

RECONFIGURATION of END-USER STRATEGIES in a CHANGING WORLD

**COALTRANS ASIA
BALI, JUNE 2, 2009**

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RECONFIGURATION of END-USER STRATEGIES

- 1) Thermal coal trends since 2000
- 2) Did coal consumers lose the initiative?
- 3) Strategies for future coal sourcing

RECONFIGURATION of END-USER STRATEGIES

THERMAL COAL TRENDS SINCE 2000

SUPPLY SIDE TRENDS

- Consolidation of producers
- Discipline of suppliers
- Logistics constraints

DEMAND SIDE TRENDS

- From generation to trade
- From special product to commodity
- From long term to spot
- From negotiation to index and screen

WORLD HARD COAL PRODUCTION x 1 mt

	<u>2000</u>	<u>2008</u>	<u>increase</u>
Thermal	2950	5000	70%
Metallurgical	450	800	75%
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Total	3400	5800	70%

SEABORNE COAL TRADE x 1 mt

	<u>2000</u>	<u>2008</u>	<u>increase</u>
Thermal	345	605	75%
Metallurgical	175	225	30%
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Total	520	830	60%

COAL CASH COST FOB \$ /t (source McCloskey)

	<u>2000</u>	<u>2008</u>	<u>2009</u>	<u>incr.2000/9</u>
Indonesia	20	30	25	25%
Australia	25	50	35	40%
South Africa	25	35	30	20%
Russia	35	60	45	30%

key drivers of actual cost decrease:

US\$ appreciation and energy cost reduce

COAL PRICE FOB

\$/t

	<u>2000</u>	<u>2008</u>	<u>2009</u>	<u>incr2000/9</u>
Aus-Japan ref	30	125	70	130%
S Africa FOB	25	125	60	140%

RECONFIGURATION of END-USER STRATEGIES

DID COAL CONSUMERS LOSE THE
INITIATIVE ?

SUMMARY of INCREASES 2000-2009

- World coal production 70%
- Seaborne coal trade 60%
- Coal cash cost FOB 30%
- Thermal coal price 135%

(coal price 2000-2008 even 400% !)

SO

Quite some arguments that coal
consumers lost initiative
regarding their fuel costs

POSSIBLE REASONS OF LOSING INITIATIVE

- Commodification of coal
- Focus on trading (not on fuel cost)
- Buying index linked
- Doing what all others do

RECONFIGURATION of END-USER STRATEGIES

STRATEGIES FOR FUTURE COAL SOURCING

(Opportunities to improve coal
consumers' position)

PASSING ON COAL COSTS

Expected to become less easy due to

- Liberalisation of electricity markets
- Increase of competition
- CO2 emissions, caps and costs

TECHNOLOGY and INVESTMENTS

- Increase efficiency
 - .reducing coal consumption
 - .reducing CO2 emissions
- Burn biomass/waste together with coal
 - .possibly reducing fuel cost
 - .reducing CO2 emissions and cost

PLANT and FUEL MANAGEMENT

- Manage boiler/oven creatively
 - . thus reducing dependency of coal type
- Blend various solid fuels (incl. biomass)
 - .thus lower fuel cost
- Use more complex, lower priced coals
 - .thus lower fuel cost

ALLIANCES

- Invest in coal and or logistic assets
- Link strategy with producers/servicers
- Agree deals fit for good and bad times
- Join forces with producers/suppliers
- Cooperate with other coal consumers

COMMERCIAL BEHAVIOUR

- Target at long term coal supply deals
- Consider cost plus coal supply deals
- Exploit specific skills, situation etc.
- Negotiate rather than writing tenders
- DO NOT WHAT EVERYONE ELSE DOES

CREATE YOUR OWN COMPETITIVE EDGE !!

ALL SUCCESS !

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