China vital to coal exports

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Australia's ability to regain its position as the world's largest coal exporter will depend on Chinese demand keeping global prices high enough for local mines to remain in operation, says the International Energy Agency (IEA).

Indonesia last year overtook Australia as the top global coal exporter by tonnage when thermal and coking coal are combined. That was partly as a result of flooding in Queensland which hampered exports but strong Asian demand for cheaper, lower quality thermal coal from Indonesia also played a part.

In a report on the medium-term outlook for the global coal market, the IEA said under its "base-case" scenario, Australian exports will rise to 356 million tonnes by 2017 from 285 million tonnes in 2011 whereas Indonesian exports would remain steady at 309 million tonnes.

That assumes Chinese gross domestic product growth averages 8.6 per cent a year, which is higher than the 7 to 8 per cent range expected by many analysts.

But in a China slowdown scenario, where GDP growth averages 4.6 per cent a year, some high-cost Australian operations would close and fewer new projects would be developed in Queensland's Galilee Basin.

"In contrast [in that case], Indonesian coal exports profit from a lower cost structure throughout the entire coal value chain and consequently are less affected by the [China slowdown]," the IEA report said.

China last year pipped Japan as the world's largest coal importer by a small margin but its substantial domestic supplies make it a swing buyer of the product and it is not as reliable a customer as Japan and India. The IEA expects India will ultimately emerge as the world's largest importer of coal.

Coal markets have been tough this year, with BHP Billiton, Rio Tinto, Whitehaven Coal and Centennial Coal among the companies that have already shut mining operations this year as a result of a plunge in both thermal and coking coal prices.

Merrill Lynch estimates 5 million tonnes of coking coal and 3 million tonnes of thermal coal capacity has been closed in Australia this year and more than 50 million tonnes of future growth projects have been delayed.

The quarterly price of premium hard coking coal for the March quarter was recently settled by BHP at $US165 a tonne, down from $US170 a tonne in the December quarter.

The spot price of thermal coal has rebounded to $US90 a tonne from a low of $US83 a tonne earlier this year but many mines remain marginal in part due to the persistently strong Australian dollar. IEA noted some high-cost thermal coal producers in NSW had cash costs of more than $US80 a tonne excluding royalties and shipping.

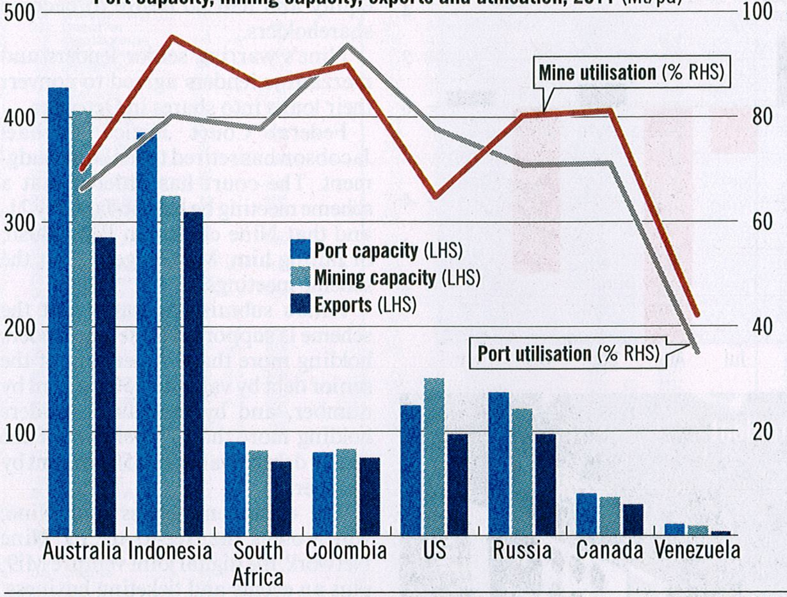
Thousands of jobs have been lost in the coal sector this year, with contractors the hardest hit as miners look to cut costs.

Xstrata's proposed $7 billion Wandoan thermal coal development in Queensland is in doubt, and BHP, Rio and Peabody Energy are among those that have shelved some of their expansion plans. But Peabody is hopeful conditions will improve in the coking coal market next year.

In a market update on Friday, Peabody said it expected its Australian sales would rise to a range of 33 to 36 million short tons next year, up from 31 to 33 million short tons this year, in part due to a strengthening of coking coal markets.

Old king coal

Port capacity, mining capacity, exports and utilisation, 2011 (Mt/pa)



Coal supply (Mt/pa)

	2010	2011*	Growth (pa)
China	3140	3471	+10.5%
US**	996	1004	+0.8%
India	570	586	+2.7%
Australia	424	414	-2.3%
Indonesia	325	376	+15.8%
OECD	2070	2087	+0.8%
Non-OECD	5130	5592	+9.0%
World	7201	7678	+6.6%

*Estimate **In accordance with US Energy Information Administration, coal supply increased from 983 Mt in 2010 up to 992 Mt in 2011.

SOURCE: OECD