

EU COAL SECTOR DEVELOPMENT AND WORLD MARKET CONTEXT

Fossil Fuels Forum Workshop
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www.nigelyaxley.com

Nigel Yaxley
Independent Consultant

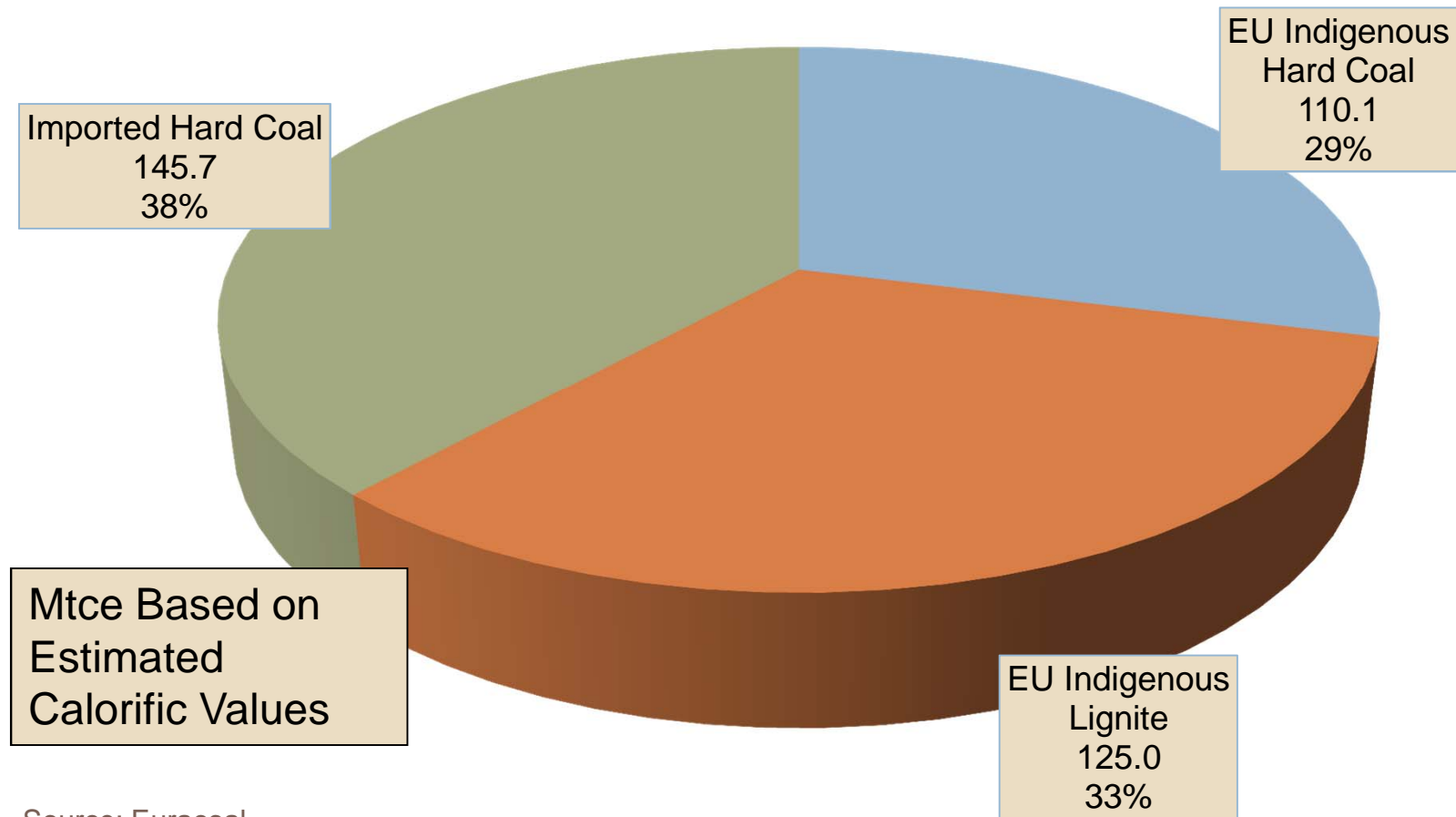
EU Coal Sector Development and World Market Context

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- EU coal supply
- World coal production and trade
- 2011 supply and demand drivers
- Pricing trends
- Long-term demand scenarios
- Summary

62% of EU's solid fuel supply in 2010 was indigenous

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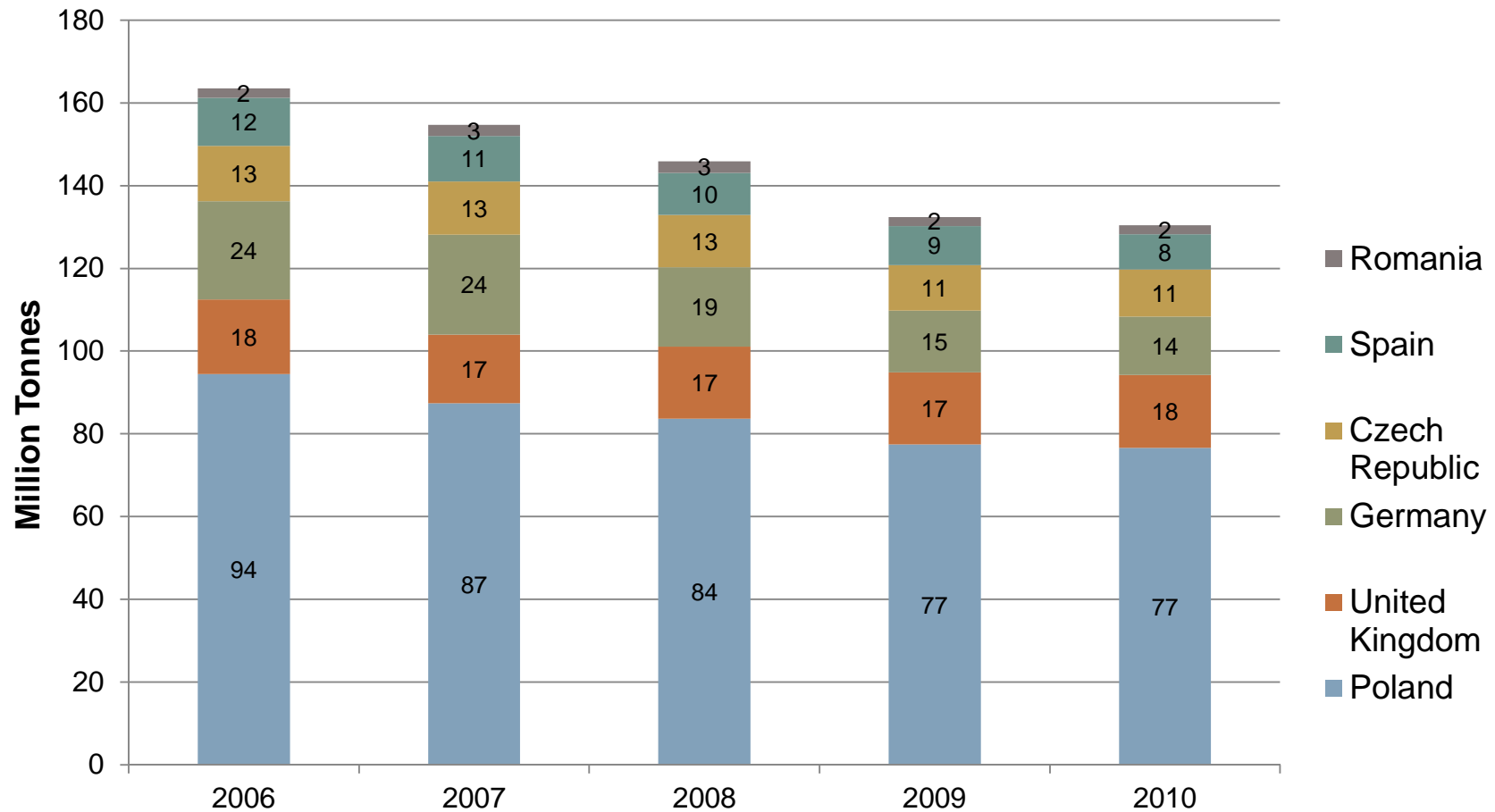
Source: Euracoal

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The decline in EU hard coal production halted in 2010

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Source: EU Commission/Euracoal

EU lignite production declined by 4% to 403 Mt in 2010

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Source: EU Commission/Euracoal

2009 employment in the EU coal sector was 266,000 – over half in

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Poland

	Lignite	Hard Coal	Total
Bulgaria	9,030	4,690	13,720
Czech Republic	6,130	10,990	17,120
Germany	16,600	29,570	46,170
Greece	5,160		5,160
Hungary	2,630		2,630
Poland	16,630	119,800	136,430
Romania	13,850	10,740	24,590
Slovak Republic	4,500		4,500
Slovenia	1,830		1,830
Spain		7,680	7,680
UK		5,910	5,910
Total	76,360	189,380	265,740

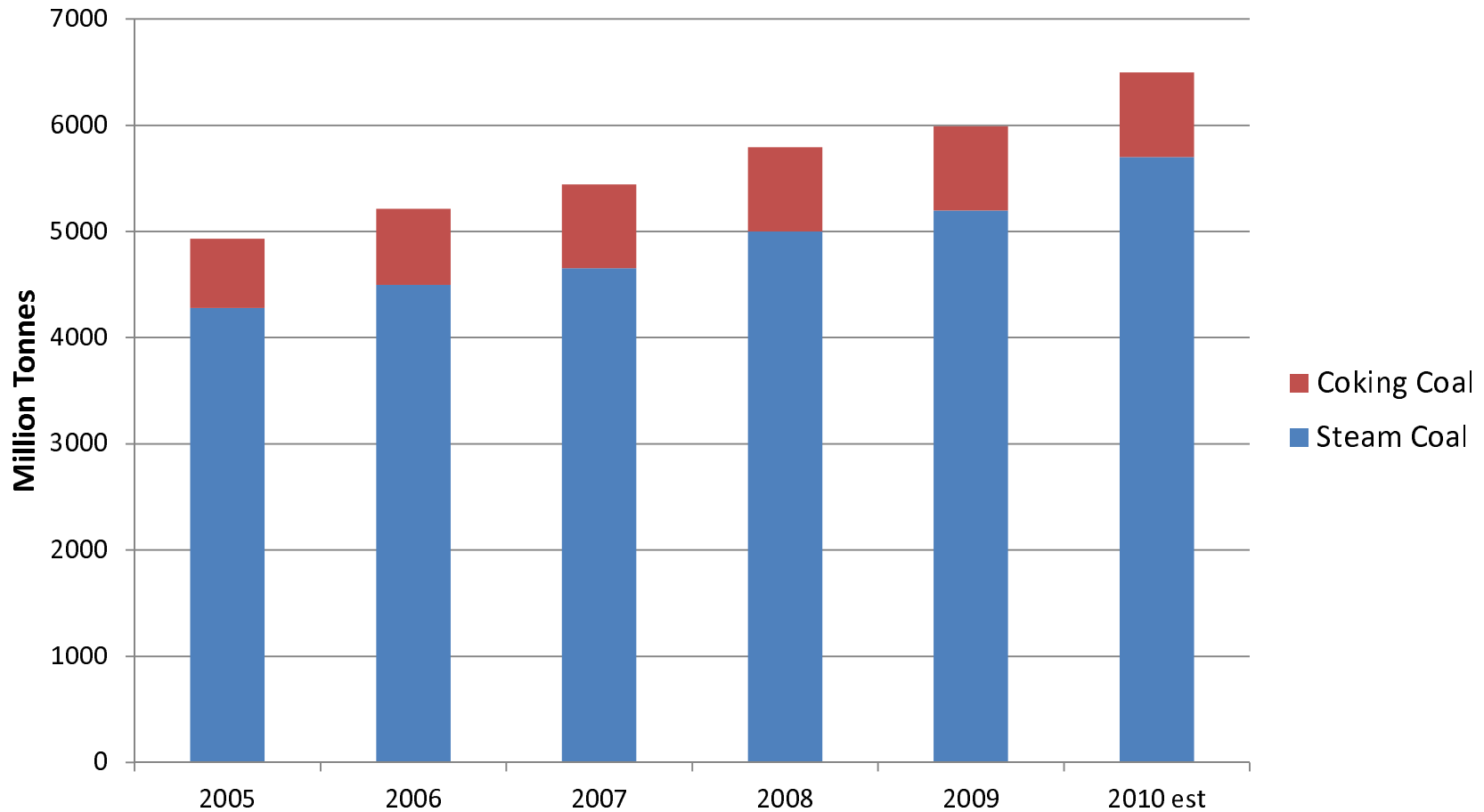
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World hard coal production increased by 8% in 2010 to 6.5 billion tonnes

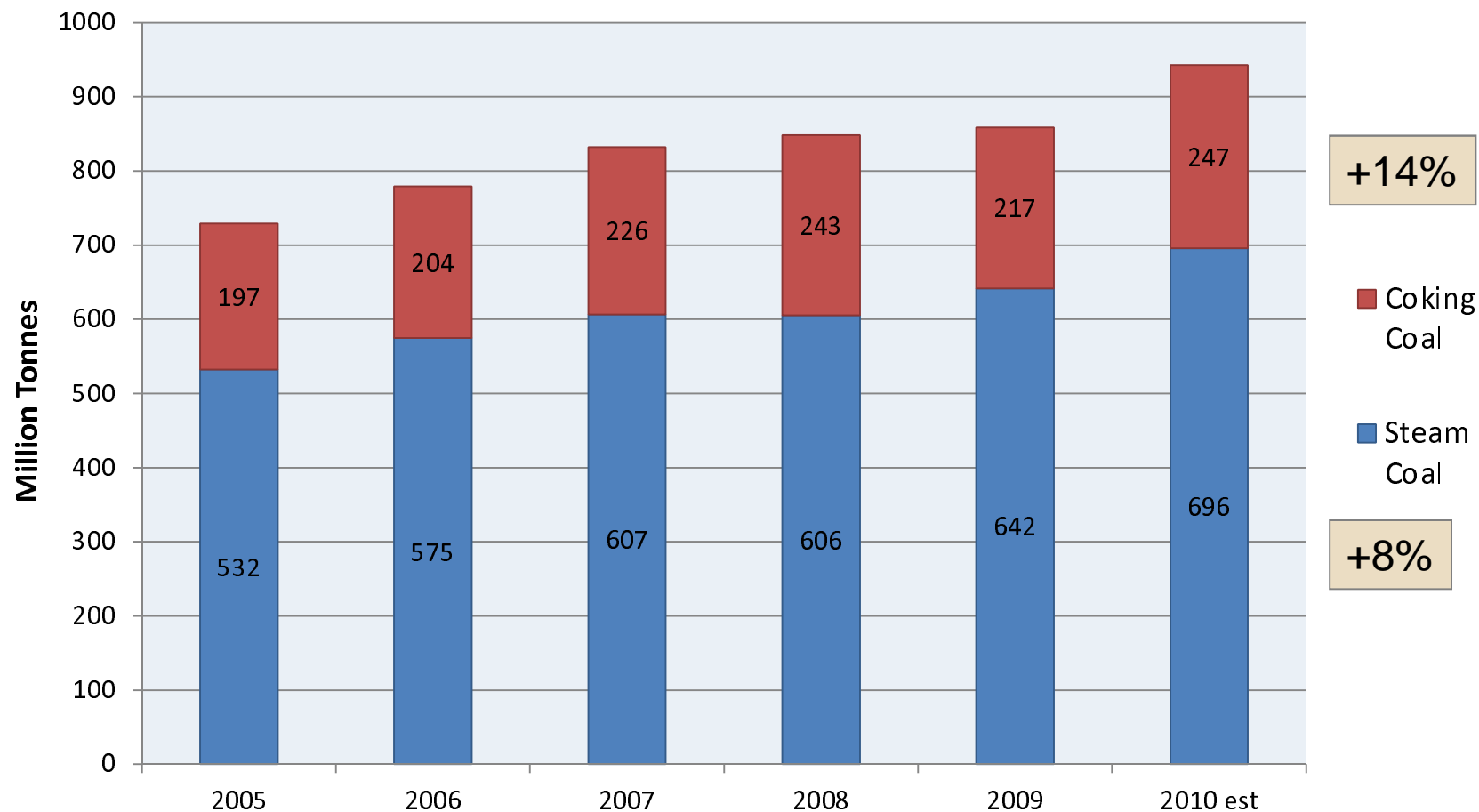
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Source: IEA/VDKI estimate for 2010

World seaborne coal trade also recovered strongly in 2010...

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Source: IEA/estimate for 2010

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...but European coal imports tell overall – steam coal down but

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coking coal up

- Steam coal imports down by 20 million tonnes (Mt)
 - ▣ UK down 14 Mt
 - ▣ Spain down 5 Mt
 - ▣ Portugal down 2 Mt
 - ▣ Others up 1 Mt
- Coking coal imports up by 11 million tonnes
 - ▣ Germany up 4 Mt
 - ▣ Italy up 2 Mt
 - ▣ Netherlands up 1 Mt
 - ▣ UK up 1 Mt
 - ▣ Others up 3 Mt

Source: MCIS estimates

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2011 started with floods in Australia...

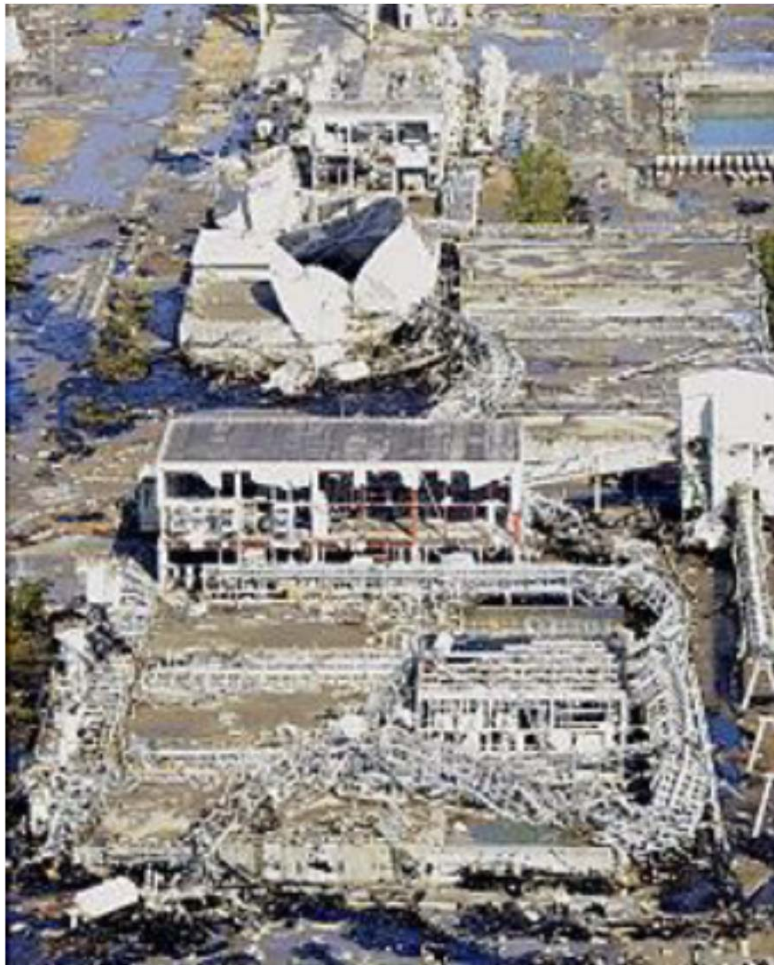
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- Floods affected mines railways and port infrastructure
- World coking supplies were worst hit
- Steam coal market recovered relatively quickly

...and then the Japanese earthquake and tsunami also affected coal stations

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- Japan is world's biggest coal importer
 - ▣ (120 Mt in 2010)
- Around 7 GW affected
- Haramachi 2GW plant almost completely destroyed

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- Ports also affected

... but European political reaction to Japan's nuclear crisis also affects coal

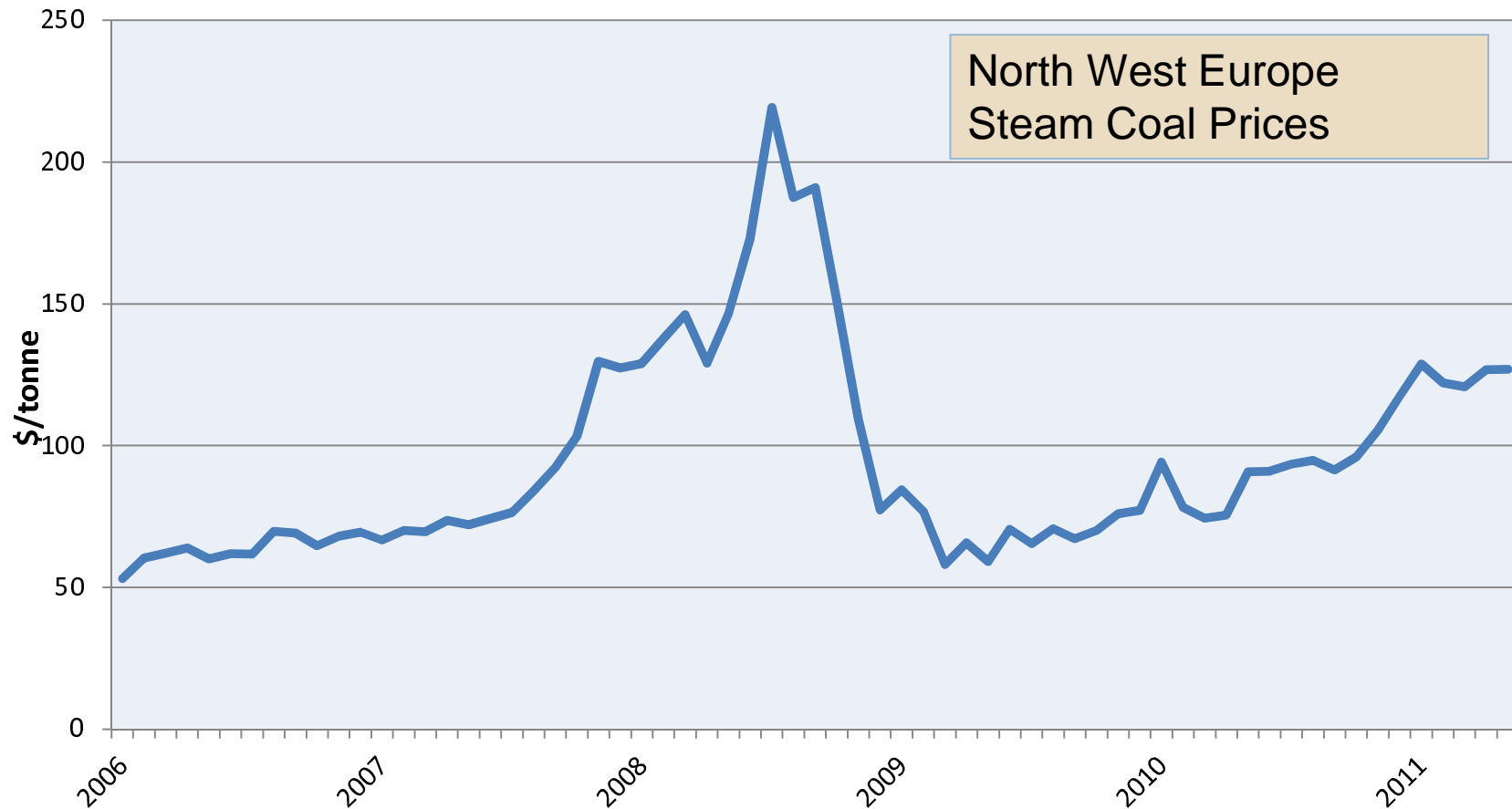
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- 7GW nuclear capacity 'temporarily' closed
- Gas prices strengthened due to increased Japanese LNG imports
- European coal demand may increase

2011 has seen a significant increase in world prices...

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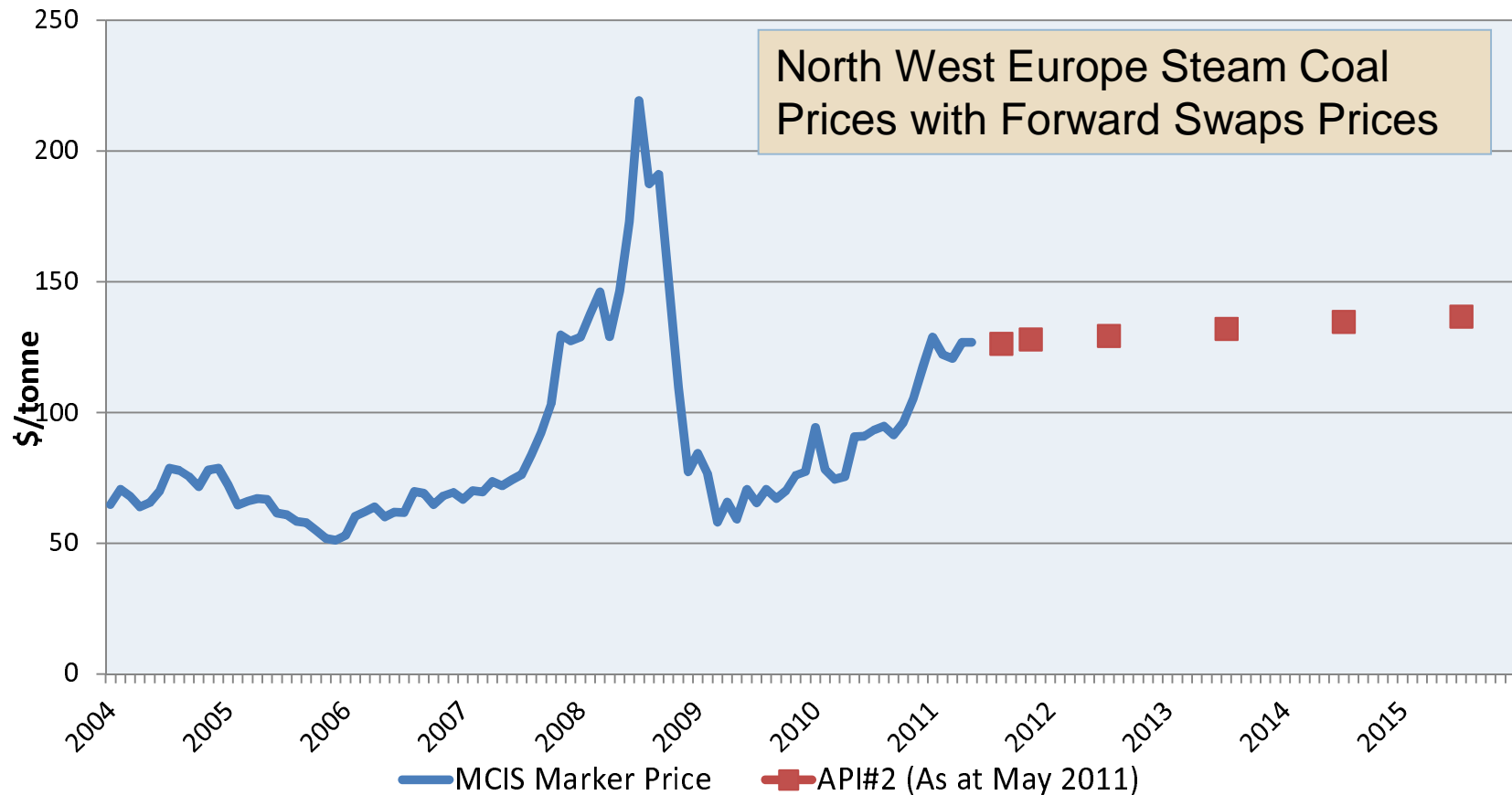
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...and the forward curve maintains these high prices

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Source: MCIS

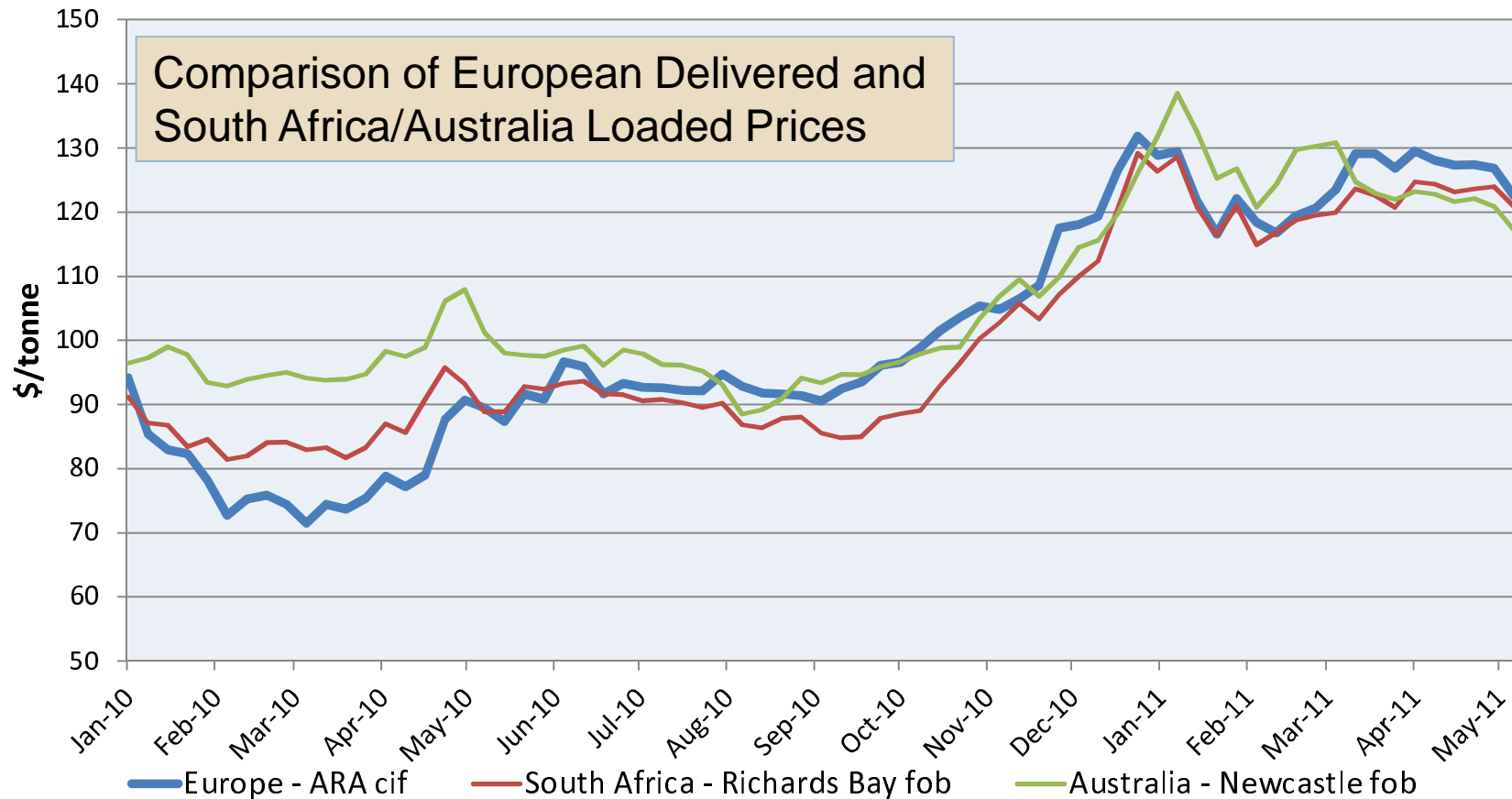
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Price developments shows relative strengths of Asian and Atlantic markets

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markets



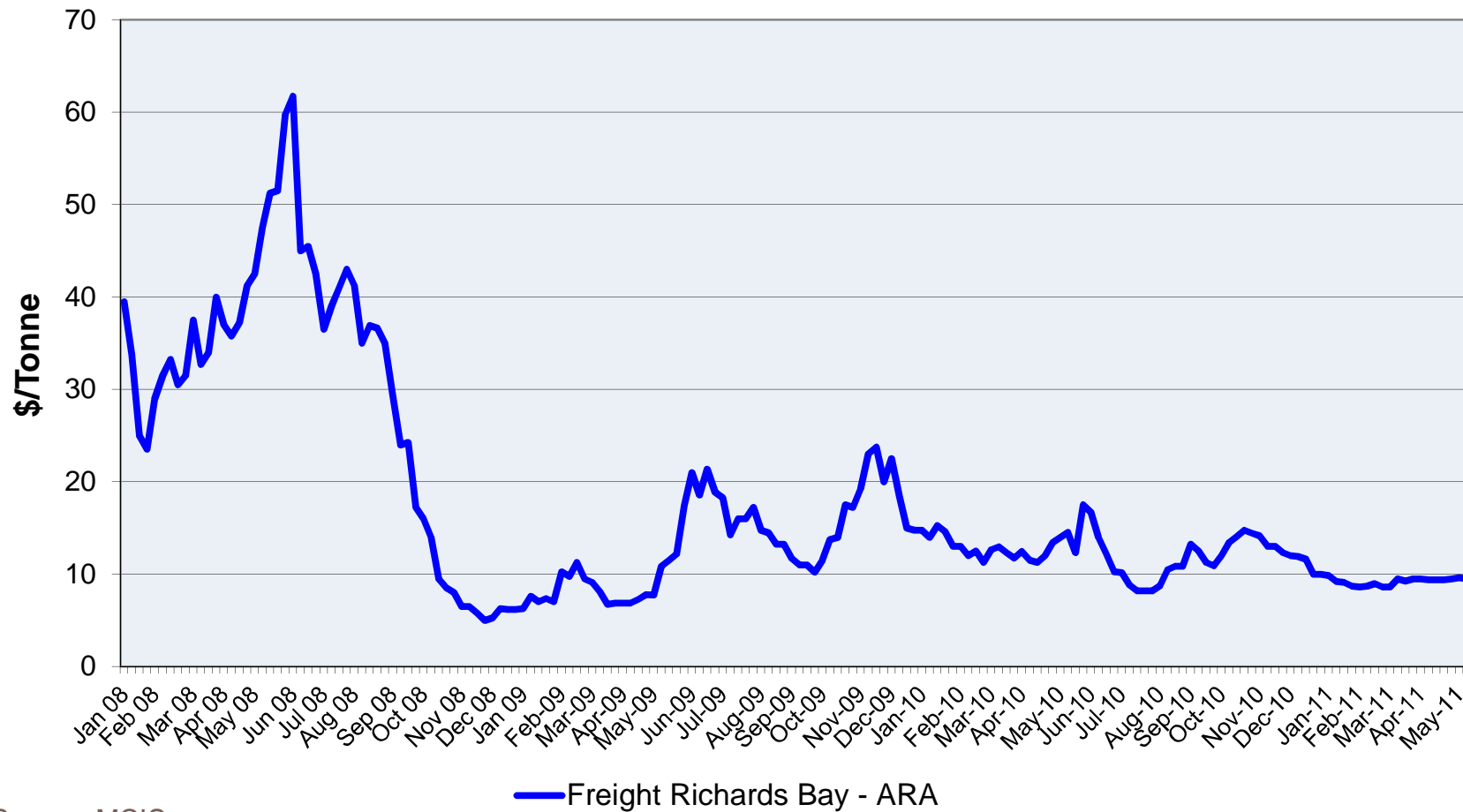
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Sea freight rates have stabilised this year at a relatively low level

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Source: MCIS

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The coking coal market is moving towards commoditisation

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Annual Benchmark Prices to March 2010 (US \$/Tonne FOB Australia)

Contract	2005/6	2006/7	2007/8	2008/9	2009/10
Prices*					
Hard Coking Coal	125	112	96	300	129
Semi-soft Coking Coal	80	58	65	240	85
PCI	102	68	71	250	90

Quarterly Benchmark Prices from April 2010 (US \$/Tonne FOB Australia)

Contract	Apr-Jun 2010	Jul-Sep 2010	Oct-Dec 2010	Jan-Mar 2011	Apr-Jun 2011
Prices*					
Hard Coking Coal	200	225	209	225	280-300
PCI	170	180	147	180	210-215

Source: Merrill Lynch

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Spot metcoal prices have levelled off after major gains

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Source: MCIS

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IEA World Energy Outlook 2010 established 'new policies'

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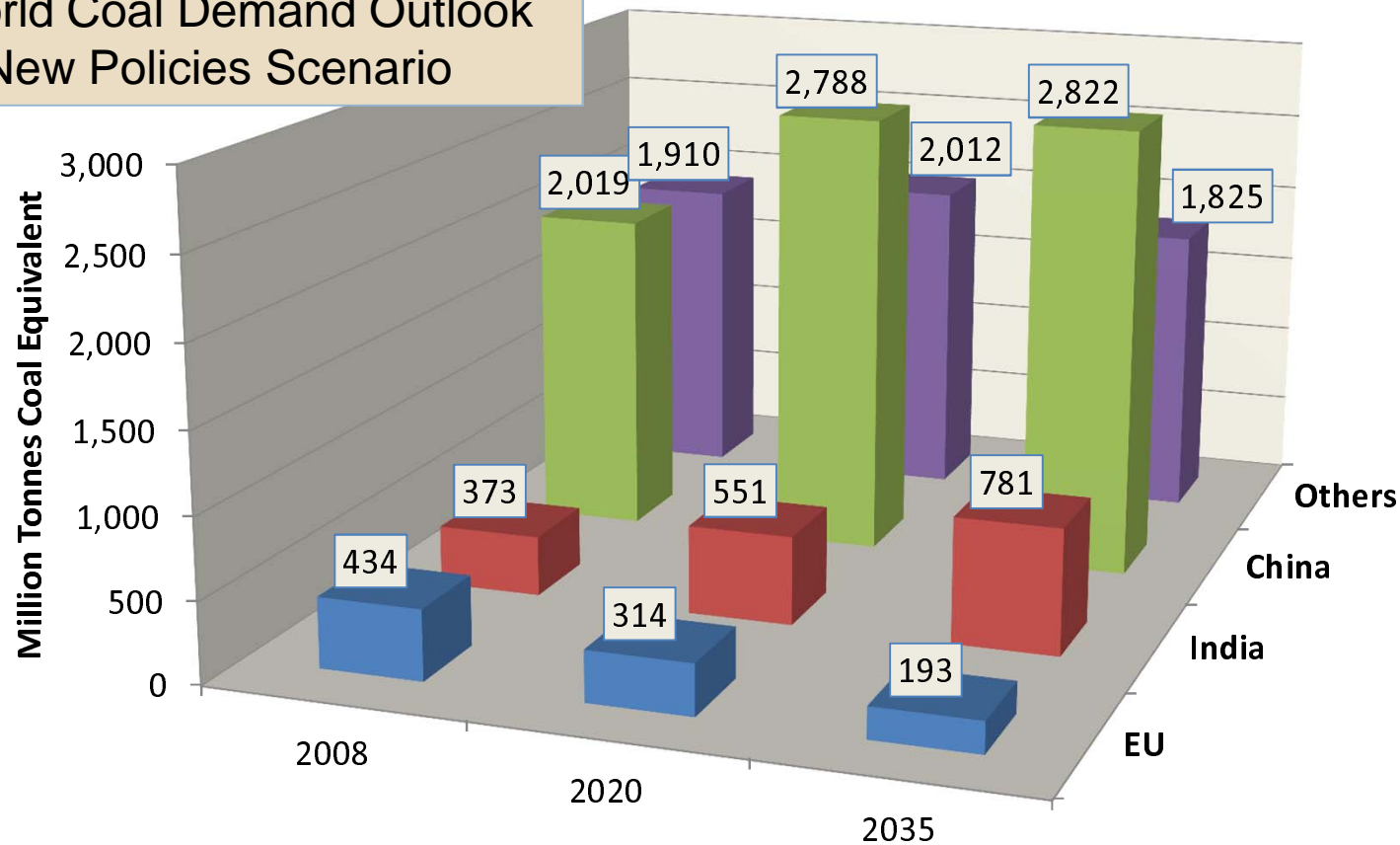
scenario...

- New Policies Scenario
 - ▣ Includes all energy and climate change policies committed to by governments by mid-2010
 - ▣ Between 'business as usual' and '450' scenarios
- Coal demand growth
 - ▣ 60% by 2035 in 'business as usual'
 - ▣ 20% by 2035 in 'new policies'
 - ▣ All the growth is in non-OECD countries

...where Chinese coal use levels off after 2020 but India continues growing

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World Coal Demand Outlook in New Policies Scenario



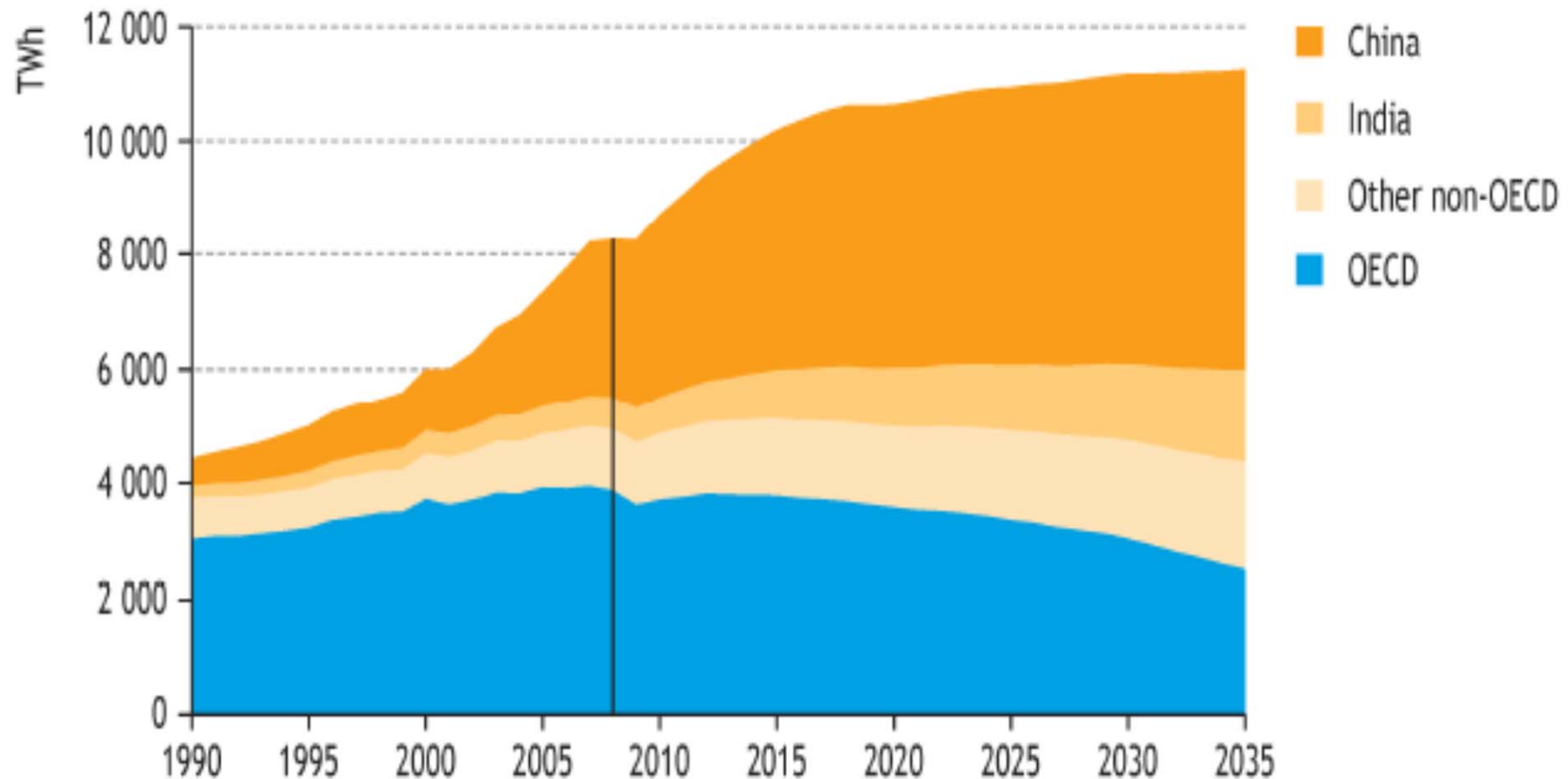
Source – IEA World Energy Outlook 2010

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Coal-fired electricity by region shows decline in OECD demand

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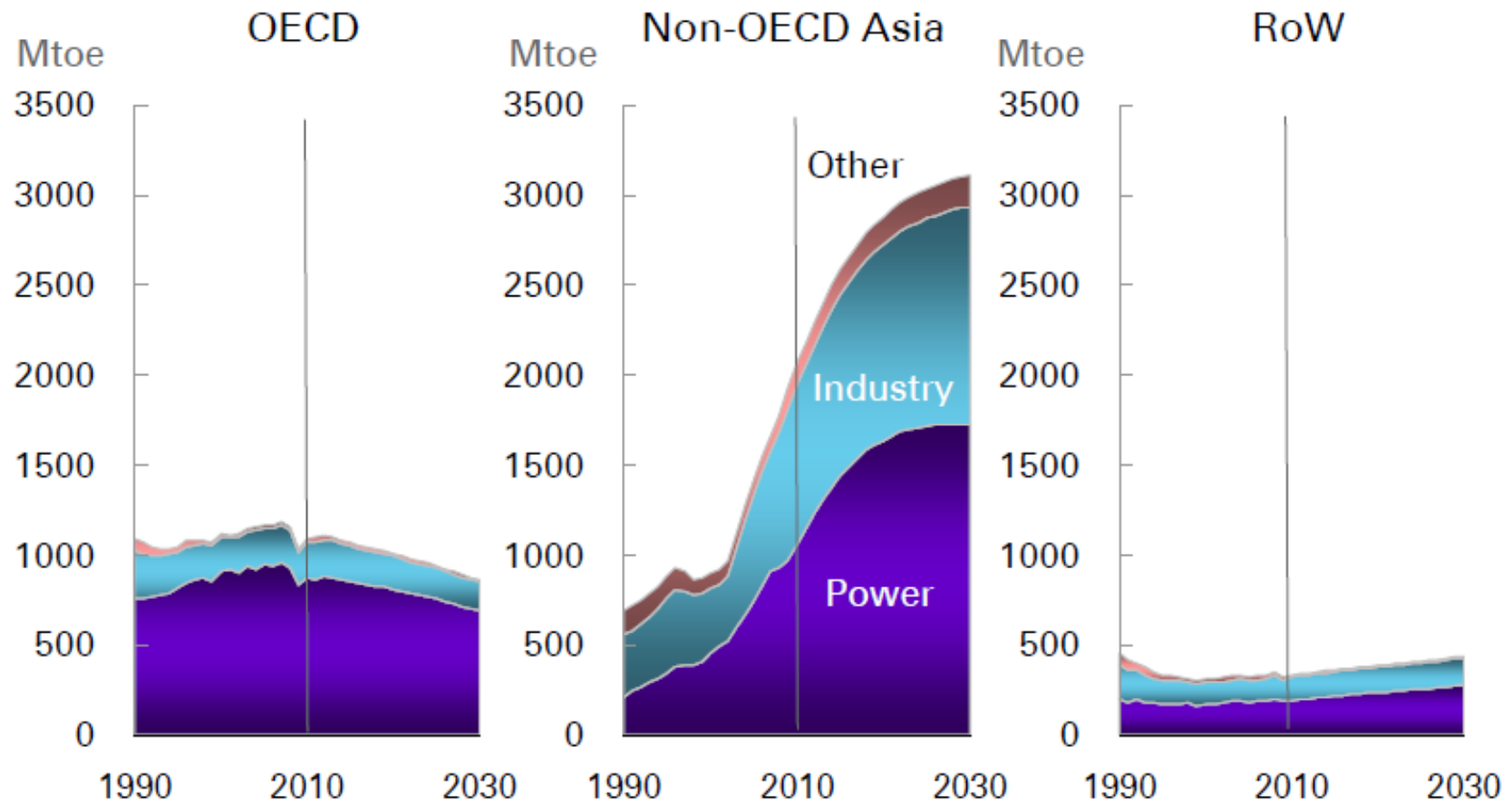
Source – IEA World Energy Outlook 2010

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BP Energy Outlook paints a similar picture

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Summary

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- EU indigenous supply remains strong (62%) as imports reduce
- World production and trade grew strongly in 2010
- Supply and demand in 2011 has suffered major shocks
- This has been reflected in price trends
- International prices remain high by historic standards
- Asian demand will continue to grow as European demand reduces
- How will European producers and consumers react if international prices remain high?

THANK YOU

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Nigel Yaxley
Independent Consultant