

Argus Insight: Coal



Europe's coal import mix shifts as demand soars

Europe is set to sharply increase its coal imports from South Africa, Colombia and other suppliers this winter, with a rise in installed capacity in the continent and a halt in Russian imports set to support a growing need for coal from other origins.

Based on installed capacity in Germany, Netherlands, Italy, France, Spain, the UK and Ireland —including operational plants and units that have been put on reserve by governments — these western European nations could call on 39.2GW of hard coal-fired generation capacity this winter.

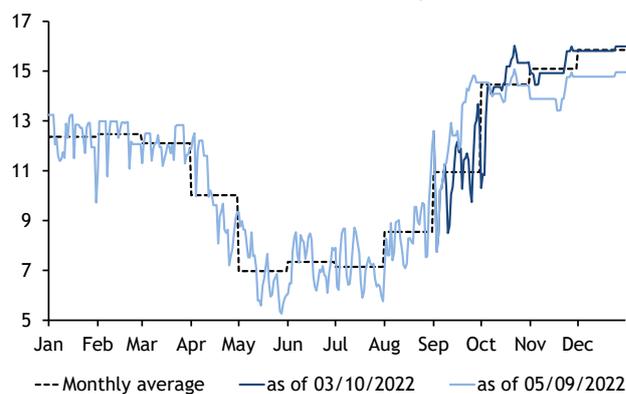
Running these plants at an 80pc load factor would generate around 23.3TWh of power each month, needing roughly 8.4mn t/month of NAR 6,000 kcal/kg coal burn at 40pc efficiency.

The coal fleet's maximum generation potential this winter, running from 1 October 2022 to 31 March 2023, would require a total of 49.1mn t of NAR 6,000 kcal/kg coal to be burnt, up by 26.4mn t from the previous year.

In reality – and despite the need to run coal plants hard to conserve gas – coal-fired generation in these seven countries is unlikely to reach this level, as it will be capped by plant availability as well as peaking renewables generation, among other factors.

Year-to-date German hard coal-fired generation has increased by 27pc on the year, although with both installed and available capacity rising sharply (see chart) as more plants come back online permanently or onto reserve, and barge logistic conditions on the Rhine ease, the year-on-year growth could widen in the months ahead.

German hard coal-fired available capacity GW



Shipping data shows that January-October 2022 thermal coal imports into the wider western Europe (Belgium, Denmark, Finland, Germany, Ireland, Italy, Netherlands, Spain, UK) could hit 73.4mn t, up by 29pc year-on-year and the highest since 2018.

Applying a 27pc growth rate to the wider western Europe's winter 2021/22 thermal coal imports of 44.1mn t would imply a need for around 53.5mn t of imports or 8.9mn t/month over October-March 2022/23.

The change in Europe's import mix since April when the EU announced its embargo on Russian imports and since August when the ban was implemented provides some clue as to how a potential 8.9mn t/month import requirement could be filled.

South Africa, Colombia pivot

The share of volumes coming from South Africa and Mozambique into western Europe is set to rise to 17.4pc in

October, with 2.1mn t delivered, up from 400,000t/month in 1H 2022 and 200,000t/month in 2021.

Given supply constraints in other origins, *Argus* estimates that some 3mn t/month of South African and Mozambiquan coal could be required by western Europe this winter to meet demand.

There is historical precedent for this. The EU27+UK's annual imports from South Africa peaked in 2003 at 52mn t. Imports then averaged 43mn t per year between 2004-2008, before declining steadily in subsequent years, according to GTT data.

But the make-up of South Africa's coal market has subsequently changed, with less high-CV product being produced, albeit this trend has reversed somewhat in the past 12 months as railing issues have afflicted the South African network and exporters have prioritised higher-CV coal transport.

Given the railing situation appears set to continue limiting South African exports at around 6-7mn t over the winter, this suggests around 50pc or more of total volume leaving Richards Bay and other nearby terminals could head to Europe during 2023.

Colombian coal exports to Europe will also need to rise in the coming months, with flows having to return to 2016-17 levels of around 2mn t/month, *Argus* estimates.

In theory this should be possible as exporters prioritise European shipments over other destinations. But with the Prodeco asset remaining offline, the incremental tonnage will need to come from Drummond, Cerrejon, CNR and smaller producers. The extent to which this is possible given around 1mn t/month of deliveries are contracted to Turkish buyers until at least the end of 2022 with Colombian suppliers reluctant to cancel these volumes without significant penalties, as well as limited spot supply and forecast wet

weather in 4Q 2022 which could limit Colombian flexibility, remains to be seen.

Fellow Atlantic basin suppliers, the US and Canada, have sent around 1.7mn t/month of thermal coal to western Europe this year, shipping data show, although this volume is likely to include some coking coal which is difficult to strip out in the figures.

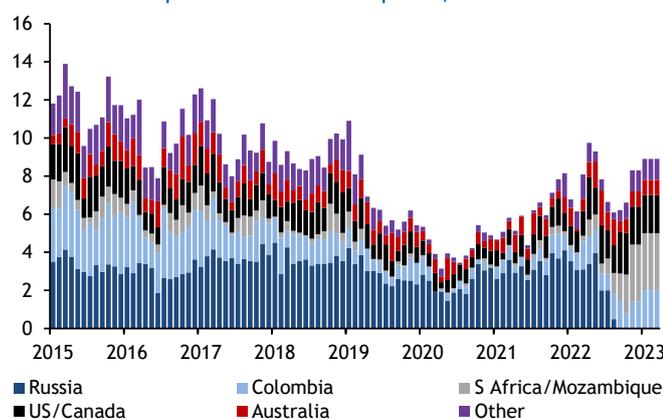
It is unlikely that European imports from these origins will be able to step up too much in the near-term given logistic limitations, a lack of investment in coal infrastructure, and a strong gas-to-coal fuel switch incentive domestically in the US. US high-sulphur coal has also historically been used as a blending component with low-sulphur Russian imports, and once Russian stocks on the ground in Europe are exhausted (possibly in the coming few months depending on utilities' appetite to conserve them) this could provide a further disincentive for US imports.

Turning to Australia, Europe's imports from Australia have this year been focused on relatively small volumes of NAR 5,500 kcal/kg coal owing to firm NAR 6,000 kcal/kg Newcastle fob prices and long shipping distances. Unless Newcastle NAR 6,000 kcal/kg prices fall relative to the equivalent cif Amsterdam-Rotterdam-Antwerp price, then Australia-Europe trade flows this winter are likely to remain confined to high-Ash NAR 5,500 kcal/kg product. *Argus* estimates western Europe's demand potential could be as high as 800,000t/month from Australia over the winter.

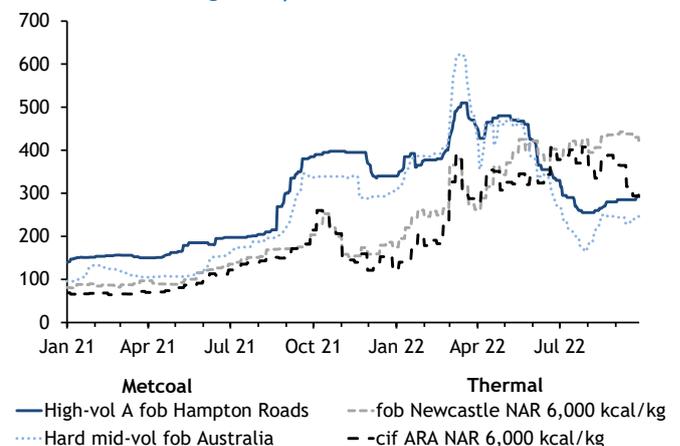
There is certainly potential for Europe's Indonesian imports to rise in the months ahead, with several European buyers experimenting with Indonesian product and some coal plants in southern Europe historically being set up to run on Indonesian coal. It seems likely that Europe will need at least a few million tonnes per year from Indonesia in 2023/24.

An additional lever to balance European coal supply and

Western Europe thermal coal imports/outlook *mn t*



Thermal vs coking coal prices *\$/t*



demand could arrive from supplementary coking coal inflows. Some coking coal suppliers have looked to push US and Australian metallurgical coal to thermal coal buyers in recent months following a flip in thermal-coking coal spreads (see chart). The most likely scenario appears to be that small volumes of coking coal could be blended with thermal coal in boilers in order to avoid damage, but the extent to which utilities have appetite for this remains to be seen. At this stage, coking coal appears to be a marginal source of supply for Europe's power sector.

Price outlook

The picture of firm demand and limited high-CV supply options would seemingly suggest a firm outlook for Europe-delivered coal prices.

But cif Amsterdam-Rotterdam-Antwerp (ARA) spot coal prices have fallen by 35pc since early September and in the very short-term, the European coal market appears well stocked, with many buyers heard to have covered their 4Q '22 requirements. Additionally, inventories at ARA ports are above 6mn t and poor Rhine logistics meant German hard coal-fired generation in September fell by 4pc year-on-year to 5.4TWh. Falling European gas and power prices as the EU debated market intervention measures and intensifying global recessionary fears added to the downside.

But energy market fundamentals in Europe remain exceptionally fragile, and further API 2 price spikes in the coming months would be no surprise. A third-consecutive La Nina winter in the northern hemisphere threatens to bring more disruptive rainfall to Australia, Colombia, Indonesia and South Africa, as well as a colder-than-expected winter to the key energy demand hub of north-eastern China, South Korea and Japan. This could lead to stiff competition for available high-CV coal supply, particularly given firm spot LNG prices, and a firm coal demand outlook in Poland, which is looking to replace 8mn t/year of railed Russian coal imports with seaborne alternatives.

Governments globally are also increasingly turning their back on free market policies amid the scramble to secure energy supplies, which is manifesting in more trade barriers and protectionism, such as the Indonesian government's January 2022 coal export ban.

In any event, there is no imminent end in sight to the EU's Russian coal embargo, while the region's gas shortages could take years rather than months to solve, meaning the new status quo for Europe's coal imports of reliance on South African and Colombian coal and elevated imports could be entrenched until at least 2024/2025.

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