

6th Annual International Jet Fuel Conference

**Miami, Florida
March 7-10, 2004**

Jet Fuel Marketing Strategies for Turbulent Times

Yogi Club

- “It ain’t over until its over”
- “The future ain’t what it used to be”
- “If you don’t know where you’re going, you might not get there”
- “When you come to a fork in the road, take it”
- “We made too many wrong mistakes”

Presentation Overview

- Planning in turbulent times
- Historical review of jet fuel marketing strategies
- Customer Focused Situational Marketing
- Jet Fuel Market Outlook 2004

Planning in Turbulent Times

Uncertainty and volatility dominate the aviation fuels industry today

Planning in Turbulent Times

Diversification can be a highly effective response to **uncertainty**

Flexibility can be a highly effective response to **volatility**

Planning in Turbulent Times

Diversification

Diversification applies portfolio management theory to jet fuel marketing

Planning in Turbulent Times

Flexibility

Flexibility enables you to move products into the right market segments in the right locations at the right time to capture attractive margin opportunities

Historical Review of Jet Fuel Marketing Strategies

- Full Service model
- Trading Plus model
- Refinery Gate model

Jet Fuel Marketing Strategies

Full Service Model

- Full service – meet all customer needs
 - Product technology and quality control support
 - Extensive, controlled distribution system; dedication to reliable supply
 - Competitive pricing
 - Attractive credit terms and early pay discounts
 - Professional sales force and supporting administrative staff
- Representative company – Chevron Aviation
- Problem with model today
 - Structural change in early nineties devastated profitability.
 - Model too expensive for new realities

Jet Fuel Marketing Strategies

Trading Plus Model

- Full service with reliance on trading for achieving profitability – short position in the market with long term contracts and relationships
 - Achieve lowest cost supply
 - Apply successful trading technology
- Representative company – Air BP
- Problems with model today
 - Trading opportunities may be disrupted by structural change in markets
 - Alternate supply sources may dry up
 - Some market segments remain unprofitable

Jet Fuel Marketing Strategies

Refinery Gate Model

- Sell at the refinery gate or at major pipeline terminals
 - Assumes commodity model for entire industry; assumes no value added through marketing
 - Success depends on minimizing costs; customer needs are discounted
- Representative company – Valero
- Problems with model today
 - Selling into buyer's market erodes absolute prices
 - Missed opportunities for attractive margins in niche markets

Jet Fuel Marketing Strategies

Observations

- Each strategy has been an effective response to market conditions in particular times and places
- Structural changes in market invalidated economic foundations of strategy
- Lack of diversification limited capability to capture emerging profit opportunities
- Difficulty in coping with change because of inflexibility

Customer Focused Situational Marketing

- Customer focused
- Situational
- Marketing

The Tosco Experience

Strategic Philosophy

- Incorporate best components of each model given our internal resource constraints – elements of full service, trading, and refinery gate models
- Apply best fit strategy to individual submarket situations

The Tosco Experience

Customer Focused Examples

- Minimum/Maximum contract volumes for resellers rather than fixed quantities
- Buyback inventory from resellers
- Maintain minimum of one pipeline cycle of inventory at destination – no JIT approach
- Offer price mechanism flexibility – formula, fixed, posted, MERC WTI or HO related

The Tosco Experience

Situational Examples

- Evaluate market segments
 - Resellers became first priority
 - Southwest became second priority
 - Divert low volume users to resellers
 - Exclude general aviation
 - Exclude military
- Evaluate geographical submarkets
 - Balanced
 - Niche
 - Commodity

The Tosco Experience

Marketing Examples

- Balanced market – Los Angeles - Trading Model
- Niche market – Chicago - Full Service Model
- Commodity market – US Gulf Coast - Refinery Gate Model

The Tosco Experience

Diversification and Flexibility Examples

- Diversification
 - Maintain at least one customer from each market segment (British Airways in Los Angeles)
 - Maintain at least one customer in each retained market (Delta at San Francisco)
- Flexibility
 - Sales contracts for imported fuel included supplier's option to supply either bonded or domestic jet fuel
 - Inventory management (Phoenix)

The Tosco Experience

Results

Our customer focused situational marketing strategy enabled Tosco Aviation to achieve and maintain a very high level of customer acceptance, while attaining a substantially higher Return on Capital Employed

Jet Fuel Market Outlook 2004

Demand

Refinery Supply

Inventories

Imports

Prices

2004 Demand Estimate

Assumptions

<u>US Air Carriers</u>	<u>Increase</u>	<u>mm gallons</u>
2003 demand		17,794
Capacity increase	6%	890
<u>Fuel efficiency decrease</u>	<u>3%</u>	<u>356</u>
Estimated 2004 demand	9%	19,040
General Aviation	5%	953
Other	4%	211

2004 Demand Estimate

billion gallons

Year	Airlines	GA	Other	Total
2001	19.0	1.0	5.4	25.4
2002	17.8	.9	7.7	26.5
2003	17.8	1.0	5.3	24.1
<i>2004 E</i>	<i>19.4</i>	<i>1.1</i>	<i>5.5</i>	<i>26.0</i>
%	9	5	4	8

Refinery Supply Estimate

Assumptions

- Refinery Operable Capacity declines by 1%
- Jet Fuel Yield declines by 0.1%

Refinery Jet Supply Estimate

mbd

Year	Capacity	% Yield	Production
2000	16,595	9.7	1,606
2001	16,785	9.1	1,529
2002	16,757	9.0	1,513
2003	16,747	8.9	1,489
<i>2004 Est</i>	<i>16,580</i>	<i>8.8</i>	<i>1,459</i>

Jet Fuel Inventory Analysis

Year	Demand (mbd)	Inventory (mmb)	Days Supply	Available Days
2000	1,725	44.4	25.7	5.4
2001	1,655	41.9	25.3	4.1
2002	1,614	39.1	24.2	2.5
2003	1,574	38.7	24.6	2.3
<i>2004</i>	<i>1,695</i>	<i>38.5</i>	<i>22.7</i>	<i>2.0</i>

Jet Fuel Import Analysis

Year	Net Imports (mbd)	% of Demand	% of Available Inventory
2000	130	7.5	1.4
2001	119	7.2	1.8
2002	99	5.7	2.5
2003	97	6.2	2.7
<i>2004</i>	<i>235</i>	<i>13.9</i>	<i>7.0</i>

Source of Jet Fuel Imports (%)

- Korea 28
- Virgin Islands, US 21
- Venezuela 12
- Netherlands Antilles 10
- Kuwait 7
- Other (Taiwan, etc.) 7

Prices

- US jet fuel pricing drivers
 - OPEC Basket
 - WTI
 - USGC Jet
- Plug a range of values into an Expected Value Model
- Calculate Expected Value

Pricing Drivers and Probabilities

OPEC	p	WTI- OPEC	p	JET- WTI	P
\$30.18	10%	\$3.85	5%	\$.13	10%
\$29.18	25%	\$3.35	25%	\$.11	25%
\$28.18	50%	\$2.85	50%	\$.09	40%
\$27.18	10%	\$2.35	15%	\$.07	20%
\$26.18	5%	\$1.85	5%	\$.05	5%

Prices

Expected Value
US Gulf Coast Jet 2004

\$.834 per gallon

Range \$.78 to \$.88

2004 Jet Fuel Outlook

Conclusions

- Significant increase in demand
- Marginally lower refinery production
- Precariously low level of inventories leading to more frequent supply disruptions and price volatility
- Quantum leap in imports to balance supply/demand equation
- Robust prices

Summary

- A jet fuel marketing strategy in turbulent times requires diversification and flexibility
- Various jet fuel marketing strategies such as full service, trading plus, and refinery gate each have their value
- Customer focused situational marketing optimizes jet fuel marketing profitability
- The outlook portends a sellers' market
- Performance can be improved by applying knowledge and analysis to your business

Conclusion

“ninety percent of the game is half mental”

Yogi

It's over