

US coal sector cannot be complacent: Paringa

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Clearwater, 8 March (Argus) — The US thermal coal industry is recovering, but it cannot afford to be complacent, Australia-listed coal producer Paringa Resources chief executive Grant Quasha said.

"While domestic demand for Illinois basin coal may be flat, we do believe it has stabilized," Quasha said yesterday at the American Coal Council's 2018 Spring Coal Forum in Clearwater, Florida.

Paringa is developing a mining complex in western Kentucky, its first foray in to US coal production. It started construction on the first mine in the complex - the 2.8mn short ton/yr (2.54mn metric tonnes/yr) Popular Grove mine - last year and plans to begin production later this year.

Quasha's cautiously optimistic of the Illinois basin extends to the rest of the US coal industry. Inventories have been drawn down to their lowest levels in five years, and producers have shown discipline by reducing their capital spending, he said.

Competition with natural gas could be less of a threat to coal than some in the industry believe. Rising production could make today's lower prices "more temporary than we may think," Quasha said. And because natural gas does not have on-site storage, it is threatened by "huge potential issues," such as storage disruptions or a repeat of the October 2015 leak at the Aliso Canyon natural gas storage facility in southern California.

US industrial demand is another bright spot for the coal industry, with some aluminum producers planning to restart operations.

Exports also will continue to boost US coal, with Asian demand continuing to grow through 2030.

Illinois basin producers in particular will benefit from a "global customer base that is becoming less sulfur sensitive," such as the Turkish market, Quasha said. The Illinois basin could more than double its 2017 export levels of 12mn st this year.

The tax overhaul and other policies championed by President Donald Trump's administration will help coal. "The elimination of unnecessary and punitive regulations should help miners keep costs lower and keep mines open," he said.

But despite having "regained some of our footing as an industry," Quasha warns the coal industry can not sit back and rest.

The industry has to "fight for a future" if it wants to protect the existing fleet and combat negative public perceptions of coal, Quasha said. That includes intervening in rate cases in support of coal plants, and working with the government to promote policies that encourage exports and the development of new technologies.

But Quasha contends subsidies for the coal industry are not the way forward. When coal producers advocate for government benefits while calling for an end to tax credits for wind and solar, "from a public relations perspective it sounds terrible."

Despite the obstacles, Quasha said there are opportunities for companies seeking to bring new production on line. But new output increasingly will require turning to private equity and other less conventional sources of financing. That is how Paringa was able to secure financing for Poplar Grove, combined with a general improvement in sentiment after Trump's election.

"Traditional sources of funding such as commercial banks have really dried up" as some investors shy away from the perceived risks associated with the coal industry, Quasha acknowledged.

But that has not stopped Paringa, which aims to become the "the next mid-sized Illinois basin producer."

"Our story is rare," Quasha said, "but it is an optimistic one."