

ArcelorMittal expands U.S. coal ops, idles Monessen coke plant

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International steelmaker **ArcelorMittal**, faced with concerns about long-term supply security for iron ore and metallurgical coal, has invested heavily in its own mines to supply those raw materials, including coal mines in southern West Virginia and southwestern Virginia.

In its Feb. 22 annual **Form 20-F** filing at the SEC, ArcelorMittal noted that it is also a party to contracts with other mining companies that provide long-term, stable sources of raw materials. ArcelorMittal's principal coal suppliers include: the **BHP Billiton Mitsubishi Alliance**, **Anglo Coal**, **Xstrata Coal** and **Macarthur Coal** in Australia; **Alpha Natural Resources** and **Walter Energy** in the U.S.; and **Teck Coal** in Canada.

ArcelorMittal is the world's leading integrated steel and mining company. It had sales of approximately \$94bn, steel shipments of 85.8 million tonnes, crude steel production of about 91.9 million tonnes, iron ore production of 65.2 million tonnes and coal production of 8.9 million tonnes in 2011. This compares to sales of approximately \$78bn, steel shipments of 85 million tonnes, crude steel production of 90.6 million tonnes, iron ore production of 68.6 million tonnes and coal production of 7.4 million tonnes in 2010.

In 2011, about 57% of ArcelorMittal's iron-ore requirements and 19% of its coal requirements were supplied from its own mines or from strategic contracts at many of its operating units. The company currently has coal mining activities in Kazakhstan, Russia and the U.S. It has coal mining projects under prospective development in India.

ArcelorMittal is also a significant producer of coke, a critical raw material for steel-making produced from metallurgical coal, and it satisfies over 91% of its coke needs through its own production facilities. "ArcelorMittal USA has two stand alone coke plants, in addition to Burns Harbor's coke plant, that supply coke to its production facilities," said the Form 20-F about U.S. coke operations. "The coke battery in Warren is able to supply about 40% of the Cleveland facilities' capacity coke needs. Warren is located in Warren, in northeastern Ohio, and has good rail, river and highway transportation access plus access to coal fields in the Appalachian region as well as to steel mills from Pennsylvania to Indiana. ArcelorMittal Monessen Coke Plant in Monessen, Pennsylvania has an annual production capacity of 320,000 metric tonnes of metallurgical coke, which has been temporarily idled."

ArcelorMittal has a global portfolio of 16 operating units with mines in operation and development and is the world's fourth largest iron ore producer. In 2011, ArcelorMittal mines and strategic contracts produced 65.2 million tonnes of iron ore and met 57% of the company's requirements, and produced 8.9 million tonnes of coking coal and pulverized coal injection (PCI) product. ArcelorMittal's total coking coal reserves are estimated at 323 million tonnes. Its total coal production in 2011 was 8.4 million tonnes, with 2.4 million tonnes of that coming from the U.S. mines.

U.S. mines divided into low-vol, mid-vol categories

The ArcelorMittal Princeton (AMP) properties are located in McDowell County, W.Va., and Tazewell County, Va., about

30 miles west of the city of Princeton, W.Va., where AMP's corporate office is located. The properties consist of two operating areas: the Low Vol operations and the Mid Vol operations.

The larger Low Vol operations are located in McDowell County, near the communities of Northfork, Keystone, Eckman, Gary, Berwind, and War. The Eckman Plant, Dans Branch Loadout, Eckman 2 and Redhawk 1 surface mines are also located here, as well as the following deep mines: XMV Mine Nos. 32, 35, 36, 37, 39, 40 and 42.

The Mid Vol operations are in southeastern McDowell County and northwestern Tazewell County. The mine operations office is located at Horsepen, Va., near the Mid Vol operations.

The property has a long history of coal mining, mostly by predecessors in title to AMP. Significant underground mining of some of the deeper coal seams on the properties have occurred, notably the Pocahontas No. 3 and No. 4 seams. In addition, a substantial amount of the thicker coal outcrops have been previously contour mined, providing access for highwall mining and on-bench storage of excess spoil from future, larger-scale surface mining. AMP was created in 2008 when the **Mid-Vol Coal Group** and the **Concept Mining Group** were purchased separately and integrated together. The coal deposits here are typically in relatively thin coal beds of one to five feet thick.

The combined production of the U.S. mines in 2011 was 2.4 million tonnes of washed and directly shippable coal. A project to increase underground mine capacity by 700,000 tonnes per year was completed in the first quarter of 2011.

The AMP total of proven and probable coal reserves as of the end of 2011 was 110 million tonnes of raw run-of-mine coal, and 70 million tonnes of wet recoverable coal. The same totals at the end of 2010 were 123 million run-of-mine tonnes and 77 million wet recoverable tonnes. The estimated mine life for these operations based on the end-of-2011 figures, and the 2011 production rate, is 37 years, though that would change with planned production increases.

Coking coal markets fluctuated in 2011

As for future coking coal markets, those markets have been affected by recent changes to the seaborne pricing system, with the annual benchmark pricing system being replaced by a quarterly pricing system as of the second quarter of 2010 and with a monthly pricing system introduced by **BHP Billiton** for coal from Australia in 2011.

Markets in 2011 were strongly influenced by the impact of the dramatic rain event in Queensland, Australia, in the fourth quarter of 2010 and first quarter of 2011, resulting in most major coking coal mines declaring force majeure as a result of significant structural damage to mines and rail infrastructure. The situation progressively improved with the last mines lifting force majeure by the end of June 2011. In addition, several events in the U.S., such as tornados in Alabama, reduced the availability of low-vol hard coking coal, further worsening the global shortage in this coal market segment.

The Form 20-F didn't mention this, but one tornado impact was to take the prep plant at the Oak Grove mine in Alabama of **Cliffs Natural Resources** offline, forcing Cliffs to stockpile raw coal at the plant through the rest of 2011 as it waited for the plant to be fixed.

In 2011, the scarcity of premium coals was reflected in the high quarterly benchmark price settlements for Australian hard coking coal, rising from \$225 per tonne FOB Australia in the first quarter of 2011 to \$330 per tonne FOB Australia in the second quarter, the Form 20-F added. Thereafter, a successive improvement in supply resulted in price settlements of \$315 per tonne FOB Australia in the third quarter and \$285 per tonne FOB Australia in the fourth quarter. As flood-damaged supply has been progressively restored in Australia and demand has decreased due to ongoing economic uncertainty, prices have begun to decrease further, with the price for the first quarter of 2012 at \$235 per tonne. In parallel, the spot market, as reflected by the various index providers, has also decreased over the year in line with progressively improved supply, with a noticeable price gap between premium and non-premium coals.

In 2011, China increased its coking coal imports from Mongolia and was less active on the seaborne market, decreasing pressure on scarce premium coals. In 2011, Chinese coking coal imports were 14% lower than in 2010 with Mongolian imports representing 42% of total Chinese imports, a 24% increase compared to 2010.

ABOUT THE AUTHOR

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