



Pet Coke Contracting Practices

July 20, 2004

How coking refineries sell their coke.
(Focusing on Fuel Grade export cokers)

Phil Fisher
Petcokeconsulting.com



Did you ever wonder why.....

- Most cokers sell only to resellers?
- Some cokers sell mostly to end users?
- Some cokers like to sell spot cargos?
- **Here are the answers!!!**



Important Coke Sales Issues (1)

- **Who controls the Storage and Loading?**
- **Risk Tolerance**
- **Storage Capacity/Loading Congestion**
- **Corporate Staffing Guidelines**
- **Quality and Quantity Reliability**
- **Financing req'mt for new construction**

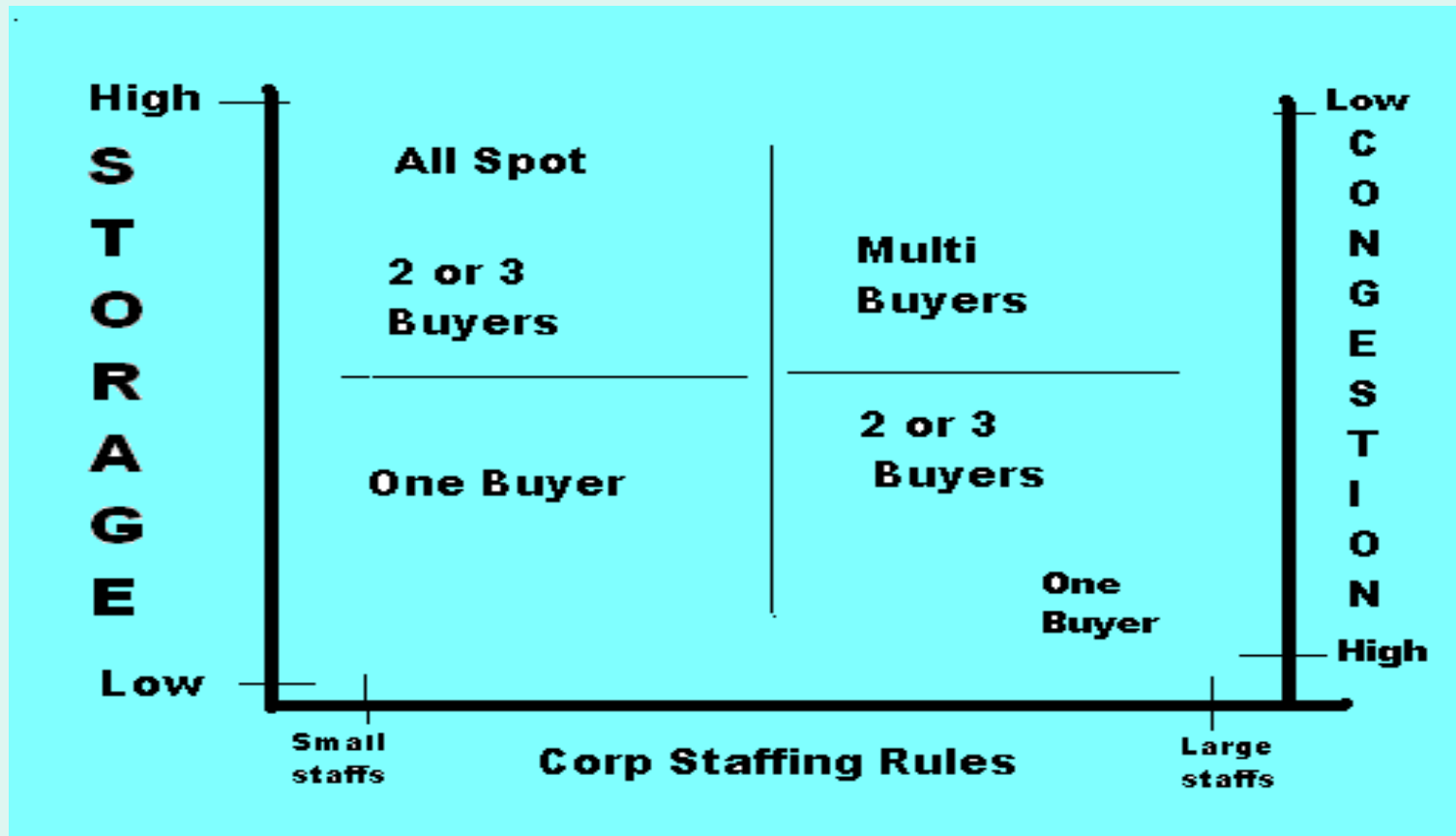


Important Coke Sales Issues (2)

- Many cokers do not control their own storage and ship loading. They depend on re-sellers for either or both.
- For cokers who do have their own or leased storage and loading facilities, many still choose to sell through re-sellers
- **Here's why:**

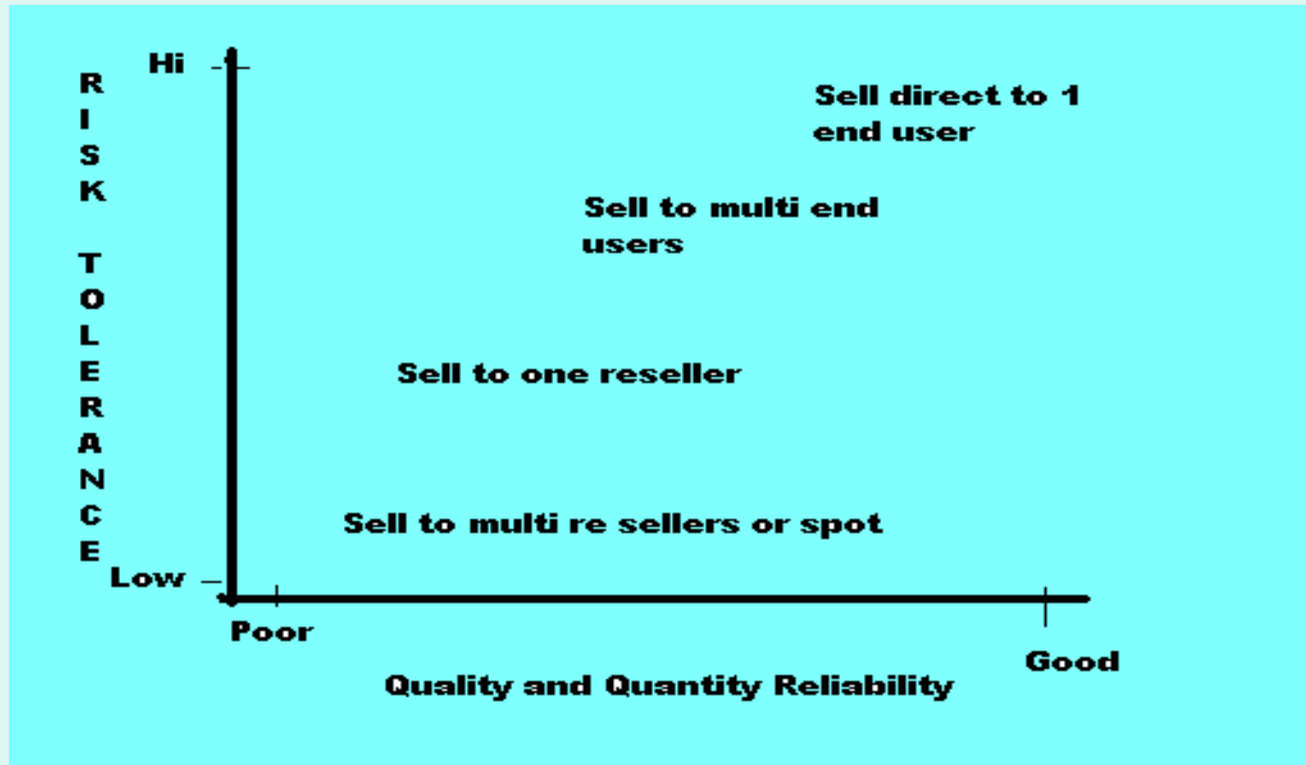


Coker Sales Matrix 1- How many buyers?





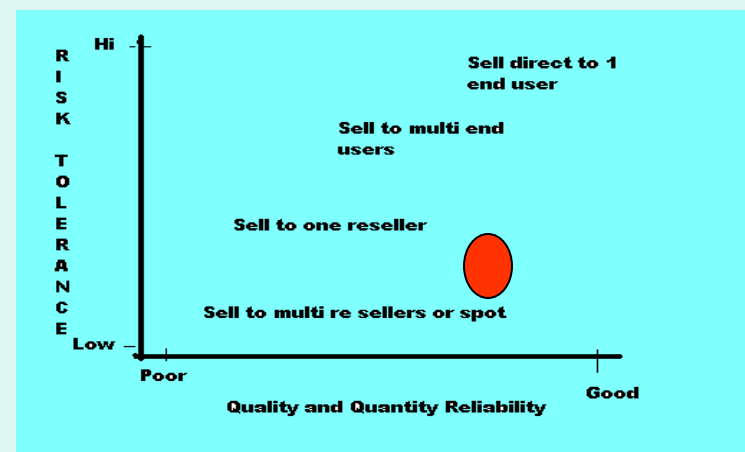
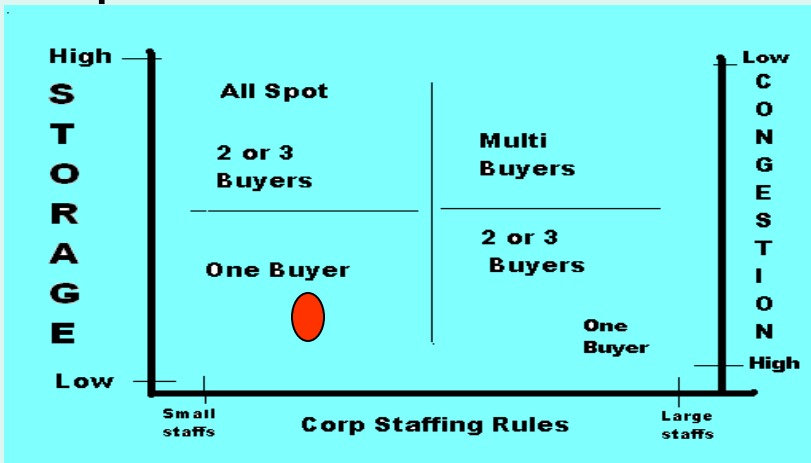
Coker Sales Matrix (2): What type of buyers?





Example 1

Minimal storage, highly congested port, min staff reqm't, low risk tolerance, mod to hi reliable quality and production

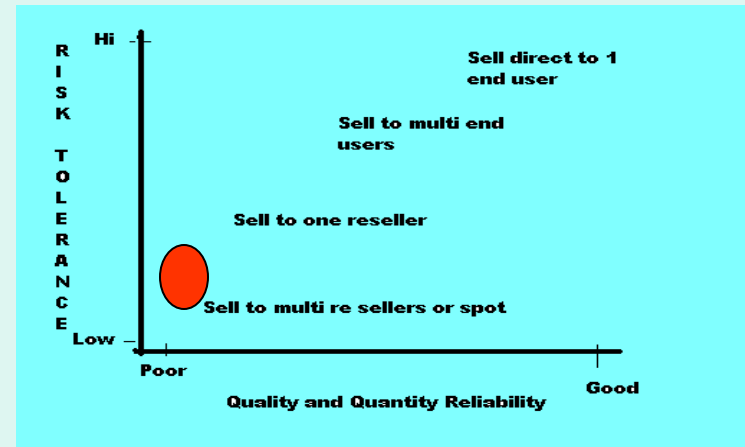
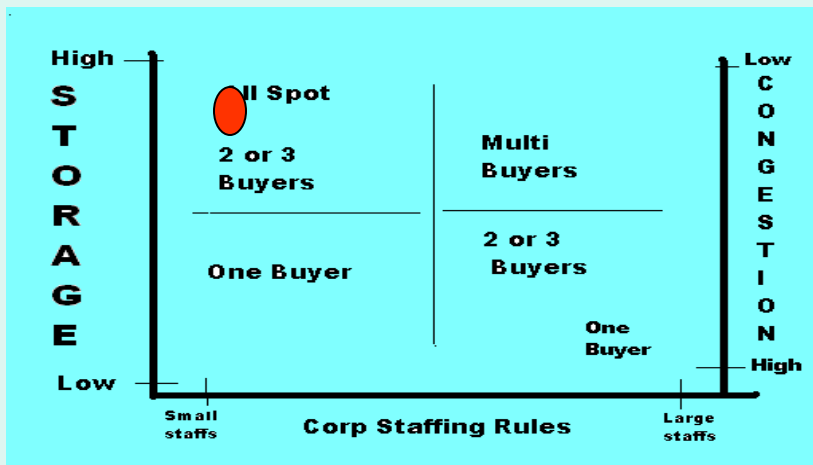


Result: one buyer who must be a reseller



Example 2

Max storage (leased), no port congestion, min staff reqm't,
low risk tolerance, poor quality and production reliability

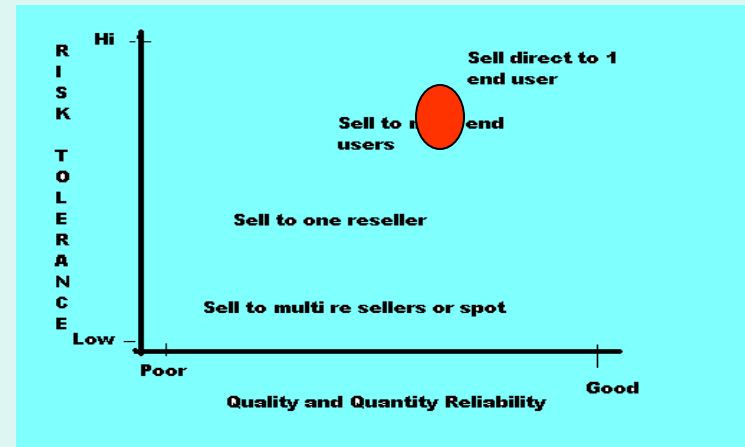
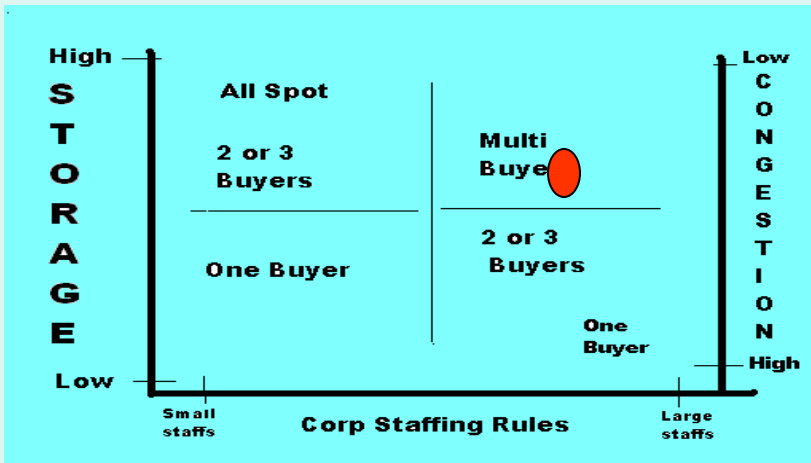


Result: all spot cargos



Example 3

Mod storage (leased), no port congestion, ok to build staff, mod risk tolerance, high quality and production reliability



Result: build a staff to sell direct to multiple end users



Why resellers are so popular: serving different needs and abilities

	Coker		End user
Quality and quantity	Can only forecast		Must have guarantee
Timing and Load Size	Move all we make on time		Deliver required load when needed
Credit	Prefers one buyer w/ good credit, no collections		Each has different credit ratings and payment histories



Reseller to the Rescue

Quality	Takes <u>quality</u> risk and agree to a quality dependent price if coker can forecast.
Quantity	Takes <u>production</u> risk if coker can forecast and update for changes. Takes <u>lifting risk</u> to maintain coker operations.
Timing, delivery, load size	Takes all coke as it's produced, stores it, blends it, charters the ships if needed, and deliver to end users as needed.
Credit	Single buyer from coker that pays on time and takes all credit risks from sales to the many end users (L/C's, bank relations)



Conclusions (1)

- Some cokers are forced to go through resellers because the reseller controls the storage and/or loading, or financing requirements for new construction.
- Other cokers willingly choose resellers because:
 - Corporate guidelines for minimal staff
 - Low risk tolerance for coker slowdowns; credit; guarantees for reliable quality, production, non performance in lifting schedule, etc
 - Insufficient storage or port size to accommodate scheduling problems of multiple buyers



Conclusions (2)

- Cokers willing to sell direct to end users:
 - Need to build expertise in end user market knowledge
 - Understand the ocean freight chartering market
 - Willingness to take on scheduling, credit, quality, non-performance, and production risks
 - Above generally means more staff, risk