

TREASURY EXECUTIVE MINUTE

Minute No. 20110109

17 January 2011

Deputy Prime Minister and Treasurer

IMPACT OF QUEENSLAND FLOODS ON THE COAL INDUSTRY

Timing: At your convenience.

Recommendation/Issue:

- That you note this briefing.

Signature: /...../2011

KEY POINTS

- Severe flooding in Queensland has resulted in widespread disruptions to Queensland's coal industry, with flooding affecting both mine production and rail infrastructure.
 - Many mines have ceased production due to direct flooding.
 - Parts of Queensland's coal-rail infrastructure have been flooded, with the Blackwater Line (capacity about 60 million tonnes per year) currently closed.
 - Queensland is the world's largest supplier of seaborne metallurgical coal products.
- At this stage, Treasury estimates lost production to be between \$4 billion to \$5 billion – largely occurring in the March quarter.
 - It is difficult to estimate the precise economic impact of the floods on the coal industry. Estimates are being revised as further information is received.
- Coal prices have spiked (particularly for metallurgical products) in the wake of the floods, but would be expected to return to around pre-flood levels when mine and infrastructure capacity comes back online.
 - Spot prices for high quality hard coking coal (from Peak Downs) have risen by about 50 per cent over the past three weeks. However, only a small fraction of metallurgical coal is traded on the spot market, and movements in spot prices will not necessarily be fully reflected in future contracts.

[This content has been redacted under Section 22]

Manager

Balance of Payments Unit

ADDITIONAL INFORMATION

- Many coal mines across Queensland have been flooded, halting production.
 - For flooded coal mines to recommence production, the following steps will generally need to be undertaken:
 - : Water will need to be removed from the mine. Miners will need to gain permission from government authorities to discharge the water, and may also need to obtain specialised pumping equipment – which is in short supply.
 - : Damaged mining equipment will need to be repaired or replaced.
 - : Mine supplies will have to be restocked, for example explosives (the production of which has also been hampered by the floods).
 - It is difficult to determine how long it will take for mine production to be restored to full capacity, however, reports suggest that this process may take a few months.
 - : According to UBS, “People are turning their minds towards months rather than weeks for mine and operation repairs.”
 - Prior to export, existing stockpiles of coal may need to be rewashed and dried – delaying their export.
- The two main lines in the Queensland coal-rail network have been affected by the flooding.
[This content has been redacted under Section 45]