

Delivery Drawbacks Hamper Coal Exports

By [The Moscow Times](#)

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LONDON — Russia's coal exports are likely to grow by less than a 10th to about 80 million tons at most this year largely because of rail bottlenecks, and the gain could be even less in a likely environment of disappointing prices.

The world's sixth-largest coal exporter after Indonesia, Australia, Colombia, South Africa and the United States may see its share of the export market shrink slightly if Asian growth boosts global demand, but not enough to fall in the ranking.

"Russia is sixth in the world with 4 percent of global supply but will only have relatively small-scale growth in the overall picture," Rudi Vann, lead analyst with Wood Mackenzie, told the Coaltrans Russia conference at the end of March.

"Russian ports are close to capacity with no new expansions scheduled this year. There is a bottleneck to increase supply to the market," he added.

The costs of mining and railing coal to port in Russia are the highest in the world at \$80 to \$90 a ton FOB, which compares with delivered Europe prices of \$96 at present.

Russian coal is currently trading at \$90 a ton FOB Baltic and Russian ports. Up to \$110 is achievable in specific Asian markets, but the Russian rail system has reached its capacity for moving coal to the east from the main producing region of Kuzbass in central Siberia.

With prices uncomfortably close to breakeven point for many exporters, companies are looking for every possible cost saving and way of adding value to their product.

The social and political implications of cutting production and jobs in the remote mining regions make it impossible to do so even when selling at a loss.

Even so, last year Russia's biggest miner SUEK managed a 350 percent rise in net profit to 5 billion rubles (\$170.3 million) due to a variety of measures to cut costs including selling more coal domestically and focusing on premium-paying markets, company sources said.

Major exporters have already sold forward almost all their production for this year, leaving a small amount of spot tonnage to sell in markets that pay the most, they said.

If prices rise in the second half of the year, Russia's total seaborne thermal coal exports are likely to increase to about 80 million to 82 million tons, but the figure could be close to last year's 75 million if prices remain at the current level, coal exporters estimated.

"If prices rise there is some potential for expansion in the Far East, with coal from eastern Siberia," the major exporter said.

"If prices are good, it could be in the low 80s, up to 82 million tons seaborne," he added.

A rise in sea freight rates also could benefit Russian exporters, who gain a competitive edge in sales to countries relatively nearby in Scandinavia, Turkey and Japan, they said.

Demand for coal is weakening in Europe as coal-fired plants shut due to tightening environmental laws. That is compelling Russian sellers to focus increasingly on Asia, although they all plan to retain a foothold in Europe.

For the past few years, about half of Russia's exports have been flowing to Asia and the remainder to Europe.

The east-west balance has shifted almost as far as it can because of the bottlenecks in rail transport, although a few million tons extra could flow east if prices justify it, exporters said.

"Demand and prices are better from the smaller Japanese buyers for spot sales, there you can get a premium, but we have very little spot to sell," a second major exporter said.

Major exporters agreed that no more than a 6 percent rise to about 80 million tons is likely and that any growth will be in exports from Russia's Far East ports.

"All the increase in the Far East will be from eastern Siberian mines, which have a different quality of coal," the first exporter said.

Coal from Russia's east tends to have lower energy content and higher ash of about 5,500 kilocalories per kilogram net as received, rather than the 6,000 kilocalories per kilogram premium product sold into Europe and Japan.

China and South Korea will continue to absorb the bulk of far eastern low- to medium-grade exports, while India is likely to be a sporadic market depending on freight rates.

"For the next five years' exports, it's impossible to tell, but you could see gradual growth in the Far East," the first exporter said.

The crucial infrastructure limitation on exports currently is not the need for more port capacity but a rail bottleneck at Kuzbass, where trains are loaded to go east and where the entry of new private train operators has caused congestion and chaos.

According to some senior executives, a shortage of rail wagons, which plagued the industry for many years, is over. Now there are too many wagons and often in the wrong place.

Rail privatization has put more than 50,000 old rail wagons in the hands of new operators to refurbish and run, while production of new wagons has at last picked up after many years. Russia has moved quickly from a shortage to a surplus of rolling stock.

"Now there are too many rail cars, and it's causing congestion and delays, we need to get rid of some of them. We lack locomotives and drivers," the first major exporter said.

The rail bottlenecks are making it impossible to move coal from Kuzbass, even if a large port were built in the Far East, a senior logistics firm source said. "There is an infrastructure problem, but it's not a lack of rail cars."

Coal producer Raspadskaya declined to a three-month low after its first-quarter output missed estimates, Bloomberg reported Friday.

Company shares dropped by as much as 9.1 percent and were 3.7 percent lower at 103.84 rubles (\$3.5) by 6:38 p.m. in Moscow, heading for their weakest close since Jan. 11.

Coal production rose 1 percent to 1.59 million tons in the first three months of the year, the producer said in an e-mailed statement. This compares with guidance of 2.35 million tons given by chief executive Gennady Kozovoi during a Dec. 9 conference call.

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