



CHINA RE

华泰保险经纪有限公司

HUATAI INSURANCE AGENCY & CONSULTANT SERVICE LTD.

Circular Ref No.:PNI1504

Date: 02 June 2015

Dear Sir or Madam,

Subject: Enhanced Quality Control of Imported Coal in China Effective as of 01 Jan 2015

With view to improving the quality of commercial coal and promoting more environment-friendly use of coal, National Development and Revolution Committee (NDRC) of PRC, in conjunction with five other relevant government bodies, issued "Provisional Measures on Quality Management of Commercial Coal" ("Provisional Measures") in September 2014, which came into effect as from 01 Jan 2015. The past few months have witnessed the impact on coal importing activities, among others, brought about by this new regulation.

As a result of increased coal quality requirement set out in the aforementioned regulation, the import of bulk coal has greatly reduced in the past few months of 2015 compared with last year. For instance, the import volume of Vietnamese coal reduced by 94% in Q1 of 2015 in Guangxi province which is the second largest port of coal import in China. In the meantime, there have been several reported incidents of rejection by local CIQ at some ports on ground that the imported coal quality failed to meet with such requirement. The cargo in these rejection incidents were reportedly from Australia, South Africa, Vietnam, Indonesia, etc.

In the Provisional Measures, article 6 provides the basic parameters of commercial coal: 1) ash content(Ad): lignite $\leq 30\%$, other coal $\leq 40\%$; 2) sulphur content (St,d): lignite $\leq 1.5\%$, other coal $\leq 3\%$; 3) other parameters: mercury content (Hgd) $\leq 0.6\mu\text{g/g}$, arsenic(Asd) $\leq 80\mu\text{g/g}$, phosphorous (Pd) $\leq 0.15\%$, chlorine (Cld) $\leq 0.3\%$, fluorine (Fd) $\leq 200\mu\text{g/g}$.

Article 7 further provides that commercial coal that are to be carried for a domestic distance of over 600km shall also meet with following parameters: 1) lignite: calorific value (Qnet, ar) $\geq 16.5\text{mj/kg}$, ash content(Ad) $\leq 20\%$, sulphur content (St,d) $\leq 1\%$. 2) other coal: calorific value (Qnet, ar) $\geq 18\text{mj/kg}$, ash content(Ad) $\leq 30\%$, sulphur content(St,d) $\leq 2\%$.

Article 9 further prohibits the sale and use of coal with ash content (Ad) exceeding 16% (incl) and sulphur content (St,d) exceeding 1% around Beijing, Tianjin, Hebei province, Yangtze Delta Area, Zhujiang Delt Area.

In accordance with the regulation, commercial coal failing to meet such requirement as provided in this regulation shall not be imported, sold or transported for a long domestic distance, and CIQ at local port shall monitor and supervise the quality of imported commercial coal at the concerning port.

We checked around about the current situation at various ports via our local offices and understood that at most ports, CIQ will draw and analyze cargo samples for each coal shipment and may well reject the cargo discharge and order return shipment in case the cargo fails to meet with the required standard.

In view of the above regulation and situation, member are recommended to consider requiring cargo interests to produce analysis report on the parameters mentioned above to ensure the cargo to be carried meets with Chinese authorities' requirements so as to avoid possible delay or rejection of discharge at destination port in China. Member may also consider introducing clauses in the charterparty to have their position properly protected against such risks.

Hope the above is of assistance. Any query or comment, please always feel free to contact us.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Shan Hong", with a long horizontal flourish extending to the right.

Shan Hong
Vice President