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As far as commodity news goes, oil has been making most of the headlines over the past few months. In a tale all too familiar to the coal industry, a glut of supply (courtesy of a boom in US production) and a slowdown in global demand have seen prices collapse from over US$100/bbl in mid-2014 to around US$50/bbl for West Texas Intermediate.

Oil producers – so used to announcing huge profits – are feeling the pain. Royal Dutch Shell’s oil production business made almost no money in the last quarter of 2014; the company has since announced US$15 billion in spending cuts. Meanwhile, BP made a headline loss in 4Q14: it has slashed its expected CAPEX by 20% on the likelihood that oil prices will remain low in the medium term. Even mighty ExxonMobil saw its quarterly profits fall 21% in 4Q14.

Beyond the oil patch, however, and low oil prices are a boon – particularly at the pump. Here in the UK, petrol prices have dropped from well over £1.30 for a liter of unleaded petrol to around £1.05/l – a welcome relief from the recent norm of ever-rising living costs. As the Financial Times said in a recent comment: “Lower oil prices […] benefit households almost immediately through cheaper petrol and other fuels. An unexpected fall in the general price level raises real incomes. This is particularly welcome in the UK, where real median household incomes last year were 6% lower than before the global financial crisis, despite a relatively healthy economic recovery.”

Low oil prices should also prove a boon at the mine, where diesel is often the second-largest cost after labour at large opencast sites. Indeed, according to Deloitte, energy costs can account for 30% of mining operating costs – as well as significantly impacting the transportation costs of moving coal from pit to port. Lower diesel prices could therefore have a large impact on miners’ costs at a time when the cost of production is key.

This should help keep more mines above the cost curve – at least in the short term. But while that is good news for miners, it could prove a mixed blessing for the industry as a whole, if it helps to maintain the current imbalance in supply and demand that is keeping coal prices in the doldrums. Indeed, low oil prices could end up prolonging the downturn in the coal industry, pushing coal prices even lower, as coal production that had been marginal is kept online. It is yet another potential headache for the industry to cope with at the start of a year that does not promise much by way of reprieve from the doom and gloom that has dominated the last twelve months.

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2. “Tracking the trends 2015: The top ten issues mining companies will face this year” (Deloitte; 2015), p. 15.
Walk-Thru Roof Bolters from J.H. Fletcher & Co.

Fletcher bolters with walk-thru chassis and inboard drill controls allow operators to work from the center of the machine. This means less time between the machine and hazardous rib—less exposure to rib rolls. Safety and productivity—it’s the Fletcher way.

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- Drill Controls on Insides of Booms
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Coal News

CHINA Coal industry faces up to a “new normal”

Last year was a significant year for energy commodities in China, according to Wood Mackenzie (WoodMac), as commodity demand growth decoupled from GDP growth for the first time. “Over the past two decades, commodity demand growth had maintained relatively proportionate annual increases to GDP growth,” said the energy market research company. “In 2014, however, the pace of power, gas, coal and diesel demand increase fell more drastically than the slight GDP moderation.”

A dire year for coal

Over the past year, China has offered the world’s coal industry a “new normal” (to borrow a favourite phrase of the Chinese President, Xi Jinping). This culminated in the news that China’s coal production had dropped for the first time since 2000, falling an expected 2.5% to about 3.5 billion t, according to the China National Coal Association.

It comes on the back of a dire year for Chinese coal miners, as slowing demand, plentiful supply and cheap imports have left over 70% of the country’s coal mining companies in the red. Nor is there much hope for better times this year: at the end of last year, Fitch Ratings said that a “meaningful upswing in coal prices is unlikely in the next 12 months.”

“Substantial capacity investments in previous boom years are still being digested, while demand has been weakened due to industrial deceleration,” continued the ratings agency. “In addition, the government aims to increase the production of renewable energy at the expense of the share of coal-fired power over the longer term, which means that the thermal coal consumption growth rate is set to decline.”

Indeed, at the World Economic Forum in Davos, Switzerland, the Chinese Premier, Li Keqiang, said that his government would “spare no efforts to pursue low carbon development”. Li also reiterated the pledge made in last year’s US-China Joint Announcement on Climate Change to boost non-fossil fuels’ share of China’s primary energy mix to 20% at coal’s expense.

Meanwhile, the Chinese government continues its war on smog with Reuters reporting that the country’s National Development and Reform Commission has ordered the city of Shanghai and provinces of Zhejiang, Jiangsu and Guangdong to draw up plans to limit their consumption of coal by June in order improve air quality. This follows similar moves in the region around Beijing and could precede a national cap on coal use that is widely expected to be included in the next five-year plan.

The “new normal”

WoodMac expects the outlook for demand for power, coal and diesel to change notably over the long-term due to major structural changes in the economy and policy: “The Chinese government is moving away from the post-2008 investment binge and gradually moving towards a more moderate but sustainable consumption led economy,” said Cynthia Lim, Principal Asia Economist for WoodMac.

“There are two aspects of rebalancing,” continued Lim. “One, away from investment towards consumption, particularly in the developed coastal region; and two, a shift in economic gravity away from the coast and towards the inland region. Both trends will have significant implications on commodity demand shifts. An important indicator for the energy industry to watch will be the weakness of industry versus the strength of the consumer in China.”

In the coal industry, the pace of annual growth has slowed, particularly in coastal markets with new-zero growth in demand for power generation. “Coal remains king in China but growth has been severely reduced due to industrial weakness, as well as cyclical weather patterns that saw higher rainfall boost hydro output,” said Gavin Thompson, Principal Analyst for APAC Gas & Power Research.

In the short term, Thompson expects coal-fired generation to be impacted by lower power demand, environmental polices and a rise in non-coal generation, including hydro. Longer-term, however, structural changes in the Chinese economy will be the key influence on the country’s coal demand, with demand for coal rising fastest in inland provinces and the acceleration of ultra-high-voltage transmissions lines to export power to the coast.

Lim concluded that the recovery in demand for power, coal and diesel will be closely tied to industrial demand. “While these commodities will experience a moderate recovery in the medium term as overcapacity is reduced, the ongoing transition of China’s economy away from an industry-led model suggests their relationship with GDP growth will weaken permanently in the longer-run. As a result, the energy sector must keep attuned to both China’s underlying changes and also short-term developments to position itself for the changing opportunities the market offers.”
INTERNATIONAL A round up of global project developments

A round up of news from coal projects around the world.

Australia
Shenhua
The New South Wales Planning Assessment Commission has granted approval for Shenhua’s proposed AUS$1 billion Watermark coal mine in the Australian state’s central west region. The state-owned Chinese company has said the 30-year project will produce 10 million tpy of coal and create the equivalent of 600 full-time jobs. The project will now require approval under the federal Environment Protection and Biodiversity Conservation Act.

Mongolia
Aspire Mining
Aspire Mining will work with a subsidiary of China Railways Construction Corp. to complete the first stage of the Erdenet-to-Ovoot Rail bankable feasibility study. This comprises desktop engineering of the entire 547 km alignment, based on 1:5000 scale maps currently being prepared and delivered by Aspire’s subsidiary, Northern Railways.

Ekhgoiin Chuluu Joint Venture
Results from a core sample taken from the Nurustei metallurgical coal project have confirmed the presence of high-quality metallurgical coal. The Nurustei project is located in the Orkhon-Selenge Coal Basin in Mongolia. The project is close to a recently completed sealed road, which connects to the existing Mongolian rail system. It is owned by the Ekhgoiin Chuluu Joint Venture (ECJV) between Aspire Mining and the Noble Group.

Poland
New World Resources
The Debiensko coal mine in the Upper Silesian Basin could receive a new lease of life, after coal mining firm, New World Resources (NWR), said it was exploring ways to fund a revival plan for the mine, which had previously been deemed uneconomic and shelved. Following the completion of a positive pre-feasibility study for the project, NWR said it had now found ways to reduce the CAPEX and OPEX required for the project and was now looking to attract funding for a two-year feasibility study of the project.

South Africa
IPC
IPC Coal and IPC Mining have secured funding to expand the Nungu coal mine in South Africa. The funding will allow the company to expand its existing operations at Nungu underground. The Nungu mine is 5 km west of Middelburg Town in Mpumalanga Province. Its coal reserves are located beneath the surface with access via the highwall of the mined-out Nungu West opencast pit. The funding was secured through Centaur Holdings, which had previously provided IPC with finance to mine Nungu’s opencast reserves.
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The Prospectors & Developers Association of Canada’s (PDAC) International Convention, Trade Show & Investors Exchange is set to once again take place in downtown Toronto from 1 – 4 March 2015. The PDAC Convention is the exploration industry’s largest annual event, providing opportunities for attendees to learn about the latest trends, technologies and personalities shaping the mineral exploration and mining sector.

The convention attracts investors, analysts, mining executives, geologists, prospectors and government delegations from all over the world. In 2014, more than 25,000 people attended the convention for the fourth consecutive year.

“Canada leads all global countries in mineral exploration spending. Since Toronto is the global capital of mining finance, it makes sense that we host the industry’s most important networking and educational event here,” said PDAC President, Rod Thomas. “We’re looking forward to another banner year for the PDAC Convention.”

Over the past 83 years, the convention has grown considerably – and this year is no exception. PDAC 2015 will extend into the North Building of the MTCC for the first time to host additional exhibit space, as well as the Core Shack. Entrance to Trade Show North will be complimentary during the inaugural year, while show hours have been extended to ensure attendees can cover both the North and South buildings.

The convention will feature a series of topical short courses, workshops and technical sessions designed to showcase the challenges and trends facing the industry. New additions include a session on Plan Nord and a course on the geology of copper, as well as a keynote session that explores the role of retail investors in the junior mining sector.

“The convention is designed to help the sector find the creative answers it needs to meet the challenges it faces,” said Thomas. “Programming reflects economic and industry trends, and aims to provide networking and educational opportunities to encourage a healthy mineral exploration industry.”

The convention’s technical programme features 19 sessions, each led by industry experts. Other highlights of the convention include the accompanying trade show, which features over 500 exhibitors promoting technology, products and services. Meanwhile, the Core Shack at the show will feature more than 60 of the latest mineral discoveries from around the world.

Industry leaders recognised
At the 2015 convention, PDAC is set to honour six industry leaders as part of its annual award ceremony. These awards showcase the achievements of companies, individuals and groups in the mineral exploration and mining sector by highlighting the best in domestic and international mineral discovery, mine development, aboriginal achievement, environmental and social responsibility, and distinguished service.

Bill Dennis Award
David Palmer, President and CEO of Probe Mines Ltd, is the recipient of this year’s Bill Dennis Award for a Canadian mineral discovery or prospecting success. David Palmer receives the award for the Borden Gold Project, a discovery near Chapleau, Ontario.

Viola R MacMillan Award
Matt Manson, President and CEO of Stornoway Diamond Corp., is the recipient of this year’s Viola R. MacMillan Award for company or mine development. He receives the award for leading Stornoway’s team in the continuing development of the company’s Renard Project in the James Bay region of Québec.

Thayer Lindsley Award
The Ivanhoe Mines Kamoa Discovery Team is the recipient of this year’s Thayer Lindsley Award for international mineral discoveries. The team receives the award for discovery of the Kamoa Copper Deposit in the Democratic Republic of Congo.

Distinguished Service Award
Bill Pearson is the recipient of this year’s Distinguished Service Award. He receives the award for his outstanding contribution and dedication to Canada’s mineral and exploration industry, in which he has worked for over 40 years.

Environmental & Social Responsibility Award
Noront Resources Ltd is the recipient of this year’s Environmental and Social Responsibility Award. The company receives the award for its accomplishments and commitment to social initiatives in Northern Ontario.

Skookum Jim Award
Sam Bosum is the winner of this year’s Skookum Jim Award for Aboriginal Achievement in the mineral industry. Bosum receives the award for his work bridging the gap between the Oujé-Bougoumou Cree Nation and the mineral industry, as well as his continued efforts to encourage and mentor Cree youth to pursue their future careers, including that of geologists.
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MASTER BUILDERS SOLUTIONS
FutureGen has funding cut

The US$1.65 billion FutureGen 2.0 carbon capture and storage (CCS) project in Illinois, US, will be shut down after the US Department of Energy suspended its financial support. The project would have seen an old coal-fired power plant retrofitted with CCS technology.

Coal still king... just

Coal was the major source of power last year in the UK, despite growing challenge from gas and renewables. Levels of coal-fired generation dropped 23% y/y, as the black rock faced competition from lower-gas prices and a booming renewables sector.

Rallies held against Kellingley closure

Miners at the Kellingley coal mine in the UK, which is set to close this year, have staged a rally to call on the government to provide funds to keep it open. Workers, Members of Parliament, activists and union leaders took part in the march.

Heyl & Patterson receive railcar dumper order

Heyl & Patterson has announced the sale of a turnover railcar dumper barrel to Oxbow Carbon for installation at a facility in Argentina. The unit will be used to unload fuel-grade coal and will replace a unit that was installed at the site in 1980.

RungePincockMinarco releases HAULSIM 1.2

The latest version of haulage and loading simulation software, HAULSIM, includes integration with RungePincockMinarco’s commodity-based scheduling solutions and enhancements to the 3D user interface.

Keep calm and carry on

Driving productivity, embracing innovation and getting more adept at balancing short-term investor expectations with long-term business imperatives, are becoming more important than ever for the coal mining industry, writes Reuben Saayman, Deloitte, Australia.
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A DEMOGRAPHIC TIME BOMB

Will Coetzer, Stratum International, UK

The mining industry is facing a demographic time bomb, which will affect the sector at all levels. In Canada, for instance, 40% of the mining workforce – at all levels – is aged 50 or over.

As Stratum International specialises in senior level executive search, we wanted to research how effectively the sector is preparing for a shortage of leadership talent in the future. We surveyed more than 900 mining professionals to ask about their perceptions of the preparedness of the industry and their own organisations for the demographic time bomb.1

Astonishingly, only 1% considered the sector “well prepared” for the changes ahead. Some of the respondents rightly pointed out that for many firms – the junior and mid-tier firms in particular – short-term survival is more of a priority in the present environment. But even taking this into account, the survey findings indicate there is much more to be done to ensure the long-term future is in safe hands: 79% of respondents believe their pathway to leadership with their current employer is assured.

Leadership development

We asked respondents about their perceptions of a number of leadership development activities. All the initiatives were considered to be important to the future leadership of their organisations by at least half of respondents. However, coaching and mentoring programmes led the field by some distance, with 79% of the sample labelling them as very or extremely important.

Leadership development targeted at graduates and postgraduates was thought of as very or extremely important by only 54% of respondents, compared with clear career pathways (71%) and general leadership development schemes (75%).

Enthusiasm for the initiatives was more constrained among board executives, with only 56% identifying coaching and mentoring as important. Given this apparent lack of enthusiasm at the top, it is unsurprising that less than a third of those companies sampled had a formal corporate programme in place or even in development.

Of the wider sample, 29% said they believed their organisation’s future leaders would come from the current internal crop of managers, while 20% said their organisation had a target list of external candidates. Less than a fifth of board executives thought the next generation of leaders will naturally come from their existing crop of junior managers, without opening up the roles to external applications.

Many respondents considered this perfectly normal and healthy. But they might be more concerned if they knew that nearly a third of board executives told us they had already identified a pool of external candidates from which they believed the next crop of leaders would come. It would seem that many executives have already decided they do not currently have the skills in-house to lead the company in the future.

Of course, most employers will want to have as wide a choice of talent as possible. We believe the best approach is a long-term succession strategy, which balances the nurturing of an external pool of talent with the identification and development of internal high-potential managers.

Recruitment policies should get the best talent on board at a time that is right for the individual and the organisation.

We recommend those organisations not currently struggling with short-term survival should start to address this challenge immediately.

Who should take the lead?

People told us that either the current leadership team – or a combination of several different people – should take responsibility for ensuring the transfer of skills from senior leaders to junior staff. However, it can often be the case that when lots of people are responsible, no one person takes responsibility.

HR professionals may be horrified or concerned by the fact that only 2% of respondents thought this responsibility should fall to HR. We feel that, in this responsibility vacuum, HR is actually well placed to take a lead and, in doing so, address a challenge of critical importance and so demonstrate the strategic importance of HR to the business.

Reference

1. ‘The Demographic Time Bomb In Mining’ (Stratum International; 2014).

Author

Will Coetzer is the co-founder and managing director of Stratum International.
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GETTING THERE
TOO SLOWLY
Mozambique has the opportunity to join the top 10 of world’s coal producers and exporters but, as the government continues to drag its heels on the provision of adequate infrastructure, both major and minor players and investors are starting to rethink the effort they can continue to fund in support of that aim.

A 20 year civil war is over – although, at times, the ensuing peace has been uneasy. Now, this is largely forgotten in the face of growing euphoria generated by a wave of new nation building. The key to opening the door to a new era hailed by the World Bank, the International Monetary Fund (IMF) and international investors alike, was – and still is – coal.

As Mozambique was increasingly billed as an energy-hungry world’s biggest untapped resource of coal, an international industry eager for more
Mozambique exported 3.1 million t of coal over 2012, ranking the country 17th in the world. The IMF warned in November 2014 that in the Mozambique coal stakes. The company announced that it would run out of cash before the end of the month. With its shares suspended and owing billions of dollars, it has since been placed in administration.

In their enthusiasm, even some of the more experienced mining firms played down some of the obvious pitfalls. Mozambique had to develop: the World Bank and the IMF would be aboard. China and India – not overly concerned about global warming and climate change – needed energy from coal to continue their accelerated development.

International aid would not be a problem, investors would vie for a slice of the action as coal prices ran to record highs. Railways would be built, ports developed. It would be a winning game for everybody.

Suddenly, times have changed. The investment climate has cooled and coal prices continue to slide. In Q414, a major Mozambique miner had to sell significant slices of its assets to balance its books.

In January 2015, meanwhile, as shareholder support waned, a junior company announced that it would run out of cash before the end of the month. With its shares suspended and owing billions of dollars, it has since been placed in administration.

Clearly, the rules have to change before there can be any lasting winners in the Mozambique coal stakes. The IMF warned in November 2014 that the decline in commodity prices – especially for coal – was a risk to its overall positive outlook for Mozambique. “Efforts are needed to put in place adequate institutional arrangements to address the new challenges associated with this sector,” the report stressed.

Winners and losers
In 2011, the then-ASX listed miner Riversdale sold its Mozambique properties. The buyer was Rio Tinto; the price, US$4 billion. Riversdale could not have known it, but it had reserved a place in the Mozambique coal stakes winners’ enclosure.

Rio Tinto was to sell out three years later to International Coal Ventures Ltd (ICVL) for US$50 million – or, as one analyst put it: “less than the salvage value of the plant”. ICVL followed Riversdale to join the winners; Rio Tinto became the number one loser.

ICVL is owned by the Indian government. It was set up to acquire coal assets around the world – and bring home the coal. There were reports Rio Tinto was hoping to sell for at least US$200 million; it had already written down the assets to US$500 million.

Rio Tinto continues to lay the blame for the failure of Riversdale – under its management at any rate – squarely on the Mozambique government for not developing adequate infrastructure to transport coal both around the country and to export it. It also remains sore about the government’s refusal to allow it to barge coal from Riversdale down the Zambezi River and tranship it at river-mouth onto ocean-going vessels. The proposal had been strongly criticised by maritime sources as unworkable. The Zambezi was an unpredictable river that could not be tamed sufficiently to allow such traffic to successfully navigate its waters, nor would it be possible to tranship the loads at the mouth of one of Africa’s most wild waterways.

The Brazil-based international giant miner, Vale, had the same idea, but came to the same conclusions as the maritime experts. It then put forward a project – now close to completion – to build a coal terminal at the northern port of Nacala and a railway to link it to the Tete basin – the location of Mozambique’s major coal resource and Vale’s Moatize mine.

First in line
Vale appears to be, so far, best positioned as the big winner in the efforts to develop Mozambique’s coal industry. To get that far, the company has had to finance infrastructure way beyond what it – or any other company for that matter – could have expected. This infrastructure includes a 912 km railway: 228 km of new track in neighbouring Malawi and another 684 km refurbished in Mozambique. There is also a port and loading terminal. And a bill of US$1.5 billion.

In line with Mozambique law, the facilities will have to be open to all – though those using them will have to pay – but 75% of the capacity will be reserved for owner of the project, Vale.

Moatize is the flagship of the Mozambique coal sector. By developing it, Vale opened up the entire industry. Yet, perhaps, if comparable logistics had been in place as and when Vale believed they would be, the company may not have had to shore up an ailing balance sheet by selling half of its holding in the logistics projects and 15% of its 95% holding in the Moatize mine to Japan’s Mitsui Group.
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Falling coal prices also influenced Vale’s decision. But had the government made sure sufficient logistical support was in place, much of the coal would already have been shipped and at far better returns for both Vale and the government.

**Shareholder veto**
ASX-listed Beacon Hill, which is developing Minas Moatize (similar name but no connection to Vale’s Moatize Mine), placed the mine on care and maintenance in November 2013, when metallurgical coal prices fell significantly below the then current cost of production.

“With no production anticipated during 2H14, focus of the board and management will be solely on debt and equity expansion project funding, logistics and restructuring the existing debt on the balance sheet,” Chairman of the Board, Justin Farr-Jones, said in June.

Towards the end of 2014, Farr-Jones announced plans to reschedule US$4.1 billion of US$10 billion of senior debt and proposals for institutional fund-raising of US$14.5 billion during early 2015. This was to be a condition precedent to an international US$20 billion debt facility.

Only weeks later, in December, shareholders refused to vote him the 75% majority he needed to continue. Reports in mid-January 2015 suggested the company’s insolvency was imminent. The London Stock Exchange had been warned that working capital would run out by the end of the month. Well before that happened, the company and its wholly-owned subsidiary, BHR Mining, were placed into administration. But in a last-ditch effort to buy time to save the mine by finding a buyer for it as a going concern, a deal was done to – at least temporarily – keep the mine’s operating subsidiary, Minas Moatize Limitada, out of the administration process.

“In the light of the need for working capital and the default in interest payments, it was the only course of action open to the board,” Farr-Jones said. “Minas Moatize remains an excellent project,” he insisted. Closely involved in the continuing operation of the mine is international coal trader Vitol S.A., which holds a Beacon Hill note for US$10 billion – and with it the right to buy the company out of administration for US$1. Here, the waters muddy as to which agreement is with which entity, but Vitol has an off-take agreement (at the initial levels of production) over the majority of Beacon Hill’s coal.

“It is an attractive asset and, over the longer term, an economic mining operation,” Farr-Jones said before he, CEO Rowan Karstel and their team – board and management – went to ground. They were – and still were at the end of January – almost certainly talking to Vitol. Although a group of shareholders has started to talk about new funding for the company, but wants more equity and board representation, Vitol must seem a better bet for Farr-Jones and his colleagues.

The group, which accounts for an estimated 30% of the equity of the company, comprised those shareholders who voted down Farr-Jones in December. It has now accused him and other board members of sharp practice, which had most likely been the principal cause of the
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As at the end of 2012, Mozambique was ranked 30th in the list of 36 coal-producing countries with production of 3.8 million t. End-2013 it was ranked 24th with production of 7.7 million t. The forecast for 2014 is 14.4 million t, increasing to 80 million tpy by 2025, which would put Mozambique among the world’s 12 top producers.

The 21st to 30th top coal producers, accounting for 1.4% of global production (2013). As at the end of 2012, Mozambique was ranked 30th in the list of 36 coal-producing countries with production of 3.8 million t. End-2013 it was ranked 24th with production of 7.7 million t. The forecast for 2014 is 14.4 million t, increasing to 80 million tpy by 2025, which would put Mozambique among the world’s 12 top producers.

No clear direction
Also exporting coal through Beira is India’s Jindal Steel and Power (JPSL), which acquired and commenced development of the Chirodzi mine in 2012. So acute were its problems in getting coal to the terminal along the 570 km railway, it had to resort to trucking a large proportion of it. The project includes power generation and the export of thermal coal. The Phase I export target was 10 million tpy by end-2015. No end date has yet been given for Phase II, but the production target is 20 million tpy. Phase III was to be an ambitious pipeline, which would carry coal slurry from the mine to Beira. Determined to succeed, JPSL has already submitted plans for this to the Mozambique government. Pipelines are expensive, yet no details of the cost, the exact route or a timeline for the development have been released. Nonetheless, JPSL country head, Manoi Gupta, said: “Money is not the problem; we need direction.”

Export dreams
When it bought Riversdale in 2011, Rio Tinto announced a target of 10 million tpy of export coal by 2013. Once those dreams of barging down the Zambezi were forgotten, the coal had to be moved on the Sena railway line to Beira: 10 million tpy also became a dream.

Vale was already using the line. It soon became clear that the railway – and port – could not cope with the potential traffic. Vale was already planning Nacala and decided to curtail production and exports, go ahead with the project and then ramp up Moatize to catch up – as far as was possible.

Vale’s well-publicised export target has always been 22 million tpy of exports by 2017, but this was made at a time of much higher coal prices. The only estimate Vale will make for initial exports via Nacala once it is fully commissioned – most likely over 2015 – is 5 million tpy. This is ultimately dependent on what the coal can be sold for.

Considering the “Mitsui factor”, it is probable that at least some of Vale’s production will now be shipped to Japan at prices that might not be as critical. Actual shipments of coal may, therefore, change.

Waiting for the Nacala wake-up call
At the 2014 Informa Mining Conference in Maputo, the government’s Director of Mining, Eduardo Alexandre, insisted that coal production in Mozambique would ramp up to 14.4 million t over 2014 from the 7.7 million t produced in 2013. By 2025, production would top 80 million tpy. Previously published estimates have been 100 million and 120 million tpy.

Few – if any – analysts accept these figures. They argue that production and exports over 2015 will only show improvement over 2014 if Nacala does become operational – and then they point to Vale’s own estimate.

Current coal export capacity is no more than 6.5 million tpy, all through Beira. Questions remain as to whether even that amount of traffic is likely with Vale down to 5 million tpy and ICVL’s possibly out of the picture for some time (production and exports were suspended during its negotiations with Rio Tinto).

Minister for Transport and Communication, Gabriel Muthisse, has admitted that coal producers in Mozambique might have to face what he calls a “strategic wait” before their export operations become fully profitable. He holds out little – if any hope – that the government will step in with cash for coal infrastructure. He ignores a much-talked about US$4.5 billion Thai-Mozambican proposal for a virtual Vale copycat 537 km railway from Tete to a 24 million tpy capacity port and loading terminal at Macuse, which is north of the mouth of the Zambezi on a latitude approximately the same as that of Juan de Nova Island in the Mozambique Channel.

As yet, there is no full feasibility study for the project; neither are there any indications as to how it would be
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Competitive but no cash
Alexandre insisted the Mozambique coal industry would be internationally competitive within two years (2016/17) and the country’s major driver of economic growth. The government remained committed to developing it to such an end. Muthisse clearly indicated this commitment went only as far as looking for funding, not for providing it: “We are keen to attract investors to build the infrastructure you need,” he said.

Muthisse was sure coal prices would recover and fall back on demand from India and Japan, as well as China, as the main drivers. “The world will still continue to need coal,” he said. Then, in a surprising statement, he added: “Strategically, if I were an operator in coal, I wouldn’t be exiting from here, but if some do leave, we will look for partners elsewhere, both in actual extraction and in the logistics.”

Scathingly, analysts commented that, with global prices for coal in the doldrums because of oversupply and sluggish demand, Mozambique’s coal miners faced an uphill battle to be competitive over the next several years – never mind by 2017.

The World Bank has forecast only that coal and gas could generate up to US$9 billion in revenues by 2032, but does point out that billions of dollars of investment are required not only to provide the coal industry with the logistics it needs – in addition to Vales’ Nacala development – but now also to exploit offshore natural gas reserves.

In a recent economic report, the IMF projected annual economic growth of 7.5% over both 2014 and 2015, but warned that sustaining such a positive outlook largely depended on the mitigation of risks that the coal sector found itself exposed to. “In the wake of falling commodity prices, substantial natural resource revenues are six to ten years away,” the report said and urged the government to address the new challenges faced by the sector to enable it fulfill the promise it held for the country.

Government’s capital gains tax grab
The Economist Intelligence Unit (EIU) has calculated that Mozambique extracted US$1.3 billion in retroactive capital gains taxes from transactions involving mining and hydrocarbons projects. This is equivalent to 9% of the country’s gross domestic product over 2013. “These retroactive claims have not deterred foreign investors,” The EIU maintained, adding that it did not expect investors to turn their backs on Mozambique.

Understandably, mining company executives find it hard to agree. Rio Tinto is at loss to understand why, in its view having lost heavily on its Riversdale investment, it is one of six coal companies still facing such claims.

There has been no direct comment from the government, although the Minister of Mineral Resources, Esperanca Bias, has said that mining legislation is under review and one area under examination is royalties.

There is no doubt that Rio Tinto paid “top dollar” – as one analyst put it – for the Riversdale project at a time when thermal coal prices were on the way to US$136/t and metallurgical coal to $330/t. The company sold the mines as prices plunged to US$68 and US$14, respectively, and in some cases lower.

Rio Tinto has now, as far as can be ascertained, exited Mozambique. Does Vale’s deal with Mitsui indicate that the Brazil-based international major could follow suit? Or that stressed juniors could eventually throw in their shovels?

Forecasts will be fine (if the trains run)
A June 2014 forecast was that coal exports from Mozambique would reach 10 million t over 2014. This was before the Riversdale sale and the Vale-Mitsui deal, but was alongside longer-term forecasts of 12 million t over 2015, 16 million t over 2016, 18 million t over 2017 and a 24 million t target set for 2018.

Some analysts continue to see these forecasts as still valid, but only if there are significant upgrades to the existing rail and port facilities, as well as the successful completion of the new logistics for exports via Nacala and possibly later, Macuse. “Any delays in construction or difficulties in financing CAPEX could constrain both production and exports,” they say.

Echoing the conclusion of The EIU and leaving Mitsui and ICVL aside, there is continuing investment interest in Mozambique’s coal sector. Kazakhstan-headquartered Eurasian Natural Resources Corp. (ENRC) has been granted a 23 860 ha. concession in the Tete basin, while the UAE headquartered company, ETA Star Group, has been granted a 43 000 ha. concession.

ENRC is talking big: US$1 billion to develop a 25 million tpy mine, with a life of mine of 25 years and a 1200 km
railway to link with Vale’s Nacala line, which will, however, have to cross the Zambezi.

More credibly and cautiously, the UAE investors talk of US$250 million, further feasibility studies and a 4.1 million tpy mine over a 1.9 billion t resource, ramping up to 10 million tpy. It could follow JSPL in moving its coal as slurry along a pipeline – presumably to Beira.

On one count, Muthisse was right: India is well ahead of the game. After its US$50 million bargain basement deal with Rio Tinto, ICVL has speedily and encouragingly followed up with the announcement of a two to three year US$500 million package to build-up operations and export logistics at Riversdale.

ICVL has walked into what is becoming the story of miners’ lives in Mozambique. “Benga is producing 5 million tpy and making cash losses,” ICVL says. “2 million tpy can be exported (and is, to Tata Steel, a long-time partner in the mine). There are logistical issues, we need a 500 km railway and a port.” The immediate plan is to ramp up production to 12 million tpy. Riversdale is over an estimated 2.6 billion t resource.

Coal India (CIL), with two blocks over 200 km² in Mozambique, is suddenly busy reassessing the reserve it might be sitting on with a view to an upward revision of potential production. It has also suggested it might seek an interest in the Sena railway with a intention of financing much-needed upgrades.

India’s Sunflag group has earmarked US$222 million to develop a mine over an estimated reserve of 115 million t of coal, with an expectation of producing 5 million tpy ROM.

There are no recent reports of any interest in investing in coal mines from China, only in more so called “railway diplomacy” – building and financing new lines to carry coal or anything else.

The Mitsui-Vale deal is, as far as is known, the first-ever Japanese private-sector venture into Mozambique.

Conclusion
Mozambique undoubtedly remains a land of opportunity for the development of a major coal industry. However, to echo the IMF, this will only be possible after the logistical situation is resolved.

Encouragement can be found in that none of the Indian overtures – not even the ICVL purchase of Riversdale – nor Mitsui’s investment in Vale, can be seen as investment for immediate return. Rather, these moves are bets on the development of potential production. More such moves are needed, but they require support. Despite the government’s perceived lack of support for the coal industry, it must change direction and allow Mozambique to pull off what, at this time, seems impossible.

Will Alexandre see his targeted production at 80 million tpy materialise, even if he does not see 100 million or 120 million tpy? Given the political will it could happen. Only time will tell.
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