

SE Business
HD **Take-or-pay contracts hurting Yancoal as coal prices slump**

BY Peter Ker

WC 509 words

PD 15 April 2014

SN The Age

SC AGEE

ED First

PG 25

LA English

CY © 2014 Copyright John Fairfax Holdings Limited.

LP

Mining

Another Australian coalminer has revealed it is suffering under its "take-or-pay" rail and port contracts, with Yancoal conceding it took on far more rail capacity in the boom times than it needs today.

TD

Yancoal's admission comes after revelations by Fairfax Media that numerous Australian coalmines are operating at a loss because fixed rail and port contracts would impose much greater losses on the owners if the mines were closed. The trend is exacerbating the malaise in the coal sector, which is struggling under high costs and depressed prices for thermal and coking coal.

According to Yancoal's annual report, the Chinese-controlled coalminer had a \$61.5 million liability for its take-or-pay contracts at December 31.

Yancoal, formed through the consolidation of Felix Resources, Gloucester Coal and Donaldson Coal, indicated it was tied to take-or-pay contracts at port and rail level in NSW and Queensland.

"Yancoal and its predecessor businesses made significant contractual commitments to ensure long-term strategic access to the coal chain," the company said.

"Yancoal has substantial port and rail capacity contracted from 2014 to 2018, well in excess of the planned production profile."

Anglo American has also bemoaned the impact of take-or-pay deals on the industry and warned it could be more than a year before some of those contracts expired.

Most Australian coalminers are believed to have at least some take-or-pay commitments, and Yancoal hinted the problem was common.

"There is both a short-term and a long-term focus in reducing Yancoal's port and rail excess, however, with most coal suppliers holding contracts in excess to requirements, potential for avoidance of take-or-pay is very limited," it said.

BHP Billiton coal president Dean Dalla Valle said recently his company was comfortable with its take-or-pay exposure. "We are managing all our contracts to our capacities quite well," he said.

Yancoal spokesman Greg Foulis said the planned expansion of a thermal coalmine in NSW within the next one or two years would help offset the problem.

"Part of our long-term strategy at Yancoal is to grow production at the Moolarben mine, which will in turn take up some of that unused take-or-pay capacity," he said.

The Moolarben expansion could be granted final approval as early as 2015 if all approvals are obtained.

A sizeable proportion of Yancoal's take-or-pay liability stems from the 2012 **acquisition** of ASX-listed Gloucester **Coal**, which was completed when thermal **coal** prices were about 25 per cent higher than today and coking **coal** prices were close to double today's price.

Yancoal made an \$832 **million** loss in the year to December 31, and Yancoal shares were steady at 40¢ on Monday.

Yancoal's major shareholder, Yanzhou **Coal**, of **China**, recently sought to take the **company** private in a bid to stem its losses, but was thwarted by fellow shareholder Noble Group.

CO cenim : Gloucester Coal Ltd | yaptyl : Yancoal Australia Limited | yankua : Yankuang (Group) Corp | ynzmn : Yanzhou Coal Mining Co Ltd

IN i1 : Energy | i111 : Coal Mining | i112 : Coal Mining Support Activities | ibasicm : Basic Materials/Resources | imet : Mining/Quarrying

NS mcoal : Coal Markets | m14 : Commodity Markets | m143 : Energy Markets | mcat : Commodity/Financial Market News | ncat : Content Types | nfact : Factiva Filters | nfce : FC&E Exclusion Filter

RE austr : Australia | apacz : Asia Pacific | ausnz : Australia/Oceania

PUB Fairfax Media Management Pty Limited

AN Document AGEE000020140414ea4f0004v