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IND AGRICULTURE

Steam-coal industry's face changes as Colombian superpit delivers

TODAY THE bulk-carrier Giovanni is due to dock in the Danish harbour of Sudstrup to begin unloading a historic cargo, 35,000 tonnes of Colombian steam-coal for Elsam, the Danish utility.

The coal will be the first commercial offering from the big El Cerrejon steam-coal mine in Colombia's Guajira province, a mine which is set to dominate the world steam-coal market for the rest of this century. Steam-coal is used for steam-raising, particularly by power stations.

Conceived at a time when international coal prices were expected to rise strongly and swiftly, the El Cerrejon super-pit—a joint venture between Interco, Exxon's Colombian subsidiary, and the Colombian state-owned Carbocol—will be delivering its coal onto a far from buoyant market.

Early predictions were that the f.o.b. price for steam-coal would reach \$89 a tonne by next year, the year when El Cerrejon

Superpit a year ahead of schedule

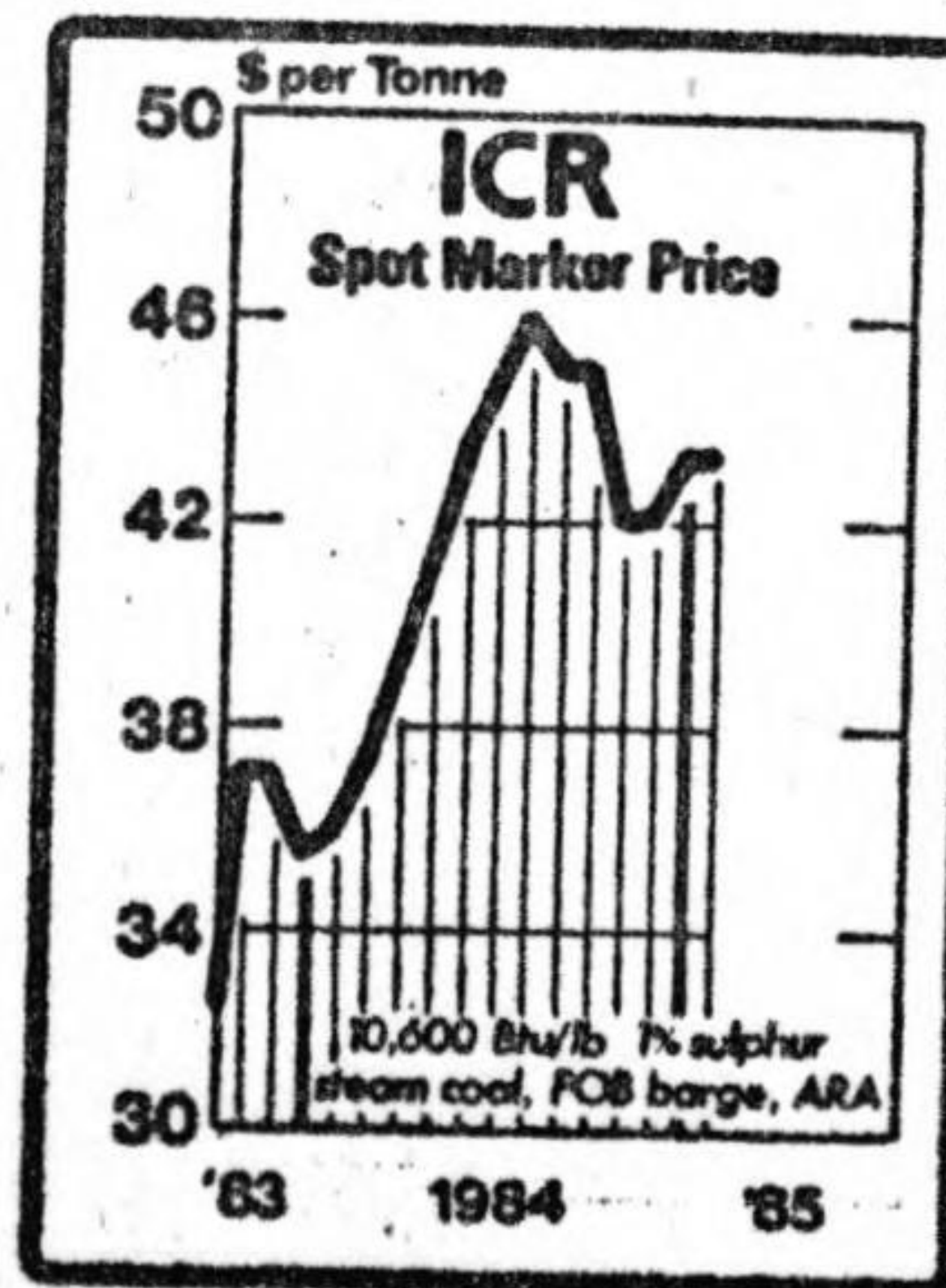
was initially due to market its first coal. The reality is that f.o.b. steam-coal prices are well below \$40 a tonne.

Further, little if any real rise in prices is expected for the rest of the 1980s. Two of Exxon's fellow oil majors which are deep in the international steam-coal business are BP Coal International and Shell Coal International. Their view is that the dollar price of coal will rise at no more than the rate of inflation in the next five years.

None the less, the owners of the \$3.2bn El Cerrejon mine with its high calorific (11,850 Btu/lb), low sulphur (0.2 per cent) product are far from dismayed. The mine has proved extremely expensive—its cost compares with the UK's £1bn Selby pit which boasts a design capacity of 10m tonnes a year.

Much of this cost, however, has been to develop a complete exporting infrastructure from scratch, including a 150 km (93-mile) rail-link and a coal-exporting terminal at Port Bolivar.

Gerard McCloskey opens a series of regular monthly reports on the world coal market



Some of this cost is clearly going to be recovered earlier than expected with the mine coming into operation a full year ahead of schedule. The \$110m to \$115m that the sale of 3m tonnes of coal this year is seen as a bonus, particularly for Exxon, which is rumoured to have funded its share of El Cerrejon from its own resources.

Production for next year is slated at 6m tonnes with further 3m-tonne increases yearly until 1989 when full output of 15m tonnes is reached. A decision on further expansion to 25m tonnes a year has yet to be taken.

El Cerrejon is now seen as setting the pattern for the new steam coal industry: developed by an oil major and, at current prices, not likely to make much of a return this decade. It is believed, however, to be making \$10 a tonne profit over its running costs.

It is not, however, the whole industry. Steam-coal exports

U.S. squeezed from market

have become a big and growing business since the second oil price surge of 1979, particularly for South Africa, whose shipments rose from 16.7m tonnes in 1979 to 32.8m tonnes last year, and for Australia—5.7m tonnes in 1979, 27.8m tonnes last year.

In contrast, Polish steam-coal exports to the West were 18.1m tonnes last year, virtually the same as in 1979, while U.S. shipments soared from 2.3m tonnes to 29.9m tonnes in 1981 before subsiding to just 10.3m tonnes last year.

A continuing strong dollar, high rail freights inside the U.S.

Question on world prices effect

producing high f.o.b. port prices combined with a poor reputation for quality have conspired to squeeze the U.S. steam-coal from the market. Nothing suggests any change in that situation.

The question that only the experience of the next few years will answer is whether the increased tonnage available from Colombia, South Africa (due to ship 40m tonnes this year and with the declared intent to move to 80m tonnes a year next decade) and Australia (one forecast predicts 47m tonnes of steam-coal exports in 1990) can be placed on the market without driving down world prices.

Certainly demand for steam-coal is growing while production from the old coal-producing industries in Japan and Europe is declining. Philip Rogers, head of research for Simpson, Spence & Young, shipbroker, predicts a rise of

12m tonnes in sea-traded steam-coal this year to 120m tonnes. Many authorities expect an annual 10 per cent rise in demand through the rest of the 1980s.

Unlike earlier, highly optimistic, forecasts for coal, these predictions look fairly solidly based, relying for their hopes of growth on power stations which have been built or are under construction in Europe and South-East Asia. In particular, growth markets are tipped in Japan, South Korea, Hong Kong, Taiwan, Italy, Spain, Portugal and Ireland.

Most steam-coal is traded on long-term contracts with prices fixed annually or, as is apparently the case with the Central Electricity Generating Board contract with two Australian suppliers, adjusted quarterly. Only about 20 per cent of steam-coal is traded through the spot market.

One sector buying keenly in this market is the European cement industry, recently converted from oil- to coal-firing. If, however, the prices are right, the European cement industry will as readily burn old tyres or petroleum coke as low-cost steam-coal.

No formal market price exists for steam-coal in the way it does for spot oil: coal qualities are too disparate in their calorific, sulphur and ash characteristics. In the past 18 months, however, the FT International Coal Report has been charting the movements of spot prices and has dubbed one quality of South African coal as its marker.

This coal, always available from the coal terminals of Belgium and The Netherlands, is viewed as a reliable reflection of the state of the market. The coal's qualities are: 10,600 Btu/lb, less than 1 per cent sulphur and it is priced fob barge, Rotterdam.

It is curious that the UK coal strike had such a small effect on this price. After struggling up from \$32 a tonne in September 1983 to \$37.50 a year ago, this marker hit a high of \$45 last summer. Now it stands at about \$43.50, a level at which it has remained throughout the winter.

The Financial Times will report regularly on world steam-coal prices. Gerard McCloskey is editor of International Coal Report.