

# Coal mining opportunities – the perspective of a new entrant to New Zealand

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## **Abstract**

Brisbane based and listed on the ASX, Eastern Corp is pursuing the development of coal projects in New Zealand. There are various reasons why New Zealand coals are of interest – substantial resources, stable political/ economic environment, close to Asian markets. In just over 12 months, Eastern has secured an operating coal mine (Cascade) and a prospective exploration area (Whareatea West), both on the Denniston plateau region, on the south island's west coast. A key focus of activities is the development of relationships with key stakeholders and the promotion of the local economy.

Certain barriers may exist to the entrance by foreign companies into the New Zealand coal mining sector. These include geological challenges provided by the heavy faulting of the coals, port and rail infrastructure constraints, and the “green” factor.

## **Introduction**

Ladies and gentlemen, firstly I would like to thank the Ministry for Economic Development for the kind opportunity to present our relatively new story to this Conference.

At Eastern Corporation, we continue to be very optimistic about the future prospects for coal as a viable energy source and an important ongoing basis for economic prosperity in this country. With New Zealand's extensive coal resources, we can see considerable potential for development of those resources, while at the same time remaining mindful of the strong environmental and conservation values.

## **Highlights**

Eastern's involvement in the New Zealand coal industry extends back just over 12 months, but during that time, we have been very active. During this time some of our achievements include:

- securing the Whareatea West exploration permit (EP 40-591) which is situated on the historical Denniston plateau, near Westport on the south island
- purchasing (in June 05) the existing operating coal mine at Cascade, approximately 5 kms south of our Whareatea permit, and as part of that purchase, securing a fulltime presence at Westport and affirming our credentials as a responsible mining operator
- carrying out an initial exploration drilling programme at Whareatea West, under Department of Conservation access authority, with a further programme scheduled (subject to final Department approvals) to commence by the end of November

- establishing good relationships with local stakeholder groups on the west coast, such as the Department of Conservation, Buller District Council and West Coast Regional Council
- maintaining a good working relationship with Solid Energy, even though we do compete with Solid Energy for the sale of coal in the domestic market.

While recognising that we have a long way to go, these highlights demonstrate that Eastern Corporation's initial foray into the New Zealand coal industry has been significant and constructive. These initial steps are part of an ongoing strategy to acquire and develop projects on both the north and south islands.

## **Eastern Corporation – a brief history**

Before dealing with our specific experiences in New Zealand, I will provide you with a short summary of Eastern Corporation:

- incorporated in 1995 and listed on the Australian Stock Exchange in 1996, originally as a gold and copper exploration company.
- Current management team secured control of Eastern Corp at the beginning of 2003, originally with the intention of developing a coal seam methane project in central Queensland, Galilee Energy
- Acquired the Broughton coal asset in 2004, situated near Rio Tinto's Hail Creek operation in Queensland's Bowen Basin. The Whareatea West permit was purchased at the same time
- Entered into a joint venture with Mitsui & Co in June 2005 to carry out a feasibility study and develop the Broughton coal project
- Acquired the Cascade coal mine in June 2005
- Currently have a stock market capitalisation in the order of A\$50million.

The Eastern Corporation management team, although relatively small, comprises a strong blend of mining and corporate experience through people such as board members:

- **Gordon Smith, Executive Chairman** – led development team that took Foxleigh coal mine in Queensland from exploration to production within two years. Previously involved in re-establishing the Savage River project in Tasmania.
- **Paul Williams, Chief Executive Officer** – Former Brisbane-based corporate lawyer with capital raising, commercial acquisition and mining law expertise.
- **John McIntyre, Non-executive Director** – professional mining engineer, open pit and underground management experience, expertise in feasibility and project development . Senior positions at the Goonyella & Curragh coal mines in Queensland's Bowen Basin.

In addition, our in-house technical expertise has been bolstered by the recent appointment of Mike O'Brien as Group Operations Officer. Mike is a mining engineer and his previous position was General Manager of Anglo Coal/ Mitsui's Dawson Creek coal project at Moura in Queensland's southern Bowen Basin. Our Business Development and Corporate Relations Manager, Sam Aarons has had many years experience in commercial management, being a divisional general manager at Henry Walker Eltin in 2002.

The focus at Eastern Corporation will be to leverage off the experience of its management team in the development of coal and coal seam methane projects and opportunities in Queensland and here in New Zealand.

## Why New Zealand coal?

While Eastern continues with a strategy of pursuing both undeveloped and operating coal projects in Queensland, there are several reasons why Eastern is also taking deliberate efforts to develop and acquire coal projects in New Zealand. These include:

- an abundance of coal resources throughout New Zealand – admittedly most of these resources comprise lignites in the southern parts of the south island. However, there remains a considerable undeveloped resource of both export-quality coking coals and thermal coals
- the New Zealand political and economic environment remains stable and well-defined. Many companies are pursuing projects further afield in parts of Africa and Asia, where there must still be elements of sovereign risk that necessarily are factored into the overall commercial viability of the project
- although there are some infrastructure limitations (especially in terms of export facilities), New Zealand is geographically well placed to service Asian customers in the steel and refined metals industries.

## Our New Zealand projects

Eastern's development strategy in New Zealand is to secure interests in projects that are either in operation or have good potential to be developed in the short to mid term. We are motivated not only by the potential to produce export-quality coking coal but also to supply thermal coal for consumption in the domestic market. That being the case, Eastern continues to pursue a number of possible coal project acquisition and development opportunities. At the present time, its asset interests comprise the following:

### Whareatea West

Whareatea West is a 100% owned exploration permit holding of approximately 820 hectares situated on the historic Denniston plateau, near Westport on the south island's west coast. Coal mining activities have been carried out in this region since the late 19<sup>th</sup> Century, mostly by way of underground methods. The region, situated approximately 500m above sea level, remains highly prospective for export-quality coking coal.

A considerable amount of earlier exploration drilling and analysis work has been undertaken in and around the permit area by Solid Energy and its predecessor corporate entities, providing us with a great deal of information from which to assess the extent and quality of the potential coal resource. In addition, Eastern conducted a preliminary exploration drilling programme earlier this year, with the second stage of that programme due to commence in late November, subject to finalising access arrangements with the Department of Conservation.

By early next year, after completion of these drilling programmes and the associated coal quality analysis, we are hopeful of delineating a significant hard coking coal resource. We could still well be 2 to 3 years away from achieving all of our mining and resource consent approvals in order to commence mining operations and there is still a lot of work, and a lot of consultation to be undertaken. Nonetheless, (and subject to the results of the latest proposed drilling programme), we remain hopeful of being able to establish a project that will not only create jobs and economic growth for the west coast region, but generate considerable royalty income for the New Zealand government.

## **Cascade**

The Cascade mine is situated approximately 5 kilometres to the south east of our Whareatea West exploration area. Again, a 100% owned operating coal mine, Eastern purchased the Cascade mining equipment, consents and approvals in June this year. All existing employees of the mine were re-employed by Eastern and the workforce has expanded since the mine was purchased.

The coal that is mined from Cascade is of a unique quality – a low ash, low sulphur content, and a renowned calorific value. The story goes that in 1889 ships from all the world’s major navies were in Samoa’s Apia harbour, when a severe hurricane struck. It was only the British warship, HMS Calliope, powered by coal from the Cascade district, and her crew that were spared from certain destruction!

Nowadays, while there is still is strong demand for Cascade coal among domestic industrial customers, we are looking at a number of small-scale export opportunities for the coal, as an alternative to the current domestic thermal coal application.

The real impact of the Cascade purchase for Eastern Corporation is that it has enabled us to establish credentials as a reliable and responsible coal producer in New Zealand, and especially in the west coast region. We still have a long way to go, but at least now have first hand dealings with all stakeholders involved in the coal mining industry and are not just making promises about how we conduct business.

## **Barriers to entry**

As a new entrant to the New Zealand coal mining industry, it is apparent to us that there are few other companies (either from Australia or elsewhere for that matter) who seem to be taking an active interest in the industry. That is a positive for companies such as Eastern Corporation, but nonetheless, it is worthwhile to reflect on some of the issues that may be perceived or actually exist as barriers to entry into the resources sector in this country.

## **Geologically challenging**

Certainly, in the case of the coal resources we have been pursuing in New Zealand, it is apparent that there is a considerable geological risk to be factored into the overall viability of mining activities. Unlike most coal resource formations that we are familiar with in Australia where the coal lays relatively uniformly over the length of strike, coals in New Zealand are the subject of heavy faulting activity.

It doesn’t matter whether you are working by way of open cast or underground – the faulting of the coal seams requires a careful and experienced team of geologists, mining engineers and on-site mining personnel to ensure that mining activities are conducted in a way that maximises the amount of coal being extracted.

In addition, at least in regions such as up on the Denniston plateau, you are in an environment where the annual rainfall is in the order of 6 metres per annum and the land formation is quite steep and often difficult to access. As a result, depending on how the mining operations are conducted, these natural forces play a large role in determining the extent of coal that can be extracted from mining operations at any one time.

## **The green factor**

Much is said about the extent of the influence of the “green” lobby in New Zealand political and economic circles. But why not! As has been highlighted by the Lord of the Rings movie trilogy, New Zealand has some of the most spectacular natural environments in the world, and the preservation of the landscape and wildlife is a paramount consideration. In that regard, certainly

with our activities on the south island, the Department of Conservation plays an integral role, as the custodian of the land over which our mineral tenements are situated.

We have encountered quite a deal of criticism of the Department of Conservation and its apparent fervent desire to prevent all things associated with mining activities. However, from our own experiences, such criticism is by and large not justifiable.

I say this because the Department of Conservation has various statutory obligations to observe before parties such as ourselves are permitted access to conduct exploration and mining activities. Sure, we'd all like the their decisions to be made quicker than they sometimes are, but the concept of delays in government decision-making is not unique to New Zealand or the Department of Conservation, I can assure you.

However, if I was required to make a comment on the "green factor" as a foreign investor in New Zealand, then perhaps a better balance could be struck between the important conservation values of this country on the one hand and the ability of responsible mining activities to be carried out. Such a balance, in our view will not only ensure that New Zealand's ongoing energy needs are met, but that significant long-term contributions are made to regional and national prosperity.

### **Infrastructure constraints**

Probably the main impediment to New Zealand deriving more royalty income from the coal export activities is the strained port and rail infrastructure, especially for activities that are based on the south island. Again, as has been well documented in recent times, shipping port constraints is not especially unique to New Zealand, as we have our fair share of these issues in Queensland. Nonetheless, we continue to spend a considerable amount of time assessing the available export options for the coal that we are producing so as to ensure that a cost-effective method is established.

Certainly, in terms of significant future coal production from the west coast region, there is still no ready-made solution to the export logistics. We believe that a co-ordinated approach is required from regional and national government, coal producers and other stakeholders in order to develop and efficiently operate the facilities that are required.

### **New Zealand *versus* Australia rivalry**

It doesn't seem to matter how often we are defeated by the All Blacks in rugby, there still remains a healthy scepticism towards the involvement of Aussie companies such as ours in commercial activities such as mining. If a company landed on the west coast and started telling the local stakeholders how mining should be conducted, I am quite sure it would not last for very long. Perhaps this is a failing of companies that have preceded us, and could be perceived by foreign mining companies as a barrier to entry.

As I mentioned before though, this is why the Cascade purchase has been so important for Eastern Corporation, as it has enabled us to work in closely with the local community and to demonstrate that we can make a positive impact on the local economy. That will certainly continue to be our approach into the future.

### **Summary**

In the overall scheme of things, Eastern Corporation's involvement in the New Zealand coal industry has spanned just over 12 months or so. However, in that relatively short space of time, we have taken an active position in the sector and, it is hoped, made a positive contribution.

We remain excited about our company's future prospects in this country and look forward to sharing in the opportunities that may present themselves.

Thank you for your attention.

## **Author**

**Paul Williams** is the Chief Executive Officer of Eastern Corporation Limited. Paul graduated from the University of Queensland with Law and Arts degrees and worked with Brisbane legal firm Hopgood Ganim, for 17 years. His specialities were corporate and resources law and was involved in the development of several mining joint ventures, and capital raising/ initial public offering activities of certain mining companies in Australia.

Paul has been a director of Eastern Corporation since January 2003 and retired as a partner of the legal firm in August 2004 to take on his current fulltime role.