by ARCHIE BAYVEL

New coal port will end ships queue only if everyone else gets their ducks in line

The great ocean gateway that is the Port of Newcastle is now almost certainly home to the world's largest coal export terminal (102 million tonnes this year) – Port Waratah Coal Services.

The title of world's largest coal port seems to go to Queensland Port Corporation's Port of Hay Point which harbors the two independent terminals of Hay Point (44 million) and-Dalrymple Bay (68 million) for a combined total of at least 112 million tonnes.

In close pursuit come Gladstone (85 million tonnes), and Richards Bay (80 million tonnes) in South Africa.

Unfortunately Newcastle's main claim to fame is not its size and efficiency but its vast queue of coal ships waiting offshore for the chance to load their cargo.

It's been as high as 81 ships and stands around 39 just now, a fleet whose lights form an offshore suburb after dark and through which a conga-line of whales leap, splash and blow fountains in the air at this time of the year. Think single-decker buses leaping out of the water.

For years Port Waratah Coal Services, the port-within-the-port that manages the actual coal exports, and its logistics flock has struggled with the difficulty of reducing the queue. There is even a hint that the queue is good because it ensures continuity of business.

And now the queue seems about to disappear with construction already begun of a billion-dollar absolute rival coal facility in the shape of the Newcastle Coal Infrastructure Group's new facility cheek-by-jowl with Port Waratah's existing two-berth coal loader

Just how this will affect operations at Newcastle is so secret and delicate a matter that a Port Waratah spokesman phoned specially to say he couldn't possibly talk about it. What questions would be asked, he wondered. Who else would be consulted for this article? The answers to his questions created an attack of the vapors and he hung up.

Cause of his anxiety was the forthcoming release of a report by former NSW Premier Nick Greiner on the state and future of Newcastle's coal shipping. The implication is that he or, more likely, his employers at PWCS are so full of confidential information on it that they couldn't trust themselves not to spill the beans.

This report might even get to you first because despite a reported statement by the former premier on July 1 that he'd spoken to everyone, the word is that Greiner is still talking to the coal people.

The worst secret of all could be that they've discovered demand will keep pace or even outpace all the grand new improvements and the queue will be proportionally longer. For ever

The most exciting news to come out would be that the port has decided to change the rule that is the real main cause of the queue. A rule enshrined in the port since inception it says: Ships will be loaded and unloaded in strict order of arrival.

You can't book ahead!

So coal buyers who need to keep the stuff coming have to send their ships early. Everyone has the same need, all arrive early and wait and wait and wait. While they're doing that ladies all over the world are phoning their hairdressers and making appointments and golfers are booking tee slots. It works for them but until now has been an organisational task beyond parts of the shipping industry.

All that's as may or may not be but here's the talk around the coal queue …

Port Waratah is already spending some $458 million adding and improving its coal-stackers, reclaimers, and conveyer belts.

When it comes into operation in Q3, 2009, PWCS's nominal export capacity will increase to 113 million tonnes of coal a year compared to 102 million today.

More than $1 billion is forecast post 2010 to complete the master plan for Kooragang Island terminal and involves the construction of a new berth, 25 per cent more stockyard capacity and associated stacking and reclaiming machinery. The master plan completion at PWCS is modelled at a rate of 140 MTPA.

Construction of NCIG's new Kooragang facility is already well underway

Photo courtesy of FordCom

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But the death knell to the ships queue should in theory come when NCIG gets its new two-berth terminal up and running in 2011. First stage of the development will add 33 million tonnes to Newcastle's export capacity and bring total capacity close to 145 million tonnes.

When Stage 2 is complete a couple of years later it will have added another 33 million tonnes and the completion of the PWCS master plan brings Newcastle's nominal coal export capacity to around 206 million tones.

Jonathan Vandervoort, general manager of the Hunter Valley Coal Chain Logistics Team, points out that while everyone focuses on the ship queue there's a lot of management to delivering coal to the ships.

"This year we're working on an estimated throughput of 95 million tonnes," he says, "and we're already modelling beyond 145 million by 2011.

"The capacity balancing calculation goes something like this: Demand for Newcastle coal in 2008 is 116 million tonnes but the coal chain's capacity is 95 million tonnes so every exporter gets an allotment of 95/116 of its share of the 116 million tonnes on order or about 81 per cent of what they want."

Of course not everyone is happy with the result of that and Vandervoort points out that the system exists purely to manage the ship queue by matching demand to available capacity.

It is subject to all sorts of impacts from weather, rail derailments and other random events that are not necessarily anybody's fault but just facts of life for a logistics chain with some member mines 350 kilometres from their wharf.

So that's the port's side of the ship queue sorted out. Whether the rest of the logistics chain – the trains (operated by Pacific National and Queensland Rail), the rail track, the port equipment and the mines themselves can get their ducks in line remains to be seen.

Not outside the bounds of possibility is that demand for coal may continue to soar so that even with 200 million tonnes pouring out there are still new customers sending ships asking for more.

But the answer to that hypothetical is in Nick Greiner's court and a major part of his brief from the NSW Government via Joe Tripodi, Minister for Ports, is to find answers to that and also to potential one-upmanship among the growing number of players in the Hunter Valley coal chain.

Some of the smaller miners, for example say the capacity balancing system works against them and some of the biggest miners would like the small guys out of the export business altogether. An event, skeptics point out, that would mean they'd need to sell their coal to the big boys at discounted prices.

Certainly the marketing of coal does contain surprises. The popular conception that it is mostly going to China to fuel insatiable demand from its blast furnaces is totally wrong.

Colin Randall, publisher of the long-established Hunter Valley Coal Report, says that out of the 274 million tonnes of coal Australia exports each year only 2.3 million of them go direct to China. The rest go mostly to Japan (73 per cent), Taiwan and South Korea to manufacture specialised steels which eventually find their way to China as construction products.

Newcastle Harbour

While we're patting ourselves on the back about what wonderful coal producers we are, let's note that total Australian coal production is just over 320 million tonnes a year while China produces 2.3 billion tonnes of coal of which it exports about 60 million to places like Vietnam and the Philippines!

Just how all this will sort itself out when NCIG gets into its stride remains to be seen. There is a school of whisper in Newcastle that the present shortfall in the port's export capacity is not necessarily an unwelcome support for the price of coal.

Major owners of PWCS are Rio Tinto and Xstrata with 26 per cent and 32 per cent respectively. These percentages are contained in the 37 per cent owned by Newcastle Coal Shippers (37 per ownership of PWCS) and the 30 per cent owned by Coal and Allied. Other shareholders are Bloomfield (3%), Japan Trading Houses (18%), Japanese Steel Mills (7%) and Japanese Power Cement Oil (5%).

Other talk is that the miners need the queue because they can't dig the coal fast enough and would like to keep the queue at around 18 ships to ensure continuity; others blame the ships themselves for the delays saying the coal loaders can run at 10,000 tonnes an hour but in fact run at only 5000-tonne capacity because the ships can't de-ballast fast enough to keep up.

NCIG, of course, contains rivals to these companies, its members include BHP Billiton (through Hunter Valley Energy Coal) Peabody Energy (through Excel Coal), Centennial, Felix Resources, Whitehaven and Donaldson. All have the declared aim of increasing coal export capacity.

The contest began in 2005 when the State Government made a shortlist of the two organisations to propose a use for vacant land on Kooragang Island, just west of and adjoining PWCS's existing terminal there. Both went for a third coal terminal and in 2006 NCIG was declared the winner and given the right to lease the land.

Milestones since then include:

- DA consent including environment, and community approval
- Approval from the Minister for Planning, Frank Sartor, on April 1,2007
- Nameplate export capacity established at 66 million tonnes of coal a year
- Commitment to a $1 billion Stage 1 capacity of 33 million tonnes
- Construction began with dredging the river in November 2007

Dredging is still under way and will cost 20 per cent of the total project. Four dredges are working at once with part of the material being dumped at sea while

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sand goes on land to pre-load the stockpile site. Altogether it will add more than two kilometres of deepwater channel to the North Arm of the Hunter River, almost up to the Tourle Street bridge for those who know their way around there.. Dredging the river for PWCS's new berth will be its responsibility.

The NCIG stockpile system will be a radically different affair from what prevails at PWCS where there is limited room near the berths for massive stockpiles. Coal is assembled in shiploads there rather than in stockpiles owned by the various coal companies. The result is a system that appears very close to just-in-time.

The NCIG site will have ample space for its members to have million-tonne stockpiles from which individual ship's orders can be assembled on site.

Part of the Greiner paper when it is released is expected to be an agreement forged between all parties as to how overall export capacity will be allocated between now and 2014.

It would seem a simple matter but there's nothing like a simple matter to attract the ingenuity of devious minds.

PWCS owns all the loaders and other equipment on its berths but the berths themselves are leased on government land. So somewhere along the way it was ruled that these berths had to be regarded as common user berths. Which means, of course, that coal companies outside the ownership of PWCS have a right to use them. A right which will not apply to NCIG berths when they get going. A situation that has also raised questions by small coal miners about whether the large companies will benefit disproportionally from whatever new order emerges from the Greiner opus.

Their opponents dismiss such protests and point out that Richards Bay with an export capacity of 80 million tonnes denies use of its facilities to all but its member owners

PWCS applied to have its common user designation set aside but it was rejected.

So not only does PWCS have more demand from its own customers than its berth can handle, it also has to set 10 per cent of its utilisation aside for outsiders under the terms of the capacity modification system.

It is somewhere around that little minefield that Greiner will hopefully earn his money. His chances seem good; primarily because the solution is not exactly rocket science and largely because he has a track record as a solid politician and a successful businessman. People in Newcastle who've spoken to him during his research say he's giving the coal industry the attention it deserves. So far he's looking good.

There's a lot more to Newcastle than coal, of course. A third of the port's 1500 ship visits a year are non-coal and a new $22 million common-user, general purpose berth and eight-hectare hard-stand is being built on the former BHP site which is now leveled and ready.

While coal exports make the news there is solid incremental growth of Newcastle's container trade and exports of vegetable oil, chemicals from Orica, cement and cottonseed.

When the full 90 hectares of the old BHP site has been developed at least another two kilometers of river frontage will be available for new berths and industrial expansion.

Mention of the word containers later in the day to the fat lady at the bar brought the response that she'd heard talk of containerised coal shipments and she wondered why this would be so. Why indeed?

Maybe not so funny after all. Let's see what the future holds for coal in boxes.