INSTITUTE FOR ENERGY ECONOMICS & FINANCIAL ANALYSIS

Dudgeon Point Coal Export Terminal Development Lapses

SYDNEY// 21 June, 2014: The proposal to develop a 180 million tonne per annum coal export facility at Dudgeon Point in Queensland has been cancelled.

Dudgeon Point is one of a number of multi-billion dollar Queensland coal export terminal proposals that have been relinquished over the last two years. This highlights the rapid deterioration in the global coal industry prospects, with key turning points this last month by China's President Xi Jinping's call for an "energy revolution"[i] and President Obama's "Clean Power Plan".[ii]

Corporates like Brookfield Infrastructure Group, with a proven history of maximising investor returns, are shelving unviable proposals and moving on.

Dudgeon Point is part of the Port of Hay Point, 25 km south of Mackay in Queensland. The proponent, North Queensland Bulk Ports Corporation Limited ("NQBP") proposed a $10-12 billion port development involving two coal export terminals, six rail loops and train unloading facilities, plus a connection to Goonyella rail system.

"With the thermal coal price down 50% in 4 years to a new low of US$72/t in June 2014, the market no longer needs the expanded infrastructure of massive greenfield projects like Dudgeon Point. An excess state of supply is being maintained due to long term take-or-pay contracts. Economic slowdowns in China and India means that this is compounded by weaker than expected demand," says Mr Buckley.

The lapse of Brookfield and Adani's Dudgeon Point proposals follows a series of coal export port expansion plans being abandoned over the last two years. These include:

- **In 2012 BHP indicated it would not proceed with its new coal export terminal plans at Abbot Point "T2";**
- **In May 2013 Glencore announced they had scrapped plans to build a 35Mtpa coal export facility at Balaclava Island, 40km North of Gladstone;**
- **Lend Lease's decision in Feb'2014 to withdraw from the AP-X project (a joint proposal with Aurizon); and**
- **In March 2014 Anglo American notified its intention to withdraw from the AP-X coal terminal development project at Abbot Point.**

Despite this, the Queensland ports sector continues to suffer from excess capacity.

The Adani Group owned Abbot Point "T1" is operating at less than 50% utilisation, three years after Adani acquired this port lease from NQBP.

The greenfield Wiggins Island Coal Export Terminal ("WICET") stage I of 27Mtpa capacity has delayed its commissioning till first quarter 2015, a year behind schedule. The WICET Stage 2 expansion has been put on hold post Glencore's cancellation of the Wandoan Project in September 2013.

"Clearly the world's seaborne coal markets have entered a prolonged period oversupply. The key debate now is if this is going to be a prolonged cyclical downturn or in fact is the commencement of a structural decline in the seaborne traded coal market," says Mr Buckley.

Australia remains at significant financial risk from the current government policy to encourage investment in fossil fuel developments.

-ENDS-

Tim Buckley is the Director of Energy Finance Studies, Australasia for the Institute for Energy Economics and Financial Analysis. He has 25 years of financial markets experience, including 17 years with Citigroup culminating in his role as Managing Director and Head of Australasian Equity Research.

Mr Buckley has produced a detailed report on Adani:
http://www.ieefa.org/adani_coal_report/

Mr Buckley is available for interview:
Tim Buckley: P: +61 (0) 408 102 127 E: tbuckley@ieefa.org

Media enquiries:
Andrew Bradley P: +61 (0) 403 777 137 E: andrew@holdfastcommunications.com.au

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[i] http://www.businessspectator.com.au/article/2014/6/16/china/china-readies-energy-revolution?utm_source=exact&utm_medium=email&utm_content=792325&utm_campaign=pm&modapt=

[ii] http://www.vox.com/2014/6/1/5770556/EPA-power-plant-rules-explainer