

**HD** Itochu , Sumitomo Grow Wary of Australian **Coal**

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SYDNEY -- Japanese trading houses Itochu Corp . and Sumitomo Corp . are seeking to sell a **stake** in an Australian **coal** project, the latest example of overseas investors scaling back **mining** bets amid a deep downturn in commodity prices, people familiar with the matter said Tuesday.

Itochu and Sumitomo have hired advisers to sell a combined 45% interest in the Glencore PLC -run NCA Project, which includes the Newlands and Collinsville mines in central Queensland state and access to a berth at the Abbot Point **coal** port, the people said.

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The Newlands and Collinsville mines can produce up to 17 **million** metric tons of thermal **coal** used in power generation and coking **coal** for steelmaking a year. However, output has fallen below peak levels as mine managers move to protect profits with prices of each commodity falling close to multiyear lows.

J.P. Morgan is advising Itochu on the **sale** of its 35% **stake**, while Rothschild is seeking a buyer for Sumitomo 's 10% interest, the people said. The Japanese firms are looking to close a deal before the end of this year, they added.

Australia's vast reserves of **coal** and proximity to Asian countries such as **China** and Japan, the world's two largest importers of the fuel, made it a favored destination for investors nervous about security of supply. Itochu and Sumitomo nearly doubled their **stake** in NCA to 45% more than a decade ago in a deal worth 550 **million** Australian dollars (US\$516 **million**) that included interests in several other mines.

However, prices of Australian thermal **coal** are hovering around US\$70 a metric ton -- well down from 2008 highs of above US\$190 -- and analysts say many mines in Queensland are losing money. Thermal **coal** prices reflect slowing **Chinese** demand and oversupply in the Asian-Pacific market. **Coal** cargoes are being rerouted from the U.S., where power plants and other consumers are switching to less-expensive natural gas.

The downturn in prices has led many investors to scale back exposure to Australian **coal** either through closing mines or selling assets. U.S.-based Peabody **Energy** Corp . sold its Wilkie Creek **coal** mine in Queensland to one-time **mining billionaire** Nathan Tinkler . sold its Wilkie Creek **coal** mine in Queensland to one-time **mining billionaire**

for US\$70 **million** in May, having sought more than US\$500 **million** for the asset when it was first put up for **sale** in early 2012.

At Newlands, Glencore and its Japanese partners plan to stop underground **mining** next year, a move that would reduce annual production by 2.5 **million** tons. To cut costs, Glencore last year also scrapped a contract with a unit of Leighton Holdings Ltd ., which had been running the Collinsville mine on its behalf. Still, Glencore and Sumitomo remain open to doing deals. The pair jointly purchased a 50.1% interest in the Clermont **coal** mine in Queensland from Rio Tinto PLC in October for A\$1.05 **billion**.

One positive for potential buyers is Australia's recent repeal of a carbon tax, and likely overturning of a tax on excessive profits from **coal mining**.

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