

Eagle Downs: opportunity lost

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ONE of Australia's most promising longwall projects is facing the prospect of having no port or rail arrangements for three years after it is due to start mining. *International Longwall News* talks to Aquila Resources' Tony Poli, Dalrymple Bay Coal Terminal Management, and Vale.

The Eagle Downs hard coking coal project in Central Queensland is just 7km away from BHP Billiton Mitsubishi Alliances' Peak Downs open cut mine.

The coal found here is highly sought by major Japanese steelmakers and typically sets the premium benchmark price.

Quality coal in the ground is a good start, but securing port and rail availability to ship it out is the obvious challenge for any project in the region.

Well before the resources super-profits tax shenanigans, Xstrata Coal submitted plans to build its own \$1 billion coal export terminal on Queensland's Balaclava Island – 40km north of the Dalrymple Bay and Hay Point terminals at Gladstone's port.

But a logistics solution for Eagle Downs to start production of 4.6 million tonnes of raw coal per annum in 2013 was there for the taking in January.

The management team working for both 50:50 joint venture partners Aquila and Vale stitched up a deal to secure 4Mtpa of capacity from the Abbot Point Coal Terminal, about 20km north of Gladstone.

With Leighton Contractors building the long-awaited 69km Northern Missing Link project, getting the coal to Abbot Point was not going to pose significant problems either.

Yet the good fortune of lining up the logistics, when various explorers dedicate pages to potential and sometimes optimistic port and rail happenings in their quarterly reports, is set to become the basis of significant court action which could shape how all companies interact with each other under JV agreements.

Aquila chief executive Tony Poli said Vale was supportive of entering the Abbot Point arrangements until the last minute.

Vale decided a future DBCT expansion would provide a better port option.

The opportunity to take the Abbot Point allocation is gone, with the consequences likely to be determined in a court room.

But the DBCT option will undoubtedly push back the development of Eagle Downs, while demand for Australian coking coal is getting closer to record 2008 levels.

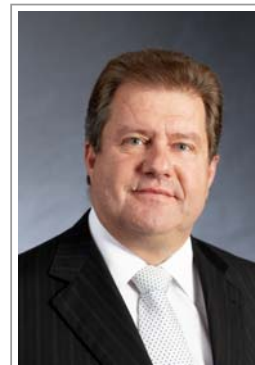
DBCT management apparently told Aquila the absolute earliest timeframe for spare capacity would be July 2016.

While the 85Mtpa terminal is fully contracted at the moment, a DBCT spokesperson recently told *ILN* the rail feeding it was running at 72Mtpa.

A second-stage prefeasibility is underway with terminal management receiving numerous non-binding requests totalling an extra 83Mtpa of capacity.

But the spokesperson said binding agreements won't be made until a new access undertaking takes effect, scheduled for the start of 2011.

Given the amount of unknowns on gaining DBCT capacity, Poli cannot see how the Eagle Downs feasibility can be accomplished.



Aquila Resources executive chairman Tony Poli

Hitting the long-standing schedule for construction and mining appears out of the question too.

"How do we build a project, how do we go and spend our half of a billion-dollar project commencing April 2011 if we don't have rail and port?" he asked.

"We have lost the opportunity of port capacity at Abbot Point.

"As we speak today we have no rail and port capacity, the consequences of that, from Aquila's opinion, is that it is impossible to complete a feasibility study, as is required in the joint venture agreement, for this project.

"We can't start construction of the project without having certainty on rail and port logistics."

With more than 15 years as an accountant behind him, Poli had no problems spelling out the earnings expectations at stake.

"With coking coal prices in excess of \$US240 a tonne and having completed a feasibility study in August, which estimated cost of producing coal at around \$A80 a tonne, there resulted in margins of over \$200 a tonne, multiply that by 4.6 to 4.8 million tonnes per year – that's the pay-back period for the capex in one year, two years max."

Even if Eagle Downs built a second longwall to hit 8Mtpa, the mine-life would still be 40 years.

Why did Vale decide against Abbot Point?

Poli noted the Brazilian mining giant certainly had the money to go ahead and a team of solicitors to go through the JV obligations.

His view was that Vale could be trying to schedule Eagle Downs in line with the rest of its international project portfolio.

He also suspected that Vale might feel if Aquila was squeezed hard enough it might sell over its stake in the project.

Vale and Aquila both own half of the nearby Isaac Plains open cut coal mine, but Vale owns 75.5% of their shared \$2.81 billion Belvedere hard coking coal project in the state.

The big Brazilian recently scooped up private company AMCI's 24.5% stake of the project for \$US92 million.

While Vale said the deal was struck before the federal government unveiled its resources super-profits tax, Poli said it was done afterwards.

Aquila holds the remaining 24.5% of Belvedere and is keen on a true fair market value.

Among other questions, *ILN* asked Vale how it was possible to undertake a feasibility study for Eagle Downs with no deals in place for port and rail.

But there was only a limited response.

"Since Aquila is suing Vale we prefer to follow the court process for resolution," a Vale spokesperson said.

"We confirm that we are fully committed to the development of all our projects in Australia in the best and fastest way assuring that it maximises value."

Should it get to court the outcomes of the case could set new precedents on how companies interact under JV agreements.

Aquila is seeking damages for the expected income from longwall mining at Eagle Downs from 2013.

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