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MIDYEAR BRIEF COAL 2023

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Among South African Electricity Minister Dr **Kgosientsho Ramokgopa**'s first tasks since his appointment in early March 2023 has been to convene with the countries that have agreed to extend $8.50-billion in concessional funding to support South Africa's energy transition from coal to renewables on the possibility of delaying the decommissioning of certain coal-fired power stations.

This rationale stems from the need to lower the intensity and frequency of loadshedding, particularly as South Africa experienced its worst electricity supply shortages on record in 2022 – a total 8 301 GWh of electricity was shed in the year, with December featuring more loadshedding than any previous year.

More than 200 days of loadshedding was incurred in 2022, marking an outage growth rate (in hours) of 300%, compared with 2021. Subsequently, State-owned power utility Eskom has had 50% of its nominal generation capacity of about 46 GW go offline owing to maintenance or breakdowns between December 2022 and January 2023.

Since coal still dominates the South African energy mix at 80%, Ramokgopa deems it prudent to "decarbonise in an environment where the lights are on" and advocates for the continued operation of coal-fired power stations instead of having them approach their dead-stop dates.

Besides, he explained to members of the Just Energy Transition Partnership (JETP), which was concluded as an $8.50-billion deal in 2021 with France, Germany, the UK, the US and the European Union, in April 2023 that some of the units that are due to be decommissioned soon are performing better than some of Eskom's newer plants, such as three 140 MW units at the Camden power station, for example.

Ramogkopa highlights the Camden power station is consistently within the top five performing power stations, and it would therefore not do the country's electricity system any favours if it were to be decommissioned.

He adds, however, that a decision would not be made without an assessment regarding the cost and emissions implications, as well as how the delay could be implemented without deviating from the overall decarbonisation commitment South Africa had made through the National Determined Contribution – that lead to the formation of the JETP in the first place.

A team appointed by National Treasury is undertaking a technical assessment to determine the feasibility of refurbishing some of the coal-fired power stations versus investing in replacement capacity, as well as the country's decarbonisation trajectory.

No coal-fired power stations would be decommissioned until the assessment was complete.

President **Cyril Ramophosa** also assures stakeholders in his weekly newsletter on April 24 that South Africa has committed to reducing its carbon emissions by 2030 within a target range compatible with limiting the global temperature increase to 1.5˚ C. However, he mentions that the way these commitments are achieved must not compromise energy security or the immediate priority of reducing loadshedding.

Ramaphosa confirmed on May 12, 2023, that government will slow down the planned decommissioning of coal-fired power plants, to secure its energy security first. This endorses Ramokgopa's proposal for this approach.

In contrast, news provider Daily Maverick cites the Presidential Climate Commission on May 31, 2023, as saying that the country should forsake using coal for future power generation. The commission is part of the team that reviews South Africa's Integrated Resource Plan,

Another developing country, India, is also considering keeping coal as its main source of electricity generation until 2030. The country is recording rising per-capita energy consumption, particularly as it is now the country with the biggest population globally and is experiencing a post-pandemic industrial rebound.

India has plans to add 46 GW of additional coal capacity alongside renewables, with renewable-energy installations likely to reach more than 500 GW by 2030 for solar, wind, hydro, biomass and nuclear energy.

China is also not wavering in its demand for coal, having increased its thermal coal imports from Australia by 125% (by volume) in March 2023, compared with February 2023. This increase is attributed to its ramping up its steelmaking and other industrial operations, following various Covid-19 lockdowns in 2022.

China bought 41.20-million tons of coal in March 2023, which included supply from Russia, Indonesia and Mongolia, trailing closely behind the record coal imports of 43.60-million tons in January 2020.

In South Africa, however, coal remains poised for significant demand declines as five South African banks – Absa, First Rand, Investec, Nedbank and Standard Bank – have established coal exclusion policies.

For example, banks are starting to cease direct support for new coal projects and are refraining from investing in companies that derive a certain percentage of their revenue from coal operations.

While it took almost six years for the first 100 institutions worldwide to enact such policies, more than 200 financial institutions have now established coal exclusion policies.

The US, France, the UK, Japan, South Korea, Germany, Australia and the Netherlands have the highest number of financial institutions with formal coal exclusion policies.

Institute for Energy Economics and Financial Analysis forecasts this trend will continue as investors become increasingly wary of what they will finance and what climate risks it poses.

Price Moves

Coal prices have averaged lower in 2023, compared with 2022, but remain above the 2017 to 2021 averages.

The South African and Australian benchmark prices for coal fell by 50% as of February 1, 2023, to $158.47/t and $210.51/t, from their peaks in April and September 2022, of $330.81/t and $437.01/t respectively, owing to more global supply and warmer weather.

The benchmark coal price averaged $270/t in 2022 but has come own to between $130/t as of April 2023.

South African coal exporter Thungela, for example, realised an average coal export price of $229.21/t in 2022, which is more than double the average coal export price of $103.82/t in 2021. However, for Thungela the average coal export price of 2022 remained above the pre-Covid-19 average of $70/t.

Coal prices had surged in February 2022 following Russia's invasion of Ukraine and remained high throughout the year. The war had worsened an energy crisis that started late in 2021. A European ban on Russian coal supply, in turn, had tightened supplies and contributed to high prices.

In Thungela's case, the high coal prices helped its cash generation, since rail constraints had cost the company three-million tonnes of potential coal exports. Thungela's exports in 2022 were 12% lower at 12.17-million tonnes, compared with 13.89-million tonnes of coal exported in 2021, owing to rail constraints.

Research firm Fengkuang Coal Logistics said in May 2023 that "the good days of high coal prices have come to an end", which is good for coal-fired power station customers, but not coal producers.

Private financial and investment advisory The Motley Fool cites forecasts of the Australian government chief economist Michelle Dowdell that thermal coal prices will rise from $245/t in the 2022 financial year to $360/t in the 2023 financial year, however, thermal coal prices will decline to $239/t in the 2024 financial year.

The company expects metallurgical coal prices to drop from $404/t in the 2022 financial year to $262/t in the 2023 financial year, and again to $238/t in the 2024 financial year.

China's producers are at the forefront of falling industrial profits as poor demand and price deflation tear into margins at steel mills, metals smelters, chemical firms and coal miners.

BOCI Research analyst **Tony Fei** said in May 2023 that coal miners in China are contending with a collapse in prices as rising domestic output is augmented by massive imports, which is lifting stockpiles to historically high levels.

The benchmark price at Qinhuangdao port has dropped by 16% to ¥992, compared with the start of 2023.

China Coal Transport and Distribution Association in May 2023 explained that China's weak property market and sluggish industrial activity were weighing on coal prices as of May 2023, even as a spate of government safety checks curbs output. The association noted that key industrial users of coal, including steel mills, were demanding more discounts on coal acquisitions to help cover losses from the country's lockdowns in 2022.

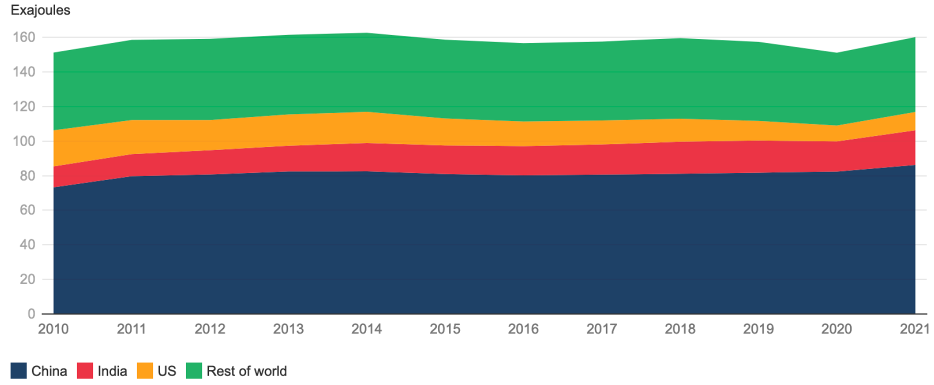
Fengkuang believes elevated stockpiles at Chinese ports could force traders to dump coal, pressuring prices further, before warming temperatures and improved economic activity help clear the surplus, with many companies having curtailed operations.

China produced a daily record of 13.46-million tonnes a day in March 2023, however, average daily coal production dipped in April 2023 to 12.72-million tonnes, which amounted to 381-million tonnes for the month, according to business publication Financial Post in May 2023.

Over the first four months of 2023, China produced 1.53-billion tonnes of coal, 4.80% higher than the same period in 2022.

China's coal miners held about 68-million tons in inventory at the end of April 2023, which is 21% more than stockpiles held at the end of April 2022.

Coal Consumption



Source: World Bank

In Europe, coal prices had also fallen below $100/t in April 2023, which marked the lowest level in almost two years, as a drop in power demand and gas prices curbed the use of coal, according to news service Bloomberg in May 2023.

Power plants in Europe have been favouring gas over coal in 2023, which is a major change from 2022 when Germany burned coal at the fastest pace in at least six years, after Russia cut piped gas flows to Europe.

New Projects

While many companies are divesting from coal assets, and banks are committing to stop financing new coal projects, diversified miner Menar says the construction of its new Gugulethu Colliery, near Hendrina, in Mpumalanga, is progressing well.

First coal was expected to be extracted in July or August 2023, with a ramp-up in production to 200 000 t of run-of-mine coal to follow. The project will first comprise an opencast operation before being developed for underground mining in seven years' time.

The R600-million of capital having been invested in the project comprises more than half of the R1.04-billion worth of investment in South Africa that Menar pledged at President Ramaphosa's fifth South Africa Investment Conference in 2023.

Overall, Menar has committed to spend about R7-billion from now until 2026, including R1.50-billion in Bekezela, R600-million in Gugulethu, R1.50-billion in Sukuma, R700-million in Thuso, R1-billion in Umzila and Gila, R300-million in Riversdale Anthracite Colliery, R130-million at the Mngeni Shaft development and about R388-million in Ukuduma.

Meanwhile, Minerals Council South Africa junior and emerging miners desk lead Grant Mitchell told *Mining Weekly* in May 2023 that the two biggest growing commodities being mined by junior miners in South Africa are platinum and coal, despite the mining and prospecting rights backlog being the worst in Mpumalanga – where most of South Africa's coal deposits are located.

Mpumalanga has 1 584 mining permit applications in its backlog, which is more than all the other provinces combined.

Further abroad, India has confirmed it will continue building new coal-fired power plants as the commodity remains its biggest source of energy generation until 2030.

India expects its power plants will burn about 8% more coal in the financial year ending March 31, 2024, with demand expectations of 821-million for the year.

Coal will account for 54% of India's energy mix in 2030, meaning as much as 46 GW of additional capacity will be required alongside 500 GW worth of new renewable-energy plants.

Slow Shipments

Coal exports through the Richards Bay Coal Terminal dropped to 50-million tonnes in 2022, marking the worst performance since 1993 when it shipped out 51-million tonnes of coal.

This compares to the terminal's coal shipments of 59-million tonnes in 2021 and 70-million tonnes in 2020.

The decline in shipments follows instances of cable theft and low availability of locomotives on Transnet's part, which disrupted Transnet Freight Rail's (TFR) rail volumes to the terminal.

Bear in mind, says Business Day, this was amid a time when coal export prices were high.

The terminal is owned by coal miners such as Sasol, Thungela and Exxaro Resources, through RBCT. RBCT CEO **Alan Waller** said in May 2023 that the terminal budgeted for increasing export performance in 2023, at about 60-million tonnes.

The nameplate capacity of the terminal is 91-million tonnes.

Among the disruptions to TFR's operations recently was the derailment of a coal train on the North Corridor in November, after which Transnet declared force majeure on the coal export line to Richards Bay.

The train was carrying 97 loaded wagons. Another derailment in May 2023 impacted on 49 wagons of coal.

Additionally, an 11-day strike at Transnet in October 2022 also impacted on coal transports.

The North Corridor line is often targeted by cable thieves, which transports most of the coal to the ports for export.

Executives, such as Seriti Resources CEO **Mike Teke**, have said that a high coal price warrants the extra expense of trucking coal rather than using rail, which, in turn, unfortunately leads to more damage on roads, more congestion and lower profit margins for miners.

Metals research company McCloskey said in April 2023 that with prices hovering between $130/t and $140/t in 2023, it is not economically viable any longer to send coal through road to ports.

Economists and business commentators have repeatedly warned that Transnet is an impending disaster for the South African economy if more decisive steps are not taken, such as privatisation of Transnet, or at least its rail function.

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