Producers in the Czech Republic, Poland and Romania try to stay afloat as losses mount.
Some of Europe’s last remaining coal producers, in the Czech Republic, Romania and Poland, are grasping for government support to keep from going under and taking thousands of jobs with them.
Talks in Prague and Bucharest this week coincide with the news that the world’s largest private coal company, Peabody Energy, filed for bankruptcy protection in the U.S.
The Missouri-based company said it did so in an effort to reduce its overall debt level, lower fixed charges, improve its operating cash flow and “position the company for long-term success.” But the news was widely seen as a sign that the end of coal mining is fast-approaching, at least in the developed world and especially following December’s Paris climate agreement.
“Peabody Energy, to the detriment of its investors and employees, is now bankrupt today because its leadership has been unable to adjust to new energy markets in which coal is being displaced by new energy sources,” said Tom Sanzillo, director of finance at the Institute for Energy Economics and Financial Analysis, which aims to accelerate the shift away from fossil fuels.
The steady drop in international coal prices since late 2011, new competition from cheaper and lower-emitting natural gas in the past year, and an intensifying government focus on cutting carbon dioxide emissions — with policies such as carbon prices — have all helped push coal miners to the brink of survival.
Clouds over Central Europe
But for European companies that have been operating centuries-old deep mines at a loss over the past several years, even the task of closing mines and laying off or retraining employees is too expensive to handle alone. EU rules largely restrict governments from giving state aid to coal mines except to shut them down.
In the Czech Republic, shareholders in the country’s largest hard coal miner, New World Resources, were locked in negotiations with the government and agreed on Thursday to extend one of the company’s credit facilities from April 13 to April 22. NWR wants support for managing layoffs, retraining workers and other social costs, which it says would help keep it out of bankruptcy.
In Poland, where coal produces almost 90 percent of electricity, the government hopes to create a new coal company, Polska Grupa Górnicza, to take over the productive assets of Europe’s largest coal miner, the ailing Kompania Węglowa. Last year it posted a loss of 1 billion złoty (€233 million). JSW, a hard coal miner, had a 3.1 billion złoty loss in 2015. The Polish government is in negotiations with the European Commission over a 2.3 billion złoty

rescue plan for the sector.

In Romania, coal workers staged a 320-kilometer “desperation march” to Bucharest this week to pressure the government to rescue coal mine and power plant operator Complexul Energetic Oltenia.

“Most of Central Europe’s mines are more high-cost than in the rest of the world, and prices are very, very low, so basically, they’re leaning on governments to support them and I think it’s getting more difficult for governments to do that,” said David Price, senior director of the global steam coal service at the consultancy IHS Energy.

The reason these mines are so expensive is that they date back to the early 1900s, and some even centuries earlier. The easy-to-reach coal has long been mined, leaving the deepest and most expensive-to-reach reserves. NWR’s hard coal mines, for instance, start about 1 kilometer below ground. That makes it impossible to compete with coal from cheaper open pit mines in places like the U.S. and Australia.

Mayday

As Peabody sought bankruptcy protection, the Czech government weighed three options for NWR, and specifically its subsidiary in the southern part of the country, OKD: state rescue, state takeover, or insolvency.

“The government’s priority continues to be protecting the miners and their families and not assisting the company’s owners,” said Frankisek Kotrba, spokesman for the Czech ministry of industry and trade.

The accounting firm Deloitte estimated that a bankruptcy could cost the state 33 billion koruna (€1.22 billion), but the ministry believes the numbers to be “exaggerated,” Kotrba said. “However, Minister Jan Mladek in no way underestimates the possible social consequences, and is therefore seriously concerned with the situation around OKD.”

Coal fuels nearly 60 percent of the Czech Republic’s electricity and a large share of its heating. NWR, which owns mines in the Czech Republic and development projects in Poland, warned in December that it was running on negative cash flow despite reducing its operational and overhead costs by 42 percent over the past three years.

Survival would require closing its Paskov and Lazy mines. But the cost of that, including employee restructuring, is pegged at €85 million to €100 million. The company employees around 13,000 people.

“Challenging market conditions persist for our industry worldwide — with slower global industrial output pushing coking-coal prices lower,” NWR said in December. “The dynamics of the regional thermal coal market are also difficult, with local oversupply and aggressive pricing by certain competitors.”

In Romania, meanwhile, the focus is on the future of Complexul Energetic Oltenia, which operates 17 mines, produces 95 percent of Romania’s lignite and can generate up to 30 percent of the country’s electricity.

The company had announced plans to lay off 2,000 of its 15,000 employees from July. Media reports suggested the company owned a significant sum of money to the state in 2015, while the company said it did not have outstanding debt. The Romanian government, which holds a 77 percent stake in the company, put the blame on “chaotic management.”

“I would like those who lead [the company] to understand the responsibility they have and that they will not be offered magic solutions,” Corina Popescu, secretary of state at the ministry of energy, said in a statement following a working group meeting on the state of Romania’s coal sector. State aid to close uncompetitive mines could allow some mining to continue beyond 2018, according to the working group. It will publish its first report next week.

The working group said the biggest problem Romanian coal mines have faced over the past 20 years is “an acute lack of investments,” the government said. The sector has not seen any new investments since 2007. Labor accounted for 70 percent of the cost of producing coal in 2015, and the sector still relies on decades-old technology.

In Poland, mining unions are outraged after a rescue proposal suggested ending almost all of their extra benefits.

“We have to cut all costs because the price of coal has fallen by half,” Energy Minister Krzysztof Tchórzewski told a Polish electricity conference this week.

Europe’s dying coal industry

Coal miners have taken a battering from falling prices and policies aimed at replacing coal-fired power generation with cleaner sources like renewables. That has led to a string of mine closures across Europe in recent years.

The U.K. shuttered its last deep coal mine in December, marking the end of an industry that dated back as far as Roman times. Spain employs only 2,900 coal miners, down from 50,000 three decades ago, according to the government. Germany’s hard coal mines will lose valuable subsidies by 2018, as part of the government’s ambitious Energiewende transition towards renewable energy.

Coal-fired power is on a similar downturn, especially in Western Europe. Belgium switched off its last coal plant this month, Portugal aims to do so by 2020, and the U.K. and Austria by 2025.

“The way things are going, Europe is going to lose its coal industry,” said Price. “With all honesty, I don’t see why anybody would invest in a coal-fired power station in Europe at the

moment, because European policy is pretty well excluding coal. Where are they investing? In Asia.”
source: politico.eu