

**Webinar Report:**  
**Future scenarios for South African coal Exports and Eskom**  
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The South African economy is dependent and will be dependent on coal mining for its foreseeable future. In 2019, South African coal mines produced 258.9 million tonnes of coal and 70% of the production was consumed in the domestic market. 70% of the electricity generation in the country was from coal power. The industry employed 92,230 people and the total coal sales were R139.3 billion (2019) and R61 billion was spent on the procurement of goods and services. South Africa was the 6<sup>th</sup> largest coal exporter in the world with 72.15 million tonnes of coal exported from Richards Bay Coal Terminal (RBCT) in 2019. The major export markets were in Asia, 91% of exports, whilst 3% of exports went to Europe. Export earnings from coal accounted for 5.3% of all exports from South Africa. (Minerals Council, 2020)

Amongst other reasons, such as investment in coal exploration, the price of coal has a direct bearing on the viability and sustainability of the coal mining industry. Until the year 2000, pricing involved profit taking and cost covering with limited global published information. In 2001 the API coal indices were developed and derivative trading was embraced to include financial institutions, trading houses and hedge funds. Liquidity in the market increased and the indices enabled the interpretation of current and future coal prices. The market became sophisticated and players are now able to participate in risk management of prices, capital expenditure and brownfield developments. Contracts for export coal from South Africa are financially settled based upon the price of coal loaded at the Richards Bay Coal Terminal in South Africa. The contract is cash settled against the API 4 Index published in the Argus/McCloskey Coal Price Index Report. (Steyn & Minnitt, 2010) The Indexes used are the RB1, ARA and NewCastle. The dollar price for RB1 has increased by 4% per annum from 2001, whilst the Rand price has increased by 6% in the same time period.

There has been a global pushback against coal mining by climate change lobbyists since 2015. As a result of the pushback and green politics, many countries plan to reduce or stop the use of coal for electricity generation and invest in cleaner technologies. For example, Germany plans to phase out its coal-fired power plants by 2038 and South Africa plans to remove 12 million tons of coal demand for electricity generation by 2030. At the same time coal seems to be indispensable with new coal fired power stations being built globally. In this context the CCMR attended the “Future scenarios for South African Coal mining: Eskom & Exports” webinar on the 21<sup>st</sup> of October 2020. It was hosted by Creamer Media and presented by African Source Markets CEO Bevan Jones. It looked at the various scenarios for future of South Africa’s coal mining industries.

The presentation explored the various market drivers for coal globally. The major factors that drive the coal market are:

- supply and demand factors
- production costs
- swing suppliers (the USA is an example)
- freight costs, price shocks (caused by strikes, weather or derailments)
- Competing fuels
- The carbon market
- Technical analysis

- Financial/proper trading
- Option trading
- Speculative trades (Jones, 2020)

The major conclusions that can be drawn from the presentation are that the green economy is going to take over in the long term. However, for the foreseeable future thermal coal will continue to play a critical role in the energy space. From a South African perspective, although Eskom demand will by 12 million tonnes by 2030, investment has also decreased since 2010. This means SA coal industry will fragment (smaller players and smaller pits) and the supply will decrease and this will balance out the supply/demand equation. From a coal exports perspective, the expected decreased demand from India will be offset by demand from other source markets in Asia. The impact of the Covid-19 pandemic and its associated economic consequences will also influence the future of Coal mining. Coal prices are expected to follow the historical trends with market volatility related to cyclical nature of commodity prices also expected. Other recommendations made by the presenter included the industry looking for other uses for coal such as BIOCHAR (20 times for valuable than coal) and other methods of coal exploitation such as underground coal gasification. (Jones, 2020)

## References

(2020). Retrieved from Minerals Council: <https://www.mineralscouncil.org.za/sa-mining/coal>

Jones, B. (2020). Future South African coal price scenarios: Eskom & Export.

Steyn, & Minnitt. (2010). Pricing of South African thermal coal exports. *The Journal of The Southern African Institute of Mining and Metallurgy*, 601.