

# Pacific Rim Coal Markets The China Factor

**1st Alaska-China Business Conference**

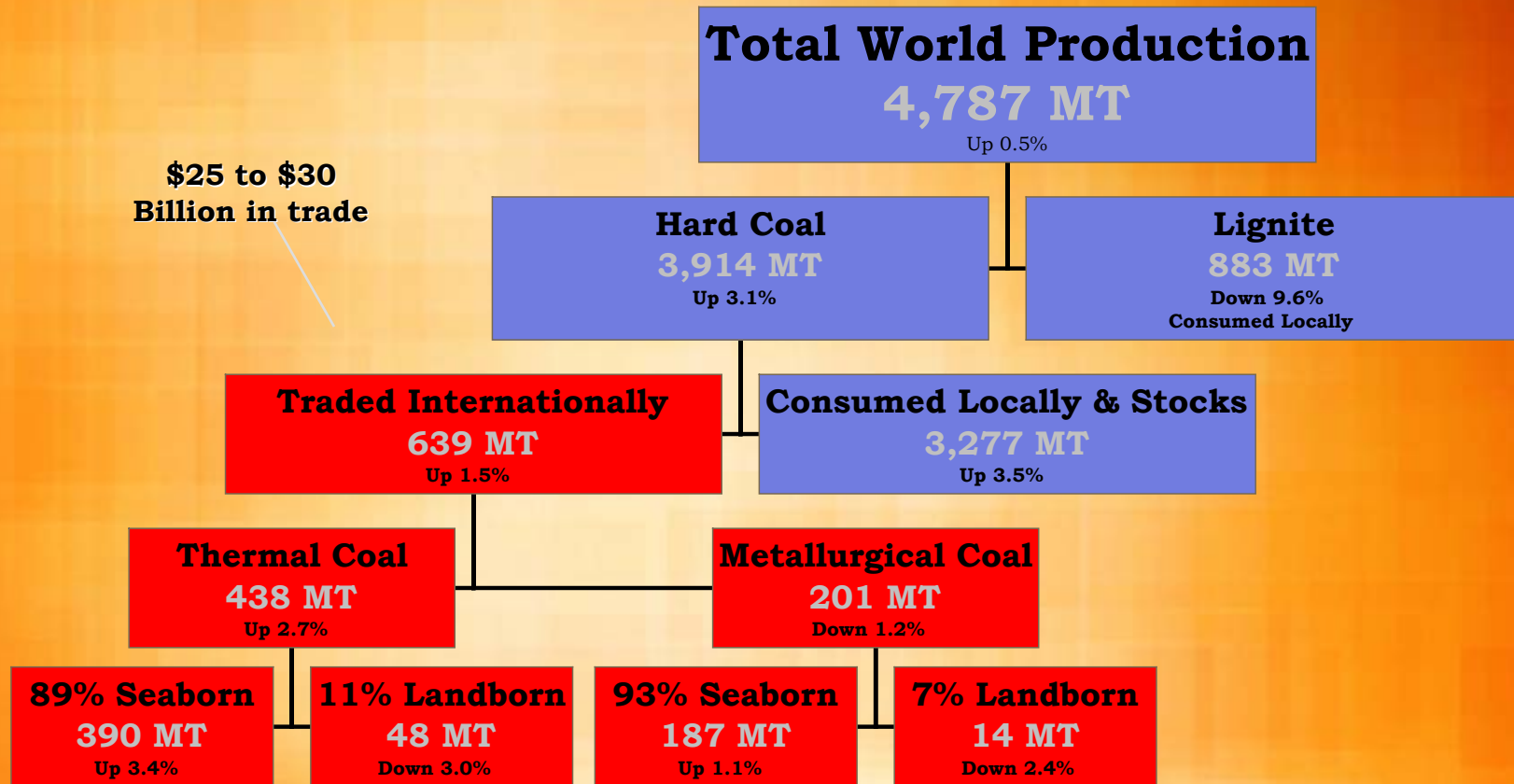
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World Trade Center Alaska**

**Hilton Anchorage Hotel**

**April 7, 2004**

# Global Overview

2002



Source: Barlow Jonker

# International Coal Trade

## Thermal Coal

- All US \$ Denominated Transactions
- 80% to 90% to Power Production, remainder to Industrial

### Steam Coal

- 40% to 50% procured under term contract
- 50% to 60% procured via combination of tender, spot and/or short term contract.

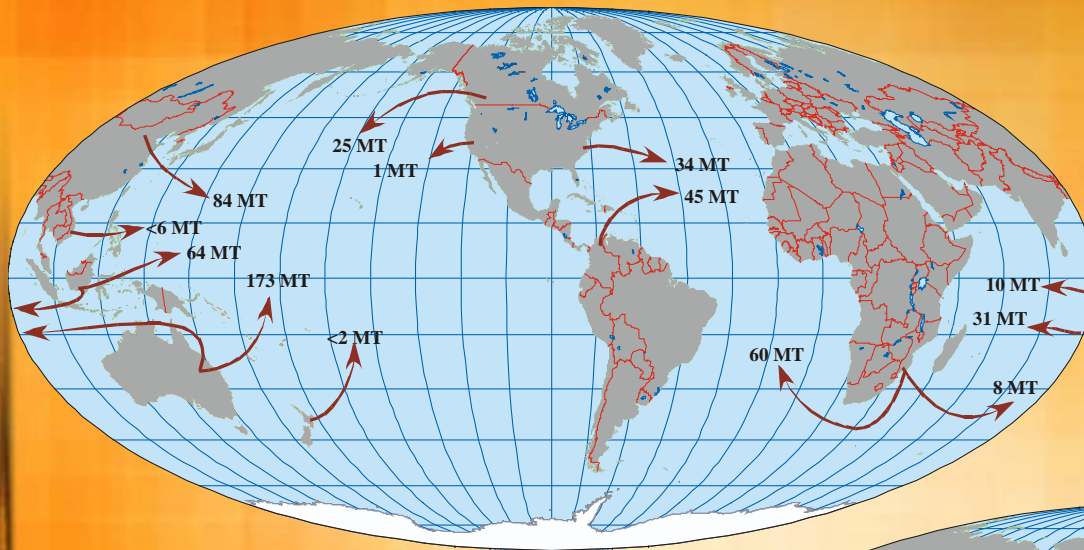
### Industrial Coal

- purchased via tender or spot.

## Metallurgical Coal

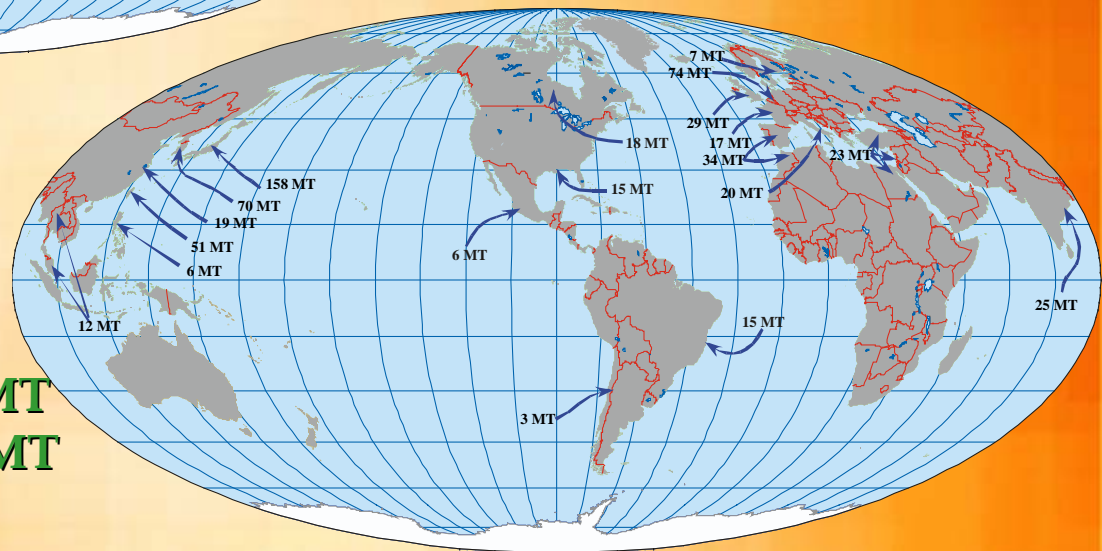
- All US \$ Denominated Transactions
- All tender or spot purchases
- Majority of transactions handled through international brokers.

# 2002 Exports & Imports



## Exports

**Big 4 Australia, China, Indonesia & South Africa accounted for 431 of the 643 MT (67%) of the seaborne export tonnage.**



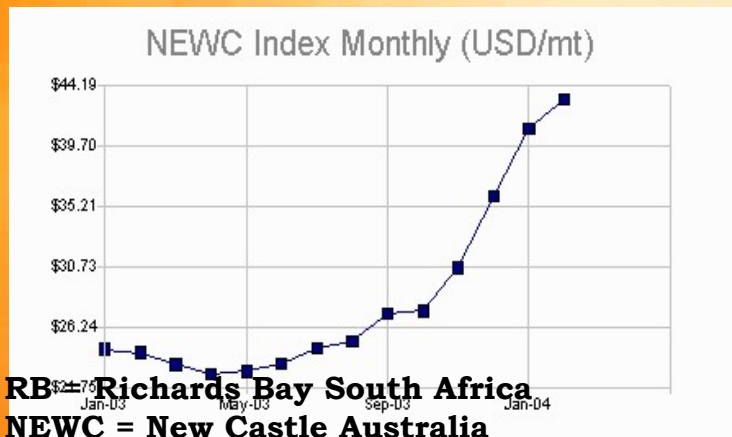
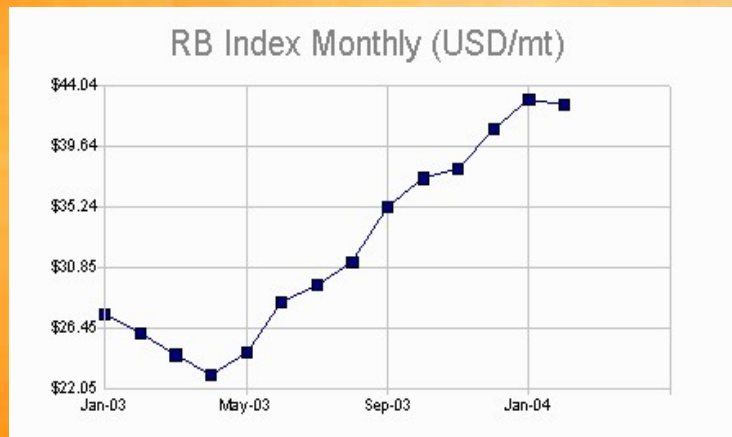
## Imports

**Pacific Basin Trade = 367 MT**  
**Atlantic Basin Trade = 276 MT**

# **What has happened since January 2003?**

- **03' Demand for seaborne coal was and 04' demand is expected to be up 3% to 4%**
- **The CIF price of thermal coal in Asia increased 62% (04' price = \$2.15/MMBtu)**
- **The CIF price of thermal coal in Europe increased 51% (04' price = \$2.40/MMBtu)**
- **Metallurgical coal, if available, is trading in the \$75 to \$100/tonne range (CIF).**

# Thermal Coal Prices (FOBT)



RB = Richards Bay South Africa  
NEWC = New Castle Australia

Source: Global Coal

- **Spot Prices are up 65% to 70% compared to January 2003**
- **Term prices are expected to be up 40% to 50% from a year ago.**

# Factors Effecting Global FOBT Coal Prices

 **Weaker US Dollar**

 **Extended Period of Low Returns**

 **Low Stocks/Operational Problems**

 **China Coal Export Cutback**

# Marine Freight Rates

	Distance	Vessel	3-Jun	3-Nov	Change
<b>Pacific Basin Movements</b>					
Australia/Japan (Met)	3,510	Cape Class	\$ 9.73	\$ 18.30	88%
Australia/Japan (Thermal)	3,500	Panamax	\$ 10.94	\$ 20.15	84%
Indonesia/Japan (Thermal)	2,400	Panamax	\$ 7.55	\$ 13.68	81%
China/Japan	1,200	Panamax	\$ 5.56	\$ 9.74	75%
<b>Atlantic Basin Movements</b>					
Australia/ARA (Met)	13,680	Cape Class	\$ 16.35	\$ 31.00	90%
Indonesia/ARA (Thermal)	12,140	Cape Class	\$ 13.85	\$ 24.50	77%
S. Africa/ARA (Thermal)	6,940	Cape Class	\$ 12.05	\$ 21.25	76%
Columbia/ARA (Thermal)	4,480	Cape Class	\$ 10.00	\$ 17.15	72%

**Pacific Basin  
Freight Rate  
Up Avg. 82%**

**Atlantic Basin  
Freight Rate  
Up Avg. 79%**

Source: Global Coal

# Factors Effecting Marine Freight Rates

 **Increased Fuel Costs**

 **Rail Transport & Port Capacity**

 **Marine Transport Capacity**

 **China Coal Export Cutback**

# 2004 and Beyond

- China's impact on global energy markets will increase for the foreseeable future.

## Other Observations

- **FOBT Coal prices are likely to stabilize at levels somewhat below the current levels, but above pre-run up lows.**
- **Marine Freight rates will decline over the intermediate term but are not likely to reach pre-run up lows.**
- **Some coal consumers, especially power generators, will restructure their procurement practices.**

**In any case we in the coal industry are in  
for an interesting ride.**