

A growing deficit of coal in Ukraine

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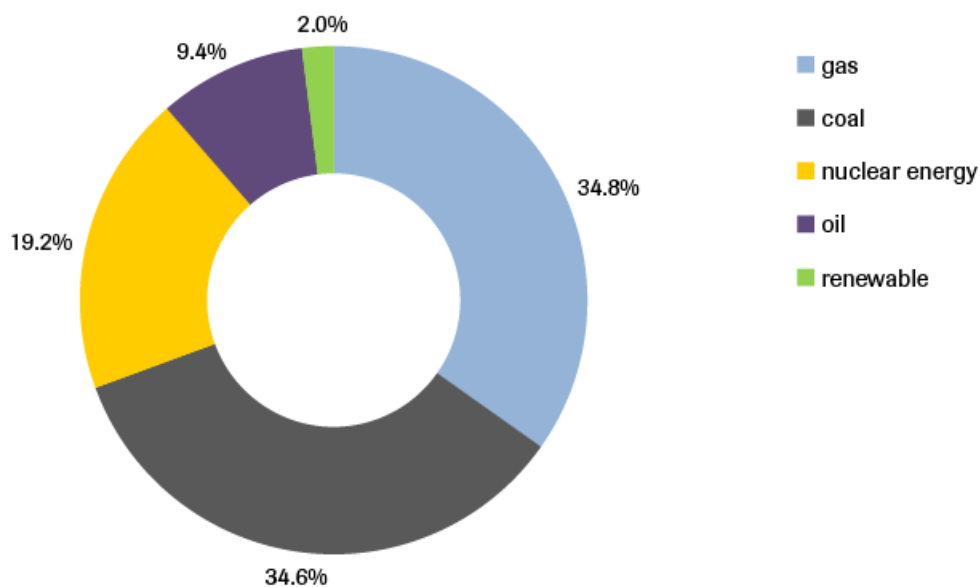
On 22 October, Prime Minister Arseniy Yatsenyuk said that by the end of this year Ukraine will be 4 million tons short of coal. The deficit stems from the fact that 88 of the 93 Ukrainian mines operating in Luhansk and Donetsk oblasts, which together account for 70% of domestic production, are located in areas controlled by the militants. As a result of the war, 69 mines in the Donbas have ceased activity, and several have been destroyed. Even those mines still operating are having problems making deliveries to Ukrainian power plants due to damaged railway lines. As a result, coal production in September fell by 51% compared to the same month last year, and Ukrainian power stations are starting to feel the lack of fuel more acutely. In September, electricity production fell by 13.7%. An even greater decrease in power is being prevented by stockpiles of coal at the power stations, but these are shrinking rapidly. At the beginning of October they amounted to 1.93 million tons, including 0.49 million tons of high-grade coal, while in the same period last year stocks amounted to 4.37 million tonnes.

Commentary

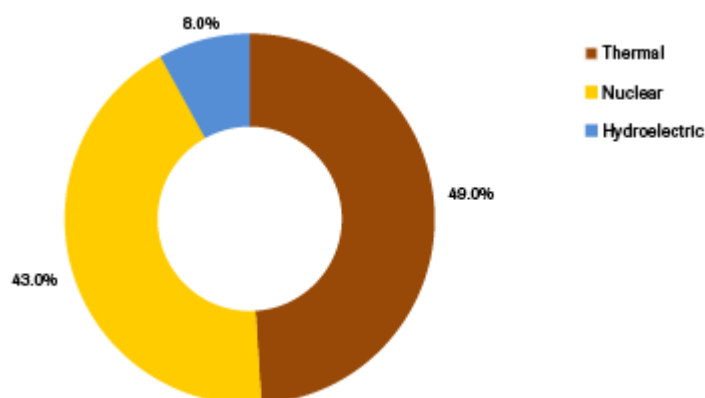
- Next to gas, coal is of key importance in the Ukrainian energy balance (35%) and in electricity production (45%). Ukraine is the fourth largest coal producer in Europe (after Russia, Germany and Poland), with 4% of global output; until now, however, all the fuel consumed in the Ukrainian power industry has come from domestic production. As a result of the conflict in the Donbas, Ukraine will be forced to import large quantities of coal, especially the high-grade coal consumed in thermal power plants. According to estimates by the Ministry of Energy and Coal Industry, during the autumn and winter in Ukraine the coal deficit may reduce electricity production by 30%.
- Due to the growing coal deficit, Ukraine has increased electricity production in its nuclear power plants to the maximum possible, significantly reduced energy exports, and significantly reduced supplies to Crimea. However, these measures cannot compensate for the declining energy production in heating plants. Therefore, as there is no chance that supplies from mines in the Doncaster will be resumed in the following months, the deficit in the Ukrainian coal power plants will be a minimum of 4 million tons by the end of this year. and about 2.8 million tonnes per month in 2015.
- In the light of the fact that the heating season has already begun, Ukraine has little time to ensure the supply of high-grade coal from abroad, especially taking into account that – in contrast to other types of coal – it is not readily available on the market (Poland does not export the coal which Ukraine needs most). It is expected that due to the lack of coal

in the coming weeks, some of the Ukrainian heating plants will be forced to reduce production. In August Kiev signed a contract for the supply of 1 million tons of coal from South Africa, but the first delivery (80,000 tons) will only be made at the end of October. Another important problem is the price of the imported coal, which is about a third higher than that of domestic coal, which means additional expenses of approximately \$200 million per month. As a result, these problems with coal, combined with a lack of Russian gas deliveries since 16 June, have aggravated the increasingly difficult energy situation in Ukraine.

Ukraine's energy balance, 2013



Electrical energy production in Ukraine in 2013



Source: www.ukrstat.gov.ua