China is the world’s biggest coal consumer. About 50% of all coal burnt on our planet is burnt in China. Although China is also the world’s leading coal producer, it needs to be its main importer as well.

Meanwhile China is worried by environmental issues. Chinese industry meets the needs not only of its own country, but also of all those countries that, first for the sake of cheap labor, and then for the sake of environmental protection, shifted their production capacities to the Chinese territory. As a result, while those countries can boast of relatively clean water and air some Chinese regions have accumulated such a concentration of hydrocarbon exhaust products that they pose a real threat to public health.

A few years ago China embarked on major reforms in energy sector aiming to drastically reduce its domestic coal production, implement mass transition from coal to natural gas, build a great amount of nuclear power stations in lieu of coal power plants that were to be decommissioned.

In 2017, all coal power plants and boiler facilities in Beijing and nearby Hebei Province were shut down. Tens of thousand facilities were closed. This is, however, just a tiny fraction of the Chinese electric system.

In some parts of the country the winter of 2017-2018 turned out to be extremely cold, which put an increased strain on thermal power plants and spurred Chinese coal consumption. For most of 2018, steam coal imports to China was
on the rise: perhaps this was due to a reduction in coal production in China itself. As a result, at the end of 2018
China increased imports of all types of coal by about 0.7% compared to 2017 (uptick from 279 to 281 million tones)
still being the frontrunner in terms of its production: about half of all coal produced in the world accounted for
China.

In 2019 China despite official claims about the necessity to reduce coal imports increased it nonetheless buying
almost 300 million tons of this fossil fuel while ramping up its domestic production by 4% compared to 2018.

In 2020 due to the pandemic of COVID-19 sweeping across the globe overall world production went down. Coal
consumption in some industrial countries declined as well. Nonetheless in 2020 China still managed to produce 1.2%
coal more than the previous year importing 304 million tons which is almost 9% (13 million tons) more compared to
2018. It looks as though China needed fuel supplies to pull its economy out of the coronavirus crisis.

One way or another, the Chinese program to reduce coal production and use does not seem to yield any substantial
results. China’s leviathan economy is too much dependent on this fossil fuel and it will take Beijing a long time to cut
its coal consumption. Meanwhile, both China’s own coal production and imports are steadily growing.

This in itself creates good prospects for Russia which has been supplying China with coal for a long time while by
early 2019 Moscow ranked third in terms of coal exports trailing only Australia and Mongolia. Current international
climate opens up additional opportunities for the Russian coal industry to boost supplies to the Chinese market.

For many years Australia was the main exporter of coal to China. However, in 2018 a rift between the two power
started to emerge: Australia, a part of Anglo-Saxon world, was worried by China’s expanding influence in the South
Pacific and decided to stand by Washington in its trade war with Beijing. Thus, it joined US-triggered stand-off with
the Chinese big-tech — telecommunications companies Huawei and ZTE that had been selling equipment all around
the world sidelining its competitors such as US-based Apple. Under the pretext that Chinese companies steal user
data in the interests of Chinese intelligence services, they were banned in the United States. Australia also banned
the use of Huawei and ZTE equipment on its territory. Moreover, in late 2018 Australia and the US announced plans
for joint modernization of former Australian Lombrum naval base in Papua New Guinea, a place where China
intended to deploy its own base. Both the Australian and US Naval forces may be stationed at this base. This is also
contrary to Chinese interests in the South Pacific.

As a result, in February 2019 China limited imports of Australian coal increasing the time for its customs clearance.
Dozens of vessels loaded with hundreds of thousand tons of Australian coal got stuck in Chinese ports inflicting
tremendous losses upon the owners of ships and goods. At the same time, such coal suppliers to China as Indonesia,
Mongolia and Russia never faced such difficulties. In 2019 Russian exports to China increased by 19%, apparently
due to Sino-Australian frictions. Nevertheless, despite the disincentive in the form of increased time for customs
 clearence and quotas imposed by Beijing, in 2019 Australia sold more than $10 billion worth of coal to China.

Few could seriously believe that China would reduce the imports of this strategically important Australian product.
First of all, Australian coal is of high quality, since it produces a lot of energy with less emissions of pollutants.
Secondly, it is easier to deliver coal to China from Australia than from many other regions (that’s why Russia, for
instance, ranked only the third until 2019 in terms of Chinese exports even though its coal is of the same quality as
that of Australia).

Nevertheless, Sino-Australian ties continued to deteriorate. In late 2020 following a series of controversies, the
Chinese leadership imposed an implicit ban on imports of Australian coal for Chinese companies. The plan was to
offset fuel deficit by increasing domestic production as well as shipments from Indonesia, Mongolia and Russia
which in 2020 sold 6% more coal to China than in 2018.

In January-July 2021, coal supplies from Australia to China decreased by more than 98%. Beijing intended to severely
punish Canberra since coal exports is one of the backbones of Australian economy. And indeed, Australian
companies suffered massive losses. By the autumn of 2021 China, however, was struck by an energy crisis that
entailed a decline in industrial production and power outages in residential areas. China is now using its coal
reserves and is forging ties with new suppliers including African and Latin American countries.

As for Russia, in 2021 it has drastically increased coal supplies to China, boosting them by 8.4% in Q1. In theory
Russia could take the market share formerly held by Australia since it possesses huge deposits of high-quality coal in
Yakutia, relatively close to China. For now the supplies are limited by Sino-Russian railway capacity. Historically,
these two gigantic powers are connected by only few railway lines with limited capacity that are branches of the
Trans-Siberian Railway. In part this poor railway connection stems from tense relations between the Soviet Union and China in the second half of 20th century.

In 2019-2021 due to low capacity of railway lines connecting China and Russia the gap in coal supply to large extent had to be filled by not high-quality Russian goods, but by Indonesian ones of a much lower quality. Besides that, as mentioned above, China had to look for suppliers in Africa and Latin America. This is all because China may take much more cargo shipped by sea, than by land from Russia.

Meanwhile Russia is preparing a large-scale modernization of its transport system in Siberia. In December 2020 Russian President Vladimir Putin announced allocation of about $800 million for railway upgrading. And of course, if China also invests in its railway communication with Russia, the work would proceed at a faster pace. But for now despite all the difficulties Beijing does not seem to be in rush to lift the ban on Australian coal. It looks as though it is time for China to take a sharp logistical turn in the direction of Russia.

Petr Konovalov, a political observer, exclusively for the online magazine “New Eastern Outlook”. 