

# Coal mining in need?

**Challenges for the new government**



## **Executive summary**

Instrat Policy Note 06/2023

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# Key numbers and findings

**28  
bn PLN**

is the total cost of the government's planned 10-year program of subsidies for the 'reduction of hard coal mining activity' according to the plan dated December 2021

**7  
bn PLN**

was planned to be transferred at the end of 2023 to hard coal mining companies covered by the subsidies program (thermal coal producers: PGG, Tauron Wydobycie, Węglokoks Kraj) in the form of governmental bonds, in order to circumvent the budget law. The Supreme Audit Office (NIK) criticised this mechanism as noncompliant with the Polish Constitution

**4.8  
bn PLN**

was the cumulative EBITDA of the thermal hard coal mining companies covered by the subsidies program only in the first three quarters of 2023

**1.6  
bn PLN**

has already been unlawfully disbursed to mining companies in 2022, in the form of grants and treasury bonds, despite the lack of consent from the European Commission (DG COMP). Since 2021, mining companies also owe a similar amount (almost 1.9 bn PLN) in repayments to public institutions (Polish Development Fund, PFR and Social Insurance Institution, ZUS). The outgoing government submitted a draft law proposing a two-year deferral of these payments until the end of 2025.

**up to  
255 PLN/t**

or ca. 57 EUR/t, can equal the average support for each tonne of thermal coal produced by the mine enjoying the highest level of subsidies (ZG Brzeszcze, part of Tauron Wydobycie) according to the plan of Ministry of State Assets (version as of December 2021). This is over 50% of the production costs (at that time)

- **We recommend that the new government reviews the current obligations and financial results** of mining companies, before making any decisions regarding potential support for the hard coal mining sector. Any forms of assistance must not violate European or national regulations concerning state aid, as well as the constitutional principle outlined in Article 219 regarding state budget planning.
- Support from the state budget supplemented by funds from the Just Transition Fund or the Modernization Fund should be directed primarily towards workers, rather than mining companies. This should prioritise focusing on productive investments and initiatives that build alternatives for employment outside of the mining sector.
- Taking into account record profits already achieved in the first half of 2023, noted by the thermal coal producers enjoying the unlawful subsidy scheme, it is essential to thoroughly assess their ability to repay outstanding obligations to PFR and ZUS. It is also necessary to develop updated production plans that should take into account shrinking demand for hard coal, record reserves, and declining prices on trade agreements with mining key counterparts.

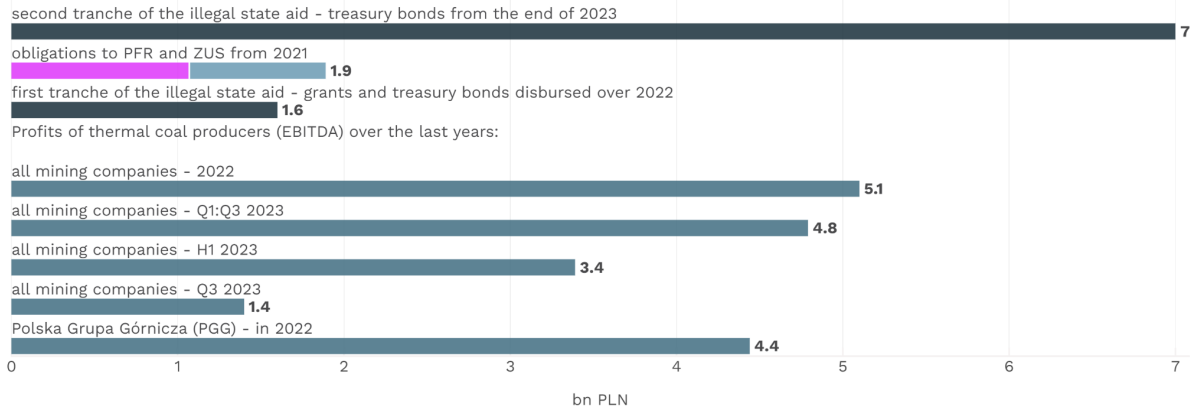
## Recommended citation:

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## Despite record profits Polish thermal coal producers are requesting constant flow of cash from an illegal state aid program

Benchmark of financial obligations to state institutions (PFR, ZUS), payments from the illegal state aid scheme for mining output reduction, and estimated\* profits (bn PLN)

State aid requests and historical payments from and to thermal coal producers under the support scheme:



Source: Instrat's own representation based on data from ARP Katowice (Results of the technical and economical activities and investments in the hard coal mining sector in Poland – 2023), reporting of mining companies (JSW, PGG, Tauron Wydobycie, LW Bogdanka, Bumech). \*

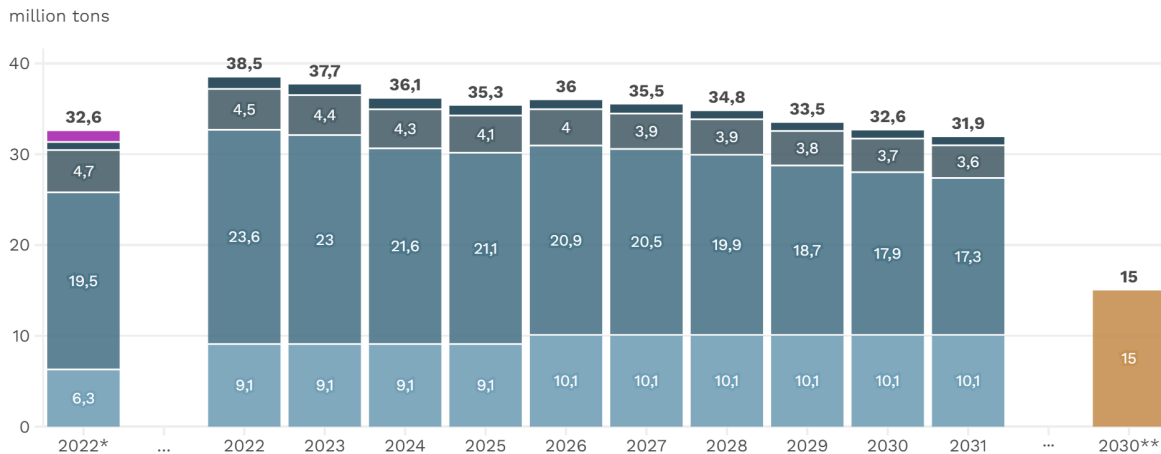
\* Financial results of the mining companies under the state aid scheme for mining output reduction (PGG, Tauron Wydobycie, Węglokoks Kraj) was estimated by deducting EBITDA of the following companies: JSW, LW Bogdanka, Bumech (KRS, Investor Relations) from the EBITDA of the whole hard coal mining sector (both thermal and coking coal) based on ARP Katowice data. Hence, EBITDA decomposition presents a very close estimate of the financial situation of the thermal coal producers under the state aid scheme, but also of the mining company Eko-Plus, irrelevant for the analysis due to its size.



## The new government's strong lead over the hard coal mining sector is key to ensure that production plans follow shrinking demand

Hard coal mining sector output of thermal coal, incl. of the companies under the state aid scheme for mining output reduction (plan for 2022-2031, version as of December 2021); benchmarked with historical output (2022\*) and **Instrat demand estimates** (2030\*\*), in million tons.

Mining company: LW Bogdanka Polska Grupa Górnicza Tauron Wydobycie Węglokoks Kraj PG Silesia



\* Data as of 2022 based on the Polish Geological Institute (PIG).

\*\* Estimated demand for thermal coal for the following sectors (electricity generation by systemic and industrial power plants, CHPs, individual heating and agriculture), based on Instrat's energy modelling from December 2023 ("Poland nearing net-zero. Modelling decarbonisation pathways for the Polish energy sector and economy up to 2040" – Scenario 1. RES + nuclear).

Scope of the analysis does not include historical output and production plans of coking coal producers (JSW) and Eko-Plus and ZG Siltech.

Production plans for 2022-2031 is based on values from the state aid scheme plan established by the Ministry of State Assets (version as of December 2021) and Strategy of LW Bogdanka (as of May 2023) and does not include PG Silesia data (no such public information).

Source: Instrat's own representation based on data from Ministry of State Assets (version as of December 2021).

