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## Big wheels stop rollin' as coal cools

**Stephen Wisenthal**

Miners of thermal coal, which is used to generate power, are starting to trim their most expensive production as they react to a slide of more than 30 per cent in the price of the fuel from peak levels reached last year.

Japanese-owned Ensham Resources, whose Ensham mine near Emerald in Queensland is the ninth-largest export coal mine in Australia, is looking at trimming high-cost output by reducing the use of trucks, among other measures.

"What we're seeing is a considerable lull in the thermal coal market," Ensham chief executive John Pegler said. "What we will do is pace ourselves quite carefully. We will pick off the most expensive bits of capacity."

The slowdown comes after the surge in thermal coal prices last year to record highs of about \$US60 a tonne, which prompted Ensham and many other miners to produce as much of the fuel as they could, to capture the highest margins they had in decades.

"The underlying market is

strong," Mr Pegler said. "That's brought out more supply, particularly from Indonesia."

But the customers have rebuilt their stockpiles, and are now scaling back orders to put pressure on the miners as the two sides negotiate next year's prices.

"Twelve months ago you'd go around Korean power stations and you'd struggle to see coal," Mr Pegler said. "Now they've got lots of coal."

The reference price for coal shipped to Japan rose to \$US52 a tonne on April 1, more than double the level of two years earlier. But now that the spot price of coal for delivery outside long-term contracts is below \$US40, analysts are expecting the reference price to fall by between \$US5 and \$US10 a tonne.

Still, the long-term outlook for the industry was good, Mr Pegler said.

Ensham is 85 per cent owned by Japanese energy company Idemitsu, in partnership with Japanese generator J-POWER, and a unit of Korean conglomerate LG.

It produced 8.7 million tonnes in

2004-05, up from 5 million tonnes in 2001, and plans to more than double output to 20 million tonnes by 2011.

The next stage of expansion, an extension of the open-cut mine, is expected to start operating in 2007, and the construction of an underground longwall mine is scheduled to begin in 2008.

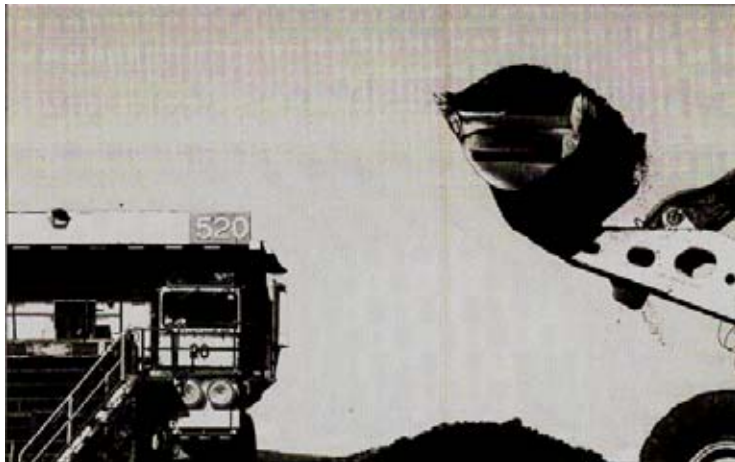
"There is a need for growing supply," he said. "In 12 months' time we might find we're accelerating again."

But in the short term, Ensham and its rivals have many reasons to avoid using trucks where possible, and cut out other expensive ways of removing waste rock and mining coal.

"The cost of diesel has doubled over the past 12 months," Mr Pegler said. "The global shortage of large off-road tyres is [also] a major issue."

And some of the expansion plans may be slowed down by a few months if the lull in prices continues.

"We're not trying to rush to add volume when there's a market phase that doesn't make it sensible," Mr Pegler said.



Mining companies are cutting down on their diesel expenses to combat falling thermal coal prices.

Photo: LOUIE DOUVIS