CHINA’S ECONOMIC GROWTH, ELECTRICITY DEMAND/SUPPLY AND IMPORTS OF THERMAL COAL

In the past decade to 2013, the Chinese economy grew at an average annual rate of 10.2%. Most impressively, China managed to grow at 9.6% in 2008 and 9.2% in 2009 when the rest of the world was severely affected by the global financial crisis. This was mainly due to the massive fiscal stimulus package implemented by the Chinese government. Meanwhile, electricity consumption in China increased at an average annual rate of 10.8% over the decade to 2013 (see Figure 1).

Importantly, the pattern of output growth in China did not match that of electricity consumption growth in the past decade. This was mainly due to industrialisation in the early to mid-2000s driving growth in electricity demand above concurrent economic growth in that period. In contrast, the moderation in electricity demand during the economic downturn in 2008 and 2009 was more severe than the moderation in economic growth. Nevertheless, this is not unusual as a similar pattern was also recorded in previous downturns.

Figure 1: China’s Economic Growth and Electricity Consumption Growth (annual % change)

The moderation in the rate of growth of electricity consumption in 2008 and 2009 was mainly due to a slowdown in growth in the secondary and tertiary industries in China1 (see Figure 2). In 2008 and 2009, total industrial use of electricity in China (around 73% of the total electricity consumed) rose only 3.1% and 5.8% respectively, compared with double digit annual growth achieved in each of the previous six years. Electricity used by industries in China returned to double digit growth in 2010 and 2011 before growth moderated again in 2012 and 2013.

1 In broad terms, the primary industry includes the production of raw material and basic foods, the secondary industry includes the manufacture of finished goods and the tertiary industry is the service industry.
Electricity generation in China relies heavily on thermal (mainly coal, gas and oil) power (see Figure 3). In 2012, the installed thermal power capacity was 819.68GW, of which 814.26GW (or 99.3%) came from coal fired power plants whose individual capacity is equal to or larger than 6MW. In total, 3,925.53TWh of electricity was generated by thermal power in that year, of which 3,710.4TWh, or 94.5%, was generated from coal fired power plants (6MW capacity or above), which used 1,789.68 million tonnes of raw thermal coal.

Contrary to the conventional wisdom, the efficiency of coal fired power generation in China is of a relatively high standard. For coal fired power plants whose individual capacity is equal to or larger than 6MW, only 305g of standardised thermal coal\(^2\) was used for each KWh of electricity generated in 2012 and thermal efficiency of 41.91% was achieved in the year. In

\(^2\) Standardised thermal coal is defined as coal with a heating value of 7,000kcal/kg measured in net as received basis.
comparison, the Kogan Creek Power Station commissioned in 2007 achieved only 34-37% thermal efficiency. Most importantly, China’s coal fired electricity generation industry as a whole has continued to improve its efficiency in recent years, lowering its use of standardised thermal coal per KWh of electricity generated by an average of 1.3% per annum and raising the thermal efficiency by an accumulated 2.3 percentage points since 2008 (see Figure 4).

Figure 4: China’s Coal Fired Power Plants’ (6MW or above) Efficiency

Source: China Electricity Council

Historically, the majority of thermal coal for electricity generation in China has been sourced domestically. This is still the case despite the surge in coal imports to China since 2009. Between 2006 and 2008, China imported an average of 43.4 million tonnes of black coal per annum while it exported 54.0 million tonnes of black coal per annum. This means that China was still a net coal exporter in mid-2000s. However, black coal imports to China surged to 126.63 million tonnes in 2009 and rose further to 267.14 million tonnes in 2013. Meanwhile, brown coal imports rose from an estimated 9.2 million tonnes in 2009 to 60.0 million tonnes in 2013 (see Figure 5). This massive increase in coal imports not only has turned China into a net coal importer, China’s influence on international coal prices has also become more prominent since 2009.

\[^3\] China Customs only reported exports and imports of black coal before 2012. However, China has imported more brown coal (lignite) in recent years. China Customs have begun to report brown coal imports since January 2012.
Figure 5: China’s Black and Brown Coal Imports
(million tonnes)

The reasons for the surge in coal imports from China in 2009 are many. First, the decline in international coal prices relative to those domestically in that year opened up an arbitrage opportunity for electricity generators in China. Second, the negotiations for coal contracts between domestic coal miners and electricity generators in China broke down in 2009. Third, the first phase of coal mine consolidation in China had just been completed, leading to a temporary disruption in domestic coal output. Despite coal production rose from less than 3 billion tonnes in 2009 to around 3.7 billion tonnes in 2013, lower international prices led to continuing strong growth in coal imports in the past four years.

A more detailed disaggregation of data indicates that at most around 65% of the total coal imports into China are thermal coal. This means that by 2012 when thermal coal imports were estimated at most to be around 200 million tonnes, imports only constituted 11% of total thermal coal used for electricity generation in China.

Most importantly, while China’s appetite for imported coal has increased substantially, it has attempted to diversify its import sources. In 2009, China imported 15.47 million tonnes of non-coking bituminous coal from Australia, constituting 40.7% of the total volume of non-coking bituminous coal imports in that year. Australia’s share fell to 26.1% and 32.7% in 2010 and 2011 respectively, before rebounding to 45.4% in 2013, mainly due to increased supply from New South Wales. Meanwhile, China’s non-coking bituminous coal imports from Indonesia rose from 12.86 million tonnes in 2009 to 38.90 million tonnes in 2013. Even more significant has been China’s non-coking bituminous coal imports from South Africa, which increased from less than 1 million tonnes in 2009 to 12.36 million tonnes in 2013 (see Figure 6).

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4 Thermal coal imports into China are calculated as total coal imports minus coking coal and anthracite imports. Only around 50% of that is non-coking bituminous coal which contains country details. The majority of the remaining portion of thermal coal under this calculation is sourced from Indonesia. This calculation is somewhat arbitrary given anthracite is used for electricity generation in China. However, some non-coking coal is also used for purposes other than electricity generation. Anthracite is mainly imported from Vietnam and more recently from North Korea.
While Australia appears to have regained its market share of thermal coal exports to China from 2012 onwards, Queensland has encountered rising competition from New South Wales. In 2009, when China began its massive coal procurement from overseas, Queensland exported almost 9 million tonnes of thermal coal to China while the rest of Australia exported around 7 million tonnes. In the first eleven months of 2013, Queensland exported 10.65 million tonnes of thermal coal to China but exports from the rest of Australia surged to 27.28 million tonnes (see Figure 7).

Figure 7: Australia’s Thermal Coal Exports to China (million tonnes)

* Jan. to Nov. 2013
Source: ABS Unpublished Trade Data
Looking forward, coal fired power generation in China is expected to grow by around 7% per annum to 2016 as long as the Chinese economy maintains 7-8% growth per annum. This translates into an addition of around 500 million tonnes of thermal coal demand by 2016 compared with that in 2012. Based on the current projection of domestic coal production (2.0-2.5% growth per annum) for the concurrent period, it is unlikely that this additional demand will be entirely supplied by domestic production. Meanwhile, China’s General Office of the State Council announced a reform proposal for the country’s coal industry in late 2013. The proposal suggests a stronger integration of the coal and electricity industries, greater use of long-term coal supply contracts between domestic coal producers and electricity generators and better management of the periodic over and under supply problems. Importantly, the proposal also suggests to setting up differential import tax rates for low and high quality coal to discourage imports of low quality coal. While the timeline of this reform is unknown, this will certainly slow the growth in coal imports from Indonesia, which is China’s main supplier of brown coal, and may benefit suppliers of higher quality thermal coal including Australia in coming years.
In the first half eight months of 2014, China imported 201.8 million tonnes of black and brown coal, 5.3% lower than that in the same period a year ago.

Black coal imports fell 9.6% while brown coal imports rose 14.5%. If this current trend persists in the remainder of 2014, China will likely import 302.7 million tonnes of coal in 2014, somewhat lower than the 327.1 MT of Chinese imports in 2013.

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<th>Black and Brown Coal Imports to China (million tonnes)</th>
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<td><strong>Coking Coal</strong></td>
<td><strong>Non-Coking Bituminous Coal</strong></td>
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<td>2012</td>
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<td>2013</td>
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<td>2014*</td>
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*January to August 2014

Low coking coal prices have had a significant impact on high cost coal producing countries (namely Canada, Russia and the US). In the first eight months of 2014, coking coal imports to China from Canada, Russia and the US fell at an annual rate of 42.0%, 29.1% and 62.4% respectively. These falls have been partially offset by increases in imports from Australia (a total of 18.7 million tonnes, up 1.7%) and Mongolia (a total of 9.8 million tonnes, up 26.3%).
Low thermal prices have seen an increase from Chinese imports of non-coking bituminous coal imports into China. In the first eight months of 2014, compared to the same period in the previous year, imports rose from: Australia (up 19.8% to 40.0 million tonnes), Russia (up 159.6% to 8.5 million tonnes) and Mongolia (up 79.2% to 1.7 million tonnes).

Table 1 Chinese non-coking bituminous coal imports, by country of origin (million tonnes)

Rodrigo Segura
Economist
China imported a total of 83.96 million tonnes (mt) of black and brown coal in the first quarter (Q1) of 2014, 5.1% higher than the same quarter last year. This growth was mainly due to the 21.4% annual increase in brown coal, to 19.58mt, in Q1 2014. Imports of black coal (64.38mt) increased only 1.0% over the period.

Importantly, China’s imports of coking coal fell at an annual rate of 24.5% Q1 2014, to 12.97mt. Imports from Australia, the largest supplier of coking coal to China, fell 16.7% over the period, to 6.54mt.

In Q1 2014, China imported less coking coal from all of its major suppliers. Apart from Australia, imports from Mongolia and North America (US and Canada) also fell at an annual rate of 21.8% and 39.1%. The decline in coking coal imports to China was in line with the weak growth in China’s production of blast furnace iron in Q1 2014. China produced 178.27mt of blast furnace iron in Q1 2014, only 0.5% higher than that of the same quarter a year ago.
In contrast, China's imports of non-coking bituminous coal rose at an annual rate of 22.4% in Q1 2014, to 32.25mt. China's imports of non-coking bituminous coal from Australia rose at an annual rate of 24.3% in Q1 2014.

Apart from Australia, China also increased its imports of non-coking bituminous coal significantly from Russia and South Africa.

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In the first half (1H) of 2014, China imported 159.9 million tonnes (MT) of black and brown coal, 0.9% higher than that in the same period a year ago. Black coal imports fell 3.6% while brown coal imports rose 19.9%. China’s black and brown coal imports increased at a double-digit rate per year since 2009. If the current trend persists in the second half of the year, China is likely to import around 320MT of coal in 2014, slightly lower than the 327.1MT of imports in 2013.

The current low coking coal prices have seen high cost producers such as Canada, Russia and the US reduce exports to China. In the 1H of 2014, coking coal imports to China from Canada, Russia and the US fell at an annual rate of 46.0%, 25.7% and 60.0% respectively. Some of this decline was offset by an increase in imports from Australia and Mongolia. In the 1H of 2014, China imported a total of 15.02MT of coking coal from Australia, 13.2% higher than that in the same period a year ago. The weakness of coking coal imports in China is also related to the country's moderation in pig iron production. In the first five months of 2014, China produced 300.0MT of pig iron, only 0.3% high than that of a year ago. The weakness in pig iron production in China also saw China’s coke and semi-coke exports rise at an annual rate of 160.0% in the 1H of 2014, to 3.9MT.

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* Jan-June
In contrast, the current low thermal prices continue to induce more non-coking bituminous coal imports into China. Most significantly, China’s non-coking bituminous coal imports from Russia increased 155.6% in the 1H of 2014, to 6.9MT. Imports from Australia also rose 19.3%, to 61.3MT.

While China’s black coal imports from Indonesia fell at an annual rate of 19.5% in the 1H of 2014, to 28.2MT, it has been compensated by the 19.9% annual increase in brown coal imports, to 36.2MT, which was predominatly sourced from Indonesia.

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This announcement by the Chinese Government 2 days ago attracted a lot of media attention in Australia today.

China’s National Development and Reform Commission (NDRC) released a directive (No.16) on 15 September 2014 named Provisional Management Plan for Quality Control of Commodity Coal.

This Plan sets the minimum standard of coal production and imports. The standard are:

1. Ash content: brown coal <= 30%, other coal <=40%
2. Sulfur content: brown coal <= 1.5%, other coal <=3%
3. Other requirements: Hgd <=0.6μg/g, ASd <=80μg/g, Pd <=0.15%, CLd <=0.3%, Fd <=200μg/g

For coal required to be transported within China for more than 600km, there are extra requirements:

4. For brown coal, Qnet,ar >=16.5MJ/kg (3,941kcal/kg), ash content <=20%, sulfur content <=1%
5. For other coal, Qnet,ar >=18MJ/kg (4,299kcal/kg), ash content <=30%, sulfur content <=2%

There are also other restrictions (not prohibition) for Beijing-Tianjin-Hebei area, Yangtze River Delta and Pearl River Delta:

6. Ash content <=16%, sulfur content <=1% for the use of 散煤.

As far as I know, this Chinese term ‘散煤’ does not have an official English translation. However, apparently 散煤 is the opposite of briquette (型煤). In June 2014, China’s National Energy Administration (NEA) signed an agreement with Beijing, Tianjin, Hebei and Shenhua Group on applying clean technology on 散煤. 散煤 can also be referred as 散烧煤 which means raw coal mainly used for burning (cooking) and heating purposes in households and in some industrial boilers.
商品煤质量管理暂行办法

第一章 总则

第一条 为贯彻落实国务院《大气污染防治行动计划》，强化商品煤全过程质量管理，提高终端用煤质量，推进煤炭高效清洁利用，改善空气质量，根据《中华人民共和国煤炭法》、《中华人民共和国产品质量法》、《中华人民共和国环境保护法》、《中华人民共和国大气污染防治法》、《中华人民共和国对外贸易法》、《中华人民共和国进出口商品检验法》等相关法律法规，制定本办法。

第二条 在中华人民共和国境内从事商品煤的生产、加工、储运、销售、进口、使用等活动，适用本办法。

第三条 商品煤是指作为商品出售的煤炭产品。不包括坑口自用煤以及煤泥、矸石等副产品。企业远距离运输的自用煤，同样适用本办法。

第四条 煤炭管理及有关部门在各自职责范围内负责建立煤炭质量管理制度并组织实施。

第二章 质量要求

第五条 煤炭生产、加工、储运、销售、进口、使用企业是商品煤质量的责任主体，分别对各环节商品煤质量负责。

第六条 商品煤应当满足下列基本要求：

(一) 灰分 (A_d)
褐煤≤30%，其它煤种≤40%。

（二）硫分（S_{t,d}）
褐煤≤1.5%，其它煤种≤3%。

（三）其它指标
汞（Hg_{d}）≤0.6µg/g，砷（As_{d}）≤80µg/g，磷（P_{d}）≤0.15%，氯（Cl_{d}）≤0.3%，氟（F_{d}）≤200µg/g。

第七条 在中国境内远距离运输（运距超过600公里）的商品煤除在满足第六条要求外，还应当同时满足下列要求：

（一）褐煤
发热量（Q_{net,ar}）≥16.5MJ/kg，灰分（A_{d}）≤20%，硫分（S_{t,d}）≤1%。

（二）其它煤种
发热量（Q_{net,ar}）≥18MJ/kg，灰分（A_{d}）≤30%，硫分（S_{t,d}）≤2%。

本条中运距是指（国产商品煤）从产地到消费地距离或（境外商品煤）从货物进境口岸到消费地距离。

第八条 对于供应给具备高效脱硫、废弃物处理、硫资源回收等设施的化工、电力及炼焦等用户的产品煤，可适当放宽其产品煤供应和使用的含硫标准，具体办法由国家煤炭管理部门商有关部门制定。

第九条 京津冀及周边地区、长三角、珠三角限制销售和使用灰分（A_{d}）≥16%、硫分（S_{t,d}）≥1%的散煤。

第十条 生产、销售和进口的煤炭应按照《商品煤标识》
（GB/T25209-2010）进行标识，标识内容应与实际煤质相符。

第十一章 不符合本办法要求的商品煤，不得进口、销售和远距离运输。煤炭进口检验及其监管，按《进出口商品检验法》等有关法律法规执行。

第十二条 承运企业对不同质量的商品煤应当“分质装车、分质堆存”。在储运过程中，不得降低煤炭的质量。

第十三条 煤炭生产、加工、储运、销售、进口、使用企业均应制定必要的煤炭质量保证制度，建立商品煤质量档案。

第三章 监督管理

第十四条 煤炭管理部门及有关部门在各自职责范围内依法对煤炭质量实施监管。煤炭生产、加工、储运、销售、进口、使用企业应当接受监管。

第十五条 煤炭管理部门及有关部门依法对辖区内的商品煤质量进行抽检，并将抽检结果通报国家发展改革委（国家能源局）等相关部门。

第十六条 煤炭管理部门及有关部门对煤炭生产、加工、储运、销售、使用企业实行分类管理。

第十七条 口岸检验检疫机构对本口岸进口商品煤的质量进行监督管理。每半年进行一次进口商品煤质量分析，上报国家质量监督检验检疫部门，抄送国家发展改革委（国家能源局）、商务部等相关管理部门。
第十八条 任何企业和个人对违反本办法的行为，均可向有关部门举报。有关部门应当及时调查处理，并为举报人保密。

第四章 法律责任

第十九条 商品煤质量达不到本办法要求的，责令限期整改，并予以通报；构成有关法律法规规定的违法行为的，依据有关法律法规予以处罚。

第二十条 采取掺杂使假、以次充好等违法手段进行经营的，依据相关法律法规予以处罚；构成犯罪的，由司法机关依法追究刑事责任。

第二十一条 对拒绝、阻碍有关部门监督检查、取证的，依法予以处罚；构成犯罪的，由司法机关依法追究刑事责任。

第二十二条 有关工作人员滥用职权、玩忽职守或者徇私舞弊的，依法予以行政处分；构成犯罪的，由司法机关依法追究刑事责任。

第五章 附则

第二十三条 本办法由国家发展改革委（国家能源局）会同有关部门负责解释。各地区及相关企业可根据本办法制定更严格的标准和实施细则。

第二十四条 本办法自 2015 年 1 月 1 日起施行。
Amanda,

This is for Peter to sign off this afternoon and to put in E-Doc as we do not access to this system.

Thanks
QUEENSLAND'S COAL INDUSTRY AND RECENT ANNOUNCEMENTS BY CHINA AND INDIA IMPACTING ON QUEENSLAND'S COAL EXPORTS

BACKGROUND

The Under Treasurer will present at the Commonwealth Bank’s 7th Annual Australasian Conference on the topic “Funding Australia’s Infrastructure” on 22 October 2014.

CURRENT STATUS

Overview of Queensland Coal Industry

Queensland produced 224.2 million tonnes of saleable coal and exported 208.3 million tonnes of coal in 2013-14. Exports included 155.5 million tonnes of metallurgical coal and 52.8 million tonnes of thermal coal. China, India, Japan and Korea are the State’s largest import destinations of metallurgical coal while China, Japan, Korea and Taiwan are the top importers of Queensland’s thermal coal. The value of Queensland’s coal exports totalled $24.7 billion in 2013-14, constituting around 52% of the total value of the State’s goods exports and 8% of the State’s nominal economic output in the year.

China re-introduced tariffs on coal imports

On 9 October, 2014, China’s Customs Tariff Commission announced the re-introduction of import tariffs on coal, effective on 15 October 2014. The main purpose of this policy change is to support the domestic coal industry which is plagued by over-production and low profitability. Given the sheer size of domestic coal production in China, a small shift towards domestic production would lead to a large swing against imports. Therefore, the re-introduction of coal import tariffs is likely to have a detrimental impact on Queensland’s coal exports.

India’s Supreme Court cancelled 214 coal mining licences

On 24 September 2014, India’s Supreme Court cancelled 214 out of 218 coal mining licences awarded by the Government of India between 1993 and 2010 after finding these had been awarded illegally. Nevertheless, this verdict may not have severe implications for India’s domestic coal supply because the Supreme Court has allowed state-owned Coal India Ltd. to take over the management of the operational blocks. In the case that a shortfall in domestic supply does occur, it would most likely affect thermal coal production which is likely to be sourced from India’s traditional suppliers such as Indonesia and South Africa.

More detailed analysis is provided in the attachment.

FOR NOTING

Prepared by: Cecil Chan
Principal Economist
Macroeconomics Team
Tel: 303 51404
Date: 17 October, 2014

Endorsed by: Peter Johnson
Assistant Under Treasurer
Economics Division
Tel: 305 51407
Date: 17 October, 2014

Date:
I. Queensland Coal Industry: Overview

Queensland produced 149.8 million tonnes of metallurgical coal and 74.4 million tonnes of thermal coal in 2013-14. In total, Queensland coal production in 2013-14 was 8.5%, or 17.6 million tonnes, larger than a year ago (see Figure 1). Metallurgical coal is used for steel making and can be broadly divided into hard coking coal and semi-soft/PCI coal. Thermal coal is used mainly for electricity generation.

![Figure 1: Queensland's Coal Production](image)

In 2013-14, Queensland exported a total of 208.3 million tonnes of coal overseas. Hard coking, semi-soft/PCI and thermal coal constituted 107.1 million tonnes, 48.4 million tonnes and 52.8 million tonnes respectively of the total export volumes in the year (see Figure 2). 2013-14 was the first year Queensland's coal exports surpassed 200 million tonnes.

![Figure 2: Queensland's Coal Exports](image)

Queensland is the world's largest seaborne exporter of metallurgical coal. The importance of Queensland meant that the disruption of production in 2008 and 2011 due to floods led to a surge in international coal prices in those years. A normalisation of supply, combined with an increasing weakness in demand, has seen coal prices continuing to fall since mid-2011 (see Figure 3). On 16 October 2014, prices of premium hard coking coal stood at US$108.60/t,
semi-soft coking coal at US$77.35/t, premium PCI coal at US$88.60/t while thermal coal (6,300kcal/kg) was at US$63.50/t in spot markets.

Figure 3: Unit Value of Queensland's Coal Exports
(US$/tonne)

Sources: Unpublished ABS Trade Data and Queensland Treasury and Trade

China, India, Japan and Korea are the top four markets for Queensland's hard coking coal while Japan, China, Korea and Taiwan are the top four overseas markets for Queensland's thermal coal (see Figure 4). Although semi-soft/PCI coal exports are confidentialised by the ABS and therefore country details are not available, data published by DNRM show that China, Japan, India and Korea are the main importers of Queensland's semi-soft/PCI coal.

Figure 4: Top 10 Destinations of Queensland's Coal Exports
(2013-14, million tonnes)

Source: Unpublished ABS Trade Data

In 2013-14, the value of Queensland coal exports totalled $24.7 billion, constituting around 52% of the total value of the State's goods exports and 8% of the State's nominal economic output in the year.

II. China re-introduced tariffs on coal imports from 15 October, 2014 onwards

At the time when domestic coal supply was inadequate to meet demand, China cut the import tariff rate on coking coal to zero on January 1, 2005 and subsequently set the tariff rates for other coal imports to zero on June 1, 2007. On 9 October, 2014, China's Customs Tariff Commission announced the re-introduction of import tariffs on coal, effective on 15 October 2014.
The new tariff rates for different types of coal and coal products are as follows:

- Anthracite (HS code: 27011100) 3%
- Coking coal (27011210) 3%
- Other bituminous coal (excl. coking) (27011290) 6%
- Other coal (excl. anthracite and bituminous coal) (27011900) 5%
- Briquettes, ovoids and similar solid fuels manufactured from coal (27012000) 5%

The main purpose of the re-introduction of coal import tariffs by the Chinese government is to support the domestic coal industry which is plagued by over-production and low profitability. China produced 3.69 billion tonnes of raw coal in 2013, with the production level in the first half of 2014 maintaining at 1.82 billion tonnes. Meanwhile, China imported 327.1 million tonnes of coal from overseas in 2013 and imported a further 201.8 million tonnes in the first eight months of 2014 (see Figure 5).

**Figure 5: China’s Coal Imports (million tonnes)**

Given the sheer size of domestic coal production in China, a small shift towards domestic production would lead to a large swing against imports. Importantly, even before the re-introduction of coal import tariffs, the current trend has already pointed to a decline in coal imports by China in 2014. Therefore, this policy change by the Chinese government is likely to have a detrimental impact on Queensland coal exports. Specifically,

- China has been the main growth market of Queensland coal exports in recent years;
- As a result, China is now the State’s top market for coal, with exports of coking and steaming coal to China now constituting around 25% of the total export volumes of these two main types of coal from Queensland (see Figure 6);
- Cost escalation in recent years has seen Queensland coal mines move towards the upper end of global cost curves. Introduction of import tariffs by China is likely to lower international coal prices and further erode the profitability of Queensland’s coal mining industry;
- Australia has yet to sign a Free Trade Agreement with China, therefore the tariff will be imposed on coal imports from Australia while imports from ASEAN countries (particularly Indonesia) will likely not be affected.

According to export data compiled by the ABS, which are different from import data reported by China’s Customs, Queensland exported 18.7 million tonnes of hard coking coal and 8.2 million tonnes of steaming coal to China in the first eight months of 2014. Data reported by
DNRM showed that Queensland exported 6.5 million tonnes of semi-soft/PCI coal to China in the first half of 2014.

![Figure 6: Queensland's Coal Exports to China](image)

III. India's Supreme Court Cancelled 214 Coal Mining Licenses on 24 September 2014

On 24 September 2014, India's Supreme Court cancelled 214 out of 218 coal mining licences awarded by the Government of India (GoI) between 1993 and 2010 after finding these had been awarded illegally. The Supreme Court found that the GoI had legal authority to allocate coal blocks by auction, but chose to allocate the blocks in an 'arbitrary manner' during that period. The licenses cancelled were for 'captive' coal mining, meaning these were allocated to a specific need for the county (i.e. electricity sector, iron & steel sector, cement etc.).

Of the 214 captive coal blocks affected by the ruling, 40 are currently operational while six are likely to commence production in 2014-15. The operating mines have been ordered to halt production after 31 March 2015 while the remaining (non-operational) coal blocks have been ordered to cease any development work with immediate effect.

![Figure 7: India Coal Production](image)
The operating captive coal blocks produced 47.3 million tonnes of coal in 2013 (around 9% of India's domestic production, see Figure 7), of which 38.8 million tonnes was thermal coal.

According to India's Ministry of Coal, production from captive coal blocks in 2014-15 would be 52.9 million tonnes, with 67% of this total allocated to the power sector (see Figure 8).

Figure 8: Projected Production of Captive Coal Blocks in 2014-15 by Industry (% share)

However, in its verdict in September 2014, the Supreme Court has allowed state-owned Coal India Ltd. (CIL, responsible for around 80% of India's coal production) to take over the management of the operational blocks and has asked CIL to prepare an operational plan for the de-allocated mines (for after the cancellation comes into effect). CIL may also decide which coal mines it will take over and which will be auctioned in 2015.

Since the cancelled mine blocks are likely to continue production after 31 March 2015, the Supreme Court's verdict may not have severe implications for India's domestic coal supply. Importantly, with India's power sector currently suffering from electricity shortages and other structural issues, it is unlikely the GoI will put further pressure on this 'problematic' sector.

Figure 9: India's Thermal Coal Imports (India Fiscal Year, million tonnes)

Source: Ministry of Commerce and Industry, India
In the case that a shortfall in domestic supply does occur, it would most likely affect thermal coal production. If this shortfall is to be met by an increase in imports it is likely to be sourced from India's traditional suppliers. Australia's thermal coal imports only accounted for 1.6% of overall imports to India while Indonesia was responsible for 80.8% and South Africa for 15.5% (see Figure 9).

In contrast, Australia (mainly Queensland) is a key supplier of coking coal to India (see Figure 10). Any benefit from the Supreme Court's verdict to Queensland may be an increase in coking coal exports to India. Queensland exported 24.7 million tonnes of coking coal to India in 2013-14, an increase of 24.1% from previous year's level.

Figure 10: India's Coking Coal Imports (India Fiscal Year, million tonnes)

![Graph showing India's coking coal imports by country from 2003-04 to 2013-14.](graph)

Source: Ministry of Commerce and Industry, India.