

AJMM

AUSTRALIAN JOURNAL OF MINING

SEPTEMBER | OCTOBER 2004

Print Post Approved pp 255003/63948



DRD: bottom feeder rising



Portman vs Consolidated



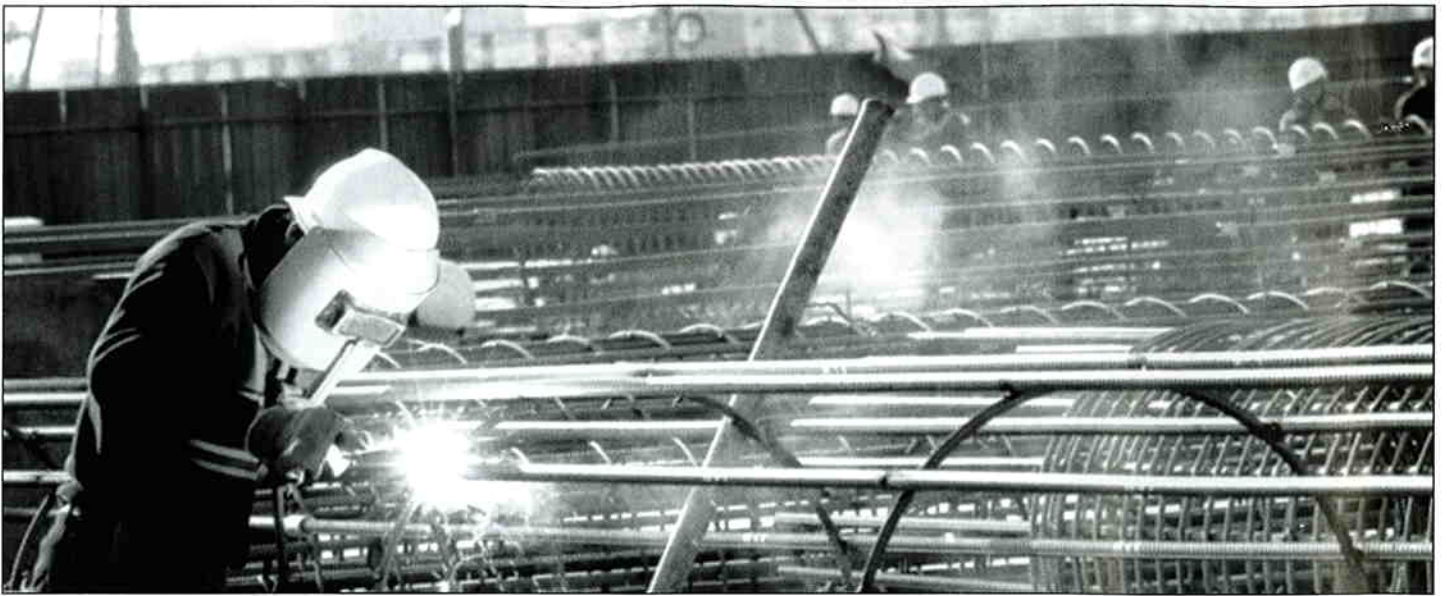
China steels itself



Agincourt charges



Flying Fox soars



China steels itself

The shift in the centre of gravity in the iron ore and steel industry to China is having huge implications for Australia and its resource producers. Charles Macdonald reports on developments.

LIKE A REMORA attached to a whale, Australia's resources sector is hitching a ride on the huge Chinese economy.

Astounding growth in China, give or take a recently engineered government slowdown, has propelled commodity prices and resource company share prices to dizzy levels.

While a broad swathe of metals and commodities are rising on the China updraft, particularly buoyant is the iron ore and steel sector, benefiting companies both large – such as BHP Billiton and Rio Tinto – and small, such as Portman and manganese and chromite supplier Consolidated Minerals.

Steel production has exploded in China, from around 40 million tonnes (Mt) in 1987 to over 200 Mt in 2002. Analysts are predicting production of 260 Mt in 2004, rising to 450 Mt by 2007.

A variety of sectors are sucking up steel in China. A glance at the Shanghai skyline, with 80 towers in various stages of construction, provides a glimpse of the building boom sweeping the country. All those apartments and houses have sparked a surge in light industry with washing machines and refrigerators being built by the million. The automotive sector is churning out an additional one million vehicles per year, to an expected total of 5m vehicles in 2004. In addition, new railway lines and infrastructure are snaking across the vast land.

Speaking in Sydney recently, Robin Chambers, senior partner, Chambers & Company, gave a glimpse into the dynamics of China's iron ore and steel sector. Described by the Australian Financial Review (AFR) as "the Australian counsel of choice for China Inc", the ex-CRA corporate lawyer has acted for the Chinese government and steel sector in a plethora of deals. The first of these, which has served as a template for many subsequent deals, was the formation of the Channar iron ore joint venture in 1987, in which the then Ministry of Metallurgical Industry's trading arm, CMIEC, took a 40% stake in Rio Tinto subsidiary Hamersley Iron's \$420m project. More recently, Chambers acted for four major Chinese mills as they negotiated a deal with BHP Billiton that saw them take a 40% stake in the Jumblebar mine near Newman.

China emerged as the largest importer of iron ore in the world in 2003, taking around 148 million tonnes, nearly a third more than in 2002. The rise in imports reflected a strategic decision by China's bureaucrats and steel sector and also the relatively poor quality of the country's local iron ore resources.

Predictions for China's iron ore imports in 2004 were, early this year, put at around 160 million tonnes, but since the Central Government mandated slowdown, have been revised down to around 150 million tonnes.

Australia is China's main supplier of ore, shipping around 58 Mt in 2003. The other major providers and their 2003 deliveries comprise Brazil with 38 Mt, India with 32 Mt and South Africa with 9.5 Mt. All up, the 'big 4' suppliers shipped nearly 130 Mt to China, or almost 88% of the country's total imports. Countries that supplied the balance included the Philippines, Iran, Mexico, New Zealand, Vietnam, Malaysia and Canada.

China's rapid growth in steel production and iron ore importation has triggered major expansion plans by Australian iron ore producers, such as Rio Tinto, BHP Billiton and Portman. Coking coal mines such as Rio's Hail Creek are being upscaled, while Consolidated Minerals is growing its manganese and chromite mines.

Rio Tinto's Hamersley and BHP Billiton have been targeting long term arrangements with Chinese end users.

Hamersley's first joint venture with the China Metallurgical Import and Export Corporation (CMIEC) in the Channar project was for the export of 200m tonnes of iron ore to China over 25 years.

In 2002 Hamersley negotiated an iron ore joint venture with Baosteel for 10m tonnes a year over a 25 year period. More recently, Hamersley announced that it had entered into long term sales contracts with China's top 10 steel mills covering at least 40m tonnes a year with an average contract length of 10 years.

BHP Billiton announced the Wheelarra Joint Venture with four of China's major steel mills in March 2004. The joint venture is for 25 years, and BHP Billiton has valued the export contracts at \$11.6bn.