

Govt may regulate coal exports

Jan de Lange | Thu, 18 Nov 2010 09:10 [miningmx.com] -- GOVERNMENT is seriously considering the regulation of coal exports to protect Eskom from local producers who get higher prices for their coal in India and China.

On Wednesday Mineral Resources Deputy Minister Godfrey Oliphant said that Eskom was suffering because low-grade coal was being sold to India and China because it was more profitable for the producers to export the coal than to sell it to Eskom. The producers then sold a very poor quality product to Eskom.

South Africa has very little high-grade coal and Eskom's power stations have been designed for a low-grade product, but the quality of the coal it currently receives is too poor.

Oliphant said that in the coming months government would look at amendments to the Mineral and Petroleum Resources Act. He was not sure whether it would be in the country's interest to declare coal a strategic resource, he said at a conference on clean coal resources in Johannesburg.

Oliphant's remarks were clearly in response to complaints from top Eskom spokespeople in recent weeks that the utility was struggling to meet the country's electricity requirements because of inferior quality coal being delivered to its power stations. Eskom had blamed exports receiving preference.

Brian Dames, the chief executive of the electricity giant, recently said that Eskom was losing between 500 MW and 1 000MW a day of generation capacity because of the exceptionally poor quality of the coal.

On Wednesday Oliphant said that Eskom's building programme meant the electricity giant would require 160m tons of coal a year by 2020, compared with the current demand for 122m tons.

Would we have enough coal to meet this demand, Oliphant wanted to know.

Export prices are many times higher than the price that Eskom pays for coal in terms of its long-term contracts. The long-term contract price currently stands at about R150 per ton, while export prices through the Richards Bay Coal Terminal (RBCT) are \$102 (about R840 at Wednesday's rand/dollar exchange rate) per ton.

Last year the terminal was struggling to export 61 million tons of coal, but this year it would easily be able to boost its export capacity to 67 million tons.

The total export capacity was currently 72 million tons, but within two years this would rise to 91 million tons.

Three years ago coal producers began to export coal to India, which required a great deal of low-grade coal because of the great number of power stations built for that quality in that huge country.

A year later, by the end of 2008, some 5% of the coal being exported through Richards Bay was sent to India. Today the figure is more than 30%.

A top official of one of the country's biggest coal producers said on Wednesday that, before exports to India began, easily 100% of the coal out of Richards Bay was sent to Europe. But soon only some 30% would be destined for Europe and the rest for Asia – mainly India.

The view is that coal that would previously have been delivered to Eskom is now being shipped to India.

The chief executive of a smaller Eskom supplier told Sake24 that in some cases inferior quality coal was being combined with Eskom-grade coal and exported.

Various large players in the industry however considered that Eskom managed its coal contracts too ineffectively, which was the real reason that the electricity giant was unable to generate electricity optimally.

It was because the calorific content of the coal fed into the power stations was too erratic, they reckoned.

One of the major suppliers said that, apart from its big suppliers, Eskom also had 21 small suppliers that continually delivered coal of varying quality. This coal was unmixed and simply accepted by the power stations. This was the reason for ongoing losses in generation capacity, he said.