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Coal Companies Pivot East in Struggle Against Cheap U.S. Exports

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Coal companies like SUEK will try to offset the effects of cheap U.S. coal by developing mines in the Far East.

The nation's coal mining companies suffered major losses last year as cheap U.S coal exports drove down prices.

The companies' cumulative losses amounted to 22 billion rubles ($600 million), as opposed to the 60 billion rubles profit that the companies earned in 2012, said Vladimir Rashevsky, chief of SUEK, Russia's largest producer of coal for power stations.

"The coal mining industry of the entire world — and our country is not an exception — is living through the deepest decline in the past 10 years," he said at a Cabinet meeting Thursday. "I will not be mistaken, perhaps, if I say that more than a third, or up to a half, of all the world's coal mining companies are generating losses these days."

Russia is the sixth-largest coal exporter globally after Indonesia, Australia, Colombia, South Africa and the U.S.

Rashevsky and Energy Minister Alexander Novak, who also spoke at the Cabinet meeting, said demand remained unchanged in Russia and Europe last year, while global prices fell.

Coal became cheaper in part due to higher exports of coal out of the U.S., where increased output of cheap shale gas put the squeeze on demand for other energy resources.

Airat Khalikov, an analyst at brokerage Veles Capital, said that Russia last year increased its deliveries to China, where the pressure is on to keep the price competitive with that of rivals Australia and Brazil.

China is one of the world's largest coal importers. Its thermal power plants generate 70 percent of the country's electricity.

Despite the downturn in prices, the Cabinet on Thursday backed a strategy that calls for the industry to boost exports, mostly to Asia, over the next 15 years. The hope is that deposits to be tapped in the country's east will be more profitable than existing coal mines, as their proximity to eastern ports will reduce transport costs.

The strategy for the development of the industry sets a target for coal exports to increase by 70 million metric tons from last year's 138 million tons, or by 30 percent, by the end of 2030.

Russia produced 350 million tons of coal from its 86 mines and 120 open pits last year.

Russia will focus on Asia in stepping up its coal trade because demand there has been growing, Novak said. Russia accounted for 6 percent of the Asian market last year.

As part of its plan to develop coal mining in the economically depressed Far East, Russia intends to allow investment by China in three coal fields in the region, Novak said — Yerkovetskoye, Gadzhinskoye and Chikoyskoye. Under the plan, coal will go toward power generation in Russia, with the goal to export the electricity to China.

The strategy also envisages expanding coal terminals at the country's Pacific ports.

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