
Kentucky kicker

Dry researcher raises concerns about declining US coal production as NewLead Holdings gets cooking in the 'Bluegrass' state.

A Greek shipowner's surprise foray in the trading realm has reignited questions about the future of the US coal industry.

The inquisition follows NewLead Holdings' minting of a mysterious joint venture which recently unveiled a plan to tap Kentucky thermal coal reserves with the intention of transporting and selling the commodity to markets in Asia.

China's insatiable appetite for electricity and surging US exports suggest the prospects look solid but some fear, unlike another popular commodity produced in the "Bluegrass" state, the flavour might not improve with age.

"For whatever reason its more sexy to talk about how huge the increase in US coal exports are going to be but largely people are ignoring the production issue," Jeffrey Landsberg, managing director of dry consultancy Commodore Research, told TradeWinds in an interview.

"The future looks bright, there is definitely demand and we are already seeing more exports to China but the only concern I have is that US coal production is declining year-on-year. If the trend continues, that will eat away at the potential US coal exports."

In 2011, Landsberg says US mines were producing between 20 and 21 million tons of coal on average each week with approximately 360.5 million tons churned out in the first four months of the year.

Today, the analyst says the weekly numbers have fallen to 17 or 18 million tons while total production averages weighed in at 329.2 million tons in the first quarter of 2012 and strongly believes the drop may continue.

"US coal production is down 9% compared to last year," he explained. "We have seen as much as 20 million tons produced on average per week at the start of this year but since then there hasn't been a single week where production exceeded 19 tonnes. What this means is the decrease is getting worse, it has intensified."

If this continues by Landsberg's estimates the year-on-year decline in US production could amount to 15 or even 20%- figures that may be particularly alarming to NewLead and others whose livelihoods rely heavily on a consistent stream of coal.

In its annual report, the US-quoted shipowner admitted disruptions in the quantities of coal produced by its suppliers could "impair its ability to fill customer orders" when the joint venture is up and running as it will be largely dependent on those with which it has signed five-year purchase contracts.

"If we are unable to fill a customer order or if we are required to purchase coal from other sources in order to satisfy a customer order we could lose customers and our operating costs could increase," NewLead explained.

On the other hand if access to a steady source remains consistent, foreign demand continues to climb and output in other parts of the US declines the Greek owner's 50/50 venture may be in a position to cash in as excess production tends to push prices and profit margins down.

NewLead and Landsberg seem to agree that China's thirst for US coal will be the key to its success going forward but equity analysts and other industry insiders are quick to point out the company is still struggling to alleviate a debt load north of \$400m and finalise a restructuring that would leave it with a pair of panamax bulkers.

When the dust settles the Athens-based company, which is led by CEO Michael Zolotas and chairman Nicholas Fistes, may use to duo to transport thermal coal with additional aid from chartered tonnage in an alliance that intends to focus on long-term contracts in excess of one year with distributors and end-users in Asia.

NewLead has not spoken publicly about how much it intends to invest in coal-trading or identified its new partner, which would be given the chance to buyout the shipowner's 50% stake in the event of insolvency or failure to comply with other provisions restricting its exit from the agreement.



Kentucky, one of the top three US coal producers, is the home of fast food giant KFC, bluegrass music and countless bourbon distilleries.