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COAL MINING

Not easy for newcomers

In the past 15 years, as many as 200 black empowerment companies have tried to enter SA's coal sector, lured by what appear to be lower barriers to entry than other forms of mining. Few have succeeded.

About a third of SA's saleable coal is supplied by six black-controlled companies producing 1 Mt/year or more, and about 24 smaller black-controlled companies.

SA Mining Development Association vice-chairman Willy Leeuw told the Fossil Fuel Foundation junior coal mining conference last week that there were several reasons for the failure of new entrants. One is difficulty in accessing coal reserves, most of which are tied up by the big companies.

Willy Leeuw New coal miners often fail

Budding entrepreneurs also don't realise how difficult it is to raise finance for early-stage projects and to mine coal, which requires technical and marketing expertise.

They also face bureaucratic and environmental hurdles when launching a new company.

One of the constraints suffered by big and small miners is capacity and reliability on the dedicated Richards Bay export coal rail line. The Richards Bay Coal Terminal recently expanded capacity to 91 Mt but Transnet's capacity is less than 65 Mt/year.

Transnet commercial coal GM Divyesh Kalan says there are measures to increase capacity to 70 Mt this year, including expanding wagon capacity and improving turnaround times.

Transnet will spend R15bn on increasing line capacity to 81 Mt/year once offtake contracts are signed with coal mining companies.

Kalan acknowledges that getting junior coal companies to sign 10-year take-or-pay contracts is a challenge, but if Transnet is to invest public funds in building assets with a 25-year lifespan, it needs to limit risk.

Leeuw is positive about the future of the industry, as export prices have doubled in the past year and demand from Asia Pacific and Eskom is increasing.

Mhlathuze Coal MD Bill Lamont, whose company advises junior coal exporters, says McCloskey Coal forecasts indicate declining demand from Europe — SA's traditional steam coal export market — between now and 2015, but that this will be more than offset by a surge in demand from India and China. SA can switch exports West or East.

Though some Eastern demand will be met by Australia and Indonesian mines, they cannot produce enough to meet forecasts, implying price increases, Lamont says.

There is plenty of demand from Asia-Pacific countries for SA's lower-grade coal, but miners' ability to export it may be limited by moves to protect Eskom's security of supply.

Sagie Chetty, Eskom's primary energy division senior manager, says Indian coal buyers in SA are competing with Eskom for exactly the same coal specifications. "Issues like tariffs and restrictions on exports do not always go down well," he says. "There are strong feelings within Eskom about it, but it requires a political decision."

Chetty says Eskom is preparing proposals to supply it with 200 Mt-300 Mt of coal on medium-term (two- to 10-year) contracts between now and 2018.

Eskom is buying about 30 Mt — 30% of its annual coal requirements — through medium-term contracts with junior miners, but wants to increase the volumes it buys on long-term contracts with mines tied to power stations.

Black newcomers to the coal sector who overcome initial financial, technical and logistical challenges and weather the recession should prosper when the global economic upturn stabilises.

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