

BHP clinches \$11.6bn China deal

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BHP Billiton has moved to capitalise on soaring Chinese demand for Australian mineral commodities by striking one of the nation's biggest export contracts, a \$US9 billion (\$11.6 billion) deal to supply iron ore to China's steelmakers for the next 25 years.

China's four biggest steel mills have agreed to take a 40 per cent equity stake in BHP Billiton's Jumblebar mine in Western Australia in partnership with two Japanese steelmakers.

Driving the deal is China's massive economic growth, which is fuelling its rapid emergence as a key export market for Australian companies.

Australia exports almost \$9 billion in raw materials and manufactured goods to China each year.

The deal, which mirrors similar arrangements previously struck by BHP Billiton rival Rio Tinto, comes as China has agreed ventures with two Australian liquefied natural gas projects: a \$25 billion deal with the North-West Shelf partners, and a more conditional \$30 billion deal with ChevronTexaco's Gorgon project.

Chinese companies are increasingly following the trend started by the Japanese during the 1990s by taking direct investments in Australian resource projects.

"About 10 per cent of our current total sales of commodities is to China, and we have no doubt this percentage will grow," BHP Billiton chief executive Chip Goodyear said yesterday.

"The joint venture will provide long-term security of supply for our partners and is an important step in BHP Billiton's strategy to maintain global iron ore market share and ensure we are a continuing part of China's extraordinary growth and development over the long term."

The BHP Billiton contract was announced as China's Premier, Wen Jiabao, said yesterday he was working towards letting market forces decide the value of the yuan, the first clear statement that the government aims to end the currency's nine-year fixed link to the US dollar.

West Australian Premier Geoff Gallop estimated the BHP deal was worth about \$500 million in royalties over the life of the project.

Under the Wheelara joint venture, the four mills, Wuhan Iron and Steel Corp, Maanshan Iron and Steel Company, Jiangsu Shagang Group and Tangshan Iron and Steel (group) Co, will take a 40 per cent stake in a sublease of BHP Billiton's Jumblebar mine near Newman under an undisclosed commercial arrangement. The sublease covers about 175 million tonnes of the Jumblebar resource known as Wheelara. BHP Billiton's existing Japanese partners in the Newman joint venture, CI Minerals Australia and Mitsui, will take 4.8 per cent and 4.2 per cent of the sublease respectively, leaving BHP Billiton with a controlling 51 per cent.

The Wheelara joint venture will supply the Mt Newman operation with ore, which would then be blended with ore from Mt Whaleback and other satellite deposits and sold to the Chinese steel mills under normal commercial arrangements. The joint venture will secure sales to the mills of about 12 million

tonnes a year.

"The Jimblebar mine doesn't have to be expanded to accommodate this," BHP Billiton iron ore president Graeme Hunt told *The Australian Financial Review* from Beijing yesterday.

"There will be some investment by the Chinese mills in that joint-venture company and they will get a return out of that investment based on the selling back of the ore to the Newman joint venture."

BHP Billiton signed the deal just weeks after committing to a feasibility study to investigate increasing iron ore capacity from its Pilbara operations to 145 million tonnes per annum by the end of 2007.

The company had already approved a \$US94.5 million expansion to lift production from 100 million tonnes to 110 million tonnes per annum by the end of calendar 2004, which came on the heels of BHP Billiton's formal opening of its \$US351 million port and rail expansion and new, \$US213 million Area C mine.

"In effect, what this does is, it will be part of filling up the expansions that are coming on line over the next 12 months," Mr Hunt said.

"And there is potential to expand the sales to these companies even further and that will be part of the process which will underpin that future investment, which we will be working on during the balance of this year."

UBS resources analyst Glyn Lawcock said the joint venture brought BHP Billiton in line with its rivals Rio Tinto and Brazilian miner CVRD, which have established strategic partnerships with Chinese customers.

"Rio Tinto already has two joint ventures in China, its longstanding, 10 million tonnes-per-annum Channar joint venture and the recent Baosteel 10 million tonnes-per-annum deal," Mr Lawcock said.

CVRD also had a joint venture with Shanghai Baosteel Group Corporation, China's largest steel maker.