Total Consumption |
|-----------|----------------|-------------------------|---------|------------------------|------------------------------------|-------------------|
| 1995 | 53.0 | 16.4 | 15.9 | 20.3 | 60.0 | 76.9 |
| 1996 | 50.2 | 16.3 | 17.8 | 16.5 | 54.9 | 71.4 |
| 1997 | 48.5 | 16.7 | 19.8 | 20.2 | 47.3 | 63.1 |
| 1998 | 41.2 | 14.3 | 21.2 | 18.8 | 48.6 | 63.2 |
| 1999 | 37.1 | 15.3 | 20.3 | 19.9 | 41.2 | 55.7 |
| 2000 | 31.2 | 13.4 | 23.4 | 14.1 | 46.2 | 59.9 |

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|------|------|------|------|------|------|------|
| 2001 | 31.9 | 14.2 | 35.5 | 17.5 | 50.9 | 63.9 |
| 2002 | 30.0 | 13.2 | 28.7 | 17.0 | 47.7 | 58.6 |
| 2003 | 28.3 | 12.1 | 31.9 | 13.7 | 52.5 | 63.0 |
| 2004 | 25.1 | 12.0 | 36.2 | 13.8 | 50.5 | 60.5 |
| 2005 | 20.5 | 10.4 | 44.0 | 15.6 | 52.1 | 61.8 |
| 2006 | 18.5 | 8.6 | 50.5 | 16.5 | 57.4 | 67.5 |
| 2007 | 17.0 | 8.9 | 43.4 | 14.3 | 52.6 | 62.9 |
| 2008 | 17.9 | 9.4 | 43.9 | 17.1 | 47.8 | 58.2 |

6. Coal-fired power stations provide security and diversity of supply. They are also able to respond more quickly to peaks in demand on the electricity grid than either gas or nuclear stations. This provides a vital load following capability, which ensures that the transmission system operator is able to meet fluctuations in electricity demand.
7. Coal also plays its part in the European energy mix. In November 2008, the European Commission released its Second Strategic Energy Review. It made clear that coal will remain an essential component of Europe's domestic energy supply and that a continued substantial use of coal and lignite for power generation in Europe is in the general interest. Also the Russian / Ukrainian gas crisis affecting Europe in the first half of January 2009 clearly demonstrated yet again that indigenous coal reserves are an essential element of the European energy and electricity mix.
8. Energy security is a necessary pre-requisite for economic development and political stability. In 2006 the EU-27 had an import dependency of around 54% across all fuels and 41% in relation to solid fuels. Russia was the largest exporter of oil, gas and coal into the EU.
9. In order to minimise our reliance on imported energy, it is important to ensure that we maximise production from our economically accessible energy reserves.
10. The UK coal industry has gone through its restructuring process and is now competitive with imports. Hence any additional indigenous production would directly replace imports on a tonne for tonne basis. However the UK's ability to increase production in the deep mine sector is being hampered by the inability of its producers to raise finance in the current financial climate.
11. UKC as a public listed company has to go out to the market to raise its finance for investment. In normal times due to the high risk nature of the business it has been difficult to raise financial market to invest for the continuity of the business. However the task of raising finance is now virtually impossible in the current financial downturn and worldwide 'credit crunch'
12. UKC has the opportunity to reopen its deep mine operation at its Harworth Colliery which was mothballed back in 2006 following the exhaustion of reserves within the Deep Soft seam. Boreholes and seismic exploration have identified up to 54Mt in the Top Hard seam and UKC is exploring funding and the viability of reopening the mine. The total cost of this project would be in the region of £200m and would create jobs in an area already hit by years of colliery closures.

13. UKC faces similar financial challenges to open new reserves at its other mines. Mining is a capital intensive business and requires a significant outlay up front over a period of years prior to the commencement of production.
14. Financing aid would be beneficial to UKC in this respect, but not in the form as outlined in Article 5 of the current State Aid rules 1407/2002. The present rules only apply to 30% of the total cost and under the UK interpretation, is paid retrospectively after the money has been spent.
15. This kind of aid, therefore does not overcome the initial financing problems that we currently see in the market as a result of the worldwide banking crisis and economic downturn. It would be far more helpful if operators could obtain the finance needed to develop reserves through State Aid in the form of fully guaranteed loans from Government which would enable new coal reserves that can be economically mined to be accessed and hence preserve security of supply.
16. A Government backed loan guarantee would enable producers to obtain finance for commercial projects at a time when the credit markets have been blocked, as banks look to shore up their own balance sheets.
17. Because of the relatively low level of investment aid already paid, to the UK, under the current rules. The degeneration of aid provision, Article 6, should not apply to any government backed loans granted to commercial projects which can compete with imported coal. If this principle were to be applied, the sums of money on offer to UK producers would not be sufficient for any significant investment to go ahead.
18. The international energy market is likely to grow more competitive as the demand from countries such as China and India increases leading to upward pressure on all fuel prices in the medium to long term. UKC believes that in these difficult economic times a revision and extension of State Aid to the coal industry which enables investment is necessary. Indigenous coal is an essential element of the EU's energy mix at a time of rising energy imports and a framework should be put in place to ensure suitable investments can be made.



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