

COAL: an indispensable commodity

VANCOUVER COAL CONFERENCE HIGHLIGHTS CHALLENGES AND FUTURE PROSPECTS FOR COAL SECTOR

by Ellsworth Dickson

The Coal Association of Canada recently hosted a conference at the Bayshore Hotel in Vancouver, British Columbia where industry experts discussed the state of the industry from both a global and Canadian perspective. The presentation kicked off with a talk by Milton Catelin, Chief Executive of the World Association.

“Coal provides 30% of world energy and 41% of electricity and is an indispensable commodity in the developing world,” said Catelin. He noted that in the developing world coal alleviates poverty by providing the affordable energy that is behind industrial growth in China and India.

Catelin added that because coal is a cornerstone in the world’s energy system, it is here to stay; making it important to develop clean coal technologies such as those being advanced in China. Globally, there are 1,199 coal plants proposed – 455 in India and 363 in China.

With such growth in the coal sector, one might think the price of coal is high; how-

ever, that is not the case. In his presentation, Joe Aldina, Analyst / Americas & Europe Coal Cost Research at Wood Mackenzie, said that the emergence of China and India have created much volatility in the coal market. Coupled with a slowdown in China and an oversupply, coal prices have retreated from their highs of over US \$300/tonne to about US \$145/tonne at present.

Aldina said that in the past few years there has been a high level of capital spending to develop coal projects, although this is now slowing down. “We are at a point where the coal market could rebound,” said Aldina. He remarked that the current slim profit margins have resulted in some coal companies closing high cost operations in order to survive, although some companies are still running money-losing operations, notably in Australia. Nevertheless, Aldina maintains a positive outlook for the coal industry while coal miners continue to implement various cost-cutting plans.

Canada is well positioned for growth in

its coal sector. “Western Canada produces mainly metallurgical coal for the steel industry and it’s got a lot of things going for it,” said Gerard McCloskey, an industry consultant from the UK. “I would think there will be, in my own forecast, a doubling of exports from Western Canada over the next ten years,” he said.

Aldina concurs. “We remain bullish on mid-term to long-term metallurgical coal demand, but growth relies heavily on China and India,” said Aldina. Indeed, India and China represent about 85% of Pacific Basin growth. Aldina noted that around 240 million tonnes of imported metallurgical coal is competitive into Coastal China in 2013, representing 33% of Chinese total metallurgical coal demand. He also pointed out that European demand has been buoyant, but will be short-lived.

With better times for the coal industry on the horizon, British Columbia coal miners have plans for expanding their operations. **Teck Resources Ltd.** [TCK.B-TSX; TCK-

BRITISH COLUMBIA COAL FACTS

- BC coal production topped \$5.7 billion in 2011
- Coal mining industry taxes to all levels of government in 2011 was \$715.2 million
- BC has 12.9 billion tonnes of potentially mineable coal resources
- BC has 26,000 coal-related jobs
- BC has nine operating coal mines in the northeast (Peace River area) and the southeast (Kootenay area) and Vancouver Island
- Japan and South Korea consumed the largest share of BC metallurgical coal exports, although Chinese demand is on the rise



Paul Raj of Finning Canada instructs Mina Miyashita how to operate huge off-road mining trucks on the CAT simulator. Photo by Ellsworth Dickson

NYSE] is one of those companies.

With over 4,400 employees across six steelmaking coal operations, Teck is the number one producer of steelmaking coal in North America, the number two exporter of steelmaking coal in the world and accounts for 80% of Canadian steelmaking coal production. The company has over a hundred years of coal resources.

Ian Kilgour, Chief Operating Officer at Teck Resources, pointed out in his talk that his company has numerous expansion plans that include improved mining fleets at its mines at Fording River, Greenhills, Elkview and Line Creek; modernization at Cardinal River and Coal Mountain; as well as major processing plant upgrades at Greenhills and Elkview. Teck is also planning to resume production at its Quintette Mine in the northeast where it has already invested \$200 million and permitting is well under way. The Quintette Mine was in production

from 1982 to 2000 and, when it restarts, will ramp up to an annual production of 4 million tonnes. In total, Teck produces about 28 million tonnes of coal per year.

Teck is also improving its loading facilities at Neptune Terminals in North Vancouver and Westshore Terminals in Delta, Canada's number one coal export facility, where Teck is the largest client.

Tony Meyers, Vice President, Canadian Operations for American company, **Walter Energy, Inc.** [WLT-TSX], told the conference attendees that he is encouraged that spot prices for metallurgical coal have increased in the third quarter 2013 from their low of US \$130/tonne. Today's prices are troublesome and Walter Energy had to suspend production last April at its Willow Creek Mine near Tumbler Ridge, northeast BC. The company still operates its Wolverine and Brule mines in the northeast where production is about 4 million tonnes per year.

New coal mines are also planned for BC. Robin Goad, President and CEO of **Fortune Minerals Ltd.** [FT-TSX; FTMD-OTCQX] gave a talk on his Arctos Anthracite Project in north-central BC where over \$100 million has been spent to date. The project has run-of-mine proven and probable coal reserves totaling 124.9 million tonnes. Pre-tax IRR is 17% with a NPV (8%) of \$615.9 million. It is hoped production can start by the end of 2016, although there is First Nation opposition.

There has been some opposition by the public, environmental organizations and the City of Vancouver to coal port expansion plans in the Metro Vancouver area. Port Metro Vancouver has asked Fraser Surrey Docks, where coal has already been exported for decades, to review the human health effects of coal dust, train traffic noise, environmental impacts and climate change due to the proposed expansion plans. ■

ANGLO AMERICAN DONATES \$2.566 MILLION TO PROTECT BC'S NORTHERN CARIBOU

Chief Financial Officer of **Anglo American PLC's** [AAL-London] Metallurgical Coal business, Brent Waldron, presented the Minister of Forests, Lands and Natural Resource Operations for the Government of British Columbia, the Honourable Steve Thomson with a \$2.566 million cheque for the Government of British Columbia's Peace Northern Caribou Plan.

This is the largest funding contribution made by a mining company for caribou mitigation measures under the Peace Northern Caribou Plan and Waldron said he was proud to personally present the donation on behalf of Anglo American.

"This contribution comes as part of Anglo American's Trend-Roman Project, an open cut expansion for the Peace River coal operation near Tumbler Ridge in northeast British Columbia and represents the company's commitment to maintaining the highest standards of environmental protection," said Waldron.

Chief Executive Officer of Anglo American's Metallurgical Coal business, Seamus French, said the donation demonstrated the high importance Anglo American has given to the Peace Northern Caribou Plan.

"We understand and respect the caribou's importance to First Nations and local communities, and we are proud to play a key role in this environmental management project through our unprecedented securement of 2,009 hectares of caribou habitat and a financial contribution of \$2.566 million," French said.

On receiving the cheque, Minister Thomson said, "Anglo American's Roman Mine Project is an excellent example of how



Left to right, Brent Waldron, CFO of Anglo American coal division, presents a cheque for \$2.566 million to help the northern caribou to the Honourable Steve Thomson, Minister of Forests, Lands and Natural Resource Operations for the Government of British Columbia, and Mike Bernier, MLA for Peace River South, British Columbia. Photo by Ellsworth Dickson

resource development can be done in an environmentally responsible and respectful manner."

"We have set aside a total of 2,009 hectares of our tenure, which represents an area four times the size of the Trend-Roman Project area," said French. "The start of mining activities at Roman is an important next step in our plans to extend the life of our Peace River operations for another 16 years."

The \$200 million Trend-Roman expansion, expected to be ready in Q1 2014, will produce up to 2.5 million tonnes of metallurgical coal per year, and employ up to 450 people. ■