

Russian coal sector

Draft findings of ENERPO's project on energy transition in Russia

March 2021



1. The historical stages of the Russian coal industry

In 1989, the crisis began in the coal industry. It provoked a massive strike movement of miners.



1991

The collapse of the USSR

A general decline in industrial production. The Russian economy began restructuring to a market system.

The final stage of the industry privatization. The Russian coal industry emerged from crisis.

1999-2006

The economic crisis.

2014-2016

1960s

1980s



1992-1998

The World Bank allocated more than US \$ 1.1 billion to liquidate unprofitable mines.

2008

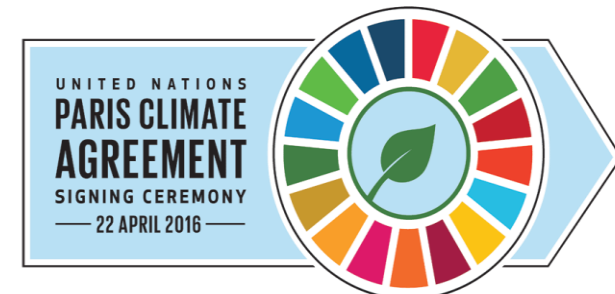
Another economic crisis.

2019

Russia ratified the Paris Climate Agreement.

The level of coal domestic consumption began to decline gradually from 54% in 1960 to 25.2% by 1980.

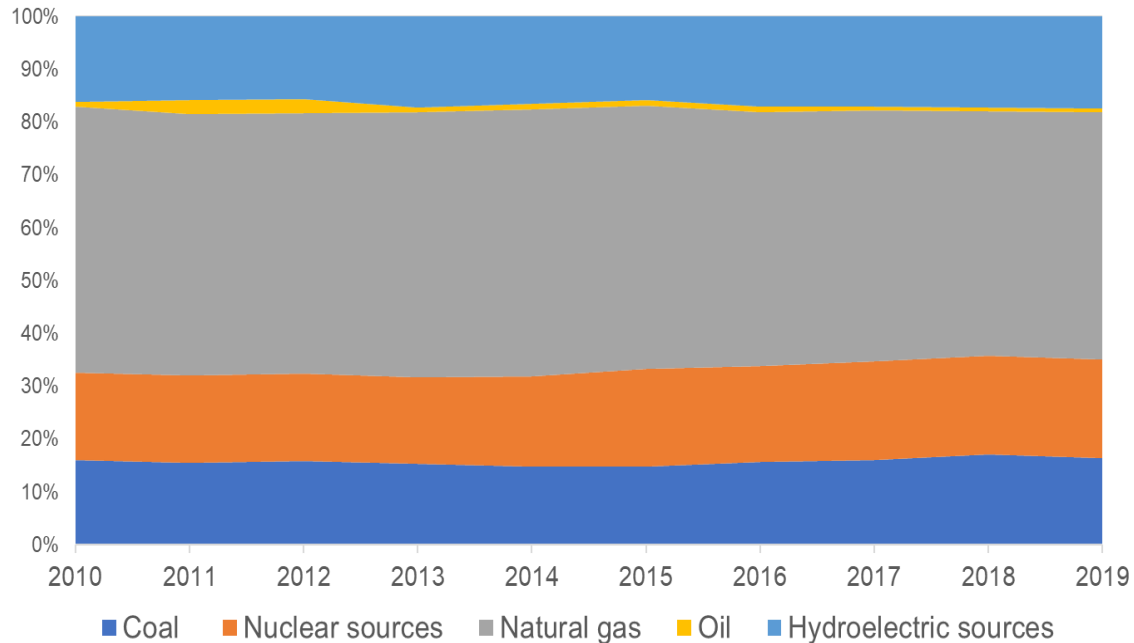
In 1983, the «Energy Program of the USSR for the Long Term» was adopted, an intensive increase in coal production began. High production indicators were achieved due to opencast coal mining.



2. The significance of coal for the Russian economy

Coal in energy balance (2019)

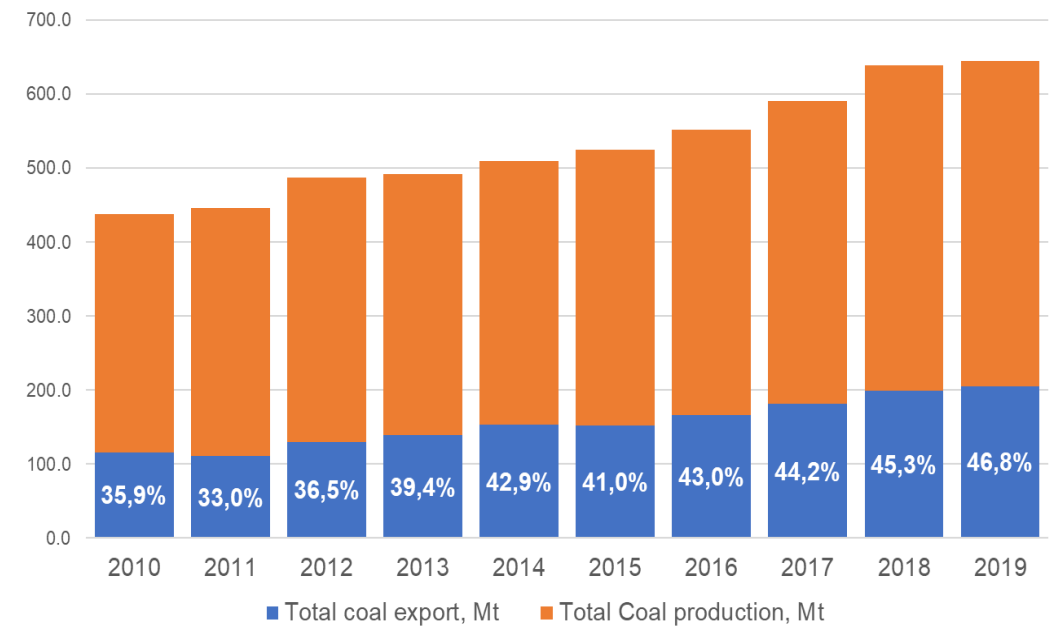
The structure of energy consumption for electricity generation (%)



- Coal 17.44% (+1.45% to 2010)
- Nuclear 20.02% (+3.57% to 2010)
- Natural gas 49.82% (-0.42% to 2010)
- Oil 0.6% (-0.23% to 2010)
- Hydro 18.62% (+2.55% to 2010)

Coal export/domestic use (2019)

The share of coal export in total production (%)



- Total coal production (Mt) **439.2** (+117.2 Mt or +36.39% to 2010)
- Total coal consumption (Mt) **254.7*** (+33.6 Mt or +15.24% to 2010)
- Total coal export (Mt) **205.4** (+89.7 Mt or +77.5% to 2010)



3. Coal industry risks review

Transition risk factors

- 1) Energy and climate policies
- 2) Consumers' preferences
- 3) Technologies

Economic costs

- 1) Assets impairment
- 2) Unemployment
- 3) Enterprises, households and government's revenue losses

Possible risks for the financial sector

- 1) Equity investors' portfolio losses
- 2) Higher loan default ratios for banks
- 3) Higher pay – outs and portfolio losses for insurance companies
- 4) Decline in returns

Macroeconomic risks

- 1) Government (budget deficit, higher cost of debt, risk of default)
- 2) Companies (lower investments, lack of external finance, bankruptcy)
- 3) Households (lower consumption, lower investments, overindebtdness)

- Transition to low-carbon economy is considered in Russia as real threats to the loss of a significant part of the country's income (**about 25% of GDP**) from the export of hydrocarbons (*the previous slide*);

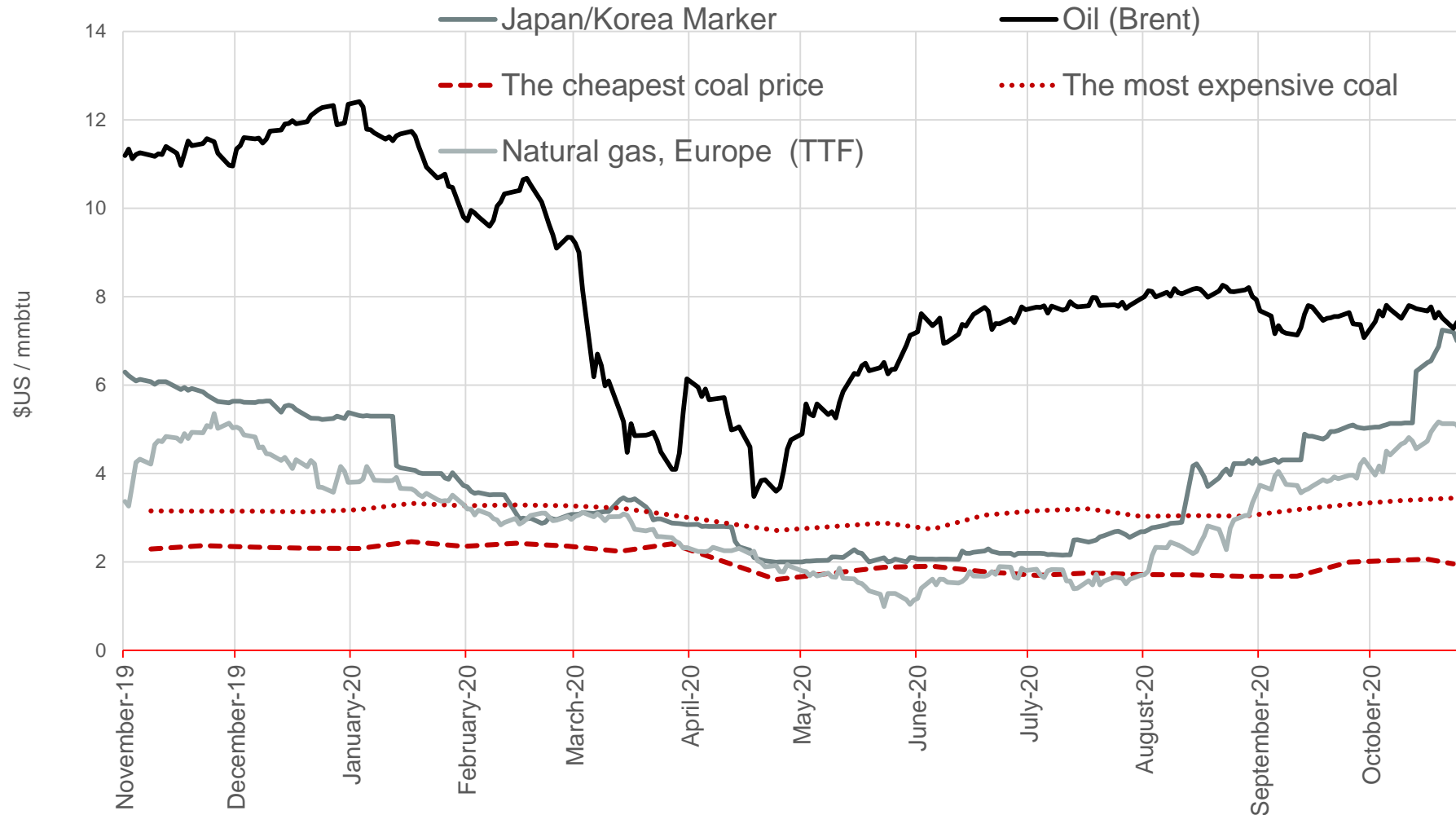
- **CBAM is the serious challenge for the Russian coal industry.**

From the moment the CBAM is introduced, which according to plan is to happen in 2022, the Russian economy may lose over EUR 50 billion by 2030.

According to those calculations, the costs Russian companies will have to incur are somewhere between EUR 3 and 4.8 billion a year.



4. Coal competitiveness analysis



Source: Thomson Reuters

FINDINGS:

Positive

- Lower price among energy sources
- Lower price volatility
- Steady demand
- Export diversification
- Infrastructural constraints

Negative

- Low investors attractiveness
- High carbon risks for the industry



5. Possible scenarios of the Russian coal industry further development

Table 2. The 3 scenarios and their assumptions

Business as usual (BAU)	If the level of demand and the world price for coal enables the industry to remain profitable, the capacity of transport infrastructure will be the main bottleneck for increases in coal production. In this scenario, tariff and non-tariff barriers for coal transportation and exports are the only factors crucial for industry development.
Demand decreases due to the global low-carbon energy transition.	If the pace of global energy transition to low-carbon energy sources accelerates, there will be a drop in demand for coal from the main coal importers. Industrial production of coal products will begin to decline, and the coal industry will be at risk. The crisis will lead to the closure of enterprises with the highest cost of production, specialized in the exclusive extraction and processing of coal. Companies will need to adapt and implement clean coal technologies.
Demand in the Asia-Pacific compensates for low-demand from the main importers.	Demand for coal in the Asia-Pacific region will allow coal companies to fully compensate for decline in sales of coal to the Western exporters. New markets in developing countries in Asia and North Africa will be the main driver of growth. Under this scenario, a sharp increase in demand for Russian coal imports from India is expected.



Key findings

- Private and competitive sector that went through many crises and reforms
- Independent companies with no unified strategy for further development
- The future of the industry depends on transport infrastructure for export
- Domestic clean coal technologies are not available
- There is no alternative to traditional use of coal in Russia



Thank you

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<https://climatestrategies.org/projects/russian-coal-sector-transition/>

