



HD Economics of Alpha Mine project shaky

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Whatever the State Government decides, there are big questions about the financial viability of the Alpha Mine. The ABC's business editor Ian Verrender says in the last few years, thermal **coal** prices have dropped from roughly \$130 per tonne to \$81 per tonne, and projections are that that trend will continue.

MARK COLVIN: It's really up to the State Government what happens now. This is a non-binding decision, but in any case, whatever the State Government decides, there are already big questions about the financial viability of the Alpha Mine.

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The ABC's business editor Ian Verrender joins me now.

What are those questions?

IAN VERRENDER: Well this is a battle that's been fought on environmental grounds, but the economics of this projects really are starting to look very, very marginal. And, primarily because in the last couple of years, **coal** prices, and we're talking thermal **coal** here - this is the kind of **coal** that's used for power generation; it's burnt to produce electricity.

Thermal **coal** prices have dropped from about \$140 a tonne down to \$81, and all the projects are that they will continue to head lower because, for two reasons: there's an incredible increase in supply coming out of Indonesia, Australia and America. In fact, Australian production is scheduled to double by 2020.

And, couple with that, you've got weaker demand from **China**, so the pressure is for lower and lower prices and, what you have to realise is that this project, the Alpha Mine, is a very long way inland; there's no infrastructure in there.

MARK COLVIN: So once you start digging, that's just the beginning of the problems.

IAN VERRENDER: Well, before you even start to dig, you have to build a railway line all the way through to there and you have to expand the port terminal at Abbot Point which, again, is a very, very sensitive area and there's been a lot of controversy about expanding that port terminal.

MARK COLVIN: That's been a huge story in itself, so an awful lot depends on it. I mean, there's a **company** called Aurizon which used to be Queensland Rail, that is under pressure to build this rail line all the way to central Queensland to carry this.

That would take a very long time and cost a lot of money.

IAN VERRENDER: It would indeed. I mean, a lot of jobs at **stake** here too. I mean, the original projections was 7,000 jobs during the construction phase of this mine and 4,000 once it was all up and running.

But, the problem here is just pure global economics. There is not a forecast for increased demand for this kind of **coal** and power generation, and you know it's really looking quite sketchy.

I think you'd have to say as well that Gina Rinehart, who did originally own this project and sold most of it to an Indian **company** called GVK, she sold that for \$1.26 **billion** in 2011 - magnificent timing on her part.

MARK COLVIN: As you say, GVK is an Indian **company** and, although you said that the demand from **China** was dropping, the assumption I think back then when she sold it was that India itself, massive emerging market, was going to take up any slack even if **China** did drop off.

What's happened there?

IAN VERRENDER: Well, the Indian economy hasn't performed as well as expected. **China** really did overtake it in the growth phase and India really has not lived up to the expectations.

Now this project is scheduled to, well the projections were for about \$7 **billion** that this was going to cost. GVK seem to be determined to push ahead, despite all the projections. I guess they're just hoping and praying for a miracle here.

MARK COLVIN: What kind of miracle? You mean prices going back to 160 or something?

IAN VERRENDER: Precisely. And there's really very little chance of that. I mean, there's been experts now for months just scratching their heads wondering why they're continuing to push ahead with this.

You know, it may well be that the Land Court decision is a blessing in disguise for them.

MARK COLVIN: And these are experts in the financial markets - this is not the pressure from, as you said at the beginning, this is not just about the environment.

IAN VERRENDER: No precisely. This is major...

MARK COLVIN: Hard-headed analysts.

IAN VERRENDER: Yeah, investment brokers and investment bankers who are looking at it, just wondering why would you press ahead with this kind of project in this kind of environment?

MARK COLVIN: Ian Verrender, thank you very much.

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