

Fortune, Posco form anthracite venture

Sep 01, 2011 | 05:54 PM | Lisa Gordon

PITTSBURGH — An anthracite mining project in northwestern British Columbia that has been on the drawing board since 2002 appears to be on course to finally see the light of day after Fortune Minerals Ltd. reached a deal with South Korean steelmaker Posco Ltd. to jointly develop the project.

The move is being driven by a tight metallurgical coal market, with the race to lock up steelmaking coal leading to a renewed interest in anthracite.

"The shortage of metallurgical coal only became critical a couple of years ago and the anthracite market has evolved substantially," Robin E. Goad, Fortune Minerals' president and chief executive officer, told *AMM*.

A growing global steel industry, China's increased appetite for anthracite and Vietnam's decision to curtail its exports of this type of coal have all worked in favor of the project, which has 106 million tonnes of reserves and 2.8 billion tonnes of resources. It is expected to start up during the latter part of 2014.

"We approached Posco and have been in discussions with them for many years," Goad said.

In return for a Canadian \$181-million (\$188.8-million) investment, Posco's wholly owned subsidiary, Posco Klappan Coal Ltd., will be entitled to 20 percent of the production.

A number of recent changes in the market motivated Posco to invest in the Mount Klappan coal project. "Because of shortages in hard coking coal, you are seeing producers switch to other kinds of carbon sources. Steelmakers are becoming more innovative in using carbon sources in steel manufacturing," Goad said. "Anthracite is the most versatile of all the coal because it has premium characteristics of high carbon and low gas."

An increase in the consumption by two end-use sectors—electric-arc furnaces (EFs) and the pulverized coal injection (PCI) system—have added to anthracite's appeal.

"Anthracite is best for PCI because the constraining factor is the gas content—the lower the volatiles, the greater the injection, and the finely powdered coal reduces the amount of coke you consume. There has been much greater demand from the EFs, which require anthracite reduction," Goad said. "Contrary to iron ore, this is not a short-term shortage as we wait for more projects to come online. Met coal has a limited supply and will remain tight."

Fortune Minerals also is in discussions with other players globally to invest in the project, Goad said. "Our plan is to enter into a second transaction, like the one with Posco, to fully finance the project."

Posco's investment has validated the project, Goad said, enabling it to attract other suitors. "Traditional financing was not looking good because of perceived risks, and our shares were underperforming the company value," he added.

The assets were purchased in 2002 from ConocoPhillips Co., with C\$86 million (\$87.9 million) invested to date, Goad said.

A geologist by training, Goad said that the deposit was historically well known but wasn't developed because there was no railway through the area. "Since then, an opportunity for transportation has unlocked," he said, noting that a rail line is now being built and the mine will be able to send its output to the Port of Prince Rupert in British Columbia.

Due to the depth of the port, Fortune can export its coal in capesize vessels, which will result in a \$10-per-tonne savings in shipping costs.

This article is copyright of American Metal Market. For more information on distribution of this article or on American Metal Market subscriptions, please contact Chris Dunne on cdunne@amm.com.

See www.amm.com for the latest industry news.