

## **Sakhalin Island Coal Industry: Overview and Development Strategy 2006–2010**

April 2006

Source: Elena Sabirova, BISNIS Representative on Sakhalin Island

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### **Potential**

Coal deposits are located on the main island of the region (Sakhalin). The general forecast for coal deposits are estimated as follows for a total of 52 deposits and coal measures: down to a depth of 300 meters (985 feet) – 14,107 million metric tons; down to a depth of 1,500 meters (4,920 feet) – 17,913 million metric tons. Some 77.6 percent of the total are mineral coal deposits. Officially registered commercial reserves include 26 deposits with resources of A+B+C<sub>1</sub> categories – 1,863 million metric tons; C<sub>2</sub> – 626 million metric tons, non-commercial reserves – 279 million metric tons. Commercial reserves are primarily brown coal – 55.5 percent; long-flame make up 22.3 percent; close burning – 4.4 percent (or 83 million metric tons in Ugligorsak and Alexandrovsk-Sakhalinsky coal areas). Reserves of mineral and brown coal for open pit mining make up 194 million metric tons, and are situated in Vakhrushevski, Novikovo, Solntsevski, Gornozavodsk, Tikhmenevski and Krasnogorski deposits.

### **Current Status and Structure of the Industry**

In general, for the Russian Far East (RFE), the share of coal in the fuel balance is about 50 percent; in the Sakhalin region, this share makes up about 80 percent. Sakhalin coal is utilized in other regions of the RFE (about 150,000-200,000 metric tons annually) and is also exported. In general, the estimated capacity (4.45 million metric tons of coal annually) is 71 percent utilized. Capacity of washhouses is 30 percent utilized. The situation with supply of local resources changed for the better in 1999, when for the first time in several years, local resources fully covered the demand, and coal imports were continued only due to limited local capacities at peak times. In 2005, imports of coal from external markets stopped, while exports continued to grow along with extraction growth. In order to be able to solve more technical tasks and find new distribution areas, coal enterprises in Sakhalin region are being merged. Small but steady increase of coal quality is observed annually.

Extraction is carried out in three mines and 19 open pits. Coal is processed in two washhouses. At open pits of small capacity, extraction is increasing. In 2004, 14.7 percent of all coal extracted came from mines (468,000 metric tons out of 3.18 million metric tons total). There are three major end-user groups in the internal Sakhalin market—*Sakhalinenergo JSC*, which runs local power generation and has a capacity of 1.76 million metric tons, and on average is able to pay for

supplies; municipal companies that run public utilities, use 900,000 metric tons, and have low solvency; and other companies, which use 200,000 metric tons, and have average ability to pay. The advantage of the internal market is its high solvency, but the deliveries are limited by low capacity of marine ports and transportation expenses are included in end-user coal price.

Local coal mining enterprises are comprised of three groups: Sakhalinugol Management Company JSC, with 78.9 percent of total regional extraction; Coal Resources of Sakhalin JSC with 8.8 percent; and other companies with 12.3 percent (the leading of which is Managing Coal Company JSC). Sakhalinugol Management Company accounts for 77.2 percent of the total regional production; 88.7 percent of supply to Sakhalinenergo; 59 percent of coal for municipal companies, and 85 percent of supplies to other companies. Coal Resources of Sakhalin accounts for 14.8 percent of the total regional production; 1.6 percent of supply to Sakhalinenergo; 20 percent for municipal needs, 8 percent for other companies. Other enterprises account for 8 percent of total supply, 9.7 percent of supply to Sakhalinenergo, 21 percent for municipal needs, 7 percent for other companies.

### **Strong and Weak Points of the Industry**

- Advantages

1. Availability of substantial proven coal resources; safe storage; transportation and possibility to accumulate stored resources.
2. The capacity of enterprises is not used to the full extent yet, proven reserves exist for further extraction increase and technologies development (current experience allows to extract up to 5 million metric tons a year).



*Picture by Sakhalinugol'*

- Weak points

1. Coal is not an end product.
2. Some coal reserves are non-recoverable; an increase of extraction will require additional investment. While new deposits are developed, transportation infrastructure has to be developed as well.
3. Local Sakhalin market is limited; entering external market has its own problems. Transportation component is expensive; coal-loading terminals have low capacity.

### **Possible Development Trends During 2005-2010 and 2010-2020**

Current estimated capacities and known reserves allow for increase in production, if investment would increase and loading terminals would be developed. In addition, Boshnyakovo, Ugligorsk and Shakhtersk ports need to be dredged; Shakhtersk coal cleaning plant should be utilized at least up to 90 percent of its capacity; natural gas on internal market should be sold at world-level prices.

Power-consuming industries should be doubled and ensure coal utilization in public utilities sector at 50 percent until 2010 (by developing Sakhalin island internal general infrastructure; introduction of energy conservation technologies, equipment upgrade).

### **Important Projects**

1. Transferring Yuzhno-Sakhalinsk Power Plant #1 and Sakhalin State District Power Plant to natural gas consumption (a major factor influencing coal industry development).
2. Construction of a coal-loading terminal.
3. Sakhalin-Japan energy bridge. An alternative to the construction of a loading terminal.
4. Sakhalin-Mainland energy bridge. An alternative to the construction of a loading terminal; Can create competition for current natural monopoly of JSC Sakhalinenergo (local electric power company).

Some of the major tasks for the Sakhalin coal industry are the introduction of new technologies, attracting investment to the industry, consideration of new projects in construction industry as a base for the industrial growth, including public utilities sphere and fuel and energy industry, and sale of coal surplus.

In 2006, *Sakhalinugol* plans spend about \$60 million to upgrade two mines—the *Ostrovnyaya* (Ugligorski district) and *Dolinskaya* (Dolinsk) coal mines. The funds are to be used for purchase of new equipment and transportation system upgrade. These measures can help increase output at Dolinskaya up to 470,000 metric tons (currently production is 150,000 metric tons) and up to 400,000 metric tons at Ostrovnyaya (250,000-300,000 currently). The price of coal on average increased by 9 percent in 2006 (tariffs for transportation increased 15 percent; in general for the company fuel prices grew 12 percent). According to Sakhalinugol General Director, the price of local coal varies from \$15 to \$45 per metric ton.

Last year, Sakhalinugol invested more than \$9.5 million for heavy machinery (dump trucks, bulldozers, excavators and all-terrain buses) and mining equipment.

### **Useful Contacts**

#### **Sakhalinugol Management Company**

420, Mira Avenue

Yuzhno-Sakhalinsk, Russia 693013

Tel: +7-4242-743003; Fax: +7-4242-743100

<http://www.sakhalinugol.ru/> (web site in Russian only)

#### **Regional Department of Fuel and Energy Complex & Public Utilities**

16, Karl Marx Str.

Yuzhno-Sakhalinsk, Russia 693000

Tel: +7-4242-741202; Fax: +7-4242-744240

Mr. Alexander Vladimirovich Sysoyev, Deputy Head of the Department

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