

PROVISION OF EXPORT FACILITIES FOR BEES AT THE RICHARDS BAY COAL TERMINAL

DIRECTORATE: MINERAL ECONOMICS



mineral resources

Department:
Mineral Resources
REPUBLIC OF SOUTH AFRICA

**PROVISION OF EXPORT FACILITIES FOR BEES
AT
THE RICHARDS BAY COAL TERMINAL**

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THIS, THE FIRST EDITION, PUBLISHED IN MARCH 2007

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HISTORICAL BACKGROUND

When the idea of exporting South African coal to Europe was first considered, in the mid 1960s, the coal mines required long-term contracts that European coal customers were reluctant to sign. Furthermore, in order to reduce the freight rate and thus make South African coal exports competitive in the European market, the coal had to be transported in large vessels of 100 000 t or more. None of the South African harbors were then suited for that draught.

The available capacity in South African harbors, built during World War 2, was unable to handle the draught of such large vessels, and therefore a new deepwater harbor was required and of the five sites selected, Richards Bay was found the most suitable. The design for the new port was submitted to the Railways and Harbors Administration in 1971.

The 26 collieries of the then Transvaal Coal Owners Association (TCOA) founded in 1923, applied for and obtained Governmental approval for the export of 109 Mt of bituminous coal at an annual rate of not more than 9 Mt, in 1976.

As a result of the work of renowned metallurgists, such as David Horsfall, the idea of "washing" or beneficiating low quality (high ash) run-of-mine coals into exportable products such as low-ash coal (7 to 7.5% ash) for the Japanese steel mills and power station steam coal smalls (pps) with 13 to 15% ash for European customers, became a reality.

The other major requirement was a rail line to move coal from the mines to the new port. The surveying of the line began in 1965 and after many years of hard and difficult work, a train, using the line built between Broodsniersplaas and Richards Bay, with 50 wagons carrying 3 724 t of export coal arrived to the terminal on 23 January 1976. This line was almost from the launch pressurised by its own and the Terminal's successes and therefore more trains and larger tonnages were essential, making it subject to many upgrades. In 1996, the line then known as COALLink, became acknowledged as a world-class system of transporting coal to Richards Bay. This line now moves 2,5km-long trains with 200 wagons carrying up to 17kt of coal to the Terminal.

The company that has yielded fortunes for Richards Bay, the Richards Bay Coal Terminal (RBCT) was created on 30 December 1973 in the TCOA boardroom. The RBCT was formed to export 12 Mt per annum in Phase I. In 1978 it was expanded to 24 Mt/a (Phase II) and in 1984 to 44 Mt/a. In 1991, capacity was upgraded to 53 Mt/a and in 1992, without any major expenditure, throughput was increased again to 63 Mt/a, while in 1997 a further capacity increase to 69 Mt/a was carried out. In early 2000 a brownfields expansion (BFE) took the terminal to 72 Mt/a. The latest

expansion, Phase V, will give RBCT a total capacity of 91 Mt/a by mid 2009.

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Few changes to the terminal's shareholders have been made since its beginning in 1973. Most of the six original companies have remained shareholders, although they have gone through mergers and name-changes. The only newcomers are Total Coal, (joined in Phase II) and Sasol (joined during the BFE expansion). The remaining four: BHPB (37%), Anglo Coal (27%), Xstrata Coal (29%), and Kangra (2%) were all part of the first shareholder's group. Eyesizwe Coal was created, from collieries owned by Anglo and BHPB collieries and therefore received portions of their quotas.

THE NEW SOUTH AFRICAN COAL INDUSTRY

Since the advent of the new MPRDA, a number of small BEE coal companies have been launched. In order to improve their revenue, the majority have aspired to become coal exporters. Because of the previously described structure of RBCT, and the high rail and port handling costs attached to exporting from the other two terminals – Durban BC and Maputo TCM – most were left with only one choice; to sell their export coal to a RBCT shareholder or to a coal trader with an RBCT allocation. In both instances, the BEE producer would make only a very small profit from coal that usually sold for four to five times more than its equivalent in the local market. This state of affairs, although originally accepted as a *fait accompli* when only very few small "independent" companies existed and the bulk of the production (more than 80%) was in the hands of the "majors" (companies with vast resources and many mines) created much discontent between the new potential exporters, who were unable to fulfill their aspirations entirely.

THE DME'S COAL INDUSTRY TASK TEAM

The *Coal Export Forum* of the DME took place in Pretoria on 1 August 2002. The participants agreed that there was an immediate and urgent need for BEE coal export producers to obtain access to existing coal export infrastructure, and to procure larger and more permanent coal exporting facilities for future coal exports.

The DME had invited the entire coal mining industry to attend the Forum. Many of the participants present were particularly outspoken about the fact that it was then impossible for non-RBCT shareholders to use the Terminal, unless the newcomer was prepared to negotiate for a portion of a shareholder's quota, paying normal terminal handling fees plus a fee to the shareholder for the privilege of using RBCT. Although the RBCT was built by the shareholders for the use of the shareholders only, this situation was considered unfair, especially for the owners of new collieries who, faced with heavy financial obligations were trying to break into the export arena where coal prices are much higher than in the local market.

By the end of the Forum it was clear that all the participants, including
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some of the RBCT shareholders, were avidly seeking a solution to the problem. However, with so many participants, this Forum did not appear to be appropriate venue for this to take place. Consequently, as a follow-up to the Coal Export Forum, a smaller group, the *Coal Industry Task Team* (CITT), was appointed to solve the impasse.

The CITT began negotiations with the RBCT and infrastructure service providers, e.g. Spoornet and the National Port Authority (NPA), in September 2002. After many meetings and discussions, the RBCT agreed to part with a million tons of coal and give it to the CITT for the financial year 2002/2003. This tonnage was made available too late during that year and as a result, the four applicants utilised only 300kt. The allocation was made to assess whether BEE coal companies really had the elements required to become successful exporters. Before the end of that year, it became clear that smaller and smarter BEE companies were able to make inroads into the export market. It was also proven that BEE coal mines required more capacity than 1 Mt/a. In June, 2003, RBCT's shareholders offered an incremental allocation growing by 1 Mt yearly, from 1 Mt for the financial year (April/March) 2002/2003 to 4 Mt/a for 2006/2007.

During the second year, 2003/2004, 14 companies submitted applications and the 2 Mt/a were fully utilised. The third year, 28 companies applied, but only 17 qualified. Last year's 4 Mt/a were shared by 18 BEE companies. Percentage-wise, the CITT companies, during the last two years, have exported more than their RBCT counterparts.

The CITT is now running its successful fifth year of exports. There are many more potential exporters queuing for allocation, hence the 4 Mt/a available for 2007/2008 will not be enough for all the applicants and other solutions are being sought from the RBCT's shareholders and elsewhere.

Because of the complications involved in the logistics of moving coal from small producers and integrating these small stockpiles into larger tonnages capable of using existing RBCT facilities, an export facilitator was appointed by the CITT. Mhlatuze Coal Administrators (MCA) has been in operation for five years now and has proven to be an asset to the group and the RBCT. Many long hours of negotiations between the existing shareholders, the RBCT Board and other parties have avoided the chaos that could have resulted with too many coal grades and qualities being stored in too few stockpiles.

CITT AND PHASE V

As a result of the proof given by the CITT, that smaller coal mines also have a potential for exports, the long-awaited expansion of the RBCT, also known as Phase V, was finally approved in Nov 2006. Phase V, as described by the RBCT, was mainly launched to accommodate the new BEE coal companies.

Phase V, increasing the RBCT capacity from 72 Mt/a to 91 Mt/a will provide 19 Mt/a for new entrants to the coal export industry. This new capacity will become available by mid 2009. The invitation to apply for the allocation was issued late last year by Alexander Forbes (AF), the allocating company and a workshop was held in September 2006 to clarify the requirements essential for new coal exporters.

The deadline for the submission of applications was the end of November 2006. About 27 companies applied for allocations. The 9 Mt/a available were oversubscribed. The tonnage requested was almost twice more than what was available. (Total tonnages not yet published by AF).

The configuration of the new RBCT will consist of the previous shareholders with a total tonnage of 72 Mt/a, the new shareholders or users with 9 Mt/a of capacity (this tonnage will be allocated by March 2007), the previously known South Dunes Coal Terminal (SDCT) with 6 Mt/a and 4 Mt/a currently used by the CITT. Due to long delays in the implementation of SDCT, a part of the previous shareholders have ceased to exist, necessitating a new structure for this group. A few, if not all, of the present companies with CITT allocation, will move up to larger tonnages as RBCT shareholders or users of the 9 Mt/a. As a result, some of the 4 Mt/a allocation will again be available for new BEE coal companies.

THE FUTURE COAL INDUSTRY AND THE CITT

The CITT will continue to play a key role in the introduction of BEEs to the South African coal industry. There is also the possibility that the new group of exporters, using the Phase V allocation, will be in need of a logistics export facilitator. Mhlatuze, CITT's Administrator, with experience in handling small coal mines, is an excellent choice for this role.

The extra tonnages required for Phase V will, as an added benefit be supporting the new entrants in the export industry. Not only will coal exports from South Africa grow, but by-products of coal "washing" to increase quality needed to export, other coal fractions, not suitable for export, will be sold in the South African market.

Since its small beginnings in 2002, the CITT has become a sophisticated export facilitator. As a result of the assistance given to BEEs entering the export market, these new mines have become financially feasible. Advantage gained in the export arena can also be extended to other areas. The next step will be to assist BEE coal mining companies to make the best use of their coal products, destined for the inland market. Most of this coal finds its way to Eskom's boilers to fuel the World's cheapest electricity. There are many more users of coal in the local industry and some, although in need of smaller tonnages, require better quality coal. In the metallurgical industry, for example, there is a strong need for reductants or carbon-rich coals to convert metallic ores to metals. The

market for these and other products can be successfully exploited by the new BEE coal miners and, although the tonnages are limited they provide an easy forum for "niche" products.

The outstanding work of the CITT can only be completed when the South African mining industry extracts, by conventional mining methods, its last ton of mineable coal beyond the year 2055.

REFERENCES

Capacity Crunch – Mining Weekly 03-June 2005.

Coal May surpass Oil as best Energy Performing Investment – Bloomberg 3 July 2006

Empowered Companies Aim for Share in Expanding Terminal – Mining Weekly 27 March 2006.

Richards Bay Coal Terminal – A History From 1976 – 2001 BJ Barker Cape Town 2000.

Solving SA Coal Conundrum –Miningmx 22 Aug 2006

Annexure 1

Members of TCOA; 3 April 1974	Initial shareholding ordinary shares 10 cents each
Afrikander Proprietary Mines Ltd	6827
Koorfontein Collieries Ltd	2955
Transvaal Navigation Colliery	4318
Clydesdale (Transvaal Collieries Ltd)	3577
Amalgamated Collieries of SA Ltd	5756
Coronation Collieries Ltd	4697
New Largo Colliery Ltd	0627
SA Coal Estates Witbank Ltd	5498
Springbok Colliery Ltd	3618
Springfield Collieries Ltd	0451
Vierfontein Collieries Ltd	0005
Apex Mines Ltd	4819
Douglas Colliery Ltd	9190
Witbank Colliery Ltd	8995
Union Collieries Ltd	1370
Eikeboom Colliery Pty Ltd	1403
South Witbank Coal Mines Ltd	2641
Tavistock and South Witbank Collieries Ltd	2530
Consolidated Collieries Ltd	0916
Phoenix Colliery Ltd	4902
Tweefontein United Collieries Ltd	5494
Witbank Consolidated Coal Mines Ltd	1633
Members of Anthracite Producers Association	
Alpha Anthracite Company Ltd	2000
(Duiker Exploration Company Limited)	
Balgray Collieries Pty Ltd	2500
Natal Ammonium Collieries 1946 Ltd	3000
Natal Anthracite Colliery Ltd	2500
Member of Natal Associated Collieries Ltd	
Welgedacht Exploration Co Ltd	7778
<p>'Total 100 000 ordinary shares. Shares will be issued against payment of their nominal value of 10 cents each.'</p>	

Annexure 2

401
231

Telegramsadres | HANDELKOM
Telegraphic Address

REPUBLIEK VAN SUID-AFRIKA
REPUBLIC OF SOUTH AFRICA



DEPARTEMENT VAN HANDEL-DEPARTMENT OF COMMERCE

NAVRAJENQUIRIES
Mnr./Mr.
Telefoon | 39181 Int.
Telephone | Ext.

Verwys in u antwoord a.b. no.
In reply please quote
H.27/2/3/1

H. 1.
Adresseer alle briewe aan die
Sekretaris.
All Communications to be Addressed
to the Secretary.

Forumgebou/Forum Building,
Strubenstraat 159,
159 Struben Street,
Privatebak | 84,
Private Bag | 84,
PRETORIA.

The Chairman,
The Transvaal Coal Owners Association
(1923), (Pty.) Ltd.,
P.O. Box 1197,
JOHANNESBURG.

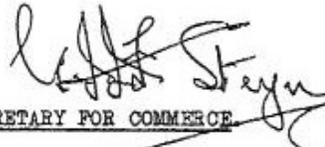
8 -12- 1969

Dear Sir,

EXPORT OF COAL.

With reference to your letter dated 11th November, 1969, and the subsequent discussions we had in connection with the export of specially prepared low ash coal to Japan and of power station coal to Europe, particularly Italy and Germany, I have to confirm the telephonic advice given by Mr. Kruger of my office to you on 1st December, 1969, namely that Ministers have agreed in principle that a maximum of 4 million tons of coal per year may be exported either to Japan or Europe, or to both these two destinations, on the conditions set out in your letter, and subject to submission of the results of the negotiations to the Minister of Economic Affairs before firm contracts are concluded.

Yours faithfully,


SECRETARY FOR COMMERCE

Annexure 3

THE TRANSVAAL COAL
OWNERS ASSOCIATION
(1923) (PTY) LIMITED

Bank of Lisbon Building
Sauer Street, Johannesburg
South Africa
P.O. Box 62361
Marshalltown, Transvaal
Telephone 834-5151
Telex 43-0005 S.A.
Telegrams "COALSALES"



8th November 1974

Mr. G. J. J. F. Steyn
Secretary for Commerce
Department of Commerce
Civitas Building
Cnr. Struben and Andries Streets
Pretoria
0002

Dear Sir,

EXPORT OF COAL

We have received your letter of 1st November 1974 dealing as far as we are concerned with the approval in principle of an additional quantity of 100 million tons of coal for export by TCOA.

We are now studying this letter and the implications of the important conditions that you have set up covering this quantity but at the same time we must of course state that such conditions cannot apply to our original authorisation covering the export of 108 million tons for which we now hold export contracts committing its total utilisation.

As we proceed to the negotiation of further business taking up tonnage out of the additional 100 million tons now authorised we will of course be in contact with your Department and those other Administrations in the Government which could be involved.

As the constructors, owners and future operators of the Richards Bay Coal Terminal, we would expect to find ourselves in negotiation with others to whom coal export authorisation has been granted which will of itself require us to negotiate with the Railways and yourselves on the contractual practical issues involved.

We would like to express our appreciation to you for having granted us this additional authorisation in response to our application to you.

Yours faithfully,

Original Signed by A. D. TEW

A D TEW
MANAGING DIRECTOR

Annexure 4

THE VEXED QUESTION OF RESERVES

Government reluctance to issue export permits was based, in large part, on a pessimistic view of how much recoverable coal there really was in the ground. The first serious calculation, made by the Department of Mines in 1912, suffered, as later attempts did, from the fact that rights to coal were to a large extent in private ownership, and private owners were naturally reluctant to divulge information that they regarded as confidential.

A figure was nevertheless obtained, and even today is the most pessimistic by far: 56 billion tons of coal in situ, with no comment on the amount recoverable. The next survey, conducted in 1928 by the Geological Survey, swung to the most optimistic figure ever produced, although it must be acknowledged that it is very close to the most recent figure. Coal reserves in situ, said the Geological Survey in 1928, amounted to 205,7 billion tons.

In the 1970s Arthur Petrick, Chairman of the Fuel Research Institute, headed the Commission of Inquiry into the Coal Resources of the Republic

of South Africa. The Petrick Commission assessed reserves at 82 billion tons, and recoverable reserves at 25 billion tons, although information on several coalfields was not available. The De Jager Report of 1982 raised these to 115 billion tons and 58 billion tons respectively. By 1998 estimated tonnage in situ had gradually crept up to 194 billion tons, while recoverable reserves stayed more or less constant at 54 billion tons.

The main point in determining coal (or any asset) reserves is to have a basis for calculating how much longer it is going to last. It has been variously calculated that, from the year 2000, South Africa's coalfields may be worked for between 139 and 151 years; another calculation gives 40 years and yet another gives 72 years. For a huge variety of reasons, determining coal reserves is not yet a precise science, but it seems to be a certainty that one day in a still-distant future, the coal will run out. Permits to control the export of coal, meanwhile, have already passed into history.

Annexure 5

PERMITS OR QUOTAS

Now the quota thing, or export permit, was a very big issue. To start with, nobody was interested in applying for quotas. But once it became evident that coal exports were going to be a lucrative investment, then the whole quota system changed. And – well, people emerged out of the woodwork waving quotas, and we were all flabbergasted. The basic progression of events as far as I was concerned was that there were a few guys who stuck their necks out in the early days – Anglo particularly, Gold Fields and the guys at Greenside Colliery, who were the other participants in the low ash consortium. Of course, at the time when the contract was originally entered into, Anglo's Coal Division consisted of a number of different

organisations. Coal Estates were participants to the contract, Springbok Colliery were other participants, and then there was a big debate within Anglo as to whether Springbok had the right quality or whether it all shouldn't be sourced from Landau. That led up to a debate, about whether Greenside ought to hand over its portion of the contract coal to Landau, and then how the Springbok shareholders should be compensated. That was one of the many reasons why I felt, when I went into the Anglo American Coal Division, that we must get away from having all these individual companies and put the whole lot together to form Amcoal. So that by the time Anglo started exporting coal, Amcoal was already in position.' (Graham Boustred)

NOTIFICATION OF THE COMMENCEMENT OF THE TENDER PROCESS FOR A PORTION OF THE 9 MILLION TONS PER ANNUM CAPACITY FROM RICHARDS BAY COAL TERMINAL'S (RBCT) PHASE V EXPANSION PROJECT.

Further to the announcements in November 2005 and August 2006, the Shareholders and Board of Directors of Richards Bay Coal Terminal Company Limited are pleased to announce the commencement of the tender process for a portion of the 9 million tons per annum capacity that will become available as a result of the Phase V Expansion Project. The terminal will commence the expansion project on 1 September 2006 to expand its current annual throughput capacity of 7.2 million tons to 9.1 million tons.

As part of the expansion, which is expected to be completed during the first half of 2008, 8 million tons per annum of export throughput will be made available to current and potential coal exporters.

Rights to export coal via RBCT will be made available to parties who qualify. This notification invites all potentially qualifying export coal producers interested in the right to export a portion of the 9 million tons per annum, to tender their interest to Alexander Forbes. In the event of over-subscription, and all applications otherwise being equal, the BEE status of the applicants will be the overriding ranking criteria.

Basic conditions attached to a tender application will be:

- applicants must have proof of mining capacity to bankable feasibility study stage;
- applicants must be able to demonstrate Spoormat railing capacity support;
- applications will be subject to the right to audit;
- applications must include an unconditional offer to acquire the full tonnage applied for in the relevant form;
- in the event of over subscription, ranking criteria will be applied.

RBCT has appointed Alexander Forbes as the Independent adjudicator for the tender process.

A full pack of application documents will be available at the offices of Alexander Forbes Risk Services, 80 Rivonia Road, Sandton, on 12 September 2006. Parties wishing to collect an application pack will be required to pay a non-refundable deposit of R5 000 and to enter into a confidentiality undertaking.

A tender clarification workshop will be held on 18 September 2006 at 10h30 at the offices of Alexander Forbes Risk Services, 80 Rivonia Road, Sandton and tender documentation will only be available up until 15h00 on such day. Attendance at this tender clarification workshop is compulsory for those parties wishing to submit an application.

Applicants will be required to complete and submit the application documentation to Alexander Forbes before 16h00 on 28 November 2006, after which time, no further applications will be accepted. The Independent adjudicator will then evaluate applications and conditional awarding of the allocations is envisaged to be completed during April 2007.

All applications will be subject to a review, verification and re-evaluation process by the Independent adjudicator. In order to promote access to the terminal by BEE Entities, RBCT reserves the right to limit the tonnage awarded to any applicant.

Further information can be obtained by emailing Paul Stivington at: stivingtonp@aforbes.co.za or from the website www.alexanderforbes.co.za/RBCT10/

This notification does not constitute any form of commitment, recommendation or offer on the part of any of the parties. RBCT expressly reserves the right in its unfettered discretion, without giving reasons therefore, at any time and in any respect, to amend or terminate the process contemplated in this notification, to terminate discussions with any or all interested parties, to reject any or all of the offers and to negotiate with any interested party or parties in regard to access to the 9 million tons per annum of throughput capacity.

