BHP plans to treble NW iron ore output

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Mining giant BHP Billiton yesterday declared its faith in the longevity of the China-fuelled resources boom, flagging plans to treble the capacity of its massive Pilbara iron ore business over the next decade.

BHP has already spent billions of dollars on a rolling expansion that has boosted its Pilbara iron ore export capacity to 109 million tonnes a year.

Its so-called RGP3 expansion to 129mt is due for completion this year, while its RGP4 expansion to 152mt is slated for approval in June.

Speaking at the Global Iron Ore and Steel Conference in Perth, BHP iron ore president Ian Ashby said the company was now evaluating its options to increase its Pilbara production to more than 300 million tonnes a year, possibly within a decade.

"Beyond RGP4, we've done some early stage work and we see our vision growing in the Pilbara over the next 10 or 20 years to in excess of 300 million tonnes," he said. "We've got a fantastic resource base and we're going to make the most of it."

Though details of the proposal remain vague, Mr Ashby said BHP had committed to a major exploration program aimed at boosting its iron ore resources from the current 6.5 billion tonnes to about 10 billion tonnes by 2011. The program will entail between 250,000m and 400,000m of drilling a year.

The mega expansion is also certain to be a multi-billion-dollar proposal. BHP's RGP2 expansion cost \$US525 million (\$667 million), RGP3 is slated to cost \$US1.5 billion and the budget for RGP4 is \$US2.1 billion.

But Mr Ashby noted that BHP's expansion costs were significantly lower per tonne of additional production than for greenfields projects. In a clear warning to emerging rivals such as Andrew Forrest's Fortescue Metals Group, he said BHP's lower cost base meant it could "push out" higher cost producers as the hot iron ore market became more balanced.

"The projects that . . . are coming into the market place, we think will consequentially push out some of the high-cost supply that's been stimulated by this (supply) void," he said. "With our low-cost resources, we are in a great position."

Despite some analysts' warnings that the Chinese economic explosion was coming to an end, Mr Ashby said the outlook for iron ore suppliers remained strong.

"There's still a lot of growth left in China, it has such a large population, and you can only wonder and guess about India," he said.

"While we see the rate of growth slowing, we see that as a positive development to ensure that this market doesn't overheat."

Mr Ashby said he expected the growth in Chinese steel demand to "level off" after 2010, but it would still require "very high" ore volumes.

"So I don't think things are going to change too dramatically in the short to medium term," he said.

Mr Ashby's optimism was broadly shared by China expert and consultant Robin Chambers.

Mr Chambers told the conference that Chinese iron ore imports had jumped almost 20 per cent to 326mt last year.

Based on volumes imported in December, ore imports were running at an annualised rate of 422 mt, he said.

Chen Xianwen, a director of the China Iron and Steel Association, predicted that Chinese steel production should rise 40 per cent to 540mt by 2010, at which point iron ore imports would be averaging about 450mt a year.

Aside from China's rapid urbanisation program, Mr Chen said future steel demand growth would be fuelled by the expansion of Chinese manufacturing exports, such as machinery and whitegoods.

But Hatch Associates forecaster Rod Beddows warned Chinese steel production would "mature" within five years, meaning the "space for new (iron ore) projects is not large".

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