

The Coal Crunch is Materializing

Posted by [Luis de Sousa](#) on May 1, 2008 - 10:00am in [The Oil Drum: Europe](#)

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In recent days a series of media articles surfaced pointing to a concerning situation in China. The [New Scientist](#) reported:

At the end of a cold and stormy winter, the country has just 12 days of coal reserves at most power stations. Some provinces, including Hebei, bordering Beijing, have less than a week's coal left. This is a record low, the state electricity regulatory commission revealed on Tuesday.

It continues:

China relies on burning coal for 70% of its electricity. Even though Chinese coal production in the first quarter of this year was up almost 15% on the same period last year, it has apparently not been enough to meet rapidly growing demand.

[...]

The coal mining industry, and the rail network needed to bring the coal to the power plants, are both struggling to keep up with the drive to build ever more generating capacity. The strains raise questions about how much longer China's breakneck industrialisation can continue.

[China Stakes](#) presents even grimmer details:

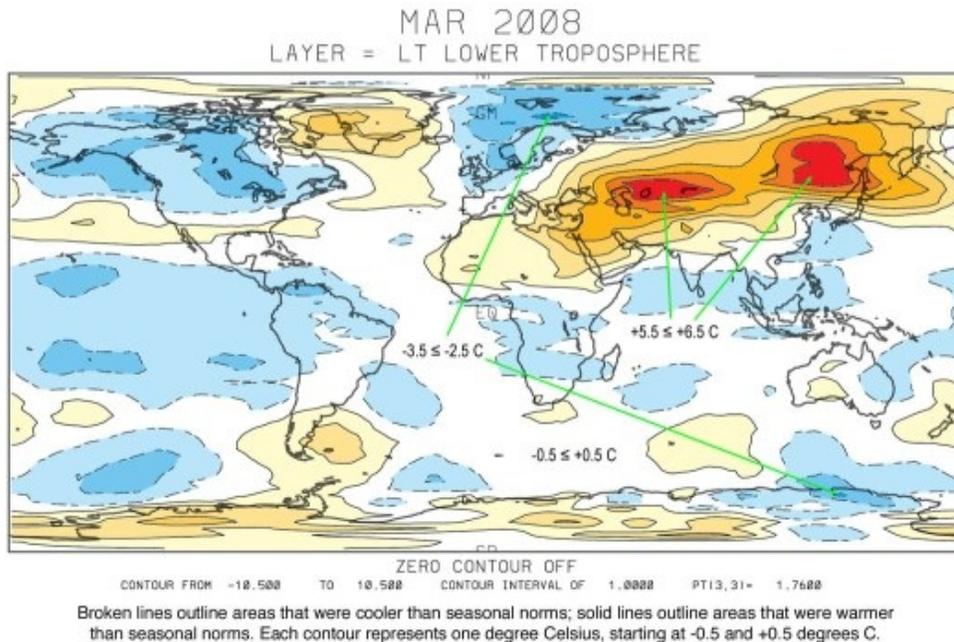
The Vice-President of the State Electric Power Supervisory Commission, Wang Yeping, said that in Hebei, Anhui, and Chongqing, the stockpile of coal for power generation was not even enough to last 7 days. This situation is quite similar to the one that existed in January 2008. Theoretically, a stockpile that is smaller than 7 days supply has reached an "urgent level".

This scenario is even more concerning coming during the Spring when electricity demand is at the lowest. Air conditioning is not needed yet and most of the country should by now be through with home heating. The coming Summer can indeed have some hardships reserved for China.

While the hard winter brought all sort of disruptions to the regular life of Chinese folk during the weeks prior to the New Year festivities, production kept strong during the first months of 2008,

setting new records. These facts show that the difficulties felt during January and early February were mainly caused by shipping disruptions.

While cold weather continued for the rest of the [Northern Hemisphere](#), China was granted some relief in March with some warm temperatures:



Temperature anomalies in March of 2008. Source [University of Alabama in Huntsville](#).

Although [out of season frosts returned to China in April](#), the southern provinces of the country are now well into Spring. So why these dwindling stocks now? [China Daily](#) have it by the numbers:

The General Administration of Customs said on Thursday that China exported 8.75 million tonnes of coal for \$630 million [during January and February], up 13.5 percent and 39.7 percent, respectively, year-on-year.

Prices averaged \$72.2 per tonne. For February only, exports were 3 million tonnes, down 32.1 percent.

Imports were 7.06 million tonnes, down 18.2 percent year-on-year. These shipments were valued at \$450 million, up 13.1 percent. The average price was \$63.3 per tonne. For February only, imports were 2.82 million tonnes, down 28.2 percent.

Putting it simply, China is importing a smaller volume of Coal than last year, but actually spending more money doing it. Especial attention should be taken to the prices per tonne, in the order of \$60 – 70.

At the same time prices in Europe are well above \$100 /tonne and Indonesian Coal is [expected to reach a \\$150 /tonne](#), this kind of Coal was below \$50 /tonne last year.

Apparently the international Coal market is getting tight enough for a country like China to feel

the pinch. While Europe and North America are still able to import their usual share with prices triple of those last year, China isn't. Volumes available for export in South East Asia, Australia and New Zealand are being diverted away from local buyers with lower purchasing power.

Partially this problem is rooted on extreme weather events that have been affecting Australia's production. Floods during the first months of the year brought [hard cooking coal prices to a spike of \\$400 /tonne](#) [hat tip [Big Gav](#)]. Still, the same article indicates long term contracts being celebrated at \$300 /tonne, and thermal coal also bound to go over \$100 /tonne this year.

With the Coal Crunch the world is stepping into is just another dimension of the present energy crisis that is being triggered by anaemic oil production. Either by pushing demand up for other energy sources or supply down for minerals, food and other commodities, oil is building an economic whirlwind that has the potential to transform the face of our societies. Ready to ride?

Previously at Europe.TheOilDrum.com: [Coal Crunch?](#)

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