

Creating Competitive Advantage for Australian Coal Exports

Overcoming Capacity Constraints to Growth

Professor Don Barnett & Bede Boyle

MINEC Pty Ltd

Convener

AustCoal Consulting Alliance

Creating Competitive Advantage for Australian Coal Exports

Our objective is to

1. Look at the drivers that caused the current constraints to export growth
2. Explore opportunities for enhanced coal chain performance in meeting market needs

Are our existing coal chains meeting customer needs?

Hiro Kobayashi – Managing Director
Nippon Steel Australia, describes the
bottlenecks constraining supplies of
Australian coal as

“a very grave situation”

HeraldSun 18 July 2007

Australia has failed to capitalize on the demand for thermal coal

“We have not been able to participate in the boom in coal the way we would have liked to. Again it was because of infrastructure constraints ...

We just want capacity.”

Peter Coates Chief Executive Xstrata Coal

AFR 18 July 2007

Indonesia has been the beneficiary of Australia's export constraints

Indonesia enjoys a competitive freight advantage to North Asia markets and overtook Australia thermal coal exports in 2005

Lessons from the coal boom

1. we did not see the boom coming and we are now experiencing sustained and unprecedented global demand for thermal and coking coal.
2. mine developments, rail and port infrastructure constructed in a boom cycle are constrained by dramatic escalation in construction costs and time delays.
3. when any individual element of the coal chain is nearing its capacity operational losses cumulate, are non recoverable and result in lost export sales revenue.

Lessons from the coal boom - cont

4. the business imperative is to focus on the efficiency and effectiveness of the whole chain from mine to port
5. we have focussed on the “inevitable” downside of the demand cycle and have underinvested in the coal chains.
6. we need to capture the upside of the demand cycle.
7. We need to ensure alignment of capacity and economic interests across the coal chain

Investment requires long term coal supply contract security

Spot supply contracts lead to

- short term
- ad hoc
- fragmented and
- overcautious

Investment Decisions for vital Infrastructure

The way forward

First Task is to optimize utilization of existing infrastructure through enhanced collaboration from mine to port - HVCCLT provides a good model

However, we should question value of current

- Turn of Arrival?
- Multi cargo vessels?
- Common user provisions?
- Provision of capacity for future users?
- Explosion of brands and 'small parcels' of coal?

Create Operating Task Force to focus on bottlenecks.

The way forward - cont

Second Task is to coordinate investment in new export infrastructure aligned with market needs

Buyers

- long term coal supply contracts

Government

- reforms to competitive regulation and inconsistent project approval legislation

Industry

- alignment of ownership of infrastructure with usage
- agreed decision-making process for required capacity and timing for infrastructure aligned with market needs

Investment Frameworks

Which model to achieve world class efficiency?

Industry Owned

- Fully aligned model works best

Public Ownership

- The government model needs to be aligned and responsive with industry needs

Private Non-aligned

- Private monopolies is least preferred

A suggested model for the future

Alignment of Ownership of Infrastructure with usage

- Ensures alignment of incentives from mine to port

Accountability for Investment

- Take or Pay contracts aligned from mine through rail and export terminal underpin investment
- Question old “common user” provisions
- Fee for cargo assembly service

A suggested model for the future - cont

Integrated whole of System Planning

- Export Task Force to facilitate strategic investment decisions
- Accurate Forecasts underpin Master Plan

Integrated Coal Chain Management

- HVCCLT – a good model of cooperation
- Task Force focused on bottlenecks