The Moscow Times
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Siberian Coal Miner Sees Advantage in Distance

By The Moscow Times

January 22, 2013

Coal miner Kolmar, controlled by the billionaire founder of trader Gunvor, will plow money into its east Siberian coal fields to capture the Asian steel making market ahead of its Russian rivals farther west, its CEO said in an interview.

With more than 1 billion tons of reserves in the ground — more than enough to supply the global steel industry with coking coal for a year — the miner plans to spend $1.3 billion to raise output 500 percent in the next seven years, Andrei Churin said.

Through Switzerland-based Gunvor and his Luxembourg-based investment fund, Volga Resources, magnate Gennady Timchenko acquired 60 percent of Kolmar, once owned by Russian mining tycoon and Brooklyn Nets owner Mikhail Prokhorov.

Churin said Kolmar will increase output to 3 million tons per year in the 2013-2015 period. Current output is 2 million tons.

The company will continue to expand. With the completion of a processing plant at its leading mine, Denisovskaya, in the Sakha republic, production will hit 12 million by 2020.

"Our primary goal is to increase output and launch full-cycle [coking-coal] enrichment to make high-quality coal concentrate," Churin said.

Kolmar's trump card was its location, some 2,500 kilometers closer to the Pacific coast than established west Siberian producers.

Logistics Are Key

"Russian coal exporters today compete not in terms of extraction costs but rather in terms of their railroad costs," Churin said. "We have this advantage, and thus our strategy sees the supply of a large part of our product to China, Japan, South Korea and possibly India."

Construction of its export facilities is under way in the Muchka harbor of Vanino, which is under development as a major outlet for Siberian coal exports to the Pacific.

The Muchka facility will have initial capacity of 10 million tons and expansion potential of up to 27 million tons per year. Kolmar now sells 80 percent of its coal domestically.

"Hopefully, by the end of 2015 we will be able to load vessels there," Churin said. "Therefore, our sales strategy will change; supplies to Southeast Asia will become a priority. China is the main driver, and the market will follow Chinese demand."

Churin said Kolmar will rely on Gunvor's trading power and expertise to sell its products.

"Today, 100 percent of our exports are run by Gunvor," he said. "This is sensible and right ... because the company's advanced level of operation allows us to handle the sales process in the most efficient way."

Gunvor Links

In just a decade, Gunvor has risen spectacularly from obscurity to become a major exporter of Russian oil and an $80 billion annual revenue trading house. It started to trade coal in 2009 and invest in mines around the world two years ago.

The Kolmar purchase marks the latest move upstream for Timchenko, who owns a stake in gas producer Novatek.

Timchenko's fortune is estimated at $9.1 billion in Forbes magazine's 2012 rankings of the world's wealthiest people. He is believed to have close ties with President Vladimir Putin, but both men deny that.

Churin said Gunvor's acquisition of a stake in Kolmar, finalized in August, should be seen as a strategic investment for the trader.

"Our shareholders made the decision to come to the coal business in a big way and for the long term, and not only in Russia," he said. "They have an in-depth expertise in the Russian and international energy markets that will aid efficient development of the company."

In addition to Kolmar, Gunvor directly and indirectly holds stakes in U.S.-based miner Signal Peak and South Africa's Keaton Energy Holding.

Rebound

Transportation costs are seen as the Achilles' heel of the Russian coal sector, sapping competitiveness when prices fall.

But Churin, who managed Oleg Deripaska's coal assets at EN+ before he joined Kolmar, foresaw a reversal of coal prices, which had been driven down by iron mining and growth in the steel market.

"Given the fact that a lot of miners are shutting down mines and production facilities, the market is at the bottom now, and there's nowhere else left to fall," Churin said. "2013 will witness slight market fluctuations, while the situation is likely to start to improve in 2014."

He said sagging markets forced Kolmar to pull more coal from export to the domestic market.

"We had to redirect supplies from external markets to Russia's and Commonwealth of Independent States markets for 2013," he said. "We even had orders canceled by our overseas clients when coal shipments were already being loaded at the port."

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