



OPINION

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Uncertainty Reigns Supreme on PRC LR Coal Import Ban

By now, it must be apparent to all that China's National Energy Administration (NEA) had "jumped the gun" when, in early May 2013, it released for stakeholder comment a proposal to ban the import of low rank (LR) coals (NEA's Proposed Regulation). Since May 14, when IHS McCloskey provided details about the NEA's Proposed Regulation in its China Coal Daily, (see Table 1, Original Proposal), the NEA appears to have changed the coal quality "ban" limits for LR coal twice.

On June 4, 2013, Reuters announced that the NEA, in response to utility protests, had revised the coal quality limits for LR coal to such an extent that the NEA's Proposed Regulation would have minimal impacts on exports of Indonesian LR coals (see Table 1, Draft 2). Then, on June 6th, IHS Coal, an affiliate of IHS McCloskey, issued a brief email stating that the coal quality limits of the NEA's Proposed Regulation to ban LR coal imports had changed yet again and this time back to a level that would impact LR coals but less than the NEA's original proposal. IHS Coal reports this revision as "2nd draft". To distinguish between the two drafts, I have labeled the IHS Coal reported revision to the coal quality limits as "2nd draft, ver.2".

Since then little to no information has been released by the NEA concerning its proposed regulation. After talking with IHS Coal, Argus, Bernstein and a

number of Indonesia's coal producers and traders - including one Chinese coal trader - I can only conclude that everyone is mostly operating in the dark about the status of the NEA's Proposed Regulation.

Speculation is rife about three elements of the regulation:

- The likely date of its implementation (and whether it will be implemented at all);
- Coal quality thresholds that will be applied; and
- The motivation of the PRC Government for implementing the regulation.

Date of Implementation: Most industry players are now wisely ignoring all of the speculation on timing for implementing the NEA's Proposed Regulation and whether it will be implemented at all. One Chinese trader that I met at Coaltrans Asia (June 1-3 2013) but did not obtain a business card from, said he "was not paying any attention at all" to the rumors about the NEA regulation. He felt it was a dangerous distraction at a time when he needed to be totally focused on buying and then reselling coal. He was of the opinion that the regulation would not be implemented until late 2013 at the earliest - but then he admitted with all honesty that his comment was not based on "insider information", It was merely his "hunch" on how things will turn out.

IHS, on the other hand, believes that the regulation will be implemented

sometime during the last half of 2013 based on a statement reportedly made by China's vice-premier, Ma Kai, who, on June 6th, reportedly gave "his approval" during a State Council meeting "to a proposed ban on lower c.v. coal imports into the country". According to IHS, "with Ma's nod, the National Energy Administration (NEA) and Ministry of Commerce have now been directed to draft firm regulations, ahead of a final decision on the ban being taken."

On July 4, 2013, Platts issued an on-line news article in which, based on comments made by an unnamed "trader at one of China's largest five power generation companies" stated that the NEA's Proposed Regulation would likely be cancelled with little or no publicity.

Coal Quality Thresholds: Other uncertainties relate to the technical details of the regulation's proposed coal quality rejection limits. In particular, most trade journal articles covering the NEA's Proposed Regulation state the coal specification limits for ash and total sulphur (TS) but do not identify the reporting basis for ash and TS. The one exception seems to be an article issued by Platts, which claims the basis for TS and ash is "as received", which would be contrary to the "air-dried" reporting basis typically used by Chinese coal buyers and Indonesian coal sellers. This detail is something that needs to be confirmed - not assumed. Making "reasonable assumptions" about the reporting basis for

TS and ash is not a safe way for dealing with this issue, especially when dealing with low CV, high moisture coals or high TS and high ash coals (>1% TS).

Another detail that was not stated in a number of analyst reports is whether the quality limits are to be applied conjunctively (as a group) or individually. Argus and most others believe if a coal shipment is out of compliance with a single coal quality limit, then, under the NEA's Proposed Regulation that shipment would be banned from being imported into China. But this assumption needs to be officially confirmed by reference to official documents; not through reliance on an unnamed reliable source in China.

Motivation for the Regulation: IHS, Reuters and a number of other analysts believe that the regulation to ban LR coal imports is mainly an effort by the Chinese Government to rescue its beleaguered domestic coal industry. They point to the strong lobbying in support of this regulation by the domestic mining industry as evidence of this motivation.

Michael Parker of Bernstein does not believe the NEA's proposed regulation has anything to do with the financial position of the domestic coal industry. Instead, he believes it is a response by the PRC

Government to the acute air pollution crisis that occurred in Beijing and other large Chinese cities in early 2013. He cites as evidence the rumor that the NEA regulation will also apply limits on the use of low rank or high sulphur, high ash domestic coals. If the motivation was to support the domestic coal industry, he argues it would not have imposed equally rigorous restrictions on domestic coals.

Finally, there has been speculation by some parties, including myself, that it may have been more than a coincidence that the NEA's Proposed Regulation was released for stakeholder comment only a few weeks prior to the 2013 Coaltrans Asia conference, which was held in Bali from 1-3 June 2013. One person at the conference referred to the NEA's Proposed Regulation as a "delicious irony", given that Indonesia's Ministry of Energy and Mineral Resources (ESDM) started the ball rolling on this concept in 2011 with its ill-advised proposal to ban low rank coal exports.

Whether or not there is any truth to this speculation, the timing of the release of the NEA LR coal proposal had an interesting "knock-on-effect" at the Coaltrans Conference. Usually, Indonesia's Energy Minister and his

deputies make a number of statements to the press, which are openly hostile to the interests of the coal industry and its export customers. But this year, as a result of all of the attention given to the NEA's Proposed Regulation, there was little to no press coverage given to the speech of Jero Wacik, Indonesia's Minister of Energy and Mineral Resources. Even the comment from Edi Prasodjo, a Deputy Director General at ESDM, that the Minister was considering the implementation of export quotas, was not treated as news worthy by the press.

The PRC Government, by leaking to the press details of its import ban regulation, also dampened any positive price impacts that Pak Edi's comment otherwise might have had.

Perhaps this regulation is totally based on domestic concerns and its May release for stakeholder comments was not a move to preempt the Indonesian governments usual inflammatory statements at Coaltrans. If so, then the NEA without trying proved the old notion that "what goes around, comes around". Finally, it remains to be seen if any of the idle speculation about the timing and quality limits of the NEA's Proposed Regulation will eventually prove to be true. 

NEA proposals to ban of low rank coal imports

Coal quality parameter	Original proposal ^Ω	2 nd draft ^Σ	2 nd draft ver.2 [Ⓜ]	Rofeva comments
CV (kcal/kg, NAR)	<4544	3750	3941	Add ~350 kcal/kg to NAR estimates to get approximate GAR values
Ash (ad?)	>25%	>20%	>20%	Basis for ash and TS unstated by parties reporting PRC proposal. PRC typically reports ash and TS on an air-dried basis, which is a safe assumption but not yet confirmed.
Total Sulphur (ad?)	>1%	>2%	>1%	

Source: ^Ω IHS McCloskey China Coal Daily, May 14, 2013 and telephone conversation with IHS Coal Singapore
^Σ Reuters, "China Platt's International Coal Report, May 24, 2013.
[Ⓜ] IHS Coal email dated June 6, 2013.