

Indonesia Export Ban Puts China in a Coal Bind

Analysts warn that China could face another power crunch by March if it doesn't secure quickly new supplies of the fuel

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China may need to loosen its punitive restrictions on Australian coal imports to maintain reliable power supplies due to an Indonesian ban on exports of the fuel, according to several articles widely circulated on Chinese news websites.

Indonesia announced on December 31, 2021, that it would suspend coal exports in January or until its coal suppliers could fulfill the requirement of selling at least 25% of their output to domestic buyers at US\$70 per ton.

Indonesian officials said the measure was aimed at helping local power plants secure enough coal to generate affordable electricity. The Southeast Asian nation is China's largest coal supplier.

China, which suffered a nationwide power crunch due to a surge in global coal prices last September, stabilized its coal supply by boosting coal production in Shanxi province and importing more from Russia over the past few months. Domestic coal prices also started to ease last month.

However, Indonesia's suspension of coal exports could create another coal shortage in China by March if no action is taken to alleviate the situation, according to a Golden Sun Securities research report.

In late September, three northeastern provinces – Liaoning, Jilin and Heilongjiang – that are home to nearly 100 million people announced power cut plans, which resulted in major disruptions to the daily lives of people and business operations.

Many people were stuck in elevators, traffic lights were turned off and candles sold out. Water supplies were also affected by the power crunch in some districts.

Power plants in Guangdong province also announced new measures to limit electricity consumption. After the central government intervened and urged Shanxi province and Inner Mongolia to boost coal output, the power crunch eased in the fourth quarter.

On Tuesday, China's National Bureau of Statistics (NBS) said prices of 34 coal products including mixed coal declined in late December from mid-December, while the prices of 12 other coal products including coking coal increased.

Liu Xiangdong, a researcher at the China Center for International Economic Exchanges, a Beijing-based think tank, said coal prices were declining, showing that the undersupply situation had improved.

Liu said Indonesia's temporary coal export ban would bump up international coal prices in the short run but would not have a big impact on China, which could boost internal coal output to meet its demand.

Su Jia, a researcher at Chem365.net, an industrial website, [told](#) Securities Daily that as China self-supplied most of its coal consumption, the impact of Indonesia's coal export ban on China would be manageable.

Su also said electricity demand at Chinese factories would decline between mid-January and mid-February due to the Chinese New Year holiday, reducing the short-term impact of Indonesia's ban.

In the first 11 months of 2021, China's coal production hit 3.67 billion tons while the country imported 290 million tons of coal, the NBS [said](#) on December 15.

During the same period, China imported 178 million tons of coal, mainly steam or thermal coal, from Indonesia, representing 61% of China's total coal imports, according to the General Administration of Customs.

Since November 6, 2020, China banned coal imports from Australia amid a downturn in relations that has spiraled into a bilateral trade war. After China was hit by a power crunch last September, it imported 2.79 million tons of Australian coal stored at China's seaports pending customs clearance.

On Tuesday, an [article](#) titled "Indonesia stabs a knife in China's back by suddenly banning coal export" was widely circulated by Chinese news websites. The article said the Regional Comprehensive Economic Partnership (RCEP), a free-trade agreement signed by 15 Asia-Pacific nations including China and Indonesia, took effect on January 1, 2022, but Indonesia immediately backtracked.

The article also said China had recently signed a new agreement to boost thermal coal imports from Indonesia, which exported more than 400 million tons of the fuel globally in 2020.

"After temporarily losing Indonesia's coal supply, we may have to buy coal from Australia. But this should only be our last resort," it said, adding that China could wait for Indonesia's coal export ban to end while importing more from Russia, Mongolia and other countries, or boost domestic production.

Other commentators tried to explain the situation from a geopolitical perspective as the coal

export ban was announced soon after China warned Indonesia against drilling for oil and natural gas in maritime territory in the North Natuna Sea that both countries regard as their own, and after a months-long stand-off in the South China Sea earlier last year.

An unnamed Chinese columnist, who claimed to be a law professor at Zhejiang Gongshang University, speculated in an [article](#) that United States Secretary of State Antony Blinken could have played a role in Indonesia's coal export ban during his visit to Jakarta on December 13, 2021, without providing evidence to back the claim.

He said even if the US was playing tricks, the ban would not hurt China, which could boost coal imports from Russia.

He noted Russia exported 52.9 million tons of coal to China between January and November 2021 and had become China's third-largest supplier. He said Indonesia's ban might push up international coal prices in the short run but China's energy security would not be affected in the long run.

Indonesia's Ministry of Energy and Mineral Resources will hold a meeting on January 6 to review its coal export ban, according to media reports. Originally the meeting was scheduled for Wednesday but it was postponed by a day.

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Featured image: View of Suralaya coal power plant in Cilegon city, Banten Province, Indonesia. Image by Kasan Kurdi / Greenpeace.

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