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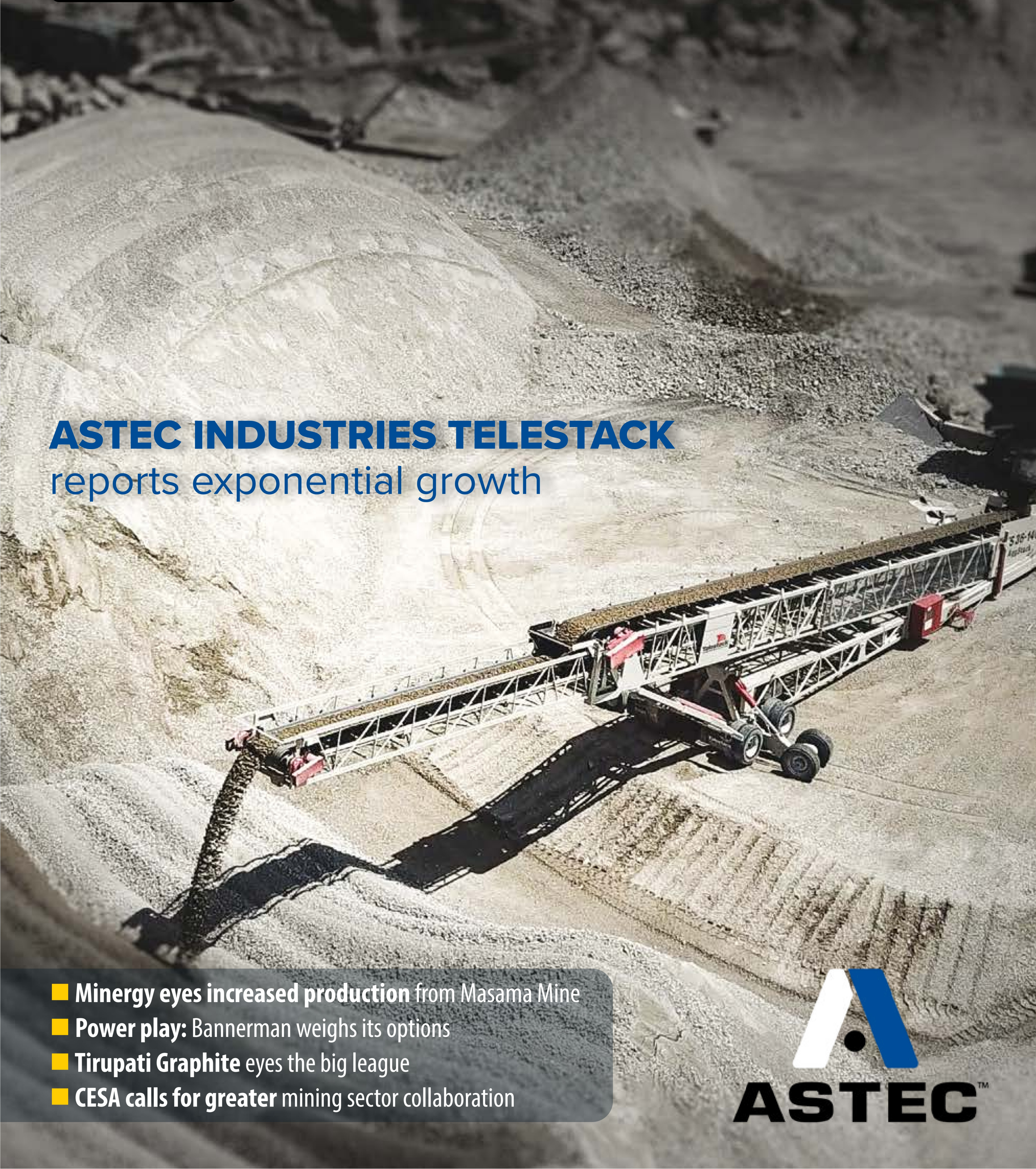

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Price performance review

By Alana van Wouw, market analyst at Crane Ridge

As a result of the Covid-19 pandemic, 2020 saw a record 4.2% drop in global coal consumption, and within the 38 countries that comprise the Organisation for Economic Cooperation and Development (OECD), coal consumption fell by 15.2% in the same period. However, as with oil and natural gas, coal demand and consumption bounced back strongly in 2021, growing by 6.3%.

Coal consumption in non-OECD countries rose to a new record, while global coal consumption fell just short of the previous record set in 2014. Non-OECD countries now consume 81.5% of the world's coal.

Based on current trends, global coal demand is set to rise to 8 025 mt in 2022, the highest level ever seen, and to remain there through 2024.

Coal outlook: Demand and supply dynamics

Sanctions and bans on Russian coal following the country's invasion of Ukraine have disrupted markets, and various issues amongst other major exporters have contributed to supply shortages.

When the war in Ukraine began, European nations imposed sanctions on Russia that were designed to economically and financially limit the country's ability to finance the war. In the sixth package of sanctions against Russia, the European Union (EU) banned all imports of Russian coal.

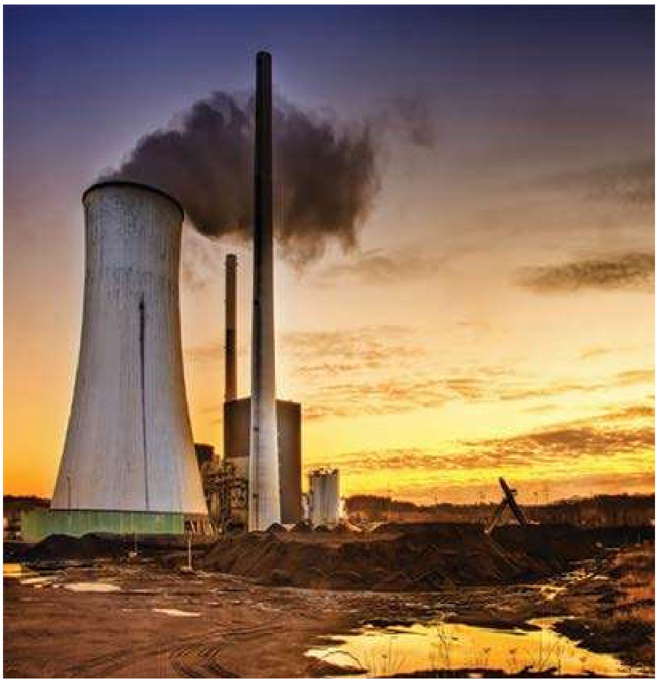
The ban was agreed in April with the import wind-down period ending on 10 August. Coupled with the oil embargo on Russian seaborne oil authorised in June and scheduled to go into effect at the end of the year, coal was the first Russian energy source to be affected by the sanctions.

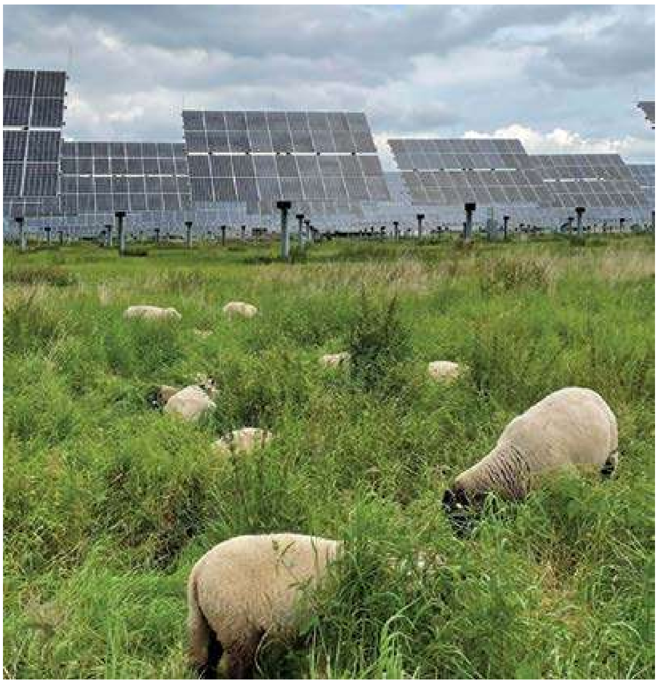
EU requirements for coal during its winter periods saw a U-turn on the coal sanctions imposed on Russia. According to new guidelines from the executive branch of the European Commission, the transfer of some items, particularly coal and allied products, "should be allowed in order to combat food and energy insecurity around the world."

Coal consumption in the European Union is

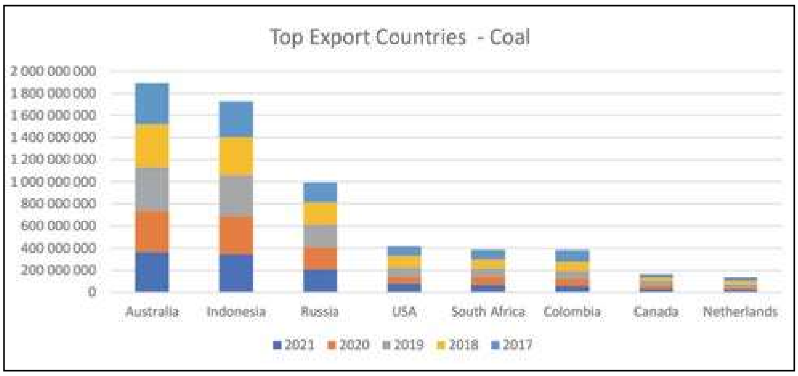
Right: Miners are investing in renewable energy projects.

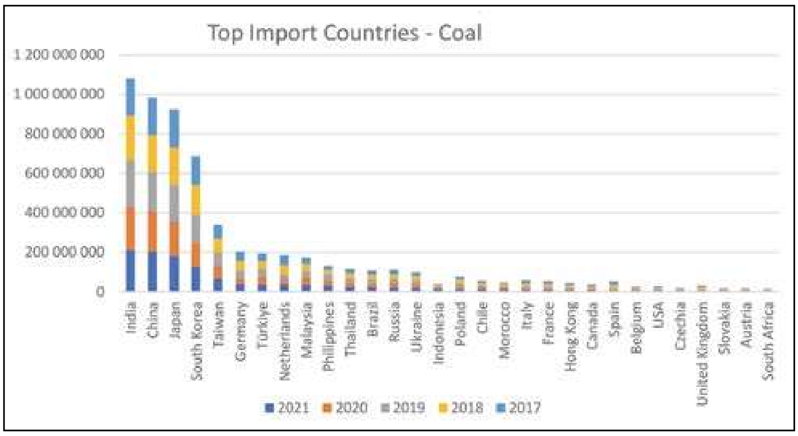
Below: Coal demand is driven by demand from the electricity sector.





Global coal demand is set to rise to 8 025 mt in 2022.





expected to rise by 7% in 2022 on top of last year's 14% increase. This is being driven by demand from the electricity sector where coal is increasingly being used to replace gas, which is in short supply with resultant price volatility following February 24.

In addition, several EU countries are extending the lives of coal plants scheduled for closure; reopening closed plants; or raising caps on their operating hours to reduce gas consumption. However, Europe only accounts for about 5% of global coal consumption.

With other coal producers facing constraints in replacing Russian output, prices on coal futures markets indicate that tight market conditions are expected to continue well into 2023 and beyond.

Coal outlook: Factors to watch for

Energy markets are in a period of extraordinary turbulence as the world contends with the global energy crisis brought about by the Ukrainian situation and premature transitioning to alternate energy sources. While oil and natural gas are receiving much of the attention, coal markets are experiencing significant turmoil as a result. This has important implications for the many countries where coal remains a key fuel for electricity generation and a range of industrial processes.

In August 2022, RWE AG announced that it would restart three power plant units that were previously on standby amid efforts to cut down on the use of natural gas electricity generation. The restart, which will take place in the coming days, follows orders by the German government, the utility company said.

The three units – Neurath C and Niederaussem E and F – have a capacity of 300 megawatts each. They will be deployed until at least June 30 next year.

All three reserve power plant units, which run on lignite – also known as brown coal – had been originally planned to shut down permanently by next fall.

The trajectory of global energy demand, owing to the economic recovery after Covid-19 restrictions and current market disruptions, is not going in the right direction to meet climate goals.

COP 26 climate talks, held in November 2021, ended in a fierce disagreement over a pledge to abandon coal. A last-minute intervention by India successfully watered down the language of the pact from "phasing out" to "phasing down".

Without strong and immediate action by governments to tackle coal emissions – in a way that is fair, affordable, and secure for those affected – we will have little chance, if any at all, of limiting global warming to 1.5 ^{0}C. The realism of transitioning from coal in a managed way has become evident, leading to a more balanced future for coal production.

However, there are promising projects in the pipeline that will help in these efforts. One such is the German lignite coal generator *Lausitz Energie Kraftwerke AG* which plans to install 7 GW of renewable energy technology at former opencast coal mines in the Lusatia region by 2030.

The company expects to invest more than €10-billion to build the complex, which will combine solar photovoltaics, wind systems and energy storage solutions. ■

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