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- [Columns](#)
- [Features](#)
- [Buzz](#)
- [Events](#)
- [Pricing](#)
- [Live Data](#)
- [Classified](#)
- [Subscribe](#)
- [Support](#)
- [Contact](#)
- [Other Pubs](#)
- [Research](#)

• [Search:](#)

• [Advanced...](#)

W.Va. mine deaths spur questions, few answers

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By Maria Guzzo

PITTSBURGH -- The deadly accident this week at a West Virginia mine might produce a pinch in the metallurgical coal market.

A dozen International Coal Group Inc. (ICG) employees died at the company's Sago Mine in central West Virginia from inhaling poisonous fumes after becoming trapped underground by an explosion.

Sources differ on whether the mine produced metallurgical or steam coal or both, and company executives could not be reached for comment on the type of coal produced or how long the mine might remain closed.

Financier and former steel magnate Wilbur Ross is a co-founder of ICG, which he created in much the same way that he built his former steel empire: buying ailing or bankrupt companies and combining them. He sold International Steel Group Inc. to Mittal Steel Co. NV last year for \$4.5 billion.

Ross founded ICG in May 2004 by purchasing a bankrupt coal miner. It acquired Anker Coal Group Inc., owner of the Sago Mine, in November 2005.

Michael Locker, founder and president of New York-based consulting firm Locker Associates Inc., and Charles Bradford, president of New York-based metals consulting firm Bradford Research/Soleil Securities, said they believed Sago produces metallurgical coal, which was a product Ross was greatly interested in because of its recent high price.

"He felt metallurgical coal and demand for coke would be rising and prices would be strong," Locker said. "He didn't buy at the lowest point of the market, which he normally tries to do, but there was a shortage of met coal. The market was very tight."

As of Jan. 1, 2005, the Ashland, Ky.,-based company owned or controlled approximately 315 million tons of metallurgical-quality coal reserves and approximately 572 million tons of steam coal reserves.

This week's mine accident was the deadliest in West Virginia since 1968. Greater demand for coal coupled with hiring shortages and the reopening of older mines have resulted in more than 300 deaths in the United States since 2000. According to reports, the Sago Mine has had an injury rate three times higher than that of similar-sized underground mines in the United States.

Bradford said the coal in the Sago Mine "can go either way," as steam coal or as metallurgical coal, if the company makes the effort to wash the coal, getting rid of excess ash.

Jim Thompson, managing editor of *Coal & Energy Price Report* in

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Knoxville, Tenn., said the Sago coal has metallurgical coal properties but most likely has been sold as steam coal recently. "With the steam as supercharged as it is, it's a good alternative market," he said.

Locker said coal prices have been settling back to levels seen in prior years. "But the price still remains at a high level compared with 2003," he said. "They're not at the extreme levels of 2004 but there's still good money to be made."

Bradford said the outlook for 2006 contract pricing for coking coal is for a decrease, although he could not predict by how much.

A Merrill Lynch research report on metals released this week also said that prices for both coking and thermal coal peaked in 2005 and would lose ground in 2006.

[Back](#) [Top](#)

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